Is a Website Like a Flea Market Stall - How Fonovisa v. Cherry Auction Increases the Risk of Third-Party Copyright Infringement Liability for Online Service Providers

Kenneth A. Walton

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Is a Website Like a Flea Market Stall? How Fonovisa v. Cherry Auction Increases the Risk of Third-Party Copyright Infringement Liability for Online Service Providers

by
KENNETH A. WALTON*

Table of Contents
I. Third Party Copyright Liability and Its Application to OSPs............................................................ 924
   A. Third-Party Copyright Infringement ................................................................. 924
      1. Contributory Infringement ...................................................................................... 926
      2. Vicarious Infringement .......................................................................................... 927
   B. Infringement Liability of Online Service Providers ................................................. 929
      1. Brief Summary of Case Law on OSP Liability .................................................... 929
      2. Where the Law on OSP Infringement Liability Currently Stands.......................... 933
II. The Fonovisa Holding and How It Extends Third Party Infringement Liability............................................. 935
   A. History and Facts........................................................................................................ 935
   B. District Court Holding .................................................................................................. 936
   C. The Ninth Circuit Reversal, and How the Holding Extended the Doctrines of Third Party Infringement Liability............................................................................................................. 937
      1. Vicarious Infringement Claim .................................................................................. 937
      2. Contributory Infringement Claim ........................................................................... 941

* J.D., University of California, Hastings College of the Law, 1997; B.S., California State Polytechnic University, Pomona, 1992. Mr. Walton is an associate with the law firm of Kronick, Moskovitz, Tiedmann & Girard in Sacramento. His email address is ken@walton.net, to which he requests, based on a recent 9th Circuit ruling, that you do not send infringing materials.
III. How Fonovisa May Affect OSP Copyright Infringement Liability ................................................. 942
   A. How Fonovisa Extended Existing Third-Party Infringement Doctrine ........................................ 942
   B. How the Fonovisa Holding Threatens OSPs ................................................................. 944
   C. Why it is Dangerous to Extend OSPs Liability for User Infringement ...................................... 945
IV. Recommendation ........................................................................................................ 946
V. Conclusion .................................................................................................................... 947
Introduction

To what extent is an online service provider (OSP)\(^1\) liable when a customer uses its system to violate a copyright? For instance, suppose a website designer displays someone else’s copyrighted photographs without permission. Can the owner of the copyright sue the company that leased server space to the website?\(^2\) Or suppose a music fan posts a digitized version of a copyrighted song to an electronic bulletin board. Can the songwriter then sue the company that offered the infringing music fan a way to access the bulletin board? The law provides no easy answers to these questions. The courts have grappled with these issues very few times, and have yet to clearly signal the extent to which OSPs will be liable for their users’ copyright infringement.\(^3\) Because of the intense interest in the way the law will respond to emerging communication technology, and because this new technology so easily facilitates copyright infringement,\(^4\) the issue of OSP infringement liability fosters vociferous debate and speculation. Commentators hold an array of opinions on the issue. Most would agree, however, that existing law offers too little guidance, and the courts could end up going any way on the issue.

Into this fragile mix add Fonovisa v. Cherry Auction.\(^5\) In this recent case the Ninth Circuit allowed a record company to sue a swap...

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\(^1\) The term "online service provider" (OSP) is used broadly in this note. It refers to anyone offering commercial access to various types of online computer networks, including bulletin board services (BBSs), large commercial content providers such as America Online or Compuserve, and Internet service providers (ISPs) that act as passive conduits to the Internet. OSP is used to refer to services that offer customers a way to connect to a network, as well as services that lease space on network-connected computers to host websites or other services available to the public. As the world becomes increasingly connected to computer networks, the distinctions among these various types of services blur. See Mark Walsh, Impass Over Online Copyrights; Why a Proposed Bill is Polarizing the Internet’s Two Biggest Industries, RECORDER, May 9, 1996, at 1. ISPs that once acted as mere pipelines to the Internet now run websites with customer information and directories and lease space on servers for customer websites. BBSs that were once self-contained now offer customers a way to connect to the Internet. Large commercial online services that once generated all of their own content now allow customers to browse the worldwide web.

\(^2\) A website must reside on a webserver, which is typically an expensive computer with a continuous, high speed connection to the Internet. Many website operators do not maintain their own webservers, but instead lease server space from someone else.

\(^3\) Walsh, supra note 1.


\(^5\) 76 F.3d 259 (9th Cir. 1996) [hereinafter Fonovisa II].
meet for copyright infringement committed by the swap meet’s vendors. The vendors rented a stall from the defendant and sold counterfeit music cassettes that infringed the plaintiff Fonovisa’s copyright.\(^6\) The Ninth Circuit reversed a district court opinion\(^7\) and held that the swap meet could be sued under theories of contributory infringement and vicarious infringement.\(^8\)

The appellate court struggled against the weight of existing doctrine to find Cherry Auction liable, and in doing so, extended the scope of third-party copyright infringement liability to previously unseen levels. Never before had third-party infringement liability been assigned to a party so disconnected from the actual infringer or the infringement. This extension of third party infringement liability may make it much easier to hold OSPs liable for their customers’ infringement. For OSPs and those that rely on their service, this could be disastrous.

Part I of this note briefly visits the doctrines of vicarious and contributory copyright infringement. Part II discusses various views of the extent to which OSPs should be held liable for user infringement, and recounts the ways that courts have applied copyright infringement principles to OSPs. Part III discusses the flawed analysis of the Fonovisa decision, points out how the case extends third party liability to new levels, and explains how the opinion sets a precedent that may be used unfairly against OSPs. Part IV recommends that the courts do not rely on Fonovisa to decide OSP liability, and instead stick with more traditional concepts of third party liability, applied cautiously.

I

Third Party Copyright Liability and Its Application to OSPs.

A. Third-party copyright infringement

The owner of a copyright has broad rights to reproduce, distribute, perform and display his copyrighted work.\(^9\) Anyone

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\(^6\) Id. at 260.
\(^7\) Fonovisa, Inc. v. Cherry Auction, Inc., 847 F. Supp. 1492 (E.D. Cal. 1994) [hereinafter Fonovisa I].
\(^8\) Fonovisa II, 76 F.3d at 261.
\(^9\) 17 U.S.C. § 106 states:
the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:
(1) to reproduce the copyrighted work in copies or phonorecords;
breaching these rights is a direct infringer,\textsuperscript{10} and subject to an array of civil and criminal penalties.\textsuperscript{11} Direct infringement has a strict liability standard - it does not require intent or any particular state of mind.\textsuperscript{12} The Copyright Act of 1976 lacks express language to impose liability on any party other than the one actually engaged in infringement.\textsuperscript{13} This does not, however, shelter those who assist in infringement, but stop short of directly infringing. Under theories of third-party liability, parties who do not actively engage in infringing activities can be held liable for their connection to another's infringement.\textsuperscript{14}

Courts recognize two ways that a person can be held liable for someone else's copyright infringement activity: contributory infringement and vicarious infringement.\textsuperscript{15} In \textit{Sony Corporation of America v. Universal City Studios, Inc.},\textsuperscript{16} the Supreme Court articulated the rationale of applying these doctrines to copyright infringement: "vicarious liability is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another."\textsuperscript{17}

(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 other transfer of ownership, or by 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. 17 U.S.C. § 106 (1996).

15. The distinction between the two claims is somewhat muddied. 'The courts have been less than precise in their delineation of the contours of contributory versus vicarious liability for copyright infringement." \textit{ITSI T.V. Prods., Inc. v. California Authority of Racing Fairs}, 785 F. Supp. 854, 861 (E.D. Cal. 1992).
17. \textit{Id.} at 435.
1. Contributory Infringement

Contributory copyright infringement is based on “the basic common law doctrine that one who knowingly participates or furthers a tortious act is jointly and severally liable with the prime tortfeasor....”18 Contributory infringement stems from the enterprise liability concept of tort law.19 In Gershwin Publishing Corp. v. Columbia Artists Management the Second Circuit declared that “one who, with knowledge of the infringing activity, induces, causes, or materially contributes to the infringing conduct of another may be held liable as a contributory infringer.”20 The Gershwin test has become the standard test for contributory infringement.21 The essential elements of contributory infringement have been identified as “knowledge” and “participation.”22

These elements are not talismanic; not all courts define contributory infringement so simply. Some courts emphasize that the participation of the third party must be “substantial participation” in order to constitute infringement.23 Sometimes the second prong of the test is called “material contribution,”24 which can affect the tone of a court’s analysis. Other courts have written that one must “authorize”

20. Id.
22. Demetriades, 690 F. Supp. at 293.
23. One court, in analyzing the possibility of a realtor contributorily infringing copyrighted architectural plans by selling a “copycat house,” noted, “[w]e are familiar with no concept of justice that would permit extension of third-party liability in this case on so attenuated a basis. Something more—deriving from one's substantial involvement—is needed.” Demetriades, 690 F. Supp. at 294. Furthermore, “participation in the infringing activity must be 'substantial,'” R&R Recreation Products, Inc. v. Joan Cook Inc., 1992 U.S. Dist. LEXIS 5176, *7 (S.D.N.Y. 1992) (citing Demetriades, 690 F. Supp. at 294). The district court in Fonovisa stated the elements for contributory infringement as: “(1) knowledge of the copyright infringing activity, and (2) substantial participation, i.e. inducement, cause or material contriubtion, to the infringing conduct of another.” 847 F. Supp. at 1496; see also Netcom, 907 F. Supp. at 1375.
24. Fonovisa II, 76 F.3d at 264.
infringement to be contributorily liable. In Sony, for instance, the Supreme Court recognized the doctrine and described the contributory infringer as one who "was in a position to control the use of copyrighted works by others and had authorized the use without permission from the copyright owner." Analysis of contributory infringement, then, is somewhat imprecise.

2. Vicarious Infringement

Vicarious liability is based on the relationship between the defendant and the direct infringer, rather than the defendant's involvement in the infringing activity. This theory of liability evolved from the agency rule of respondeat superior, by which an employer is liable for torts committed by his servants within the scope of employment. In the context of copyright infringement, courts have not adhered to the requirement of an employer-employee relationship, and have found vicarious liability in cases of independent contract and license as well. In Shapiro, Bernstein & Co. v. H.L. Green, the seminal vicarious copyright infringement case, the Second Circuit established that a party with the "right and ability to supervise" infringing activity and "obvious and direct financial interest" in it can be held vicariously liable, even without knowledge of the infringement. The two essential elements of the test for vicarious infringement have been referred to as "control" and "benefit."

Shapiro involved a department store chain, H.L. Green, that leased its record departments to an independent operator. The independent operator used its record concessionaires to sell counterfeit records, infringing the plaintiff Shapiro's copyrights. Although the concessionaires were technically independent, H. L. Green was substantially involved in their business, even taking a share

25. 464 U.S. at 437.
28. Id.
29. Id.
30. Id. (citations omitted). This test has been widely adopted. See RCA/Ariola Int'l, Inc. v. Thomas & Grayston Co., 845 F.2d 773, 781 (8th Cir. 1988); Columbia Pictures v. Redd Home, Inc., 749 F.2d 154, 160 (3d Cir. 1984); Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc., 886 F.2d 1545, 1553 (9th Cir. 1990).
of their profits. Green wielded substantial control over them, having a say even in whom they hired and fired. The plaintiff sought to sue not only the independent operator, but also H. L. Green, who had leased it the space.\textsuperscript{32}

The \textit{Shapiro} court, in developing this vicarious liability test, looked at two contrasting lines of cases dealing with third-party infringement. One line of cases dealt with landlord-tenant scenarios.\textsuperscript{33} The courts in these cases found that landlords were not liable for their tenants’ copyright infringement if the landlords had no knowledge of the infringement, did not contribute to it, exercised no supervision over the tenant, and received no financial benefit from the infringement activity other than the fixed rental fee.\textsuperscript{34}

In the second line of cases, the “dance hall cases,”\textsuperscript{35} the courts found that the owners of entertainment venues were liable for their entertainers’ infringement if the owners had control over the premises and derived direct financial benefit from the audiences who enjoyed the infringing entertainment.\textsuperscript{36} In the dance hall cases, it did not matter whether the direct infringers were employees or agents of the venue owner.\textsuperscript{37} The notion of respondeat superior was stretched to hold the owners liable if they had control and received a financial benefit. The \textit{Shapiro} court saw its case as closer to the dance hall model, and fashioned its two-part “control”/”benefit” test based on it.\textsuperscript{38}

Even today, when courts apply the \textit{Shapiro} test, they will often justify a vicarious infringement claim by characterizing a set of facts as more or less akin to a “dance hall case” or a landlord-tenant scenario.\textsuperscript{39} One court posed the question: “Where along the spectrum of fact patterns from nightclub to landlord does the defendant stand?”\textsuperscript{40}

\textsuperscript{32} \textit{Shapiro}, 316 F.2d at 305-07.
\textsuperscript{33} See, e.g., Deutsch v. Arnold, 98 F.2d 686 (2d Cir. 1938); Freemont v. Aeolian Co., 254 F. 592 (S.D.N.Y.1918).
\textsuperscript{34} \textit{Shapiro}, 316 F.2d at 305-07.
\textsuperscript{36} \textit{Shapiro}, 316 F. 2d at 307.
\textsuperscript{37} \textit{Id}.
\textsuperscript{38} \textit{Id} at 308.
\textsuperscript{39} See, e.g., \textit{Fonovisa II}, 76 F.3d at 262.
\textsuperscript{40} Polygram, 855 F. Supp. at 1325.
B. Infringement Liability of Online Service Providers

1. Brief Summary of Case Law on OSP Liability

There is great interest in the potential copyright infringement liability of OSPs, and little clarifying law. One commentator wrote in 1989, “legal issues surrounding computer bulletin boards comprise a land with no maps and few native guides.” These words remain true. Only three federal court opinions have addressed OSP infringement liability and they have done little to sharpen the contours of the law. In *Playboy Enterprises, Inc. v. Frena*, the first case to reach the federal courts on the issue of OSP liability, a district court found the operator of a bulletin board liable for direct infringement, and therefore did not need to approach the doctrines of vicarious or contributory liability. The OSP in this case profited from allowing users to upload and download digitized versions of the plaintiff's copyrighted photographs. The OSP placed its name and phone number on the photographs, and stored them as files called “Playmate” or “Playboy.” The court held, that as a matter of law, the defendant directly infringed upon Playboy's rights to distribute and display its copyrighted works.


44. 839 F. Supp. 1552 (M.D. Fla. 1993)


46. *Id.* at 1559.

47. *Id.*
In *Sega Enterprises. Ltd. v. MAPHIA*, a district court held that the defendant MAPHIA, a BBS, could be liable for direct and contributory infringement of the plaintiff's copyright. MAPHIA was a bulletin board devoted to various nefarious activities, among them distributing illegal copies of the plaintiff's computer games. Not only did the defendant allow uploading and downloading of the games, it also sold devices designed specifically to copy the games. MAPHIA encouraged and profited from these activities. These defendants were involved in copyright infringement to a far greater extent than the defendants in *Playboy*. However, in finding them liable for copyright infringement, the court seemed to focus on the fact that the defendants had knowledge of the infringement. This is relevant only to contributory liability, as direct infringement does not require knowledge. Although the court allowed a claim of contributory infringement as well, its analysis focused on rationalizing contributory liability, rather than direct infringement. Nevertheless, the defendant's actions fit within the scope of both contributory and direct infringement.

In the most recent case involving this issue, *Religious Technology Center v. Netcom On-line Communication Services. Inc.*, the district court held that the defendants' internet service provider whose system was used for infringement could be sued for contributory infringement, but not for direct or vicarious infringement. Defendant Netcom provided internet access to the BBS on which the direct infringer posted excerpts of the plaintiff's copyrighted books. Netcom received the infringing messages from the BBS, stored them for a period of time, and distributed them via the Internet to other

50. *Id.* at 684-85.
51. *Id.* at 683.
52. *Id.* at 684-85.
53. *Id.* at 687.
54. *Id.* at 626-87
55. *Id.*
57. *Id.* at 1375.
58. *Id.* at 1373.
59. *Id.* at 1377.
60. *Id.* at 1366.
server computers.\textsuperscript{61}

The court first rejected the claim of direct infringement.\textsuperscript{62} The court clarified that there were “copies” made during the message storage process, and the plaintiff’s copyright was thus infringed.\textsuperscript{63} However, Netcom should not be responsible as a \textit{direct} infringer merely because its computers were involved, if it was system users, rather than Netcom, who posted the copies. According to the court, a theory of contributory infringement is more appropriate for an OSP.\textsuperscript{64} The court distinguished Netcom from the defendants in \textit{Playboy} and \textit{Sega}, who were far more involved in infringement, and questioned the conclusion of those courts that OSPs can be held directly liable for infringement caused by users.\textsuperscript{65} The court concluded that direct infringement liability is unwise and unfair.\textsuperscript{66}

The court next turned to the claim of contributory infringement.\textsuperscript{67} Applying the \textit{Gershwin} test it identified the elements of contributory infringement as “knowledge” and “substantial participation.”\textsuperscript{68} The plaintiff, having informed Netcom of the infringement, raised a significant question of fact as to whether the “knowledge” prong was satisfied.\textsuperscript{69} The court then turned to the “substantial participation” element.\textsuperscript{70} The court distinguished Netcom’s role from that of a landlord who passively leased space to an infringing tenant.\textsuperscript{71} A passive landlord might fail to satisfy the “substantial participation” prong, the court stated, but “a service that allows for the automatic distribution of all Usenet postings … goes well beyond renting a premises to an infringer.”\textsuperscript{72} The court compared Netcom’s role to that of a radio station airing infringing broadcasting.\textsuperscript{73}

\textsuperscript{61} \textit{Id.} at 1367-68.
\textsuperscript{62} \textit{Id.} at 1367-73.
\textsuperscript{63} \textit{Id.} at 1368. That this even needed to be analyzed at length demonstrates the infancy of this area of law.
\textsuperscript{64} \textit{Id.} at 1368-69.
\textsuperscript{65} \textit{Id.} at 1370-72.
\textsuperscript{66} \textit{Id.} at 1372-73.
\textsuperscript{67} \textit{Id.} at 1373.
\textsuperscript{68} \textit{Id.}
\textsuperscript{69} \textit{Id.} at 1373, 1375.
\textsuperscript{70} \textit{Id.} at 1375.
\textsuperscript{71} \textit{Id.}
\textsuperscript{72} \textit{Id.}
\textsuperscript{73} \textit{Id.}
The court also distinguished Netcom from the way the district court characterized Cherry Auction in *Fonovisa I*.\(^74\) In *Fonovisa I*, the district court held that Cherry Auction, by merely renting space to a vendor, did not participate sufficiently in the vendor's infringement to warrant contributory liability.\(^75\) Netcom's operation of its computer system constituted greater participation than that of Cherry Auction.\(^76\)

The court also dismissed the vicarious infringement claim.\(^77\) It found that Netcom satisfied the "control" prong of the test\(^78\), as it had the requisite amount of control over the infringers through its contractual terms and conditions, its user indemnification requirement, and the fact that it was capable of devising a way of purging certain messages.\(^79\) Netcom did not, however, glean any direct financial benefit from the infringing activities, and thus failed the second prong of the vicarious infringement test.\(^80\) The court based its decision on the fact that Netcom received a fixed fee, very much like a landlord, and did not receive a percentage of any infringing activities or attract extra business because of them.\(^81\) The relationship between Netcom and its subscribers was more like that of a landlord and tenant, rather than a night club and its hired performers.

In concluding that Netcom did not meet the "financial benefit" prong, and could not be sued for vicarious infringement, the court relied on the district court's opinion in *Fonovisa I*. The plaintiff asserted that Netcom benefited financially from the reputation of being a regulation-free service provider, and thus had a sufficient financial stake in the infringement.\(^82\) But the court pointed to the district court opinion in *Fonovisa I* which held that Cherry Auction, by merely leasing space to an infringing vendor, did not meet the "financial benefit" prong of the vicarious infringement test.\(^83\) The court compared Netcom's business to that of Cherry Auction, and

\(^74\) 847 F. Supp. 1492.
\(^75\) 907 F. Supp. at 1375.
\(^76\) Id.
\(^77\) Id.
\(^78\) See supra note 31 and accompanying text.
\(^79\) Netcom, 907 F. Supp. at 1375-76.
\(^80\) Id. at 1376-77.
\(^81\) Id.
\(^82\) Id. at 1377.
\(^83\) Id. (citing *Fonovisa I*, 847 F. Supp. at 1496).
concluded that because there was no direct financial benefit from infringement, there was no vicarious liability.  

2. Where the Law on OSP Infringement Liability Currently Stands

There are several different schemes by which OSPs could be subjected to liability for user infringement, and no one is certain which will eventually become the standard. If the decision of Playboy v. Frena holds any sway, OSPs may be subject to strict liability, as direct infringers, for copyright violations by users of their systems. Some would argue that this is appropriate. Most, however, consider this an unfair scheme. The defendant in Playboy was heavily involved in the infringing activity. If he was a direct infringer, it was based on his actual involvement, rather than his status as the provider of the system on which files were transferred. Playboy has been criticized, was rejected in Netcom, and most likely does not signal a future of strict liability for OSPs.

At the opposite end of the spectrum, others argue for total immunity for OSPs, treating them as common carriers. The defendant in Netcom argued that it was a passive conduit for information, and likened itself to a common carrier, arguing that it should be exempt from liability for infringement occurring on its system. The Clinton Administration's Information Infrastructure Task Force disagrees, believing that this status should not be granted to OSPs, as they typically have far more control over the use of their systems than a common carrier such as a telephone company. The Task Force notes that OSPs are not natural monopolies, like other common carriers. While common carrier status would offer immunity from infringement suits, it does have its pitfalls. Common carriers are subject to extensive government regulation, an anathema to the free-wheeling philosophy of cyberspace.

87. Pink, supra note 41, at 629.
90. Id.
Most likely, OSPs will be subject to some level of third party infringement liability for copyright violations occurring on their systems. Contributory infringement has been the chosen doctrine so far.\textsuperscript{91} The court in \textit{Sega}, while it condoned theories of direct and contributory infringement, really seemed to be analyzing contributory liability.\textsuperscript{92} The \textit{Netcom} court approved of applying contributory infringement principles to OSPs.\textsuperscript{93} If an OSP is subject to contributory infringement liability for the activities of its users, to what extent will the doctrine apply? Is the “knowledge” prong met by actual knowledge, or could a “reason to know” standard apply? Does merely operating a system constitute “substantial participation,” as the \textit{Netcom} court decided,\textsuperscript{94} or must an OSP be involved to some greater degree?

Courts have yet to use a vicarious infringement theory to hold an OSP liable. Some would argue that this is an appropriate standard, though many others find it dangerous.\textsuperscript{95} If this standard were used, would running a system in itself, along with the ordinary control an OSP has over users, be enough to satisfy the “control” prong, as the \textit{Netcom} court believed?\textsuperscript{96} The \textit{Netcom} court seemed to believe that the “financial benefit” element could be satisfied only if the OSP was paid a portion of the profits of infringement.\textsuperscript{97} Could an OSP be considered to profit from offering an “infringement-friendly” or “no questions asked” environment?\textsuperscript{98}

\textsuperscript{91} See \textit{Netcom}, 907 F. Supp. at 1373-75. Some argue for a statute that declares this the appropriate standard for OSPs. See also Pink, supra note 41, at 629.
\textsuperscript{93} \textit{Netcom}, 907 F. Supp. at 1373-75.
\textsuperscript{94} Id. at 1375.
\textsuperscript{95} See, e.g., David Dobbins, \textit{Computer Bulletin Board Operator Liability for Users' Infringing Acts}, 94 MICH. L. REV. 217, 224 (1995). It has often been said that the OSP-user relationship is like that of the landlord and tenant. See Tickle, supra note 41.
\textsuperscript{96} A “practical control” standard has been proposed. See Tilman E. Self, III, \textit{The Vicarious Liability of Trade Show Organizers for the Copyright Infringements of Exhibitors}, 5 TEX. INTELL. PROP. L.J. 81, 98 (1996). Perhaps the theoretical ability of an OSP to police its users should not satisfy the control prong, as it is far more difficult to patrol cyberspace than actual space. See Ian C. Ballon, \textit{Pinning the Blame in Cyberspace: Towards a Coherent Theory for Imposing Vicarious Copyright, Trademark and Tort Liability for Conduct Occurring Over the Internet}, 18 HASTINGS COMM/ENT L.J. 729, 761 (1996).
\textsuperscript{97} \textit{Netcom}, 907 F. Supp. at 1376-77.
\textsuperscript{98} Some would argue that, for OSPs, infringement profiteering should have to be shown to prove vicarious infringement, as “financial interest” is too difficult to evaluate
Some urge an escape from current doctrine, arguing that the existing categories of infringement liability do not translate to the world of modern communication technologies. Copyright law has evolved in the past in response to new technology. Proponents of this view argue for new doctrines or alternative OSP-specific applications of existing law.

II

The Fonovisa Holding and How It Extends Third Party Infringement Liability

A. History and Facts

The Cherry Auction, in Fresno, California, is a typical "swap meet" or "flea market" in which small spaces are leased to vendors on a daily basis, and in which the public is allowed to browse and purchase a variety of items from the individual vendors. The Auction is a popular shopping area for Fresno's Latin American community, and offers a wide variety of merchandise, including clothing, stereo equipment, produce, and live poultry. The swap meet's myriad offerings have also included bootleg cassette tapes of Latin music. Music pirates were a persistent problem at the Cherry Auction. In 1991, the Fresno County Sheriff's Department confiscated 38,014 counterfeit tapes in a raid of the Auction. The problem continued. The Sheriff's Department and Fonovisa investigators spotted infringing vendors at the auction several times in 1992 and

without it. See Ballon, supra note 96.

99. See, e.g., Elkin-Koren, supra note 41 (arguing that existing copyright law does not fit well into a world of digitized communication).

100. Pomeroy, supra note 4.

101. See, e.g., Tickle, supra note 41 (arguing that the lessor-lessee paradigm of vicarious liability is most analogous to BBS operators, but also arguing for a requirement of knowledge).

102. Fonovisa II, 76 F.3d at 261.


104. Fonovisa I, 847 F. Supp. at 1494.

105. Id. To show its appreciation, the Association of Latin-American Record Manufacturers presented its "Gold Record" award to the Vice/Intelligence Unit of the Fresno County Sheriff's Department. In addition to the cassette tapes, the detectives seized more than one million tape labels and sophisticated duplicating equipment. Michelle Daniels, Sheriff's Unit Receives 'Gold Record' Award, FRESNO BEE, Feb. 17, 1994, at B2.
B. District Court Holding

Fonovisa filed suit against Cherry Auction in April 1993. Its claims included direct, contributory, and vicarious copyright infringement. District Court Judge Robert Coyle did not view any of these claims as viable, and dismissed them pursuant to Federal Rule of Civil Procedure 12(b)(6). The court curtly dismissed the direct copyright infringement claim because Fonovisa failed to show how Cherry Auction directly infringed. It was the vendors, not the auction, who duplicated and sold the counterfeit tapes.

The court then analyzed and dismissed the contributory infringement claim. The court summarized the elements of the claim as "knowledge" of the activities and "substantial participation" in the infringement. It found that Cherry Auction satisfied the "knowledge" element, as it was well aware of the music pirates and the infringement. But the Auction did not satisfy the "substantial participation" element, as it was not involved at all in the infringement. The court noted that the defendants had not "promoted, advertised... [or] encouraged the sale of counterfeit products, or protected the identity of the infringers." Merely renting booth space was "passive" participation, the court stated, too insubstantial to satisfy the test of Gershwin and warrant a finding of contributory liability.

The court then dismissed the plaintiff's claim of vicarious infringement. Identifying the elements of the claim as "financial interest" and "right and ability to supervise," the court found that Cherry Auction had neither a financial interest in the infringement,

107. Id. at 1495.
108. Id. at 1494.
109. Fonovisa II, 76 F.3d. at 261.
111. Id.
112. Id. at 1496.
113. Id.
114. Id.
115. Id.
116. Id.
117. Id. at 1497.
nor the requisite level of supervisory power over its vendors. Unlike the defendant in Shapiro, Cherry Auction did not have "a priori supervisory power; that is, the power to supervise the direct infringers in the general course of business." While the plaintiff did have the right to exclude vendors for infringement, it did not maintain control over what its vendors sold, how much they charged, or whom they hired. The Auction's level of supervision was not, the court reasoned, enough to subject it to liability in the respondeat superior sense. Briefly mentioning the second prong of the test, the court also noted that the defendant, by renting a modestly priced space to the infringers, did not receive a direct financial benefit from infringing activities.

C. The Ninth Circuit Reversal, and How the Holding Extended the Doctrines of Third Party Infringement Liability

Fonovisa appealed the dismissal of the claims for contributory and vicarious liability. The case was the first to reach the federal appellate level on the question of whether a swap meet can be held vicariously or contributorily liable for the copyright infringement of vendors. The Ninth Circuit reversed the district court's dismissal of the claims and found them to be valid causes of action. Fonovisa was given the right to sue Cherry Auction for contributory and vicarious infringement.

1. Vicarious Infringement Claim

The court first analyzed the vicarious infringement claim. Contrary to the district court, the Ninth Circuit found that Cherry Auction met both the "control" and "financial benefit" prongs of the vicarious infringement test. In analyzing the defendant's supervisory power over the vendors, the "control" prong, the court

118. Id. at 1496-97.
119. Id. at 1497.
120. Id.
121. Id.
122. Fonovisa II, 76 F.3d. at 261.
123. Id.
124. Id. at 264.
125. Id. at 261-64.
126. Id. at 262-63.
rejected any analogy to the landlord-tenant relationship. The court noted the defendant's contractual ability to patrol its premises and terminate vendors for any reason, and compared it to the level of control wielded by H.L. Green in *Shapiro*. Was this a proper analysis? In *Shapiro*, the defendant Green arguably had far more power over its vendor than Cherry Auction wielded over the swap meet hawkers. Green did not just supply the building in which the infringing vendor was located, it also managed its cash flow, calculated its payroll, took a percentage of its receipts, and retained the right to make decisions about its employees. Green's power was clearly "supervisory," but Cherry Auction's seemed much less so.

Further satisfying the "control" prong, the court said, was the Auction's power as the promoter and organizer of the swap meet, similar to that of the defendant in *Gershwin*. This analogy is also somewhat weak, given the facts of *Gershwin*. In *Gershwin*, the defendant CAMI organized musical performances for which it knew there would be no copyright license. CAMI knew in advance the songs that would be played, and it deliberately failed to get permission to use them. Indeed, it printed brochures for the shows, listing the songs to be played. By contrast, the Cherry Auction merely rented spaces on its lot, and surely could not have inventoried the wares of each vendor prior to the swap meet. The defendant in *Gershwin* knew exactly what would occur before each show. Swap meets are, by nature, ever changing, and it would be impossible to determine, before opening, exactly what will be sold. Knowledge is power, and Cherry Auction wielded nowhere near the power of CAMI.

Grasping for further support for its finding that Cherry Auction satisfied the "control" element, the court also cited *Polygram International Publishing Inc. v. Nevada/TIG, Inc.* This district court case included a finding that the organizer of a trade show could be held vicariously liable for infringing performances conducted by show

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127. *Id.* at 262.
128. *Id.* at 262-63 (citing *Shapiro*, 316 F. 2d at 304).
129. *Shapiro*, 316 F.2d at 306.
130. *Fonovisa II*, 76 F.3d. at 263 (citing *Gershwin* Pub. Corp. v. Columbia Artists Mgmt., Inc., 443 F.2d 1159, 1163 (2d Cir. 1971)).
131. *Gershwin*, 443 F.2d at 1161.
132. *Id.*
133. *Id.* at 1163.
The court in *Polygram* found that the defendant possessed the requisite power over infringers because it controlled them through rules and regulations, policed its premises to ensure compliance with the rules, and promoted the show including the infringers. In *Fonovisa II*, the Ninth Circuit chose to rely on this anomalous district court opinion, ignoring the fact that the findings were not an actual holding, but mere "evaluative findings," and therefore dicta.

Further, the Ninth Circuit chose to completely ignore *Artists' Music, Inc. v. Reed Publishing (USA), Inc.*, another recent district court case involving facts that are identical to *Polygram* but resulting in an opposite holding. The exhibitors at a trade show infringed copyrights with performances of music, and the court held that Reed Music, the organizer of the show could not be held liable as a vicarious infringer. The *Artists' Music* court found that "the relationship between trade show sponsors and trade show exhibitors is the legal and functional equivalent of the relationship between landlords and tenants," and that a fixed rental rate does not constitute direct financial benefit. This case is more in line with established infringement liability principles, and the Ninth Circuit's failure to cite it allowed it to further skew its holding in *Fonovisa II*.

The court then turned to the "financial benefit" element of the vicarious infringement test. It strained to explain how Cherry Auction directly benefited financially from the infringing activity of the vendors. The court held that the swap meet's financial benefit came from the daily rental fee paid by the vendors, the entrance fee

135. *Id.* at 1331.
136. *Id.* at 1329.
137. *Id.* at 1331.
138. The plaintiffs in *Polygram* failed to establish a prima facie case of copyright infringement because they failed to show that the direct infringers, the exhibitors, lacked a license to perform the allegedly infringed works. Summary judgment was thus granted for the defendants. The court only discussed vicarious liability "in order to create a full record that includes all potentially material factual finding." 855 F. Supp. at 1323-24.
140. *Id.* at *18.
141. *Id.* at *14.
142. *Id.* at *16-*17.
143. See *Fonovisa II*, 76 F.3d at 263.
144. See *Financial Strain*, in INFORMATION LAW ALERT: A VOORHEES REPORT, Feb. 9, 1996.
paid by customers, and "payments for parking, food, and other services by customers seeking to purchase infringing recordings." The court called these "substantial financial benefits" that "flowed directly from customers who want to buy the counterfeit recordings at bargain basement prices." It rejected the premise that the financial benefit requirement was only satisfied by the type of benefit in *Shapiro*, where the defendant received a percentage of the sales of infringing items.

The court attempted to position its holding atop the long line of dance hall cases. Again it compared the swap meet scenario to that in *Polygram*, where the court concluded that a trade show derived financial benefit from the attention that attendees paid to the infringing music played by trade show exhibitors. As noted above, the court's choice of the reasoning in *Polygram* over that in *Artists' Management* was arbitrary. A closer look at *Polygram*, however, reveals other reasons why it should not be used to show that Cherry Auction had the requisite financial interest in its vendors' infringement. The court in *Polygram* noted that the financial interest in the *Shapiro* case was the defendant's portion of sales of infringing goods. It then emphasized the difficulty in finding the direct financial benefit in cases where there is an infringing performance, rather than infringing sales, and concluded that the financial benefit of infringing performances may sometimes be less apparent. The *Polygram* court distinguished its case from *Shapiro* in this way, and asserted that the financial benefit of infringing performances, much less measurable than the benefit of infringing sales, must be judged for "overall commercial benefit to an establishment." Indeed, all of the cases on which the *Polygram* court relied involved situations in which performances of infringing music contributed to the business of the defendant. In *Fonovisa* there was no infringing performance; the

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145. *Fonovisa II*, 76 F.3d at 263.
146. *Id.*
147. *Id.* at 263 (citing *Shapiro*, 316 F.2d at 304, in which the defendant received 10 or 12 percent of the sale price of each counterfeit record).
148. *Fonovisa II*, 76 F.3d at 263.
149. *Id.* at 263 (citing *Polygram*, 855 F. Supp. at 1314).
151. *Id.* at 1330-31.
152. *Id.* at 1331.
153. *Id.* at 1330-31.
infringement was the selling of counterfeit cassette tapes, which was very similar to Shapiro. As the Polygram court admitted, this is an activity for which it is much more easy to tell if there was financial interest.\(^{154}\) Based on Shapiro, if Cherry Auction had gained something from the sale of the tapes, it would have had a direct financial stake. It did not and therefore fails the "financial benefit" element of the vicarious infringement test, and Fonovisa should not have been allowed to sue under this theory.

2. \textit{Contributory Infringement Claim}

The court next turned to Fonovisa's contributory infringement claim.\(^{155}\) The first prong of the contributory infringement test, knowledge, had been established.\(^{156}\) Unlike the district court, in analyzing the second prong of the test for contributory infringement, the Ninth Circuit chose to focus on Cherry Auction's "material contribution" to the infringing activity, with little discussion of the extent to which there was "substantial participation."\(^{157}\) The court declared that the support services provided by the defendant, "space, utilities, parking, advertising, plumbing, and customers," constituted material contribution to the infringing vendors' activities.\(^{158}\) This material contribution, along with knowledge of the infringement, exposed Cherry Auction to contributory infringement liability.\(^{159}\)

The court cited \textit{Columbia Pictures Industries, Inc. v. Aveco. Inc.}\(^{160}\) to support its position that the provision of a site and facilities for infringing activity can establish contributory liability.\(^{161}\) \textit{Columbia Pictures}, however, does not stand for this principle. It involved a very

\begin{itemize}
\item \textbf{154.} \textit{Id.}
\item \textbf{155.} \textit{Fonovisa II, 76 F.3d at 264.}
\item \textbf{156.} \textit{Id.}
\item \textbf{157.} \textit{Id. Beyond knowledge, the court in \textit{Gershwin} required, for a claim of contributory infringement, that a defendant be one who "induces, causes, or materially contributes to the infringing conduct." \textit{Gershwin}, 443 F.2d at 1162. The district court in \textit{Fonovisa I} interpreted this prong of the test to mean "substantial participation." 847 F. Supp. at 1496. Other courts have also found a "substantial participation" requirement. \textit{See R&R Recreation Products, Inc. v. Joan Cook Incorporated, 1992 U.S. Dist. LEXIS 5176, *7 (S.D.N.Y. 1992) (citing Demetriades v. Kaufmann, 690 F. Supp. 289, 294 (S.D.N.Y. 1988)). But none of these decision are binding on the Ninth Circuit.}
\item \textbf{158.} \textit{Fonovisa II, 76 F.3d at 264.}
\item \textbf{159.} \textit{Id.}
\item \textbf{160.} \textit{800 F.2d 59 (3d Cir. 1986).}
\item \textbf{161.} \textit{Fonovisa II, 76 F.3d at 264.}
\end{itemize}
different set of facts and a different cause of action. In *Columbia Pictures*, the Third Circuit upheld a direct infringement action against the owners of video stores for their practice of renting rooms in which rented videos were watched.\(^{162}\) The Third Circuit was not concerned with the extent to which Aveco contributed to the infringement of another, like in *Fonovisa*. The issue in *Columbia Pictures* was whether there had been a public performance of a copyrighted work and, if so, whether Aveco was a direct infringer by authorizing it.\(^ {163}\) Once it was established that playing a video in a rented room was a public performance, it was clear that Aveco had authorized it, and had directly infringed the plaintiffs copyrights.\(^ {164}\) Aveco’s entire business practice was thus deemed to be infringing activity.\(^ {165}\)

*Fonovisa* is totally different. There is no question that infringement occurred at Cherry Auction. The issue is whether the Cherry Auction’s connection to the infringement is sufficient to hold it responsible under the doctrine of contributory liability. The Ninth Circuit strayed too far when it relied on *Columbia Pictures*, which should have no bearing on *Fonovisa*.

### III

**How *Fonovisa* May Affect OSP Copyright Infringement Liability**

**A. How *Fonovisa* Extended Existing Third-Party Infringement Doctrine**

From the moment it was issued, spectators recognized that the Ninth Circuit’s *Fonovisa* opinion could effect OSP liability.\(^ {166}\) The opinion has been recognized as an extension of existing contributory and vicarious infringement law.\(^ {167}\) David Nimmer has noted *Fonovisa*’s liberalization of vicarious liability standards.\(^ {168}\) There are

\(^{162}\) *Columbia Pictures*, 800 F.2d at 60.

\(^{163}\) *Id.* at 62.

\(^{164}\) *Id.* at 64.

\(^{165}\) *Id.*


\(^{168}\) David Nimmer, *Brains and Other Paraphernalia of the Digital Age*, 10 HARV. J.
several ways that Fonovisa extends the boundaries of third-party infringement liability, and puts OSPs in greater jeopardy of being sued for their users’ infringement.

First, Fonovisa extends the concept of contributory infringement by solidifying the principle that “substantial participation” need not be substantial at all. It appears, following Fonovisa, that providing very basic facilities to a flat-rate tenant can constitute enough “material contribution” to warrant contributory liability for infringement. The “material contribution” provided by the Cherry Auction, listed by the court as “space, utilities, parking, advertising, plumbing, and customers,” is little more than what an indoor shopping mall might provide its tenants. Fonovisa thus shrivels the “substantial participation” element of the test, rendering it nearly meaningless. It seems, after Fonovisa, that for a landlord, knowledge of infringement along with some minimal provision of amenities is enough to constitute contributory infringement. Second, Fonovisa extends the contours of the “control” prong of the vicarious liability test. Fonovisa seems to stand for the principle that the “control” element is satisfied by any level of control beyond that which a landlord has over a leasehold tenant. Apparently, after Fonovisa, the rationale behind the landlord-tenant cases does not extend very far. Any theoretical right to supervise, whether practical or not, removes the situation from the landlord-tenant domain.

The final, and most dangerous, way that Fonovisa extends liability is through its holding that Cherry Auction received direct financial benefit from its vendors’ infringement, and thus satisfied the “financial interest” element of the vicarious infringement test. This does away with the long-standing notion that a landlord with no stake in the profits of infringement is not vicariously liable. The Fonovisa holding establishes that the financial benefit prong can be satisfied by financial gains that are theoretical, unquantifiable, minor, and remotely related to the infringement. Again, the shopping mall analogy is appropriate: A shopping mall may benefit financially from customers attracted by a popular tenant. Should this make the mall

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LAW AND TECH. 1, 34 n.142 (1996).
169. Fonovisa II, 76 F.3d at 264.
170. See Self, supra note 96.
171. See Goldberg & Bernstein, supra note 167, at 3.
172. Fonovisa II, 76 F.3d at 263.
173. See Goldberg & Bernstein, supra note 167, at 3.
jointly and severally liable for tenant copyright infringement, if it
could be argued that the infringing tenant attracted customers with
the popularity of an infringing item?

B. How the Fonovisa Holding Threatens OSPs.

The facts of Fonovisa are oddly easy to analogize to an OSP case.
Cherry Auction indiscriminately rented space on its lot to anyone who
wanted to sell things to the general public, and allowed general public
access to the swap meet.174 Similarly, an OSP sells the use of its
facilities to anyone seeking the ability to communicate with the online
world, perhaps even leasing space on a hard drive for a user to store
items that can be accessed by the general public. An OSP then
indiscriminately allows the public to access the files posted by its
users, or stored on its servers. Cherry Auction had theoretical,
contractual control to police its grounds, but it would have been
difficult to actually patrol the swap meet for intellectual property
violations.175 Similarly, an OSP usually maintains contractual
agreements with customers that allow the OSP to cancel accounts at
the OSP's discretion, but it is extremely difficult to actually control
the flow of information passing through computer networks, and it
would be nearly impossible to prevent users from infringing
copyrights.

Because of this easy comparison, courts may be tempted to apply
the rule of Fonovisa to an OSP faced with an infringement suit. There
are several ways the new Fonovisa easy-to-satisfy third party
infringement doctrines are a threat to OSPs.

First, Fonovisa bolsters the notion that the "substantial
participation" doctrine is very easy to satisfy.176 If the minimal
provision of services offered by Cherry Auction was sufficient
"material contribution" to subject it to contributory infringement
liability, then surely the host computers and modems offered by an
OSP are also sufficient to establish liability. Indeed, Netcom seems to
be consistent with this view.177 With these cases, it seems that an OSP
will be automatically liable for infringement if the OSP has been
warned that infringement is occurring.

174. Fonovisa II, 76 F.3d at 261.
175. Id. at 262.
176. Id. at 264.
Second, and more ominous, is the extension of vicarious infringement fashioned in *Fonovisa*. This could be particularly troublesome for OSPs. Nimmer warned that the application of vicarious liability laws to OSPs is an invitation to “massive lawsuits... suffocating the Net through the blind flailing of pre-cyberspace principles.”178 Vicarious liability would hold OSPs responsible for infringement about which they have no knowledge whatsoever. In *Netcom*, the court dismissed the vicarious liability claim, based on the established doctrine that those in *Netcom*’s position received no financial gain from infringement.179 But *Fonovisa* eviscerates this doctrine, and seems to stand for the principle that any remotely related financial gain can be attributed to the occurrence of infringement. If decided after the *Fonovisa* decision, the outcome of *Netcom* might have been different, and *Netcom*, along with all other OSPs, might be facing claims for both contributory and vicarious infringement.

The *Fonovisa* decision that Cherry Auction is liable for vicarious infringement, because it had the contractual ability to suspend vendors, is also harmful to OSPs. It means that OSPs with any sort of contractual right to control user accounts automatically meet the “control” prong of the vicarious infringement test. *Fonovisa* thus bolsters the opinion of the *Netcom* court that *Netcom* had control over its customers. The *Netcom* court merely said that it was a question of fact as to whether or not *Netcom* had control.180 It never resolved this issue.

C. Why it is Dangerous to Extend OSPs Liability for User Infringement

There are many reasons why the *Fonovisa* standards for third-party infringement will be injurious to OSPs. Some have noted that strict standards of liability will dampen one of the greatest gifts of new information technology - quick, easy, inexpensive dissemination of information.181 It has been argued that promoting easy access to information is the very reason for our copyright law, and expansive doctrines of contributory and vicarious liability create a disincentive for OSPs to use their systems to facilitate the easy spread of

178. *See Nimmer, supra* note 168, at 34.
information. At a minimum, holding OSPs liable for user infringement will raise the cost of online access for all, as the cost will have to be spread among all users. Smaller OSPs, unable to afford the risks of infringement liability, may be forced out of business, leading to concentration in a business that has been characterized by intense competition and corresponding low prices.

IV Recommendation

This note does not argue that new rules are needed to govern infringement in the information age. OSPs do not need new statutes or novel legal doctrines to protect them. Instead, existing law should be applied very carefully.

The Fonovisa court went too far in its zeal to punish Cherry Auction. Ideally, the Fonovisa interpretation of copyright law should be rejected, as it makes the world a much easier place in which to be unfairly held liable for someone else’s copyright infringement. At a minimum, the Fonovisa expansive view of third party liability should not be used against OSPs haphazardly. Courts need to clearly articulate that a website is not like a swap meet stall. Most importantly, it must be clarified that OSPs do not satisfy the “financial benefit” prong of the vicarious infringement test simply because some infringement may occur on their systems. Unless an OSP is clearly profiting from infringement, by either receiving a share of infringement profits or by receiving a large percentage of income from users who seek access to infringing materials, it should not be held vicariously liable. Additionally, when determining whether an OSP is liable for contributory infringement, courts should carefully consider whether the “control” prong is truly satisfied. For an OSP, the ability to terminate a user for, say, discourteous behavior, is not the same as the ability to stop all copyright infringement.

182. Pomeroy, supra note 4.
184. Id.
V

Conclusion

*Fonovisa* is not all bad. The case was a victory for the music industry, for which piracy is a persistent and pervasive problem. And Cherry Auction was not an innocent victim of a bad interpretation of the law. It was aware that its vendors were infringing, and was sued only after failing to take any steps to assist in stopping the bootleggers. Even if it was not legally bound to do so, it should have assisted in stopping blatant copyright infringement occurring on its grounds.

But in fashioning a remedy for Fonovisa, the Ninth Circuit went too far. It twisted third party infringement doctrine into new shapes. From the old tools it has fashioned new ones, capable of things for which the originals were not designed. In attempting to hold Cherry Auction liable for its unethical behavior, the court turned a new class of parties into potential copyright infringers.

These jurisprudential changes wrought by the Ninth Circuit are dangerous, as they put OSPs, whose legal responsibility for infringement is uncertain, in a precarious new position of potential liability. The courts should reject any careless application of the rule of *Fonovisa* to OSPs.