

MGM v. Grokster: The U.S. Supreme Court Will Revisit Sony-Betamax (2005)

At the end of March 2005, the Supreme Court will hear oral argument in *MGM v. Grokster*, reviewing a decision of the U.S. Court of Appeals for the Ninth Circuit and reconsidering the continued viability of the landmark *Sony-Betamax* case in the new millennium. Since *Sony-Betamax*, it has been well-settled that manufacturers and distributors are not vicariously liable for the use of their products, if the items are capable of substantial or commercially significant noninfringing uses. The software users in *Grokster* predominantly share, on peer-to-peer (P2P) file-sharing computer networking software, copyrighted digital audio, video, picture and text files without permission. A small percentage of files are not copyrighted, or are copyrighted but the owners have permitted distribution of the works by users of the file-sharing networks. The Supreme Court will address specifically whether the defendants, distributors of the P2P software, can be held secondarily liable for the software users' infringements.

THE NINTH CIRCUIT'S DECISION

The Ninth Circuit held that the P2P defendants were not liable for either contributory or vicarious copyright infringement. Ironically, in *Sony-Betamax*, the Ninth Circuit had held Sony liable for contributory copyright infringement for manufacturing and selling its Betamax videocassette recorders. Faced with this precedent and similar facts, it will be interesting to see which way the Supreme Court will now go.

Description of P2P Software

Since secondary liability is predicated on a direct relationship between the creators and users of the software, it is important to understand how the P2P software works. Unlike the Internet model, where the user obtains information from a centralized source, the server, the information in the P2P environment is decentralized and instead resides on each computer within the network. Further, the network is in flux: the computers within the network share information among users of the same or similar software, who are online *at any given time*.

For the network to be feasible, users must be able to catalog the available information. In the P2P model, there are three different methods of indexing: the centralized system, the decentralized system and the "supernode" model.

Originally, Napster used a centralized system, maintaining a collective index of available files on the system's servers. A system user transmitted a search request to the server, and the software searched the centralized index for matching files. If the search results showed that another user was logged onto the server and was offering to share the requested recording, the user would connect directly with the offering user and download the music file. Because of the extent of Napster's active system involvement, however, the Ninth Circuit held earlier that Napster was contributorily liable for the users' direct infringement.

To avoid such liability, P2P systems went to the other extreme, using totally decentralized systems. For example, StreamCast, one of the defendants in the Ninth Circuit action, uses such a system. There, each user maintains an index of only those files that the user wants to make available to other network users. When a user searches, the software transmits a request to all computers on the network to conduct a search of individual index files, routing the results back to the requesting computer. In contrast to the Napster model, the defendants have virtually no direct relationship with their users.

Finally, in the "supernode" model, certain computers in the network, based on technical requirements like processing speed, are designated as indexing servers. A user initiating a search connects with the most easily accessible supernode, which searches its index and supplies the user with the results.

Contributory Copyright Infringement

Since the *Grokster* copyright owners were suing the distributors of the P2P software rather than the actual infringing users, the owners based their suit on a theory of vicarious liability, contributory copyright infringement. The elements of contributory infringement are direct infringement by a primary infringer, and knowledge of and material contribution to the infringement.

a. The Knowledge Standard

Under *Sony-Betamax*, if a technology is capable of commercially significant noninfringing uses, constructive knowledge of an infringing activity cannot be imputed based on the manufacturer generally knowing that the technology could be used to infringe. If a product is not capable of substantial or commercially significant noninfringing use, then the copyright owner need only show that the defendant has constructive knowledge of an infringement. However, if a product is capable of such use, then the copyright owner must demonstrate that the defendant had *reasonable knowledge of specific infringing files and failed to act on that knowledge* to prevent infringement.

Based on numerous declarations from persons who permitted their work to be distributed via the P2P software, or who used the software to distribute public domain works, the Ninth Circuit concluded that the software had substantial noninfringing uses. Even though the copyright owners had alleged that over 90% of the exchanged files were infringing, the court read *Sony-Betamax* to hold that a product need only be *capable* of substantial noninfringing use. Assuming a 10% level of legitimate use, such volume would indicate a minimum of thousands of legitimate file exchanges.

Because the software had substantial noninfringing uses, the Ninth Circuit concluded that the defendants could not be held liable based on their constructive knowledge of any infringement. Rather, the copyright owners had to show that the distributors had *reasonable knowledge of specific infringements*, a much higher burden of proof.

The time when the defendants obtained such knowledge was also crucial. Because contributory copyright infringement requires both *knowledge and material contribution*, copyright owners had to show that the distributors had specific knowledge of a particular infringement at a time when they contributed to the infringement, and failed to act upon that information. The copyright owners' notices of infringing conduct were irrelevant, since the distributors had done nothing to facilitate the infringements and, in any event, could do nothing to stop the alleged infringement of specific content.

The design of the P2P software was also key to the distributors' lack of knowledge. The software contains no central index, and the defendants could not maintain control over the index files. Even if the defendants deactivated all computers within their control, then, the software users could still continue to share files with little or no interruption.

b. Material Contribution

The Ninth Circuit held that the defendants did not materially contribute to their users' copyright infringement: they did not provide "site and facilities" for the infringement, nor otherwise materially contribute to the users' direct infringement; the defendants' computer did not contain infringing messages or file indices; and the defendants did not regulate, provide access to, or have the ability to suspend user accounts.

Rather, the very nature of P2P technology is that users provide most of these functions for themselves. Fundamentally, the court noted, the failure of the defendants to alter software located on the users' computers was not analogous to the failure to delete a file name on the defendants' own computers, the failure to cancel the registration name and password of a particular user from the defendants' own lists, or the failure to make modifications to the software on their own computers.

The P2P technology, the court concluded, was not engineered merely to bypass Napster liability. Instead, the software significantly reduces the distribution costs of public domain and permissively shared art and speech, and it also reduces the centralized control of that distribution.

The elements of an action for vicarious copyright infringement are a direct infringement by a primary party, a direct financial benefit to the defendant, and the right and ability to supervise the direct infringers. Here, although the Ninth Circuit noted that *Sony-Betamax* had no application to vicarious copyright infringement, since the issue was not before the Supreme Court, it stated that the elements of direct infringement and direct financial benefit (via advertising revenue) were undisputed.

The Ninth Circuit held that the copyright owners could not establish the defendants' right and ability to supervise the software users, mostly based on the structure of the software. Since infringing material and index information did not pass through the defendants' computers, the defendants had no ability to block access to individual users nor to filter or search for infringing files. Unlike the centralized Napster system, the defendants did not operate an "integrated service," which they could monitor and control.

The Ninth Circuit also concluded that the copyright owners' argument -- that the software could be altered to prevent the sharing of copyrighted files -- was irrelevant to determining vicarious liability in the first instance. The argument that this ability is evidence of the right and ability to supervise, the court reasoned, confuses the latter with the duty imposed on entities that have already been determined to be liable for vicarious copyright infringement -- such entities have the obligation to exercise, to their fullest extent, their policing powers. Moreover, as noted earlier, the duty to alter software and files located on one's own computer system is quite different in kind from the duty to alter software located on another person's computer.

Finally, the court rejected the copyright owners' "turning a blind eye to infringement" theory. Had the defendants the right and ability to control and supervise that they proactively refused to exercise, they would be vicariously liable for infringement. But the "blind eye" theory is only an element of vicarious liability; there is no such separate theory of liability.

Conclusion

In *Sony-Betamax*, the Supreme Court carefully balanced the rights of content creators, those of users and the Constitutional imperative, in the Copyright Clause, to promote the progress of science and the useful arts. That a significant technological advance like a photocopying machine, for example, could also function as the means for widespread copyright infringement, should not be the end of the inquiry. The remainder of the equation is whether the neutral technology has substantial, commercially significant noninfringing uses.

There is also the element of fairness, here. The direct copyright liability of the *Grokster* software users is simple and clear. Without the permission of the owners of copyrighted digital audio, video, picture and text files, the P2P users are reproducing and distributing these files. However, holding the distributors of the neutral technology, the P2P software, liable for the downstream use of the tool, when there is virtually no relationship between the defendants and users, and the technology is an instrumentality to transmit content -- whether protected by copyright or not -- is overreaching and severely threatens technological development.

Clearly, suing the P2P distributors is simpler litigation: copyright owners do not have to sue infringing consumers directly, and the P2P distributors undoubtedly have deeper pockets. But it is a dangerous course to shackle legitimate technology because it is also capable of some illegitimate functions. Such a course also radically skews the Constitutional balance between the rights of content creators and users, and hobbles the Constitutional requirement that the copyright scheme advance technology.