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Legally Speaking:  
Legislative Challenges to the *Sony* Safe Harbor Rule

by  
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A previous Legally Speaking column (Feb. 2004) explained what was at stake for the information technology industry in the *MGM v. Grokster* case, which was then pending before the Ninth Circuit Court of Appeals in California. MGM was arguing, among other things, that Grokster should be held secondarily liable for copyright infringements by its users because this commercial peer to peer (p2p) file sharing technology/service had been intentionally designed to facilitate copyright infringement, because the primary use of the system was for infringement, and because Grokster was profiting from the large volume of infringing uses.

In mid-August 2004, the Ninth Circuit ruled that Grokster was immune from secondary liability under the Supreme Court's 1984 decision in *Sony v. Universal City Studios* because the current version of its software had and was capable of substantial non-infringing uses. If MGM wanted more extensive rights to control infringement-enabling technologies, the court said they should go to Congress. .

During the summer and fall of 2004, the principal battleground over technology developer liability for user infringements shifted to the US Congress. This column discusses several proposals considered in the 108<sup>th</sup> Congress that would have more strictly regulated infringement-enabling technologies. While the US Supreme Court's decision in late December to hear MGM's appeal will shift the battleground back to the courts in 2005, Congress may well revisit technology developer liability rules regardless of what the Supreme Court ultimately decides. The legislative proposals considered below may also influence the Supreme Court's analysis of the case.

The immediate impact of any erosion of the *Sony* safe harbor rule would be first felt in the US. But technologists elsewhere should realize that the entertainment industry will be as keen to export any change in technology developer liability rules it is able to wrest from Congress or the courts as it has been to export the anti-circumvention rules of the Digital Millennium Copyright Act of 1998.

#### THE INDUCE ACT

Leading members of the US Congress have become increasingly upset about the volume of p2p file sharing of copyrighted sound recordings and the continued operation of p2p services such as Grokster. In June of 2004, Senators Hatch and Leahy sought to address this problem by introducing a bill, S. 2560, widely known as "the INDUCE Act," to amend US copyright law to make intentional inducement of copyright infringement illegal. Its co-sponsors included Senators Frist (the Senate majority leader), Daschle (then the Senate majority leader), Graham (from Florida), and Boxer (from California).

Its sponsors thought S. 2560 would be uncontroversial. At a hearing on S. 2560, held in July 2004, Senator Hatch praised the bill as technology neutral, saying it was aimed at “bad actors,” not at p2p technologies. The INDUCE Act drew, he said, upon well-established patent rules. Senators Hatch and Leahy stated that the INDUCE Act would preserve the Supreme Court’s *Sony* decision.

The Register of Copyrights, Mary Beth Peters, supported the bill. Peters characterized as “mind-boggling” the scope of copyright infringement occurring with aid of p2p file sharing services. Firms such as Grokster should be shut down, she asserted, because they profited from creating networks for massive infringement. Peters believed that the courts should not exonerate Grokster from secondary liability. But if they did, she thought it essential that Congress adopt a new rule to stop such services from profiting from user infringements. Peters supported S. 2560 as “appropriately tailored” to respond to challenges that firms such as Grokster posed for copyright owners. On a more ominous note for technology developers, Peters said that the *Sony* decision may be “overly protective of manufacturers and marketers of infringing tools, especially in today’s digital environment.”

Mitch Bainwol, Chairman and CEO of the Recording Industry Association of America (RIAA), also supported S. 2560. It was designed, he said, “to provide a remedy against companies whose business models are premised on the wholesale theft of the creative work of others.” The bill targeted “the bad guys,” that is, “those who have hijacked technology to perpetuate and promote theft on a massive scale.” Legitimate commercial actors, he said, had nothing to fear from the bill. Bainwol regarded the INDUCE Act as “consistent with the 1984 *Sony Betamax* case” because it targeted “bad actors, not the technology itself.” He characterized the bill as setting “an extremely high standard: intentional inducement.” Merely providing technology would not, he said, give rise to liability.

#### CRITICS OF THE INDUCE ACT

Four of the six witnesses at the July 2004 Senate hearing were critical of the INDUCE Act: Gary Shapiro, president of the Consumer Electronics Association (CEA), Andrew Greenberg, Vice Chair of IEEE-USA Intellectual Property Committee, Robert Holleyman, President and CEO of the Business Software Alliance (BSA), and Kevin McGuinness, Executive Director of the NetCoalition.

All four affirmed the importance of preserving the *Sony* safe harbor for technologies with substantial non-infringing uses. All four expressed strong concern that the INDUCE Act would undermine it.

Although the INDUCE Act’s sponsors claimed to have drawn its intentional inducement provision from patent law, critics pointed to three significant and worrisome differences between patent law’s inducement provision and the INDUCE Act.

First, patent law requires proof of active inducement of infringement by another. The INDUCE Act, by contrast, makes no reference to “active” inducement. This omission seemingly broadens this bill as compared with the patent rule. The INDUCE Act further broadened the rule by defining “inducement” to include acts that aid or abet infringement.

Second, patent law requires proof of a specific intent to induce another’s infringement. The INDUCE Act, by contrast, provides that “intent may be shown by acts from which a reasonable person would find intent to induce infringement based upon all relevant information about such acts then reasonably available to the actor, including whether the activity relies on infringement for its commercial viability.” The INDUCE Act significantly dilutes the intent requirement, creating a near-negligence standard based on the foreseeability of user infringements by a hypothetical reasonable person.

Third, the INDUCE Act would codify a watered down intentional inducement provision without codifying its sibling rule from patent law which exempts from liability those who distribute technologies with substantial non-infringing uses. This is the very rule the Supreme Court borrowed from patent law in *Sony*. By codifying one patent rule without its sibling, courts might well believe that Congress, in passing the INDUCE Act, had legislatively overruled *Sony*, at least in part.

Gary Shapiro pointed out that *Sony* “is based on an objective assessment of a product’s capabilities,” whereas S. 2560 is “based on an ad hoc, completely subjective evaluation” of a developer’s state of mind. Kevin McGuiness worried that the loose intent standard of the INDUCE Act would allow copyright owners to “engage in expensive and intrusive discovery, demanding email, market research data, and depositions of anyone affiliated with the development, marketing, or management of a product.” This would be burdensome for large firms, but would be “fatal” for startups, “the very kind of entrepreneurs that have been the pioneers of the Internet.” The threat of litigation would likely chill technology investments and innovative design decisions.

Under the INDUCE Act’s loose intent requirement, virtually every intentional inducement case would have to go to trial. Courts and juries would have to try to read the minds of the developers or to infer from subsequent uses of the technology that its developers must have intended to aid and abet infringement. Even product reviewers could be held liable for intentional inducement of copyright infringement if their reviews pointed out infringing uses to which a new technology might be put.

For these and other reasons, Gary Shapiro asserted characterized S. 2560 as a “head-on attack” of the *Sony* rule, even if its sponsors did not regard it as such.

## THE COPYRIGHT OFFICE SPEAKS

Frustrated by the lack of consensus about S. 2560 at the July hearing, Senator Hatch asked the Copyright Office (CO) to meet with various stakeholders, consider

alternatives, and report back with a proposal for an amended bill that would be more satisfactory. In September, the CO recommended this as a substitute:

“Whoever manufactures, offers to the public, provides or otherwise traffics in any product or service, such as a computer program..., that is a cause of individuals engaging in public dissemination of copyrighted works shall be liable as an infringer where such activity:

- relies on infringing public dissemination for its commercial viability,
- derives a predominant portion of its revenues from infringing public dissemination, or
- principally relies on infringing public dissemination to attract [users].”

The CO believed this bill would achieve the legislative objective of providing an effective cause of action against p2p developers such as Grokster, while accommodating the legitimate concerns of all stakeholders, including the technology industry. This bill would not delve into subjective states of mind of developers nor of reasonable persons in their positions. Nor did it outlaw technology. It focused instead “specifically on the business model in which the technology is employed.” The CO believed its bill would not chill innovation because only those who encouraged and profited from infringement—indeed, whose business models were premised on infringement—would be liable.

Senator Hatch was initially intent on proceeding to enact this bill without further hearings. However, more than 40 technology firms, industry associations, and their allies objected in a letter sent to Hatch on September 17, 2004. It observed that the CO had proposed a “new form of strict liability” affecting “a large class of providers of hardware, software, and services in conjunction with the electronic or physical dissemination of goods, services, and information” which relied on “three vague criteria” for liability, to which a *Sony* defense could apparently not be raised. The CO bill would, they said, produce a flood of litigation and create an uncertain investment environment that would chill technology innovation. Signatories to the letter included Intel, Google, Sun Microsystems, Verizon, and various associations.

After the CO bill too met with strong opposition, Senator Hatch tried a different tactic to attain sufficient consensus to move forward with legislation. He summoned a small group of Washington lobbyists to his office, instructing them to come to the meeting with negotiating authority. (No representatives of recording artists, composers, venture capitalists, or startup firms were invited.) He put considerable pressure on these lobbyists to reach agreement on a bill that could be put forward without further hearings. The lobbyists did negotiate long and hard, and several draft bills were considered. The negotiations ultimately ended in stalemate, and legislation to create a new form of indirect liability for copyright infringement was left to another day.

## POSSIBLE APPROACHES

The original version of S. 2560 was justly criticized at the July hearing as imbalanced and unworkable. Other legislative proposals made at that hearing or thereafter are worth mentioning.

Andrew Greenberg of IEEE-USA suggested a patent-based model for an intentional inducement of copyright infringement provision, plus a codification of the *Sony* safe harbor rule. This strikes me as a sound proposal. Actively inducing copyright infringement is equally wrong as actively inducing patent infringement. This approach might not satisfy Hatch or Leahy since p2p file sharing services would probably not be liable under such an intentional inducement law unless they actively encouraged users to infringe or instructed users how to do so.

The CO draft bill was more clearly targeted at the phenomenon Hatch and Leahy were intent on regulating. However, that bill goes well beyond an infringement-as-business model approach. An Internet service provider or telecommunications company, for example, that provided high bandwidth services might arguably “derive[] a predominant portion of its revenues from infringing public dissemination.” It would thus be vulnerable to lawsuits under the CO approach. Also at risk would be a p2p developer who intended to facilitate rapid downloading of large files such as the Linux operating system if over time, users were attracted to it because it enabled speedy downloads of movies. The CO bill thus seems unfairly tilted to the entertainment industry interests.

Another draft bill targeted at infringement-enabling p2p services was the CEA’s Discouraging Online Networked Trafficking Inducement Act of 2004. It would outlaw “actively distribut[ing] in commerce a computer program that is specifically designed for use by individuals to engage in indiscriminate mass infringing distribution of copies or phonorecords of copyrighted works over digital networks with the specific and actual intent to reap financial gain by encouraging such individuals to engage in such indiscriminate mass infringing distribution.” If one believes, as Senators Hatch and Leahy apparently do, that new regulation of technology developers is necessary, the CEA bill directly targeted the phenomenon of concern to Hatch and Leahy. Among its merits is that it would largely preserve the *Sony* safe harbor. This draft bill has not, however, had traction in the legislative debate because the entertainment industry found it unacceptably rigorous.

During the lobbyist negotiations initiated by Senator Hatch, a bill emerged that was largely an amalgam of the CO and CEA bills. It too targeted p2p services whose profits derived from infringement. It would have limited the damage to the *Sony* safe harbor, but like so many other industry-negotiated copyright provisions, it was extremely complicated and virtually unreadable. It was just too ugly to be good law.

## CONCLUSION

Many in Congress are frustrated at the scale and scope of p2p file-sharing and are trying to figure out what they should do about it. The House of Representatives has concentrated on measures to deter file sharing. It passed two bills, HR 2391 and HR

4077, that would increase criminal liability for file sharing, give the Justice Department authority to bring civil lawsuits against file-sharers, and fund copyright education campaigns to counteract illegal file-sharing. The preface of HR 4077 purports to “find” that 600 million copies of p2p file sharing software have been downloaded from the Internet, more than 3 million people are simultaneously file-sharing copyrighted works at every moment of the day, and more than 2.3 billion infringing files are swapped via p2p services every month. If one believes these numbers, it would make much more sense to adopt a collective or compulsory licensing regime to ensure that artists would benefit financially from this traffic, but the entertainment industry has thus far blocked serious consideration of a statutory licensing proposal.

The Senate has thus far focused on p2p technology developers. Senator Hatch blames p2p developers such as Grokster for their “pernicious schemes to encourage others—and unfortunately these are mostly kids—to break federal law allow[ing] these pirates to collect huge revenues while subjecting users to the risk of prison or crippling damage awards.” Hatch may realize that there is really nothing Congress can do to stop the further evolution of file-sharing technologies, which will unquestionably move off-shore if something like the INDUCE Act passes. Hatch may also realize that Congress can not even stop continued file-sharing with Grokster software if courts force Grokster to shut down. But at least he would have the satisfaction of knowing that Grokster would no longer be making money from inducing (in his view) moral decay of the nation’s youth. Although Hatch is no longer Chair of the Senate Judiciary Committee, he chairs its Intellectual Property Subcommittee. If anyone raises anew a proposal to change technology developer liability rules, it will most likely be Senator Hatch.

Technologists, their firms, industry associations, and professional associations such as ACM must help Congress and the courts to realize why the *Sony* safe harbor rule for technologies capable of substantial non-infringing uses should be preserved. The *Sony* rule has enabled investments in innovative information technologies to proceed free from copyright-industry litigation. Information technology industries have contributed greatly to economic growth and American competitiveness in the global economy. Advanced information technologies have, moreover, enriched the lives of hundreds of millions of people around the world. By defending the *Sony* safe harbor, you will be protecting not only your future, but that of your field and your society.

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