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Michael W. Ballance

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Third-Party Innocence: Domestic Authorization of Foreign Copyright Infringement and Subafilms, Ltd. v. MGM-Pathe Communications Co.

I. Introduction

What, one might ask, is the reason for all of the shaking in Hollywood recently? It could be another California earthquake. However, it may also be the trembling of fearful authors, musicians, and movie producers in the wake of the Ninth Circuit’s recent decision in Subafilms, Ltd. v. MGM-Pathe Communications Co.¹ This is because the holding in Subafilms arguably puts in jeopardy the security of copyrighted materials in the global market.²

The main issue faced in Subafilms is whether an infringement claim exists under section 106 of the Copyright Act³ “when the asserted infringing conduct consists solely of the authorization within the territorial boundaries of the United States of acts that occur entirely abroad.”⁴ The court faced two central questions in addressing the issue. The court first had to determine the extent of the authorization right granted to copyright owners in section 106 of the Act.⁵ Next, the court addressed whether the Copyright Act should be applied extraterritorially.⁶ The cases that had previously examined these problems were somewhat conflicting in their interpretations and applications.⁷ Nonetheless, the Subafilms court held that domestic authorizations of foreign copyright infringements are not actionable under

¹ 24 F.3d 1088 (9th Cir.), cert. denied, 63 U.S.L.W. 3382 (U.S. Nov. 14, 1994) (No. 94-546).
⁴ Subafilms, 24 F.3d at 1089.
⁵ For a discussion of the court’s treatment of authorization, see infra notes 27-39.
⁶ For a discussion of the court’s treatment of extraterritorial application, see infra notes 40-48.
⁷ See discussion infra parts III.A, IV.A.
the Copyright Act, absent further guidance from Congress.⁸

*Subafilms* is important because it attempts to establish a solid rule in the area of copyright authorizations.⁹ The case is also significant because it reinforces the strict presumption of territoriality in the area of copyright protection.¹⁰ Regardless of the solidity or the consequences of the decision, it puts copyright owners on clear notice as to the extent of protection they can expect from the courts in cases of domestic authorization of foreign infringements.

In Part II, this Note will examine the facts, procedural history, and decision in the *Subafilms* case. Parts III and IV of this Note will analyze the court's reasoning in *Subafilms* within the context of the law regarding the authorization right and the extraterritorial application of the Copyright Act. Part V will conclude that the court's decision, while correct on the issue of the extraterritorial application of U.S. law, is questionable with regard to whether an infringement claim can be brought for domestic authorization.

II. Statement of the Case

A. Facts

In 1966, the British rock band, The Beatles, through Subafilms, Ltd., entered into a joint venture with Hearst Corporation to produce the animated movie "Yellow Submarine."¹¹ Hearst, as agent for the joint venture (the Producer), negotiated an agreement to distribute and finance the film with United Artists Corporation (UA).¹² Additional agreements were made in 1967, and under these terms, UA distributed the film to movie theaters in 1968 and later to television.¹³ In the early 1980s, UA refused to license "Yellow Submarine" for videocassette because of uncertainty concerning the rights granted in the 1967 agreement.¹⁴ Nevertheless, in 1987, UA's successor company, MGM/UA Communications Company (MGM/UA), authorized its subsidiary, MGM/UA Home Video, Inc., to distribute the picture domestically and notified Warner Bros., Inc (Warner), in accordance with a prior licensing agreement, that the film was cleared for international distribution.¹⁵ Despite the Producer's objections, Warner entered into agreements with third parties for overseas distribution.¹⁶

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⁸ *Subafilms*, 24 F.3d at 1095.
⁹ See discussion infra part III.B.
¹⁰ See discussion infra part IV.B.
¹¹ *Subafilms*, 24 F.3d at 1089.
¹² Id.
¹³ Id.
¹⁴ Id.
¹⁵ Id.
¹⁶ Id.
B. Round I: District Court and Appeal

In 1988, Subafilms and Hearst (Appellees) brought suit against MGM/UA, Warner, and their subsidiaries (collectively the Distributors or Appellants), claiming that the videocassette distribution of the film, both foreign and domestic, constituted copyright infringement and breach of the 1967 contracts. The case was first tried before a retired California Superior Court Judge acting as a special master, who found for Appellees on both counts. The district court adopted all but one of the special master’s factual findings and legal conclusions, awarding $2,228,000 in compensatory damages to Appellees.

A panel of the U.S. Court of Appeals for the Ninth Circuit affirmed this decision, holding that both the domestic and foreign videocassette distributions amounted to infringement under the Copyright Act. The court reasoned that, in accordance with the decision in Peter Starr Production Co. v. Twin Continental Films, Inc., an infringement action exists under the Copyright Act where the illegal authorization of an entirely foreign infringement takes place in the United States.

C. Round II: Rehearing

1. Issue and Holding

The Ninth Circuit Court of Appeals re-examined the issue of liability for the foreign distributions in February 1994 by granting Appellant’s petition for rehearing en banc. The question was whether the initial ruling in Subafilms conflicted with a later decision of the court in Lewis Galoob Toys, Inc. v. Nintendo of America, Inc. This time, the court overruled Peter Starr to the extent that it held extraterritorial acts actionable in the United States. The court found in favor of Appellants, vacated the earlier panel’s decision, and remanded the case.

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17 Id.
18 Id.
19 Id.
20 Subafilms, Ltd. v. MGM-Pathe Communications Co., Nos. 91-56248, 91-56379, 91-56289, 1993 WL 39269 (9th Cir. Feb. 17, 1993). The court did not reach the breach of contract issue. Id.
21 783 F.2d 1440 (9th Cir. 1986). For a full discussion of this case, see infra notes 54-60 and accompanying text.
22 Subafilms, 24 F.3d at 1090.
23 Id. Liability for the domestic infringement was not contested by Appellants on rehearing.
24 964 F.2d 965 (9th Cir. 1992), cert. denied, 113 S. Ct. 1582 (1993). For a full discussion of this case, see infra notes 77-82 and accompanying text.
25 Subafilms, 24 F.3d at 1090.
26 Id. Appellees stand to lose a significant portion, possibly half, of their $2,228,000 award since it was based on both domestic and foreign infringement damages.
2. The Court's Reasoning

The court began its analysis by noting that the Peter Starr court had conceded that extraterritorial acts themselves, even though authorized in the United States, could not constitute primary infringements\textsuperscript{27} of the Copyright Act.\textsuperscript{28} Therefore, the Subafilms court determined that Peter Starr stood for the proposition that one could be liable as an "infringer" merely for authorizing a primary infringement that would have been illegal if committed in the United States.\textsuperscript{29} The Subafilms court took issue with this rule.\textsuperscript{30} The court maintained that the addition of the words "to authorize" in the 1976 Amendments to the Copyright Act was meant to codify the doctrine of "contributory infringement"\textsuperscript{31} as a form of third-party liability, not to establish a direct cause of action for illegal authorization.\textsuperscript{32} Thus, if no cause of action existed against the primary infringer, then neither did a cause exist against the authorizer of the act.\textsuperscript{33} The court then stated that, since U.S. copyright laws have no effect outside the United States, an extraterritorial primary infringement cannot serve as grounds on which to base the authorizing contributory infringement.\textsuperscript{34}

Next, the court addressed several arguments forwarded by Appellees. The first was the contention that this case was materially different from Lewis Galoob and Columbia Pictures Industries v. Professional Real Estate Investors, Inc.,\textsuperscript{35} because here the primary acts, although committed overseas, were in fact infringements specified in section 106.\textsuperscript{36} The

\begin{footnotesize}
\textsuperscript{27} A primary infringement is the direct violation of a right granted to a copyright owner under § 106 of the Copyright Act. Contributory infringement is the aiding or authorizing of another to commit a primary infringement. For example, if A rents a properly copyrighted movie to B for use in an unauthorized public performance, A is the contributory infringer, and B the primary infringer. See H.R. Rpt. No. 1476, 94th Cong., 2d Sess. 61 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5674.
\textsuperscript{28} Subafilms, 24 F.3d at 1091.
\textsuperscript{29} Id. at 1092.
\textsuperscript{30} Id. at 1092.
\textsuperscript{31} Contributory copyright infringement developed in accordance with the joint-tortfeasor principles of vicarious liability. As such, there had to exist a direct infringement of the owner's exclusive rights by a third party for an action of contributory infringement to lie. Alfred P. Ewert & Irah H. Donner, Will the New Information Superhighway Create "Super" Problems for Software Engineers? Contributory Infringement of Patented or Copyrighted Software-Related Applications, 4 ALB. L.J. SCI. & TECH. 155, 186-90 (1994). Because vicarious liability encompassed the theory of joint and several liability, however, either the direct infringer or the authorizer could be held liable for the harm. Under this scheme, the owner of a copyright could institute a direct action against the authorizer without joining the primary infringer in the suit. See, e.g., Screen Gems-Columbia Music v. Mark-Fi Records, 256 F. Supp. 399, 401 (S.D.N.Y. 1966) (allowing a suit against an advertising agency that promoted pirated records and the record station that broadcast them even though the direct infringer had fled the jurisdiction and could not be found).
\textsuperscript{32} Subafilms, 24 F.3d at 1092.
\textsuperscript{33} Id.
\textsuperscript{34} Id. at 1093.
\textsuperscript{35} For a full discussion of Columbia Pictures and Lewis Galoob, see infra notes 61-64, 77-82 and accompanying text.
\textsuperscript{36} Subafilms, 24 F.3d at 1093. Section 106 of the Copyright Act gives the copyright
\end{footnotesize}
court dismissed this distinction on the grounds that there was no meaningful difference between acts not listed in section 106 and primary infringements that are not actionable because they occur overseas.\textsuperscript{37} The court then distinguished Appellees second argument—that extraterritorial application of copyright laws is allowed where the "infringement permits further reproduction abroad"\textsuperscript{38}—by maintaining that the cases supporting this principle held infringers liable for the actual "acts" they committed in the United States, not their authorization of acts.\textsuperscript{39}

Finally, the court addressed Appellees argument that U.S. copyright laws should be applied extraterritorially.\textsuperscript{40} Citing judicial adherence to the \textit{EEOC v. Arabian American Oil Co. (Aramco)} presumption of territoriality,\textsuperscript{41} the court found no evidence of congressional intent for the Copyright Act to be applied extraterritorially.\textsuperscript{42} The court refused to accept Appellees' reliance on \textit{Environmental Defense Fund v. Massey}\textsuperscript{43} in support of the argument that the \textit{Aramco} presumption should be overcome when failure to apply the law will "result in adverse effects within the United States."\textsuperscript{44} The court found that \textit{Massey} does not demand extraterritorial extension in this situation,\textsuperscript{45} that the statutes involved in \textit{Massey} showed some congressional intent for application outside the United States,\textsuperscript{46} and that \textit{Massey} approved of the use of the \textit{Aramco} presumption where it would avoid "clashes" of law and "international discord"\textsuperscript{47} as it would in the instant case.\textsuperscript{48}

\textsuperscript{37} \textit{Subafilms}, 24 F.3d at 1094 (citing Danjaq, S.A. v. MGM/UA Communications, Co., 773 F. Supp. 194, 203 (C.D. Cal. 1991), aff'd on other grounds, 979 F.2d 772 (9th Cir. 1992)). For a full discussion of Danjaq, see infra notes 65-70 and accompanying text.

\textsuperscript{38} \textit{Subafilms}, 24 F.3d at 1094 (quoting Update Art, Inc. v. Modiin Publishing, Ltd., 843 F.2d 67, 73 (2d Cir. 1988)). For a discussion of Update Art, see infra notes 177-79 and accompanying text.

\textsuperscript{39} \textit{Subafilms}, 24 F.3d at 1094.

\textsuperscript{40} \textit{Id.} at 1095.

\textsuperscript{41} 449 U.S. 244 (1991). For a discussion of the \textit{Aramco} presumption and exceptions to its application, see infra notes 152-65 and accompanying text.

\textsuperscript{42} \textit{Subafilms}, 24 F.3d at 1096.

\textsuperscript{43} 986 F.2d 528 (D.C. Cir. 1993). For a discussion of \textit{Massey}, see infra notes 166-72 and accompanying text.

\textsuperscript{44} \textit{Subafilms}, 24 F.3d at 1096 (quoting \textit{Massey}, 986 F.2d at 531).

\textsuperscript{45} \textit{Id.}

\textsuperscript{46} \textit{Id.}

\textsuperscript{47} \textit{Id.} at 1097 (quoting \textit{EEOC v. Arabian American Oil Co. (Aramco)}, 499 U.S. 244, 248 (1991)).

III. The Scope of the “Authorization” Right

In Subafilms, the Court of Appeals for the Ninth Circuit establishes a bright-line rule against direct actions for domestic authorizations of foreign copyright infringements. This decision attempts to reconcile the confusion in the case law regarding the scope of the authorization right granted copyright owners under the 1976 Amendments to the Copyright Act. In doing so, the court holds that authorization is solely a third-party form of liability, and that wholly foreign infringements cannot form the basis upon which a contributory claim is based. An analysis of the statutory and case law suggests, however, that the court could have allowed an authorization claim under the facts in Subafilms.

A. Background Law

The applicable statute in Subafilms is section 106 of the Copyright Act which states that:

[T]he owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

1. to reproduce the copyrighted work in copies or phonorecords;
2. to prepare derivative works based upon the copyrighted work;
3. to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending;
4. in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; and
5. in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly.

Also of importance is section 501 of the Copyright Act which asserts that:

(a) Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118...is an infringer of the copyright.
(b) The legal or beneficial owner of an 'exclusive right under a copyright is entitled ... to institute an action for any infringement of any particular right committed while he or she is the owner of it.

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49 Subafilms, 24 F.3d at 1090. Commentators are not uniform in their views on this issue. Compare 3 Melville B. Nimmer & David B. Nimmer, Nimmer on Copyright § 12.04 [A][3][b], at 12-86 (1994) ("[A] primary activity outside the boundaries of the United States...cannot serve as the basis for holding liable under the Copyright Act one who is merely related to that activity within the United States.") with Paul Goldstein, Copyright: Principles, Law and Practice § 6.1, at 706 n.4 (1989) (concluding that Peter Starr's interpretation of section 106's authorization right would appear to be at least literally correct since the statute nowhere requires that the direct infringement occur within the United States).
50 Subafilms, 24 F.3d at 1093-95. See discussion infra part III.B.
51 Subafilms, 24 F.3d at 1090.
Since the passage of the 1976 Amendment to the Copyright Act, courts have endeavored to decide whether or not the words "to authorize" in section 106 of the Act grant the copyright owner a direct cause of action against illegal authorizers. An early case that directly addressed the issue was *Peter Starr Production Co. v. Twin Continental Films, Inc.*\(^54\) In *Peter Starr*, defendants entered into a licensing agreement in the United States with a third party for the foreign distribution of plaintiff's movie without plaintiff's authority.\(^55\) Subsequently, over four hundred copies of plaintiff's film were distributed on videocassette in Sweden and the United Kingdom.\(^56\) The Ninth Circuit held that plaintiffs had properly alleged a copyright infringement under the Copyright Act.\(^57\) Reading sections 106 and 501 together, the court determined that the "plain language" of the Act established a direct cause of action against illegal authorizations that occur within the United States.\(^58\) According to its interpretation of both the statute and the Supreme Court's holding in *Sony Corp. of America v. Universal City Studios, Inc.*,\(^59\) the court held that defendants were directly liable for their illegal authorization of a right protected under section 106.\(^60\)

The Ninth Circuit continued its effort to define the limits of the Copyright Act as applied to illegal authorizations in *Columbia Pictures Industries v. Professional Real Estate Investors, Inc.*\(^61\) There the court determined that the providing of videodisc players to hotel guests did not constitute an illegal authorization.\(^62\) Because hotel viewers were not using the movies for "public" performances, their actions did not fall

\(^{54}\) 783 F.2d 1440 (9th Cir. 1986).
\(^{55}\) Id. at 1441-42.
\(^{56}\) Id. at 1442.
\(^{57}\) Id. at 1443.
\(^{58}\) Id. at 1442-43.
\(^{59}\) Id. at 1443 (quoting Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 435 n.17 (1984)). In *Sony*, copyright owners of various television programs brought suit against Sony for allegedly authorizing and assisting in the infringement of their protected shows. Sony Corp., 464 U.S. at 420. The owners claimed that Sony's manufacture of home video tape recorders (VTRs) allowed individuals to record and to exhibit commercially their works in violation of the Copyright Act. *Id.* The Court found that the consumers' use of the VTRs for "time-shifting" convenience constituted a "fair use" over which the copyright owners had no control. *Id.* at 454-55. Thus, the Court concluded, the sale of VTRs by Sony did not constitute contributory infringement. *Id.* at 456.

In *Sony*, the Supreme Court stated that: "[A]n infringer is not merely one who uses a work without authorization by the copyright owner, but also one who authorizes the use of a copyrighted work without actual authority from the copyright owner." *Id.* at 417, 435 n.17 (alteration in original). The *Peter Starr* court relied on the Supreme Court's definition of an "infringer" to find defendants guilty for unauthorized licensure of an act prohibited under § 106 of the Copyright Act. *Peter Starr Prod. Co. v. Twin Continental Films, Inc.*, 783 F.2d 1440, 1442-43 (9th Cir. 1986). Thus, the finding by the *Peter Starr* court is distinguished from that in *Sony* where the actions of the primary infringers were found to be "fair uses" and not prohibited under § 106. *Sony*, 464 U.S. 454-55.

\(^{60}\) Peter Starr, 783 F.2d at 1442-43.
\(^{61}\) 866 F.2d 278 (9th Cir. 1989).
\(^{62}\) Id. at 279-81.
under the restrictions of section 106. The court reasoned that an authorizing party (i.e., the hotel) could not be held liable when the actions of the authorized party (i.e., the hotel guest) did not constitute a violation under the Act.

The Court for the Central District of California faced the authorization issue two years later in Danjaq, S.A. v. MGM/UA Communications Co. In this case, U.S.-based defendants sought agreements with numerous European television stations to distribute plaintiff’s movies without plaintiff’s consent. Because the movies had not been distributed or publicly aired at the time of the suit, and under the terms of the agreement could not be illegal, the court held that defendants were not liable for illegal authorization. The court reasoned that, although sections 106 and 501 grant a direct cause of action for authorization, there must first be a primary infringement of the Act upon which to base the liability of the authorizer.

The Danjaq court went on to state that, because U.S. copyright laws do not apply overseas, the authorizations could not have been illegal because the primary infringements would not fall under the jurisdiction of section 106 of the Copyright Act. However, this portion of the opinion seems at odds with the court’s reasoning earlier in its decision. In defining the word “authorize,” the court had stated, “there may be many reasons why a party may not be held accountable for its conduct in court. What is important is that contributory infringement be hinged upon an act of primary infringement, even if the primary infringer for some reason escapes judicial scrutiny.” This statement seems to suggest that the authorizer of an extraterritorial violation would be liable as long as there was evidence of an actual primary infringement of a section 106 right.

The District Court for the Eastern District of California attempted to reconcile this apparent contradiction in the case law in ITSI T.V. Productions v. California Authority of Racing Fairs. In ITSI T.V., California-based defendants allegedly authorized simultaneous broadcasts of closed-circuit television signals to Mexico without plaintiff’s permis-
Looking to sections 106 and 501, the court concluded that the Copyright Act establishes a direct cause of action for illegal authorizations in the United States. The court maintained that this action is a contributory liability action, however, and must follow a primary infringement. The court explained that the location of the "authorized" act is irrelevant, though, as long as it is the type of act that is illegal under section 106. Thus, the court combined the notions of the authorization right expressed in Peter Starr with those of Columbia Pictures. The court accords its interpretation with Danjaq by noting that the case was decided on the contract issue and that the Danjaq court should have limited its opinion to that finding.

The Ninth Circuit Court of Appeals addressed the authorization question most recently in Lewis Galoob Toys, Inc. v. Nintendo of America, Inc. Defendant's product, the Game Genie, enabled users to alter the performance of plaintiff's home video games. Plaintiffs claimed that defendant's marketing and sale of the item "authorized" the creation of derivative works by consumers. The court disagreed on the grounds that the users were not creating derivative works as understood to fall under section 106 protection. Relying on the decision in Sony, the same authority cited in Peter Starr, the court concluded that there cannot be liability for authorizing an action that is not unlawful under the Copyright Act.

B. Significance of Subafilms

In following the holding in Lewis Galoob, the Subafilms court signals a retreat from the more expansive readings of the authorization right as defined by Peter Starr, Danjaq, and ITSI T.V. The crux of the Subafilms court's decision is that the phrase "to authorize" in section 106 grants copyright owners only a third-party cause of action and not

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72 Id. at 856-57. Interestingly, because no evidence of intent or knowledge was offered, the plaintiff in ITSI T.V. failed to produce sufficient evidence of an illegal authorization in the United States. Id. at 864-66. And, because the court lacked subject matter jurisdiction, the court would not allow evidence to be introduced to show an illegal primary infringement in Mexico to overrule defendant's motion for summary judgment. Id. at 864-65.

73 Id. at 859-60.

74 Id. at 861 (citing Cable/Home Communications v. Network Prods., Inc., 902 F.2d 829, 845 (11th Cir. 1990)).

75 Id. at 863.

76 Id.

77 964 F.2d 965 (9th Cir. 1992), cert. denied, 113 S. Ct. 1582 (1993).

78 Id. at 967.

79 Id. at 970.

80 Id.

81 See supra note 59.

82 See Lewis Galoob Toys, Inc v. Nintendo of Am., Inc., 964 F.2d 965, 970-71 (9th Cir. 1992) ("recogniz[ing] that a party who distributes a copyrighted work cannot dictate how that work is to be enjoyed"), cert. denied, 113 S. Ct. 1582 (1993).
a direct cause of action against illegal authorizers. Therefore, if the primary infringer cannot be held liable under the Copyright Act, neither can the authorizer. An analysis of applicable statutory and case law suggests, however, that in reaching this conclusion, the court underemphasized the effect of section 501 of the Act and overemphasized the liability of the primary infringer as opposed to the type of infringing activity involved.

First, the *Subafilms* court arguably did not recognize the importance of section 501 of the Copyright Act to the reserved rights enumerated in section 106. Section 501 is critical in determining the scope of the authorization right granted to copyright owners. Section 106 merely grants the authorization right, while section 501 clarifies who may institute an action for enforcement of that right. Section 501(a) defines an “infringer” as “[a]nyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118.” The Act goes on to state in section 501(b) that a copyright owner may “institute an action for any infringement of any particular right.” These rights include the exclusive privilege of copyright owners “to authorize” the duplication and distribution of copyrighted material. Reading the “plain language” of the Act, as did the *Peter Starr* court, sections 501 and 106 together appear to state a direct cause of action merely for the illegal authorization of infringing uses of copyrighted works.

The legislative history of the Act supports this view. Congress stated that the “[u]se of the phrase ‘to authorize’ is intended to avoid any questions as to the liability of contributory infringers.” The Supreme Court lent its support to this view. In *Sony*, the Court stated that “an infringer is not merely one who uses a work without authorization by the copyright owner, but also one who authorizes the use of a copyrighted work without actual authority from the copyright owner.” Thus, although the authorization claim must by definition

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83 *Subafilms*, Ltd. v. MGM-Pathe Communications Co., 24 F.3d 1088, 1093 (9th Cir.), cert. denied, 63 U.S.L.W. 3382 (U.S. Nov. 14, 1994) (No. 94-546).
84 *Id.*
87 *Id.* § 501(a).
88 *Id.* § 501(b).
89 *Id.* § 106(1)-(5) (1988).
90 *Peter Starr Prod. Co. v. Twin Continental Films, Inc.*, 783 F.2d 1440, 1442-43 (9th Cir. 1986).
93 *Sony*, 464 U.S. at 435 n.17. In *Sony*, the authorization suit proceeded even though neither the identity of all the direct infringers nor the exact infringements were known. *Id.*
be based on a primary infringement, the claim is a direct action against
the authorizer in his capacity as an “infringer” irrespective of the lia-

ability of the primary infringer.94

The Subafilms court did not substantially address the impact of sec-

tion 501 on the authorization right.95 The court’s reading of the

phrase “to authorize” came almost exclusively from its earlier holding in Lewis Galoob.96 However, the Lewis Galoob court failed to mention

the section 501 provision in its opinion.97 Thus, the court’s analysis of

the relevant statutory law arguably fails to recognize the weight the Act
gives to focusing on the authorizer as an independent infringer.98

Second, the Subafilms court overemphasized its ability to subject
primary infringers to liability under the Copyright Act without looking
at the type of infringement involved. In its analysis, the court focuses
on what it views as two irreconcilable trends in the case law.99 Ac-

cording to the court, the first supports a third-party cause of action and the

other a direct cause of action for authorization.100 The court resolves

the perceived conflict by looking to the history of contributory copy-

right infringement doctrine under the 1909 Act, thereby strictly adopt-
ing authorization as a third-party cause of action.101 This holding,

however, fails to recognize the important integration of illegal authori-

zation in the case law since the passage of the 1976 Amendment.102

One strand of the case law appears to support the application of
authorization as a third-party cause of action. In Lewis Galoob, the
court held that no infringing authorization had been committed by
defendant because the court found no “unfair use” by consumers of
defendants’ product.103 Similarly, the Columbia Pictures court held that
viewing movies in a hotel room was not a “public” performance under
section 106; therefore, the providing of videodisc players for viewing

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94 Sony, 464 U.S. at 435 n.17.
95 Subafilms, Ltd. v. MGM-Pathe Communications Co., 24 F.3d 1088, 1090-92 (9th
96 Id. at 1092. The court also cited for authority Columbia Pictures Indus. v. Profes-
sional Real Estate Investors, Inc., 866 F.2d 278, 279-81 (9th Cir. 1989) and 3 DAVID NIMMER &
MELVILLE B. NIMMER, NIMMER ON COPYRIGHT § 12.04[A][3][a], at 12-80 n.82 (1991).
97 Lewis Galoob Toys, Inc. v. Nintendo of Am., Inc., 964 F.2d 965 (9th Cir. 1992), cert.
98 This failure may account for the court’s emphasis on the location of the primary
infringements.
99 Subafilms, 24 F.3d at 1091-92.
100 Id.
101 Id. at 1092-93.
102 For a discussion of the cases supporting this contention, see infra notes 103-10 and
accompanying text.
103 Lewis Galoob Toys, Inc. v. Nintendo of Am., Inc., 964 F.2d 965, 970-71 (9th Cir.
the movies was not an illegal authorization.\footnote{104} Finally, in \textit{Danjaq} there was deemed to be no illegal authorization because the anticipated infringing use had not yet taken place, and therefore there was no primary infringement.\footnote{105} Under this theory, a primary infringement under section 106 must be actionable before an illegal authorization action based on that infringement can be sustained.\footnote{106}

The other strand of cases appears to interpret illegal authorization as a direct infringement of the Copyright Act.\footnote{107} In \textit{Peter Starr}, the defendant authorized the illegal reproduction of videocassettes overseas,\footnote{108} and in \textit{ITSI T.V.}, the defendants were alleged to have improperly authorized the rebroadcast of closed-circuit television signals to infringers in Mexico.\footnote{109} The courts in both cases concluded that the specific country in which the "authorized" act took place was irrelevant; therefore, the authorization alone was actionable as a direct infringement.\footnote{110}

The reason for this divergence of opinions seems readily explainable. It would be unjust for courts to hold a person liable for authorizing an act that would not be illegal had the person directly committed that act.\footnote{111} By the same reasoning, it seems equally unjust that one can violate a copyright by authorizing its illegal use, but escape liability just because the "partner in crime" is overseas.\footnote{112} The attempt by courts to reconcile these differing fact situations accounts for the perceived dichotomy in the case law.

Nevertheless, a pattern emerges when all the cases are examined together. Courts have allowed direct actions against illegal authorizers as long as a section 106 primary infringement has occurred, irrespective of whether or not the primary infringer could be held liable individually.\footnote{113} A full reading of precedent, therefore, reveals that the phrase "to authorize" both encompasses the doctrine of contributory infringement as a third-party theory of liability \textit{and} establishes a direct cause of action against illegal authorizers. This helps explain the seemingly contrary decisions in the factually similar cases of \textit{Danjaq}

\begin{footnotesize}
\footnotetext{104}{\textit{Columbia Pictures Indus. v. Professional Real Estate Investors, Inc.}, 866 F.2d 278, 279-81 (9th Cir. 1989).}
\footnotetext{105}{\textit{Danjaq, S.A. v. MGM/UA Communications Co.}, 773 F. Supp. 194, 200-02 (C.D. Cal. 1991), \textit{aff'd on other grounds}, 979 F.2d 772 (9th Cir. 1992).}
\footnotetext{106}{\textit{Subafilms, Ltd. v. MGM-Pathe Communications Co.}, 24 F.3d 1088, 1092 (9th Cir.), \textit{cert. denied}, 53 U.S.L.W. 3382 (U.S. Nov. 14, 1994) (No. 94-546); \textit{Lewis Galoob}, 964 F.2d at 970.}
\footnotetext{107}{\textit{See infra} notes 108-10 and accompanying text.}
\footnotetext{108}{\textit{Peter Starr Prod. Co. v. Twin Continental Films, Inc.}, 783 F.2d 1440, 1441-42 (9th Cir. 1986).}
\footnotetext{110}{\textit{Peter Starr}, 783 F.2d at 1442-43; \textit{ITSI T.V.}, 785 F. Supp. at 863.}
\footnotetext{111}{\textit{See} 3 \textit{Melville B. Nimmer & David Nimmer, Nimmer on Copyright} § 12.04[A][3][b]; at 12-86 to 12-92 (1994).}
\footnotetext{112}{\textit{See} \textit{ITSI T.V.}, 785 F. Supp. at 862-63.}
\footnotetext{113}{\textit{See discussion supra} part IIIA.}
\end{footnotesize}
and Peter Starr. In both cases, subject matter jurisdiction could not be exercised over the alleged primary infringers, but in Peter Starr the actions of the primary infringer fell within the scope of the section 106 rights whereas in Danjaq they did not because they had not yet occurred. The central issue was whether the primary infringements were of the type protected as section 106 rights, not whether the Copyright Act applied to the location of the primary infringements.

When the effect of section 501 and the applicable case law are examined, it appears that the Subafilms court may have incorrectly applied the law of illegal authorization under the Copyright Act. Under the plain reading of the statute, the Act grants to copyright owners a direct cause of action against illegal authorizers. That cause is dependent on a finding that a primary infringement as defined in section 106 in fact occurred. The suit is not dependent, however, on the ability to hold the primary infringer liable. Accordingly, a confirmed foreign infringement falling under the rubric of section 106 should be able to form the basis of a domestic authorization action.

Thus, the Subafilms court could have found the domestic authorization of foreign copyright infringements illegal under the Copyright Act.

IV. Extraterritorial Application of the Copyright Act

The second issue in Subafilms was the applicability of the Copyright Act outside the borders of the United States. Appellees argued in Subafilms that the Copyright Act should apply extraterritorially “when the type of infringement permits further reproduction abroad,” and where the infringement “will result in adverse effects inside the United States.” The court did not agree. In so holding, the Ninth Circuit adopted a strict presumption against extraterritorial application of U.S. copyright law. Although this presumption is contrary to the

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114 See supra notes 54-60, 65-70 and accompanying text.
115 See supra notes 54-60, 65-70 and accompanying text.
116 See supra notes 85-90 and accompanying text.
117 See supra note 91-94 and accompanying text.
118 See supra note 91-94 and accompanying text.
120 Subafilms, Ltd. v. MGM-Pathe Communications Co., 24 F.3d 1088, 1089 (9th Cir.), cert. denied, 65 U.S.L.W. 3382 (U.S. Nov. 14, 1994) (No. 94-546).
121 Id. at 1089-90.
122 Id. at 1090, 1094 (quoting Update Art, Inc. v. Modiin Publishing, Ltd., 843 F.2d 67, 73 (2d Cir. 1988)).
123 Id. at 1095.
124 Id.
general trend, the court's decision is probably justified in light of the circumstances in this case. This section first will examine relevant cases in the development of the extraterritorial application doctrine. It will then analyze the Subafilms decision within this context.

A. Background Law

The extension of U.S. laws beyond the borders of the United States is an issue with which the Supreme Court has struggled for nearly a century. During that time, the Court has given varying weight to two factors in deciding whether to extend a statute extraterritorially: first, whether Congress intended a statute to apply extraterritorially, and second, whether extraterritorial application of a statute would cause international conflict.

Two early cases illustrate the Court's struggle to define the extraterritorial application of U.S. laws. In *American Banana Co. v. United Fruit Co.*, the Court refused to extend the Sherman Antitrust Act to a domestic corporation that induced Costa Rican officials to seize plaintiff's assets. Justice Holmes, writing for the Court, indicated that the direct injection of U.S. law into another sovereign's governmental actions was beyond the authority of the Court. Holmes went on to state that a statute should be read as "intended to be confined in its operation and effect to the territorial limits over which the lawmaker has general and legitimate power." In *New York Central Railroad Co. v. Chisholm*, the Court took a more strict approach, looking solely to the construction of the statute to determine whether extension outside the United States was permissible. The Court held that the federal Employer's Liability Act contained no language indicating an intent to apply it extraterritorially, and refused to grant recovery for the death of a U.S. citizen employed by a train company who was killed thirty miles inside Canada.

A significant case in the Court's effort to define a standard for extraterritorial application is *Foley Bros. v. Filardo*. In that case, Foley

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125 See discussion infra part IV.A.
126 See discussion infra part IV.B.
128 See infra notes 129-72.
131 Id. at 355.
132 Id. at 357.
133 268 U.S. 29 (1925).
134 Id. at 31.
135 Id. at 30-32 (interpreting Employers' Liability Act of Apr. 22, 1908, ch. 149, 35 Stat. 65 (amended 1910)).
Brothers, under contract with the U.S. government to build public works in Iraq, refused to pay their employee Filardo for overtime work. Filardo sought relief under the Federal Eight Hour Law. The Court, in holding against extraterritorial application, stated that no congressional intent could be found to extend the law outside the United States. In its analysis, however, the Court took a more expanded approach to determining intent than in previous cases, analyzing not only the language of the law, but also the legislative history and administrative interpretations.

The Supreme Court moved toward a combination and expansion of the intent and international comity tests in two cases interpreting the foreign application of the National Labor Relations Act of 1947 (NLRA). In Benz v. Compania Naviera Hidalgo, the Court refused to extend the NLRA to a controversy between the foreign crews of two foreign flag ships harbored in an American port. Similarly, in McCulloch v. Sociedad Nacional de Marineros de Honduras, the Court denied extension of the NLRA to Honduran crewmen on board a ship owned by a foreign subsidiary of an American corporation flying a foreign flag. In both cases, the Court expanded its analysis of statutory intent to include relevant evidence beyond the plain language of the statute. Both cases also included the Court’s consideration of broader international questions, including the United States interest in and connections with the dispute as well as the potential for international discord.

The Court applied this combination approach to find grounds for extending U.S. law in Steele v. Bulova Watch Co. In this case, the Court held that Bulova Watch Company could sue a U.S. citizen who had registered the Bulova name in Mexico and placed “Bulova” on Mexican watches in violation of U.S. trademark and unfair competi-

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137 Id. at 282-83.
138 Id. at 283 (citing 40 U.S.C. §§ 321-326 (1940) (repealed 1962)).
139 Id. at 285. The Subafilms court did not address the international comity question in Foley Bros.
140 Id. at 285-88.
142 553 U.S. 138 (1957).
143 Id. at 139. The Court first examined both the language and the legislative history of the statute and found no congressional intent to extend the Act. Id. at 142-44. The Court, however, went on to examine the U.S. interests in and connections to the dispute, as well as the potential for international conflict. Id. at 142. Since no American sailors were involved, and since the only connection was the location of the ships in an American port, the Court decided against extension. See id. at 145-47.
145 Id. at 12-14. Besides finding no congressional intent to extend the act, the Court emphasized the minor U.S. connections involved, and the potential for conflict with existing treaties and Honduran law. Id. at 14-20.
146 See supra notes 142-45 and accompanying text.
147 See supra notes 142-45 and accompanying text; see also Krolikowski, supra note 127, at 337-39.
tion laws. The Court read the statutes broadly and determined that defendant's actions were covered. Furthermore, the Court went on to state that Congress has the power to regulate the actions of U.S. citizens in foreign countries as long as the rights of the foreign country are not impinged.

The Court retreated from this trend and advocated a strict constructionist interpretation of U.S. statutes' extraterritorial application in EEOC v. Arabian American Oil Co. (Aramco). This suit involved the alleged Title VII discrimination of an American citizen employed by an American company doing business overseas. The majority stated that Congress makes laws under the presumption of territoriality. The presumption, according to the majority, "serves to protect against unintended clashes between [U.S.] laws and those of other nations which could result in international discord." Thus, the Court reaffirmed the general proposition that congressional legislation only applies within the borders of the United States unless specifically intended to apply abroad. The Court went on, however, to advocate a much stricter reading of congressional intent, reminiscent of N.Y. Central. The Court stated that, legislation will apply only within the United States "unless there is 'the affirmative intention of the Congress clearly expressed' " to the contrary. Finding no such intention, the majority found Title VII inapplicable.

Justice Marshall disputed the majority's holding that the presumption against extraterritoriality is a "canon" of statutory construction. Justice Marshall contended that the presumption should apply only after "all available indicia of Congress' intent" have been explored. Moreover, Justice Marshall suggested that two different levels of analysis should apply, depending upon the citizenship of the person af-

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150 Steele, 344 U.S. at 285-86.
151 Id.
153 Id. at 246-47. Title VII protects employees from discrimination because of their race, color, religion, sex, and national origin. 42 U.S.C. § 2000e-2(a)(1) (1988).
154 Id. at 248.
155 Id.
157 See supra notes 135-35 and accompanying text.
160 Aramco, 499 U.S. at 261 (Marshall, J., dissenting).
161 Id. at 266 (Marshall, J., dissenting).
fected by the law. Where the law merely regulates the conduct of U.S. citizens abroad, however, Justice Marshall supported a less strict presumption of territoriality. He stated: "Because two different rules of construction apply depending on the national identity of the regulated parties, the same statute might be construed to apply extraterritorially to United States nationals but not to foreign nationals."

The Court of Appeals for the District of Columbia qualified the Aramco majority's strict presumption of territoriality in Environmental Defense Fund v. Massey. At issue in Massey was whether the National Environmental Policy Act applied to actions in Antarctica. In holding that the Act did apply, the court announced three exceptions to the Aramco strict presumption of territoriality. The first exception arose when the "affirmative intention of the Congress clearly expressed" [was] to extend the scope of the statute to conduct occurring within other sovereign nations. The second exception applied when "adverse effects within the United States" would occur from the failure to extend the law. The last exception to the Aramco presumption was where the conduct regulated occurred primarily in the United States, even if the effects were largely felt extraterritorially. Only the last exception applied directly to the court's finding in Massey.

Two related cases on extraterritorial application figured promi-
nently in the *Subafilms* court’s analysis because they dealt directly with the foreign application of the Copyright Act. In *Robert Stigwood Group, Ltd. v. O’Reilly*, the Second Circuit Court of Appeals determined that Canadian performances of the copyrighted play “Jesus Christ Superstar” were not infringements under U.S. copyright law. The court maintained that only those domestic violations that allow for further reproduction of copyrighted materials abroad are covered by the Copyright Act. Because there was no initial act in the United States, and because plays cannot be reproduced abroad like written material, the court found no grounds for extending the Act to Canada. The Second Circuit elaborated on this holding in *Update Art, Inc. v. Modiin Publishing, Ltd.* In that case, the court allowed plaintiffs to recover under the Copyright Act for the unauthorized reproduction in Israel of defendant’s copyrighted poster. The court reasoned that since the initial reproduction took place in the United States, the Copyright Act would extend extraterritorially to determine damages based on sales in Israel.

**B. The Subafilms Court’s Approach**

Vital to the *Subafilms* court’s holding is its assertion that U.S. copyright laws do not operate extraterritorially. This conclusion serves as a ground for the court’s denial of Appellees’ third-party authorization action as well as its rejection of Appellees’ contention that the court should extend the authority of the Act as a whole. An examination of precedent in this area suggests that the court’s decision against extraterritorial application of the Copyright Act was appropriate despite difficulties in its analysis.

The first part of the court’s inquiry addressed Appellees’ reliance on the Second Circuit’s decisions in *Robert Stigwood* and *Update Art*. These opinions supported extraterritorial application of U.S. copyright laws where “the type of infringement permits further reproduction abroad.” The court properly distinguished these cases as involving

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173 530 F.2d 1096 (2d Cir. 1976).
174 Id. at 1100-01.
175 Id. at 1101.
176 See id. (explaining that the compulsory royalty provision under the statute was inapplicable because the initial preparations did not constitute infringing actions themselves).
177 843 F.2d 67, 73 (2d Cir. 1988).
178 Id.
179 See id. (explaining that if the facts did in fact show that the alleged copying occurred in the United States, the magistrate was correct to include damages accruing from the Israeli newspaper).
181 Id. at 1094.
182 Id. (quoting *Update Art, Inc. v. Modiin Publishing, Ltd.*, 843 F.2d 67, 73 (2d Cir. 1988)).
direct actions for domestic infringements.\textsuperscript{183} Plaintiffs in both cases sought liability on the basis of defendants' actual infringements in the United States, not for the authorization of a foreign activity.\textsuperscript{184} Under this reasoning, had the \textit{Subafilms} court found a sufficient infringing activity in the United States, the Copyright Act would have been extended extraterritorially to cover the effects of the foreign infringement.\textsuperscript{185} In the absence of such a showing, the court was correct in abiding by the tradition against extraterritorial application of the Copyright Act.\textsuperscript{186}

The second part of the court's extraterritorial analysis dealt with the judicial authority to extend acts of Congress to actions beyond the borders of the United States.\textsuperscript{187} In holding that the Copyright Act applies only to actions in the United States, the court relied heavily upon the \textit{Aramco} presumption.\textsuperscript{188} In doing so, the court applied a bright-line rule of territoriality.\textsuperscript{189} Under this interpretation, the presumption can be overcome only by the clear intent of Congress affirmatively expressed.\textsuperscript{190} This automatic deference to the presumption may have been premature. As Justice Marshall pointed out in his dissent in \textit{Aramco}, the presumption was designed as a final rule of construction to be applied only after all sources of congressional intent were exhausted.\textsuperscript{191}

The U.S. Court of Appeals for the Second Circuit recently bolstered Justice Marshall's argument. In \textit{Kollias v. D&G Marine Maintenance},\textsuperscript{192} the court held that the Longshore and Harbor Workers' Compensation Act (LHWCA) did apply to injuries sustained by workers on the high seas.\textsuperscript{193} The court maintained that, although the LHWCA was subject to the presumption against extraterritoriality, sufficient intent of Congress to apply the Act extraterritorially existed for extension and enforcement on the high seas.\textsuperscript{194} The court rejected

\textsuperscript{183} Id.
\textsuperscript{184} See id. at 1094-95.
\textsuperscript{185} See id.
\textsuperscript{186} See Update Art, Inc. v. Modlin Publishing, Ltd., 843 F.2d 67, 73 (2d. Cir. 1988) ("It is well established that copyright laws generally do not have extraterritorial application."); Robert Stigwood Group, Ltd. v. O'Reilly, 530 F.2d 1096, 1101 (2d. Cir. 1976) ("Copyright laws do not have extraterritorial operation."); ITSI T.V. Prod. v. California Auth. of Racing Fairs, 785 F. Supp. 854, 862 (E.D. Cal. 1992) ("As a general matter . . . United States copyright laws do not have extraterritorial effect . . ."); 3 Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 12.04[A][3][b], at 12-86 (1994) (stating that it is an "undisputed axiom that United States copyright law has no extraterritorial application").
\textsuperscript{187} Subafilms, 24 F.3d at 1095-99.
\textsuperscript{188} Id. For a discussion of the \textit{Aramco} presumption, see supra notes 152-59 and accompanying text.
\textsuperscript{189} Subafilms, 24 F.3d at 1095-96.
\textsuperscript{190} Id. at 1095.
\textsuperscript{192} 29 F.5d 67 (2d Cir. 1994).
\textsuperscript{193} Id. at 75.
\textsuperscript{194} Id. at 73-75.
the presumption as a strict rule by pointing out the possible logical inconsistencies under such an application: "If the presumption against extraterritoriality were a clear statement rule, reference to legislative history and other extrinsic indicia of congressional intent, including administrative interpretations, would be prohibited. In Aramco itself, however, the Court considered the EEOC's interpretation of Title VII."195

This reading by the Subafilms court also neglects the differential application standard advocated by Justice Marshall and the cases preceding Aramco.196 It is arguable that a more flexible standard for extending the Copyright Act could have been utilized in Subafilms because the primary infringer, Warner, was a domestic company.197 Nevertheless, the court's strict presumption application is defensible despite its failure to directly address the nationality issue. The purpose of the dual application standard is to respect foreign countries' sovereignty and thereby avoid international discord.198 This concern formed the basis of the Subafilms court's deference to the presumption.199 Justice Marshall maintained that the strict presumption of territoriality was appropriate under the differential application standard where the action of U.S. nationals abroad raises issues of international comity.200 Thus, the court achieved the same goal as the differential application would have accomplished, despite the court's neglect of the nationality issue.

Furthermore, the court's position is strengthened by its treatment of the Massey decision. Under Massey, the presumption of territoriality is supported in situations where extraterritorial application of U.S. law could cause international conflict.201 This factor was of prime concern to the Subafilms court.202 The court maintained that it was vital as a matter of public policy to respect the legal sovereignty of other nations since the United States had recently joined the Berne Convention.203

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195 Id. at 73. Cf. Jonathan Turley, "When in Rome": Multinational Misconduct and the Presumption Against Extraterritoriality, 84 NW. U. L. REV. 598, 601 (1990) (stating that "courts have developed fundamentally different tests for determining extraterritorial jurisdiction and that, contrary to common belief, there is no consistent canon of construction for interpreting ambiguous statutes").
196 For a discussion of the differential application of legislation to United States versus foreign nationals, see supra notes 160-65 and accompanying text.
198 See Aramco, 499 U.S. at 274 (Marshall, J., dissenting).
199 Subafilms, Ltd. v. MGM-Pathe Communications Co., 24 F.3d 1088, 1097 (9th Cir.), cert. denied, 63 U.S.L.W. 3382 (U.S. Nov. 14, 1994) (No. 94-546); see also infra note 203 and accompanying text discussing the national treatment principle under the Berne Convention.
200 See Aramco, 499 U.S. at 274 (Marshall, J., dissenting).
201 Environmental Defense Fund v. Massey, 986 F.2d 528, 530 (D.C. Cir. 1993).
202 See supra note 48.
203 Subafilms, 24 F.3d at 1097-98. The Berne Convention was originally established and adopted by ten countries in 1886. Hatch, supra note 2, at 174. A primary purpose of the Convention was the protection of copyrighted materials in international markets through the
Even assuming that the facts of *Subafilms* could fit into the *Massey* exceptions, the international comity issue was sufficient to justify deference to the legislature.204 This reason for not extending legislation extraterritorially is supported even by Justice Marshall.205 Accordingly, the *Subafilms* court reached the correct decision in light of the substantial policy considerations involved in the case.

V. Conclusion

The Ninth Circuit may have incorrectly held that domestic authorizations of wholly foreign copyright infringements do not state a cause of action under the Copyright Act. The court's finding that the words "to authorize" establish a third-party action dependent on a primary infringement is supported by substantial case law.206 Similarly, the court's refusal to extend the scope of the Act extraterritorially is in line with both precedent and public policy grounds.207 Nevertheless, the court's reasoning that extraterritorial primary infringements cannot serve as the basis for contributory authorizations in the United States confuses the issue of subject matter jurisdiction with the issue of third-party liability. What should be important is that the primary act falls under section 106, not whether U.S. copyright law applies to the primary act jurisdictionally for enforcement purposes. As such, the court's argument is unconvincing.

Despite the questionable analysis with respect to case law, the *Subafilms* case will probably have a noticeable impact on future copyright decisions by courts and individuals alike. The decision brings together two strands of case law interpreting the scope of section 106 and establishes a bright-line rule against actions for domestic authori-

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204 *Subafilms*, 24 F.3d at 1096-97.


206 See supra part III.A.

207 See supra part IV.A-B.
izations of foreign infringements. This will at least put copyright owners on notice that their intellectual property is vulnerable, even if it will not protect them from illegal authorizations. The decision also bolsters the presumption of territoriality in cases where international policy is likely to be affected.

A more workable solution to Subafilms would have been to allow direct actions against individuals within the United States who illegally authorize foreign infringements listed in section 106. This would preserve authorization as a traditional third-party theory of liability. However, it also would give courts the statutory authority to hold illegal authorizers liable for their actions without setting up artificial barriers to their prosecution, such as the site of the actual infringement. Combined with the presumption against extraterritorial application of the Copyright Act, this reading would more adequately protect intellectual property in the increasingly interconnected global market. The law would serve as a disincentive for individuals to authorize foreign infringements while engendering good relations with other nations for the protection of intellectual property.

MICHAEL W. BALLANCE

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208 The court's enunciation of this rule seems secure for the present time. The U.S. Supreme Court denied without comment Appellees' writ for certiorari. Subafilms, Ltd. v. United Artists Corp., 63 U.S.L.W. 3382 (U.S. Nov. 14, 1994) (No. 94-546).

209 The Subafilms court's holding on the issue of extraterritorial application of U.S. law has been cited already by at least two courts as supporting the presumption of territoriality. See Gushi Bros. Co. v. Bank of Guam, 28 F.3d 1535, 1538 (9th Cir. 1994) (holding that antitying provision of Bank Holding Company Act was not applicable to a transaction taking place wholly in the Republic of the Marshall Islands); In re Maxwell Communication Corp. v. Barclays Bank, 170 B.R. 800, 809 (Bankr. S.D.N.Y. 1994) (holding that the British rather than the American preference avoidance statute applied to a British corporation's preferential transfers to British and French banks).