

What's at Stake in *MGM v. Grokster*?

Seeking to balance the needs of copyright holders and technology developers.

MGM is among the entertainment industry firms that sued Grokster, Streamcast, and Sharman Networks for knowingly contributing to copyright infringement by end users of their peer-to-peer file-sharing software. In April 2003, Grokster and Streamcast persuaded a trial judge that the current versions of their programs are exempt from copyright control under the U.S. Supreme Court's decision in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), which held that copyright owners have no legal right to control technologies that have or are capable of substantial non-infringing uses.

MGM has appealed this ruling to an appellate court and is, in essence, arguing for a reversal of *Sony's* standard for secondary liability of technology developers. On behalf of 40 law professors, I submitted an "amicus curiae" (friend of the court) brief for the appellate court's consideration [1]. It takes no position on the merits

of the claims against these defendants, but it affirms the soundness of the *Sony* rule and challenges MGM's principal legal arguments. The remainder of this column is a condensed version of the brief so

that *Communications* readers can grasp the legal principles at stake in this case.

Sony Is Sound Law

In 1976, Universal and Disney sued Sony, claiming Sony was liable for copyright infringement by users of its Betamax machines because Sony supplied the means for accomplishing this infringing

activity and its advertising encouraged people to copy their favorite television programs and movies.

Finding no precedent in copyright law to support imposing secondary liability on a technology provider under this or any other theory, the Court turned for guidance to patent law, where Congress had articulated a secondary liability standard. Section 271(c) of U.S. patent law immunizes makers of multiple use technologies (so-called "staple articles of commerce") from secondary liability for patent infringement. Only technologies "especially made or adapted for use in an infringement of [a] patent" that are not "suitable for substantial non-infringing use" can be challenged under this provision.

If the sale of technologies suitable for substantial non-infringing uses is lawful under patent law, then the sale of copying equipment with substantial non-infringing uses, should, the Court decided, also be lawful under copyright law, particularly in view of the statutory silence on secondary liability standards for copyright infringement.

The Court concluded that contributory infringement should not lie if the product is “merely...capable of substantial non-infringing uses.” Deciding “whether the Betamax is capable of commercially significant non-infringing uses” did not require “explor[ing] all the different potential uses of the machine and determin[ing] whether or not they would constitute infringement ... [because] one potential use of the Betamax plainly satisfie[d] this standard,” namely taping programs for time-shifting purposes.

The Clarity of the *Sony* Rule.

Among the important virtues of the *Sony* rule for technologies are its simplicity, clarity, predictability, and objectivity. The *Sony* rule does not require delving into technology developers’ states of mind; it does not require extensive evidence or speculation about current and future uses of technologies and in what proportion each use exists or is likely to evolve; and it does not require courts to consider what other kinds of technologies might have been developed instead. *Sony* simply asks courts to determine whether the technology has or is capable of substantial non-infringing uses.

Without such a bright line rule, innovators would be wary of developing transformative new technologies because copyright owners might perceive them as disruptive to current business models. Under the *Sony* rule, both technology developers and potential funders can readily determine whether such a potentially disruptive tech-

nology is capable of substantial non-infringing uses, and invest accordingly. Should a dispute arise, the bright line *Sony* rule lends itself to speedy adjudication through motions for summary judgment, thereby averting the risk and expense of lengthy trials that would drain innovators’ resources and deter investments in innovative technologies.

The *Sony* rule also ensures copyright industries cannot control the evolution or entry into the market of new technologies. Leaving technology development in the hands of technology developers can benefit copyright owners as well as the public. As the aftermath of *Sony* demonstrates, limiting secondary liability can spur complementary market building. Not only were *Sony* and its competitors free to compete and innovate, offering improved products at lower costs, but a large installed base of video-tape recorders gave rise to the home video market—greatly enriching the motion picture industry.

MGM Seeks to Overturn *Sony*

MGM proposes several new standards for secondary liability for copyright infringement. Each is inconsistent with *Sony* and would, in effect, overturn the principal rule in that case—in fact, under each of MGM’s proposed new rules, *Sony* itself would have been held liable.

Knowledge of Infringement.

MGM argues that a developer’s

knowledge that its technology will be widely used for infringement, coupled with its knowledge of user infringements after the fact, constitutes actual and specific knowledge of infringement for purposes of contributory infringement liability, and such knowledge disqualifies the defendants from raising a *Sony* defense. MGM also argues that constructive knowledge of infringing uses suffices. These propositions are inconsistent with both *Sony* and the Ninth Circuit’s ruling in *Napster*.

Years before *Sony* began commercially distributing Betamax machines, it was aware not only that the machines would be widely used to infringe, but also that copyright owners claimed selling technologies such as the Betamax would constitute contributory copyright infringement [3]. Yet, *Sony* developed and marketed the Betamax, with advertisements actively encouraging purchasers to tape their favorite shows and classic movies. *Sony* may not have known exactly which movies purchasers were taping, or when the taping occurred, but it had general knowledge that its users were infringing copyrights.

After *Universal* commenced its lawsuit, *Sony* attained more specific knowledge of the quantity and proportion of copying through discovery, but this more specific knowledge was after the fact, when *Sony* was in no position to prevent those infringements. Even ceasing to sell Betamax machines would not stop

user infringements with machines already sold. Reading contributory liability circumspectly, a majority of the Supreme Court characterized Sony's level of knowledge as at most "constructive knowledge" of user infringements, and decided that contributory infringement liability was unwarranted.

In the ordinary contributory infringement case (where a producer of a film materially and knowingly contributes to copyright infringement by the director of the film), courts must determine: there is an underlying act of copyright infringement; the person charged with contributory infringement materially contributed to that infringement; and the alleged contributory infringer knew or had reason to know of that infringement. Willfully blinding oneself to another's infringement does not preclude a finding of the requisite knowledge in such cases.

In cases involving technology developers, however, *Sony* requires a more complex inquiry. The first inquiry is the same: finding proof of underlying acts of infringements, such as infringing uses of the challenged technology. However, the next step is to inquire whether the technology has or is capable of substantial non-infringing uses. Merely hypothesizing implausible uses should not satisfy this standard, yet the inquiry "should not be confined to current uses," but take into account "the system's capabilities." If a technology does not have and is not capa-

ble of substantial non-infringing uses, then a technology developer could perhaps be held liable for contributory copyright infringement based on constructive knowledge of user infringements to which it materially contributed.

However, if a technology has or is capable of substantial non-infringing uses, both *Sony* and *Napster*, properly construed, require first that the technology's developer have actual and specific knowledge of underlying acts of infringements to which it contributed, and second, that the developer must do something more than provide and advertise the technology used for infringement to be considered a material contributor to user infringement.

Sony did not have the requisite knowledge, nor had it done anything but distribute and advertise Betamax machines that contributed to user infringements. In *Napster*, the Ninth Circuit similarly refused to "impute the requisite level of knowledge to Napster merely because peer-to-peer file sharing technology may be used to infringe Plaintiffs' copyrights." However, it was persuaded that Napster had "actual knowledge of specific acts of infringement." Napster also did more to contribute materially to user infringements than supply software used to share files: it provided a server and Web site containing centralized index, search, and directory functions and other support services.

A Primary Use Rule. MGM also proposes that technologies be

deemed illegal if their "primary use" is for infringing copyrights. This rule is plainly inconsistent with the Supreme Court's holding in *Sony*. The very decision that the *Sony* Court reversed had embraced a primary use standard. The Court of Appeals thought "Sony was chargeable with knowledge of the homeowner's infringing activity because the reproduction of copyrighted materials was either 'the most conspicuous use' or 'the major use' of the Betamax product."

Justice Blackmun's dissent advocated a remand instructing the District Court "to make findings on the percentage of legal versus illegal home-use recording." He regarded Sony's permissive uses as unproven and other proposed uses as either hypothetical or minor. But the majority of the Court deciding that enjoining the development of a technology, and its potential non-infringing uses, based on users' current usages, would "stop the wheels of commerce." The majority rejected testing whether "infringing uses outweigh non-infringing uses" or trying to predict "the future percentage of legal versus illegal home-use recording."

The Intentional Design Rule. Sony intentionally designed the Betamax to allow consumers to make unauthorized copies of broadcast television programming. Universal sought to stop distribution of the Betamax precisely because of the technology's design. It would be plainly inconsistent with *Sony* to adopt, as MGM pro-

poses, a rule that intentionally designing a technology to enable infringement constitutes secondary copyright infringement.

A key disadvantage of an intentional design standard is that it is far less amenable than the *Sony* rule to rapid dispute resolution. Inevitably, it presents factual issues for the court to weigh, precluding summary judgment. Determining the subjective states of mind of a technology's developers and funders may be difficult, time consuming, and ultimately inconclusive. Since developers often fail to anticipate the most significant uses of their technologies, their subjective intents, plans, or desires may be irrelevant to the actual uses. Moreover, an intentional design standard is prone to erosion. Copyright owners may focus on the infringing capabilities of a technology (say, CD burners) and then claim that, if the technology is being used for that purpose, it must have been designed for that purpose—no matter how much the developer denies it.

The Alternative Design Rule.

The alternative design rule that MGM proposes is also plainly inconsistent with *Sony*. The Court was well aware that Sony could have designed a technology with different functionality. Universal proposed that Sony could sell video players without tuners, or with a feature disallowing the copying of specified broadcast programming. The Court in *Sony* discussed neither these nor other alternative designs, but rather eval-

uated the technology that was before it. Because that technology had and was capable of substantial non-infringing uses, the Court ruled that Sony could continue to manufacture and distribute it free from copyright owner control.

To the extent design considerations are taken into account at all under *Sony*, they are taken into account by the objective requirement that a product be capable of commercially significant non-infringing uses, that is, of non-infringing uses that create a market for the product.

The Seventh Circuit's suggestion in *Aimster* that liability should be imposed where a product is substantially used for infringing purposes and the product was not designed to eliminate or reduce such uses, unless the developer can show the alternative design would have been "disproportionately costly," is not consistent with *Sony*. The Supreme Court pointedly did not inquire as to the costs (or benefits) of eliminating or reducing infringing uses once a developer had demonstrated its product was capable of commercially significant non-infringing uses.

An alternative design test for assessing liability of technology providers to copyright owners would be unwise. First, it would put courts in the position of becoming deeply mired in the details of technology development, and deciding by judicial fiat whether certain technologies can be built or not. A test that requires

establishing an alternative design would require that courts consider whether developers could have developed or anticipated development by others of technologies that could be integrated into their own offerings to eliminate or reduce infringing uses. Courts would be required to determine whether such technologies were ready for commercial implementation, were cost-effective to implement, and whether any adverse technical effects they might impose on the product outweighed their benefits. We question whether federal judges should have to do this on a routine basis.

Second, an alternative design rule would give copyright owners a right of control over the future of particular technologies, and likely inhibit progress in the affected fields. Under an alternative design standard, copyright owners would be inclined to hypothesize alternatives that would require much time, effort, and expense by litigants and courts to assess the technological feasibility and cost of each alternative.

Third, such a standard raises questions of whether developers can be held liable if they had generalized knowledge that their design would enable infringement, even though their intent was to design the product for non-infringing purposes. For example, email and instant messaging applications are designed for a non-infringing purpose: sending and receiving electronic communications. Their designers cannot have

been unaware that people would send some messages containing infringing materials; in fact, they intentionally selected a design that enabled both infringing and non-infringing uses, because such a design best achieved the intended purpose. No email or instant message product developer has attempted to design its application to filter out infringing materials. Under MGM's proposed standard, the failure to do so could expose them to liability.

Neither federal judges nor copyright owners should be in charge of industrial design policy for the U.S. Yet, that is what MGM's proposed alternative design rule would accomplish.

Tell It to Congress

It is understandable that many copyright owners have reservations about the *Sony* rule and are seeking to revise it in legal challenges to peer-to-peer technologies. However, we agree with Judge Posner's response to the very same proposed revisions to the *Sony* rule in *Aimster*, namely, that they are addressed to the wrong audience. The appropriate audience for arguments for revisions to the *Sony* rule is the U.S. Congress.

***Sony* on Congress.** The Supreme Court in *Sony* examined the history of copyright litigation and observed that "[t]he judiciary's reluctance to expand the protections afforded by the copyright law without explicit legislative guidance is a recurring theme."

The Court "search[ed] the Copyright Act in vain" to find any indication that Congress had intended "a flat prohibition against the sale of machines" that make private noncommercial copying possible. A key reason the Court was willing to embrace the substantial non-infringing use test for contributory copyright infringement was that Congress had expressly adopted a nearly identical test when addressing a kindred problem in patent law. The Court recognized that "it may well be that Congress will take a fresh look at this new technology, just as it so often has examined other innovations in the past." When "major technological innovations alter the market for copyrighted materials," Congress has the institutional competence to identify the affected stakeholders, gather facts about matters arguably calling for a policy response, assess the costs and benefits of various proposed solutions, and craft rules that balance competing interests. As the Court recognized in *Sony*, "it is not our job to apply laws that have not yet been written."

Congress Sometimes Regulates Disruptive Technologies. Peer-to-peer software is far from the first disruptive technology to be perceived as threatening to copyright owners. It is also not the first technology to pose challenging questions about the application of existing copyright law. In the early 20th century, the sound recording industry got its start by manufacturing rolls of piano

music, without permission from composers. In *White-Smith Music Pub. Co. v. Apollo Co.*, 209 U.S. 1 (1908), the Supreme Court rejected claims that unauthorized sound recordings infringed copyright, in part because Congress had not addressed this new technology issue. Shortly thereafter, Congress amended copyright law to give composers the right to control mechanical reproductions of their works. However, Congress significantly limited the scope of copyright owners' rights as to mechanical reproductions by imposing a compulsory license so that once a musical composition had been recorded, others could record the same song as long as they paid a statutory license fee to the copyright owners.

Cable television was another disruptive technology. This industry got its start by retransmitting programming obtained from broadcast television signals without authorization from copyright owners. Neither of the two legal challenges mounted against cable television providers by copyright owners in broadcast programming was successful. Congress eventually regulated the retransmission of copyrighted programming by cable television systems, but as with the sound recordings, imposed a compulsory license on copyright owners.

Digital audio tape (DAT) recorders were also perceived as threatening to copyright owners. Because DAT machines were capable of substantial noninfringing

uses, a contributory copyright infringement lawsuit to challenge this technology was unlikely to succeed after *Sony*. However, the sound recording industry persuaded Congress that DAT machines should be regulated. In passing the Audio Home Recording Act, Congress engaged in the very balancing of complex interests that *Sony* recognized as Congress's province. In so doing, Congress respected the principles established by *Sony* by expressly permitting noncommercial copies of both DAT and analog recordings. To compensate copyright owners for unauthorized personal use copies of copyrighted recordings made with DAT machines, the AHRA imposed a compulsory license fee on the sale of DAT machines and tapes. Computer technology, which could also be used to reproduce copyrighted digital music, was entirely excluded from the scope of the Act.

Congress Knows About Peer-to-Peer File Sharing. Congress has been aware of peer-to-peer file sharing, including its implications for the recording industry, for some time [5]. Congress has not only heard the copyright industry's complaints about file sharing and file-sharing technologies, but also expressions of concern from performing artists and composers of music about inequities in recording industry royalties; from new entrants to the digital music business about the difficulty of licensing content from the major labels; from public interest advocates about excessive pricing of CDs and

the recording industry's tardiness in rolling out electronic delivery musical services for consumers, and from technology developers about many socially beneficial uses of peer-to-peer technologies. Through such hearings, Congress has learned that no simple "quick fix" is available to resolve the challenges that the Internet in general, and peer-to-peer file sharing technologies in particular, have posed.

Congressional concern about personal use copying of music is, moreover, not new. In the late 1980s, Congress asked its Office of Technology Assessment to report on policy options regarding personal use copying. The OTA's 1988 survey showed that 4 out of 10 Americans over the age of 10 had copied music in the previous year, that "Americans tape-record individual musical pieces over one billion times per year," and that "the public—those who had taped and those who had not—believe that it is acceptable to copy recorded music for one's own use or to give it to a friend as long as the copies are not sold" [6]. In 1992, moreover, Congress granted some immunity to those who made noncommercial copies of music as part of the AHRA. In short, members of the public may be confused about how much personal use copying is acceptable. Congress is aware of this situation, and has the institutional competence to address it.

Given the tens of millions of file-sharing people, the economic efficiencies of peer-to-peer distrib-

ution, and imperfections in the market for digital music, some commentators have proposed compulsory licensing regimes to enable peer-to-peer file sharing to continue while compensating copyright owners [2, 4].

Conclusion

Whether revisions to the Sony rule, a compulsory licensing regime, or some other policy is the appropriate response to file-sharing is for Congress, not the courts, to decide. ■

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