What might peer-to-peer have to fear?

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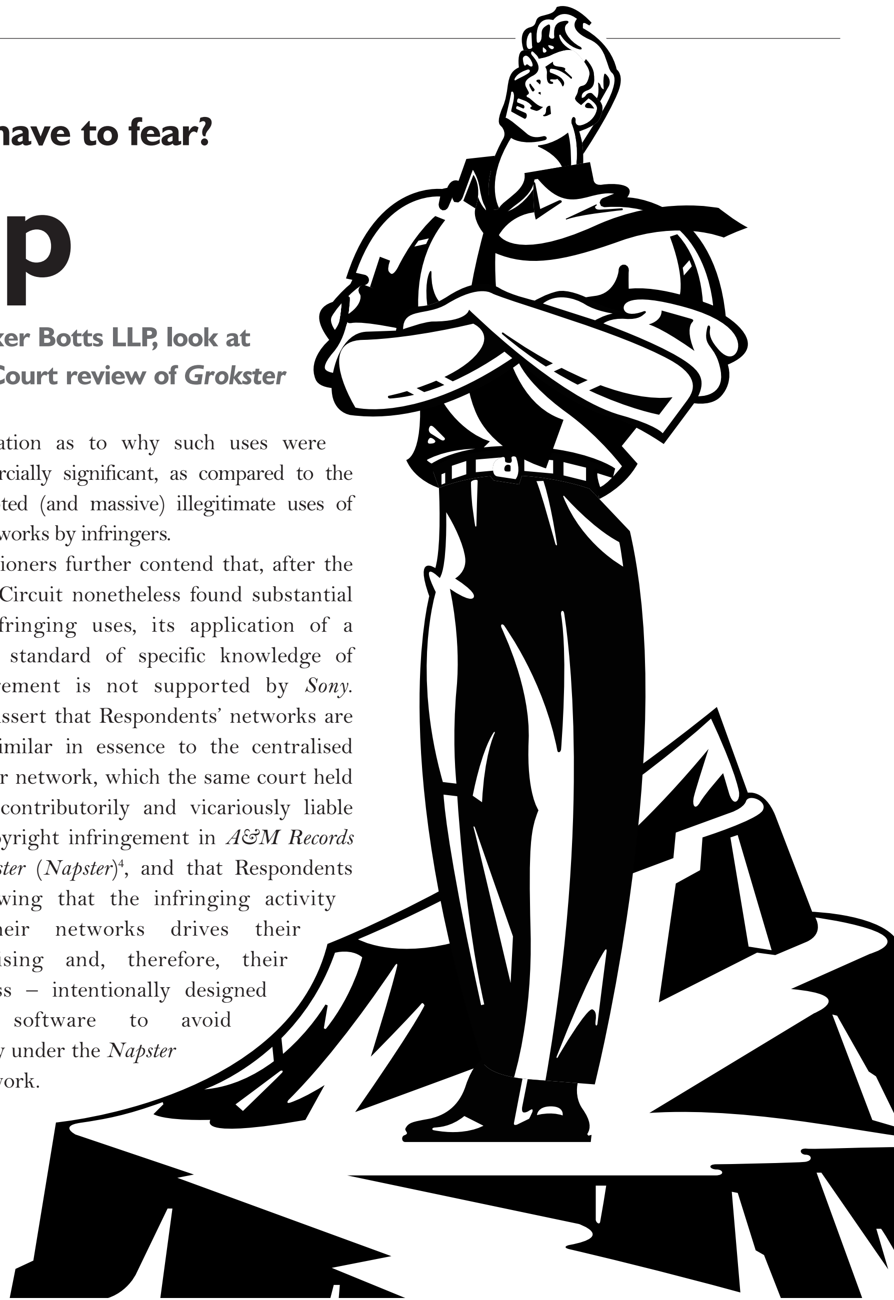
Jeffrey D. Sullivan and **David A. Bell**, of Baker Botts LLP, look at possible outcomes from the US Supreme Court review of *Grokster*



The United States Supreme Court recently decided to review the Ninth Circuit Court of Appeals' decision in *Metro-Goldwyn-Mayer Studios, Inc. v Grokster, Ltd.* (*Grokster*)[1]. The Ninth Circuit had affirmed a trial court's ruling that peer-to-peer (P2P) software companies Grokster and Streamcast Networks, Inc. (Respondents) were not contributorily or vicariously liable for copyright infringement committed by their end users. Although the result is probably legally "correct," it is nonetheless harsh for entertainment industry companies experiencing massive piracy. The legality of promulgating software useful for (possibly unlawful) distributed file-sharing presents a matter of first impression for the Supreme Court.

The Supreme Court may fashion a new standard for contributory copyright infringement, which, under current law, requires a company to know of, and materially contribute to, primary infringement committed by users of its products. Relying on guidance from the landmark Supreme Court case *Sony Corp. of America v Universal City Studios, Inc.* (*Sony*)[2], the Ninth Circuit ruled in *Grokster* that when a product is capable of substantial non-infringing uses (as well as possibly infringing uses), the distributor would be liable for contributory copyright infringement only if it knew of specific infringement and failed to act on such knowledge at the time the infringement was taking place.

Entertainment studios and songwriters seeking redress in *Grokster* (Petitioners) fear that upholding such a standard would allow software companies to intentionally design networks so as to blind themselves to direct infringement (and to any attendant obligations)[3]. They claim that the Ninth Circuit was misguided in finding that *Sony* was decided by applying a mere capability standard; accordingly, Petitioners argue, the Ninth Circuit should have found Grokster and Streamcast liable even if only 10% of the activity on their software is non-infringing. Petitioners also argue that there is actually very little evidence of non-infringing use on Respondents' networks, and that the Ninth Circuit placed undue reliance on "anecdotal evidence" of some modicum of non-infringing material, and it provided no explanation as to why such uses were commercially significant, as compared to the undoubted (and massive) illegitimate uses of the networks by infringers.

Petitioners further contend that, after the Ninth Circuit nonetheless found substantial non-infringing uses, its application of a higher standard of specific knowledge of infringement is not supported by *Sony*. They assert that Respondents' networks are very similar in essence to the centralised Napster network, which the same court held to be contributorily and vicariously liable for copyright infringement in *A&M Records v Napster* (*Napster*)[4], and that Respondents – knowing that the infringing activity on their networks drives their advertising and, therefore, their business – intentionally designed their software to avoid liability under the *Napster* framework.

In opposition, Respondents emphasise the lower courts' factual findings that the software is both capable of, and is being employed for, significant non-infringing uses and that Respondents have no ability or duty to monitor the files shared or downloaded by end users. They also note that the number of non-infringing uses on the networks has increased tremendously since the district court's decision. Additionally, Respondents contend not only that the 'merely capable of non-infringing uses' standard was indeed clearly expounded by *Sony* and properly applied by the Ninth Circuit, but that it should not be rejected now, because it serves to avoid unnecessary litigation for new technologies.

The Supreme Court could ameliorate Petitioners' concerns by broadening the definition of what constitutes "knowledge" of direct infringement (so as to include constructive or imputed knowledge, for instance). The Court might also determine that evidence of bad faith or intent should play a more significant role in determining contributory liability.

Petitioners further argue that the more appropriate test for non-infringing uses should be drawn from the Seventh Circuit's approach in *In re Aimster Copyright Litigation* (*Aimster*)[5], which analysed actual and probable non-infringing uses as well as the relative proportions of infringing and non-infringing uses. Respondents reply by pointing out that Seventh Circuit law is consistent with a defence based upon a mere demonstrated capability of non-infringing uses, and that the *Aimster* defendant failed on this count because it did not introduce evidence of actual and probable — or even merely possible — non-infringing uses.

A Supreme Court ruling addressing whether a successful defence requires showing merely that non-infringing uses are possible – rather than probable and proportionately significant – would provide useful guidance

to technology companies as file-sharing techniques continue to evolve.

Additionally, the Supreme Court may provide guidance on the doctrine of vicarious copyright infringement, which requires that an accused party profit from users' infringement and that the party have some ability to monitor users. In *Grokster*, the technical nature of Respondents' decentralised computer networks has enabled them to escape vicarious liability thus far. Should the Court affirm or narrow the standards for imputing an ability to monitor, decentralised file-sharing networks and other media-sharing products will continue to thrive. Removing the financial benefit requirement, on the other hand, could lead technology companies either to face increased vicarious liability exposure, or to better police infringement or increase the number of legitimate uses for their products.

One plausible rationale that the Supreme Court might adopt as grounds for following *Sony* and the Ninth Circuit is deference to the US Congress as the presumptively proper party responsible for crafting a liability framework for new technologies.

Respondents in *Grokster*, indeed, have argued that Congress is the entity best equipped to weigh the competing interests of the technology industry, copyright holders, and society at large.

Petitioners nonetheless invoke an argument (albeit perhaps an unavailing one) in favour of the need for the Supreme Court to resolve fundamental copyright questions. They cite three prior cases in which the Court granted review of major copyright questions that might otherwise have eventually been resolved by congressional adjustment to the relevant statutes, although – notably – none of these cases was decided after *Sony*. Petitioners also assert that Congress does not and should not create the secondary (as opposed to primary) copyright liability standards and that courts have applied secondary liability principles as 'gap-filling' measures to supplement the statutory primary liability standards in order to address novel technologies. Petitioners arguably fail, though, to cite any precedent sufficient to substantiate the courts' supposed role as a supplementary source of substantive liability principles.

Relying on the Supreme Court's previous grant of certiorari in *Sony*, Petitioners further contend that a speculative possibility of later corrective legislation is an inadequate reason to deny review. However, they fail to explain away *Sony's* clear statement of the principle that the Court should, in fact, defer to Congress in such instances.

Congress has deliberated for months on legislation bearing on P2P concerns. Enactment of any of the multiple pending bills regarding copyright law revisions would dramatically alter the landscape for copyright holders, the music and movie industries, and the audience for entertainment works. The Inducing Infringement of Copyrights Act (Induce Act), for instance, would broadly hold companies liable for encouraging infringement through any products. It would punish violators with fines of up to USD$30,000 for each act of infringement and of up to USD$150,000 for wilful infringement, with damages or even prison terms to be determined at trial[6]. This proposed Act would not be limited in its application to peer-to-peer software companies or even to software companies generally. Predictably, the entertainment industry strongly supports the Induce Act[7].

Opponents, on the other hand, harshly criticise the bill's broad scope and its vague definition of inducement[8]. They argue that the Induce Act would essentially overrule not only *Grokster* but also the 20 year old precedent established by *Sony*, because manufacturers or distributors of products with substantial non-infringing uses could be liable for infringement. The Induce Act would certainly threaten the livelihood of many file-sharing and other technology companies. It could even effectively ban – or at least imperil – any products that could be used to store or play illegally obtained files, such as CD burners, digital video recorders (eg, TiVo), and MP3 players, and it could also apply to ISPs, computers, copying machines, and VCRs, even if such products had predominantly-lawful uses as a factual matter.

Other pending bills focus on deterring and punishing primary infringement by P2P network users. The Piracy Deterrence and Education Act (PDEA), for instance, would establish programmes to educate the public about copyright infringement, and would impose criminal penalties on persons sharing more than 1,000 infringing files on a P2P network[9]. The Protecting Intellectual Rights Against Theft and Expropriation (PIRATE) Act of 2004 would create programmes to train government personnel to better enforce copyright piracy actions, and it would authorise the bringing of civil suits against suspected copyright infringers[10].

In view of the substantial pending legislation on these topics, the Supreme Court may hesitate to usurp the Legislature's role in setting the boundaries of substantive copyright interests. Similarly, it seems unlikely that the Supreme Court will overrule *Sony*, which would not only reverse a leading copyright law precedent, but could also lead to an eruption of innovation-stifling lawsuits against technology companies whose software can (despite their best intentions) be misused by unrelated parties.

If the Court, rather than renouncing *Sony* and the Ninth Circuit decision in *Grokster*, instead follows the Ninth Circuit in interpreting the vicarious and contributory liability standards rather narrowly and placing no decisive weight on either the predominantly illicit use of the software or on any intent – or wilful inattention – on the Respondents' parts, such a decision would likely fuel introduction of new file-sharing products with minimal fear of secondary liability.

In the meantime, at least in those states falling under the Ninth Circuit's jurisdiction (Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon, and Washington), P2P and other file-sharing companies can continue operating with the knowledge that copyright law is presently on their side. ❖

Notes

1 380 F.3d 1154 (9th Cir. 2004), cert. granted, 2004 WL 2289054 (U.S. Dec. 10, 2004) (No. 04-480).
2 464 U.S. 417 (1984).
3 Petition for Writ of Certiorari at 22-23, *Metro-Goldwyn-Mayer Studios, Inc. v Grokster, Ltd.*, 380 F.3d 1154 (9th Cir. 2004), *cert. granted*, 2004 WL 2289054 (U.S. Dec. 10, 2004) (No. 04-480).
4 239 F.3d 1004, 1011-1024 (9th Cir. 2001).
5 334 F.3d 643, 646-47 and 651-52 (7th Cir. 2003), *cert. denied*, 540 U.S. 1107 (2004).
6 S. 2560, 108th Cong. (2004); *Senate Bill Would Expand Copyright Protection*, INTELLECTUAL PROPERTY LAW BULLETIN (24 June 2004); *Induce Act Dies in Senate Committee*, INTELLECTUAL PROPERTY LAW BULLETIN (8 Oct. 2004).
7 *Tech Companies Oppose Copyright Inducement Bill at Senate Hearing*, INTELLECTUAL PROPERTY LAW BULLETIN (23 July 2004).
8 Roy Mark, *Copyright Office Jumps into P2P Fray*, INTERNETNEWS.COM (7 Sep. 2004).
9 H.R. 4077, 108th Cong. (2004).
10 S. 2237, 108th Cong. (2004).

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