

Chapter 4

Remedies First, Liability Second: Or Why We Fail to Agree on Optimal Design of Intermediary Liability?

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Intellectual property scholars in the area of intermediary liability spent now over two decades trying to answer when an intermediary should be liable for its users' actions. What if all this time too much emphasis was placed on the second-order issue of the optimal design? Can this question be answered without first knowing what an intermediary is/should be obliged to perform as a consequence of such legal qualification? This Chapter argues that policy debates concerning the optimal design of intermediary liability should reflect an inverse order of inquiry in order to elicit useful insights.

1. Introduction

Over the last years, attention in the literature has largely focused on analyzing how courts decide about the *conditions* leading to liability of intermediaries for their user's actions. Numerous authors studied issues related to the wide-range of market players active in all areas of intellectual property law.² What remains under-researched, however, is the question of the consequences that these legal qualifications entail. I am not aware of an in-depth comparative or empirical study that would try to map the extent of damages awarded, the scope and type of injunctions granted, the allocation of burden of proof, or similar highly practical issues. Angelopoulos gets the closest.³

For legal scholarship, very often, establishing the liability itself is an end-station. It is somehow implicitly assumed that intermediaries cannot recover and will simply shut down their services if held liable. This is striking, as it basically presuppose a world of one-chance intermediaries which cannot err and improve. It also makes the debate overly dramatic when it does not have to be. While some of the recent developments in the area of injunctions against innocent third parties started challenging these assumptions,⁴ it seems to me that scholarly review is still lagging behind when considering the system in its entirety.

To illustrate this in the European setting, let me offer a paradox. In the European Union, while deciding upon when to trigger liability is left to the Member states to legislate—although subject to the limitations of the E-Commerce Directive, human rights safeguards and increasing review of

¹ I would like to thank Christina Angelopoulos, Giancarlo Frosio and Miquel Peguera for their valuable comments on the earlier draft of this paper. All mistakes are solely mine.

² See, eg, Miquel Peguera, 'Hyperlinking under the lens of the revamped right of communication to the public' (2018) 34(5) *Computer Law & Security Rev* 1099-1118; Christina Angelopoulos, *European Intermediary Liability in Copyright: A Tort-based Analysis* (Kluwer Law International 2016); Jaani Riordan, *The Liability of Internet Intermediaries* (OUP 2016); Paul Davies, *Accessory Liability* (Hart 2015); Graeme Dinwoodie (ed) *Secondary Liability of Internet Service Providers* (Springer 2017); Mark Bartholomew and Patrick McArdle, 'Causing Infringement' (2011) 64 *Vanderbilt L Rev* 675.

³ See Angelopoulos (n 2).

⁴ Martin Husovec, *Injunctions Against Intermediaries in the European Union: Accountable, But Not Liable?* (Cambridge University Press 2017); Savola, Pekka, 'Blocking Injunctions and Website Operators' Liability for Copyright Infringement for User-Generated Links' (2014) 5 *EIPR* 279-288.

the Court of Justice (CJEU)—the issue of ensuing consequences has comparably more European footing in the Enforcement Directive and its regulation of remedies. In other words, *what* is more European than *when*. Despite this, most of the work on intermediary liability tackles the question of when to trigger consequences rather than what consequences to trigger.

2. Three legal pillars

IP scholars studying intermediary liability often distinguish between *primary* and *secondary* liability. While the first is delineated by the statutory exclusive rights, the second is shaped by doctrines which come to expand those rights. These doctrines are often grounded in general tort law. The basic notion is that while the primary infringers are wrongdoers due to their own exploitation of the protected objects, the secondary infringers only become wrongdoers when they contribute, in some relevant way, to other people's infringing actions. What is considered *relevant* differs substantially across the globe. However, what constitutes primary infringement differs too. The line between the primary and secondary liability is more fluid than one might think, as the latest developments in copyright law⁵ and trademark law testify.⁶

In a recent comparative edited volume, Dinwoodie concludes that 'an assessment of secondary liability cannot be divorced from (and indeed must be informed by) the scope of primary liability or other legal devices by which the conduct of service providers or their customers is regulated'.⁷ In other words, although categories of primary and secondary liability are important, they cannot be simply studied in isolation. Classification by either of them is made on the basis of our understanding of the breadth associated with each of them. Therefore, primary infringement and its scope cannot be uninformed by the scope of secondary infringement, and vice versa. In this contribution, I try to emphasize that this is true not only for the design of conditions of liability, but also of its associated consequences.

In the European Union, the question of the interface between primary/secondary liability is complicated by the fact that the choice between these two policy-layers is a reaction not only to associated trade-offs of scope, but also to Union's integration. Because the CJEU has no explicit jurisdiction over non-harmonized domestic secondary liability laws, if it wants to assert some jurisdiction, its policy choices have to be made either (1) entirely within primary liability, or (2) outside it, by creating an additional layer of protection drawing on national traditions of accessory liability. What we have been observing in the last couple of years in EU copyright law could be explained in both ways.⁸ Only the future will tell how the Court will eventually conceptualize its

⁵ See Case C-348/13 *BestWater v Mebes and Potsch* [2014] EU:C:2014:2315; Case C-279/13 *C More Entertainment AB v Sandberg* [2015] ECLI:EU:C:2015:199; Case C-160/15 (2016) *GS Media BV v. Sanoma Media Netherlands BV*, ECLI:EU:C:2016:644; Case C-610/15 *Stichting Brein v Ziggo BV and XS4All Internet BV* [2017] ECLI:EU:C:2017:456.

⁶ In the area of trademark law, the typical example is trademark use by Google in its keyword advertising, which is infringing in the EU but allowed in the United States. See Graeme Dinwoodie, 'A Comparative Analysis of the Secondary Liability of Online Service Providers' in Graeme Dinwoodie (ed), *Secondary Liability of Internet Service Providers* (Springer, 2017) 13. Another example is the emerging question about use of trademarks by Amazon on its platform. See C-567/18 discussed also in this book by Justice Richard Arnold in Chapter 20.

⁷ See Dinwoodie (n 6) 4.

⁸ For the debate, see Ansgar Ohly, 'The broad concept of "communication to the public" in recent CJEU judgments and the liability of intermediaries: primary, secondary or unitary liability?' (2018) 8(1) *JIPLP* 664-675; Jan Bernd Nordemann, 'Recent CJEU case law on communication to the public and its application in Germany: A new EU

own case-law on communication to the public when facing further national requests for clarification.⁹ Similarly, some national doctrines that are dressed as primary liability in fact incorporate policy considerations of secondary liability, and hence would be more appropriate to be studied as such.¹⁰

Secondary liability doctrines differ across the globe. However, in intellectual property scholarship, the term labels situations where the source of infringement is a third party's behavior. In the United States, doctrines of contributory liability, including forms of inducement, and vicarious liability incorporate this policy space.¹¹ In the UK, it is liability of accessories.¹² In Germany, it is liability of aiders and abettors, but also reaching into case-law concerning inducement, injunctive 'disturbance liability'¹³ and patent law's liability for wrongful omissions.¹⁴ All these doctrines consider different circumstances relevant.

In the last decade, we have also witnessed developments that create a third pillar of liability, that of *injunctions against innocent third parties*, in our context, *innocent intermediaries*.¹⁵ Unlike primary and secondary liability, these injunctions impose obligations on parties that engage in no wrongdoing themselves. These injunctions are often not grounded in tortious actions, although they can relevantly cross-reference to tort law. For instance, the English concept of injunctions against innocent third parties is based on equity and the German concept of 'disturbance liability'

concept of liability' (2018) 13(9) *JIPLP* 744-756; Pekka Savola, 'EU Copyright Liability for Internet Linking' (2017) 8 *JIPITEC* 139.

⁹ See, eg, the pending case C-753/18.

¹⁰ Dinwoodie (n 6) 8 ff (discussing the that the concept of authorization fits secondary liability too).

¹¹ See Mark Bartholomew and Patrick McArdle, 'Causing Infringement' (2011) 64 *Vanderbilt L Rev* 675; Salil Mehra and Marketa Trimble, 'Secondary Liability of Internet Service Providers in the United States: General Principles and Fragmentation' in Dinwoodie (ed) (n 6) 93-108; John Blevins, 'Uncertainty as Enforcement Mechanism: The New Expansion of Secondary Copyright Liability to Internet Platforms' (2013) 34 *Cardozo L Rev* 1821.

¹² See Paul Davies, *Accessory Liability* (Hart Publishing 2015) 177 ff.

¹³ Disturbance liability today still serves a dual role under the German case-law—that is to supplement for missing negligence based tortious liability of accessories on one hand, and to implement the EU system of injunctions against innocent intermediaries on the other. See Martin Husovec, 'Asking Innocent Third Parties for a Remedy: Origins and Trends' in Franz Hoffman and Franziska Kurz (eds) *Law of Remedies* (Intersentia, forthcoming 2019).

¹⁴ Accessory liability in German private law is generally based on the provision of § 830(2) BGB ("Instigators and accessories are equivalent to joint tortfeasors."), which, according to the case-law, requires, as in criminal law, a double intent, eg the acts of an accessory as well of the main tortfeasor have to be intentional. See Mathias Habersack et al, *Münchener Kommentar zum BGB* (6th edn, CH Beck 2013) § 830(2) para 15. Apart from this, the BGH recognized that inducement can lead to tortfeasorship. See *Cybersky* (2009) I ZR 57/07 (inducement). On the other hand, so called 'adopted content' seems to fall under the rubric of primary liability. See *Marions-kochbuch.de* (2009) I ZR 166/07; (2016) VI ZR 34/15 para 17; *Posterlounge* (2015) I ZR 104/14 para 48. In contrast, in patent law, a different senate accepted negligence based tortious liability for omissions. See *MP3-Player-Import* (2009) Xa ZR2/08.

¹⁵ See, recognizing this, Martin Husovec, 'Injunctions against Innocent Third Parties: The case of Website Blocking' (2013) 4(2) *JIPITEC* 116; Franz Hofmann, 'Markenrechtliche Sperranordnungen gegen nicht verantwortliche Intermediäre' [2015] *GRUR* 123; Riordan (n 2) §§ 1.49-1.60; Husovec (n 4); Dinwoodie (n 6) 3; Tatiana Eleni Synodinou and Philippe Jougoux, 'The Legal Framework Governing Online Service Providers in Cyprus' in Dinwoodie (ed) (n 6) 127; Ansgar Ohly, 'The broad concept of "communication to the public" in recent CJEU judgments and the liability of intermediaries: primary, secondary or unitary liability?' (2018) 8(1) *JIPLP* 672; Jan Nordemann, 'Liability of Online Service Providers for Copyrighted Content – Regulatory Action Needed?' (2018) 20 <[http://www.europarl.europa.eu/RegData/etudes/IDAN/2017/614207/IPOL_IDA\(2017\)614207_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/IDAN/2017/614207/IPOL_IDA(2017)614207_EN.pdf)>; Richard Arnold (2019) in *infra* Chapter 20.

is based on an analogy with protection in property law.¹⁶ Both are dependent on wrongdoings by *someone*, however, not by the person held responsible.¹⁷ In other countries, these instruments take the form of new statutory provisions,¹⁸ or a separate administrative regulation.¹⁹ Whatever the legal basis, the characteristic feature of these orders is that they are not premised on one's wrongdoing, and rather try to impose obligations due to considerations of efficiency or fairness. They treat intermediaries as accountable (for help), but not liable. While harm is not attributed to them, some form of assistance is required. Although some of these instruments can still come with a 'liability' label attached (e.g. German concept), the consequences clearly differ. Obligations are imposed on the services by courts or legislators without trying to attribute to them liability for individual instances of user-triggered harm.

While pillars of liability are distinct—and should be understood as mutually exclusive—their application might overlap. Although an intermediary who is a secondary infringer should not be also a primary infringer for the same set of facts, the courts might test both grounds of liability in parallel to strengthen their decisions.²⁰ Intermediaries in a position of secondary infringers could be targeted by injunctions against innocent intermediaries when right holders think it is easier not to discuss their wrongful contributions, and focus only on preventive steps to be imposed by injunctions. Given these dynamics, it should not be underestimated the extent to which the remedies can actually compete among each other when more of them potentially apply. Remedies are tools given to the plaintiffs to choose from in order to solve their situation. The plaintiffs will select them also taking into account their costs and expected benefits, and the practical difficulties in obtaining and enforcing them. Policy makers and judges disregarding this 'remedial competition' can lead to undesirable consequences, such as enforcement outcomes that put too much pressure, and thereby costs, on players who are innocent, as opposed to real wrongdoers.²¹

3. Distinguishing reasons from consequences

Primary and secondary liability tests both end with classifying the implicated persons as some type of infringer, ie wrongdoer. Despite this, the legal consequences cannot be said to be identical. Different consequences match different policy situations that these doctrines try to resolve. *Primary infringement* is concerned with those who harm by their own behavior. *Secondary infringement* is concerned with those who harm by relying on behavior of others to achieve the harmful outcomes.

¹⁶ See Husovec (n 4) 145 ff.

¹⁷ Please note that the German situation is complicated by the convergence with tortious principles.

¹⁸ In Australia, the Copyright Amendment (Online Infringement) Act 2015, effective on 27 June 2015, created a novel Section 115A titled 'injunctions against carriage service providers providing access to online locations outside Australia'.

¹⁹ See *infra* Chapters 13 and 30.

²⁰ See *Twentieth Century Fox Film Corporation & Anor v. Newzbin Ltd* [2010] EWHC608 (Ch) (Justice Kitchen finding Newzbin service liable under the doctrines of direct liability, joint tortfeasorship, and copyright-specific tort of authorization).

²¹ See Husovec (n 15) § 44 ff.

The economic analysis evaluates the preventive function of tort law rules by the parameters of precaution-levels and activity-levels.²² These essentially refer to quality and quantity of someone's behavior. Precaution refers to instantaneous adjustment in behavior, such as checking authorship before re-using content, or blocking third-party content upon notification.²³ Activity then refers to the decision to participate in an event that may generate harm, such as uploading the content or providing a service altogether.²⁴ The reason why the law wants to influence behavior is that it aims to stimulate socially optimal levels of care so that harm is avoided at a reasonable cost for society. Hence, the law requires diligence of users and intermediaries when dealing with copyright content owned by right holders. Users are asked to think about authorship and fair use; intermediaries to avoid inducing others to use protected subject matter without authorization or to remove it once they are notified of its existence on their services. If actors adopt sufficient standard of care to respect others' rights, the law allows them to engage in their activities.

Precaution-levels and activity-levels are crucial also for a proper understanding of remedies, and their role in solving liability scenarios.²⁵ First of all, the prevention of damage in online space is typically multilateral because the behavior of at least three parties needs to be involved—the intermediary, users and right holders. And second, unlike in a usual scenario of bilateral damages, the parameters of activity-level (quantity) and care-level (quality) are not necessarily vested with all the parties equally.²⁶

Intellectual property rights holders cannot really directly influence the quantity of infringement, as they can only reduce the production of protected subject matter or stop producing it altogether.²⁷ Indirectly, however, by setting prices and conditions of legitimate access to their works, some of the right holders (but not all of them) might be able to influence the activity-level of the users. Intermediaries are mostly unable to directly influence the quantity of the infringements posted by their users. Indirectly, however, by creating certain culture, or setting incentives, they might produce some outcomes. At the same time, by exercising a duty of care (e.g. taking content down or redesigning their service), they can also indirectly influence the number of infringements. However, unless they shut down the service or pre-moderate completely, they can never entirely control the infringing posts of their users.

Usually, the 'infringing ecosystem' might be significantly broader than the service itself, which means that this ecosystem can be sustained by independent unrelated services such as pirate discussion fora, which are outside of intermediaries' control. Therefore, business models and technical set-up are only indirect ways of control over other people's behavior]. Two services with identical governance structure can attract completely different use and communities. Similarly,

²² William Landes and Richard Posner, *The Economic Structure of Tort Law* (Harvard University Press 1987) 66; Steven Shavell, *Economic Analysis of Accident Law* (Harvard University Press 1987) 25; Stephen Gilles, 'Rule-Based Negligence and the Regulation of Activity Levels' (1992) 21 *The Journal of Legal Studies* 319, 327 and 330 (noting that the distinction between the two, however, is not always very sharp).

²³ Keith Hylton, 'Missing Markets Theory of Tort Law' (1996) 90 *Northwestern University Law Review* 977, 981

²⁴ *Ibid*

²⁵ Some of this debate is further developed in Martin Husovec, 'Accountable Not Liable: Injunctions Against Intermediaries' (2016) *TILEC Discussion Paper* No. 2016-012.

²⁶ See also Assaf Hamdani, 'Who's Liable for Cyberwrongs' (2002) 87 *Cornell L Rev* 901, 912

²⁷ William Landes and Douglas Lichtman, 'Indirect Liability for Copyright Infringement: An Economic Perspective' (2003) 16 *Harvard Journal of Law and Technology* 395, 409, 405 (noting that intermediaries can only indirectly influence users).

two rights holders with identical access and pricing strategies might attract different infringement patterns. Both intermediaries and right holders, in fact, try to influence users' behavior in order to reduce the extent of infringement. In both cases they are not in driver's seat.

To summarize this: primary liability relates to the addressee's own activity, while secondary liability relates mostly to the precautions the addressee has taken (or has failed to take) regarding the occurrence of someone else's infringement. Even intentional inducement, where minds of an intermediary and its users are aligned in intentional wrongdoing, does not assume full control of other people's behavior.²⁸ Wrongdoing users are not mere instruments of intermediaries but autonomously acting individuals who might be encouraged or incentivized, but still exercise their own will.

In a primary liability scenario, damages are imposed on the addressee to compensate the harm caused by its own activity, and injunctions aim at prohibiting him/her to engage again in the infringing activity. In contrast, in a secondary liability scenario, damages are also imposed as means to compensate the rights holder's harm resulting from an infringement but are imposed on an addressee who did not carry out the infringement through its own activity. Damages are usually imposed on the grounds that the addressee failed to take the precautions that he should have taken to avoid someone else's infringement. Likewise, injunctions in this scenario are aimed at imposing the duty to take precautions to avoid or reduce the risk of user's infringements (and thus other people's activity). However, this is different in intentional inducement scenarios, where the problem is one's own intention to stir other people's wrongdoing. Finally, in a scenario of mere accountability, damages are not being imposed. The injunctions do not impose a duty to take precautions to avoid own accessorship, but a duty to assist in preventing third parties' infringements similar to regulatory duties known from areas like anti-money-laundering legislation.

4. Typology of Consequences

To demonstrate some of these differences in practice, in the following part, I will briefly look at some of the consequences of applying each of the pillars to intermediaries. I try to demonstrate the difference by examining: (1) the scope of damages, (2) their aggregation, (3) the scope and goal of injunctions and (4) their associated costs.

4.1. Scope of Damages

Damages come with different scope in each of the three pillars. To begin with, damages do not exist in the system of injunctions against innocent third parties (accountability pillar).²⁹ With regards to *infringers*, the contributions of direct (primary) and indirect (secondary) infringers differ. While primary infringers exploit the protected subject matter themselves, the secondary infringers usually only facilitate someone else's unauthorized exploitation. In between the two are situations of intentional inducement, which acts as an important trigger for other people's

²⁸ This would amount to direct liability as those who assisted by not knowing would be considered instruments used to wrong, and thus innocent agents free of liability of their own. See, for common law, Paul Davies, *Accessory Liability* (Hart Publishing 2015) 68 ff.

²⁹ However, uncompensated compliance with injunctions leads to monetary costs.

unauthorized exploitation. From the right holder's perspective, there is a single harm caused by the availability of their protected subject matter.

Against the primary infringers, the right holders might often invoke two basic types of damage: (i) losses suffered by right holders and (ii) illicit profit obtained by the primary infringer. Sometimes the damages are supplemented by licensing analogies, or statutory damages which are meant to approximate the negative economic consequences. In the European system, the damages are generally meant to put the right holder in the position it enjoyed before the infringement. This means that damages generally ought to compensate the loss actually suffered.³⁰ However, some other countries like the United States also opt for statutory damages in order to emphasize deterrence.³¹

The actions of infringing actors and their intermediaries are not always easy to take apart. In the relationship of actions between an actor and an intermediary, however, the relevant wrongful contribution may often cover different parts of the resulting harm, or even be limited to one of them. For instance, imagine a negligent intermediary operating under notice-based liability regime that becomes liable for not taking down a video after being notified. Such an intermediary acted lawfully during the entire period *before* the notification, however, its actions turned wrongful after a reasonable time has lapsed to process the notification. The wrongful action of an intermediary and its relevant harm then covers the period after failing to act, which takes place after notification, and not the pre-notification period. If the video was online for 2 years before being notified, but was taken down only 2 months after notification, two harms (pre- and post- notification) can differ substantially. Similar situations might arise more often in instances of gross or light negligence, in which the intention to act in concert with the direct infringer *ab initio* is missing. In cases of intentional tortfeasorship this might perhaps pose less significant problems, as intention of both parties often cover identical harm from the very beginning.³² Therefore, an intermediary that intentionally induces others to wrong can be attributed also harm that precedes any notification, since the notification does not trigger the wrongful behaviour and is thus irrelevant.

To complicate the problem of damages owed by secondary infringers further, it is not always easy to calculate even clearly attributable harm. This is because any license for secondary infringers is unlikely to exist and therefore to provide a benchmark price. Thus, licensing analogy is not the most appropriate tool. The lost profits might be possible to estimate in general, but hardly practicable to prove for specific fractions of time and contributions, especially if the cases are factually too complicated.³³ Therefore, as Ohly suggests, targeting part of the illicit profit might be the most realistic way forward,³⁴ at least for negligent secondary infringers. Although,

³⁰ See C-367/15 *Stowarzyszenie Oławska Telewizja Kablowa v Stowarzyszenie Filmowców Polskich* ECLI:EU:C:2017:36 § 31.

³¹ See Pamela Samuelson and Tara Wheatland, 'Statutory Damages in Copyright Law: A Remedy in Need of Reform' (2009) 51 *William and Mary L Rev* 439.

³² Hence it is also less problematic to apply to it any type of damages aggregation (see below).

³³ A related issue is a question of allocation of the *burden of proof*. It is not exceptional for tort law to presume me form of fault on the side of an alleged tortfeasor. Doing so for secondary infringers who act as accessories is another matter. After all, very wrongfulness of their behavior depends on their knowledge, and thus unlike with direct infringers, is not the usual situation, but rather an exception to it.

³⁴ See Ansgar Ohly, 'Urheberrecht in der digitalen Welt - Brauchen wir neue Regelungen zum Urheberrecht und zu dessen Durchsetzung?' (2014) *NJW-Beil*, p. 50 ('Gegen Intermediäre, die grob fahrlässig Verkehrspflichten verletzen,

admittedly, estimating such profits is not without problems and equally lends itself to considerable judicial discretion.

4.2. Aggregation of Damages

When it comes to attribution of damages, it is crucial to determine whether or not secondary infringer and primary infringer would be obliged to pay damages which are somehow aggregated. By damage aggregation I mean a legal mechanism which connects individual debts and interlinks them at the performance stage, e.g. an obligation to pay for each other's debt upon request. An alternative to aggregation is when liability of intermediaries and users is separated from each other and proportionate to their contributions. As Angelopoulos reports³⁵ in her comparative survey of France, Germany and the UK, existing European tort law usually favors solidary liability for *any* type of secondary liability. This means that secondary infringers often owe not only their own damages, but also damages of 'their' primary infringers. Although they might recour against primary infringers themselves, the practical relevance of this is questionable. Since intermediaries have deeper pockets and are easily identifiable, they end up paying the damages, with little prospect of recovering anything from their users who infringed. Does solidary liability therefore always make sense from a policy standpoint in the realm of IP infringements?³⁶ Two key issues merit further consideration.

First, online IP infringement are mass torts. Unlike in typical accessory liability scenarios, litigation usually involves hundreds of cases of primary wrongdoing. This raises the stakes very high for every instance of such litigation. Second, online environment is broadly anonymous. For accessories this means that recovering any damages after paying them can be practically impossible not only due to transactions costs involved with mass torts, but also due to the anonymity of primary infringers.

To think of alternatives, the level of aggregation of damages could depend on the sub-type of secondary liability. Especially in cases of intentional aiding and abetting,³⁷ it is understandable that consequences are harshened by forcing primary and secondary infringers into a solidary debtorship. However, the reason for doing the same for negligence-based secondary infringers is less clear, especially when one considers the mass-character and anonymity of primary wrongdoers. The question of aggregation cannot be disconnected from the question of calculation. If intermediaries are exposed to effective disgorgement of illicit profit for their own wrongful contributory acts, then imposing any additional compensatory burden stemming from solidary liability with primary infringer's actions transforms the entire liability scheme into damages with punitive character. And as theory shows, punitive damages can have effects equivalent to prohibitory injunctions.³⁸ This is why not only calculation of secondary infringer's damages is

sollte ein Schadensersatzanspruch bestehen, der in der Höhe durch den aus der Vermittlung erzielten Gewinn begrenzt ist.').

³⁵ Angelopoulos (n 2) 328 ff (asking the same).

³⁶ Ibid (asking the same).

³⁷ Ibid 488.

³⁸ See Louis Kaplow and Steven Shavell, 'Property Rules Versus Liability Rules: An Economic Analysis' (1996) 109 Harvard L Rev 715; John Golden, 'Injunctions as More (or Less) than 'Off Switches': Patent-Infringement Injunctions' Scope' (2012) 90 Texas L Rev 1402; Paul Heald, 'Permanent Injunctions as Punitive Damages in Patent Infringement Cases' (2011) Ill Pub Law & Legal Theory Research Paper No 10-38<<http://ssrn.com/abstract=1851681>> (discussing the "analogy injunctions can bear to punitive damages"); Henry Smith, 'Mind the Gap: The Indirect Relation Between

crucial. If secondary infringers are subject to potential aggregation of the damages caused by primary infringers, calculation of damages of primary infringers cannot be neglected either.

Overlooking the issue of aggregation can drive sub-optimal policy outcomes for the design of secondary liability doctrines. Davies, for instance, argues that it is precisely the issue of aggregation of damages for accessories that has held back the development of accessory tort liability in the United Kingdom. The worry is that a small proportion of their fault could expose them to much larger damages of primary wrongdoers.³⁹ And since they are more readily available, they might become easy targets to collect the entire damages claims, without much recourse against the primary wrongdoers. He also points us that some jurisdictions, such as United States, as already moving away from solidary liability towards a system of proportionate apportionment of liability.⁴⁰

Perhaps a way forward would be to think about alternative ways how to apportion damages, which are in line with the logic behind their initial calculation. In any case, designing any liability *conditions* without considering the effects of aggregation skips very important questions.

4.3. Scope and Goals of Injunctions

Injunctions have *different scopes* in all these pillars. Any injunction against primary (direct) infringers asks them to stop their own wrongful behavior. However, any injunction directed against secondary (indirect) infringers asks them to stop other people's behavior by adjusting their own. Clearly, secondary infringers usually cannot completely stop other's people's behavior, unless they shut down their non-editorial services completely. They cannot coerce others into choices they don't want to make.⁴¹ If this fact is not reflected in the scope of an injunction, the consequence is that the secondary infringer is prohibited to engage in lawful acts. Even worse, there might be no second chance for these players, and any finding of liability will simply mean an end of a service or a firm. Some courts are aware of this,⁴² but then designing the wording of such injunctions is very difficult. Lemley and Weiser even argue that for these reasons, we should favor damages to injunctions in such cases.⁴³ Angelopoulos, on the other hand, argues the opposite, namely that injunctions and not damages should govern negligence-based secondary liability situations.⁴⁴

Ends and Means in American Property Law' (2009) 94 Cornell L Rev 966 (discussing "property rules" as being "embodied in injunctions and punitive damages").

³⁹ See Davies (n 28) 216.

⁴⁰ See American Law Institute, *Restatement of the Law: Torts – Apportionment of Liability* (San Francisco, California 1999) § 17.

⁴¹ In this regard, consider the *Daimler* case, in which CJEU held that lack of control over removal of trademark use means that the previously infringing behavior stops being infringing with relinquished control over other party's actions – see C-179/15 *Daimler AG v Együd Garage Gépjárműjavító és Értékesítő Kft*, ECLI:EU:C:2016:134, § 41 (noting '[h]owever, only a third party who has direct or indirect control of the act constituting the use is effectively able to stop that use and therefore comply with that prohibition').

⁴² See Austrian Supreme Court, OGH (2014) 4 Ob 140/14p (arguing that an accessory can only be prohibited from carrying out those that are wrongful).

⁴³ See Mark Lemley and Philip Weiser, 'Should Property or Liability Rules Govern Information' (2007) 85 Texas L Rev 783 ('the inability to tailor injunctive relief so that it protects only the underlying right rather than also enjoining noninfringing conduct provides a powerful basis for using a liability rule instead of a property rule').

⁴⁴ See Angelopoulos (n 2) 491.

An excellent example of how problematic it can be to issue an injunction is the famous Napster case, which continued after the decision of the Ninth Circuit⁴⁵—upholding contributory and vicarious liability—before the District Court that had to decide on the form of the injunction.⁴⁶ The District Court first enjoined Napster from copying, downloading, uploading, transmitting, or distributing copyrighted sound recordings, but the plaintiffs were obliged to provide titles of their works, the names of the artists and one or more files on the Napster system, and a certification of ownership. Soon, however, the RIAA complained that Napster’s name-based filtering system was ineffective. The District Court obliged Napster to implement a better technical solution to prevent also misspelled and similar infringing files from appearing on the network. So, Napster purchased access to a database of song titles with common misspellings, and designed its own automated filter to look up for them as well. It also licensed audio recognition software based on fingerprinting technology from Relatable. Even though Napster’s filter success rate was claimed to be 99.4 percent, it was insufficient for the District Court even if true. Judge Patel stated during one of the hearings that ‘[t]he standard is to get it down to zero, do you understand that?’⁴⁷ As a consequence, Napster shut down. It is clear that judges were trying to punish a previously negligent actor by requiring super-optimal care.⁴⁸ However, as with damages, the question remains how to design injunctions that are not *de facto* terminal. Discussions would be less dramatic had we known that the defendants will just need to learn their lesson, internalize the costs, and move forward.

Compared to the previous two categories, innocent third parties are subject only to a *special type of injunctions*. These can come in form of orders to assist enforcement by blocking, filtering, degrading or providing information. As the European system shows, the target of such orders is not a full prohibition of illegal behavior of the addressee, but rather some form of positively defined assistance in enforcement. In other words, any order is mandatory rather than prohibitive. The CJEU preaches that prevention is the core goal of the measures. In *Tommy Hilfiger*, the Court stressed that ‘[n]or can the intermediary be required to exercise general and permanent oversight over its customers. By contrast, the intermediary may be forced to take measures which contribute to avoiding new infringements of the same nature by the same market-trader from taking place.’⁴⁹

I have argued elsewhere⁵⁰ that if we were to accept that an injunction against innocent third parties can restrict their full conduct, we would indirectly expand the scope of exclusive rights, since an injunction would put otherwise abstractly allowed acts under the reservation of a rightholder’s consent. In Europe, the Court of Justice of the European Union, and at least some national courts, seem to be aware of this. CJEU stresses that these measures are of different nature. The UK and Germany, despite different legal traditions, seem to converge on the consensus that these measures should prescribe positive actions, and not be worded or interpreted as prohibitory edicts.⁵¹

⁴⁵ See *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir 2001)

⁴⁶ See *A&M Records, Inc. v. Napster, Inc.*, No. C 99 - 05183, 2001 U.S. Dist. LEXIS 2169 (ND Cal 5 March 2001)

⁴⁷ Evan Hansen and Lisa M. Bowman, ‘Court: Napster filters must be foolproof’ (*Cnet News*, 12 July 2001) <http://news.cnet.com/Court-Napster-filters-must-be-foolproof/2100-1023_3-269837.html>.

⁴⁸ See Michael Einhorn, ‘Copyright, Prevention, and Rational Governance: File-Sharing and Napster’ (2001) 24 *Columbia Journal of Law & Arts* 449, 459-460.

⁴⁹ *Tommy Hilfiger Licensing* C-494/15, para 34 (this builds upon the earlier case-law, in particular *L’Oréal and Others*, C-324/09).

⁵⁰ See Husovec (n 4) 107-108.

⁵¹ For the United Kingdom, see Chapter 20. For Germany, see analysis of the case I ZR 64/17, § 57 in Husovec (n 13);

4.4. Costs of injunctions

A related question concerns the *costs* structure associated with the remedies. By costs, I mean both *compliance* and *procedural* costs. Compliance costs are costs incurred by persons when respecting the orders granted by the courts. If these persons are infringers, there is little reason to question that they should be the ones bearing the costs of compliance with injunctions. After all, they are to be blamed for the infringements, hence they should bear the consequences. The same can be argued for procedural costs, since the litigation is a consequence of their actions too. It is, however, well-known that some countries like the United States do not generally compensate procedural costs and that this drives practical liability outcomes too.

However, the situation is different for innocent third parties that are exposed to the third pillar of accountability for assistance, that of injunctions against innocent third parties. These parties are asked to assist in enforcement and not to respond for their own actions. It is therefore more understandable that policy should relieve them from procedural costs, and even compensate them for the inconvenience of compliance. In absence of such a regime, the costs structure for infringers and innocent third parties becomes identical. When combined together with the fact that no wrongfulness has to be proven on the side of their addressees, this creates a perverse incentive to pick it as a cause of action also in cases where tortfeasors are known and could potentially make more appropriate candidates to correct the wrongdoing. Thus in ‘remedial competition’, these measures can inflate the aggregate costs of compliance of parties that never acted wrongfully themselves.

For these and other reasons, some countries distinguish the costs structure of actions against intermediaries as infringers and as innocent third parties. The courts in the United Kingdom and Canada recognized a need for compensation of compliance of the latter parties.⁵² On the other hand, the French Cour de Cassation rejected this.⁵³ German legislator decided to intervene by immunizing some types of providers from out-of-court and pre-trial costs, although not offering any compensation for compliance.⁵⁴

5. Putting the cart before the horse

As the debate above shows, there is a lot of ‘colour’ to any determination of liability of intermediaries. Perhaps we should use these components to inform our design of conditions for such liability. A debate of this kind might be less difficult than it might appear at first sight. In her book, Angelopoulos convincingly shows that intent-based accessory liability is well-solved through domestic laws, and offers the best starting point for European (and perhaps global) convergence.⁵⁵ At the same time, her work shows that it is much harder to converge on negligence-based secondary liability standards.

⁵² In the United Kingdom, this is outcome of the *Cartier* case - *Cartier International AG and others (Respondents) v British Telecommunications Plc and another (Appellants)* [2018] UKSC 28. In Canada, the similar principle was postulated in the *Rogers* case – see *Rogers Communications Inc. v. Voltage Pictures, LLC*, 2018 SCC 38. Both decisions relate to the so-called *Norwich Pharmacal* jurisdiction.

⁵³ The *Cour de Cassation* rejected compensation of such costs. See Cour de cassation, Civil Chamber 1 (2017) Case no 16-17.217 16-18.298 16-18.348 16-18.595.

⁵⁴ For description of the current German approach, see Husovec (n 13).

⁵⁵ See Angelopoulos (n 2).

A reason for this maybe has less to do with the factors triggering such liability, rather than with the consequences that each country traditionally attaches to them. Two systems each assigning different gravity of consequences are less likely to agree on when to trigger liability even if they have the same policy outlooks and goals. An agreement is slowed down by the fact that where one scholar anticipates damages subject to solidary liability with primary infringers, the other thinks of stand-alone compensatory damages subject to proportionate apportionment.

To provide a metaphor, agreeing on *when* policemen in two countries should use their guns is hard when these guns are pre-loaded with different projectiles. Hitting a man with plastic or bean bag bullet is not the same as using a dum-dum bullet. Similarly, a firm hit with two different sanctions will internalize them differently. Discussing *when* without clarifying *what* then seems very confusing, and at the very least, incomplete. To facilitate convergence, we should, as a first-order policy question, understand the ensuing consequences. Only as the next policy question, we can discuss the trigger-factors of such individual consequences.

In the comparative analysis, clearly the second pillar of liability matters the most. However, intent-based and negligence-based situations might present different policy challenges. We may want to distinguish intent-based accessories as they are the most implicated in the wrongs of others, and are virtually punished everywhere. What kind of damages should they be asked to pay? Do we aggregate them with those of primary wrongdoers? And how to design injunctions against them? Can we agree on a common set of principles? In parallel, we might unpack the situation of negligent secondary infringers. Are they all the same? What kind of damages should they be asked to pay? Do we really want to aggregate their own obligation to pay damages with that of primary wrongdoers? If not, what alternatives can we work out? If yes, under what circumstances? And how to design injunctions against them? Is it even possible to come up with injunctions that do not mean a shut-down of a service? And lastly, if countries also developed the system of injunctions against innocent third parties, how should they differ and interact with the previous two? Who should bear the costs of what? And should burdens of proof differ across all three pillars? These all seems like very pressing questions to answer before we can design optimal conditions triggering anything.

6. Conclusions

Adopting a consequences-based approach might help achieving convergence of different models. To utilize this approach, the comparative work first needs to recognize basic *vocabulary* of the intermediary liability for user-generated content incorporated in three pillars of liability. Not all countries will rely on the same mechanisms, or offer them in the same form, however, a common vocabulary will allow us to more clearly communicate and discuss their contents and policy-goals behind them. I do not think we are far from accepting such vocabulary.

Second, the legal analysis needs to better pair legal consequences (e.g. solidary debtorship under disgorgement of illicit profits) with their ability to tackle specific challenges within each liability mechanism (e.g. compensation for inducement, design of injunction for negligence). This will allow us to better see the regulatory toolkit, and thus respond more sensibly to any questions in the liability design. Only as a third step, we should try to connect these consequence-mechanism pairs with the realities of online services and requirements triggering them. This way, the *what-* and *when-* questions are interconnected, allowing the latter to internalize the former's findings. And hopefully, such approach could become more conducive to establishing a comparative consensus.