

Testimony of
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Vice Chairman, Intellectual Property Committee
IEEE-USA
July 22, 2004

Mr. Chairman and Distinguished Members of the Committee:

I am honored to submit information on behalf of the Institute of Electrical and Electronics Engineers - United States of America concerning the implications of S. 2560 with respect to technological innovation and American Competitiveness.

IEEE-USA advances the public good and promotes the careers and public policy interests of the more than 225,000 technology professionals who are U.S. members of the IEEE. To that end, IEEE-USA supports our nation's prosperity and competitiveness by fostering technological innovation and promoting U.S. industry for the benefit of all. IEEE-USA is dedicated to promoting sound technology and public policy.

U.S. IEEE members serve on the "front line" of the U.S. Copyright and Patent System. Our members include inventors and software authors who create and use cutting-edge technology, who research and publish professional articles and journals, and who develop published standards that are the basis for widely adopted and critical technologies. They are the entrepreneurs and employees of firms that acquire, license and market the copyrighted product of those activities. For these reasons, IEEE-USA is deeply concerned that sufficient incentive be given to inventors and authors to innovate and write without unduly chilling the creation and development of non-infringing technology and improvements.

IEEE-USA has a compelling interest to ensure that copyright law comports with the principles set forth by the Founders in the U.S. Constitution, to promote the progress of sciences and the useful arts. Copyright law intimately affects the practices and advice that engineers give, and IEEE-USA respectfully suggests that the law enacted by Congress should not only promote progress, but should be comprehensible and practical for the professionals who provide that progress.

U.S. IEEE members are content owners and technologists alike, as well as members of the public. And so, IEEE-USA does not so much stand for any of these interests alone, as it does for all of them. Because promotion of progress requires a delicate balancing between those interests, IEEE-USA speaks, rather, for the balance itself, in the interest of our content makers, technologists and society as a whole.

As Abraham Lincoln noted, intellectual property laws serve to "add the fuel of interest to the fire of genius." However, that interest must not be so great, either in fact or because of uncertainty in its scope, as to grant authors control over any technology that may incidentally be used to infringe upon a work. Such technology regulation will unnecessarily stifle innovation and progress, and with it, the jobs and prosperity it would bring. For these reasons, IEEE-USA believes that it should not be indirect infringement of a copyright to manufacture, distribute or

provide a hardware or software product or process that is capable of enabling substantial non-infringing use of a copyrighted work, unless the manufacturer, distributor or maker actively induces the infringement of a copyrighted work by another. By doing so, the well-established balance between proper incentives for copyright owners and protecting technological innovations from undue regulation can be maintained.

IEEE-USA believes that Senators Hatch and Leahy and their honorable cosponsors have spotlighted a valuable approach to a knotty problem in current copyright law with S. 2560. Nevertheless, IEEE has significant concerns about whether the language of S. 2560, as introduced, both reaches the goals and achieves the balance of interests that we believe bill's drafters were aiming for; with these reservations in mind, our testimony offers a substitute proposal that we think comes closer to achieving the aims of the bill's authors and sponsors, and we respectfully offer that alternative in an appendix.

Promoting Progress Of Science and Useful Arts
Requires a Delicate Balance Between Interests of
Copyright Owners and Technologist

Charged by the Copyright Clause, Congress crafted a Copyright system to promote the progress of science by granting authors exclusive and limited rights to their writings, together with powerful remedies under law to enforce those rights. Congress has also been mindful that granting rights to an individual has societal costs as well.

Accordingly, Congress carefully circumscribed the scope and nature of those rights. To protect only the expression of an idea, principle or discovery, but not the ideas themselves. 17 U.S.C. § 102(b). To allow the next generation of authors to freely use those ideas, and even to make fair comment and use of their expression. 17 U.S.C. § 107. To permit secondary markets for copies of a work after the author has been compensated by the first authorized sale of the copy. 17 U.S.C. § 109. Aspects of those ideas, principles and discoveries unprotected by copyright are governed by the Patent system, which in turn is circumscribed with its own system of checks and balances.

These limitations are as important to promoting progress as the grant of rights themselves. This is because, to paraphrase Ecclesiastes, nothing is entirely new under the sun. All invention and literature is ultimately created by those who have stood on "ye shoulders of Giants." This permit the next generation to borrow from the public domain that which Congress carefully reserved for all of us, and to satisfy that debt, with interest, in the form of new and even greater works and inventions made therefrom.

These protected and unprotected aspects of our works and inventions form an ecosystem for even further creativity and economic growth. The result has been a body of knowledge and culture with breadth and scope unparalleled in the American Experiment, together with tools and devices of unprecedented scope and power with which we may study, distribute and synthesize from those works yet more works, inventions and tools. From this we all benefit with new jobs, forms of entertainment and access to knowledge and information in a way not previously known to the human endeavor.

And as with all ecosystems, the community of creators and inventors will flourish only when the balance is properly struck. Protections must not be too strong or uncertain in their application, lest overprotection of works today crush the development of technology tomorrow. Nor can protections be allowed to become so weak and toothless that inventors and writers abandon their

craft for more individually profitable endeavors.

There is no silver bullet. While the principles are eternal, their application must be carefully observed and calibrated to a constantly changing world. Changes are in no small part a consequence of the thriving progress of a creative ecosystem, and should often be embraced, not only as a natural event, but as an important engine to drive further progress and prosperity. In rare cases, change may be so disruptive as to require action to preserve the balance.

Congress serves as the guardian of that balance in a changing world. You are the architects of that balance - the ones who measure and cut the chords of intellectual property policy; and the ones who determine whether our best and brightest will choose to write the Great American Novel, or go to law school. But Congress must also be mindful of how it measures and cuts the limits to those rights, to assure that our next generation of writers may use the works that have come before, and stand on the shoulders of giants.

As Congress is charged to deliberate whether and how to change our creative ecosystem to adapt to a changing world, it is essential that these cuts be made carefully: measured twice, and cut once. The balance cut between the interests of content owners and the public will determine whether we are promoting progress of Sciences by improving revenues for owners of existing works, or introducing an undue and dangerous form of technology regulation that may stunt innovation entirely.

Secondary Liability in Copyright: A Précis

Today, the Senate is once again asked to measure and cut, this time to consider when it is appropriate to extend copyright infringement liability to someone who has not infringed a copyrighted work.

Classical Vicarious Infringement. Although the question seems an odd one at first blush, it would be equally odd --and unjust-- not to hold an employer liable when its IT director tries to save money by installing unauthorized copies of a computer program pursuant to instructions.

Although the employer did not directly infringe by making copies, we hold it vicariously liable for the directly infringing conduct of its employees who made the copies. Hardly a new idea, this judge-made notion of vicarious infringement is derived from the classical notion of respondeat superior, holding a principal liable for the tortious conduct of agents acting within the scope of their agency.

Classical Contribution to an Infringement. Likewise, it would be unjust not to hold liable a person lending a lawfully acquired print of a motion picture to a friend who is not an employee, but knowing that the friend intends to use the copy for an unauthorized public performance.

While only the friend directly infringes, and the distribution of the legitimate copy was not itself an infringement, this example presents the classic case where liability occurs under the judge-made doctrine of contribution to the infringement of another.

Expansion of Classical Secondary Liability Principles. As we know, hard cases make bad law, and judges will from time to time, undertake to explain and extend existing secondary liability law to reach analogous and unjust circumstances. And so it was as courts wrestled to fit various forms of bad acting into the rubric of vicarious and contributory liability.

Dance Halls and Record Stores - the Expansion of Liability By Relationship. Vicarious Liability, traditionally, was liability from the relationship between defendant and the infringer. It has been more than seventy years since the first of the Dance Hall cases, where vicarious liability was extended from the confines of principal-and-agent relationships to find the owners of dance halls responsible for the infringement of independently contracting orchestras, even where the owners may not have known or determined the songs that were played. *Herbert v. Shanley Co.*, 242 U.S.

591 (1917); *Dreamland Ball Room v. Shapiro, Bernstein & Co.*, 36 F.2d 354 (7th Cir. 1929). Inspired by the Dance Hall cases, the Second Circuit stated the modern rule to reach a chain of record stores for bootleg record sales by contracting retailers. *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304 (2d Cir. 1963). There, the court found liability because the chain had "the right and ability to supervise" and "a direct financial interest" from the infringing activity. Unfortunately, as is all too common, the expansive language of this otherwise reasonable rule, when unmoored from the facts, has led to risk of judicial mischief.

Traditionally, a principal has an intimate relationship with and presumptive responsibility for the relevant conduct of its agents. This is likewise true for an employer and employee. However, the "right and ability" and "direct financial interest" words, in their broadest sense have been applied far more widely, to create liability arising from the ownership relationship of a shareholder or parent to a corporation. See, e.g., *UMG Recordings, Inc. v. Bertelsmann AG*, ___ F.R.D. ___, 2004 WL 1588137 (N.D. Cal. July 14, 2004). Some courts have constrained these tests by narrowly construing the word "direct" in "direct financial interest," or requiring not only the capacity to control, but the affirmative exercise of that control as preconditions for liability. On the other hand, we have also seen this modern test has become something of a chameleon through which courts have suggested expansive liability to resolve hard cases.

Limitations to Contribution: the Sony Test. At times, the courts have sought to stretch the notion of contribution to reach noninfringing conduct of others who have materially provided means used to infringe other than copies of the infringing work. Technology, such as copying machines, scanners and audio and video recording equipment, both analog and digital, have given individuals significantly greater control over the means by which they can create, capture, use and replay copyrighted content. And the convergence of these technologies with communication and computing technologies, including the Internet, have led to remarkable new ways to distribute, share and view that content.

However beneficial these technologies may have been to our nation, both personally and professionally, these technologies have also been disruptive of content owners' ability to control the distribution of copies of their works, and placed into the hands of the public new means to commit individual copyright infringement.

Understandably, content owners have sought, from time to time, to quash that infringement at the source, claiming that the sale of these technologies was itself conduct that should be actionable. Something had to be done to address the widespread infringement that the technology enabled. On the other hand, grave risks likewise arise when content owners are given control over industries and technology with which they have no particular expertise and, for the time being, at least an arguable conflict of interest. So it was with the much-heralded *Betamax* case, *Sony Corp. v. Universal Studios*, 464 U.S. 417 (1984).

The Supreme Court refused to accept so broad an interpretation of the copyright as to grant "all copyright owners collectively . . . the exclusive right to distribute [products] simply because they may be used to infringe copyrights." As paean to the balance Congress has built into the Copyright Act, the Court noted the importance of not allowing copyright owners to leverage their statutory monopoly into technology markets, and articulated the landmark rule that liability for contribution to an infringement for the sale of a noninfringing product, however disruptive, will not lie when the product is "merely [] capable of [a] substantial noninfringing use[]." *Id.* at 442. On this point, the IEEE-USA concurs with the wisdom of the Court. While the Constitution grants Congress the power to promote the progress of science and the useful arts, to expand the

power of copyright owners over technologies capable of substantial noninfringing uses would have precisely the opposite effect. Content owners are not, either individually or collectively, competent to be entrusted with the robust and competitive development of technology. This is more properly the work of technologists, the free market and the American public.

The Sony test worked well and has withstood the test of time for nearly twenty years. Far from destroying the market for content, successors to the Betamax were plentiful and cheap, and spawned entire new markets for distribution of content, creating a significant, and in some cases principal, new source of revenue for content owners savvy enough to capitalize.

Point-to-Point File Sharing and the Ascendancy of Control. The close of the twentieth century saw a new convergence between digital recording and network communications technologies, culminating in the point-to-point file sharing technology that was Napster. Faced with what these courts felt to be hard fact, and given only the two rubrics of vicarious and contribution to infringement to work with, the Courts devised a means to find liability arising from the apparent failure to exercise an arguable capacity to police infringement customers of a service.

Faced with these facts, the courts first extended liability for vicarious infringement farther from its principal-and-agent roots, finding liability in a customer-and-vendor relationship from a "right and ability to supervise" the infringement, and a "direct financial benefit" arising therefrom. As to contribution, the courts also found liability, despite existence of a capacity for noninfringing use. They distinguished Sony, because of the provision of an ongoing and centralized search engine service having, at least in theory, a capacity to control and police against infringement.

Ultimately, in Napster and Aimster, both vicarious and contributory liability hinged upon the perceived capacity to control that a centralized p2p network provider had over users to facilitate and stop the infringing activities.

Secondary Liability Grounded in Control Is

Both Too Much and Not Enough

IEEE-USA believes that the mere capacity to control, of the type comprehended in Napster and Aimster, is both too much and not enough to serve as a basis for secondary liability. At the same time, it unduly chills and regulates valuable new potential technologies, while failing to adequately protect content owners against organized and intentional efforts to induce, exploit and profit from widespread individual infringement.

Mere Capacity to Control Is Too Much. It is too much because a capacity to control can be inferred from almost any networked distribution technology involving a centralized server. Even software that is not networked, but regularly and routinely updated by users with new versions can have an imputed degree of control from the failure to add limiting features between such new versions.

The difficulty with permitting mere capacity to control to be the predicate for liability is that it potentially exposes vendors of virtually every new technology converging with a network to the claim that it has failed to satisfy the desire of each and every owner of copyrighted content to exercise a capacity to control from each and every owner of content who was unsatisfied with an owner's failure to modify the technology to his satisfaction. Where exposure can be measured by multiplying the corpus of registered copyrighted works by the minimum statutory damages of \$750, plus ruinous attorney fees, the potential chilling impact of this test on innovation is significant.

While it is difficult to estimate the impact of such a test, its impact can be understood with an example. After Sony, but prior to Napster, a technologist could readily obtain clear and

unqualified legal advice concerning the exposure of releasing products using that technology. After first determining whether the technology itself directly infringed applicable patents and copyrights, the lawyer would investigate the extent and nature of noninfringing uses for the technology. In most cases, a reasonable and reasonably unqualified legal opinion could issue. After Napster and Aimster, it is all but impossible to give an unqualified opinion for any technology connected to a network.

Mere Capacity To Control Is Not Enough. The standard has also been demonstrably insufficient to protect the interests of content owners. Despite allegations that defendants were "capable of controlling the activities of their users," and what Senator Hatch has characterized as clear evidence of intent to promote and encourage infringement, a group of more than twenty studios suffered summary judgment of noninfringement in the Grokster case.

What happened here is not unlike that which happens when skilled engineers engineer around a patent. The Court stated that infringement will lie when there is a capacity to control, and so they designed a system that delegated any capacity to control to a decentralized network, while retaining to themselves the benefits of centralized advertising for the use of the service. In this way, they supported a business model without actually falling within the Napster and Aimster standard. Faced with these facts, the Grokster court could not be blamed for the result. Any other alternative would improperly have read Sony out of the law.

Where We Are. The state of the law is a standard that simultaneously chills ongoing and novel technologies that might provide entirely new forms of media and distribution of media, while permitting individuals to exploit and induce copyright infringement on a massive scale. The natural flow of common-law jurisprudence has landed us in a place that imposes potentially ruinous liability to inventors and their investors, while leaving content owners without recourse against those who would actively, knowingly and intentionally induce infringements of another. And this frames the problem that S.2560 has addressed: How, then, can we reach such blatant wrongdoing without unduly limiting important and useful innovation?

Revisiting the Patent Act

Reasoned common-law jurisprudence regarding secondary liability led to significant lack of clarity once before, in the realm of patent infringement, just prior to the enactment of the 1952 Patent Act. There, as here, secondary liability was largely the result of judge-made law. There, as here, a spate of alternatively pro-plaintiff and pro-defendant decisions rendered the law to a state of confusion whether or when there would be secondary liability. And the Congress responded with a codification, so far as possible, of the corpus of law at that time, making such changes as were necessary to give clarity to the law that had stood the test of time.

The result was Section 271 of Title 35, which set forth in straightforward language the texture of direct and secondary liability for patent infringement. The elegance of the language benefited from the richness of the jurisprudence that preceded it, and the language provided a simple, clear, predictable and objective framework for analysis. To be sure, it was no panacea. But it has worked. Technology flourished under the Act. Businesses are readily able to innovate with reasonable comfort, lawyers are reasonably able to advise their clients and, for the most part, the Patent Act successfully promotes the progress of the useful Arts.

The Congress adopted three forms of liability: (i) direct infringement for violation of the exclusive rights of the patent grant; (ii) liability for the active, knowing and intentional inducement of the infringement of another; and (iii) liability for knowing and material contribution to the infringement of another, other than by sale of a staple product having capacity for substantial noninfringing use. In the fifty years since that codification, no meaningful parade

of horrors has occurred. To the contrary, our technological and information economy has flourished.

Patent Contribution: the Genesis of the Sony Test. It was this language from the Patent Act and supporting public policy from which the Supreme Court drew its inspiration in reaching the Sony "substantial noninfringing use" test. To that end, it is perhaps worthwhile to consider whether the other prong of secondary liability of the patent act could inform the very question we are asking today.

Patent Inducement: Conduct Instead of Control. Except for strict principal and agent relationships, the patent law looks to the conduct of a defendant, rather than its relationship with the direct infringer, as the basis for finding secondary liability. Under Section 271(b) of the Patent Act, the Federal Circuit has found liability appropriate in patent cases where a party engages in an affirmative undertaking to induce conduct known to be an infringement, with the specific intent that the particular acts known to constitute infringement will occur. *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 909 F.2d 1461, 1469 (Fed. Cir. 1990) (Rich, J).

Each of the limitations has been found significant, and operate to avoid uncertainty as to the scope of secondary liability and to ensure that the patent grant is not unduly extended to reach noninfringing technologies. For example, the failure to act or to do something cannot constitute an active inducement. Nor can someone induce a patent infringer with a sound and good faith basis for believing that the acts so induced would not constitute an infringement. Further, courts have held that the seller of a product with a substantial noninfringing use can be liable for inducing infringement if the seller takes active steps beyond the mere sale of the product that encourages direct infringement by another. On the other hand, control is no prerequisite to liability. Even if every measure has been taken to avoid control over the direct infringer, active and knowing inducement with specific intent to induce are grounds for liability. Rather than inquiring into the nature of relationships on an ad hoc basis, a court must instead inquire as to the actual degree of culpability in determining whether a defendant should be liable for the infringement of another.

In wide contrast to continuing controversy over judge-made developments in secondary liability under the Copyright Act, the development of secondary liability under the Patent Act has been relatively uneventful. In no small part, this difference may rest with the carefully delineated and neutral statements of policy embodied in the patent standards. Courts are neither invited nor inclined to broaden or narrow those standards, as courts have done in the Copyright Realm.

There Should Be No Secondary Liability

When Another Infringes Using a Product or Process

Having Capacity for a Substantial Noninfringing Use,

Unless the Vendor Actively Induced the Infringement

The effectiveness of these rules under the Patent Act has led IEEE-USA to conclude that it should not be indirect infringement of a copyright to manufacture, distribute or provide a hardware or software product or process capable of substantial noninfringing use, unless the manufacturer, distributor or maker actively induces the infringement of a copyrighted work by another. In this way, the well-established balance between proper incentives for copyright owners and protecting technological innovations from undue regulation can be maintained. Changing the focus from the extent and nature of relationships and control to whether inducement is being actively induced provides a better way to deal with technologies having both infringing and non-infringing use. If this could be established with rules that are simple, clear, predictable and

objective, IEEE-USA would support such legislation.

IEEE-USA Concerns With S. 2560

While IEEE-USA understands the appeal of inducement as a measure for secondary liability, it has significant concerns with the particular definition of "intentional infringement" set forth in the bill.

S. 2560 Does Not Adequately Clarify Existing Law. As a threshold, the bill does not appear to introduce inducement as a mechanism to clarify, replace or constrain control as a test for vicarious or contributory copyright infringement. Indeed, to the contrary, it contains the language that appears to adopt existing case law without change. If so, S. 2560 could do nothing to resolve the confusion and ambiguity faced by technologists under present case law.

S. 2560 Intentional Inducement Is a Significant Departure from Existing Secondary Liability Principles. Rather than adapting the well-developed standard of inducement used in patent law, the definition of "intentional inducement" departs from and thereby teaches against the adoption of decades of balanced and accepted jurisprudence. For example, the standard of "intentional inducement" does not appear to require actions independent of lawful marketing of features of a technology capable of both infringing and noninfringing uses; does not appear to require knowledge that the acts to be induced would require an infringement; and does not appear to require a subjective specific intent to induce the infringing acts.

Practical Uncertainty over Scope and Application of the New Standard Will Chill Innovation.

This definition is not simple, clear or predictable. IEEE-USA is concerned that a too-broad definition of inducement may impose a dangerous burden to development of and investment in useful and beneficial technologies to the detriment of U.S. competitiveness. IEEE-USA is further concerned that this definition would effectively provide patent-like protection to non-technologists for an indefinite term, and for a product that the defendant, not the non-technologist plaintiffs, had actually conceived and invented.

It is difficult for IEEE-USA to conceive of a fact pattern consistent with a defendant's sale of a technology known to have infringing and noninfringing uses, in which the defendant could prevail in a motion to dismiss or for summary judgment. Consider, for example, the facts of the Sony Betamax case, in which the District Court found advertising promoting the downloading of broadcast signals to create and exchange private libraries of movies. Under the standard in S. 2560, the relevant question would be whether a reasonable person would consider Sony to have intended to induce infringement. IEEE-USA believes that under S. 2560, it would be unclear whether District Court would have reached the same result.

This bill could have far-reaching economic impact on the development of new technologies.

Should the bill be enacted, a company producing a disruptive technology must resign itself to a jury trial on the issue of "intentional inducement" in nearly every case. Since the class of potential plaintiffs includes every content owner with a registered copyright, the potential statutory damages of \$750.00 times the number of works, together with an award of attorney fees, could easily result in ruinous damages even for a large corporation. In turn, it would be foolhardy for capital markets to consider investing in a company proposing to deliver a technology in such an environment.

Copyright Inducement Would Apply to All Copyrighted Works and All Technologies. S. 2560 reaches more broadly than file sharing. Because Copyright inducement applies to all copyrighted works and is technology-neutral as to the secondary technology it regulates, IEEE-USA members may be directly affected in their professional capacity. We create and use hardware and software development tools; tools that create, tools that adapt and tools that modify hardware designs,

programs and content alike. Virtually every general-purpose computer and technology tool has features that manipulate, control and display content, including copyrighted content. Reuse and reverse engineering are not dirty words to us, even to our members who are content owners, but are terms-of-art for essential engineering paradigms. These tools and practices are routinely used by engineers to make the products that define the modern age. IEEE-USA is concerned that the tools and practices so essential to our profession, as well as the ongoing innovation in the development of these tools, may be negatively impacted by this proposed legislation.

Patent Inducement Provides the Superior and Less Risky Test. In contrast, it is settled under the Patent Act, that mere marketing of a technology having infringing and noninfringing uses, without more, cannot constitute the inducement of a patent. *Dynacore Holdings Corp. v. Phillips*, 363 F.3d 1263 (Fed. Cir. 2004) (Gajarsa, J) (discussing patent inducement in the context of Sony and providing that the sale of lawful products by lawful means is noninfringing). Moreover, the subjective and good-faith belief that conduct would be noninfringing, as Sony asserted was private copying, is sufficient to preclude a finding of inducement.

Using untested standards is a significant departure from established copyright law and significantly different from the analogous aspects of the Patent Act. Using untested standards for determining inducement instead of, for example, the well-tested standards of inducement under the Patent Act, appropriately adapted to the Copyright Act, could have far reaching and unintended consequences.

An IEEE-USA Proposal to Balance Secondary Liability Concerns of Content Owners and Technologists

At the request of Senate Judiciary Committee Staffers, IEEE-USA has proposed a draft substitute, which attempts to do for secondary liability under the Copyright Act what the drafters of the Patent Act did for patent law: to codify so much of existing law as possible, while rationalizing difficulties in the status quo. IEEE-USA recognizes that there is no silver bullet, and that much further development of the proposed framework may be necessary before a workable and satisfactory solution is found. To that end, the IEEE-USA draft substitute is attached in the hope it may inform to that debate.

Like the language in S. 2560, the IEEE-USA substitute adds a new subsection (g) to Section 501 to address secondary liability. Section (1) provides a definition of a new form of secondary copyright liability for inducement, closely modeled after the language and Federal Circuit gloss on 35 U.S.C. § 271(b). Section (2) codifies a rule for contribution patterned after Section 271(c). Section (3) provides a codification of the modern rule for vicarious infringement. Section (4) defines limitations on these three doctrines in the context of marketing technologies capable of infringing and noninfringing use. Subsection (A) restates Judge Gajarsa's rule in *Dynacore* for inducement. Subsection (B) restates the test in *Sony*, for contribution and vicarious liability. Section (5) raises attempts to balance the expanded scope of liability for inducement and exposure to unknown infringing conduct by limiting damages in secondary cases to actual damages actually known to the defendant, to permit the Court to focus on the most relevant remedy in such cases: an injunction against further inducing of an infringement.

As drafted in the IEEE-USA substitute, inducement is intended to require actions, and not omissions, that are independent from the ordinary manufacturing, sale and marketing of non-infringing devices having both infringing and noninfringing uses. It is intended that no secondary liability of any kind would arise, without more, from lawful steps to develop or sell lawful

products having infringing and noninfringing uses.

Under Federal Circuit gloss, intent and knowledge may be proved, as usual, by circumstantial evidence of inducement. *Water Technologies Corp. v. Calco, Ltd.*, 840 F.2d 660 (Fed. Cir. 1988) (Nies, J.). However, summary judgment for defendant would always be appropriate where all material evidence of inducement merely evidences otherwise lawful steps to sell lawful products having non-infringing uses. Finally, a reasonable and actual good-faith belief that the induced acts are noninfringing, uncontradicted by controlling case law, should be a defense to a claim for damages, but not an injunction.

Conclusion

The IEEE-USA is concerned that the Copyright Act should not be changed in ways that would inhibit research and novel technologies before their worth can be demonstrated, through application that may not be apparent at the time the technology is first developed. However, IEEE-USA is mindful that technologies may be misused to infringe a copyrighted work, and some will promote that fact to their own benefit. Existing tests grounded in control have proved to be both too much and not enough to balance the competing interests of content owners and technologists.

Whatever test for secondary liability is used, the test must be simple, clear, predictable and objective. S. 2560 does not accomplish this. It is a significant departure from existing law, and unmoored from any well-understood economic and legislative basis for intellectual property liability. In contrast, decades of experience under the active inducement provisions of the Patent Act confirm that indirect liability for noninfringing conduct amounting to active inducement has protected inventors without an undue burden to technological innovation. Tracking those principles is essential to maintaining the balance.

IEEE-USA stands for the careful balancing of interests between technologists and content owners who make up its membership, and recognizes that every change to that balance can have unanticipated and far reaching consequences to U.S. competitiveness and economy. The 108th Congress stands as the architects and guardians of this balance. Once changed, it may be impossible to undo the impact of these changes. For this reason, IEEE-USA respectfully suggests that, as you measure and cut the chords of intellectual property policy to address these issues, be mindful of the balance, and take note of the wisdom of the most fundamental rule of carpentry: Measure Twice, Cut Once.

Submitted by:

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GLENN S. TENNEY, Chair, IEEE-USA Intellectual Property Committee

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APPENDIX

Proposed Substitute to S. 2560

Section 501 of title 17, United States Code, is amended by adding at the end the following:

(g)(1) Inducement of Infringement. Whoever actively and knowingly induces infringement of a copyrighted work by another with the specific and actual intent to cause the infringing acts shall be liable as an infringer.

(2) Contribution to an Infringement. Whoever knowingly and materially contributes to the infringement of a copyrighted work by another shall be liable as an infringer.

(3) Vicarious Infringement. Whoever has the right and ability to supervise an activity resulting in a direct infringement and has a direct financial interest in such activity and infringement shall be liable as an infringer.

(4) Limitations on Secondary Liability.

(A) manufacture, distribution, marketing, operation, sale, servicing, or other use of embodiments of an otherwise lawful technology by lawful means, with or without the knowledge that an unaffiliated third party will infringe, cannot constitute inducement of infringement under Subsection g(1) in the absence of any additional active steps taken to encourage direct infringement.

(B) manufacture, distribution, marketing, operation, sale, servicing or other use of embodiments of an otherwise lawful technology capable of a substantial noninfringing use cannot constitute contribution to an infringement under Subsection (g)(2) or vicarious infringement under Subsection (g)(3).

(5) Damages for violations of section (g)(1) of this section shall be limited to an injunction against inducement, and actual damages for infringement of a work for which the defendant had specific and actual knowledge the work would be infringed.