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**Special Feature**

# ***22** THE HIGH COURT IN CYBERSPACE: MGM v. GROKSTER, DIGITAL COPYRIGHT AND SECONDARY INFRINGEMENT THEORIES

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**"As a veteran listener at many lectures** by copyright specialists over the past decade, I know it is almost obligatory for a speaker to begin by invoking the 'communications revolution' of our time, then to pronounce upon the inadequacies of the present copyright act." Although Harvard Law Professor Benjamin Kaplan made this wry observation in his seminal tome An Unburried View of Copyright almost four decades ago, his words ring just as true today. The current legal regime has come under repeated fire for its inability to protect intellectual property owners adequately in the digital era. Most recently, the vast growth of peer-to-peer (P2P) file sharing networks on the Internet has spurred this criticism.

***23** Over the past five years, the entertainment industry and a series of entities facilitating P2P networks have engaged in an epic struggle in the courts and before Congress. Now, the United States Supreme Court will provide guidance: On December 10, 2004, the High Court granted certiorari in MGM v. Grokster, a Ninth Circuit decision that immunized P2P networks from liability on secondary theories of copyright infringement because they facilitated substantial noninfringing uses. Oral arguments took place this March. The case will likely constitute the most significant contemplation of copyright law in the digital era. At the locus of the case lies the ability of our legal regime to respond to complex issues of technological change and intellectual property protection.

## The Legal Background: Theories of Secondary Copyright Liability

Two common-law theories of secondary liability--contributory and vicarious-- have traditionally assisted content creators in their legal battles against the developers of new technologies that facilitate copyright infringement. Both liability theories require that the technology enable an underlying act of direct infringement. Contributory liability then attaches where there also exists: 1) knowledge of the infringement by the defendant; and 2) material contribution by the defendant to the infringement. Vicarious liability, an outgrowth of the respondeat superior doctrine from tort law, requires: 1) a direct financial benefit to the defendant from the infringement; and 2) the right and ability of the defendant to control the actions of the infringer. Individuals who aid the copyright infringement activity of others are therefore held accountable under these two theories.

## Sony v. Universal

The Supreme Court last assessed the applicability of secondary liability theories to technology providers two decades ago. In Sony v. Universal Studios, 464 U.S. 417 (1984), the major motion picture studios filed suit against Sony for contributory and vicarious copyright infringement stemming from its development of the Betamax technology. Warning of the potential demise of Hollywood at the hands of video recording technology, the studios argued that the advent of the Betamax (and, ultimately, its more popular counterpart, the VHS) would devastate both the television and motion picture industries by dramatically reducing audiences for television programming; consumers could simply record programs, especially movie reruns aired on television, and watch them at a later date. Universal v. Sony, 480 F.Supp. 429, 466 (D.C.Cal. 1979). The studios also contended that the recording features of the Betamax would annihilate the potential market for film rentals by enabling consumers to create their own libraries by recording movies from television. Id. at 467. In 1983, Jack Valenti, the President of the Motion Picture Association of America ("MPAA"), appeared before the House Subcommittee on Courts, Civil Liberties, and the Administration of Justice of the House Committee on the Judiciary and testified that "the VCR is to the motion picture industry and the American public what the Boston strangler is to the woman alone." The Supreme Court, however, disagreed.

First, the Court found that the existence of potential infringing uses for a technology should not render that technology illegal per se. Specifically, the Court shielded manufacturers of "staple article[s] of commerce" used in infringement if these articles possessed "substantial noninfringing uses." ***24**Sony, 464 U.S. at 442. Second, the Court found that consumers are entitled under the fair use doctrine to the practice of time-shifting--the recording of a televised program for personal and private viewing at a different time. As a result, the Court concluded that the VCR possessed significant noninfringing uses and Sony could not be held liable under either a theory of contributory or vicarious liability for acts facilitated by its Betamax technology.

**The Current War Against P2P File Sharing**

The entertainment industry's more recent legal battles have focused on file sharing on the Internet. Initially, the industry enjoyed a run of success, winning its high profile battle against the leading first-generation file sharing system--Napster. Napster utilized a centralized server that gave its operators the ability to control network content, and the company and its servers resided in the United States. As a result, Napster was not only subjected to the very real threat of liability, but to effective enforcement of injunctive relief.

Despite winning the Napster litigation, the industry's success was ephemeral; users rapidly turned to new and more sophisticated P2P technology. According to a Websense survey published in April, 2002, in the year after the shutdown of Napster, the number of P2P sites multiplied by 535%. Such second-generation systems as gnutella, Grokster, and KaZaa have dramatically expanded the gamut of infringing activity. Rather than merely enabling the exchange of audio mp3s (as Napster did), these systems also allow users to swap commercial software, movies, graphics, and text files. The networks have also adopted superior file organization and retrieval techniques, thereby enabling users to access copyrighted materials with greater agility.

Besides facilitating greater potential infringement, legal enforcement against the second-generation networks has grown more arduous. Unlike Napster, the second-generation networks utilize a decentralized architecture. Without delving too deeply into the technological niceties at issue, Napster housed a centralized index of available files on servers that it owned and operated. As a result, it possessed the ability to filter the types of files traded on its network. By contrast, the second-generation networks have purposefully divested themselves of the ability to control content: Either each user on a network houses his or her own index or several computers connected to the network function as supernodes that maintain file indexes. Indexes are not maintained on servers owned and operated by the P2P technology provider. Thus, second-generation systems have shielded themselves from vicarious liability by precluding their own ability to control or monitor infringing activities on their networks.

Additionally, shell corporations now operate many second-generation networks. These entities can easily relocate their systems and operations to venues with more favorable laws. The story of KaZaa, the world's most popular P2P software, epitomizes the viability of such legal arbitrage. Facing an adverse judgment in the Netherlands, the Dutch owners of KaZaa sold their software and service to the nebulous Sharman Networks Ltd. A corporation shrouded under a notorious veil of secrecy, Sharman Networks is officially incorporated in the South Pacific tax haven of Vanuatu. Best known as the ***25** host of the most recent season of CBS's series Survivor, Vanuatu just happens to recognize no copyright laws. Thus, while KaZaa was a named defendant in the Grokster suit, it ceased to defend itself during the course of litigation and default judgment resulted; however, the ability to enforce any judgment against KaZaa is very much in doubt. The peculiarly transnational characteristics of cyberspace combined with the nature of piracy have therefore rendered legal action against P2P networks increasingly difficult.

**Sony Revisited: MGM v. Grokster**

Despite these challenges, the entertainment industry has remained undaunted in its efforts to seek legal recourse against second-generation P2P networks. In 2002, the industry filed suit in the Central District of California against the Grokster, StreamCast, and KaZaa second-generation networks. The defendants earned partial summary judgment that absolved them of secondary liability for acts of infringement occurring on their networks, MGM v. Grokster, 259 F.Supp.2d 1029 (C.D.Cal. 2003), and the Ninth Circuit affirmed. MGM v. Grokster, 380 F.3d 1154 (9th Cir. 2004). However, the entertainment industry did succeed elsewhere. In 2003, the Seventh Circuit affirmed a lower court judgment that helped shutdown the Aimster P2P network. In re Aimster Copyright Litigation, 334 F.3d 643, 651 (7th Cir. 2003). With the circuits split in their treatment of file-sharing technology, the issue was ripe for Supreme Court review. Three significant issues will dominate the Court's analysis of copyright liability for P2P systems.

**The Parameters of the Non-Infringing Use Defense**

First, the High Court must clarify Sony v. Universal and determine the level of noninfringing use necessary to shield companies from secondary copyright liability. To impose contributory liability, a court must find that a defendant possessed knowledge of the underlying act of infringement. Sony held that courts could not impute constructive knowledge of infringement to technologies with "commercially significant" or "substantial noninfringing uses," Sony, 464 U.S. at 442, but the Court declined to define these terms with any precision. There is little doubt that P2P systems are capable of noninfringing uses and that some noninfringing uses do occur on the networks. However, in Aimster, the Seventh Circuit found that the "respective magnitudes" of the actual infringing and non-infringing uses of a technology constituted a threshold issue for the purposes of liability imposition. Aimster, 334 F.3d at 649-50. To shield itself from secondary liability, a defendant must demonstrate that substantial noninfringing uses of its technology are not only theoretical, but actually probable. Id. at 653. By stark contrast, in Grokster, the Ninth Circuit construed Sony as immunizing from secondary liability any technology "capable" of substantial or commercially viable non-infringing. Grokster, 380 F.3d at 1160. Sony failed to specify whether the "substantial noninfringing uses" defense applied only to contributory liability actions or to both contributory and vicarious liability theories--a key point that begs clarification.

**The Ability to Control Network Content**

Secondly, the High Court must clarify the relevance of network design to the secondary liability ***26** inquiry. In Grokster, the Ninth Circuit found an inability to control content on one's network, even if that inability stems from the technology provider's willful desire to divest itself of such control, entirely irrelevant to the liability calculus. For example, the Grokster court noted that "the possibilities for upgrading software located on another person's computer [to enable control of the content shared on P2P networks] are irrelevant to determining whether vicarious liability exists." Grokster, 380 F.3d at 1166. While the Aimster court declined to consider the matter of vicarious liability, it deemed design choices profoundly relevant to the issue of contributory liability: "[I]f the infringing uses are substantial then to avoid liability as a contributory infringer the provider of the service must show that it would have been disproportionately costly for him to eliminate or at least reduce substantially the infringing uses." Aimster, 334 F.3d at 653. Technology creators therefore cannot turn a blind eye towards infringing activities on their networks. "Willful blindness is knowledge," noted the Aimster court. Aimster, 334 F.3d at 653. Applied in the vicarious liability context, these words implicitly impose a duty on network creators to consider copyright concerns in their architectural decisions, lest courts impose vicarious liability on them for failing to exercise their potential "ability to control" at the outset. Thus, the Seventh Circuit's Aimster decision considers a defendant's ability, both ex ante and ex post, to separate infringing and non-infringing activities vital to a court's decision to impose secondary liability.

**Should Congress or the Courts Decide?**

Finally, the Court faces a key issue that goes to the heart of our constitutional structure and the balance and separation of powers--should the courts or Congress take the lead in shaping our intellectual property laws and their response to rapid technological change? On the one hand, in declining to outlaw the Betamax, the Sony Court noted that "[s]ound policy, as well as history, supports our consistent deference to Congress when technological innovations alter the market for copyrighted materials." Sony, 464 U.S. at 431. This is particularly true where--as in the copyright arena--there is a paramount need for coordinated and considered national policy. On the other hand, since courts enjoy relative insulation from popular pressure, they are less prone than Congress to capture by dominant lobbying interests. Moreover, many argue that the judicial process is better suited for the ad-hoc, fact-specific inquiries needed to respond to the exigencies and externalities of technological change--especially since the secondary liability doctrine in copyright law is the exclusive creation of the courts, not Congress.

**The Non-Legal Backdrop to Grokster**

For adherents of legal realism, two background points also bear significant consideration. Although neither observation speaks to the strict legal merits of the case, each inextricably affects the issues at play before the Court.

First, while a cursory examination suggests that MGM v. Grokster pits the entertainment industry Leviathan against the rogue and nimble entities that facilitate P2P networks, this perception is not entirely warranted. Contrary to the representations in legal pleadings and the popular press, Grokster and Sharman Networks are hardly the only players who have economically benefitted from the advent of P2P. Indeed, mainstream corporate interests have also profited handsomely. P2P file sharing has fueled consumer ***27** demand for broadband access, much to the delight of DSL and cable operators. Mass infringement of copyrighted music and movies has driven computer and hard drive demand as well as sales of such consumer electronics as mp3 players. One of the great ironies of the wave of media conglomeration witnessed over the past two decades is the fact that one the appellants in Grokster is Sony--the alleged infringer in the Sony v. Universal case and a company whose content creation wing is threatened by unadulterated p2p file swapping while its computer and personal electronics division has thrived on demand generated from p2p file sharing.

Secondly, weighing heavily in Grokster is the economic history of the entertainment industry since it lost the Sony v. Universal case. The parade of horribles vividly portrayed by the Jack Valenti and the MPAA never came to be. Far from sounding the death knell of Hollywood, the VCR spurred major growth: studios now derive more profit from DVD/video rentals and sales than from theatrical ticket sales. Through the lens of history, the entertainment industry's position in Sony seems tainted by myopia. In losing the Sony litigation, the industry actually won; and one cannot help but wonder if the same results would obtain again.

Indeed, cries of wolf have greeted every major technological innovation that has affected the entertainment and media industries over the past century. Composers feared that the player piano would irreparably harm their economic interests; the publishing industry warned that the copy machine would undercut its commercial viability; the music industry augured that the euphony of fm radio transmissions would devastate the market for music sales; and Hollywood predicted its demise at the hands of the home video recorder. On the other hand, the magnitude and scale of potentially infringing uses empowered by P2P technologies vastly exceeds that of any prior innovation, including the VCR. In particular, the unprecedented ease and speed with which P2P networks have enabled copyright infringement may render such historical analogies thoroughly inapposite.

**The Likely Impact of Grokster**

MGM v. Grokster represents the Supreme Court's first foray into the world of digital copyright and it comes at a critical time: the circuit split created by the divergent opinions in Aimster and Grokster has created uncertainty for both content creators and technology developers. No matter how the Court rules, MGM v. Grokster promises to have a dramatic effect on the course of technological development. The outcome of the case may have an immediate impact on a panoply of top-selling consumer electronics, including CD and DVD burners, TiVo, iPods, and DVD players equipped with parental control/content-editing technology; it will also affect the pace and scope of technological change in the coming years. Most significantly, the case will impact the way in which the law balances public rights of access to copyrighted works with the legitimate interests of copyright owners in reaping just rewards for their creative labors.

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