Focus

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'Grokster' Seems Unlikely to Prevent File Sharing by Itself

By Mitchell Zimmerman

The Supreme Court's decision on file sharing and copyright infringement strengthened the hand of content owners and sent shivers down the backs of technology developers. The music industry hailed *MGM v. Grokster* as a striking affirmation of the rights of creative artists, and fair-use advocates bewailed the asserted cost: 10 years of chilled innovation.

But will the decision save the music industry, which has blamed falling sales on unrestrained "sharing" by users of peer-to-peer file-sharing technologies? And what will the impact of the revised legal regime be on innovation?

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The answers may turn in significant part on an issue not expressly addressed in the court's opinion — namely, whether *Grokster* in fact overturned the 7th U.S. Circuit Court of Appeals' decision in an earlier file-sharing, contributory-infringement case, *In re Aimster Copyright Litigation,* 334 F.3d 653 (2003), and resolved the split between the 9th and 7th circuits.

Grokster and Streamcast, the two defendants in the case, established extraordinary file-sharing networks. These networks included 100 million Internet users who had downloaded the Grokster and Streamcast software in order to make music, video and other files available to each other for copying. (For convenience, I'll refer to the two *Grokster* defendants collectively as "Grokster" after this.)

The Grokster file-sharing technologies were "peer-to-peer," meaning the billions of shared files were neither stored on nor passed through any central computer system or server operated by the defendants. No central index was required for Grokster users to identify or communicate with each other to copy works. Rather, the downloaded software allowed direct communications among the tens of millions of users who often were online at the same time.

Once the enabling software had proliferated sufficiently, no further action by Grokster was needed for the file-sharing network to operate, and nothing Grokster could do could stop its operation.

Contributory liability for copyright infringement requires knowledge of and material contribution to an underlying infringement. In *Sony Corp. v. University City Studios,* 464 U.S. 417 (1984) (the Betamax VCR case), the Supreme Court held that those who sold devices that were "capable of substantial [or of "commercially significant"] noninfringing uses" were not liable for the infringing uses to which their customers might put their devices.

The capacity for such uses negated secondary liability, whether treated as an independent, policy-driven exception to contributory infringement or as a gloss on the "knowledge" element (on the theory that knowledge of infringing acts would not be imputed when buyers could use the product either for innocent or for infringing purposes).

For a generation, these principles provided relatively clear guidance for emerging technologies, and the legal security and predictability afforded by the *Sony* defense arguably contributed to the explosion of innovation in Internet, information and communications technologies in the last decade of the 20th century.

In the view of many, however, the *Sony* regime also encouraged the design of technologies intended for infringement and protected them as long as they sported even the smallest fig leaf of potential noninfringing uses.

In the digital, online environment, in their view, with its potential for exponential, perfect copying, and near-instantaneous worldwide distribution of copies, the *Sony* defense threatened the overall copyright regime.

In *Grokster,* it was undisputed that the file-sharing technologies at issue were used largely to copy protected works, typically music, and that such "sharers" were therefore direct infringers. It was also undisputed that Grokster's peer-to-peer technology was capable of substantial noninfringing uses. On this basis, the U.S. District Court for the Central District granted summary judgment that Grokster was not liable, and the 9th Circuit affirmed, 380 F.3d 1154 (2004).

Under the 9th Circuit's reading of *Sony,* if a technology is capable of substantial noninfringing uses, the plaintiff must show that the contributory-infringement defendant had reasonable knowledge of specific infringing files and failed to act on that knowledge to prevent infringement. Owing to the decentralized nature of Grokster's peer-to-peer software and the fact that the software was capable of substantial noninfringing uses, the 9th Circuit reasoned, Grokster had no knowledge of any infringing activity at a relevant time — when Grokster could do anything about it — and for the same reason did not materially contribute to its users' infringements.

The 9th Circuit's reading of *Sony* was at odds with that adopted by the 7th Circuit a year earlier in *In re Aimster Copyright Litigation*. In its 2003 decision, the 7th Circuit upheld a preliminary injunction against another file-sharing service, also widely used for infringing copyrighted material, stating, "We do not buy Aimster's argument that ... all Aimster has to show in order to escape liability ... is that its file-sharing system could be used in noninfringing ways."

Judge Richard Posner, writing for the panel, looked back and read into *Sony* a "prescient" "cost-benefit trade-off in favor of Sony." For the *Sony* defense to apply, then, the defendant would have to show that (1) actual or potential noninfringing uses were substantial, (2) a cost-benefit comparison favored the defendant (in some undefined way) and (3) the technology at issue had been designed to avoid or minimize infringement, unless it would have been disproportionately costly to do so.

In *Metro-Goldwyn-Mayer Studios v. Grokster,* 125 S.Ct. 2764 (2005), the Supreme Court rejected the 9th Circuit's reasoning that substantial noninfringing uses precluded all secondary liability. Instead, the court held that, irrespective of whether a defendant was liable for contributory infringement, it could be secondarily liable on the new theory of inducement to infringe: "[O]ne who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties."

But the court declined to expressly address how to assess the weight given, under the *Sony* doctrine, to infringing versus noninfringing uses: "We do not revisit *Sony* further ... to add a more quantified description of the point of balance between protection and commerce when liability rests solely on distribution with knowledge that unlawful use will occur."

Some proclaimed the outcome a "sweeping victory for music recording companies and movies studio." They are plainly wrong: In *Grokster,* the entertainment industries simultaneously won a battle and lost the campaign. They won a new cause of action: inducing copyright infringement. They lost their long campaign to reverse or cripple *Sony.*

Grokster did not substantially redefine the battleground for an effective assault on peer-to-peer file sharing. First, of course, on the practical level, even putting Grokster out of business entirely can do nothing to impair the operation of the existing 100 million-strong network of Grokster users, and whether anything can substantially alter either the beliefs or the conduct of these file sharers is dubious.

Second, not only did the court refuse to cut back the *Sony* doctrine; it also endorsed *Sony*'s central role in effecting the appropriate balance between breathing room for innovation and protection for existing works of authorship. Third, the new copyright inducement theory, which requires clear proof of intent to foster infringement, cannot obstruct the deployment of new file-sharing programs indefinitely.

If a software developer creates and distributes software that is widely used for infringing copyrights but the developer does not harbor the purpose of inducing infringement, that developer will not be liable under the new copyright-inducement theory. Even assuming for sake of argument that no such file-sharing network exists today, inevitably a file-sharing network will emerge whose creators and distributors cannot be shown to have had the "object of promoting" copyright infringement.

At that point, the inducement cause of action will be ineffective, even in principle, to stop the further proliferation of peer-to-peer software whose main use in practice may be copyright infringement. What then for the music industry? At that point, if not sooner, the industry will have to return to attacking the sponsors of file-sharing technologies as contributory infringers. When that happens, will the test of liability and of the Sony immunity be that set forth by the 9th Circuit in *Grokster* or by the 7th Circuit in *Aimster*?

The Supreme Court purported not to decide what scope of noninfringing uses would be sufficient for the *Sony* defense to protect developers or promoters of new technologies, though this was a matter of vigorous debate between the two concurring opinions (each supported by three justices). But this does not mean that *Grokster* lacks implications for the 7th Circuit's take on *Sony.*

On the contrary, that *Aimster*'s framework cannot be reconciled with *Grokster*'s exegesis of *Sony* is now reasonably clear.

Grokster emphasizes the need for "breathing room for innovation" and refers to the substantial noninfringing-use doctrine as the "*Sony* safe harbor," a safe harbor which itself requires surrounding protective space. Revealingly, *Grokster* appears to be the first case to refer to *Sony* as a "safe harbor," a formulation which suggests that the court is adjusting copyright's trade-off between innovation and protection in the direction of more deference to innovation.

Aimster held that it is necessary to "estimate the respective magnitudes of [infringing and noninfringing] uses" in order to determine whether there is liability for contributory infringement. *Grokster* interprets *Sony* as "holding that [a] product's capability of substantial lawful employment should bar the imputation of fault and consequent secondary liability for the unlawful acts of others."

Aimster insisted that "balancing of costs and benefits is necessary," even in cases "in which substantial noninfringing uses, present or prospective, are demonstrated." *Grokster* says, instead, that "the [*Sony*] doctrine absolves the equivocal conduct of selling an item with substantial lawful as well as unlawful uses."

The *Aimster* decision would have courts scrutinize the decisions of technology companies concerning the design of a product or technology and imposes a potential obligation to design to thwart infringement ("if the infringing uses are substantial then to avoid liability ... 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").

But *Grokster* warns against "find[ing] contributory infringement liability merely based on a failure to take affirmative steps to prevent infringement, if the device otherwise was capable of substantial noninfringing uses. Such a holding would tread too close to the *Sony* safe harbor."

Aimster would authorize, in the preliminary-injunction context, placing the burden on the defendant "to demonstrate that its service has substantial noninfringing uses." *Grokster,* however, is "mindful of the need to keep from ... discouraging the development of technologies with lawful and unlawful potential."

In sum, *Aimster* embodies an inherently intrusive law-and-economics analysis that requires courts to compare the costs and benefits of existing and potential uses of a technology and of design alternatives and that requires developers to predict whether their new technologies will pass muster at various points in their development and use. *Aimster*'s holdings and approach cannot be reconciled with *Grokster*'s emphasis on the importance of not "discourag[ing] innovation having a lawful promise," its wariness of second-guessing about design alternatives and its repeated reaffirmation that substantial noninfringing uses negate liability.

Whether the entertainment-content industries can, in the long run, succeed in protecting their content through other legal or technological tools is not clear. But the long-term prospects for preventing unauthorized peer-to-peer copying of their works by imposing secondary liability on the distributors of file-sharing programs appear dim in light of the limitations of the *Grokster* decision.

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