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# Actual Versus Legal Control: Reading Vicarious Liability for Copyright Infringement into the Digital Millennium Copyright Act of 1998

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# ACTUAL VERSUS LEGAL CONTROL: READING VICARIOUS LIABILITY FOR COPYRIGHT INFRINGEMENT INTO THE DIGITAL MILLENNIUM COPYRIGHT ACT OF 1998

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*Abstract*: Title II of the Digital Millennium Copyright Act of 1998 purports to limit the liability of Internet service providers that have been found vicariously liable for copyright infringement. However, by basing this limitation on the absence of the "benefit" and "control" elements of the common law test for vicarious liability, the plain language of Title II, codified at 17 U.S.C. § 512, appears to preclude statutory protection once a court has found a service provider vicariously liable. This Comment argues that courts must read a narrow definition of "actual" control into 17 U.S.C. § 512(c)(1)(B) in order to preserve the liability limitations of Title II, to avoid structural conflict, and to fulfill legislative intent. This Comment locates actual control in a line of district court cases from the Second Circuit that have been eclipsed by the Ninth Circuit's embrace of "legal" control. This Comment concludes that an actual-control standard best preserves incentives to monitor for infringement.

In December 1999, eBay, the Internet's most popular auction site,[1] claimed that the Digital Millennium Copyright Act of 1998 (DMCA)[2] provides disincentives for the company to police its web site for copyright infringement.[3] EBay contended that the liability limitations of Title II of the DMCA,[4] which were intended to shield Internet service providers from monetary liability for copyright infringement by users of

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1. *See Web Watch*, Fortune, Dec. 1, 1999, at 29 (noting that eBay draws more than 10 million visitors per month).

2. Pub. L. No. 105-304, 112 Stat. 2860 (1998) (codified in scattered sections of 17 U.S.C. (Supp. IV 1999)).

3. *See* Matt Richtel, *EBay Says Law Discourages Auction Monitoring*, N.Y. Times CyberTimes, Dec. 10, 1999 (visited May 11, 2000) <www.nytimes.com/yr/mo/day/tech/indexcyber.html> (using search term "ebay").

4. 17 U.S.C. § 512 (Supp. IV 1999). The DMCA contains five titles: I. WIPO Treaties Implementation (barring anti-circumvention technology and protecting copyright management information), II. On-line Copyright Infringement Liability Limitation Act (limiting service provider liability), III. Computer Maintenance Competition Assurance Act (exempting copies made for repair purposes from copyright violation); IV. Miscellaneous Provisions. and V. Vessel Hull Design Protection Act (protecting boat hull designs). *See* Pub. L. No. 105-304, 112 Stat. 2860 (1998) (codified in scattered sections of 17 U.S.C. (Supp. IV 1999)).

their services,[5] are unavailable to any service provider that demonstrates the "ability to control" infringing activity by actually monitoring its site for infringement.[6] "If we start[] to monitor," noted eBay's associate general counsel, "we then take responsibility . . . for all information on the site,"[7] including the unauthorized sound recordings that are inevitable on an auction site that adds almost half a million new items daily.[8]

On-line auctions and other negotiated pricing venues are perhaps the most novel of the business models instituted on the Internet.[9] Charging a percentage commission of each sale,[10] on-line auction sites allow users to post items for sale to the highest offer from a worldwide pool of bidders. By overcoming the significant transaction costs of geography and market access, these sites provide fora for market transactions that would be impossible in the brick-and-mortar world, usually with little or no intervention by the auction site itself.[11] Given the burgeoning popularity of these entities,[12] they are both fertile grounds for infringement[13] and prototypes of future e-commerce models.[14] No court has yet addressed the legal status of on-line auctions.

EBay's uncertainty about monitoring stems from the DMCA's incorporation of the common law doctrine of vicarious liability for

5. *See* H.R. Conf. Rep. No. 105-796, at 73 (1998), *reprinted in* 1998 U.S.C.C.A.N. 639, 649.

6. Richtel, *supra* note 3.

7. *Id.*

8. *Id.* In late 1999, a California man sued eBay for the alleged sale of illegally made sound recordings. *See id.* In addition, an unauthorized copy of a network holiday special appeared for auction before broadcast. *See* Csar G. Soriano, *Thieving "La Vida" Brokers*, USA Today, Nov. 15, 1999, at D1.

9. *See generally* Robert D. Hof, *Who Will Profit From the Internet: E-Bazaars are Changing the Way Products are Being Made, Bought and Sold*, Bus. Wk., June 5, 2000, at EB56.

10. *See* eBay Seller Guide (visited May 12, 2000) <http://pages.ebay.com/help/sellerguide/selling-fees.html> (calculating Final Value Fee as percentage of final sale).

11. *See* eBay User Agreement, § 3.1 (visited May 12, 2000) <http://pages.ebay.com/help/community/png-user.html> ("Our site acts as the venue for sellers to list items . . . and buyers to bid on items . . . . [W]e have no control over the quality, safety or legality of the items advertised . . . ."); *see also* Richard A. White, *Overcoming Regulatory Barriers to Successful E-Commerce*, 570 PLI/Pat. 703, 708–09 (1999) ("An Internet auction is vastly different from a traditional auction: there is no auctioneer acting as the seller's agent, the transfer of title occurs directly between seller and buyer . . . .").

12. *See* Jim Carlton, *EBay Net Rises by 66%, Ahead of Expectations*, Wall St. J., Apr. 26, 2000, at B7 (noting eBay's 12.6 million registered users); George Anders, *EBay Net Jumped 85% in Quarter on Sales Gains, Beating Estimates*, Wall St. J., Jan. 26, 2000, at B8 (noting eBay is largest consumer-oriented electronic-commerce site).

13. *See* Soriano, *supra* note 8, at D1 (noting pre-broadcast auction of network holiday special).

14. *See generally* Hof, *supra* note 9 (describing various Internet commerce models).

copyright infringement. The judicial doctrine turns on a two-part test of "control" and "benefit."[15] Congress intended to limit vicarious liability on-line[16] and Title II of the DMCA appears to codify this doctrine at 17 U.S.C. § 512(c)(1)(B). Title II limits the extent of liability for on-line copyright infringement by providing a series of "safe harbors" from monetary liability to qualifying service providers.[17] Yet the "user storage" safe harbor of § 512(c) excludes service providers who "receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity."[18] This language tracks the test for vicarious liability for copyright infringement.[19] Because a vicariously liable service provider by definition has control and receives direct financial benefit, the plain language of this bar makes the safe harbor unavailable to any service provider that has already been found vicariously liable. Compounding this confusion, courts and commentators have developed two distinct applications of control, one based on mere "legal" control, the other based on "actual" or "practical" control.[20]

A narrow construction of the codified control prong can both salvage protection for qualifying service providers and preserve the "clean, well-lit place"[21] where entities like eBay can monitor their sites without fear of losing safe-harbor protection.[22] This Comment argues that actual control must be read into 17 U.S.C. § 512(c)(1)(B) in order to reconcile Title II with common law vicarious liability and to preserve the structural

15. *See* Demetriades v. Kaufman, 690 F. Supp. 289, 293 (S.D.N.Y. 1988) ("[B]enefit and control are the signposts of vicarious liability.").

16. *See* H.R. Conf. Rep. No. 105-796, at 73 (1998), *reprinted in* 1998 U.S.C.C.A.N. 639, 649; H.R. Rep. No. 105-551, pt. 2, at 53 (1998); S. Rep. No. 105-190, at 40 (1998).

17. *See infra* Part IV.A.

18. 17 U.S.C. § 512(c)(1)(B) (Supp. IV 1999).

19. *See infra* Part I.B.

20. *See* Tilman E. Self III, Note, *The Vicarious Liability of Trade Show Organizers for the Copyright Infringement of Exhibitors*, 5 Tex. Intell. Prop. L.J. 81, 89 (1996); *see also infra* Part II.

21. Richtel, *supra* note 3 (describing eBay's intent to monitor for infringement).

22. This construction would affect more than on-line auctions. At the time this Comment went to press, a suit against the Napster music-sharing system was pending in U.S. District Court, and one of the defendant's defenses against the claim of vicarious infringement was that the court should read a narrow version of control into the DMCA's safe harbor provisions. *See* Opposition of Defendant Napster, Inc. to Plaintiffs' Motion for Preliminary Injunction at 20, A&M Records, Inc. v. Napster, Inc., No. C 99-5183MHP (N.D. Cal. filed Dec. 7, 1999) (brief on file with author). To date, the *Napster* court has rejected one claim of safe-harbor protection under the DMCA without ruling on the others. *See* A & M Records, Inc. v. Napster, Inc., 54 U.S.P.Q. 2d 1746, 1751–52 (N.D. Cal. 2000) (rejecting defendant's § 512(a) safe harbor claim).

integrity of Title II. A standard requiring actual control over and direct financial benefit from the infringing activity for removal from the user-storage safe harbor will clarify the scope of service-provider liability and ensure protection for copyright holders by eliminating disincentives to monitoring. Part I of this Comment traces the development of the control and benefit test of vicarious liability. Part II delineates the split among the circuits in the application of the actual and legal control tests for vicarious liability. Part III identifies the challenges of applying these control tests to the on-line environment, especially in light of scarce judicial guidance to date. Part IV explores the link between the DMCA and vicarious liability by examining § 512(c), a key safe harbor provision of Title II. Part V argues that the interaction of statutory and judicial standards of liability, combined with the structure and legislative history of the DMCA, support reading actual control into § 512(c)(1)(B). Part V concludes that such a reading produces the most efficient and effective market result.

## I. VICARIOUS LIABILITY FOR COPYRIGHT INFRINGEMENT

The common law doctrine of vicarious liability for copyright infringement imposes liability upon one party for the infringing actions of another party,[23] thereby providing incentives to police market relationships.[24] By prompting market vigilance, this judicial extension of liability enforces the limited monopoly created by copyright law.[25] Part A of this section explores the justification provided by copyright law for imposing liability on parties other than the actual infringer. Part B details the development of the "benefit-and-control" test for vicarious liability for copyright infringement.

### *A. Defining Liability for Infringement: The Scope of Copyright Law*

While technological change has provided Congress's primary impetus to consider the reach of copyright protection,[26] courts have generally awaited congressional direction before applying copyright law to

23. *See* Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 261–62 (9th Cir. 1996).
24. *See* Shapiro, Bernstein & Co. v. H.L. Green Co., 316 F.2d 304, 307 (2d Cir. 1963).
25. *See* Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417, 442 (1984).
26. *See id.* at 430.

emerging technologies.[27] Article I of the U.S. Constitution vests Congress with the power to grant limited monopolies in the form of copyrights.[28] The rights thus conferred are "exclusive," "for limited Times," and protect "Writings and Discoveries."[29] The language of Article I leaves to Congress the task of defining the impact of the copyright monopoly on other substantive rights, the duration of protection, and the types of works covered,[30] and invites judicial interpretation. This Comment examines one instance of legislative and judicial interplay over copyright's impact on third-party rights.

Judicial extension of secondary liability[31] beyond the statutorily defined scope of liability for copyright infringement has strengthened the incentive structure of copyright law, despite statutory silence regarding secondary liability.[32] The exclusive rights established by 17 U.S.C. § 106 to reproduce, adapt, distribute, perform, and display a work[33] provide incentives for authors to create, which, in turn, serves "the ultimate aim" of enhancing "the general public good."[34] While the Copyright Act of 1976[35] and its predecessor of 1909[36] are silent regarding such common law doctrines as agency, joint and several liability, and third-party liability, the 1976 Act does define an infringer as "[a]nyone who violates any of the exclusive rights of the copyright owner."[37] The U.S. Supreme Court has noted that the lack of specific reference to secondary liability within the Copyright Act "does not preclude the imposition of liability

27. *See id.* at 431 ("[R]eluctance to expand the protections afforded by the copyright without explicit legislative guidance is a recurring theme.").

28. U.S. Const. art. I, § 8, cl. 8.

29. U.S. Const. art. I, § 8, cl. 8.

30. *See Sony*, 464 U.S. at 429; *see also* Deepsouth Packing Co. v. Laitram Corp., 406 U.S. 518, 530 (1972) ("The direction of Art. I is that *Congress* shall have the power to promote the progress of science and the useful arts. When, as here, the Constitution is permissive, the sign of how far Congress has chosen to go can come only from Congress.").

31. *See Black's Law Dictionary* 926 (7th ed. 1999) (defining "secondary liability" as "liability that does not arise unless the primarily liable party fails to honor its obligation").

32. *See Sony*, 464 U.S. at 433–35.

33. *See* 17 U.S.C. § 106 (1994).

34. Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156 (1975). While this "economic" rationale is widely accepted in the United States, an alternative "natural law justification" finds support particularly in Europe. *See* Marshall Leaffer, *Understanding Copyright Law* § 1.7, at 18 (3d ed. 1999).

35. Copyright Act of 1976, 17 U.S.C. §§ 101–1332 (1994 & Supp. IV 1999).

36. Copyright Act of 1909, ch. 320, 35 Stat. 1075 (current version at 17 U.S.C. §§ 101–1332 (1994 & Supp. IV 1999)).

37. 17 U.S.C. § 501(a) (1994).

for copyright infringements on certain parties who have not themselves engaged in the infringing activity."[38] Therefore, courts have imported the tort doctrines of vicarious and enterprise liability into the copyright context in order to enforce copyright law's limited monopoly.[39]

"Direct" infringement is a necessary predicate to secondary liability.[40] A copyright holder can establish direct infringement by proving "(1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original."[41] "Copying" signifies more than reproduction: it is "shorthand for the infringing of any of the copyright owner's . . . exclusive rights" enumerated at 17 U.S.C. § 106.[42] Such copying must also amount to misappropriation.[43] Although vicarious and contributory liability[44] address the supporting roles played by other actors within the ambit of infringement only after the lead actor has been identified as liable, a finding of direct infringement can reverberate widely and draw all associated actors into the scope of secondary liability.

### *B. Development of a Two-Part Vicarious Liability Test for Copyright Infringement*

In *Shapiro, Bernstein & Co. v. H.L. Green Co.*,[45] the Second Circuit was the first court to articulate a two-part test for vicarious liability for

38. Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417, 435 (1984).

39. *See, e.g.*, *id.*; Demetriades v. Kaufmann, 690 F. Supp. 289, 292 (S.D.N.Y. 1988); *see also* W. Page Keeton et al., *Prosser and Keeton on the Law of Torts* § 69, at 500 (5th ed. 1984) (defining vicarious liability as "a rule of policy, a deliberate allocation of risk"); *id.* § 72, at 516–17 (noting that enterprise liability "rests upon an analogy to the law of partnership . . . [in which] each is the agent or servant of the others").

40. *See generally Sony*, 464 U.S. at 435 (noting vicarious liability holds "one individual accountable for the actions of another").

41. Feist Publications, Inc., v. Rural Tel. Serv. Co., 499 U.S. 340, 361 (1991).

42. S.O.S., Inc. v. Payday, Inc., 886 F.2d 1081, 1085 n.3 (9th Cir. 1989).

43. *See* Arnstein v. Porter, 154 F.2d 464, 468 (2d Cir. 1946) (establishing layperson quantitative test to determine improper appropriation).

44. Vicarious and contributory liability are distinct doctrines of third-party liability. *See Demetriades*, 690 F. Supp. at 292 n.5. Contributory liability reaches "one who, with knowledge of the infringing activity, induces, causes, or materially contributes to the infringing conduct of another . . . ." Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc., 443 F.2d 1159, 1162 (2d Cir. 1971) (citation omitted). Contributory infringement turns upon an inquiry into knowledge that is absent from the relational inquiry of vicarious liability. *See* Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* (MB) § 12.04[A][1], at 12–68 (Sept. 1998).

45. 316 F.2d 304 (2d Cir. 1963).

copyright infringement. Jalen Amusement Company, operator of the record departments in twenty-three of defendant Green's department stores, directly infringed on the plaintiff's copyrights by selling counterfeit music recordings.[46] Reversing the dismissal of the complaint against the department store, the court held that "[w]hen the right and ability to supervise coalesce with an obvious and direct financial interest in the exploitation of copyrighted materials . . . the purposes of copyright law may be best effectuated by the imposition of liability upon the beneficiary of that exploitation."[47] A court must find independent evidence to satisfy each prong of the *Shapiro* control and benefit test in order to find a defendant vicariously liable.[48] This test has become the cornerstone for finding vicarious liability in all copyright-infringement cases, whether the activity implicates the right to reproduce,[49] the right to distribute,[50] or the right to perform[51] the protected work.

The *Shapiro* test evolved from two lines of cases displaying differing degrees of third-party involvement in direct infringement.[52] First, the so-called "landlord-tenant" cases absolved a landlord of responsibility for the infringing activities of a tenant if the landlord lacked notice of the infringement at the creation of the lease.[53] In contrast, the "dance-hall" cases attached liability to proprietors of entertainment venues for the infringing performances of musical compositions by bands and orchestras.[54] This second line of cases premised liability primarily on the direct financial benefit to the proprietors of the infringing performances, whether or not the proprietor exercised any control over the selection of the compositions.[55]

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46. *See id.* at 306.

47. *Id.* at 307 (citation omitted).

48. *See* Artists Music, Inc. v. Reed Publ'g, Inc., 31 U.S.P.Q. 2d 1623, 1626 (S.D.N.Y. 1994) (rejecting plaintiffs' "novel interpretation" of sliding scale between prongs); Nimmer & Nimmer, *supra* note 44, § 12.04[A][1], at 12–68.

49. *See* RCA/Ariola Int'l, Inc. v. Thomas & Grayston Co., 845 F.2d 773, 781 (8th Cir. 1988).

50. *See* Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 262 (9th Cir. 1996).

51. *See* Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc., 443 F.2d 1159, 1162 (2d Cir. 1971).

52. *See* Shapiro, Bernstein & Co. v. H.L. Green Co., 316 F.2d 304, 307–08 (2d Cir. 1963).

53. *See, e.g.*, Deutsch v. Arnold, 98 F.2d 686, 688 (2d Cir. 1938); *cf.* Fromont v. Aeolian Co., 254 F. 592, 594 (S.D.N.Y. 1918).

54. *See, e.g.*, Buck v. Jewell-LaSalle Realty Co., 283 U.S. 191, 198–99 (1931); Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co., 36 F.2d 354, 355 (7th Cir. 1929).

55. *See Buck*, 283 U.S. at 198.

*Shapiro* involved a high degree of actual control and direct benefit. Green and Jalen enjoyed a close and mutually profitable relationship: Jalen had been a constant presence in Green's stores for up to thirteen years; Jalen and its employees were subject to Green's workplace rules; Green reserved "unreviewable discretion" to fire Jalen employees; and all receipts filtered through Green's cash registers, from which Green deducted a percentage.[56] Analogizing to the dance-hall cases and emphasizing its desire to prevent retailers from establishing "dummy" concessions to act as buffers against liability for infringement, the court justified burdening the department store owner Green, the party in the best position to police infringement.[57]

*Shapiro* sought to increase the diligence of market beneficiaries of copyrighted material.[58] A well-policed market maximizes creators' returns on their works, thereby increasing public good by stimulating the production of more works.[59] This incentive structure of vicarious liability hinges upon the control necessary to monitor the source of financial benefit.

## II. CONFLICTING APPLICATIONS OF THE CONTROL PRONG OF THE *SHAPIRO* TEST

Courts have adopted and commentators have elucidated two approaches to the control prong of the *Shapiro* test. The narrow view requires "actual" power to control.[60] The broad view extends liability to any "legal" or "potential" power to control, thus finding control in every legal relationship in which one party reserves, implicitly or explicitly, control over the infringer.[61] Both standards turn on the relationship between the defendant and the direct infringer.

56. *See Shapiro*, 316 F.2d at 306.

57. *See id.* at 308–09.

58. *See id.* at 309.

59. *See* Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156 (1975).

60. Self, *supra* note 20, at 89–90.

61. *Id.*; *see also* Ian C. Ballon, *Pinning the Blame in Cyberspace: Towards a Coherent Theory for Imposing Vicarious Liability for Conduct Occurring Over the Internet*, 18 Hastings Comm. & Ent. L.J. 729, 749–50 (1996).

*A. The Narrow View: Actual Control*

Courts and commentators that have predicated vicarious liability on actual control have generally looked to the defendant's ongoing ability to prevent the actual infringement.[62] An actual-control standard cleaves to the respondeat superior[63] roots of vicarious liability reflected in the *Shapiro* court's search for "the right and ability to *supervise*."[64] Although *Shapiro* authorized the extension of vicarious liability beyond employer-employee relationships,[65] actual control requires evidence of "some continuing connection between the two [parties] in regard to the infringing activity."[66] Actual control requires more than the potential right to cease all activities undifferentiated from the infringement, the right to terminate other activities, or the effective ability to terminate only after infringement is evident.[67] This standard reinforces *Shapiro*'s location of the power to police infringement only where enforcement would be effective.[68] Thus, an actual-control standard does not extend liability to a defendant who could not take meaningful steps to prevent infringement.

*Demetriades v. Kaufmann*[69] considered the copying of architectural plans by a house developer and implicitly distinguished actual from mere potential control by emphasizing "meaningful evidence . . . of control over the direct infringers."[70] The court dismissed the vicarious-liability claim against a real estate broker who was the negotiating link between the infringing developer and the infringing purchaser of a lot, despite the broker's knowledge that the purchaser wanted the developer

62. *See, e.g.*, Banff, Ltd. v. Limited, Inc., 869 F. Supp. 1103, 1109 (S.D.N.Y. 1994); Ballon, *supra* note 61, at 748.

63. The doctrine of respondeat superior holds masters liable for their servants' torts committed in the scope of employment but excludes from liability the actions of an independent contractor. *See Restatement (Second) Agency* § 219(1) (1957).

64. Shapiro, Bernstein & Co. v. H.L. Green Co., 316 F.2d 304, 308 (2d Cir. 1963) (emphasis added).

65. *See id.* (holding that agency principles should override "technical" differences between employees and independent contractors); *see also* Nimmer & Nimmer, *supra* note 44, § 12.04[A][1], at 12–70 ("[V]icarious liability exceeds the traditional scope of the master-servant theory.").

66. *Banff*, 869 F. Supp. at 1110; *see also* Self, *supra* note 20, at 104.

67. *See* Fonovisa, Inc. v. Cherry Auction, Inc., 847 F. Supp. 1492, 1497 (E.D. Cal. 1994), *rev'd*, 76 F.3d 259, 264 (9th Cir. 1996).

68. *See Shapiro*, 316 F.2d at 308.

69. 690 F. Supp. 289 (S.D.N.Y. 1988).

70. *Id.* at 292.

to copy the plans in developing the lot.[71] Although the broker coordinated sales negotiations, the court found no meaningful evidence of ongoing control over either direct infringer.[72] The broker was perhaps in a better position than the copyright holder to deter infringement and liability might have prompted vigilance within the real estate community, but a position of potential prevention was insufficient without evidence of control over the infringers.[73]

The cost of policing can also preclude a finding of actual control. In *Artists Music, Inc. v. Reed Publishing, Inc.*,[74] copyright holders sued a trade-show organizer for the unauthorized performances of protected songs by vendors at the trade show.[75] The court granted summary judgment for the defendant, holding that "[t]he mere fact that they could have policed the exhibitors at great expense is insufficient to impose vicarious liability."[76] The court distinguished the possibility of policing based on contractual privity from actual participation in "how exhibitors conduct their business or even whether they use music at all."[77] The court implicitly identified the latter as the standard for the *Shapiro* test. In the court's estimation, the possibility of monitoring by the defendant did not sufficiently overcome the prohibitive costs associated with the actual ability to supervise so as to warrant liability.[78]

The actual-control standard also rejects any presumption of control based on the mere existence of a legal relationship. *Banff, Ltd. v. Limited, Inc.*,[79] held that vicarious liability attaches only when there is evidence of "some continuing connection . . . in regard to the infringing activity."[80] Although it relied on *Demetriades* and *Shapiro* to insulate a corporate parent from vicarious liability for the infringing actions of a subsidiary, the *Banff* court did not limit the analysis to the "alter ego" doctrine of

71. *See id.* at 291.
72. *See id.* at 292.
73. *See id.*
74. 31 U.S.P.Q. 2d 1623 (S.D.N.Y. 1994).
75. *See id.* at 1624.
76. *Id.* at 1627.
77. *Id.*
78. *See id.*
79. 869 F. Supp. 1103 (S.D.N.Y. 1994).
80. *Id.* at 1110.

corporate law[81] and explicitly refused to predicate liability on mere legal control.[82]

Recognizing the tension between *Artists Music*'s view of the requisite degree of control and *Shapiro*'s possible allowance for liability based on "the mere opportunity to supervise, without something more,"[83] the *Banff* court sought to clarify the control element of *Shapiro* based on three rationales. First, the court closely examined the "power to police" rationale of *Shapiro* and concluded that "the formal relationship between the parties is not the driving force behind liability."[84] Instead, the relationship must be sufficiently integrated to create a position to control the actual infringement.[85] Second, the court noted that while respondeat superior presumes control in an employment context, such a presumption is unreasonable in other relationships.[86] Given that the power to control is not the same as exercising control, the court required evidence of the latter in the form of continuing supervision.[87] Finally, the court construed the Second Circuit's application of the *Shapiro* test to a parent-subsidiary relationship[88] as an implicit endorsement of the actual-control standard.[89] *Banff* distinguished mere "potential to control" and concluded that vicarious liability requires a showing of prior exercise of control over the infringing activity itself.[90]

At least one circuit court has shared *Banff*'s limitation of actual control to supervision of the infringing activity. In *RCA/Ariola International, Inc. v. Thomas & Grayston Co.*,[91] the Eighth Circuit held the manufacturer of a duplicating machine vicariously liable for retailers'

81. *See id.* at 1106 (defining "alter ego" doctrine as parent's liability for subsidiary that is "mere instrumentality" of parent); *see also* Nimmer & Nimmer, *supra* note 44, § 12.04[A], at 12–67 n.11 (indicating that vicarious and corporate liability are distinct, and that vicarious liability is equally applicable to parent-subsidiary relationships).

82. *See Banff*, 869 F. Supp. at 1107 (rejecting *Broadcast Music, Inc. v. Hartmarx Corp.*, 9 U.S.P.Q. 2d 1561 (N.D. Ill. 1988) (holding legal relationship between parent and subsidiary always satisfied control prong for vicarious liability)).

83. *Banff*, 869 F. Supp. at 1108.

84. *Id.* at 1109.

85. *See id.*

86. *See id.*

87. *See id.* at 1109–10.

88. *See* Sygma Photo News, Inc. v. High Soc'y Magazine, Inc., 778 F.2d 89, 92 (2d Cir. 1985).

89. *See Banff*, 869 F. Supp. at 1110.

90. *See id.* The *Banff* court acknowledged that vicarious liability was a subsidiary issue in *Sygma*, which was more readily characterized as a corporate "alter ego" case. *See id.* at 1110 n.7.

91. 845 F.2d 773 (8th Cir. 1988).

making of unauthorized copies of sound recordings for their customers.[92] The defendant argued that it should not be held liable simply because it kept legal control by retaining title to the machines.[93] The court assuaged this concern by basing liability on letters the manufacturer had written to the Recording Industry Association of America confirming that the manufacturer was policing the use of the machines.[94] Vicarious liability also attached to the company president because he "instruct[ed retailers] on what uses of the copiers to permit."[95] Read in light of *Banff*, *RCA/Ariola* implicitly turned on meaningful evidence of an ongoing relationship between the defendant and the direct infringers with regard to the infringing activities.

### *B. The Expansive View: Legal Control*

In contrast to the close examination of the parties' relationship that characterizes the actual control approach, courts adopting the legal control approach assign liability to anyone in a position to police infringement.[96] This approach emphasizes vicarious liability as a tool to further the goals of copyright law.[97] Any evidence of legal control, via contract, agency, or even control unrelated to the infringement, opens the door to a finding of vicarious liability.[98] This broad reach has prompted some commentators to suggest that legal control reduces the control prong to a formality.[99]

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92. *See id.* at 781.

93. *See id.*

94. *See id.*

95. *Id.* at 782.

96. *See, e.g.*, Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc., 443 F.2d 1159, 1163 (2d Cir. 1971) (finding control where defendant was in "a position to police").

97. *See id.* at 1162; Polygram Int'l Publ'g, Inc. v. Nevada/TIG, Inc., 855 F. Supp. 1314, 1320 (D. Mass. 1994).

98. *See* Timothy L. Skelton, Comment, *Internet Copyright Infringement and Service Providers: The Case for a Negotiated Rulemaking Alternative*, 35 San Diego L. Rev. 219, 262–63 (1998).

99. *See, e.g.*, Daniel R. Cahoy, Comment, *New Legislation Regarding On-Line Service Provider Liability for Copyright Infringement: A Solution in Search of a Problem?* 38 IDEA 335, 348 (1998). This view approaches the strict liability for Internet service providers advocated by President William J. Clinton's Information Infrastructure Task Force in its 1995 "White Paper." *See* Information Infrastructure Task Force, *Intellectual Property and the National Information Infrastructure* 114–23 (1995).

In *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*,[100] the Second Circuit allowed the mere possibility of control to satisfy the *Shapiro* test. The *Gershwin* court conceded that the defendant, an organizer of a circuit of community concerts, "had no formal power to control either the local association or the artists for whom [the defendant] served as agent."[101] Nonetheless, the court reasoned that because the local community associations "depended upon [the defendant] for direction," the defendant was in a position to police the artists.[102] Arguably, the court could have found actual control in the fact that the defendant collected all song titles for publication in its programs and "deliberately made no effort to obtain copyright clearance."[103] Instead, the *Gershwin* court read *Shapiro* as requiring only mere contractual retention of the "ultimate right of supervision."[104]

A district court confronted with the same facts as *Artists Music* illustrated the breadth of the legal control test. In *Polygram International Publishing, Inc. v. Nevada/TIG, Inc.*,[105] the court adopted the *Gershwin* standard by basing liability on the possibility of control reserved by contract.[106] Similar to *Artists Music*, the *Polygram* court considered a complaint by copyright holders against a trade-show organizer for the unauthorized use of songs by booth operators.[107] In dicta thoroughly analyzing vicarious liability,[108] the court followed *Gershwin* by emphasizing "the defendant's ability to spread losses and police conduct within the enterprise."[109] Based on this risk-allocation analysis, which treats damages awarded under vicarious liability as "simply another cost of doing business," the court concluded that an affirmative finding of control would be justified when the third party could "veto" (or,

100. 443 F.2d 1159 (2d Cir. 1971).

101. *Id.* at 1163.

102. *Id.*

103. *Id.* at 1161.

104. *Id.* at 1162.

105. 855 F. Supp. 1314 (D. Mass. 1994).

106. *See id.* at 1328–29.

107. *See id.* at 1317.

108. *See id.* at 1318, 1324 (noting that because plaintiffs failed to offer sufficient evidence of direct infringement, entire discussion of vicarious liability is dicta, written in order to generate record for appeal); *see also* Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 262 (9th Cir. 1996) (calling *Polygram* "most recent and comprehensive discussion of the evolution of the doctrine of vicarious liability for copyright infringement").

109. *Polygram*, 855 F. Supp. at 1326.

conversely, authorize) the playing of any music "at all" (or sale of any product, or production of any item of commerce).[110] In short, the contractual ability to restrict all activities satisfied the control test. Evidence of such control lay in the defendant's reservation of the rights to prohibit music outright and to police the exhibitors, and in the defendant's employees ensuring compliance with rules regarding blocked aisles, food and drink, and construction of booths.[111]

### *C.* Fonovisa I *Versus* Fonovisa II*: The Control Debate in the Ninth Circuit*

The standards of legal and actual control collided in the two decisions of *Fonovisa, Inc. v. Cherry Auction, Inc*,[112] where the copyright holder sued a California swap meet,[113] alleging vicarious and contributory liability for the sale of pirated musical recordings on the swap meet premises.[114] Although the district court (*Fonovisa I*) found evidence of neither actual control nor direct financial benefit, and thus no vicarious liability,[115] the Ninth Circuit (*Fonovisa II*) reversed and adopted the legal-control standard.[116]

The district court held that the general right to deny market access to all vendors did not amount to the direct supervisory power seen in *Shapiro*.[117] The court read *Shapiro* as emphasizing "a priori supervisory power; that is, the power to supervise the direct infringers in the general course of business, e.g., what to sell, whom to hire, how much to charge."[118] The court distinguished evidence of actual supervision from the contractual "sovereignty" of all property owners over their tenants, lessees, and licensees.[119] Finding that the swap-meet-owners exercised

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110. *Id.* at 1325–26.

111. *See id.* at 1328–29.

112. 847 F. Supp. 1492 (E.D. Cal. 1994) (*Fonovisa I*), *rev'd*, 76 F.3d 259 (9th Cir. 1996) (*Fonovisa II*).

113. *See Fonovisa II*, 76 F.3d at 261 (noting swap meet is forum where customers purchase goods from independent vendors who pay rental fee to owner; customers pay entrance fee and parking to owner).

114. *See Fonovisa I*, 847 F. Supp. at 1495.

115. *See id.* at 1496–97.

116. *See Fonovisa II*, 76 F. 3d at 262–63.

117. *See Fonovisa I*, 847 F. Supp. at 1497.

118. *Id.*

119. *See id.*

the latter but not the former, the court determined that while "[t]his may be a posteriori supervision . . . this is not supervisory power in the context of vicarious infringement."[120] In reaching this conclusion, the court also reasoned that the swap meet, which did not hire the vendors but simply provided a forum for market interactions between third parties, created a relationship more analogous to the landlord and tenant relationship than the supervised-contractor relationship that the *Shapiro* court found similar to the dance-hall cases.[121]

Like *Gershwin* and *Polygram*, the district court also analyzed risk allocation.[122] Reaching the opposite conclusion from these courts, the *Fonovisa I* court read *Shapiro*'s incentive approach as requiring the power to police "carefully" for infringement and attaching liability only where such power can be "effectively exercised."[123] Because it only provided "bare" market space without ensuring the integrity of the goods or the market, the swap meet was not in the best position to monitor for copyright infringement.[124] Evidence suggested that the copyright holder was in the best position to protect its copyrights: the holder hired its own investigators and instigated sheriff's-department raids.[125] The court concluded that judicially allocating such costs to the market owner would render marginally profitable enterprises untenable without furthering *Shapiro*'s goal of preventing shell organizations from acting as liability shields.[126]

The Ninth Circuit rejected the district court's reasoning.[127] Focusing on the swap meet's vendor contracts, the court found that the owner reserved the right to block market access for any reason, including the ability to control the discrete activities of individual vendors.[128] In

120. *Id.*

121. *See id.*; *see also* Hard Rock Cafe Licensing Corp. v. Concession Serv., Inc., 955 F.2d 1143, 1150 n.4 (7th Cir. 1992) (noting in dicta that swap-meet owner accused of vicarious trademark infringement did not hire vendors and exercised "no more control over its tenants than any landlord concerned with the safety and convenience of visitors and of its tenants as a group").

122. Despite its similar facts and analysis, *Polygram* did not mention *Fonovisa I*, decided three months prior.

123. *Fonovisa I*, 847 F. Supp. at 1496; *see also Hard Rock*, 955 F.2d at 1150.

124. *See Fonovisa I*, 847 F. Supp. at 1497.

125. *See id.* n.2.

126. *See id.* at 1497.

127. *See* Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 262–63 (9th Cir. 1996) (*Fonovisa II*).

128. *See id.* at 262.

addition, the court gave significant weight to the swap meet's advertising and control of admission to the premises.[129] This evidence led the court to conclude that the indicia of control were "strikingly similar to those in *Shapiro* and *Gershwin*."[130]

*Fonovisa II* invoked the line of cases holding that legal control satisfies the *Shapiro* test. The court located the antecedents of this line of cases in the dance hall cases, explicitly rejecting the district court's landlord-tenant parallel.[131] As persuasive authority, *Fonovisa II* emphasized the "formal licensing agreement" in *Shapiro*,[132] accepted *Gershwin*'s finding of control based upon position to police,[133] and endorsed *Polygram*'s finding of control in the enforcement of non-copyright rules and regulations.[134] However, the court did not mention *Demetriades*, *Artists Music*, or *Banff*. Thus, in the Ninth Circuit, any degree of formal or legal control over the forum where copyright infringement is possible may satisfy the control prong of *Shapiro*, while in the Second Circuit, some degree of actual control of the infringing activity is necessary. Such a split in these circuits exacerbates the confusion over the control prong in the other circuits.[135] This split in authority also complicates *Shapiro*'s on-line application, which awaits decision at the circuit court level.

## III. *SHAPIRO* ON-LINE: CONTROL ON THE INTERNET

Not surprisingly, the control prong of *Shapiro* presents entirely new challenges to courts translating common law vicarious liability into the

129. *See id.*

130. *Id.*

131. *See id.*

132. *Id.*

133. *See id.* at 263.

134. *See id.*

135. *See* Hard Rock Cafe Licensing Corp. v. Concession Serv., Inc., 955 F.2d 1143, 1150 (7th Cir. 1992) (emphasizing actual control in dicta); Pinkham v. Sara Lee Corp., 983 F.2d 824, 834 (8th Cir. 1992) (finding vicarious liability on basis of actual control in corporate officers' approval of sales of infringing book); RCA/Ariola Int'l, Inc. v. Thomas & Grayston Co., 845 F.2d 773, 781 (8th Cir. 1988) (reaching vicarious liability based on actual control of infringing activity). *But see* Southern Bell Tel. & Tel. Co. v. Associated Tel. Directory Publishers, 756 F.2d 801, 811 (11th Cir. 1985) (finding company vicariously liable for acts of independent contractor); Famous Music Corp. v. Bay State Harness Horse Racing and Breeding Ass'n, 554 F.2d 1213, 1214 (1st Cir. 1977) (holding race track owner vicariously liable for infringing performances of independent contractor).

on-line environment.[136] The Internet has revolutionized the ease and extent of information dissemination, thereby greatly increasing the potential for copyright infringement.[137] The Internet also raises questions of categorization[138] that render the traditional analogies of vicarious liability awkward.[139] Furthermore, the on-line environment allows the immediate formation of innumerable, non-negotiated, contractual relationships, thus potentially affixing vicarious liability to many more entities than in a brick-and-mortar environment. Finally, the Internet's replacement of discrete transactions with simultaneous use of third-party networks and Web sites makes policing copyright on-line a wholly different matter from a dance hall owner's policing of an evening's entertainment.[140]

None of the few cases that have ruled on on-line vicarious liability in general have provided a definition of "control."[141] Courts have either avoided the question of control by finding a lack of financial benefit,[142] faced a stipulation of control by the defendant,[143] or avoided vicarious

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136. *See, e.g.*, David Nimmer, *Brains and Other Paraphernalia of the Digital Age*, 10 Harv. J. L. & Tech. 1, 34 (1996) (claiming vicarious liability threatens to "suffocat[e] the Net through the blind flailing of pre-cyberspace principles").

137. *See* Reno v. ACLU, 521 U.S. 844, 850 (1997) (indicating growth of Internet's reach); Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys., Inc., 180 F.3d 1072, 1073–74 (9th Cir. 1999) (detailing technological advances making Internet-based distribution of sound recordings easier).

138. *See Reno*, 521 U.S. at 851 (noting that Internet's "information retrieval methods . . . are constantly evolving and difficult to categorize precisely").

139. *See id.* at 853 (analogizing World Wide Web "to both a vast library including millions of readily available and indexed publications and a sprawling mall offering goods and services"); Alex Alben, *What is an On-Line Service? (In the Eyes of the Law)*, Computer Law., June 1996, at 1, 7 ("Specific web sites may be hybrids of the following elements: common carriers, kiosks, dance halls, libraries, cable public access channels, or even old-fashioned magazines . . . ."); Kenneth A. Walton, Note, *Is a Website Like a Flea Market Stall? How* Fonovisa v. Cherry Auction *Increases the Risk of Third-Party Copyright Infringement Liability for On-line Service Providers*, 19 Hastings Comm. & Ent. L.J. 921, 928 (1997) (noting uncertain placement of service providers along landlord/dance-hall continuum).

140. *See* Ballon, *supra* note 61, at 763.

141. *See* Jennifer E. Markiewicz, Comment, *Seeking Shelter from the MP3 Storm: How Far Does the Digital Millennium Copyright Act On-line Service Provider Liability Limitation Reach?*, 7 CommLaw Conspectus 423, 427 (1999).

142. *See* Marobie-FL, Inc. v. National Assoc. of Fire Equip. Distrib., 983 F. Supp. 1167, 1179 (N.D. Ill. 1997); Religious Tech. Ctr. v. Netcom On-Line Communication Servs., Inc., 907 F. Supp. 1361, 1377 (N.D. Cal. 1995).

143. *See* Playboy Enters., Inc. v. Webbworld, Inc., 968 F. Supp. 1171, 1177 (N.D. Tex. 1997) (finding vicarious liability where individuals conceded actual control over defendant corporation).

liability altogether by finding contributory liability.[144] Two leading decisions ruling on on-line vicarious liability have not clarified application of the control prong.[145]

In a case of first impression, the court in *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*,[146] found a genuine issue of fact regarding control but dismissed the vicarious liability claim on the financial-benefit prong.[147] Defendant Netcom provided Internet access to an operator of a bulletin board service (BBS),[148] a user of which posted copies of the plaintiff's copyrighted documents on the BBS.[149] Bifurcating the control prong into a conjunctive test of "right" and "ability," the court first cited Netcom's contractual terms and conditions with its subscribers as evidence of Netcom's right to control infringers' accounts.[150] The court then determined that Netcom had the ability to "delete specific postings," based upon its prior suspensions of more than 1000 accounts.[151] The court concluded that technology probably did not exist to give Netcom sufficient actual control to police for infringing activity.[152]

Similarly, in *Marobie-FL, Inc. v. National Assoc. of Fire Equipment Distributors*[153] (NAFED), the court granted summary judgment on a

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144. *See* Sega Enters., Ltd. v. MAPHIA, 948 F. Supp. 923, 933 (N.D. Cal. 1996); *see supra* note 44 (describing distinction between contributory and vicarious liability). Some commentators argue that contributory liability has rendered vicarious liability irrelevant in cases considering copyright infringement over the Internet. *See* David N. Weiskopf, *The Risks of Copyright Infringement on the Internet: A Practitioner's Guide*, 33 U.S.F. L. Rev. 1, 32 (1998); Cahoy, *supra* note 99, at 348; Markiewicz, *supra* note 141, at 432.

145. *See Netcom*, 907 F. Supp. at 1376; *Marobie*, 983 F. Supp. at 1179. The legislative history of the DMCA cites both of these cases in discussing benefit but not control. *See* H.R. Rep. 105-551, pt. 1, at 11, 25 (1998); S. Rep. 105-190, at 19 n.20 (1998).

146. 907 F. Supp. 1361 (N.D. Cal. 1995).

147. *See id.* at 1376–77.

148. *See* Philip E. Margolis, *Random House Webster's Computer & Internet Dictionary* 67 (3d ed. 1999) (defining "bulletin board system" as electronic message center where users can post messages and read messages posted by others).

149. *See Netcom*, 907 F. Supp at 1365–66.

150. *See id.* at 1375–76 (accepting also "netiquette," or custom and usage on Internet, as evidence of implicit control).

151. *See id.* at 1376.

152. *See id.* at 1376 n.23; *see also* Zeran v. America On-line, Inc., 129 F.3d 327, 331 (4th Cir. 1997) ("It would be impossible for service providers to screen each of their millions of postings for possible problems."); Lockheed Martin Corp. v. Network Solutions, Inc., 985 F. Supp. 949, 962 n.7 (C.D. Cal. 1997) (suggesting that Internet service providers are not vicariously liable for failing to monitor content of users' postings).

153. 983 F. Supp. 1167 (N.D. Ill. 1997).

vicarious-liability claim due to the defendant's lack of financial benefit.[154] The plaintiff created clip-art that defendant NAFED used on a Web page hosted by the defendant Internet-access-provider Northwest.[155] Although it found that evidence of control was unclear,[156] the court emphasized control over the contents of the offending Web page, as opposed to mere service access.[157] In its brief consideration of control, the court did not examine Northwest's contract with NAFED for any right to terminate NAFED's service.[158] To date, no circuit court has clarified the control prong's application to the Internet.

## IV. THE LINK BETWEEN THE DMCA AND THE BENEFIT AND CONTROL TEST OF COMMON LAW VICARIOUS LIABILITY

Congress passed the Online Copyright Liability Limitation Act (Title II of the DMCA) in part to clarify the liability of Internet service providers.[159] Such clarification included protection against direct, vicarious, and contributory infringement.[160] Addressing the needs of copyright holders, Congress made implementation of a baseline of security systems designed to ensure protection of copyright holders' interests a prerequisite of limited liability. The statutory requirements differ based upon the service provider's activity as it relates to the alleged infringement. Codified at 17 U.S.C. § 512, Title II limits qualifying service providers' exposure to secondary liability by permitting only injunctive relief, not monetary damages, for infringement.[161]

### *A. The Baseline of § 512's Safe Harbor Provisions*

Section 512 limits the extent of liability for on-line copyright infringement in four types of activity: transitory digital network

154. *See id.* at 1179.

155. *See id.* at 1171.

156. *See id.*

157. *See id.* at 1179.

158. *See id.*

159. *See* S. Rep. No. 105-190, at 8 (1998).

160. *See* H.R. Conf. Rep. No. 105-796, at 73 (1998), *reprinted in* 1998 U.S.C.C.A.N. 639, 649; *see also*, S. Rep. No. 105-190, at 40; H.R. Rep. No. 105-551, pt. 2, at 53 (1998).

161. *See, e.g.*, 17 U.S.C. §§ 512(c)(1), (j) (Supp. IV 1999).

communications,[162] system caching,[163] user storage,[164] and information location.[165] These safe harbors offer affirmative defenses to monetary damages once a court finds a service provider vicariously liable for copyright infringement.[166] While § 512 defines "service provider" broadly,[167] all service providers seeking protection from monetary liability for any of the four types of activity must meet common statutory requirements. Section 512(i) requires service providers seeking protection to subject all users to a standard policy that allows the termination of the accounts or subscriptions of repeat infringers.[168] This section also requires the service provider to accommodate future security measures as they become available.[169] In turn, the first four subsections of § 512[170] impose separate requirements depending upon the type of activity conducted by the service provider. This Comment examines the user-storage safe harbor of § 512(c), because this safe harbor will likely become the DMCA protection most sought after by interactive, commercial Web sites.[171]

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162. *See* 17 U.S.C. § 512(a) (Supp. IV 1999).

163. *See* 17 U.S.C. § 512(b) (Supp. IV 1999).

164. *See* 17 U.S.C. § 512(c) (Supp. IV 1999).

165. *See* 17 U.S.C. § 512(d) (Supp. IV 1999).

166. H.R. Conf. Rep. No. 105-796, at 73 (1998), *reprinted in* 1998 U.S.C.C.A.N. 639, 649.

167. The DMCA defines "service provider" as "a provider of on-line services or network access, or the operator of facilities therefor," and includes an entity offering the transmission, routing, or providing of connections for digital on-line communications. 17 U.S.C. § 512(k)(1)(A)–(B) (Supp. IV 1999). Several commentators have observed the breadth of this definition. *See, e.g.*, Elizabeth A. McNamara et al., *On-line Service Provider Liability Under the Digital Millennium Copyright Act*, Comm. Law., Fall 1999, at 5, 6 (noting "definition is broad enough to potentially include employers that provide e-mail accounts to their employees and other entities—including newspapers, magazines, and other media companies—that simply host informational Web sites"); Markiewicz, *supra* note 141, at 436 (noting that definition "appears to include any business that may operate a web site or other internet services or facilities, including private network 'intranets'"). Many Web site operators appear to believe that their operations fit within the definition. *See* U.S. Copyright Office, *Directory of Service Provider Agents for Notification of Claims of Infringement* (visited May 11, 2000) <http://lcweb.loc.gov/copyright/on-linesp/list/index.html> (listing, inter alia, Amazon.com and eBay Inc.). To date, only one court has considered this definition, and it assumed, without holding, that the Napster system for sharing music over the Internet was a service provider under the stringent definition of service provider at § 512(k)(1)(A). *See* A & M Records, Inc. v. Napster, Inc., 54 U.S.P.Q. 2d 1746,1749 n.5 (N.D. Cal. 2000).

168. *See* 17 U.S.C. § 512(i)(1)(A) (Supp. IV 1999).

169. *See* 17 U.S.C. § 512(i)(1)(B) (Supp. IV 1999)

170. *See supra* notes 162–65 and accompanying text.

171. The first case to consider any safe harbor under the DMCA ruled that the defendant did not qualify for the "routing and transmission" safe harbor of § 512(a). *See Napster*, 54 U.S.P.Q. 2d at 1752. The court did not rule on any other safe harbors, although it noted that § 512(d) might be

## B. *Section 512(c): The User-Storage Limitation*

Section 512(c) should appeal to interactive Web sites, including on-line auction sites, because it implicates activities that allow users to post copyrighted material on-line, for sale or otherwise.[172] This safe harbor limits liability for "infringement of copyright by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider."[173] Protection against liability under the user storage limitation requires a service provider to implement a "notice and takedown" procedure by which the service provider can remove infringing material upon notice from a copyright holder[174] and to designate an agent whom copyright holders can contact with claims of infringement.[175] In addition, § 512(c)(1)(B) makes the user-storage safe harbor available only if the service provider "does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity."[176] By apparently codifying the language of the *Shapiro* test for vicarious liability for copyright infringement, this last requirement highlights the DMCA's attempt to mediate the conflict between technological change and established judicial doctrine.[177] The success of this mediation turns upon judicial interpretation of the statutory, common law, and technological definitions of "control."

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applicable and under § 512(n) the safe harbors operate independently. *See id.* at 1750–51. At the time this Comment went to press, the *Napster* court had not ruled on the defendant's qualification for any other safe harbor. In Universal City Studios, Inc. v. Reimerdes, 82 F. Supp. 2d 211 (S.D.N.Y. 2000), a defendant sought the protection of the § 512(c) safe-harbor, but the court noted that the plaintiffs were not alleging copyright infringement so the safe-harbor provisions of the DMCA were inapplicable. *See Reimerdes*, 82 F. Supp. 2d at 217.

172. *See* 17 U.S.C. § 512(c) (Supp. IV 1999). Section 512(d) covers information location tools, which are also of interest to most Web sites. *See* 17 U.S.C. § 512(d) (Supp. IV 1998). Significantly, § 512(d) imposes the same requirements for safe harbor as § 512(c). *See* 17 U.S.C. § 512(d)(1)–(3).

173. 17 U.S.C. § 512(c)(1).

174. *See* 17 U.S.C. § 512(c)(1)(C). Two other safe harbors require notice and takedown provisions as well. *See* 17 U.S.C. § 512(b)(2)(E) (Supp. IV 1999) (addressing system caching); 17 U.S.C. § 512(d)(3) (addressing information-location tools).

175. *See* 17 U.S.C. § 512(c)(2).

176. 17 U.S.C. § 512(c)(1)(B).

177. *See* H.R. Rep. 105-551, pt. 1, at 11 (1998); S. Rep. 105-190, at 2 (1998).

## V. INTERPRETING COURTS SHOULD READ ACTUAL CONTROL INTO 17 U.S.C. § 512(c)(1)(B)

The text, structure, and history of Title II support reading an actual-control standard into 17 U.S.C. § 512(c)(1)(B). A standard requiring "some continuing connection . . . in regard to the infringing activity"[178] would allow courts to preserve the user-storage safe harbor for some service providers found vicariously liable. This construction would harmonize vicarious liability for copyright infringement with statutory limits on liability. An actual-control standard would avoid structural conflict by requiring a showing of control that exceeds the legal control required by § 512's other prerequisites.[179] This standard would also allow courts to heed congressional intent not to overhaul vicarious liability while encouraging the growth of the Internet in limited-liability zones.[180] Finally, an actual-control standard will result in a net increase in effective monitoring for copyright infringement.

### A. *An Actual-Control Standard Can Preserve Safe Harbors for Service Providers Found Vicariously Liable*

Predicating removal from the user-storage safe harbor under § 512(c)(1)(B) on a finding of actual control, as contemplated by *Banff, Ltd. v. Limited, Inc.*,[181] would allow courts to reconcile this safe harbor with common law vicarious liability. This approach would follow *Demetriades v. Kauffman*'s refinement of the *Shapiro, Bernstein & Co. v. H.L. Green Co.* test, in seeking "meaningful evidence"[182] of "the power to police *carefully*."[183] Such evidence would exist in decisions, regulations, and procedures structuring the infringing activity as distinct from other activities. An actual-control standard would also follow *Artists Music, Inc. v. Reed Publishing, Inc.* in weighing the costs of surveillance[184] and attach responsibility only "where it can and should be

178. Banff, Ltd. v. Limited, Inc., 869 F. Supp. 1103, 1110 (S.D.N.Y. 1994).

179. *See* Ian C. Ballon, *E-Commerce and Internet Law* § 8.12[6][C] (forthcoming 2000) (manuscript at 8–140).

180. *See* S. Rep. No. 105-190, at 8 (1998).

181. *See* 869 F. Supp. at 1110.

182. Demetriades v. Kauffman, 690 F. Supp. 289, 292 (S.D.N.Y 1988).

183. Shapiro, Bernstein & Co. v. H.L. Green Co., 316 F.2d 304, 308 (2d Cir. 1963).

184. 31 U.S.P.Q. 2d 1623, 1627 (S.D.N.Y. 1994).

effectively exercised."[185] The clearest example of effective exercise would lie in the supervision seen in *RCA/Ariola International, Inc. v. Thomas & Grayston.*[186] Consideration of such evidence would allow courts to employ both vicarious liability and statutory protection.

An actual-control standard would clarify service provider liability while leaving vicarious liability unaffected. Because Title II's safe harbors act as shields from liability for monetary damages after a court has found a service provider liable,[187] courts should be able to identify three types of control in order to reconcile vicarious liability and § 512(c)(1)(B): (1) a complete lack of control precluding a finding of vicarious liability, (2) a degree of control that supports a finding of vicarious liability but does not remove the service provider from the statutory safe harbor, and (3) control that results in a finding of vicarious liability and satisfies § 512(c)(1)(B) so as to prompt an inquiry into financial benefit. The first type does not implicate the DMCA because it does not establish liability. Reading the second type as legal control allows the operation of both common law doctrine and statutory protection, while the third defines a type of control that jeopardizes the user-storage safe harbor in all circuit courts. This approach would leave unchanged the application of *Shapiro*—with either a legal- or actual-control standard—to all defendants, while protecting on-line service providers exercising only legal control over user storage.

Judicial clarification of control would be particularly helpful to service providers, such as eBay, that receive revenue based on a percentage of the sale between two parties.[188] Whether these entities qualify for safe-harbor protection would seem to hinge upon the control prong of vicarious liability. Because a percentage of the final sale would satisfy the benefit prong, any showing of control would expose the entity to liability for infringement on its site and remove it from the DMCA safe harbor. EBay's perceived disincentive to monitoring reflects this fear of evidencing control.[189]

Judicial clarification of § 512(c) would alleviate concerns such as eBay's. Infringement in the context of an on-line auction would most

185. *Shapiro*, 316 F.2d at 308.

186. 845 F.2d 773, 781 (8th Cir. 1988).

187. *See supra* note 166 and accompanying text.

188. *See* eBay Seller Guide, *supra* note 10.

189. *See* Richtel, *supra* note 3 and accompanying text.

likely entail unauthorized distribution.[190] Actual control could be found in any involvement by the auction site in deciding what, where, how, or for what price to sell.[191] As a forum for market transactions, the auction site generally would maintain only legal control to remove items upon notification of infringement. With notification the primary means of discovering infringement, an auction site would not be in a meaningful position to remove infringing items until after such notification. Thus, an entity like an auction service would have to engage in something more than its normal business to jeopardize the limitation on liability under § 512(c)(1)(B).

### B. *The Structure of § 512 Supports an Actual-Control Construction Because Reading Legal Control into the Statute Would Render Statutory Language Superfluous*

Judicial deference to the plain meaning of § 512(c)(1)(B) would create an irreparable statutory conflict. Interpretation of this section as codifying the legal-control standard of *Fonovisa Inc. v. Cherry Auction, Inc.*, (*Fonovisa II*)[192] would produce a similar result. Preclusion of safe harbor protection for vicariously liable service providers would render § 512(c)(1)(B) ambiguous. Furthermore, because *Fonovisa II* approximates control otherwise required by § 512, adoption of the legal-control standard would strip the concluding phrase of § 512(c)(1)(B) ("in a case in which the service provider has the right and ability to control such activity") of all significance. Either approach would do damage to the text of the DMCA.

Were a court to hold that the plain meaning of § 512(c)(1)(B) merely codifies vicarious liability,[193] no vicariously liable service provider would qualify for the user-storage safe harbor.[194] Section 512 precludes

190. While the direct infringer might be liable for unauthorized duplication per 17 U.S.C. § 106(1), sale at an on-line auction would implicate the right to distribute of 17 U.S.C. § 106(3). *See* H.R. Rep. 105-551, pt. 2, at 53 (1998) ("The term 'activity' is intended . . . to refer to wrongful activity that is occurring at the site on the provider's system or network at which the material resides . . . .").

191. *See* Fonovisa, Inc. v. Cherry Auction, Inc., 847 F. Supp. 1492, 1496 (E.D. Cal. 1994) (*Fonovia I*), *rev'd*, 76 F.3d 259 (9th Cir. 1996) (*Fonovisa II*).

192. 76 F.3d 259, 262–63 (9th Cir. 1996).

193. *See* Nimmer & Nimmer, *supra* note 44, § 12B.04[A][2], at 12B-36 (claiming that § 512(c)(1)(B) codifies vicarious liability).

194. *See* Ballon, *supra* note 179, § 8.12[6][C] (manuscript at 8–140).

monetary liability after a service provider has been found liable.[195] By judicial definition, a vicariously liable service provider will already have been found to exercise control over, and receive direct financial benefit from, the infringing activity.[196] An interpretation that § 512(c)(1)(B) merely codifies vicarious liability without distinguishing standards of control would mean that only a service provider that either had no ability to control or received no benefit would be able to take advantage of the safe harbor. Such a service provider, however, would not need a safe harbor from monetary damages because no court would have found it vicariously liable. One commentator has noted that "[i]t is certainly not beyond the realm of possibility that Congress ultimately enacted a much-trumpeted liability limitation that in fact provides only modest benefits (if any) for most Service Providers."[197] However, a purported liability limitation that does not limit liability would result in an unintended absurdity precluding a plain meaning approach to construction even for the most rigid textualists.[198]

Furthermore, the prerequisites for safe-harbor protection under sections 512(i) and (c) satisfy the standard of legal control over potential infringers. Section 512(i) mandates that a service provider seeking any safe-harbor protection must maintain the contractual right to terminate the accounts of its users.[199] Similarly, *Fonovisa II* interpreted *Shapiro, Bernstein & Co. v. H.L. Green Co.*[200] as requiring only contractual control over the direct infringement to establish vicarious liability.[201] Therefore, a legal-control reading of § 512(c)(1)(B) would mean that compliance with § 512(i) would violate the *Fonovisa II* standard. There could be no control that would satisfy *Fonovisa II* yet qualify for safe-harbor protection under § 512(c).[202] In addition, compliance with the

195. *See* H.R. Conf. Rep. No. 105-796, at 73, *reprinted in* 1998 U.S.C.C.A.N 639, 649; *see also* The Digital Millennium Copyright Act of 1998: U.S. Copyright Office Summary, at 9 (visited Feb. 26, 2000) <http://lcweb.loc.gov/copyright/legislation/dmca.pdf>.

196. *See* Shapiro, Bernstein & Co. v. H.L. Green Co., 316 F.2d 304, 307 (2d Cir. 1963).

197. Ballon, *supra* note 179, § 8.12[6][C] (manuscript at 8–140).

198. *See* William N. Eskridge, Jr., *Dynamic Statutory Interpretation* 45–46 (1994).

199. *See* 17 U.S.C. § 512(i) (Supp. IV 1999).

200. 316 F.2d 304 (2d Cir. 1963).

201. *See* Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 262 (9th Cir. 1996) (*Fonovisa II*); *supra* note 132 and accompanying text.

202. *See* Walton, *supra* note 139, at 943 ("*Fonovisa* [*II*] 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.").

"designated agent" requirement of § 512(c)(2)[203] would provide sufficient evidence of control under the analysis in *Gershwin Publishing Corp. v. Columbia Artists Management*,[204] which found control based on the defendant's position to police the infringing activity,[205] for a designated agent would occupy such a position. Finally, the "notice and takedown" procedure of § 512(c)(1)(C)[206] falls within the veto power over all activity that might otherwise include infringement cited by *Polygram International Publishing, Inc. v. Nevada/TIG, Inc.*[207] as evidence of control.[208]

Therefore, reading legal control into § 512(c)(1)(B) produces a fatal structural conflict. If a court construes § 512(c)(1)(B) as coterminous with the legal-control standard of *Fonovisa II*, the phrase "in a case in which the service provider has the right and ability to control such activity"[209] becomes superfluous because every qualifying service provider would be such a case.[210] The requirements of § 512 would negate control as a test for safe-harbor protection under § 512(c)(1)(B) and direct financial benefit would become the sole determinant of safe-arbor protection. It is possible that Congress simply meant for § 512(c)(1)(B) to adopt the *Netcom/Marobie* exemption from direct financial benefit for "flat fee" arrangements,[211] thus making financial benefit the sole indicator of safe harbor preclusion. Giving effect to this possible intent, however, would also render superfluous the control phrase of § 512(c)(1)(B), while ignoring e-commerce models like eBay

203. 17 U.S.C. § 512(c)(2) (Supp. IV 1999).

204. 443 F.2d 1159 (2d Cir. 1971).

205. *See id.* at 1163; *supra* note 133 and accompanying text.

206. 17 U.S.C. § 512(c)(1)(C) (Supp. IV 1999).

207. 855 F. Supp. 1314 (D. Mass. 1994).

208. *See id.* at 1326; *supra* note 110 and accompanying text.

209. 17 U.S.C. § 512(c)(1)(B) (Supp. IV 1999).

210. *See* Ballon, *supra* note 179, § 8.12[6][C], (manuscript at 8–139).

211. *See* H.R. Rep. No. 105-551, pt. 1, at 25 (1998) (stating that test for financial benefit contemplated by § 512(c)(1)(B) is found in Marobie-FL, Inc. v. National Assoc. of Fire Equip. Distrib., 983 F. Supp. 1167 (N.D. Ill. 1997)). Marobie-FL, Inc. v. National Assoc. of Fire Equip. Distrib., 983 F. Supp. 1167 (N.D. Ill. 1997) distinguished flat fees and percentage-based fee structures, with the former not satisfying the *Shapiro* "direct financial benefit" prong. *See* 983 F. Supp. at 1179. However, the *Fonovisa II* court held that flat fees and indirect benefit satisfy the benefit prong of the *Shapiro* test. *See* Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 263 (9th Cir. 1996) (*Fonovisa II*). Under either approach, § 512(c)(1)(B) requires a benefit analysis after a service provider has been found vicariously liable. *See* 17 U.S.C. § 512(c)(1)(B).

that receive a direct percentage of a third-party transaction yet exercise little or no actual control over each sale.

A principal canon of statutory interpretation, however, cautions against rendering statutory language superfluous or unnecessary.[212] Requiring evidence of actual control for removal from the user-storage safe harbor under § 512(c)(1)(B) would eliminate structural conflict within § 512 by preserving the control language of § 512(c)(1)(B). Courts could denominate a class of service providers that is in compliance with the statutory baseline of control in §§ 512(c) and (i) yet does not exercise sufficient control over the infringer to jeopardize safe-harbor protection. Only actual control plus direct financial benefit would remove a service provider's liability limitation.[213] Service providers that exercised only legal control, regardless of financial benefit, would remain eligible for the liability limitation because § 512(c)(1)(B) would retain the conjunctive test of benefit and control for removal from the safe harbor. Reading actual control into § 512(c)(1)(B) would do the least damage to the statute.

### C. *Legislative History Tips the Scale Toward an Actual-Control Standard*

Even though the DMCA does not explicitly acknowledge a distinction between legal and actual control, the legislative history suggests allowing for some control that would not preclude safe-harbor limitation. Furthermore, the committee reports leave no doubt that Congress intended to provide some relief from vicarious liability. A reading of § 512(c)(1)(B) that forecloses the availability of protection to a vicarious infringer contradicts this intent.

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212. *See* Eskridge, *supra* note 198, at 324 (citing Kungys v. United States, 485 U.S. 759, 778 (1988)).

213. This reading of § 512(c)(1)(B) would create four classes of vicariously liable service providers, assuming a court were to follow *Fonovisa II* and allow indirect benefits (flat fees or advertising, for example) to satisfy the *Shapiro* benefit prong. *See Fonovisa*, 76 F. 3d at 263 (*Fonovisa II*). The classes would be: (1) legal control plus indirect benefit (safe harbor), (2) legal control plus direct benefit (safe harbor), (3) actual control plus indirect benefit (safe harbor), (4) actual control plus direct benefit (no safe harbor).

### 1. *House Committee Reports Support an Actual-Control Construction of § 512(c)(1)(B)*

The Report of the House Conference Committee contemplates a degree of active control that would not jeopardize a service provider's safe harbor.[214] The committee indicated, "courts should not conclude that the service provider loses eligibility for limitations on liability under section 512 solely because it engaged in a monitoring program."[215] Whether monitoring plus direct financial benefit would amount to control that precludes safe harbor is unclear. Nonetheless, this report suggests that some degree of service-provider control should not preclude a limitation on liability.[216]

The only explicit reference to the control prong of *Shapiro* in the legislative history of the DMCA rejects a formalistic approach to control. The House Judiciary Committee stated:

> The "right and ability to control" language in Subparagraph (B) codifies the second element of vicarious liability. It is not intended to limit this element purely to formal indicia of control such as the presence or absence of a contractual provision. Rather, Subparagraph (B) is intended to preserve existing case law that examines all relevant aspects of the relationship between the primary and secondary infringer.[217]

Despite the apparent conflict with the Senate Judiciary Committee's disavowal of any "wholesale clarification" of vicarious liability,[218] this passage complements the Senate report by suggesting the type of inquiry that could preserve a safe-harbor defense for a service provider that had already been found vicariously liable for copyright infringement. Disavowing "formal indicia of control," this inquiry rejects the "right to terminate . . . for any reason whatsoever" standard of *Fonovisa II*.[219]

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214. *See* H.R. Conf. Rep. No. 105-796, at 73 (1998), *reprinted in* 1998 U.S.C.C.A.N. 639, 649.

215. *Id.* at 73, *reprinted in* 1998 U.S.C.C.A.N. at 649.

216. *See* Ballon, *supra* note 179, §8.12[6][C] (manuscript at 8–141) ("[I]t may be inferred that a Service Provider may not be found to have 'the . . . ability to control . . .' an act of infringement merely because it monitors content on-line." (quoting 17 U.S.C. § 512(c)(1)(B) (Supp. IV 1999))).

217. H.R. Rep. No. 105-551, pt. 1, at 26 (1998).

218. S. Rep. No. 105-190, at 19 (1998).

219. Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 262 (9th Cir. 1996) (*Fonovisa II*).

### 2. *Congress Intended to Provide Safe Harbor from Vicarious Liability*

Three separate committees explicitly reported that Title II is intended to "protect qualifying service providers from liability for all monetary relief for direct, vicarious and contributory infringement."[220] Furthermore, the legislative history suggests an intention to leave common law vicarious liability unaltered while codifying something more than mere legal control as the prerequisite for preclusion of a safe-harbor defense.[221] The Senate Judiciary Committee stated that, "[it] decided to leave current law in its evolving state and, instead, to create a series of 'safe harbors' for certain common activities of service providers."[222] While a court could still find an on-line auction site (or any other service provider) vicariously liable using either a legal- or actual-control standard, it should preserve some mechanism to acknowledge this congressional intent to allow for a safe-harbor limit on vicarious liability.

## D. *An Actual-Control Standard Provides Maximum Incentives to Monitor for On-line Copyright Infringement*

Even though the DMCA neither requires a service provider to monitor its service to qualify for a safe harbor from monetary liability[223] nor provides any incentives to monitor, any construction of the user-storage safe harbor should avoid disincentives to monitoring in order to maximize copyright protection. Reading a legal standard of control into § 512(c)(1)(B) would produce both facial disincentives to monitoring and actual disincentives because courts could preclude vicariously liable service providers from safe-harbor protection altogether based on their monitoring activities. Conversely, an actual-control standard would allow monitoring for infringement without exposure to monetary liability. Absent any continuing connection directly related to the infringing activity, an entity such as eBay would be free to monitor its site without the disincentive of potential monetary liability.

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220. H.R. Conf. Rep. No. 105-796, at 73, *reprinted in* 1998 U.S.C.C.A.N. at 649; S. Rep. No. 105-190, at 40; *see also* H. R. Rep. No. 105-551, pt. 2, at 53.

221. *See* S. Rep. No. 105-190, at 19.

222. *Id.*

223. *See* 17 U.S.C. § 512(m) (Supp. IV 1999).

Congress did not intend Title II to discourage monitoring by service providers.[224] Instead, in Title II Congress contemplated "strong incentives for service providers and copyright owners *to cooperate to detect and deal with* copyright infringements that take place in the digital networked environment."[225] Because the clearest incentive to service providers is to spur action upon notification of the presence of infringing material,[226] Title II shifts the burden of monitoring for infringement to copyright owners. This approach marks a significant retreat from the risk-allocation approach of *Polygram*, where vicarious liability was treated as "simply another cost of doing business."[227] Such a retreat is not unreasonable, however, given that the notice and takedown provision of § 512(c)(1)(C)[228] allows copyright owners to have "infringing content removed from the Internet [quickly and inexpensively]."[229] At the very least, construction of § 512(c)(1)(B) should not produce disincentives to monitoring.

Yet the plain language of § 512(c) does suggest such disincentives for a service provider that receives a direct financial benefit from potentially infringing activity but whose business model minimizes control. With financial benefit a given, safe-harbor protection would turn on control, and any evidence of legal control could expose the service provider to full monetary liability. Seeking to avoid any evidence of control, the service provider could avoid monitoring its site altogether.

Judicial preclusion of safe-harbor protection for such entities by addressing them under traditional vicarious liability would also provide disincentives to monitoring. For an entity like eBay that receives up to half a million postings per day, monitoring, even if physically possible, would be prohibitively expensive under such a de facto strict-liability standard.[230] Thus, an on-line auction would face three options: (1) monitor as best as possible, (2) refuse to monitor and treat liability as

224. *See* H.R. Conf. Rep. No. 105-796, at 73, *reprinted in* U.S.C.C.A.N. at 649.

225. H.R. Conf. Rep. No. 105-796, at 72, *reprinted in* U.S.C.C.A.N. at 649 (emphasis added).

226. *See* Christian C. M. Beams, Note, *The Copyright Dilemma Involving On-line Service Providers: Problem Solved... For Now*, 51 Fed. Comm. L.J. 823, 846 (1999).

227. Polygram Int'l Publ'g, Inc. v. Nevada/TIG, Inc., 855 F. Supp. 1314, 1325–26 (D. Mass. 1994).

228. *See supra* note 174 and accompanying text.

229. Ballon, *supra* note 179, § 8.12[1] (manuscript at 8–126).

230. *See* Skelton, *supra* note 98, at 274 (noting that effective monitoring for infringement requires: (1) identifying potential infringement, (2) making legal decision about violation of exclusive rights, and (3) making further legal decision about potential fair use).

"simply another cost of doing business," or (3) prohibit the sale of any item that could potentially infringe copyright.

None of these options would increase market efficiency, and on-line auctions would still face the uncertainty of divergent liability standards in different circuits despite Congress's intent to provide certainty.[231] The first option would be the least attractive, because an auction would incur costs of both monitoring and liability. Unprotected monitoring would still expose the auction site to vicarious liability for any missed infringement, while the prohibitive costs of absolute monitoring would render every surveillance system imperfect. The second option would arguably produce no net market loss aside from the high transaction costs of litigation, because the service provider would simply compensate the copyright owner for lost sales.[232] However, only sufficiently steep statutory penalties would prevent a general disregard of copyright law.[233] Otherwise, infringement would become an accepted part of doing business. Finally, the third option would result in a net economic loss because a desirable activity (the buying and selling of all copyrightable expression in an auction market) would be eliminated. In addition, all three of these options would deny copyright holders the "valuable extra-judicial remedies" provided by the notice and takedown procedure of § 512(c)(1)(C).[234]

Only a reading of actual control as the predicate to the loss of limited liability for vicarious infringement will not discourage monitoring. While it requires some control, monitoring should not implicate a "continuing connection . . . in regard to the infringing activity."[235] Absent the threat of safe-harbor preclusion, service providers could readily supplement the notice and takedown safeguard with an active monitoring program, thereby maximizing detection of infringement. Although this solution requires more active monitoring by copyright holders in order to fulfill the notice procedures of § 512(c)(1)(C), it is arguable that copyright holders are in a better position to police infringement at a lower cost,[236]

231. *See* S. Rep. No. 105-190, at 8 (1998).

232. *See* 17 U.S.C. § 504(b) (1994) (providing actual damages and profits from infringement).

233. *See* 17 U.S.C. § 504(c) (1994) (providing statutory damages up to $100,000 for willful infringement only).

234. Ballon, *supra* note 179, § 8.12[1] (manuscript at 8–126).

235. Banff, Ltd. v. Limited, Inc., 869 F. Supp. 1103, 1110 (S.D.N.Y. 1994).

236. *See* Skelton, *supra* note 98, at 289–99 (surveying content providers' superior technological ability to monitor).

particularly given the cost-effectiveness of the notice and takedown procedure.[237] In sum, because the overall cost to the market of policing would diminish as cooperation between copyright holders and service providers would prevent more infringement at less cost, reading actual control into § 512(c)(1)(B) would most likely produce the greatest market efficiency.

## VI. CONCLUSION

Technology challenges conventional definitions of control. While all digital transactions are susceptible to control, the sheer volume of transactions over a server or Web site at any given time belies the efficacy of such control. Yet courts are unlikely to abandon vicarious liability as a tool for enforcing copyright over the Internet. Four arguments favor reading actual control into the safe-harbor preclusion of 17 U.S.C. § 512(c)(1)(B).

First, an actual-control standard would leave unchanged the application of the two-part test for vicarious liability to all defendants, while offering a liability limitation for on-line service providers. The user-storage safe harbor would thus operate as a congressionally mandated, technology-specific exception to common law liability. Second, the structure of § 512 suggests an actual-control standard. All service providers in compliance with § 512's requirements would have the right and ability to control infringement, so reading legal control into § 512(c)(1)(B) would render the control clause superfluous by making direct financial benefit the sole determinant of preclusion. Third, the legislative history of § 512 supports an actual-control standard that would leave room for voluntary monitoring programs. Finally, an actual-control standard clarifies service provider liability without impeding voluntary monitoring. If only a continuing connection directly related to the infringing activity would jeopardize the safe harbor, monitoring alone would not be dispositive. This approach would preserve the incentive to monitor that animates the doctrine of vicarious liability. These rationales indicate that an actual-control standard would contribute textual and economic certainty to the DMCA's mediation of judicial doctrine and technological innovation.

237. *See* Ballon, *supra* note 179, § 8.12[1] (manuscript at 8–126).