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U.S. COPYRIGHT LAW AND ITS EXTRATERRITORIAL APPLICATION: *SUBAFILMS, LTD. v. MGM-PATHE COMMUNICATIONS*

INTRODUCTION

As technology advances, the stage for the communication and dissemination of original works expands. In growing numbers, United States citizens who produce works which are protected by copyrights no longer limit their audience to the United States. They consider the global community to be their audience. As a result, they must either rely on U.S. copyright laws to protect their works outside the United States or on laws of other countries. The Internet provides an international electronic forum for exchanging information, and it presents an array of copyright problems. The copyright issues surrounding the Internet are far from settled. They will keep the reach of U.S. copyright protection in the forefront as the global communications community debates, and eventually resolves, these issues.

This paper will discuss the reasons for granting copyright protection, the protection provided by U.S. copyright laws, the extraterritorial reach of those laws, and the alternatives available to creators who are not protected by the U.S. laws. The recent Ninth Circuit Court of Appeals case *Subafilms, Ltd. v. MGM-Pathe Communications*¹ will be discussed in detail and used as an example to demonstrate how these laws apply in practice to motion pictures.

I. COPYRIGHT PROTECTION — BACKGROUND

A. *Purpose of United States Copyright Protection*

By granting copyrights, Congress effectively gives the author a monopoly on the use of the work. This monopoly is “intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired.”² Copy-

1. *Subafilms, Ltd. v. MGM-Pathe Comm. Co.*, 24 F.3d 1088 (9th Cir. 1994).

2. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984). Universal Studios claimed Sony violated Universal’s motion picture copyrights by producing videotape recorders which allowed purchasers to videotape motion pictures which had been shown on television. Universal did not claim Sony made the infringing copies, but that the copies made by consumers violated its copyright. Consequently, Sony was accused of providing the means of violating the copyright, rather than a

right law represents a difficult balance between the authors' interest in control of their work and society's interest in the free flow of ideas and information.³ When Congress restructured the copyright laws in 1909, it acknowledged that copyright legislation is aimed at serving public welfare, not the author's natural right in his or her work.⁴ Congress balanced the public benefits and harm attributable to granting copyrights when it passed the copyright law in 1909 and the subsequent changes to the law. The public benefits are derived from the fact that the monopoly motivates producers to produce works. On the other hand, the public harm is caused by restricting public use of the work by granting the producer a monopoly. Congress authorizes copyrights only to the extent the public benefit outweighs the harm from the temporary monopoly.⁵

B. Early Copyright Laws Around the World

Although printing from movable type was first used in England in the late 15th century, this new trade did not create an immediate threat of unauthorized reproductions since there were few printing presses.⁶ The first concern was preventing the importation and sale of English language books printed abroad.⁷ In 1557, the "Stationer's Company" was chartered by Catholic Queen Mary and King Philip in England to control the spread of the Protestant Reformation by concentrating the printing business in the hands of the Stationer's Company.⁸ The Stationer's Company was actually interested in taking advantage of their printing monopoly by eliminating competition rather than religious or political censorship as the King and Queen intended.⁹ Since works had to be registered in the name of a member of the Stationer's Company regardless of whether that person was the actual

direct violation. The Court considered the legitimate uses of copying equipment and testimony from other producers who stated they didn't object to an individual taping a program to watch at a later time (time-shifting their viewing). The Court did not find Sony liable for copyright violation because they were merely the seller of the equipment which expanded the viewing audience by time-shifting; they did not have any direct involvement with any infringing activity; and the videotape recorders have significant non-infringing uses. *Id.* at 442-8.

3. *Sony Corp. of Am.*, 464 U.S. at 429.

4. *Sony Corp. of Am.*, 464 U.S. at 429 n.10 (citing H.R. Rep. No. 2222, 60th Cong., 2d Sess. 7 (1909)).

5. *Id.*

6. WILLIAM F. PATRY, *LATMAN'S THE COPYRIGHT LAW* 2-3 (6th ed. 1986).

7. PATRY, *supra* note 6, at 3.

8. *Id.*

9. *Id.*

originator of the work, the member was able to claim the right to print the work for himself and his heirs forever.¹⁰ During the early seventeenth century, Parliament passed several licensing acts supporting the Company by forbidding unauthorized printing of books originally published by Stationer's Company members.¹¹ However, in 1694, Parliament refused to extend the licensing acts, and independent printers began to spring up and invade the domain of the Stationer's Company as their monopoly ended.¹²

Parliament compromised with the Stationer's Company's demands for unlimited protection against these pirates by passing the Statute of Anne which limited the exclusive right of publication to a set number of years.¹³ This statute provided a monopoly of limited duration, rather than the unlimited monopoly the Stationer's Company previously enjoyed. However, this limited monopoly was not reserved for Stationer's Company members. For the first time, this statute specifically recognized the rights of authors, rather than Stationer's Company members, and it provided the foundation for later copyright law in the United States.¹⁴ It gave authors or their assigns the sole right of publication for twenty-one years and imposed penalties for violating the Act as long as the author had entered the title of the work in the registry of books of the Stationer's Hall as evidence of ownership of the work and a copy of the work was deposited in certain designated libraries in Great Britain.¹⁵ Later, Parliament required that a notice of the entry in the register of books appear in every copy of the published work so others would have notice of the author's copyright.¹⁶ To avoid unreasonable prices being charged for copyrighted works, Parliament allowed anyone who objected to the price of a work to petition designated officials who could lower the price.¹⁷

II. UNITED STATES COPYRIGHT LAWS

A. *Early United States Copyright Laws*

Following the American Revolution, all the newly independent

10. *Id.*

11. *Id.*

12. *Id.*

13. PATRY, *supra* note 6, at 3-4.

14. PATRY, *supra* note 6, at 4.

15. *Id.*

16. *Id.*

17. *Id.*

states except Delaware passed laws giving some protection to authors, but the protection was limited to the boundaries of each state.¹⁸ Consequently, authors had to comply with laws of a variety of jurisdictions to obtain widespread protection.¹⁹ The framers of the Constitution recognized the benefit of federal copyright protection to alleviate this burden of complying with multiple laws to protect a single work.²⁰

The origin of copyright and patent protection in the United States is found in Article I, Section 8, clause 8 of the U.S. Constitution which gives Congress the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."²¹ Congress passed the first copyright law in 1790,²² protecting both published and unpublished books, maps, and charts for 14 years after the title was recorded with the district court clerk, followed by notice of title in one or more newspapers for four weeks, and depositing a copy of the work with the Secretary of State.²³ Since copyright protection was governed by a federal law, Congress eventually gave federal courts original jurisdiction over copyright cases.²⁴ The first copyright case heard by the Supreme Court was *Wheaton v. Peters*,²⁵ challenging the replacement of state common law rights of authors with federal protection under the Act of 1790 (the federal Copyright Act).²⁶

Protection within the United States of works with foreign copyrights and works with a United States copyright which were published or distributed abroad was more difficult to achieve than protection within the United States of works published in the United States. The Act of 1790 protected works of U.S. citizens and residents, but provided no protection to works published by those who were not U.S. citizens or residents.²⁷ Since foreign nationals were denied copyright protection by the United States, foreign nations refused to protect works with United States copyrights.²⁸ In response to other nations'

18. PATRY, *supra* note 6, at 5.

19. *Id.*

20. *Id.*

21. U.S. Const., art. I, § 8, cl. 8.

22. 1 MELVILLE B. NIMMER AND DAVID NIMMER, NIMMER ON COPYRIGHT at OV-1 (Supp. 1994).

23. PATRY, *supra* note 6, at 6.

24. PATRY, *supra* note 6, at 7.

25. *Wheaton v. Peters*, 33 U.S. 591 (1834).

26. PATRY, *supra* note 6, at 7.

27. 2 PAUL GOLDSTEIN, COPYRIGHT: PRINCIPLES, LAW AND PRACTICE § 16.1, at 678-79 (1989).

28. *Id.* at 679.

denying copyright protection to works published in the United States, the Chace Act was enacted in 1891 to relax the isolationist position of the United States.²⁹ The Chace Act allowed the President to negotiate bilateral agreements to extend U.S. copyright protection to works of foreign nationals as long as that foreign country gave works of United States nationals essentially the same protection it gave works of its own nationals.³⁰ Foreign authors were able to receive copyright protection as long as they complied with the title, notice, and deposit requirements of the United States copyright law.³¹ Over the next fifty years, the United States entered into bilateral agreements with thirty-eight countries to provide copyright protection.³² As the international trade of the United States increased, these agreements did not provide sufficient protection, but hopes of obtaining broader protection by the participation of the United States in the Berne Convention (discussed *infra* under "International Protection for Foreign Copyright Violations of works created in the United States") dimmed in 1928 when the Convention was revised to add moral rights to its protection which enabled an author to object to modifications of his or her work which "prejudiced the author's honor or reputation."³³

B. *The Copyright Act of 1909*

Rather than amending the United States copyright laws to allow membership in the Berne International Copyright Union, U.S. laws were modified in a piecemeal manner resulting in a variety of miscellaneous laws which were hard to interpret and which sometimes provided unexpected results.³⁴ In the early 20th century, the Register of Copyrights, Thorvald Solberg, recommended a single consolidated act which led to the Copyright Act of 1909.³⁵ Some of the notable improvements over prior law included broadening copyrightable subject matter to in-

29. 2 GOLDSTEIN, *supra* note 27, § 16.1 at 679; Chace Act, 26 Stat. 1106 (1891).

30. 2 GOLDSTEIN, *supra* note 27, § 16.1 at 679; Chace Act, 26 Stat. 1106 (1891).

31. PATRY, *supra* note 6, at 8. The notice and deposit requirement were contrary to the Berne Convention which established the International Copyright Union in 1886. The Berne Convention provided automatic protection throughout all countries acceding to the convention. Works were covered whether or not the authors were citizens of countries in the Union as long as they published their work in a Union country no later than publication elsewhere. *Id.* at 9.

32. 2 GOLDSTEIN, *supra* note 27, § 16.1, at 679.

33. 1 NEIL BOORSTYN, BOORSTYN ON COPYRIGHT § 17.01(1) at 17-3 (Dvora Parker ed., 2d ed. 1994).

34. PATRY, *supra* note 6, at 9.

35. *Id.*

clude all writings of the author, and no longer requiring foreign books in foreign language to be reprinted in the United States in order to be protected.³⁶ The Act took a step backwards, though, by excluding unpublished works from federal protection.³⁷ In 1912, the 1909 Act was amended to make motion pictures expressly eligible for copyright protection.³⁸ The Copyright Act of 1909, with amendments, remained in effect through 1977 and it continues to apply to pre-1978 causes of action.³⁹

Prior to 1978, various states provided common law copyright protection in addition to federal copyright protection.⁴⁰ A work would automatically receive state common law copyright protection from creation and this protection continued in perpetuity or until the work was published.⁴¹ Following publication and satisfaction of federal copyright formalities, the work would have federal copyright protection for a certain number of years.⁴² Consequently, copyright law evolved from federal constitutional and statutory law as well as from state common law.

C. *Current Copyright Law and its Protection*

The Copyright Act of 1976, effective January 1, 1978, was a comprehensive revision to the 1909 Act.⁴³ This law ended dual state and federal copyright protection because Congress preempted the field.⁴⁴

The current statute specifically defines works eligible for copyright protection to be "original works of authorship fixed in any tangible medium of expression Works of authorship include . . . motion pictures."⁴⁵ To be able to claim copyright ownership, the party must establish (1) originality in the author, (2) that the work is eligible for copyright protection, (3) that the author's citizenship permits a copyright claim, (4) compliance with applicable statutory formalities, and (5) if the party enforcing the copyright is not the author, valid transfer of rights or a relationship with the author which allows the party to be

36. PATRY, *supra* note 6, at 10.

37. *Id.*

38. 1 NIMMER, *supra* note 22, at OV-1 n.6.

39. 1 NIMMER, *supra* note 22, at OV-1.

40. 1 NIMMER, *supra* note 22, at OV-3.

41. *Id.*

42. *Id.*

43. 1 NIMMER, *supra* note 22, at OV-2 citing Act of Oct. 19, 1976, Pub. L. 94-553, 90 Stat. 2541.

44. 1 NIMMER, *supra* note 22, at OV-3.

45. 17 U.S.C. § 102(a)(1988).

the valid copyright claimant.⁴⁶

The statute gives copyright owners the exclusive rights to do and to authorize any of the following:

- (1) to reproduce the copyrighted work in copies or phonorecords;
- (2) to prepare derivative works based upon the copyrighted work;
- (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or . . . rental, lease, or lending;
- (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; and
- (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly.⁴⁷

The only two elements which a plaintiff must prove to establish a copyright infringement action are ownership by the plaintiff and copying of constituent elements of the work that are original.⁴⁸

D. Remedies for Violation of U.S. Copyrights

Remedies under the Copyright Act of 1976 include both actual and statutory damages as well as equitable relief such as injunctions and impoundment of the infringing articles.⁴⁹ 17 U.S.C. § 502 authorizes any court with jurisdiction over the cause of action to “grant temporary and final injunctions . . . to prevent or restrain infringement of a copyright,”⁵⁰ but the injunction is only operative throughout the United States.⁵¹ The court may impound all copies, plates, film negatives, etc. claimed to have been made in violation of the copyright while the action is pending⁵² and its final judgment may order the destruction of

46. 3 MELVILLE B. NIMMER AND DAVID NIMMER, NIMMER ON COPYRIGHT, § 13.01(A) at 13-6 to -7, (1994).

47. 17 U.S.C. § 106 (1988).

48. 3 NIMMER, *supra* note 46, § 13.01, at 13-6.

49. JOHN W. HAZARD, JR., COPYRIGHT LAW IN BUSINESS AND PRACTICE § 9.1, at 9-1 (1989).

50. 17 U.S.C. § 502(a)(1988).

51. 17 U.S.C. § 502(b)(1988).

52. 17 U.S.C. § 503(a)(1988).

these items.⁵³ Either statutory damages are assessed or damages are equal to the copyright owner's actual damages plus any additional profits the infringer earned.⁵⁴ Statutory damages range from \$500 to \$20,000 per work.⁵⁵ An innocent infringer who was misled because an authorized copy of the work failed to contain a copyright notice may be allowed to continue to use the work upon payment of a reasonable license fee.⁵⁶

A party can face criminal penalties if he is found to have violated willfully a copyright for the purpose of commercial advantage or private financial gain.⁵⁷

III. LEGAL PARALLELS BETWEEN PATENT AND COPYRIGHT LAW

The fields of patent and copyright law are related since they both stem from the same sentence in the U.S. Constitution.⁵⁸ These constitutionally-derived exclusive rights encourage the advancement of useful arts, through patents,⁵⁹ and creative arts, through copyrights. In spite of their common constitutional basis, patent and copyright laws provide different protections and have significantly different requirements for their protection.

The three fundamental conditions for patentability are utility, novelty and nonobviousness.⁶⁰ The grant of a patent encourages investment-based risk and innovation⁶¹ and patent law protects processes and methods of operation.⁶² Patent law grants patents for a new use of a known process or product,⁶³ encouraging design around a competitor's products.⁶⁴ An inventor must apply for a patent and it will only be

53. 17 U.S.C. § 503(b)(1988).

54. 17 U.S.C. § 504(a)(1988).

55. 17 U.S.C.A. § 504(c)(West Supp. 1994).

56. PATRY, *supra* note 6, at 276.

57. 17 U.S.C.A. § 506(a)(West Supp. 1994).

58. *U.S. Const.*, art. I, § 8, cl. 8; *see also supra* note 21 and accompanying text.

59. ROBERT L. HARMON, *PATENTS AND THE FEDERAL CIRCUIT*, § 1.1(b), at 8 (3d ed. 1994). Patents are available for "any new and useful process, machine, manufacture, or composition of matter, or any new or useful improvement thereof." *Id.* at 33 (quoting 35 U.S.C. § 101). Frivolous or inoperable inventions do not qualify for patent protection. *Id.* at 34. In 1966, the Supreme Court held that "a continuing requirement for patentability is the demonstration of a specific and substantial utility." *Id.* at 44 (citing *Brenner v. Manson*, 383 U.S. 519 (1966)).

60. HARMON, *supra* note 59, § 2.1, at 34.

61. HARMON, *supra* note 59, § 1.1(b), at 8.

62. HARMON, *supra* note 59, § 1.4(a), at 15 (citation omitted).

63. HARMON, *supra* note 59, § 2.2(a)(i), at 34.

64. HARMON, *supra* note 59, § 1.2, at 8.

granted once the United States Patent and Trademark Office determines no one else has patented an identical invention,⁶⁵ although the patent technically is available to the first inventor rather than the first filer.⁶⁶ The patent law gives the patent owner the right to exclude others from making, using, or selling a patented invention,⁶⁷ but it does not give him the unrestricted right to copy or use the patented subject matter.⁶⁸

Copyright law balances the authors' desire to control their works against the public's interest in the free flow of information and ideas.⁶⁹ The Copyright Act of 1976 allows others to "exploit facts, ideas, processes, or methods of operation in copyrighted works," which lets others build on the ideas and information in the copyrighted work.⁷⁰

In contrast to patents, a work only needs to be an original, independent work which has not been copied from another work to be entitled to copyright protection.⁷¹ Although a patent protects against someone else who later makes the same invention, a copyright does not protect against an identical work which is independently created. Both parties can copyright the identical work and enforce the copyright against everyone except the other independent creator of the work.⁷² Prior to the Copyright Act of 1976, a copyright was separate from the common law right of literary property or right of first publication.⁷³ Under the Copyright Act of 1976, a work whose subject matter is covered by the Copyright Act is automatically protected by copyright law from its creation.⁷⁴

The Federal Circuit Court distinguished between patent and copyright protection of computer programs encoded in semiconductor chips in *Atari v. Nintendo*.⁷⁵ The Copyright Act protects "original works of authorship fixed in any tangible medium of expression."⁷⁶ Works of authorship include computer programs and instructions encoded in silicon

65. PATRY, *supra* note 6, at 1.

66. HARMON, *supra* note 59, § 1.3, at 12.

67. HARMON, *supra* note 59, § 1.1(a), at 5 (citations omitted).

68. HARMON, *supra* note 59, § 1.1(b), at 6 (citations omitted).

69. HARMON, *supra* note 59, § 1.4(a), at 15.

70. *Id.*

71. PATRY, *supra* note 6, at 1.

72. *Id.*

73. *Id.*

74. *Id.*

75. HARMON, *supra* note 59, § 1.4(a), at 15 (citing *Atari Games Corp. v. Nintendo of Am., Inc.*, 975 F.2d 832 (Fed. Cir. 1988)).

76. HARMON, *supra* note 59, § 1.4(a) at 15.

chips.⁷⁷ The copyrighted protection applies to the expression of the programmer's ideas, not to the processes or methodology adopted by the programmer.⁷⁸ Patent law protects the process or method performed by the computer program.⁷⁹

Since the patent field is more developed, courts tend to apply parallel analysis for copyright disputes.⁸⁰ However, "[t]he two areas of the law . . . are not identical twins and [courts] exercise . . . caution in applying doctrine formulated in one area to the other."⁸¹

IV. THIRD PARTY LIABILITY FOR CONTRIBUTORY INFRINGEMENT

A. Patent Law

The concept of third party liability in both patent and copyright law "is grounded [i]n the recognition that adequate protection of a monopoly may require the courts to look beyond actual duplication of a device or publication to the products or activities that make such duplication possible."⁸²

Since, as mentioned above, patent law may be used to interpret copyright law when copyright law is unclear, the patent law definition of contributory (or third party) infringement is important in the field of copyright law. The Patent Act specifies that anyone who "actively induces infringement of a patent shall be liable as an infringer"⁸³ and also establishes a separate category of contributory infringer.⁸⁴ A contributory infringer is defined in Section 271(c) of the Patent Act as someone who sells a component of a patented machine knowing it will be used to infringe on the patent.⁸⁵ As a result, the Patent Act divides the concept of infringement into active (or direct) inducement, and contributory infringement.⁸⁶ Section 271(c) even prohibits the practice

77. *Id.*

78. *Id.*

79. HARMON, *supra* note 59, § 1.4(a) at 16.

80. *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 439 (1984) (citing *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 158 (1948); *Fox Film Corp. v. Doyal*, 286 U.S. 123, 131 (1932); *Wheaton v. Peters*, 33 U.S. (8 Pet.) 591, 657-658 (1834)).

81. *Sony*, 464 U.S. at 439 n.19 (citing generally *Mazer v. Stein*, 347 U.S. 201, 217-218 (1954); *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 345 (1908)).

82. *Sony*, 464 U.S. at 442.

83. 35 U.S.C. § 271(b)(1988).

84. 35 U.S.C. § 271(c)(1988).

85. *Id.*

86. HARMON, *supra* note 59, § 6.4 at 239.

of selling a component which might not technically be covered by a patent, but which has no other use except in the patented product or process.⁸⁷ Liability as a contributory infringer under Section 271(c) merely requires knowledge that an activity infringes on a patent; it does not require intent.⁸⁸

In patent law, a direct infringement must be established before contributory infringement or inducement of infringement can also be found.⁸⁹ In *Deepsouth Packing Co. v. Laitram Corp.*, it was argued that there was contributory infringement of Laitram's patented machine when Deepsouth shipped the unpatented component parts abroad to be assembled beyond the jurisdiction of U.S. patent law.⁹⁰ Laitram lost the argument, for the Supreme Court required that a direct infringement be established before the Court would find a third party liable for contributory infringement.⁹¹ Since the direct infringement in *Deepsouth* occurred abroad and the Patent Act did not reach beyond the U.S. borders, the Court found no contributory infringement.⁹² In 1984, Congress amended the Patent Act to categorize the action in *Deepsouth* as inducement, and to make contributory infringement actionable even if the direct infringement occurs abroad.⁹³ The Patent Act still leaves a loophole for those who sell unpatented apparatus in the United States to be used abroad to practice a patented procedure.⁹⁴

B. Copyright Law

Although the 1909 Copyright Act did not specifically state the degree of participation needed for third party liability for copyright infringement, the courts have long recognized third party liability.⁹⁵ The principle of third party liability for copyright infringement was first recognized in 1916 when the Second Circuit Court of Appeals held the maker, printer, and seller of an infringing photograph jointly liable for

87. *Id.*

88. *Id.*

89. HARMON, *supra* note 59, § 6.4, at 239 (citations omitted).

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

91. *Deepsouth*, 406 U.S. at 526 (quoting *Mercoid Corp. v. Mid-Continent Co.*, 320 U.S. 661, 677 (1944)(Frankfurter, J., dissenting on other grounds)). *Deepsouth* is discussed in more detail in the Extraterritorial Application of U.S. Patent Laws section of this note.

92. *Deepsouth*, 406 U.S. at 531.

93. HARMON, *supra* note 59, § 6.4 at 240; 35 U.S.C. § 271(f)(1988).

94. HARMON, *supra* note 59, § 6.4, at 240.

95. *See Gershwin Publ. Corp. v. Columbia Artists Mgmt.*, 442 F.2d 1159, 1161-62 (2d Cir. 1971).

copyright infringement.⁹⁶ Contributory infringement under the 1909 Copyright Act depended on whether the authorized or encouraged activity by itself would constitute a copyright infringement.⁹⁷ Courts looked to the function the contributory infringer plays in the infringing activity when they decided whether to hold a third party liable for copyright infringement.⁹⁸

Like the 1909 Copyright Act but unlike the Patent Act, the Copyright Act of 1976 does not expressly address liability for a party who merely authorizes an infringement which is actually committed by another party.⁹⁹ Since a violation of a copyright occurs only when one of the rights listed in 17 U.S.C. § 106 is infringed upon, an infringing act generally must be carried out to establish contributory liability of the party authorizing the infringement; it is unusual for the act of authorization alone to infringe on a copyright without associated direct infringement.¹⁰⁰ The words "to authorize" which were added by the Copyright Act of 1976 were intended to avoid questions about the liability of contributory infringers.¹⁰¹ A contributory infringer "induces, causes, or materially contributes to the infringing conduct of another."¹⁰² For example, someone who furnishes the copyrighted work that another party wrongfully copies may be liable as a contributory infringer.¹⁰³ A party is probably not protected from liability as a contributory infringer merely because the infringing activity is not actually carried out under that party's direct supervision.¹⁰⁴

V. EXTRATERRITORIAL APPLICATION OF U.S. STATUTES

A. *Presumption Against Extraterritorial Application*

"[W]hen it desires to do so, Congress knows how to place the

96. *Gershwin*, 443 F.2d at 1162 n.7 (citing *Gross v. Van Dyk Gravure Co.*, 230 F.2d 4121 (2d Cir. 1916)).

97. *Gershwin*, 443 F.2d at 1162.

98. *Gershwin*, 443 F.2d at 1162 (citing *Fortnightly Corp. v. United Artists Television, Inc.*, 392 U.S. 390, 396-97 (1968)).

99. *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 434 (1984).

100. 3 NIMMER, *supra* note 46, § 12.04(A)(3)(a) at 12-89.

101. H.R. Rep. No. 1476, 94th Cong., 2d Sess. 61 (1976), *reprinted in* Historical and Revision Notes following 17 U.S.C. § 106 (1988).

102. 3 NIMMER, *supra* note 46, § 12.04(A)(2)(a) at 12-76 (citing *Gershwin Publ. Corp. v. Columbia Artists Mgmt.*, 443 F.2d 1159, 1162 (2d Cir. 1971)).

103. 3 NIMMER, *supra* note 46, § 12.04(A)(2)(b) at 12-78.

104. 3 NIMMER, *supra* note 46, § 12.04(A)(2)(b) at 12-78, 79.

high seas within the jurisdictional reach of a statute.’”¹⁰⁶ Although Congress has the authority to enact laws which apply to actions outside the territorial boundaries of the United States, the question of whether a particular law has extraterritorial applications is a matter of statutory construction.¹⁰⁶ “It is a longstanding principle of American law ‘that legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States.’”¹⁰⁷ The Supreme Court has indicated that since “Congress legislates against a backdrop of the presumption against extraterritoriality,”¹⁰⁸ the Court presumes a law applies only to actions within the United States unless Congress clearly indicates otherwise.¹⁰⁹

The presumption against extraterritorial application of U.S. laws avoids “unintended clashes between our laws and those of other nations which could result in international discord.”¹¹⁰ If Congress intends a law to have extraterritorial application, it is reasonable to expect Congress to address possible conflicts with foreign laws.¹¹¹ For example, when Congress amended the Age Discrimination in Employment Act of 1967 (ADEA) to apply overseas, it specifically addressed potential conflicts with foreign law.¹¹²

The Supreme Court has also found extraterritorial application of the Lanham Act, designed to prevent the deceptive and misleading use of trademarks.¹¹³ This construction of the Lanham Act can be used to determine the extraterritoriality of other laws. The Court relied on the Act’s broad jurisdictional grant (its application to “all commerce which may lawfully be regulated by Congress”¹¹⁴) and the constitutional power of Congress to regulate commerce with foreign nations to find the law applicable to a trademark violation occurring outside the

105. *EEOC v. Arabian Am. Oil Co. (Aramco)*, 499 U.S. 244, 258 (1991)(quoting *Argentine Republic v. Amerada Hess Shipping Corp.*, 488 U.S. 428, 440 (1989)).

106. *Aramco*, 499 U.S. at 248.

107. *Aramco*, 499 U.S. at 248 (quoting *Foley Bros., Inc., v. Filardo*, 336 U.S. 281, 285 (1949)). The EEOC sought to apply Title VII of the Civil Rights Act of 1964 to employment practices of U.S. firms that employ U.S. citizens abroad. *Id.* at 244.

108. *Aramco*, 499 U.S. at 248.

109. *Aramco*, 499 U.S. at 248 (citing *Foley Bros., Inc. v. Filardo*, 336 U.S. 281, 285 (1949) and *Benz v. Campana Naviera Hidalgo, S.A.*, 353 U.S. 138, 147 (1957)).

110. *Aramco*, 499 U.S. at 248.

111. *Aramco*, 499 U.S. at 256.

112. *Aramco*, 499 U.S. at 256 (citing 29 U.S.C. § 623(f)(1)).

113. *Aramco*, 499 U.S. at 252 (citing *Steele v. Bulova Watch Co.*, 334 U.S. 280, 286 (1952)).

114. *Aramco*, 499 U.S. at 252 (quoting 15 U.S.C. § 1127).

United States.¹¹⁵

B. Extraterritorial Application of U.S. Patent Law

In *Deepsouth Packing Co. v. Laitram Corp.*¹¹⁶ (referenced earlier under the discussion of contributory infringement under United States patent law), both Deepsouth and Laitram made machines to devein shrimp.¹¹⁷ Through litigation, Laitram established that it held the United States patent for the deveining machine.¹¹⁸ Laitram's patent was not granted on the component parts of the machine, but instead, the patent applied to the novel combination of the machine's parts.¹¹⁹ Deepsouth would clearly violate Laitram's patent by assembling the machines in the United States since assembly would constitute the novel combination of the parts. Consequently, Deepsouth wanted to be able to export its machines less than fully assembled so they could be assembled and used abroad, even though it was enjoined from selling the assembled machines in the United States because of Laitram's patent.¹²⁰ Therefore, the dispute in *Deepsouth* centered around whether Deepsouth violated Laitram's patent by exporting the component parts so they could be assembled abroad in the novel way which was the basis for Laitram's patent. The Court interpreted patent law as granting a monopoly only over the United States market¹²¹ and stated "[o]ur patent system makes no claim to extraterritorial effect."¹²² Patent law "reveals a congressional intent" to have a U.S. patent holder seek protection for foreign patent infringements "through patents secured in countries where his goods are being used."¹²³ The Supreme Court interpreted patent laws to require "direct infringement . . . in the United States" before finding liability for facilitating exploitation of a patent abroad.¹²⁴

In 1984, Congress amended the Patent Act. The amendments reversed the Supreme Court's refusal in *Deepsouth* to find contributory

115. *Aramco*, 499 U.S. at 252 (citing *Steele*, 334 U.S. at 285, 287, and *U.S. Const.*, art. I, § 8, cl. 3).

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

117. *Deepsouth*, 406 U.S. at 519.

118. *Id.*

119. *Id.* at 521.

120. *Id.* at 519.

121. *Id.* at 523.

122. *Id.* at 531.

123. *Deepsouth*, 406 U.S. at 531 (citing 35 U.S.C. §§ 154, 271).

124. 3 NIMMER, *supra* note 46, § 12.04(A)(3)(b) n.98 at 12-89 (citing *Deepsouth*, 406 U.S. at 527).

patent infringement when the alleged direct infringement occurred outside the United States.¹²⁵ Patent law now extends the definition of patent infringement to include supplying any component of a patented invention with the knowledge that it will be used outside the United States in a manner that would constitute patent infringement in the United States.¹²⁶

C. *Extraterritorial Application of U.S. Copyright Law*

Congress has not made a similar amendment to the copyright act to extend the protection to foreign infringement. As described earlier in this note, the copyright law grants the copyright holder exclusive rights as described earlier in this note but makes no separate mention of actions occurring outside the United States. The courts look for a clear indication from Congress before applying a statute to actions occurring in a foreign country, and there is no such indication in the copyright law that Congress intended the law to have extraterritorial application. As a result, copyright protection under U.S. law is territorial and the rights of the copyright holder only apply to infringing acts within the United States.¹²⁷

A violation occurring entirely outside the United States is actionable under the laws of the country in which the violation occurred.¹²⁸ However, if part of an infringing act takes place in the United States, U.S. copyright law applies to the part of the violation attributable to actions occurring within the United States.¹²⁹ Since contributory liability for copyright infringement requires direct infringement as well, the question at the heart of *Subafilms* was whether the direct infringement as well as the contributory acts must take place in the United States before a contributory infringer will be held liable for copyright infringement under U.S. law.¹³⁰

VI. INTERNATIONAL COPYRIGHT PROTECTION FOR WORKS CREATED IN THE UNITED STATES

Since there is no international copyright, copyrights exist only under the laws of individual countries,¹³¹ although a country can pro-

125. 35 U.S.C.A. § 271 (1988).

126. 35 U.S.C.A. § 271(f)(2) (West Supp. 1994).

127. 2 GOLDSTEIN, *supra* note 27, § 16.0 at 675.

128. 2 GOLDSTEIN, *supra* note 27, § 16.0 at 675-76.

129. 3 NIMMER, *supra* note 46, § 17.02 at 17-19.

130. *Subafilms, Ltd. v. MGM-Pathe Comm. Co.*, 24 F.3d 1088 (9th Cir. 1994).

131. 2 GOLDSTEIN, *supra* note 27, § 16.3 at 682.

vide protection under its copyright law for infringing actions which occur in another country. The Chace Act authorized the United States to negotiate bilateral agreements to protect copyrights.¹³² These bilateral agreements can be divided into two types: (1) formal copyright treaties setting forth substantive rights in specific terms, and (2) presidential proclamations extending U.S. copyright protection to citizens of other countries once those countries provided adequate protection under their laws to copyrights of U.S. citizens.¹³³ The intent of these agreements was to provide the same copyright protection to citizens of a specified country as that country provides to U.S. citizens.¹³⁴ Since countries tend to implement agreements differently, U.S. citizens didn't always get the anticipated protection.¹³⁵ The United States continued to negotiate bilateral agreements until the 1950s when it finally joined the Universal Copyright Convention, a multinational copyright organization.¹³⁶ The United States entered into a total of thirty-eight bilateral treaties.¹³⁷

A copyright cause of action can be transitory, such that the action can be brought in any court with jurisdiction over the defendant, although the laws of the country where the infringement took place will be applied.¹³⁸ A transitory cause of action is not directly addressed in either the Berne Convention or the Universal Copyright Convention (discussed below),¹³⁹ so they do not provide a framework for establishing jurisdiction in such a case. Not all countries will exercise jurisdiction over transitory causes of action taking place in another country even though they have jurisdiction over the defendant. Several European countries have allowed suits based on a cause of action which occurred in one country when the suit was brought in another country.¹⁴⁰ If the remedy under laws of the country in which the infringement took place is essentially a penal remedy, the United States' courts

132. 3 NIMMER, *supra* note 46, § 17.01(C)(1)(a) at 17-13 to 17-14.

133. *Id.*; Chace Act, 26 Stat. 1106 (1891).

134. 3 NIMMER, *supra* note 46, § 17.01(C)(1)(a) at 17-14.

135. *Id.*

136. 3 NIMMER, *supra* note 46, § 17.01(C)(1)(a) at 17-15; Universal Copyright Convention, 6 U.S.T. 2731 (1952), revised 25 U.S.T. 1341 (1971).

137. 2 GOLDSTEIN, *supra* note 27, § 16.1 at 679; all copyright treaties to which the United States is a party can be found in United States Treaties and Other International Agreements (1950 - present), or the Treaties and Other International Acts Series (1945 - present), or the Treaty Series (1778 - 1945).

138. 2 GOLDSTEIN, *supra* note 27, § 16.3 at 683.

139. *Id.*

140. *Id.*

will generally decline jurisdiction.¹⁴¹ A suit to remedy a violation of a foreign law which is brought in a U.S. court could also be dismissed for the general ground of *forum non conveniens*.¹⁴²

The United States adheres to two multilateral copyright treaties - the Universal Copyright Convention and the Berne Convention for the Protection of Literary and Artistic Works - which provide the most common basis for protecting the works of U.S. nationals from copyright infringements which occur abroad.¹⁴³ Under these treaties, U.S. nationals enjoy the same protection as nationals of the country in which the alleged copyright violation occurred.¹⁴⁴ In order to receive protection under these conventions, a U.S. copyright owner must first establish that the work is entitled to copyright protection in the country where the violation occurred and that it owns the copyright in that country.¹⁴⁵

The Universal Copyright Convention (U.C.C.) became effective in the United States in 1955; it protects works created or first published in the United States.¹⁴⁶ This treaty was designed to accommodate the United States which had earlier refused to give up its requirement of copyright formalities. This sticking point had prevented the U.S. from joining the Berne Union.¹⁴⁷ The U.C.C. allows formalities, but it considers formalities such as deposit, registration, notice, etc. satisfied as long as the work bears the symbol © accompanied by the name of the copyright proprietor and the year of first publication to give reasonable notice of the copyright claim.¹⁴⁸

The Berne Convention for the Protection of Literary and Artistic Works was established in 1886 when ten countries (the Berne Union) agreed to recognize copyright protection across their national bounda-

141. *Id.* at 684.

142. *Id.*

143. *Id.* at 676-7.

144. 3 NIMMER, *supra* note 46, § 17.01(B)(1) at 17-8.

145. 2 GOLDSTEIN, *supra* note 46, § 16.0 at 676. Foreign copyright protection typically requires compliance with one of the following four conditions:

(1) the author if the work is a national or domiciliary of the foreign country; (2) the author of the work is a national or domiciliary of a country which the foreign country has established copyright relations through a multilateral or bilateral treaty or through proclamation; (3) the work was first published in the foreign country; or (4) the work was first published in a country with which the foreign country has established copyright relations.

Id.

146. 2 GOLDSTEIN, *supra* note 27, § 16.1 at 680.

147. 3 NIMMER, *supra* note 46, § 17.01(B)(2) at 17-10 to 17-11.

148. Universal Copyright Convention, Jul. 24, 1971, art. 3, *reprinted in* Historical and Revision Notes following 17 U.S.C. § 104 (1988).

ries.¹⁴⁹ At that time, the United States did not provide protection for any works with a foreign copyright, so the United States did not participate in the formation of the Berne Convention.¹⁵⁰ The five main objectives of the Berne Convention were (1) having all civilized countries establish copyright laws, (2) eliminating reciprocity as a basis for extending copyright protection to foreign nationals, (3) giving foreign and domestic authors the same protection, (4) eliminating formalities as a condition of protection, and (5) promoting uniform international law to protect copyrightable works.¹⁵¹

Shortly after the Berne Convention was signed, the United States copyright laws were modified to allow protection for foreign works. The United States was loathe to join the Berne Convention, though, since the Convention prohibits formalities as a requirement of copyright protection.¹⁵² Proponents urging the United States to adhere to the Berne Convention pointed to two primary benefits of membership: (1) the United States would have immediate copyright relations for the first time with twenty-four nations with whom it did not have bilateral agreements, and (2) membership would be a moral statement of the importance of international protection of intellectual property through adherence to the treaty with the highest standards of protection.¹⁵³

Without the Berne Convention's protection, U.S. copyright holders suffered mounting losses because countries that had not ratified the U.C.C. and did not have bilateral copyright relationships with the United States had no obligation to protect U.S. copyrights.¹⁵⁴ Worldwide demand for works protected by United States copyrights grew rapidly, accompanied by mushrooming pirating of United States copyrighted works.¹⁵⁵ In addition, technological developments generated new forms of creative and protectible works, and membership in the Berne Union was believed to provide better protection for United States authors than relying only on U.S. laws.¹⁵⁶ The United States' reluctance to join the Berne Union hindered the worldwide General Agreement of Tariffs and Trade talks since the United States was viewed as not being fully committed to international protection of copy-

149. 3 NIMMER, *supra* note 46, § 17.01(B)(1) at 17-6.

150. BOORSTYN ON COPYRIGHT, *supra* note 33, § 17.01(1) at 17-2.

151. *Id.* at 17-1 to 17-2.

152. Berne Convention for the Protection of Literary and Artistic Works, Jul. 24, 1971, 1 B.D.I.E.L. 715, art. 5.

153. 3 NIMMER, *supra* note 46, § 17.01(C)(2)(a) at 17-17 to 17-18.

154. *Id.* at 17-16.

155. BOORSTYN ON COPYRIGHT, *supra* note 33, § 17.01(1) at 17-3.

156. BOORSTYN ON COPYRIGHT, *supra* note 33, § 17.01(1) at 17-3.

rightable works.¹⁵⁷ Finally, in 1988, the U.S. modified its 1976 Copyright Act by passing the Berne Convention Implementation Act of 1988, wherein the United States gave up its resistance to the Berne Convention's position on formalities.¹⁵⁸ As a result, the Berne Convention became effective in the United States for works published after that date March 1, 1989.¹⁵⁹

The Berne Convention's enforcement mechanism, through which one country complains that another country is not providing anticipated copyright protection to foreign nationals, is deficient. A country can only bring an action against another country in the International Court of Justice, a cumbersome procedure which has never been invoked.¹⁶⁰ Consequently, the Berne Convention is not an ideal way to protect author's rights.¹⁶¹

VII. GENERAL AGREEMENT ON TARIFFS AND TRADE COPYRIGHT PROVISIONS

The General Agreement on Tariffs and Trade¹⁶² (GATT) will hopefully provide a remedy to Berne's enforcement mechanism deficiency.¹⁶³ The United States will be able to file copyright complaints against other GATT nations under the GATT framework.¹⁶⁴ All Uruguay Round Agreements (the current version of GATT being considered for ratification around the world) have a single dispute settlement system.¹⁶⁵ The Dispute Settlement Understanding establishes a GATT panel to issue reports based on complaints by member nations, contemplates appellate review of panel rulings, sets time limits for countries to

157. BOORSTYN ON COPYRIGHT, *supra* note 33, § 17.01(1) at 17-3.

158. 2 GOLDSTEIN, *supra* note 27, § 16.7 at 697.

159. RAPHAEL V. LUPO AND DONNA M. TANGUAY, WHAT CORPORATE AND GENERAL PRACTITIONERS SHOULD KNOW ABOUT INTELLECTUAL PROPERTY LITIGATION § 4.01, at 54 (1991).

160. DAVID NIMMER, NIMMER ON COPYRIGHT: SPECIAL SUPPLEMENT, COPYRIGHT'S TRADE STATUS: GATT AND NAFTA AND OTHER RECENT LEGISLATIVE DEVELOPMENTS 7 (1994).

161. NIMMER, *supra* note 160 at 7.

162. The General Agreement on Tariffs and Trade (GATT) evolved from efforts in the 1940s to establish a world body governing trade that would compliment the international system created by the International Monetary Fund and the World Bank. GATT's purpose was to foster trade by overcoming the inhibiting effect of national laws on free trade. GATT was "the economic pillar within the legal framework that was designed to build a peaceful world after 1945." Nimmer, *supra* note 160, at 9.

163. NIMMER, *supra* note 160, at 8.

164. *Id.*

165. *Id.* at 30.

bring their laws into compliance with GATT, and authorizes retaliation if a country does not comply within the time limit.¹⁶⁶

GATT places several requirements on member nations with respect to copyrights. (1) They must comply with the Berne Convention.¹⁶⁷ (2) They must protect computer programs as literary works under the Berne Convention.¹⁶⁸ (3) They must prohibit commercial rental to the public of unauthorized copies of computer programs and cinematographic works.¹⁶⁹ [Movie rentals are a possible problem area for the United States, since video rental shops are widespread. GATT does provide an exception from this requirement unless rentals have led to widespread copying of the copyrighted works.¹⁷⁰] (4) They must establish a minimum copyright duration for works other than a photographic work or work of applied art.¹⁷¹ (5) They must limit exceptions to exclusive rights to certain special cases.¹⁷² (6) Neighboring rights are applied to performers, producers of phonograms, and broadcasting organizations.¹⁷³ GATT has no domestic legal effect until a country implements the agreements through legislation.¹⁷⁴

VIII. JUDICIAL INTERPRETATION OF CONTRIBUTORY INFRINGEMENT OF COPYRIGHT LAWS

A. The Ninth Circuit Court of Appeals' Decision in Peter Starr

The United States District Court for the Central District of California had dismissed a copyright infringement claim brought by Peter Starr Production Co. for lack of subject matter jurisdiction under 28 U.S.C. § 1338(a), concluding the defendant had not violated U.S. copyright law because the violation occurred outside the United States.¹⁷⁵ Peter Starr held the copyright to several motion pictures, including "Take It to the Limit."¹⁷⁶ Starr authorized an agent to look for European distributors for several films, including "Take It to the

166. *Id.*

167. *Id.* at 20.

168. *Id.* at 21.

169. *Id.* at 22.

170. *Id.*

171. *Id.* at 23.

172. *Id.*

173. *Id.* at 24.

174. *Id.* at 14.

175. *Peter Starr Prod. Co. v. Twin Continental Films, Inc.*, 783 F.2d 1440, 1441 (9th Cir. 1986).

176. *Id.*

Limit," but the agent was not authorized to bind Starr to any distribution agreements.¹⁷⁷ Alpha Films Ltd. wanted the distribution rights to "Take It to the Limit," but Starr rejected its offer.¹⁷⁸ In spite of that rejection, Starr's agent entered into a licensing agreement with Alpha giving Alpha exclusive foreign distribution rights for "Take It to the Limit."¹⁷⁹ The license agreement was negotiated in France, but was signed in Los Angeles.¹⁸⁰

The *Peter Starr* court observed that copyright laws do not have extraterritorial effect, so actions which take place entirely outside the United States are not actionable in U.S. courts.¹⁸¹ Starr argued that the agent's infringing act was to authorize Alpha to distribute the film, by executing a contract with Alpha, without Starr's consent.¹⁸² The court referred to the Supreme Court's statement in *Sony Corp. of America v. Universal City Studios, Inc.*¹⁸³ that "an infringer is not merely one who uses a work without authorization of the copyright owner, but also one who authorizes the use of a copyrighted work without actual authority from the copyright owner."¹⁸⁴ The court in *Peter Starr* concluded that mere execution of the contract with Alpha was sufficient to constitute copyright infringement (as long as that authorization took place in the United States) even though the actual distribution did not violate any U.S. laws (since the distribution was extraterritorial).¹⁸⁵

B. *The Ninth Circuit Court of Appeals' Decision in Lewis Galoob Toys*

However, the Ninth Circuit was unwilling to find mere authorization to be contributory infringement in another case, *Lewis Galoob Toys, Inc. v. Nintendo of America, Inc.*¹⁸⁶ Nintendo appealed a United States District Court for the Northern District of California ruling that

177. *Id.*

178. *Id.*

179. *Id.*

180. *Id.*

181. *Peter Starr*, 783 F.2d at 1442 (citing *Robert Stigwood Group, Ltd. v. O'Reilly*, 530 F.2d 1096, 1101 (2d Cir. 1976), *cert. denied*, 429 U.S. 848 (1976)).

182. *Peter Starr*, 783 F.2d at 1442.

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

184. *Peter Starr*, 783 F.2d at 1443 (citing *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 435 n.17 (1984)).

185. *Peter Starr*, 783 F.2d at 1443.

186. *Lewis Galoob Toys, Inc. v. Nintendo of Am., Inc.*, 964 F.2d 965 (9th Cir. 1992), *aff'g* *Nintendo of Am., Inc. v. Lewis Galoob Toys, Inc.*, 780 F.Supp. 1283 (N.D.Cal. 1991).

Lewis Galoob Toy's "Game Genie" did not infringe on Nintendo's copyrighted "Entertainment System."¹⁸⁷ The Game Genie allowed players to alter up to three features of a Nintendo game.¹⁸⁸ Nintendo did not allege that the Game Genie directly infringed on its copyright; instead it claimed the Game Genie "contribute[d] to the creation of infringing derivatives of Nintendo's copyrighted . . . games" by enabling the consumer to modify the copyrighted game.¹⁸⁹ Nintendo claimed the derivative work which allegedly violated its copyright was created when a consumer used a Game Genie to alter a copyrighted Nintendo game.¹⁹⁰

A derivative work under the copyright law is based on a preexisting work and it must be permanent.¹⁹¹ The statutory examples of derivative works all physically incorporate the underlying work into the resulting derivative work.¹⁹² However, in this case, no permanent work was created when the Game Genie was used to alter a Nintendo game, so there was no copyright violation since no derivative work, as defined in the copyright law, was created.¹⁹³ The court stated that "a party cannot authorize another party to infringe a copyright unless the authorized conduct would itself be unlawful."¹⁹⁴ Since the Game Genie did not assist in the creation of an illegal derivative work, Lewis Galoob Toys had not infringed on Nintendo's copyright for its games. Both the *Lewis Galoob Toys* and the *Peter Starr* decisions will be discussed in more detail below when they are contrasted with the *Subafilms* decision.

IX. NINTH CIRCUIT COURT OF APPEALS' DECISION IN SUBAFILMS

A. *The Dispute*

In 1966, Hearst Corporation and the musical group The Beatles entered into a joint venture through Subafilms, Ltd. to make the animated motion picture entitled "Yellow Submarine."¹⁹⁵ Hearst, on

187. *Lewis Galoob Toys*, 964 F.2d at 967, *appealing* the holding in *Nintendo of Am., Inc.*, 780 F.Supp. at 1298.

188. *Id.*

189. *Id.* at 970.

190. *Id.*

191. *Id.* at 967.

192. *Id.*

193. *Id.* at 968.

194. *Id.* at 970.

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

behalf of the joint venture, entered into an agreement with United Artists Corporation for United Artists to distribute the motion picture.¹⁹⁶ Beginning in 1968, after the motion picture was completed, United Artists distributed the "Yellow Submarine" to theaters and television broadcasters within the United States.¹⁹⁷

In the early 1980s, as home video use was becoming popular, United Artists began distributing some of its motion pictures on videocassette.¹⁹⁸ Since it was unsure whether the licensing agreement with Hearst and Subafilms granted it home video distribution rights, it declined to license "Yellow Submarine" for videocassette distribution.¹⁹⁹ By 1987, United Artists had merged with MGM and became MGM/UA (and is now known as MGM/Pathé).²⁰⁰ In 1987, although the Subafilms/Hearst joint venture objected, MGM/UA authorized domestic home video distribution of "Yellow Submarine" through its subsidiary MGM/UA Home Video Inc.²⁰¹ MGM/UA had an arrangement with Warner Brothers licensing Warner to distribute MGM/UA films overseas.²⁰² In 1987, MGM/UA notified Warner Brothers that "Yellow Submarine" had been cleared for international videocassette distribution.²⁰³ In 1988, Subafilms and Hearst sued MGM/UA and Warner claiming the domestic and international videocassette distribution of "Yellow Submarine" constituted a copyright violation and breached the 1967 distribution agreements.²⁰⁴

B. The District Court Decision

The case was tried before a special master and then reviewed by the United States District Court for the Central District of California, which adopted the special master's findings of fact and conclusions of law.²⁰⁵ The special master and District Court found for Subafilms and awarded \$2,228,000 in compensatory damages split evenly between foreign and domestic home video distribution.²⁰⁶ The domestic portion of the case was not included in the appeal to the Ninth Circuit Court of

196. *Id.*

197. *Id.*

198. *Id.*

199. *Id.*

200. *Id.*

201. *Id.*

202. *Id.*

203. *Id.*

204. *Id.*

205. *Id.* at 1088-89.

206. *Id.* at 1089.

Appeals.

C. The Appeal to the Ninth Circuit Court of Appeals

A panel of the Ninth Circuit Court of Appeals affirmed the United States District Court's ruling in an unpublished opinion.²⁰⁷ The panel's ruling with respect to the foreign distribution relied on the *Peter Starr*²⁰⁸ decision, which held that mere authorization within the United States of a copyright violation which was carried out abroad was sufficient to constitute copyright infringement under United States copyright law.²⁰⁹ Since the illegal distribution of "Yellow Submarine" was authorized in the United States, the Ninth Circuit panel upheld the District Court's ruling that MGM/UA violated the U.S. Copyright Act with respect to the foreign distribution of "Yellow Submarine."²¹⁰ The panel did not consider the alternative breach of contract claim.²¹¹

MGM/UA admitted that the initial authorization of the international distribution occurred in the United States,²¹² but they contended that this authorization alone did not violate the U.S. copyright law.²¹³ MGM/UA requested a rehearing by the Ninth Circuit Court of Appeals en banc to consider whether *Peter Starr* conflicted with the court's later decision in *Lewis Galoob Toys* in which the court did not find a copyright infringement merely for facilitating an action which would not itself violate the Copyright Act.²¹⁴ If *Lewis Galoob Toys*

207. *Id.* at 1090.

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

209. *Subafilms*, 24 F.3d at 1091 (citing *Peter Starr*, 783 F.2d 1440). In *Peter Starr*, Twin Continental authorized illegal foreign distribution of a motion picture and the authorization took place in the United States. *Peter Starr* appealed a district court ruling that the court lacked subject matter jurisdiction since the copyright infringement occurred outside the United States. The Ninth Circuit Court of Appeals held that, although actions which take place entirely outside the United States cannot constitute copyright violations, acts of authorization themselves can be copyright violations. *Peter Starr*, 783 F.2d at 1441-43. *Peter Starr* is discussed in more detail in the Legal Background section of this note.

210. *Subafilms*, 24 F.3d at 1091-92.

211. *Id.* at 1092 n.2.

212. *Id.* at 1092.

213. *Id.* at 1093.

214. *Id.* at 1093. In *Lewis Galoob Toys*, the court refused to find a copyright violation for authorizing another party to engage in an infringing act when the authorized use would not constitute a violation of the Copyright Act. *Subafilms*, at 1093, citing *Lewis Galoob Toys, Inc., v. Nintendo of Am., Inc.*, 964 F.2d 965 (9th Cir. 1992), *cert. denied*, 113 S.Ct. 1582 (1993). One of the judges on the *Subafilms* panel, Judge Rymer, was also on the *Lewis Galoob Toys* panel. *Lewis Galoob Toys* is dis-

controlled, MGM/UA could show that its authorization of the foreign distribution was not a copyright violation because extraterritorial acts are not protectible under U.S. copyright laws.

Subafilms lost the opportunity to get a holding on whether MGM/UA's authorization included authorizing making a copy of the film here in the U.S. (a clear violation of U.S. law). Subafilms did not make that argument before either the District Court or the Court of Appeals panel which heard the appeal prior to the en banc hearing. Subafilms' contention about MGM's copying the negative in the United States was also not supported by the record of the case.²¹⁵ In reaching its decision in *Subafilms*, the court accepted the admission that the initial authorization occurred in the United States, but limited the acts of authorization solely to entering into the licensing agreement rather than also including copying the film's negative.²¹⁶ As a result, the appeal dealt only with acts of authorization occurring within the United States and ignored the impact of also copying the film's negative within the United States prior to unauthorized foreign distribution.

The court found that the 1976 Copyright Act requires proof of a direct infringement before a party can be held liable for contributory infringement.²¹⁷ Authorization alone, without direct infringement which violates the copyright law, is not enough to create a cause of action.²¹⁸ To decide whether the direct infringement must take place within the United States, the court considered the extraterritorial application of other laws and concluded Congress legislates with an assumption that its laws will not apply beyond the borders of the United States.²¹⁹ Unless Congress clearly indicates otherwise, a law does not apply to extraterritorial actions. As a result, before a party can be liable for authorizing a direct infringement, the direct infringement must occur in the United States so it will be a violation of U.S. copyright law.²²⁰

D. *The Legal Basis for the Subafilms Decision*

The *Subafilms* court traced third party liability back to the 1909 Copyright Act and found that liability was predicated on the author-

cussed in more detail in the Legal Background section of this note.

215. *Subafilms*, 24 F.3d at 1092 n.3.

216. *Id.*

217. *Subafilms*, 24 F.3d at 1093, 1107.

218. *Id.* at 1093.

219. *Id.* at 1093-94, 1112.

220. *Id.* at 1094.

ized act itself being a copyright violation.²²¹ Courts had not been consistent, though, in the degree of involvement they required of the third party before finding third party liability for copyright violations under the 1909 Act.²²² Determining the degree of involvement and nature of the authorized act was at the heart of four recent Ninth Circuit Court of Appeals decisions: *Peter Starr*, *Lewis Galoob Toys*, *Columbia Pictures Indus. v. Professional Real Estate Investors, Inc.*,²²³ and *Subafilms*.

The *Peter Starr* court accepted, as does the *Subafilms* court, that "infringing actions that take place entirely outside the United States are not actionable."²²⁴ However, the *Peter Starr* court held that authorization within the United States was all that was needed to establish a cause of action under the Copyright Act.²²⁵ Since its ruling in *Peter Starr*, however, the Ninth Circuit recognized that a party cannot be liable as an infringer merely for authorizing actions which are not proscribed by section 106 of the Copyright Act.²²⁶ This fine distinction led to the dispute in *Subafilms* over whether the authorized action merely had to violate section 106 of the Copyright Act (unauthorized distribution) without actually creating a cause of action (since the distribution occurred entirely outside the United States).

The *Subafilms* court favorably cites *Nimmer on Copyrights* to support its analysis of the type of action necessary to create a cause of action for contributory infringement.²²⁷ Melville and David Nimmer analyzed the *Peter Starr* decision in their *Nimmer on Copyrights* treatise.²²⁸ They observe that a related defendant can be liable even if there is no liability against the direct defendant, since the direct infringer may not be subject to service of process or his identity may not even be known.²²⁹ *Nimmer* finds a very different issue, though, when considering whether direct infringement must occur to create third party liabil-

221. *Id.* at 1099.

222. *Subafilms*, 24 F.3d at 1102 (citing *Sony*, 464 U.S. at 437-38 &n.18, and *Peter Starr*, 783 F.2d at 1443).

223. *Columbia Pictures Indus. v. Professional Real Est. Investors, Inc.*, 866 F.2d 278 (9th Cir. 1989).

224. *Subafilms*, 24 F.3d at 1097 (citing *Peter Starr*, 783 F.2d at 1442 citing Robert Stigwood Group, Ltd. v. O'Reilly, 530 F.2d 1096, 1101 (2d Cir. 1976) *cert. denied*, 429 U.S. 848 (1976)).

225. *Subafilms*, 24 F.3d at 1094 (citing *Peter Starr*, 783 F.2d at 1442-43).

226. *Subafilms*, 24 F.3d at 1098 (citing *Lewis Galoob Toys*, 964 F.2d at 970).

227. *Subafilms*, 24 F.3d at 1098 (citing 3 *Nimmer*, *supra* note 46, § 12.04(A)(3)(a) at 12-80 n.82 (1991 ed.)).

228. 3 *Nimmer*, *supra* note 46, § 12.04(A)(3)(b) at 12-86 to 12-87.

229. 3 *NIMMER*, *supra* note 46, § 12.04(A)(3)(a) at 12-83.

ity.²³⁰ The category of related, or third party, defendants comes from the Copyright Act, which gives copyright owners “the exclusive right ‘to authorize’ various activities.”²³¹ The mere act of authorization is not likely to harm the copyright owner, though, if there is no act of infringement following the authorization.²³² *Nimmer* refers to the “undisputed axiom that United States copyright law has no extraterritorial application” and concludes that “it would seem to follow necessarily that a primary activity outside the . . . United States,” which would not be actionable under the Copyright Act, cannot serve as the basis for third party liability for related actions within the United States.²³³ *Nimmer* goes on to say that “the few cases that have addressed this question reached the contrary result.”²³⁴

The *Peter Starr* court interpreted the addition of the words “to authorize” in the Copyright Act of 1976 to create a cause of action for contributory infringement even though the authorized actions took place entirely outside the United States.²³⁵ In contrast, the *Lewis Galoob Toys* court concluded that the inclusion of the words “to authorize” in the 1976 Copyright Act was “not meant to create a new form of liability for ‘authorization’ that was divorced completely from the legal consequences of authorized conduct, but was intended to invoke the preexisting doctrine of contributory infringement.”²³⁶ The *Subafilms* court agrees with the *Lewis Galoob Toys* court²³⁷ and concludes the addition of the words “to authorize” in the 1976 Copyright Act merely clarifies that a contributory infringer only needs to be involved in the direct infringement to the extent of authorizing the infringing actions.²³⁸ It quotes the legislative history of the 1976 Copyright Act, which states the words were added to “avoid any questions as to the liability of contributory infringers,” to support their conclusion that the primary infringement must be actionable under the copyright law before a third party can be liable for authorizing the primary infringement.²³⁹

230. *Id.*

231. 3 NIMMER, *supra* note 46, § 12.04(A)(3)(a) at 12-83 (citing 17 U.S.C. § 106).

232. 3 NIMMER, *supra* note 46, § 12.04(A)(3)(a) at 12-85.

233. 3 NIMMER, *supra* note 46, § 12.04(A)(3)(b) at 12-86.

234. 3 NIMMER, *supra* note 46, § 12.04(A)(3)(b) at 12-87 (citing *Peter Starr* and *Thomas v. Pansy Ellen Prods, Inc.*, 672 F.Supp. 237 (W.D.N.C. 1987)).

235. *Peter Starr*, 783 F.2d at 1443.

236. *Subafilms*, 24 F.3d at 1092 (citing *Lewis Galoob Toys*, 964 F.2d at 970).

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

238. *Subafilms*, 24 F.3d at 1093.

239. *Subafilms*, 24 F.3d at 1093 (quoting H.R. REP. No. 1476, 94th Cong., 2d

The reason for not finding primary infringement in *Subafilms* differs from the reasons in *Lewis Galoob Toys* and *Columbia Pictures*.²⁴⁰ In *Lewis Galoob Toys*, the allegation of primary infringement was based on the creation of an illegal derivative work.²⁴¹ The court failed to find a derivative work, so there could be no primary infringement.²⁴² In *Columbia Pictures*, the alleged primary infringement was based on unauthorized public showing of movies. The court held that hotel guests watching movies in their rooms did not constitute public performance under the Copyright Act, so there was no primary infringement.²⁴³ In *Lewis Galoob Toys* and *Columbia Pictures*, the alleged infringing activity was found not to be infringing at all. On the other hand, the alleged primary infringement in *Subafilms* was unauthorized distribution of a motion picture.²⁴⁴ The *Subafilms* court concluded that it cannot draw the line "between an act that does not violate a copyright because it is not the type of conduct proscribed by section 106 [of the Copyright Act], and one that does not violate section 106 because the illicit act occurs overseas."²⁴⁵

The alleged primary infringement in *Subafilms* (unauthorized distribution) is clearly an infringing activity, but because infringement occurred entirely abroad, MGM/Pathé can not be liable for contributory infringement as a result of authorizing the foreign distribution. The court, however, did not decide whether a third party can be liable for contributory copyright infringement if primary infringement which is actionable under U.S. copyright law is attempted but fails.²⁴⁶

The *Subafilms* court rejected *Subafilms*' interpretation of the Second Circuit's doctrine that copyright laws can have extraterritorial application "when the type of infringement permits further reproduction abroad."²⁴⁷ The *Subafilms* court found the Second Circuit doctrine only allows damages if the direct infringement occurs within the United States.²⁴⁸ The doctrine had been applied in cases where the "in-

Sess. 61 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5674).

240. *Subafilms*, 24 F.3d at 1093.

241. *Lewis Galoob Toys*, 964 F.2d at 968.

242. *Lewis Galoob Toys*, 964 F.2d at 970.

243. *Subafilms*, 24 F.3d at 1092 (citing *Columbia Pictures*, 866 F.2d at 279-81).

244. *Subafilms*, 24 F.3d at 1090.

245. *Subafilms*, 24 F.3d at 1094 (citing *Daniaq, S.A. v. MGM/UA Commun. Co.*, 773 F.Supp. 194, 203 (C.D.Cal. 1991), *aff'd on other grounds*, 979 F.2d 772 (9th Cir. 1992)).

246. *Subafilms*, 24 F.2d at 1094 n.8.

247. *Subafilms*, 24 F.3d at 1094 (quoting *Update Art, Inc. v. Modiin Publ., Ltd.*, 843 F.2d 67, 73 (2d Cir. 1988)).

248. *Subafilms*, 24 F.3d at 1094 (citing *Robert Stigwood Group, Ltd. v. O'Reilly*,

fringing use would have been actionable even if the subsequent foreign distribution that stemmed from that use never took place."²⁴⁹ Consequently, those cases were based on primary infringement which occurred within the United States, not on contributory infringement for actions occurring outside the United States. Since the direct infringement in *Subafilms* occurred outside the United States and only the authorization occurred within the United States, this Second Circuit Court of Appeals doctrine would not apply even if the Ninth Circuit Court of Appeals were to adopt the doctrine.²⁵⁰

The *Subafilms* court also rejected Subafilms' contention that the Copyright Act should extend to extraterritorial acts of infringements when those acts have adverse results in the United States.²⁵¹ The court, instead, opted to uphold "eighty years of consistent jurisprudence on the extraterritorial reach of the copyright laws without further guidance from Congress."²⁵² Subafilms could still pursue breach of contract remedies in United States courts if the statute of limitations has not expired.²⁵³ They may also be able to sue in United States courts for violations of foreign copyright laws, although the jurisdictional issue is not settled.²⁵⁴

When the Copyright Act was revised in 1976, Congress expanded the extraterritorial application of the law to the unauthorized importation of copyrighted works when copies were lawfully made abroad.²⁵⁵ The 1909 Act only prohibited the importation of copies which were unlawful in the foreign country in which they were made.²⁵⁶ The court observes that Congress could have easily extended copyright protection to infringing action which occurred abroad,²⁵⁷ but they did not do so.

When the cause of action in *Subafilms* occurred (1987), the United States was a member of the U.C.C.,²⁵⁸ and in 1988, the United

530 F.2d 1096, 1101 (2d Cir. 1976), *cert. denied*, 429 U.S. 848 (1976); *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 52 (2d Cir. 1939), *aff'd*, 309 U.S. 390 (1940)).

249. *Subafilms*, 24 F.3d at 1094 (citing *Famous Music Corp. v. Seeco Records, Inc.*, 201 F.Supp. 560, 568-69 (S.D.N.Y. 1961)).

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

251. *Id.* at 1095.

252. *Id.*

253. *Id.* at 1095 n.10.

254. *Id.* at 1095.

255. *Id.* at 1096.

256. *Id.* at 1096 n.11 (citing Act of Mar. 4, 1909, ch. 320, § 30, 35 Stat. 1075, 1032 (1909)).

257. *Id.* at 1096.

258. *Id.* at 1097.

States acceded to the Berne Convention.²⁵⁹ As described earlier, both the U.C.C. and Berne use national treatment for international copyright violations. A United States citizen receives the same protection as a citizen of the country in which the violation occurred.²⁶⁰ The *Subafilms* court expressed the opinion that national treatment of international copyright violations implies a "rule of territoriality," meaning the law of the nation in which the violation occurred should be applied, not the law of the country of the author's citizenship nor the country where the work was first published.²⁶¹

Congress believed that domestic industries that depend on copyrights can get adequate protection by relying on foreign copyright laws for extraterritorial infringements, which was one reason Congress acceded to the Berne Convention.²⁶² The *Subafilms* court interprets this reasoning as further evidence that Congress wanted to have foreign laws apply to copyright infringement cases when the alleged violation occurs in another country.

The *Subafilms* court was concerned that extraterritorial application of U.S. copyright law could cause difficult choice-of-law problems since Berne does not require all countries to have identical copyright laws.²⁶³ Since Congress recently expressed its desire to further the copyright protection of U.S. works abroad through international agreements, the court found it inconsistent to extend the extraterritorial reach of the copyright law and find an actionable copyright violation in this case.²⁶⁴

The *Subafilms* appeal turned on the issue of whether the unauthorized distribution of the movie outside the United States, when the authorization was given in the United States, by itself creates a primary infringement of U.S. copyright law which is necessary to allow a finding of contributory infringement for the foreign distribution. The court states that the judiciary should not act in a manner that could disrupt attempts by Congress to stabilize international intellectual copyright enforcement.²⁶⁵ "The application of American copyright law to acts of infringement that occur entirely overseas clearly could have this ef-

259. *Id.*

260. *Id.*

261. *Id.*

262. *Subafilms*, 24 F.3d at 1095 (citing H.R. REP. No. 609, 100th Cong., 2d Sess. 18-20; S.Rep. 352, 100th Cong., 2d Sess. 2-5, reprinted in 1988 U.S.C.C.A.N., 3706, 3707-10)).

263. *Id.* at 1098.

264. *Id.*

265. *Id.*

fect."²⁶⁶ If the court applied U.S. copyright law in this case, it would risk offending other Berne nations and displacing their laws in circumstances in which they had previously been applied.²⁶⁷

The *Subafilms* court also observes that GATT uses the Berne Convention as a model for its "TRIPS" agreement on intellectual property protection.²⁶⁸ Adhering to Berne "provide[d] a firm foundation for the enactment of a more comprehensive agreement on intellectual property protection through GATT."²⁶⁹

The *Subafilms* court held that, under U.S. copyright law, a party is only liable for copyright violation for authorizing an act if the authorized act constitutes infringement which is prohibited under the copyright law. As a result, authorizing an act which takes place entirely outside the United States is not a copyright infringement.²⁷⁰ The court "overrule[d] *Peter Starr* insofar as it held that allegations of an authorization within the United States of infringing acts that take place entirely abroad state a claim for infringement under the [Copyright] Act."²⁷¹

CONCLUSION

In *Subafilms*, the Ninth Circuit Court of Appeals backs away from its prior decision granting some extraterritorial application to the U.S. copyright law. The *Subafilms* decision is consistent with judicial interpretation of the extraterritorial application of U.S. laws in other cases. Courts consistently look for a clear indication of congressional intent to have U.S. laws apply beyond our borders. In light of the final passage of the General Agreements on Tariffs and Trade on December 1, 1994, the *Subafilms* decision is consistent with steps by Congress to participate actively in international agreements to protect works of U.S. citizens against infringement abroad rather than relying on bilateral agreements.

It remains to be seen whether other Circuits will follow the 9th Circuit's *Subafilms* decision. That decision seems consistent with a move by Congress to rely on international treaties to protect United States citizens' copyrights against international copyright infringement.

266. *Id.* at 1097.

267. *Id.*

268. *Id.* at 1098 n.16. TRIPS stands for trade-related aspects of intellectual property rights.

269. *Id.*

270. *Id.* at 1099.

271. *Id.* at 1090.

The international community will have a challenge keeping up with the dramatic technological advances which are occurring.

Patricia Scahill