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Pamela Samuelson

The Supreme Court Revisits the *Sony* Safe Harbor

What will the Supreme Court do in *MGM v. Grokster*? How will this decision affect you?

In *MGM v. Grokster*, the U.S. Supreme Court is revisiting whether developers of technologies should be immune from liability for the infringing acts of their users as long as their technologies are capable of substantial non-infringing uses (SNIUs).

MGM is arguing that technology developers should be held indirectly liable for user infringements based on: the relative proportion of infringing and non-infringing uses of the technology; the intentional design of a technology to facilitate infringement; the failure of a technology developer to adopt alternative designs that would minimize infringing uses; and/or the extent to which the firm's business model depends on infringement. MGM is also charging Grokster with actively inducing user infringements.

In this column I will discuss these alternative tests for secondary liability of technology developers and offer a perspective about what the Court will and should do in *Grokster* and what is likely to happen in the aftermath of the decision. (See the March 2005 Legally Speaking column for an overview of several congressional proposals to regulate infringement-enabling technologies.)

The *Sony* Safe Harbor

The Supreme Court established a safe harbor for technologies with SNIUs in 1984 in the *Sony v. Universal* case. Universal charged Sony with being a contributory infringer of copyrights in Universal movies because Sony supplied its customers with the means to infringe copyrights (Betamax machines), knowing that purchasers would use them to tape movies, including those made by Universal, from television broadcasts. Sony's ads

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One can only hope that the Court will not punish the whole technology industry for the sins, such as they may be, of Grokster.

encouraged Betamax users to copy their favorite movies. Survey evidence showed that the primary use of Betamax machines in the late 1970s was to copy television programs for time-shifting purposes (that is, for later viewing).

The Supreme Court in *Sony* decided, first, that time-shift copying was a fair use (non-infringing of copyrights) and second, that developers of technologies with SNIUs, such as the Betamax machine, qualify for a safe harbor from secondary liability. The Court rejected the "primary use" test for contributory liability for which Universal argued in favor of a patent-like SNIU test, saying "indeed, a technology need merely be capable of substantial non-infringing uses" to qualify for this safe harbor.

Sony Defenses in P2P Cases

In the past five years, the entertainment industry has initiated three secondary liability lawsuits against developers of widely used peer-to-peer (P2P) file-sharing technologies: Napster, Aimster, and Grokster. The principal defense in all three cases was that their technologies were capable of SNIUs, and hence, they qualified for the *Sony* safe harbor.

Napster was the first case to be decided. The Ninth Circuit in 2001 rejected Napster's *Sony* defense, ruling that the centralized search and directory functions of the Napster system and Napster's control over registered users gave it the right and ability to supervise and control infringing acts. Because of this control and because Napster financially benefited from user infringements, Napster was indirectly liable for the massive infringements it knew were happening via its system.

Aimster was next. The Seventh Circuit in 2003 rejected Aimster's *Sony* defense, finding its premium "top 40 hits" service and a tutorial (demonstrating how to use the Aimster system to make copies of copyrighted sound recordings) were "invitation[s] to infringement" that distinguished *Aimster* from *Sony*.

The Seventh Circuit went on to opine that technology developers should have to consider how costly it would be to design and build technologies to reduce or eliminate copyright infringement and how much infringement might be thereby averted. Unless minimizing infringement would be "disproportionately costly," technology developers should have to incorporate infringement-inhibiting functions in their designs, this court reasoned, or face liability as contributors to others' infringements.

Because Grokster has a more decentralized P2P architecture than Napster and did not offer Aimster-like infringement-encouraging tutorials or premium services, its *Sony* defense was more plausible.

Grokster's lawyers asked the trial judge to rule that the current version of its software had and was capable of SNIUs, and hence it qualified for the *Sony* safe harbor. Over MGM's vociferous objection and countereffort to seek a preliminary ruling in its favor, the trial court and then the Ninth Circuit Court of Appeals agreed with Grokster. This is the ruling now before the Supreme Court.

Whether Grokster is liable for money damages based on earlier versions of its software or other conduct is not before the Supreme Court. Regardless of what the Court does with the present appeal, this case will go back to the lower court for findings on the unresolved issues. But if the Supreme Court affirms the ruling that the current version of Grokster's software qualifies for the *Sony* safe harbor, Grokster would likely be free to continue to provide it and updated software to its user base.

Primary Use

MGM argues that Grokster should be held secondarily liable for user infringements because the primary or predominant use of its P2P software is to engage in infringement. MGM argues that *Sony* itself was a "primary use" case, because the primary use of the Betamax was to engage in fair use time-shift copying. *Grokster*, MGM asserts, is a completely different kind of case than *Sony*.

MGM relies heavily on the evidence of an expert who conducted a survey of P2P file sharing with Grokster software: 75% of the sample traffic was of copyrighted works owned by MGM and its co-plaintiffs; another 15% was reportedly copyrighted works owned by others, and about 10% was other types of digital content. From this, MGM concludes that at least 90% of the files traded on both networks is infringing.

In the opening paragraph of its brief to the Supreme Court, MGM states: "Virtually all those who use Grokster and Streamcast are committing unlawful copyright infringement, and they commit millions of acts of infringement each day." The question is "whether they have a free pass to inflict these harms because a tiny fraction of the material available on their services might not be infringing."

The Solicitor General filed an amicus curiae (friend of the court) brief that proposed a three-part test for secondary liability of technology developers: If 90% or more of the uses of a technology are infringing, the developer should be held liable as a contributory infringer. If the primary use of the technology is non-infringing, the developer should qualify for a *Sony* safe harbor. If infringing uses of a technology range between 50%–90%, courts should consider several factors to determine whether the developer should be secondarily liable for user infringements, such as how the product is marketed, the efficiency of the technology for non-infringing uses, and the steps (if any) that the developer has taken to eliminate or discourage infringing uses.

I will be surprised if the Supreme Court endorses the "primary use" test for secondary liability in *Grokster*, in part because of the unfairness of putting technology developers at risk of liability based on what their users do after they obtain the product—uses over which technology developers effectively have no control.

Yet, the Court might well be disturbed enough about the high volume of unauthorized file sharing of copyrighted works to consider endorsing a secondary liability rule that takes the relative proportion of infringing and non-infringing uses into account as part of a multifactor balancing test. Such a test would make secondary liability of technology developers an unpredictable guessing game and would give the entertainment industry considerably more leverage over technology development than it has today. One can only hope that the Court will not punish the whole technology industry for the sins, such as they may be, of Grokster.

Intentional/Alternative Designs

MGM also seeks to hold Grokster secondarily liable for user infringements because it intentionally designed its software to facilitate infringement. An example of a technical design that MGM alleges encourages infringement is the feature of Grokster software that makes all user files available for uploading to other users. MGM also points out that early versions of Grokster software gave the firm greater control over users (via a registration and log-in system). It alleges that Grokster loosened its control over users in order to "evade" secondary liability. MGM also complains that Grokster failed to install filtering technologies to block infringing uses of its software, thereby flunking an *Aimster*-like cost/benefit analysis test.

There are many reasons to be skeptical of secondary liability rules based on the intent of technology developers or the possibility of alternative infringement-impeding designs. Intent is a highly subjective basis for technology developer liability, particularly given that the entertainment industry will almost certainly assert that a technology must have been intentionally designed to facilitate infringement if it is widely used to infringe. Even vague speculation in an engineer's email messages about infringing uses of the technology may put the firm at grave risk of very substantial liability.

The availability of alternative designs and an *Aimster*-like cost-benefit analysis may have some superficial appeal, but this kind of rule would put federal judges in a position of second guessing technology developer design decisions, years after the decisions were made, based on hypothetical assessments of how much it would have cost to change particular features to minimize infringement.

The biggest danger of such a test is that it would give the entertainment industry substantial leverage to pressure the technology industry to embed technical protection measures in every digital media device—a result the entertainment industry has tried, but thus far failed, to get from Congress.

Business Models

MGM's briefs to the Supreme Court have asserted that Grokster's business model is dependent on copyright infringement. Infringing content is, in MGM's view, the "draw" to Grokster's software and services. The bigger Grokster's user base is, the more substantial are Grokster's advertising revenues. The more infringing materials available on networks formed with Grokster software, the larger is its user base. MGM characterizes Grokster as "an infringement-driven" business.

Although there is no precedent for basing secondary liability of technology developers on the extent to which their business models may depend on infringement, the the Ninth Circuit Court of Appeals in *Fonovisa v. Cherry Auction* upheld the liability of a swap-meet site owner for the infringing acts of exhibitors who sold infringing copies of copyrighted works, in part because its swap meet was making money from the infringing exhibitors and could have supervised them.

In a rhetorical effort to deepen the analogy between *Grokster* and *Cherry Auction*, MGM and supporting amici tend to characterize activities on P2P networks as "file swapping" instead of "file sharing."

A business-model-based test for secondary liability of technology developers may be appealing to some Justices of the Supreme Court. Yet, it is not all that reliable a way to distinguish between "good" and "bad" actors. If a telecommunications service offers greater bandwidth to its customers and derives substantial revenues from the new service, does its business model depend on infringement if it turns out that many or most of its customers are using the increased bandwidth to file share movies? If Apple increases the hard drive storage capacity of the iPod, does the business model of its enhanced iPod depend on whether more customers use the extra memory to store infringing files? A business-model test for secondary liability also would be of limited utility as to an open source developer of P2P technology.

Active Infringement

Viewed from the standpoint of *Communications* readers and the IT industry generally, the least disruptive MGM-favorable outcome would be for the Supreme Court to decide that the lower courts should have considered whether Grokster actively induced user infringements. This ruling would mean the case would then be sent back to the lower courts for further proceedings on this issue.

MGM asserts, and several amici agree, that the *Sony* safe harbor does not shield from liability those who actively induce others to infringe. (The safe harbor for technologies with SNIUs in patent law, from which the Court drew inspiration in *Sony*, is a limitation on contributory infringement liability, not active inducement of infringement.)

Although MGM did not pursue this theory before the trial court or Ninth Circuit, its brief to the Supreme Court gives considerable emphasis to the inducement theory. The Supreme Court does not usually let litigants make arguments to it that were not raised in lower courts, but MGM will almost certainly argue that active inducement is part of the melting pot of copyright secondary liability rules on which it has relied since it filed the lawsuit against Grokster.

The factual basis for MGM's inducement theory and the legal standards upon which inducement liability would be based are, however, somewhat murky. MGM seems to want the Court to find that Grokster induced infringement because its technology was designed to facilitate infringement and is so widely being used to share copyrighted works. It quotes from statements by Grokster employees about the firm's intent to be "the next Napster," but such statements were made before the current version of the software was released, and only the current version of the software is before the Court.

If the Court decides that copyright law, like patent law, makes inducers liable for others' infringement, it will have to decide how stringent the standards should be for inducement liability.

Patent law requires a showing of overt acts of inducement and a specific intent to bring about infringement. Merely developing, selling, or advertising a technology with SNIUs does not qualify as inducement.

Nor can patent inducement be based on selling a technology to someone whom the seller has reason to know or believe the technology will, in fact, be used to infringe. Active inducers can be enjoined from further active inducement of infringement, but not from selling or advertising for sale a technology with SNIUs.

The Business Software Alliance, the Information Technology Association of America, the Digital Media Association, and the NetCoalition, among others, submitted amicus curiae briefs urging the Court to assess Grokster's liability on an active inducement theory akin to that found in patent law and otherwise to preserve the *Sony* safe harbor rule.

The Court will certainly be aware from these amicus briefs and others in support of the Ninth Circuit's ruling that the IT and consumer electronics industry heavily depend on the clear, predictable, objective *Sony* safe harbor. The Court may be persuaded not to disrupt the settled expectations of these industries and the positive investment environment for IT to which the *Sony* safe harbor has contributed.

Based on my reading of the pro-MGM and neutral briefs, I predict the Court in *Grokster* will send the case back for further proceedings on an active inducement theory (the decision is expected sometime this month).

Conclusion

The amicus curiae brief that I submitted to the Supreme Court on behalf of 60 intellectual property professors and USACM urged the Court to affirm the Ninth Circuit's ruling because the *Sony* safe harbor has proven to be a sound secondary liability rule for copyright law, because there is no statutory basis for the expansive secondary liability rules proposed by MGM, and because adoption of any of the expansive rules for which MGM is arguing would have profoundly destabilizing consequences for a wide variety of industries beyond the parties to the *Grokster* case.

If the entertainment industry needs a carefully targeted remedy against some P2P file-sharing technology developers, it should seek this remedy from the U.S. Congress. Congress is better situated than the courts to hear from all affected stakeholders and to work with them to develop well-balanced rules to respond to identified problems.

In the several years since MGM filed the case against Grokster, Congress has held numerous hearings on the P2P file-sharing phenomenon and considered several different approaches to regulating P2P technology developers. No consensus has yet emerged on the best regulatory approach. The brief ends by asking the Court not to cut short this legislative conversation.

Members of Congress and their staff counsel are far from eager to resume this conversation. Indeed, they are very much hoping that the Court will decide the *Grokster* case in a manner that will make it unnecessary for them to revisit secondary liability rules for copyright law. An outright victory for either MGM or Grokster may, however, necessitate further Congressional action.

The Court's decision will almost certainly affect the baseline for the next round of the Congressional debate. If the Supreme Court affirms the Ninth Circuit, the *Sony* safe harbor will be the baseline, from which the entertainment industry will have to persuade Congress to deviate in response to the P2P file-sharing phenomenon. If MGM succeeds in persuading the Court to adopt the primary use or an alternative design standard, the IT and consumer electronics industries and their allies will likely face a steep uphill battle to restore the *Sony* safe harbor for technologies with SNIUs.

USACM will be active in legislative debate about the *Sony* safe harbor and alternative secondary liability rules. But computing professionals, the enterprises for which they work, industry associations, and other organizations should strive to help Congress and the courts find appropriately balanced resolutions to the tough questions posed by cases such as *Grokster*.

For Further Information

The Web site for my course "Legal and Policy Challenges Posed by Peer-to-Peer File-Sharing and File-Sharing Technologies" is available at www.sims.berkeley.edu/academics/courses/is296a-2/s05/index.html. The Electronic Frontier Foundation has posted all of the briefs and other court documents in *MGM v. Grokster* on its Web site: eff.org/IP/P2P/MGM_v_Grokster/. C

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