

Statement of

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“Copyright Remedies”

Subcommittee on Courts, Intellectual Property, and the Internet

Committee on the Judiciary, U.S. House of Representatives

July 24, 2014

Chairman Coble, Ranking Member Nadler, Chairman Goodlatte, Ranking Member Conyers, and Members of the Subcommittee, my name is Matt Schruers, and I serve as Vice President for Law and Policy at the Computer & Communications Industry Association, which represents Internet, technology, and communications firms. I appreciate the opportunity to appear today on the subject of copyright remedies.

My testimony addresses the scope of current copyright remedies, in particular statutory damages. I describe two unintended consequences of high statutory damages: they empower copyright trolls and create extraordinary liability risks that discourage tech innovation, particularly by start-ups. I suggest several ways that Congress can adjust statutory damages to better reflect the realities of the digital environment: (1) reassessing current maximums and minimums; (2) ensuring greater predictability in secondary liability cases; (3) requiring timely election of remedies by plaintiffs; and (4) providing additional guidance to courts.

I. The Scope of Copyright Remedies

The remedies that Congress has granted to copyright holders are more numerous, varied, and more potent than any other form of intellectual property. By any measure, the existing remedies are more than adequate for Congress's purposes of stimulating new creativity and providing the public lawful access to copyrighted works. In some cases the existing remedies are punitive, which discourages innovation, and defeats Congress's purposes. In these cases, less may be more.

Before explaining why, I will briefly review a rights-holder's current arsenal of remedies. First, the Copyright Act offers injunctions. As this Committee has heard in the patent context, the ability to force a business to cease operations is a powerful one, which grants extraordinary leverage to a plaintiff.

Second, the Copyright Act entitles a plaintiff to recover *both* actual damages and profits, to the extent there is no double counting.¹ This is similar to the conventional remedy in patent law. The ability to recover losses and the defendant's profits restores the *status quo* and ensures that wrongful gains are disgorged. Many civil forms of relief simply stop here.

But the Copyright Act goes further, recognizing that there may be small cases – cases where the amount either lost by plaintiff or gained by defendant is minimal. Section 504(c) allows a plaintiff to elect a statutory award of between \$750 and \$30,000 in damages for each work infringed, regardless of the actual injury suffered.² In cases involving willful infringement, the statutory damages can rise to \$150,000 per work infringed.

¹ 17 U.S.C. § 504(b).

² *Columbia Pictures Tel., Inc. v. Krypton Broad., Inc.*, 259 F.3d 1186, 1194 (9th Cir. 2001) (plaintiff may elect statutory damages “regardless of the adequacy of the evidence offered as to his actual damages and the amount of the defendant's profits.”).

Since 1909, Congress increased the statutory amounts on several occasions.³ In 1909, statutory damages initially ranged from \$250 to \$5,000.⁴ With the 1976 Act, the maximum for ordinary infringement was doubled to \$10,000, and a newly created willful infringement cap permitted damages up to \$50,000.⁵ With the Berne Convention Implementation Act in 1988, everything doubled again. The lower limit was increased to \$500, the non-willful maximum increased to \$20,000, and willful infringement increased to \$100,000.⁶ In 1999, Congress increased everything by 50%, bringing the minimum to where it is today, at \$750, and raising the maximum for non-willful infringement to \$30,000, and the maximum for willful infringement to \$150,000.⁷

Critically, plaintiffs have great freedom in choosing from the Copyright Act's array of remedies. Unlike most other civil litigants, a copyright holder can ask the jury to award both its actual damages and defendant's profits, and in the alternative to award statutory damages. After the jury verdict comes back, the plaintiff can then choose which of these remedies it wishes to receive.⁸ There is thus no situation under existing law in which a copyright holder can be under-compensated.⁹ However, as I discuss below, in many instances the threat of high statutory damages, unconnected to any conceivable loss by plaintiff or gain by defendant, has chilled the creation of innovative services.

In addition to actual and statutory damages, the Copyright Act also provides a number of other remedies: (a) attorney's fees;¹⁰ (b) impoundment and destruction of defendants' property,¹¹ and; (c) as the Committee heard earlier this year, extrajudicial relief from online infringement by means of takedown claims that may be made to online services under Section 512.¹² In addition to that, there are also criminal penalties in the Copyright Act for willful infringement, unlike

³ Statutory damages are arguably as old as copyright itself, *see Feltner v. Columbia Pictures Television, Inc.*, 523 U.S. 340, 349 (1998), but the practice of continuously increasing the statutory amount did not begin until the 20th century.

⁴ Pub. L. No. 60-349, §§ 25 *et seq.*, 35 Stat. 1075 (1909).

⁵ Pub. L. No. 94-553, title I, § 101, 90 Stat. 2585 (1976). The damages floor for innocent infringers at this time was \$100.

⁶ Pub. L. No. 100-568, § 10(b), 102 Stat. 2860 (1988). The damages floor for innocent infringers was raised to \$200.

⁷ Pub. L. No. 106-160, § 2, 113 Stat. 1774 (1999). In 2008, this Committee considered legislation and hosted a roundtable on a proposal to allow for greater statutory awards in the case of compilations. Copyright holders presented no evidence that the existing regime had stifled the creation of new works, and this particular proposal was ultimately removed from the PRO-IP Act.

⁸ 17 U.S.C. § 504(c)(1) (giving option for plaintiff to choose among remedies "at any time before final judgment").

⁹ Modern copyright remedies are so potent that there is a trend of plaintiffs with unrelated causes of action in other areas, such as privacy, migrating into copyright to vindicate their alleged injury. These examples of plaintiffs 'migrating' to copyright causes of action provide strong anecdotal evidence that copyright remedies are more potent than whatever else the law has to offer. *See, e.g., Monge v. Maya Magazines, Inc.*, 688 F.3d 1164 (9th Cir. 2012); *Garcia v. Google, Inc.*, 743 F.3d 1258 (9th Cir. 2014).

¹⁰ 17 U.S.C. § 505.

¹¹ 17 U.S.C. § 503(a)-(b).

¹² In addition to these remedies in Chapter 5, the Digital Millennium Copyright Act remedies in Chapter 12 give plaintiffs remedies if defendants remove identifying information from copyrighted works, which include up to \$25,000 per violation. Furthermore, Chapter 12 grants plaintiffs remedies against the circumvention of technological measures that protect copyrighted works, which brings its own statutory damages awards of up to \$2,500 in addition to potential criminal prosecution.

patent law.¹³ Although both copyright and patent spring from the Constitution's Progress Clause,¹⁴ only copyright has criminal remedies and taxpayer-funded enforcement by federal law enforcement authorities.

Note that neither willfulness nor intent is required to obtain these civil remedies against a defendant. Many inherently assume that some combination of knowledge, intent, or monetary gain are prerequisite elements of violating copyright, but they are mistaken. One can unknowingly infringe, for no commercial purpose, and still face liability.

II. Unintended Consequences of High Statutory Damages

(a) *Empowering copyright trolls*

The existing statutory damages framework has created incentives for so-called copyright trolling, or predatory enforcement. The problems caused by "patent assertion entities," *i.e.*, patent trolls, have been widely reported and have been the focus of scrutiny in this Committee. Trolls, with the resulting chilling effect on creativity, exist in the copyright system as well. Just as in patent law, we are seeing the use of litigation as a business model, in which shell entities initiate legal proceedings against a large number of individuals and immediately seek settlements. Many such cases have been based on allegations that the defendant offered infringing pornographic materials for upload. By threatening to make public the fact of litigation over embarrassing content, combined with the prospect of high, six-figure statutory awards, these entities often obtain quick settlements. One such scheme obtained at least seven figures worth of settlements, even though the claims were, in at least some cases, entirely without merit.¹⁵

Recent empirical research by Professor Matthew Sag indicates that these cases are very prevalent in federal court IP dockets.¹⁶ In 2013, shotgun-style multi-defendant John Doe complaints comprised the majority of copyright cases in over 20% of the nation's federal trial courts. This predatory litigation is not trivial in quantity; according to Sag's research, over a third of the entire federal courts' copyright caseload involves pornography, and anecdotal evidence indicates that many of these litigants are using predatory tactics.¹⁷ This is not a unique view; other federal judges, scholars, and journalists are also increasingly "troubled by 'copyright

¹³ 17 U.S.C. § 506(a) (criminal penalties, referencing 18 U.S.C. § 2319).

¹⁴ Art. I, § 8, cl. 8.

¹⁵ *Ingenuity 13 LLC v. John Doe*, No. 12-8333, 2013 WL 1898633 (C.D. Cal. May 6, 2013); *see also* Joe Mullin, *Prenda hammered: Judge sends porn-trolling lawyers to criminal investigators*, *Ars Technica*, May 6, 2013, at <http://arstechnica.com/tech-policy/2013/05/prenda-hammered-judge-sends-porn-trolling-lawyers-to-criminal-investigators/>; *see generally*, *Ars Technica* series, *Who's Behind Prenda Law?*, available at <http://arstechnica.com/series/whos-behind-prenda-law/>.

¹⁶ *See* Matthew Sag, *Copyright Trolling, An Empirical Study*, *IOWA L. REV.* (2014 forthcoming), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2404950 ("While patent trolls hog the limelight, a particular type of copyright troll has been taking over the dockets of several United States District Courts, and yet copyright trolls have received comparatively little attention in policy and academic circles").

¹⁷ Notably, multi-defendant suits enable plaintiffs to utilize a large amount of federal court resources without paying filing fees. *See In re: BitTorrent Adult Film Copyright Infringement Cases*, No. 12-1147 (E.D.N.Y. July 31, 2012) (complaining that "plaintiffs' counsel apparently ignored, or tried to circumvent, the very safeguards the undersigned put in place to help prevent unfair litigation tactics").

trolling,’ specifically as it has evolved in the adult film industry.’¹⁸ Scholars have identified the prospect of high statutory awards as fueling this misbehavior.¹⁹

To be clear, copyright trolling is not limited to adult content. A pioneer of the tactic was an entity known as Righthaven, which essentially subcontracted lawsuits with various news publications, such as the *Las Vegas Review-Journal*. Righthaven entered into “right to sue” contracts with these publications and then searched the Internet for blogs or sites that copied or quoted the stories. Righthaven then sued website operators and bloggers for reposting as little as five sentences from these articles.

Victims of such suits included a Republican candidate for U.S. Senate, who posted news about herself to her own website,²⁰ and a former Assistant U.S. Attorney who reposted content to his website, which collects information on unsolved murders. In the latter case, not only did Righthaven demand \$75,000, it also attempted to seize the domain name of the website.²¹ In another case, *Righthaven LLC v. Hoehn*, Righthaven sought \$150,000 from a decorated veteran who had merely shared an editorial in an online forum about public employee pensions. A district court granted summary judgment to Hoehn, concluding that there was “no genuine issue of material fact that Hoehn’s use of the work was fair.”²² After numerous lawsuits, the Ninth Circuit affirmed a ruling that Righthaven did not have standing to sue because it was not the legal or beneficial owner of the copyrights.²³ Righthaven was subsequently sanctioned for misconduct, and its assets were seized, causing it to seek bankruptcy protection.²⁴

Unfortunately, however, Righthaven was not unique. In *Brownmark Films v. Comedy Partners*, Judge Frank Easterbrook recently noted that a plaintiff suing over a parody in an episode of the cartoon *South Park* had engaged in litigation tactics that gave it “the appearance of a ‘copyright troll’” engaged in “baseless shakedowns.”²⁵

¹⁸ *Third Degree Films v. Does 1-47*, 286 F.R.D. 188, 189-91 (D. Mass. 2012) (“The Court is not alone in its concern. Judges, scholars, and journalists alike have noted the recent trend ... Against this backdrop of mass lawsuits and potentially abusive litigation tactics, courts nationwide have become skeptical of allowing the adult film companies unfettered access to the judicial processes of subpoenas and early discovery”) (cited in *Sag*, *supra* note 16, at n.94). See also *Ingenuity 13 LLC*, *supra* note 15, at *1 (lawyers’ elaborate scheme nearly “outmaneuvered the legal system”, leading to sanctions).

¹⁹ See e.g., *Sag*, *supra* note 16.

²⁰ *Sharron Angle Slapped With Copyright Infringement Lawsuit Over Las Vegas Review-Journal Articles*, Sept. 4, 2010, at http://www.huffingtonpost.com/2010/09/06/sharron-angle-slapped-wit_n_706467.html.

²¹ Electronic Frontier Foundation, *Righthaven v. DiBiase*, available at <https://www EFF.org/cases/righthaven-v-dibiase>.

²² *Righthaven LLC v. Hoehn*, 792 F. Supp. 2d 1138, 1151 (D. Nev. 2011). On appeal, the fair use holding was vacated on procedural grounds, as the court concluded that Righthaven had no standing to sue in the first place, and therefore had no jurisdiction to decide the fair use issue.

²³ *Righthaven LLC v. Hoehn*, 716 F.3d 1166 (9th Cir. 2013). See generally Shyamkrishna Balganes, *The Uneasy Case Against Copyright Trolls*, 86 S. CAL. L. REV. 723 (2013) (assessing Righthaven litigation).

²⁴ Timothy B. Lee, *Defendant Asks U.S. Marshals to Drag Righthaven Principals to Court*, ARS TECHNICA, Dec. 20, 2011, at <http://arstechnica.com/tech-policy/2011/12/defendant-asks-court-to-drag-defeated-righthaven-into-court>.

²⁵ *Brownmark Films v. Comedy Partners*, 682 F.3d 687, 691 (7th Cir. 2012).

(b) *Effect of aggregation of statutory damages*

Whereas the troll problem arises from the high *maximum* bound of statutory damages (\$150,000), online services' and manufacturers' concerns about extraordinary awards in the digital context are due mostly to the *minimum* bound (\$750). Under today's copyright law, every fixed work containing even a modicum of creativity is copyrighted, from the moment of creation. Nearly every email, blog post, and "selfie" – even this written testimony – qualifies for a century or more of copyright protection. Each day, millions of copyrighted works are created. Many popular online service providers process millions of copyright-protected postings daily,²⁶ and modern consumer electronics can hold millions of copyrightable works. Because copyright disputes involving digital technologies often implicate hundreds or thousands of works, providers of information technology products and services can face truly astronomic damages liability, even assuming the smallest statutory award.²⁷ The threat of enormous damages encourages rights-holders to view "being infringed" as a business model,²⁸ and to assert aggressive theories of secondary liability in the hopes of coercing quick settlements. In the tech and Internet sector, plaintiffs electing for actual damages are a rarity.

One justification volunteered for these astronomical awards is that statutory damages have historically been viewed not solely as a compensatory mechanism where injury is difficult to measure, but in fact as a punitive tool, "designed to discourage wrongful conduct."²⁹ But even wrongful conduct needs to be proportionally punished: we do not impose the death penalty for illegal parking. Nor is the goal of deterring misconduct being served in cases where the individual engaged in misconduct is not before the court, as is the case with damages sought against intermediaries. When cases are brought solely against an intermediary, based on the conduct of a third party not before the court, a punitive mechanism is generally inappropriate.

Regardless of the propriety of the remedy, however, to whatever extent statutory damages deter misbehavior, they also deter investment by creating substantial uncertainty and risk. Scholarly studies of statutory damages show punitive and inconsistent outcomes,³⁰ and threats of

²⁶ See Raffi Krikorian, *New Tweets per second record, and how!*, The Twitter Engineering Blog, Aug. 16, 2013, available at <https://blog.twitter.com/2013/new-tweets-per-second-record-and-how> (typically 500 million tweets/day); YouTube Statistics, available at <https://www.youtube.com/yt/press/statistics.html> (last accessed July 22, 2014) (100 hours of video per minute uploaded to YouTube); Sriram Sankar *et al.*, *Under the Hood: Building out the infrastructure for Graph Search*, Facebook Engineering Notes, Mar. 6, 2013, available at <https://www.facebook.com/notes/facebook-engineering/under-the-hood-building-out-the-infrastructure-for-graph-search/10151347573598920> (over 2.5 billion new pieces of Facebook content added per day).

²⁷ See Pamela Samuelson, *Statutory Damages in Copyright Law: A Remedy in Need of Reform*, 51 WM. & MARY L. REV. 439 (2009).

²⁸ See Dan Heller, *Making Money From Your Stolen Images*, June 27, 2007, at <http://danheller.blogspot.com/2007/06/making-money-from-your-stolen-images.html> (characterizing statutory damages as a "windfall", "Vegas-style slot machine" and stating that "a little copyright infringement can actually do your business good").

²⁹ See *N.A.S. Import, Corp. v. Chenson Enters., Inc.*, 968 F.2d 250, 252 (2d Cir. 1992) (citing *F.W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228, 233 (1952)); *Feltner v. Columbia Pictures Television*, 523 U.S. 340, 353-54 (1998).

³⁰ Pamela Samuelson & Tara Wheatland, *Statutory Damages in Copyright Law: A Remedy in Need of Reform*, 51 WM. & MARY L. REV. 439 (2009). See also J. Cam Barker, *Grossly Excessive Penalties in the Battle Against Illegal File-Sharing: The Troubling Effects of Aggregating Minimum Statutory Damages for Copyright Infringement*, 83 TEX. L. REV. 525 (2004).

personal liability for statutory damages are a severe deterrent to exploring new business models.³¹ Surveys of investors have confirmed that uncertainty around liability risks deter investment in services regulated by copyright.³² It isn't hard to understand why.

Consider the case of Veoh. Veoh was described by media as a “promising start-up” that offered user-generated video content alongside licensed content from major media companies and broadcasters.³³ It might have competed with YouTube and Hulu. Despite having licensed content deals, Veoh was sued on the claim that its users had uploaded infringing works to the platform, and Veoh's DMCA Section 512 compliance was allegedly insufficient.³⁴

More than three years of litigation ground Veoh into bankruptcy. This did not end the case, however. The plaintiffs renewed their litigation against Veoh's *investors*, seeking to hold those who had provided capital to Veoh responsible for the actions of Veoh's users. Ultimately, Veoh and its investors were exonerated of any liability.³⁵ It was too late for the promising start-up, however; employees had been laid off and millions in investment capital were gone.³⁶

It is increasingly common to see investors, founders, and officers, being sued *in their personal capacity* for alleged copyright infringement by users of the company's products. The prospect of personal liability for the actions of your company's customers is extraordinarily chilling. I know of no other place in federal law where plaintiffs receive (1) an aggregating statutory award, (2) requiring no proof of harm, (3) on a strict liability basis, (4) against investors in defendant businesses, (5) which are themselves only *indirectly* involved in the infringing acts.

The trend of plaintiffs suing investors, officers, and founders because of what other people do with the company's product is particularly troubling. Extensive interviews conducted by Prof. Michael Carrier revealed that the decade after the *Napster* decision was characterized as “a wasteland” of “scorched earth” by investors, and interest in funding start-ups that involved music declined noticeably. One innovator told him, “Any VC I would go to – the first thing they would say is: Music business? You're crazy.”³⁷ Professor Carrier's research also revealed that the threat of personal liability of founders and corporate officers for multi-million dollar statutory awards is deliberately invoked by plaintiffs to intimidate defendants into capitulation. It is self evident that threatening the home or college education of a corporate officer's children with a civil claim regarding misconduct by that company's *customers* is not going to create a

³¹ Michael Carrier, *Copyright and Innovation: The Untold Story*, 2012 WIS. L. REV. 891, 944 (2012), available at <http://wisconsinlawreview.org/wp-content/files/2-Carrier.pdf>. See also *UMG Recordings, Inc. v. Shelter Capital Partners LLC*, 718 F.3d 1006 (9th Cir. 2013) (litigation by UMG against Shelter Capital and two other investors in online service Veoh).

³² Matthew Le Merle et al., *The Impact of U.S. Internet Copyright Regulations on Early-Stage Investment: A Quantitative Study*, BOOZ ALLEN & CO. (2011), available at <http://www.booz.com/media/file/BoozCo-Impact-US-Internet-Copyright-Regulations-Early-Stage-Investment.pdf>.

³³ Eliot Van Buskirk, *Veoh Files for Bankruptcy After Fending Off Infringement Charges*, WIRED, Feb. 12, 2010, at <http://www.wired.com/business/2010/02/veoh-files-for-bankruptcy-after-fending-off-infringement-charges/>.

³⁴ *UMG Recordings, Inc. v. Shelter Capital Partners LLC*, 718 F.3d 1006 (9th Cir. 2013).

³⁵ *Id.* at 1032-33.

³⁶ See Van Buskirk, *supra* note 33 (stating that “[h]istory will add online video site Veoh to the long list of promising start-ups driven into bankruptcy by copyright lawsuits”).

³⁷ Carrier, *Copyright and Innovation: The Untold Story*, *supra* note 31, at 916-17.

healthy environment to invest.³⁸ Even a record label official agreed that innovative services “never came to life” because of “the threat of potential lawsuits from content owners.”³⁹

It is important to bear in mind that in the 1980s, Sony’s VCR was compared to the Boston Strangler,⁴⁰ and it came one Supreme Court vote away from being branded a pirate enterprise because parents were using its product to tape *Mr. Rogers’ Neighborhood*.⁴¹ The history of tech innovation may have been very different if Sony’s officers had been sued in their personal capacity.

All of these problems occur against the backdrop of a regulatory regime with fuzzy boundaries. Copyright scholars have long acknowledged that, unlike real property, the boundaries of what copyright regulates is inherently unclear. The vagueness of copyright, combined with the attraction of aggregated statutory awards, likely leads to over-enforcement of rights. This would cause what scholars have called “copyright enforcement false positives” — cases in which rights-holders misconstrue the bounds of their federal entitlement, and are motivated “to seek enforcement of rights that are nonexistent or outside the scope of copyright. Such misguided enforcement actions impose significant social costs.”⁴² One social cost is the cost of unnecessary litigation, and another is the disincentives to innovate that arise from the prospect of having to take unnecessary licenses.

The deterrent effect on investment is magnified by the fact that awards are entirely unmoored from any actual injury. In Viacom’s unsuccessful 7-year long litigation against YouTube, the company sought over \$1 billion dollars in damages, for 160,000 alleged infringements,⁴³ despite the fact that Viacom’s *own employees* were uploading Viacom content to YouTube.⁴⁴ In another recent case, a district court was presented with a damages theory that “could reach into the trillions,” which it rejected as “absurd,” holding that the record label plaintiffs should not be entitled to “more money than the entire music recording industry has made since Edison’s invention of the phonograph in 1877.”⁴⁵

III. Possible Solutions to Statutory Damages

Amending the statutory damages framework has been identified as a possible reform by the Green Paper,⁴⁶ Register Pallante,⁴⁷ and scholars. The Copyright Principles Project, some of

³⁸ *Id.* at 943-44.

³⁹ *Id.* at 938.

⁴⁰ Nate Anderson, *100 Years of Big Content Fearing Technology—In Its Own Words*, ARS TECHNICA, Oct. 11, 2009, at <http://arstechnica.com/tech-policy/2009/10/100-years-of-big-content-fearing-technologyin-its-own-words/>.

⁴¹ *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).

⁴² Ben Depoorter & Robert K. Walker, *Copyright False Positives*, 89 NOTRE DAME L. REV. 319, 321 (2013), available at http://ndlawreview.org/wp-content/uploads/2013/05/NDL107_Depoorter.pdf.

⁴³ Garth Johnston, *Viacom Files Federal Copyright Complaint Against YouTube and Google*, BROADCASTING & CABLE, Mar. 13, 2007, at <http://www.broadcastingcable.com/news/news-articles/viacom-files-federal-copyright-complaint-against-youtube-and-google/82105>.

⁴⁴ Jay Yarow, *The Most Damning Information Google Dug Up On Viacom*, BUSINESS INSIDER, Mar. 22, 2010, at <http://www.businessinsider.com/google-on-viacom-filings-2010-3>.

⁴⁵ See *Arista Records LLC v. Lime Group LLC*, 784 F. Supp. 2d 313, 317 (S.D.N.Y. 2011).

⁴⁶ Department of Commerce Internet Policy Task Force, COPYRIGHT POLICY, CREATIVITY, AND INNOVATION IN THE DIGITAL ECONOMY, at 51-52 (July 2013).

whose members appeared before this Committee in the first of this sequence of hearings, has also suggested reforms.⁴⁸ These specific proposals are certainly worthy of the Committee’s consideration. Today, I suggest several approaches to revising the statutory damages provision of Title 17 that would help to promote predictability and fairness to manufacturers, service providers, and consumers.

(a) *Reassess aggregation, the statutory minimum and maximum.*

Courts have implored Congress to reassess them in cases where damages awarded “are wholly disproportionate to the damages suffered by Plaintiffs.”⁴⁹ The existing statute contains a range of damages, but it imposes in all cases a minimum amount. For example, a consumer is liable for a minimum of \$750 for infringement of one song that he could purchase on iTunes for under \$1.00. An award 750 times actual damages is unreasonable, possibly unconstitutional so.⁵⁰ Even if the court finds the infringement is innocent, the minimum is still \$200 per work infringed. Moreover, courts have held that the “innocent infringer” provision is not available with respect to works that were published in “hard copy” with a copyright notice—a limitation that makes little sense in the online world and even less sense with respect to an intermediary.⁵¹ Given plaintiffs’ increased preference for statutory damages and the Supreme Court’s “concerns over the imprecise manner in which punitive damages systems are administered,”⁵² the statutory minimum should be reassessed in cases involving aggregation of many awards.

In fact, the \$200 floor in innocent infringement has been criticized previously. In the 103rd Congress, the House passed H.R. 897, which would have lowered the floor for statutory damages in cases of innocent infringement from \$200 to zero. This legislation died in the Senate. In a 1961 Report, the Register of Copyrights explained that “certain users of copyright materials – broadcasters, periodical publishers, motion picture exhibitors, etc.” had argued that a “minimum of \$250 can bear too heavily on innocent infringers.” He observed that “[t]he only purpose of awarding damages for an innocent infringement is to compensate the copyright

⁴⁷ Maria Pallante, *The Next Great Copyright Act*, 36 COLUM. J.L. & ARTS 315, 329 (2013), available at http://www.copyright.gov/docs/next_great_copyright_act.pdf.

⁴⁸ Pamela Samuelson, *The Copyright Principles Project: Directions for Reform*, 25 BERKELEY TECH. J.L. 1175 (2010), available at <http://scholarship.law.berkeley.edu/facpubs/563>.

⁴⁹ See, e.g., *Capitol Records v. Thomas*, 579 F. Supp. 2d 1210, 1227 (D. Minn. 2008) (“The Court would be remiss if it did not take this opportunity to implore Congress to amend the Copyright Act to address liability and damages in peer-to-peer network cases such as the one currently before this Court”); *Sony BMG Music Entm’t v. Tenenbaum*, 660 F. 3d 487, 490 (1st Cir. 2011) (“this case raises concerns about application of the Copyright Act which Congress may wish to examine”); Other courts have noted potential due process concerns. *In re Napster Copyright Litig.*, 7 U.S.P.Q. 2d 1833 (N.D. Cal. 2005) (noting that “under certain circumstances, large awards of statutory damages can raise due process concerns.”); *UMG Recordings v. Lindor*, No. 05-Civ-1095, slip. op. at 6 (E.D.N.Y. Nov. 9, 2006) (permitting motion to add affirmative defense of unconstitutionality where plaintiffs sought statutory damages, noting that “plaintiffs’ actual damages are 70 cents per recording and that plaintiffs seek statutory damages under the Copyright Act that are 1,071 times the actual damages suffered.”).

⁵⁰ *BMW of North America, Inc. v. Gore*, 517 U.S. 559, 581 (1996) (awarding “more than 4 times the amount of compensatory damage” might be “close to the line... of constitutional impropriety.”). Federal courts do not agree whether the due process constraints that limit punitive damages also apply to statutory damages.

⁵¹ See *Maverick Recording Co. v. Harper*, 598 F.3d 193 (5th Cir. 2010) (citing 17 U.S.C. § 402(d)), cert. denied, 131 S.Ct. 590 (2010) (Alito, J., dissenting); *BMG Music v. Gonzalez*, 430 F.3d 888 (7th Cir. 2005) (same).

⁵² See *State Farm Mut. Auto. Ins. Co. v. Campbell*, 538 U.S. 408, 417 (2003).

owner. The other purpose of statutory damages – to deter infringement – is not present as to infringements committed innocently.”⁵³

The \$750 floor means that – in a market where most new digital products and online services (such as cloud storage) contemplate many thousands of users manipulating hundreds of thousands of lawfully acquired works – potential damages quickly reach uninsurable levels that deter investment. Even halving the minimum would still provide damages that are 50-100 times greater than the going rate for many works. The \$150,000 maximum, by contrast, empowers trolls as previously described. Because a plaintiff who is injured can always furnish proof of his injury and receive actual damages, the only plaintiffs who would be harmed by reining in the maximum would be those who cannot prove they suffered any injury.

Many scholars have offered proposals to reform these limits. Professor Sag suggests that the “constitutionally plausible range of statutory damages for a first-time defendant found liable for illegal file-sharing should be between \$250 and \$3000;” Professor Peter Menell suggests limiting statutory damages to \$10 per work infringed for noncommercial uses.⁵⁴ Other scholars have also proposed reassessing these limits.⁵⁵

In some cases, outcomes are troublesome because of the potential for limitless aggregation. In litigation involving an individual infringing 24 songs via a file-sharing network, repeated trials produced aggregated awards of \$1.92 million and \$1.5 million.⁵⁶ Absent proof of corresponding injury, these awards tax the perceived legitimacy of the entire copyright system, which largely depends upon voluntary compliance of the public to succeed. Because these large awards result from aggregating many individual awards into one enormous sum, Congress should reassess whether it is desirable to aggregate awards in all situations. A recent Canadian reform, for example, limits the maximum statutory award available to \$5,000 for all non-commercial infringements in a single proceeding.⁵⁷

In any event, adjusting statutory minimums and maximums would not impede the interests of plaintiffs with actual injuries. If statutory awards are insufficient, plaintiffs will always have the option of seeking actual damages.

(b) *Ensure predictability of statutory damages in secondary liability cases.*

Of all forms of intellectual property, copyright arguably permits the broadest theories of secondary liability. Secondary liability, of course, is where one party is held responsible for the wrongdoing of another party. Under current secondary liability theories, an Internet service or consumer electronics manufacturer could be found liable for statutory damages for each work a

⁵³ REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF U.S. COPYRIGHT LAW (1961), 87TH CONG., 1ST SESS. (H. Judiciary Comm. Print 1961), at 104.

⁵⁴ Sag, *supra* note 16, at 35; Peter S. Menell, *This American Copyright Life: Reflections on Re-Equilibrating Copyright for the Internet Age* (U. C. Berkeley Public Law Research Paper No. 2347674, Oct. 30, 2013), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2347674.

⁵⁵ Samuelson & Wheatland, *supra* note 30, at 509-10.

⁵⁶ *Capitol Records, Inc. v. Thomas-Rasset*, 692 F.3d 899, 900-01 (8th Cir. 2012).

⁵⁷ Bill C-11, *An Act to amend the Copyright Act*, Statutes of Canada, Sec. 38.1(1)(b) (2012), available at http://www.parl.gc.ca/content/hoc/Bills/411/Government/C-11/C-11_4/C-11_4.PDF.

third party infringes while using the service or product. In fact, even the well-established boundary between direct and secondary liability is under attack by litigants, who seek to blur the line between these two concepts, and allege as direct infringement causes of action that are properly brought as secondary liability cases.⁵⁸

This potential exposure to large damages, often for the acts of customers, chills innovation and discourages capital investment in new products and services. There are several possible approaches for addressing this problem. Section 504(c)(2) could limit statutory damages only to cases of direct infringement. Alternatively, Congress could forbid aggregation in secondary liability cases. Thus, a secondary infringer would be liable only for a single award of statutory damages for all works infringed, rather than a potentially infinite number of separate awards for each work infringed, as under current law.⁵⁹ Congress could also cap statutory awards in cases that do not involve intentional infringement, as many states have chosen to cap punitive awards under their tort law.⁶⁰ Of course, if a plaintiff's injury is greater than any statutory cap, the plaintiff may always seek actual damages.

(c) *Require timely election of damages.*

A specific reform that would facilitate certainty is requiring timely election of which damages a plaintiff will seek. Currently, plaintiffs can delay the election between actual and statutory damages until any time before final judgment – after the jury (or court) awards both actual and statutory damages. This allows the plaintiff to “game the system” by waiting to see how they fare with a jury, and then choose the higher of the two awards. So as not to unfairly prejudice defendants, plaintiffs should make this election in a timely manner, before the trial or the filing of a motion for summary judgment.

(d) *Provide courts with guidance for the award of damages.*

As noted above, 17 U.S.C. § 504(c) currently imposes a minimum statutory award of \$750 per work infringed, which may be reduced to \$200 if the infringer was not aware and had no reason to believe the act constituted infringement. The maximum increases from \$30,000 per work up to \$150,000 in cases of willful infringement. Courts could benefit from more guidance for calculating damage awards than merely stating, as 17 U.S.C. § 504(c)(1) does, “as the court considers just.” This language suggests that the court’s award should be designed to ‘do justice.’ Cases that do not involve willful infringement, including where an intermediary is being penalized for the misconduct of another party, cannot plausibly lead to deterrence. Congress could provide guidance that in cases not involving willful infringement, Section 504(c)(2) could

⁵⁸ See *Am. Broad. Cos. v. Aereo, Inc.*, 573 U.S. ___ (2014) (Scalia, J., dissenting) (“A defendant may be held directly liable only if it has engaged in volitional conduct that violates the Act. William Patry, Copyright § 9:5.50”). From the perspective of innovation and economic policy, it would be dangerous to blur this boundary by holding companies liable as *direct* infringers for the acts of their customers.

⁵⁹ Professor Michael Carrier argues even further that statutory damages should not be available at all in secondary liability cases. Michael Carrier, *No Statutory Damages for Secondary Liability*, Disruptive Competition Project, Jan. 30, 2014, available at <http://www.project-disco.org/intellectual-property/013014-no-statutory-damages-for-secondary-liability>.

⁶⁰ See *BMW of North America, Inc. v. Gore*, 517 U.S. 559, 615 (1996).

direct courts to “attempt to compensate the copyright owner” for the injury resulting from infringement.

More broadly, Congress should take note of the fact that many online services and intermediaries invest substantially in providing robust voluntary rights-protection systems for right-holders. Congress already encourages the use of such systems via Section 512, limiting relief against compliant services. However, some rights-holders are disinclined to use these systems, and instead prefer litigation. In the case of all remedies, Congress could circumscribe which are made available to plaintiffs who do not take advantage of these voluntary systems designed to reduce litigation, and its corresponding burden on the federal judiciary.

IV. Conclusion

Our copyright system is important. Exclusive rights in one’s expression are an important tool in the federal government’s toolbox for promoting innovation. They are not, however, the only tool in the toolbox, and we should recognize that it is possible to have too much of a good thing. Today, statutory damages have reached that point. A mechanism intended to ensure that individual claims still have weight is now frequently exploited as a vehicle for abuse and even injustice, which undermines the credibility of our intellectual property system. With some recalibration, however, Congress can restore this remedy as an effective tool for promoting progress.