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RECORD PIRACY AND MODERN PROBLEMS OF INNOCENT INFRINGEMENT: A COMPARATIVE ANALYSIS OF UNITED STATES AND BRITISH COPYRIGHT LAW*

Frank L. Fine**

I. INTRODUCTION

One of the most deeply rooted problems in United States and British copyright law is the question of how to treat the "innocent infringer" who infringes unknowingly or without reason to suspect that he is infringing. Congress and Parliament have regarded the prospect of special treatment for such infringers with ambivalence. The United States and British copyright laws reflect this confusion. Each country had at one time or another provided the innocent infringer with total immunity from liability, limited remedial relief, or no protection whatsoever.

The problem of innocent infringement has been revived by the record piracy crisis that now grips the American and

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2. I will use the term "record" to connote conventional records and tapes. Under the United States Copyright Act of 1976 (1976 Act), the term of art for "record" is "phonorecord." 17 U.S.C. § 101 (1976) defines "phonorecords" as "material objects in which sounds . . . are fixed by any method now known or later developed, and from which the sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device." The equivalent word of art under the British Copyright Act of 1956 (1956 British Act) is the term "record," which is defined as "any disc, tape . . . or other device in which sounds are embodied so as to be capable (with or without the aid of some other instrument) of being auto-
British music industries. Due to the severe impact that record piracy has had on music industry profits, copyright owners\(^6\) in musical works\(^4\) and sound recordings\(^8\) may no longer file lawsuits primarily against pirates.\(^8\) There is evidence that copyright owners will litigate against sellers of pirated or counterfeit records with greater frequency.

For example, in the United States, the Recording Indus-


4. The 1976 Act does not specifically define "work" or "musical work." However, the term "work" is defined indirectly. "A work is fixed in a tangible medium of expression when its embodiment in a copy or phonorecord . . . permit[s] it to be perceived, reproduced, or otherwise communicated . . . ." 17 U.S.C. § 101 (1976). 17 U.S.C. § 102(a) (1976) adds that "[w]orks of authorship include the following categories: (1) literary work; (2) musical works, including any accompanying words; (3) dramatic works, including any accompanying music; (4) pantomimes and choreographic works; (5) pictorial, graphic, and sculptural works; (6) motion pictures and other audiovisual works; and (7) sound recordings." (emphasis added). The 1956 British Act does not define "work" or "musical work." However, the Musical Copyright Act of 1902, which was repealed upon passage of the 1956 Act, defined a "musical work" as "any combination of melody and harmony, or either of them, printed, reduced to writing or otherwise graphically produced or reproduced." Musical Copyright Act, 1902, 2 Edw. 7, c. 15, § 3, at 18 (1902). See also R.F. WHALE, COPYRIGHT 38 (1971); W.A. COPINGER & SKONE JAMES ON COPYRIGHT § 172 (1965) [hereinafter cited as COPINGER].


try Association of America (RIAA) has used the mass media to drum up sentiment against the National Association of Recording Merchandisers (NARM). A popular American magazine recently published RIAA's warnings that it will vigorously pursue maximum civil liability against retailers who sell counterfeit records. The RIAA defends its litigious rhetoric by citing a study that it conducted, in which investigators allegedly found counterfeit merchandise in over ninety percent of the 500 retail outlets checked. The RIAA claims that such a proliferation of counterfeit product in the retail community could not occur without the retailers' knowledge that they are dealing in infringing records.

In its zeal to seek relief against the infringing retailer, the RIAA has overlooked the more likely explanation for its incredible ninety percent finding. As the president of one large record chain has observed, counterfeit records would not be circulating in most retail outlets unless the records have evaded the scrutiny of the retailers involved. Contrary to the RIAA's position, if there is widespread retailer involvement in counterfeit sales, many such retailers may be unaware of the infringement.

The current dispute between the RIAA and the NARM is a modern reenactment of the historical conflict between copyright owners and innocent infringers. Copyright owners have traditionally claimed that injunctive and monetary relief should be available against all those who commercially exploit an infringing work, including those who deal in unauthorized copies of an infringing work. Conversely, persons who deal as

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7. At the annual meeting of the National Association of Recording Merchandisers (NARM) in March 1980, the president of the Recording Industry Association of America, Stanley Gortikov, allegedly warned the retailers that "if you buy or sell counterfeits, we shall do everything possible not only to encourage maximum criminal penalties but also maximum civil damages. We want you to hurt, badly." ROLLING STONE, May 15, 1980, at 28 (emphasis added).
8. Id.
9. Id.
10. ROLLING STONE, Apr. 17, 1980, at 27 (summarizing viewpoint of Russ Solomon, President of Tower Records).
11. The 1976 Act defines "copies" as "material object[s], other than phonorecords, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device." 17 U.S.C. § 101 (1976) (emphasis added). The 1956 British Act does not define "copy" per se, but only in reference to what constitutes an infringing copy. An "infringing copy," with respect to literary, dramatic, musical or artistic work "means a reproduction otherwise than in the form..."
a matter of course in copies of copyrightable works claim that they should be provided a defense of innocence.

This article applies a comparative analysis to the historical and current treatment of innocent infringers under the United States and British copyright laws. In light of the growing danger of litigation against record retailers, emphasis will be given to the treatment of retailers who innocently sell counterfeit records. It is argued that the United States Copyright Act of 1976 (1976 Act) does not adequately reconcile the just concerns of copyright owners and innocent infringers. The 1976 Act makes available to copyright owners, irrespective of the infringer's innocence, injunctive relief to prevent further exploitation of infringing works in addition to recovery of the defendant's profits, or the amount that he has been unjustly enriched. The 1976 Act also allows the recovery of actual damages against the innocent infringer. By making actual damages available against those who innocently infringe, the 1976 Act in effect, shifts the copyright owner's risk of loss to the infringer. Whenever the innocent infringer is compelled to pay the copyright owner's actual damages, the infringer insures the owner against losses attributable to exploitation of unauthorized copies.

This article also argues that the 1976 Act's "strict liability" approach toward innocent infringers is unjustifiable. There is no persuasive public policy that vindicates a shift of the copyright owner's burden of loss to the innocent infringer, and in particular, to the record retailer. Moreover, the availability of actual damages, no matter how slight, may unnecessarily burden the infringer's First Amendment interest in disseminating artistic, literary, and musical works to the public.

In contrast to the 1976 Act, the British Copyright Act of 1956 (1956 British Act) strikes a sensitive balance between the copyright owner's desire to prevent the commercial exploitation of unauthorized copies and the need to protect innocent infringers. The 1956 British Act provides that if the infringer can prove his innocence, the copyright owner's remedies are limited to injunctive relief and recovery of the infringer's
II. RECORD PIRACY IN THE UNITED STATES

In the last ten years, record piracy has evolved into an enormously lucrative business. In 1971, a House Report stated that the annual volume of business conducted by record pirates in the United States at that time exceeded $100 million. Recent estimates indicate that record piracy is costing the American record industry more than $400 million annually, compared with annual legal sales of $3.5 billion. It may be arguable that the current record industry slump is largely attributable to counterfeit sales.

A. Relief for Copyright Owners

Under the 1976 Act copyright owners in musical works and sound recordings who are victimized by record piracy, generally music publishers and record companies respectively, can obtain relief in several ways. First, the copyright owner may file an infringement action against the record pirate himself. The Act provides that the

14. NEW YORKER, Apr. 16, 1979, at 31, 32.
15. Although the "author" of a musical work is originally its composer, ownership of the work is usually assigned to a music publisher. The 1976 Act provides that "[t]he ownership of a copyright may be transferred in whole or in part by any means of conveyance . . . ." 17 U.S.C. § 201(d)(1) (1976). See Copyright Act, 1956, 4 & 5 Eliz. 2, c. 74, § 36(1), at 905 (1956) for the British equivalent to § 201(d)(1). The 1976 Act also provides that a sound recording may be protected by copyright. 17 U.S.C. § 114(a) (1976). The initial owner of the copyright in a sound recording is its "author," Id. § 201(a) (1976), or in other words, the maker of the recording. Record companies are frequently the copyright owner of sound recordings released to the public in the form of records because the sound recordings are usually financed by and recorded under the supervision of record manufacturers. Under the 1956 British Act, "[c]opyright shall subsist . . . in every sound recording of which the maker was a qualified person . . . ." Copyright Act, 1956, 4 & 5 Eliz. 2, c. 74, § 12(1), at 875 (1956).
16. As of January 1, 1978, the effective date of the 1976 Act, common law copyright was preempted. 17 U.S.C. § 301(a) (1976) provides that "all legal or equitable rights that are the equivalent to any of the exclusive rights within the general scope of copyright," including rights in musical works and sound recordings, are governed exclusively by the 1976 Act. After January 1, 1978, "no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State." Id. The words "equivalent right" should not be interpreted in the sense of substantively equal protection under common law and Federal statute. The House Report indicates that "[a]s long as a work fits within one of the general subject mat-
duplication of a sound recording in the form of records for public distribution without the permission of the copyright owner is actionable as an infringement of the copyright.\textsuperscript{17} Likewise, if the pirate fails to pay the required compulsory license fees to the copyright owner of the musical work embodied in the duplicated sound recording, such an act of omission constitutes an infringement of the rights of the copyright owner.\textsuperscript{18} Neither copyright owner must prove an intent to infringe in order to establish an infringement.\textsuperscript{19}

\textsuperscript{17} H.R. REP. No. 1476, 94th Cong., 2d Sess. 131 (1976), “even if the precise contours of the right differ . . .” 1 NIMMER, supra note 1, at § 2.01[B]. It is therefore highly questionable that common law copyright in the form of conversion will survive in the United States. However, the 1976 Act provides that “[w]ith 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, 2047.” 17 U.S.C. § 301(c) (1976). On preemption, see Katz, Copyright Preemption Under the Copyright Act of 1976: The Case of Droit de Suite, 47 GEO. WASH. L. REV. 200, 206-14 (1978).

The 1956 British Act also abolishes common law copyright. With the exception of university, crown copyright, and rules of equity, “no copyright, or right in the nature of copyright, shall subsist otherwise than by virtue of this Act . . .” Copyright Act, 1956, 4 & 5 Eliz. 2, c. 74 § 46(5), at 916 (1956). See also Aldous, The Philosophy Behind the English Copyright Law, 10 BULL. COPYRIGHT SOC’Y 302, 305 (1963); COPINGER, supra note 4, at §§ 21-44.


18. 17 U.S.C. § 115(a) (1976) provides that “[w]hen phonorecords of a nondramatic musical work have been distributed to the public in the United States under the authority of the copyright owner, any other person may, by complying with the provisions of this section, obtain a compulsory license to make and distribute phonorecords of the work.” 17 U.S.C. § 115(b)(1) (1976) provides that “[a]ny person who wishes to obtain a compulsory license . . . shall . . . serve notice of intention to do so on the copyright owner.” 17 U.S.C. § 115(b)(2) (1976) provides that “[f]ailure to serve or file the notice required forecloses the possibility of a compulsory license and, in the absence of a negotiated license, renders the making and distribution of phonorecords actionable as acts of infringement under section 501. . . .” For the British analogue to § 115, see Copyright Act, 1956, 4 & 5 Eliz. 2, c. 74, § 8(1), at 866 (1956).


The 1956 British Act provides that “[t]he acts restricted by the copyright in a . . . musical work [include] reproducing the work in any material form . . . .” Copy-
In addition, the 1976 Act provides that copyright owners in musical works and sound recordings may sue vendors in an infringement action for the sale of counterfeit records. As in the 1956 British Act, copyright owners of musical works and sound recordings may sue vendors in an infringement action for the sale of counterfeit records. As in the 1956 British Act, copyright owners of musical works and sound recordings have rights parallel to those provided by the 1976 Act. The copyright owner of a musical work has the exclusive right "to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership or by rental, lease, or lending ...." The House Report adds that "any unauthorized public distribution of copies or phonorecords that were unlawfully made would be an infringement." H.R. Rep. No. 1476, 94th Cong., 2d Sess. 62 (1976). The copyright owner of a sound recording may assert the same right of distribution against a vendor of unauthorized phonorecords. See 17 U.S.C. § 114(a) (1976). For a general discussion of vendor liability for the sale of unauthorized phonorecords, see Note, Copyright: Liability of Seller of Unlicensed Phonograph Records, 46 Calif. L. Rev. 621 (1958).

Under the 1956 British Act, copyright owners of musical works and sound recordings have rights parallel to those provided by the 1976 Act. The copyright in ... musical ... work is infringed by any person who, in the United Kingdom, or in any other country to which this section extends, and without the license of the owner of the copyright,—(a) sells, lets for hire, or by way of trade offers or exposes for sale or hire any article .... if to his knowledge the making of the article constituted an infringement of that copyright, or (in the case of an imported article) would have constituted an infringement of that copyright if the article had been made in the place into which it was imported. Copyright Act, 1956, 4 & 5 Eliz. 2, c. 74, § 5(3)(a), at 860 (1956).

The 1956 British Act makes available to copyright owners of sound recordings the same right against vendors that owners in musical works enjoy under the Act. However, unlike the American statute the British law provides that owners of sound recordings have a cause of action against vendors of unauthorized copies not in the form of records. The 1956 British Act provides that the copyright in a sound recording is "infringed by any person who ... (a) sells, lets for hire, or by way of trade offers or exposes for sale or hire any article ... if to his knowledge the making of the article constituted an infringement ...." (emphasis added). Copyright Act, 1956, 4 & 5 Eliz. 2, c. 74, § 16(3)(a), at 881 (1956).

The impact of the 1976 Act and the 1956 British Act on vendors of unauthorized records may be modified by international agreement. The United States and Great Britain are parties to the Universal Copyright Convention, which provides that published and unpublished works of nationals of each contracting State shall enjoy in every other contracting State the same protection as that other State accords to works of its nationals. Universal Copyright Convention, Geneva Text, Sept. 6, 1952, 6 U.S.T. 2731, at 2733, T.I.A.S. No. 3324. See also Paris Text, July 24, 1971, 26 U.S.T.
the case of the record pirate, the vendor's intent to infringe is irrelevant in establishing the infringement.  

B. The Problem of Direct and Indirect Infringement

It should be readily apparent that the record pirate and the infringing record retailer are two different types of infringer. The pirate is a "direct" infringer; one who creates an infringing product for commercial purposes. Like the copyist who appropriates another's literary or artistic work as his own, the record pirate is a deliberate or willing infringer. In 1341, at 1345, T.I.A.S. No. 7868. The Geneva and Paris texts went into force in the United States on September 16, 1955 and July 10, 1974, respectively. These texts went into force in the United Kingdom on September 27, 1957 and July 10, 1974, respectively. See generally A. Bogsch, The Law of Copyright Under the Universal Convention (3d ed. 1972). The United States and Great Britain are also parties to the Convention for the Protection of Producers of Phonograms, which obligates each contracting State to protect producers against the making of duplicates without consent and the importation of unauthorized records. Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of their Phonograms, Oct. 29, 1971, 25 U.S.T. 309, at 325, T.I.A.S. No. 7808. However, the Convention left open the means of implementing its mandate to each contracting State.


In contrast, under the 1956 British Act, the copyright owner in a musical or sound recording does not establish an infringement against the vendor unless "to his knowledge the making of the article constituted an infringement of that copyright . . . . " Copyright Act, 1956, 4 & 5 Eliz. 2, c. 74, §§ 5(3)(a), at 860, and 16(3)(a), at 881 (1956). Knowledge in this context means actual, not constructive knowledge. Knowledge could nonetheless be imputed when the average vendor would have knowledge, unless the vendor can refute this inference with contrary evidence. R.C.A. Corp. v. Custom Cleared Sales Pty. [1978] F.L.R. 576 (Super. Ct. N.S.W.) (interpreting the Australian copyright statute, which is an adopted form of the 1956 British Act).

22. Record pirates or 'diskleggers' as they have been called, are manufacturers who re-record or 'dub' recordings made by legitimate companies and sell them competitively. In this manner, they avoid having to pay the performers for their time, and they have the benefit of the initial recording company's talents in getting the finest rendition possible. Ordinarily, they also omit payment of the copyright, although, as far as the copyright law is concerned, even a pirate has the right to record copyrighted musical compositions provided he files notice of intent and pays the royalties.

139 F. Supp. 176, 180 n.4 (emphasis added). For a general background on record
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the words of Justice Blackburn, "in almost all cases, a man who copies a work without the authority of the owner, must know that he is pirating the work of somebody."23

In contrast to the record pirate, the vendor of infringing records is an "indirect" or "secondary" infringer, or one who infringes in the course of dealing in products that are within the scope of copyright.24 Due to the possibility of innocent infringement inherent in a secondary involvement with illegal records or copies, the United States copyright law has historically singled out such infringers for special treatment.

III. HISTORICAL TREATMENT OF INNOCENT INDIRECT INFRINGERS UNDER FEDERAL LAW

A. Absolute Immunity

The passage of the copyright clause of the United States Constitution in 1787 was intended by the Framers to abolish the existing practice of applying to each state for a copyright.25 The copyright clause was the first step in creating a copyright that would be effective in all of the states. The clause empowered Congress "[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."26

Central to the implementation of the copyright clause was a "restraint upon trade,"27 a concept that opposed the
free market system produced by the Revolution against England. Over 100 years after the clause was adopted, the United States Supreme Court confirmed its purpose in the same direct language. In *American Tobacco Co. v. Werckmeister*, the Court asserted that “the purpose of the copyright law is . . . to secure a monopoly . . . of the right to publish the production which is the result of the inventor's thought.”

An important question for Congress, as it drafted the first federal copyright law, was how many exclusive rights should be conferred on authors and inventors. Would copyright owners be limited to causes of action against plagiarists and copyists, or would owners be permitted to sue users in the commercial world as well? It was clear that some sanctions should be provided against users to deter commercial exploitation of infringing products. But what if a plagiarist submitted his manuscript to a publisher who was unable to determine whether a third party's protected work had been pirated? Or what if a shopkeeper were sold a box of maps that were copied from another's protected map, and the shopkeeper had no reason to suspect that the maps were pirated copies? Should such innocent publishers and shopkeepers be treated in the same way as the plagiarist and the copyist?

The United States Copyright Act of 1790 (1790 Act) was the first federal copyright statute to create a distinction between direct and indirect infringement. Section 2 of the 1790 Act provided that once a map, chart or book was published, if any person other than the author “shall print, reprint, publish, or import . . . any copy or copies . . . without the consent of the author or proprietor . . . or knowing the same to be so printed, reprinted, or imported, shall publish, sell, or expose to sale [the same] without such consent . . .,” such person shall be liable for damages.

There were several problems inherent in Section 2 of the 1790 Act. First, the implementation of safeguards for innocent indirect infringers was not consistent. Publishers and vendors were protected, but printers and importers were not. Moreover, if a publisher or vendor did not knowingly infringe, he suffered no liability whatsoever. The copyright owner could

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28. 207 U.S. 284, 293 (1907).
29. Id. at 293.
31. Id. § 2, at 124-25 (emphasis added).
not obtain an injunction against or recover profits from the
innocently infringing publisher or seller.

The United States Copyright Act of 1870\(^{32}\) (1870 Act) perpetuated the deficiencies of Section 2 of the 1790 Act by discriminating between classes of indirect infringers and by insulating the protected class from all liability. Under the 1870 Act, the innocently infringing vendor retained total immunity from liability, but the infringing publisher became liable notwithstanding his innocence.\(^{33}\)

**B. The 1909 Act: A Short-lived Remedial Approach**

Under the United States Copyright Act of 1909 (1909 Act), printers, publishers, vendors, and importers (by amendment in 1947) could be liable for an infringement, irrespective of their innocence.\(^{34}\) The former approach of absolute immunity, which characterized the 1790 and 1870 Acts, was replaced by a new remedial scheme.

Section 25(b) of the 1909 Act provided that infringers would be liable for an injunction and required to pay

such damages as the copyright proprietor may have suffered due to the infringement as well as all the profits which the infringer shall have made . . . or in lieu of actual damages and profits *such damages as to the court shall appear just . . . [not to] exceed the sum of $5,000 nor be less than the sum of $250, and shall not be regarded as a penalty.*\(^{35}\)

On its face, the statutory damages clause of Section 25(b) appeared to provide a mechanism that would prevent recovery of actual damages against the innocent infringer. The trial court appeared to have discretion to weigh various factors, including the infringer's innocence, in making an award. The very language of judicial discretion was, however, construed to eliminate its application to innocent infringers.

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33. Id. at §§ 99-100.
34. The United States Copyright Act of 1909 (1909 Act) simply provided that the copyright owner shall have the exclusive right "[t]o print, reprint, publish, copy and vend the copyrighted work . . . ." 17 U.S.C. § 1(a) (1909).
35. Id. at § 25(b) (1909) (emphasis added).
1. Douglas v. Cunningham: Section 25(b) was Intended to Protect the Copyright Owner

In the controversial 1935 case of Douglas v. Cunningham, the United States Supreme Court overturned the decision of the First Circuit to reduce the copyright owner's statutory award from $5,000 to $250 in a case where a newspaper publisher had innocently infringed. In reaching its decision, the Court broadly construed the plain language of the statutory damages provision "to give the owner of a copyright some recompense for injury done him, in a case where the rules of law render difficult or impossible proof of damages or discovery of profits."  

Douglas stood for a second proposition: The trial court had discretion to award damages and profits, unless they were both difficult or impossible to ascertain. In the latter event, statutory damages were mandatory.

When statutory damages were not appropriate, there remained the question of whether the trial courts could award actual damages and profits cumulatively. This aspect of Douglas resulted in a split among jurisdictions. A number of courts followed the Congressional mandate that either damages or profits should be awarded, whichever is greater. But other courts held that the express language of Section 25(b) authorized cumulative recovery. The result achieved in the latter jurisdictions shifted the copyright owner's loss to the innocent infringer.

The latitude given by the Douglas Court to trial judges when statutory damages were appropriate was potentially far

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37. Id. at 209.
38. Robert Stigwood Group Ltd. v. O'Reilly, 530 F.2d 1096, 1101 (2d Cir. 1976), cert. denied, 429 U.S. 848 (1976); Russell v. Price, 612 F.2d 1123, 1129 (9th Cir. 1979); Pye v. Mitchell, 574 F.2d 476, 481 (9th Cir. 1978); Sid & Marty Krofft Television Prods. v. McDonald's Corp., 562 F.2d 1157, 1178 (9th Cir. 1977); Shapiro, Bernstein & Co. v. 4636 S. Vermont Ave., Inc., 367 F.2d 236, 240 (9th Cir. 1966).
more dangerous to innocent infringers than the cumulative recovery of actual damages and profits. If the copyright owner was provided a sympathetic judge to hear the case, the owner could obtain an inordinate award of statutory damages merely by failing to prove actual damages or profits. In its discretion, the court could manipulate its "best estimate" of the undetermined damages or profits to give the copyright owner a higher award than he could otherwise obtain. This problem became a reality in *F.W. Woolworth v. Contemporary Arts, Inc.*

2. Douglas as Applied to an Innocently Infringing Vendor: the Copyright Owner's Discretion to Penalize the Infringer

Innocently infringing vendors as well as publishers suffered under the *Douglas* Court's analysis of Section 25(b). The power of the courts to ignore the vendor's innocence is most apparent in the 1952 *Woolworth* case. In *Woolworth*, the defendant department store chain purchased 127 dog statuettes which were subsequently sold at a retail price of $1.19. Woolworth did not know that the ceramic models it purchased were inferior infringing copies of a statuette manufactured by the plaintiff, a Massachusetts corporation. At trial, plaintiff "made no effort" to prove its actual damages and defendant's profits. The defendant did, however, admit gross profits of $899.16 and tried to limit the plaintiff's recovery to this amount. The First Circuit affirmed the trial court's award of the maximum $5,000 allowed by Section 101(b) and cited *Douglas* as the controlling authority. This holding was not disturbed by the United States Supreme Court on certiorari.

In a powerful dissent, Justice Black pointed out the grotesque result achieved by reliance on *Douglas*: "[H]ere the trial judge gave judgment for statutory damages in an amount that smacks of punitive qualities . . . . [T]his Court has held that the amount of such damages is committed to the unre-

41. 344 U.S. 228 (1952).
42. *Id.*
43. *F.W. Woolworth Co. v. Contemporary Arts, Inc.*, 193 F.2d 162, 168 (1st Cir. 1951) (emphasis added).
44. 344 U.S. at 235.
45. 17 U.S.C. § 101(b) (1947) (the codified successor of § 25(b) of the 1909 Act).
viewable discretion of a trial judge."46 Black urged the Court to "heed the admonition . . . that the object of §101(b) is not to inflict punishment but to award an injured copyright owner that which in fairness is his 'and nothing beyond this.'"47

3. The Congressional Response to Section 25(b)

Congressional advocates of safeguards for innocent indirect infringers reacted bitterly to Section 25(b) from the time it became law. Between 1924 and 1940, fourteen bills were submitted to Congress specifically providing that the innocent infringer should be insulated from all liability or from the imposition of damages.48

In 1946, Congress finally acknowledged that innocent indirect infringers merited special protection. Such protection, however, was extended to innocent indirect infringers of trademarks, but not to infringers of copyrights. Section 1114(2) of the Lanham Act49 provided that printers and publishers who innocently infringed trademarks would not be liable for damages or profits.50 Innocent indirect infringers of copyright remained subject to the strictures of Section 25(b) as it was construed by the Douglas Court.

The lack of safeguards for innocent indirect infringers of copyright has remained a topic of great concern to commentators. In 1958, Professors Latman and Tager submitted a comprehensive reappraisal of the problem of innocent infringement to the Senate Subcommittee on Patents, Trademarks,

46. 344 U.S. at 236 (Black, J., dissenting) (emphasis added).
47. Id. at 235 (quoting Sheldon v. Metro-Goldwin Pictures Corp., 309 U.S. 390, 399 (1940)).
48. See Latman & Tager, supra note 1, at 149-52.
50. [W]here an infringer is engaged solely in the business of printing the mark for others and establishes that he was an innocent infringer, the owner of the right infringed shall be entitled as against such an infringer only to an injunction against future printing; where the infringement complained of is contained in or is part of paid advertising matter in a newspaper, magazine, or other similar periodical the remedies of the owner of the right infringed as against the publisher or distributor shall be confined to an injunction against the presentation of such advertising matter in future issues . . . [p]rovided, [t]hat these limitations shall apply only to innocent infringers . . . ."

They contended that:

The problems common to a particular group, such as vendors, printers [and] periodical publishers, . . . may call for special treatment . . . [but that] the remedial problems may be more significant than the general question of liability. In other words, state of mind might be considered irrelevant to the question of infringement but might be made determinative of the remedies available against the infringer.52

The ambiguity of the statutory damages clause of Section 25(b) had resulted in judicial interpretation of its language against the innocent infringer. If the 1909 Act clearly provided that the infringer's innocence was "determinative" of the availability of damages against him, as Latman and Tager suggested it should, the Douglas interpretation would probably not have occurred.

IV. TREATMENT OF INNOCENT INFRINGERS UNDER THE 1976 ACT

Continuing the trend of the 1909 Act, the United States Copyright Act of 1976 makes available to copyright owners a tripartite remedial scheme of injunctive relief,55 actual damages and profits,54 and statutory damages.55

In language similar to the 1909 Act, clause (1) of Section 504(c), the statutory damages provision, states that: "Except as provided by clause (2) of this subsection, the copyright owner may elect at any time before final judgment is rendered, to recover instead of actual damages and profits, an award of statutory damages . . . in a sum of not less than $250 or more than $10,000 as the court considers just."56

Clause (2) of Section 504(c) was "the subject of extensive discussion"57 in the Congressional hearings because it contains the "'innocent infringer' provision"58 of the Act. The clause provides:

51. Latman & Tager, supra note 1, at 139, 155-57.
52. Id. at 156-57 (emphasis added).
54. Id. § 504(a)-(b).
55. Id. § 504(c).
56. Id. (emphasis added).
58. Id.
In a case where the infringer sustains the burden of proving, and the court finds, that such infringer was not aware and had no reason to believe that his or her acts constituted an infringement of copyright, the court is [sic] its discretion may reduce the award of statutory damages to a sum of not less than $100. 59

The House Report adds the necessary interpretive gloss to clause (2) of Section 504(c):

The basic principle underlying this provision is that the courts should be given discretion to . . . lower the minimum [statutory damages] where the infringer is innocent . . . . The ‘innocent infringer’ provision . . . which would allow reduction of minimum statutory damages to $100 . . . is sufficient to protect against unwarranted liability in cases of occasional or isolated innocent infringement, and it offers adequate insulation to users . . . who are particularly vulnerable to this type of infringement suit. 60

Despite Congress's ostensible commitment to protect users such as retailers, printers, and publishers against liability, it seriously undermined the thrust of Section 504(c)(2) in several ways.

A. The Copyright Owner May Elect Actual Damages

The question of whether an innocent infringer can merely incur liability for the statutory amount of $100 is not totally within the court's discretion. The court may take the infringer's innocence into account only if the copyright owner elects statutory damages. The House Report plainly states that "[r]ecovery of actual damages and profits . . . or of statutory damages under section 504(c) is alternative and for the copyright owner to elect." 61

If the copyright owner elects actual damages and profits rather than statutory damages, he may obtain cumulative relief. Section 504(c)(1) provides that the copyright owner may obtain his "actual damages and any additional profits of the infringer . . . ." 62

The House Report states that actual damages and profits

61. Id. at 161.
each have a remedial function: "Damages are awarded to compensate the copyright owner for losses from the infringement, and profits are awarded to prevent the infringer from unfairly benefiting from a wrongful act."\(^6\) It follows that if the copyright owner elects actual damages and profits against an innocent infringer, Section 504, in effect, shifts the owner's risk of loss to the innocent infringer.

B. The Election of Statutory Damages

1. The Courts Have Broad Discretion to Consider Actual Damages: Douglas is Revived

Congress also weakened the innocent infringer protection of Section 504(c)(2) when the copyright owner elects statutory damages. The very language of Section 504(c)(2) states that if the court finds the infringer innocent, it "may reduce the award"\(^{64}\) to $100; the court is not compelled by Section 504(c)(2) to reduce the copyright owner's award. If the court decides not to lower the minimum from $250 to $100, Section 504(c)(1) states that the court may award damages "in a sum of not less than $250 or more than $10,000 as the court considers just."\(^{65}\) The House Report is silent as to whether Section 504(c)(1) is even applicable in a case of innocent infringement. It was precisely this ambiguous language of judicial discretion that allowed the Douglas Court to construe the 1909 Act's provisions against the innocent infringer.

To prevent any misconception of the purpose of the judicial discretion provision of Section 504(c)(1), Congress asserts that the doctrine of Douglas is still in force. The House Report states that "there is nothing in section 504 to prevent a court from taking account of evidence concerning actual damages and profits in making an award of statutory damages within the range set out in subsection (c)."\(^{66}\) This suggests that if the copyright owner elects statutory damages, the court would not abuse its discretion in awarding its best estimate of his actual damages and defendant's profits. Therefore, regardless of whether the copyright owner elects actual damages and profits or statutory damages, the court may shift the copy-

\(^{65}\) Id. § 504(c)(1) (1976) (emphasis added).
right owner's risk of loss to the innocent infringer.

The historical justification for making actual damages available against the innocent infringer consists of two arguments: (1) that copyright infringement is analogous to the tort of conversion; and (2) that unlike the copyright owner, the innocent infringer is in a position to guard against the infringement by making diligent inquiry or by obtaining indemnity or insurance.

C. The Analogy to Conversion

1. De Acosta v. Brown Ignores the Majority Rule

In the classic case of De Acosta v. Brown, Judge Clark, writing for the majority of the Second Circuit panel, posited that the view that "damage should be limited to such as can be foreseen . . . does not apply to conversion . . . ." Judge Clark argued that because copyright infringement is analogous to conversion, a copyright owner should be able to obtain actual damages against an innocent indirect infringer. The Court of Appeal held that a magazine publisher who indirectly infringed by publishing excerpts from an infringing book, though the lower court found him innocent, was liable for actual damages.

In dissent, Judge Learned Hand agreed with Clark's analogy of copyright infringement to conversion, but argued that the intent required to commit a conversion is absent in the case of innocent indirect infringement:

[I]t is true that if, for instance, I carry off as mine another's watch in my bag, it is no excuse that I think it mine. However, I do not convert it, whatever acts of dominion I exercise over my bag, if I do not know, or am not chargeable with notice, that there is a watch in the

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67. 146 F.2d 408 (2d Cir. 1944).
68. Id. at 412.
69. It has been generally held that copyright infringement is a tort. See, e.g., Turton v. United States, 212 F.2d 354 (6th Cir. 1954); Leo Feist, Inc. v. Young, 138 F.2d 972 (7th Cir. 1943); Vitagraph, Inc. v. Grobaski, 46 F.2d 813 (W.D. Mich. 1931); Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc., 256 F. Supp. 399 (S.D.N.Y. 1966); H.M. Kolbe Co. v. Shaff, 240 F. Supp. 588 (S.D.N.Y. 1965), modified on other grounds, 362 F.2d 285 (1965); Pickford Corp. v. Deluxe Laboratories, Inc., 169 F. Supp. 118 (S.D. Cal. 1958). Despite this general rule, there are apparently no reported American cases, other than De Acosta v. Brown, which analogize an indirect copyright infringement to the tort of conversion.
Judge Hand merely analogized the general common law rule of the intent necessary to convert to the case of an indirect infringement. Dean Prosser sums up the rule: "A conversion can result only from conduct intended to affect the chattel . . . . The intent required is not necessarily a matter of conscious wrongdoing. It is rather an intent to exercise a dominion or control over the goods . . . ."[71]

It was clear to Judge Hand that to complete the analogy of conversion to the case of an innocent indirect infringement, the infringing work and the appropriated work must be viewed as "separate chattels," the infringing work "embodying" the copyrighted work. Applying his analysis to the case at bar, Judge Hand contended that the defendant publisher did not intend to affect the plaintiff's copyrighted work embodied within the excerpt published. Nor did the defendant have reason to suspect that the excerpt contained protected material. Therefore, the defendant did not "convert" the copyrighted work and damages should not have been awarded.

Judge Hand's analysis is easily transposable to the case of the innocently infringing record retailer, who, like the publisher, is also an indirect infringer. When a retailer sells a record without knowledge or reason to suspect that it contains a pirated recording, the retailer does not have the intent necessary to convert and, therefore, should not be held liable for actual damages.

The British Copyright Act of 1956 does not actually adopt Judge Hand's approach, but arrives at the same result. The 1956 British Act would hold the innocently infringing re-

70. 146 F.2d at 413 (Hand, J., dissenting) (emphasis added).
71. W. PROSSER, LAW OF TORTS § 15 (4th ed. 1971) (emphasis added). Accord, Lambros Seaplane Base v. The Batory, 117 F. Supp. 16, 18 (S.D.N.Y. 1953), modified on other grounds, 215 F.2d 228 (2d Cir. 1954) (conversion requires "an intent to assert a right . . . which is, in fact, adverse to that of the owner."); Zaslow v. Kroenert, 29 Cal. 2d 541, 550 (1946) ("to establish a conversion, it is incumbent upon the plaintiff to show an intention or purpose to convert the goods and to exercise ownership over them. . . ."); Watkins v. Layton, 182 Kan. 702, 707, 324 P.2d 130, 134 (1958) ("The intention required is simply an intent to use or dispose of the goods. . . ."); McGlynn v. Schultz, 90 N.J. Super. 505, 526, 218 A.2d 408 (1966) (quoting 89 C.J.S. § 7 (1955)), aff'd, 96 N.J. Super. 412, 231 A.2d 386 (1967) ("an intent to convert consummated by some positive act, is necessary to constitute conversion. . . ."). RESTATEMENT (SECOND) OF TORTS § 222A (1965) ("Conversion is an intentional exercise of dominion or control over a chattel. . . .")
cord retailer liable in conversion for the sale of counterfeit records, but would not allow recovery of damages against him.

D. The Strict Liability Rationale

In response to the Latman and Tager study, Professor Nimmer submitted a letter to the Copyright Office outlining his position on innocent infringement. His position has since become known as the "strict liability" approach to innocent infringement. In his letter, Nimmer offered three arguments for shifting the copyright owner's risk of loss to the innocent infringer. He contended that the innocent infringer, unlike the copyright owner, is (1) able to prevent the infringement by making diligent inquiry, (2) able to obtain an indemnity agreement from his supplier, or (3) able to secure insurance.

In his defense of the availability of actual damages against the innocent infringer, Professor Nimmer fails to take into account three significant considerations: (1) the individual differences of ability of each indirect infringer to prevent an infringement by making inquiry or to obtain indemnity or insurance, (2) the relative abilities of each class of indirect infringer to guard against an infringement by Nimmer's three suggested means, and (3) social, economic, or technological developments that may hamper the ability of an indirect infringer to guard against the infringement.

The application of Nimmer's three-fold rationale to record retailers will demonstrate the unfairness of his arbitrary approach to innocent infringement. Of all indirect infringers, the record retailer is perhaps least capable of protecting himself by making inquiry or by obtaining self-protection.

72. See notes 51-52 and accompanying text supra.
74. 316 F.2d at 308.
75. The text of Nimmer's Letter is in pertinent part the following:

   It is my view that basic to the problem of innocent infringement must be the underlying premise that as between two innocent parties (i.e., the copyright owner and the infringer), it is the innocent infringer who must suffer, since he, unlike the copyright owner, either has an opportunity to guard against the infringement (by diligent inquiry), or at least the ability to guard against the infringement (by an indemnity agreement from his supplier and/or by insurance).

Nimmer's Letter, supra note 73.
1. Diligent Inquiry is no Longer as Effective in Preventing Counterfeit Sales

In 1958, the year Professor Nimmer submitted his letter to the Copyright Office, record piracy was a makeshift enterprise. At that time pirated product was often poorly recorded and shoddily packaged. The suspicious appearance of such "bootleg" recordings is illustrated in the 1963 case of Shapiro, Bernstein & Co. v. H.L. Green Co. In holding a department store chain vicariously liable for the sale of bootleg records by a store concessionaire, the Second Circuit observed that "the 'bootleg' recordings were somewhat suspicious on their face; they bore no name of any manufacturer upon the labels or on the record jackets. . . ."77

The alerting cover of a bootleg record prevented its mass circulation through the legal chain of distribution. The pirate was usually compelled to sell his crude merchandise to flea markets or to other vendors outside of the conventional mainstream. If the pirate wished to sell his goods directly to a legitimate retailer, it was incumbent upon the pirate to be sure that his buyer was a willing accomplice. Sometimes the pirate would even solicit a business associate. For example, in the 1956 case of Miller v. Goody, the trial court observed that the defendant record dealers "had been acquainted with Mr. Krug [a co-defendant] in his capacity as a record salesman for the Colony Record & Radio Center, but both assert that they found nothing surprising or suspicious when it appeared that he was also in the business of manufacturing records under his own label."79

During the early "bootleg period," if a record pirate offered a shipment of illegal merchandise to an honest retailer, the suspicious appearance of the bootleg cover or the solicitous behavior of the pirate usually put the retailer on notice to make diligent inquiry. An immediate inquiry by the retailer would probably settle any doubt in his mind that the records were infringing.

But the entire thrust of record piracy has changed. Piracy is no longer a sporadic and imprecise endeavor, but instead, is

76. 316 F.2d 304 (2d Cir. 1963).
77. Id. at 309 (emphasis added).
79. Id. at 178.
a pervasive and exacting practice that has been infiltrated by organized crime. The modern counterfeiter's precise object is to saturate the retail market with letter perfect copies of legal records. The new sophistication of record piracy is reflected in the deceptive quality of the illegal product. In many cases, the artwork of a legal record is reproduced photographically. And nearly perfect sound quality is attainable by acquiring the "master stamp" used by record companies to manufacture legal product.

Admissions by record company executives indicate that their investigators frequently find it impossible to detect counterfeit records. Joseph Smith, chairman of the board of Elektra/Asylum/Nonesuch Records has allegedly reported that "[c]ounterfeiting of records and tapes is getting to be big business. They aren't playing games now. These things are damn good quality. It's hard to tell the imitations even when they come back to us as returns." 80 Gary Davis, senior vice president of promotion at Motown Records is even more candid. He is quoted as saying that some counterfeiters

[h]ave facilities and recording studios more sophisticated than some legitimate firms. They steal the master of a record and press their own version, duplicate the cover from top to bottom, sell the goods to distributors or to record stores—and you can't tell the difference from the authorized release. And we often can't tell the difference, either, when the unsold records are returned to us . . . ." 81

As between record companies and record retailers, the record companies are in a superior position to prevent theft of master records and to determine whether their releases have been pirated. It follows that if record companies cannot identify a counterfeit product, retailers would have even greater difficulty detecting it. Therefore, unlike the conditions that existed in 1958, the physical appearance of a modern counterfeit record usually will not trigger the retailer's inquiry of the supplier.

Moreover, the deceptive quality of the new generation of counterfeit records allows the pirate to penetrate the retail market without selling directly to retailers. Modern counter-

feiting is most profitable if the pirate sells to willing wholesalers and other independent distributors who in turn resell the pirated product to the many retailers who purchase from independent suppliers. The counterfeit records could be transferred two or three times before they are ultimately purchased by the retailer. One commentator describes the intermediate sources available to the retailer: "The rack jobber, as commonly understood, services supermarkets, variety stores, drug stores, and other busy retail outlets, whereas the one-stop stocks the records of many manufacturers so that jukebox operators and small dealers can purchase their requirements at one location ...." Thus, the retailer may never deal directly with a solicitous pirate or with any suspicious individual. It is more likely that the retailer would be approached with counterfeit product by his regular supplier, who has himself innocently purchased the records. If the album covers appear authentic and the supplier's suspicion is not aroused, the retailer will have little reason to make inquiry of his supplier.

The inability of a retailer to make effective inquiry is highlighted by the record company admissions noted earlier, which indicate that record companies are frequently unable to distinguish between counterfeit and legal returns. "Returns," in record industry practice, consist of all unsold merchandise, defective or otherwise, that is returned to the manufacturer by distributors and retailers for credit. The policy of the record companies is to redistribute non-defective returns, rather than to destroy them. It follows that if counterfeit returns are not detected by the record companies, they may be recycled to distributors and retailers. Under these conditions, no amount of supplier screening or inquiry could prevent most infringements.

Diligent inquiry is no longer the potent deterrent that it was in 1958. In light of the current sophistication of record piracy the relevant policy question is no longer who is in a better position to make diligent inquiry, but rather, who is in a better position to make counterfeit records detectable?

82. See distribution charts reproduced in S. SHEMEL & M. KRASILovsky, supra note 22, at xxiii-xxvii.
83. Id. at 104.
84. See notes 78-79 and accompanying text supra.
85. Interview with Shirish Contractor, Director of Royalties of Capitol Records, Inc., in Los Angeles (April 9, 1980).
There is no doubt that the immediate step to be taken in preventing indirect infringements is largely a matter of technology. If record companies can invent a counterfeit detection device and make it available to retailers, many infringing sales could be prevented. But is not such a new policy based on comparative abilities to invent a detection device equally as perilous as Nimmer’s 1958 “diligent inquiry” argument? The practical reality which supports a new policy can change as the practice of record piracy continues to evolve. In 1985, record companies could claim that counterfeitors have emasculated the new policy by duplicating the detection devices that had been successfully employed.

The British Copyright Act of 1956 offers an innovative case-by-case approach to indirect infringement that is not dependent on, but instead incorporates, the state of the record piracy art. Under the 1956 British Act, a seller of infringing records is not liable for damages unless he has reason to suspect that the records infringe. In determining whether the seller has reason to suspect, the 1956 British Act would permit consideration of factors such as whether the retailer was compelled as a practical matter to deal directly with an independent supplier rather than with the manufacturer, whether the retailer did in fact make diligent inquiry, whether the counterfeit records were undetectable upon sensory inspection, and whether the retailer had access to a detection device. Under the 1956 British Act, the state of the record piracy art is not the final arbiter as to who shall bear the copyright owner's loss resulting from counterfeit sales.

2. Indemnity Agreements are Not a Trade Custom Among Record Retailers

Professor Nimmer’s second policy argument for making actual damages available against the innocent infringer is that the infringer, unlike the copyright owner, is able to obtain indemnity from his supplier. This argument may be valid theoretically, but in practice it results in arbitrariness and discrimination. The argument disregards the fact that the availability of indemnity agreements to any class of indirect infringer is influenced by existing trade customs of the class. The policy also fails to consider individual differences of ability to obtain indemnity, due to varying types of distributors that serve a given community. The “indemnity” argument is
especially arbitrary when applied to record retailers, for whom indemnity is not a custom of the trade.

In 1958, Professor Brown pointed out, in what is apparently the only contemporary survey on the availability of indemnity and insurance to infringers, that the practical ability of any infringer to obtain indemnity is largely dependent on the custom of his trade. Brown identifies the classes of infringer that make use of indemnity agreements:

[Indemnities are elaborately developed in the complex of relationships among advertising agencies, producers of programs, licensors of musical performing rights, and broadcasters . . . . Magazine publishers, it appears, routinely require indemnity from agencies and advertisers with respect to material supplied by them. . . . In the book-publishing world, . . . resort to the author depends on the relationship between him and the publisher . . . . Sometimes authors are expected to pay; sometimes they are not.]

In 1958, it was not customary for record retailers to obtain indemnification from their distributors. In contrast to those professions in which indemnity agreements were “elaborately developed,” indemnity in a standardized form was simply not available to record retailers. This condition has persisted to this day.

3. Insurance Against Infringement is Not Available to Record Retailers

In his third argument, Professor Nimmer claims that the innocent infringer, unlike the copyright owner, is in a position to obtain insurance. This rationale for making actual damages available against innocent infringers is also arbitrary and discriminatory in its application. Theoretically, copyright owners as well as innocent infringers may obtain insurance if they are

87. Id. at 86-88.
88. NARM Counsel, Charles B. Ruttenberg, claims that record retailers “may wish to seek” indemnity. He recently mailed a simple one page indemnity agreement to NARM members as a sample. Letter from Charles B. Ruttenberg to NARM members (May 14, 1980).
willing to pay a high enough premium. Second, the argument discriminates against those infringers who cannot afford an exorbitant premium. And finally, the practical availability of insurance is largely dependent on business trends in the insurance field. Some classes of infringer are more insurable than others. When the "insurance" rationale is applied to record retailers, particular hardship results. The present trend of the insurance business is not to insure record retailers against innocent infringements.

Insurers have been traditionally reluctant to protect record companies or retailers against the risk of counterfeit sales. The reason for this negative trend is that carriers would not be insuring against a less than probable risk, but against an almost calculable business loss. For such insurance to be profitable for the carrier, the policy would have to contain a number of intricate exceptions, and the cost of the policy would be prohibitive. To this day, carriers have not seriously entertained the notion of insuring against counterfeit sales.

Professor Brown provides us with an overview of the contemporary trend of the insurance field in protecting various classes of infringer. He indicates that carriers do not insure record retailers against counterfeit sales: "The industries which make extensive use of ..., insurance protection are about the same as those which have thoroughly systematized the use of indemnity agreements: broadcasters, producers for broadcasting, advertising agencies, advertisers. However, insurance seems to be little used in the music field."

4. Reappraisal of the Strict Liability Approach: A Defense of Innocence Should be Available to all Indirect Infringers

At present, the strict liability rationale—and the actual damages it imposes—is arbitrary and unfair to record retailers. Under modern record piracy conditions the record retailer

89. Interview with Donna Carson, Account Executive of Marsh & McLennan, in Los Angeles (August 12, 1980).

90. Executives of the two insurance carriers that write most of the entertainment policies in the western United States, American National General Agencies and Albert G. Ruben & Company, have never written a counterfeit insurance policy and deny that such a policy exists. Interview with Roberta Davis, Account Executive of Johnson & Higgins of California, in Los Angeles (August 11, 1980).

91. Brown, supra note 86, at 88.
is unable to guard against infringement by using the three means suggested by Professor Nimmer. The inability of record retailers to make an effective inquiry or to obtain self-protection is, however, a temporal condition. Ten years from now the record retailer may be in a better position to guard against an infringement than other classes of infringer. Ultimately, the strict liability approach operates arbitrarily and harshly against all indirect infringers.

On what ground may the unfair impact of the strict liability approach be justified? Professor Nimmer suggests that "to render a complete or partial exemption for the innocent infringer would seriously impair the protection afforded to a copyright owner." Yet, he fails to explain how a remedial defense in which the infringer would bear the burden of proving his innocence would seriously impair the copyright owner's monopoly. Indeed, the strict liability approach may unnecessarily burden the indirect infringer's first amendment right to disseminate knowledge.

E. The First Amendment Problem

The first stirrings of a conflict between the copyright clause and the first amendment appeared to emerge during the Congressional hearings on the passage of the 1909 Act. During the debate on whether actual damages should be available against the innocently infringing printer, George W. Ogilvie, a Chicago publisher, offered testimony which suggests that the availability of damages against an innocently infringing printer contravenes the first amendment freedom of the press:

There is no printer in the United States whom I cannot get in trouble—serious trouble—so serious that it might put him out of business. I take to him a set of plates about which he knows nothing as to the existence of copyright on them. He prints them for me . . . and then the owners of the copyright can get after him and collect damages. . . .

Mr. Ogilvie's admonition was unheeded. With the passage of the 1909 Act, not only was the printer denied the protection

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93. Latman & Tager, supra note 1, at 145 (emphasis added).
available to the seller under the 1870 Act, but the seller's protection disappeared as well. At the time the first amendment was seriously viewed as limiting the scope of the copyright clause.

Proponents of special treatment for innocent infringers appeared to base their position on the language of the copyright clause itself, rather than on the first amendment. The House Report on the 1909 Act states that “[i]n enacting a copyright law, Congress must consider . . . two questions: First, how much will the legislation stimulate the producer and so benefit the public; and [s]econd, how much will the monopoly granted be detrimental to the public.” The copyright clause provides that the purpose of securing exclusive rights for authors and inventors is to promote science and the usable arts. And the United States Supreme Court has indicated that the primary object of conferring a monopoly on authors and inventors is to benefit the public. However, the apparent words of limitation within the copyright clause have never been viewed by the Court as providing protection for innocent infringers.

It was not until the De Acosta decision in 1944 that a federal court discussed the first amendment problem inherent in making actual damages available against the innocent indirect infringer. In holding an innocently infringing publisher liable for actual damages, the Second Circuit majority claimed that such an award “would hardly make an appreciable difference to publishers in the conduct of their business . . . .” In dissent, Judge Hand vigorously argued that the liability of the defendant publisher for actual damages, even though unsubstantial, amounted to an unjustifiable burden on first amendment freedoms. More recently, Professor Nim-

94. H.R. REP. No. 2222, 60th Cong., 2d Sess. 7 (1909), reprinted in 6 LEGISLA-
95. United States v. Paramount Pictures, Inc., 334 U.S. 131, 158 (1948) (“[t]he sole interest of the United States and the primary object in conferring the monopoly lie in the general benefits derived by the public from the labors of authors.”) (quoting Fox Film Corp. v. Doyal, 286 U.S. 123, 127 (1932)). Accord, Mazer v. Stein, 347 U.S. 201, 219 (1954) (“[t]he economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual efforts by personal gain is the best way to advance public welfare through the talents of authors and inventors in ‘Science and useful Arts’ ”).
96. 146 F.2d 409, 412 (2d Cir. 1944).
97. [W]e are, in my opinion, committing ourselves to a doctrine which is wrong in theory, which the cases do not require us to adopt, and which
mer has supported Judge Hand’s view, though not necessarily in contradiction with his strict liability approach to innocent infringement. According to Nimmer:

It might be contended that copyright law falls within a built-in exception to First Amendment protection . . . If a completely liberal reading of the First Amendment is to be made, then we must . . . recognize that the First Amendment is an amendment, hence superceding anything inconsistent with it which may be found in the main body of the Constitution. This, of course, includes the Copyright Clause.**

The increasing body of literature** and case law** recognizing a tension between the copyright clause and the first amendment suggests that Judge Hand may have correctly identified the conflicting interests in De Acosta. Although he did not broaden the scope of his opinion to include first amendment protection for other indirect infringers, it appears logical that Judge Hand’s analysis would extend to printers, vendors and others who are closely involved in the “dissemination of knowledge.”

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**imposes a risk upon publishers that is likely to prove an appreciable and very undesirable burden upon the freedom of the press . . . If my brothers are right, a publisher must be prepared to respond in damages to any author who can prove that the publisher has incorporated, however innocently, and at whatever remove, any parts of the author’s work. If that possibility is to hover over all publications, it would, I believe, be not a negligible depressant upon the dissemination of knowledge.**

Id. at 412-13 (Hand, J., dissenting).

98. Nimmer, supra note 1, at § 1.10[A]. The type of judicial review that is applicable to conflicts between the copyright clause and the first amendment has not as yet been determined. Id. In testing first amendment constraints on federal legislation, the United States Supreme Court has employed a balancing test. See Am. Communications Ass’n. v. Douds, 339 U.S. 382, 399 (1950) (“When particular conduct is regulated in the interest of public order, and the regulation results in an indirect, conditional, partial abridgement of speech, the duty of the courts is to determine which of these two conflicting interests demands the greatest protection under the particular circumstances presented.”).


100. See, e.g., Walt Disney Prods. v. Air Pirates, 345 F. Supp. 108, 116 (N.D. Cal. 1972), modified on other grounds, 581 F.2d 751 (9th Cir. 1978), cert. denied, 439 U.S. 1132 (1979) (“[t]he First Amendment does mark out some boundary for the protection that may be afforded a creator under the copyright laws . . . .”).
V. HISTORICAL TREATMENT OF INNOCENT INDIRECT INFRINGERS UNDER BRITISH LAW

In sixteenth century England, copyright was an instrument of the Crown employed to rigorously censor all printed matter that offended the Church. Under Henry VIII's Stationers' Company, which was formed in 1556, and the subsequent licensing acts, an author could not publish a book without obtaining a government license.101 But as the eighteenth century began, the licensing acts "lapsed because of the indignation of the Commons against the arbitrary power of the license..."102 The Statute of Anne,103 enacted by Parliament in 1710, was a direct response to government suppression of heretical books and pamphlets. The celebrated statute not only rewarded authors for their creative labor, but also protected innocent indirect infringers.104 The wording and substance of the innocent infringer provision was almost identical to that of the 1790 Act adopted by the United States Congress.105

The innocent infringer provision of the Statute of Anne

101. See R. Bowker, Copyright: Its History and Its Law 21 (1912); L. Patterson, Copyright in Historical Perspective 29 (1968). Failure to comply with the strict regulations of the Stationers' Company could result in harsh punishment. As one legal historian reports:

The author under such conditions was a very different creature from his modern successor. As has been wittily said in early days an author usually disappeared immediately after the publication of his work and if he reappeared at all, did so in the stocks or pillory. To talk about the rights of authors in Tudor or Stuart England, would have been farcical. The early history of copyright had nothing to do with the rights of the author.

A. Weil, American Copyright Law 6-7 (1917).

102. R. Bowker, supra note 101, at 21-22.


104. The Statute of Anne made available to copyright owners forfeiture and damages if any ... bookseller, printer, or other person ... shall print, reprint, or import, or cause to be printed, reprinted, or imported, any [copyrighted] book or books, without the consent of the proprietor ... or knowing the same to be so printed or reprinted, without the consent of the proprietors, shall sell, publish, or expose for sale ... any such book or books ... .

Kaplan & Brown, supra note 103, at 851.

105. See note 30 and accompanying text supra.
also contained the deficiencies that later emerged in the 1790 Act. Like the 1790 Act, the Statute of Anne’s implementation of safeguards for innocent indirect infringers was inconsistent. Publishers and vendors were protected, but printers and importers were not. Furthermore, Parliament offered absolute immunity to those innocent infringers who were protected, thus making it impossible for copyright owners to obtain forfeiture or injunctive relief against them. The British Copyright Act of 1842106 (1842 British Act) continued the inconsistent application of safeguards to innocent indirect infringers, as well as the policy of absolute immunity for those protected.

The British Copyright Act of 1911107 (1911 British Act) remedied the problems of absolute immunity and inconsistent treatment of innocent indirect infringers. The 1911 British Act insulated such infringers from infringement liability, but held them liable for a conversion. The broad wording of section 2(2) appeared to protect vendors, printers, publishers, and importers from infringement liability if they were innocent:

Copyright in a work shall . . . be deemed to be infringed by any person who—(a) sells or lets for hire, or by way of trade exposes or offers for sale or hire; or (b) distributes either for the purposes of trade or to such an extent as to affect prejudicially the owner of the copyright; or (c) by way of trade exhibits in public; or (d) imports for sale or hire . . . any work which to his knowledge infringes copyright . . . . 108

However, under section 7,109 which provided the copyright

106. Copyright Act, 1842, 4 & 5 Vict., c. 45 (1842). The British Copyright Act of 1842 provided that

[i]f any person shall . . . print or cause to be printed, either for sale or exportation, any book in which there shall be subsisting copyright, without the consent of the proprietor thereof, or shall import for sale or hire any such book so having been unlawfully printed . . . or, knowing such book to have been so unlawfully printed or imported, shall sell, publish, or expose for sale or hire . . . any such book so unlawfully printed or imported . . . such offender shall be liable . . . .

Copyright Act, 1842, 4 & 5 Vict., c. 45, § 15 (1842).

107. Copyright Act, 1911, 1 & 2 Geo. 5, c. 46 (1911).

108. Id. § 2(2) (emphasis added).

109. Section 7 of the 1911 British Act provided that:

[a]ll infringing copies of any work in which copyright subsists, or of any substantial part thereof, and all plates used or intended to be used for the production of such infringing copies, shall be deemed to be the prop-
owner with a cause of action in conversion, the indirect infringer's intent was irrelevant in establishing the conversion. As Lord Justice Romer stated in *Sutherland Publishing Co. v. Caxton Publishing Co.*,\(^{110}\) (*Sutherland II*): "[I]f a person who has not himself infringed the copyright . . . innocently sell, or exposes, or offers for sale, an infringing work, he does not thereby commit an infringement of copyright . . . . However, by virtue of section 7 . . . the owner of the copyright . . . could take proceedings . . . in respect of any conversion thereof."\(^{111}\)

The above excerpt from *Sutherland II* illustrates an important difference between the American and British law of conversion. Although the British law is in general agreement with the American view of conversion,\(^{112}\) there is a general exception under British law that "intention is immaterial in cases where a man deals with goods as his own."\(^{113}\) In a typical British case of innocent indirect infringement, the common law exception dispensing with an intent to convert would be controlling. In *Sutherland Publishing Co. v. Caxton Publishing Co.*,\(^{114}\) (*Sutherland I*), book publishers who innocently infringed by binding together portions of a copyrighted work into their book were held liable for a conversion, although their act "was in fact an unconscious conversion."\(^{115}\)

The establishment of a conversion under section 7 of the 1911 British Act could not result in a cumulative award of actual damages and profits. The traditional British view is that an account of profits is alternative to an award of damages.\(^{116}\) Nonetheless, the copyright owner could elect to obtain actual damages after he had exhausted the possibility of obtaining damages and profits for the infringement.

The irreconcilability of sections 2(2) and 7 was high-

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\(^{110}\) Id. at 414.


\(^{112}\) Id.

\(^{113}\) Id. at 395.

\(^{114}\) Id. at 401.

\(^{115}\) Id. at 401.

\(^{116}\) Copyright Act, 1911, 1 & 2 Geo. 5, c. 46, § 7 (1911).
lighted by the fact that, under certain circumstances, damages flowing from a conversion could be greater than those resulting from the infringement. If the infringer was innocent, section 2(2) in such an instance would be emasculated. The Court of Appeal, in *Sutherland II*, illustrated that the publishers “may have reproduced a very few copies of high intrinsic value, which amounts to much more than the damage done to the copyright, which may be almost negligible.” 117 Because the measure of damages for the conversion under British law is the value of the copies, rather than the depreciation of the value of the copyright,118 the copyright owner could conceivably recover more for the conversion than for the infringement.

The British Copyright Act of 1956 remedied the inconsistent treatment accorded to innocent indirect infringers under the 1911 British Act.

VI. TREATMENT OF INNOCENT INDIRECT INFRINGEMENTS UNDER THE 1956 BRITISH ACT

The British Copyright Act of 1956 (1956 British Act)119 is the first British copyright statute to altogether eliminate the availability of damages against the innocent indirect infringer. In effect, the Act adopts the approach that the copyright owner can only obtain injunctive relief and profits against the innocent indirect infringer. Parliament accomplished this result by reworking the bifurcated infringement and conversion scheme of the 1911 British Act.

The 1956 British Act continues the approach of section 2(2) of the 1911 British Act by insulating innocent indirect infringers of copyrighted works from all infringement liability, and by providing infringement immunity to innocent indirect infringers of protected sound recordings.120

118. *Id.* at 180.
120. Section 5(2) of the 1956 British Act provides that a copyright in a literary, dramatic, musical or artistic work is infringed by any person who, without the license of the owner of the copyright, imports an arti-
Parliament remedied the inconsistency between sections 2(2) and 7 of the 1911 Act by removing the availability of conversion damages against the innocent indirect infringer. This modification of former section 7 amounts to a legislative redefining of conversion as applied to the copyright field. The 1911 Act had permitted the copyright owner to obtain damages in conversion against the innocent indirect infringer due to an exception at common law which dispensed with the requirement of intent to covert. Under section 18(2) of the 1956 Act, the innocent indirect infringer may still be liable for a conversion, but damages cannot be imposed. The net effect of section 18(2) is that a copyright owner can obtain an injunction and an account of profits against an innocent indirect infringer, but cannot obtain damages. The traditional British view is that an account of profits is not a "pecuniary remedy," but instead, is an equitable remedy ancillary to an
A. Liability of Innocently Infringing Record Retailers

Under Section 504 of the United States Copyright Act of 1976, a copyright owner may recover actual damages against the innocently infringing record retailer in one of two ways: by election of actual damages and profits, or by submitting the determination of statutory damages to the court's broad discretion. The infringer's innocence may be a factor in the court's assessment of statutory damages or it may be ignored. In any event, the infringer's innocence does not necessarily result in any special treatment.

Unlike the approach of the 1976 Act, section 18(2) of the 1956 British Act offers infringing retailers an unequivocal opportunity to avoid payment of actual damages. Section 18(2) clearly instructs the British courts that damages are not available against an infringing retailer if he can establish his innocence. In arriving at a finding of innocence, the British courts could consider such factors as whether the counterfeit records were highly deceptive, whether the retailer had reason to suspect his supplier of illegal activity, and whether the legal manufacturer had made available to the retailer a counterfeit detection device.

The current wave of record piracy in Great Britain has sparked a controversy as to whether the bar against allowing recovery of damages against the innocently infringing record retailer should be eliminated. The British recording industry, like its American counterpart, is angered by the infiltration of pirated records into the retail market. It is estimated that counterfeiting operations are largely responsible for a "drop in album sales of over 25%."
It appears, however, that the containment of record piracy will not require the excision of the remedial defense of innocence that is presently available to record retailers. In 1977, the British Copyright Council and the British Phonographic Industry Copyright Association urged the Whitford Committee,\textsuperscript{125} which had convened to consider a revision of the 1956 British Act, to recommend to Parliament that safeguards for innocently infringing record vendors be abolished in order to stop the "growing practice of illicit importation into and distribution"\textsuperscript{126} of counterfeit records in Great Britain. The Whitford Committee, however, arrived at a different conclusion: "[C]are must be taken to ensure that the interests of defendants who are wholly innocent are adequately protected . . . . [W]e are of the opinion that there should continue to be some provision in the Act for a defense based on innocence . . . ."\textsuperscript{127}

VII. Conclusion

By comparing the historical problem of innocent infringement with the circumstances of the modern record piracy crisis, this article suggests that a Congressional reevaluation of the treatment accorded to all innocent indirect infringers under the 1976 Act is necessary. Professor Ball once wrote that the United States copyright law contemplates "the extension and increasing adaptation of the copyright laws to the uses of society in accordance with changing conditions."\textsuperscript{128} The rigid strict liability approach of the 1976 British Act toward innocent infringers is out of step with this mandate. The 1976 Act fails to give sufficient weight to technological advances that may hinder the infringer's ability to make an effective inquiry, to trade customs that may affect his ability to obtain indemnity, and to business trends that may make insurance unavailable.

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\textsuperscript{125} Report of the Committee to Consider the Law on Copyrights and Designs, CMND. No. 6732 (1977) [hereinafter cited as Whitford Committee]. For an overview of the Whitford Committee's findings, see Toward a New British Copyright Law, 121 Solicitors' J. 584 (1977).

\textsuperscript{126} Whitford Committee, supra note 125, § 735.

\textsuperscript{127} Id. § 737.

\textsuperscript{128} H. Ball, The Law of Copyright and Literary Property § 7 (1944).
In contrast, the 1956 British Act permits a case-by-case adjudication of each indirect infringer's innocence. The individualized approach of the 1956 Act gives the British courts power to create a body of common law defining what constitutes "innocence" of an indirect infringer, which could then be applied in particular cases. The standard of innocence for each class of infringer would fluctuate in accordance with changing social, economic, and technological circumstances.

A Congressional realignment of protections afforded copyright owners and innocent infringers would not necessarily require an adoption of the British bifurcated scheme of infringement and conversion, together with its remedial ramifications. Congress could provide adequate protection for innocent infringers by making available a remedial defense to infringement based on innocence. A remedial defense that would be determinative of the availability of actual damages against all innocent indirect infringers, whether the copyright owner elects actual damages and profits or statutory damages, would be less ambiguous and less subject to discriminatory application than the present law. Moreover, the remedial defense would not require a set of arbitrary public policy arguments to justify it. Nor would such a remedial approach result in first amendment problems.