National Nine Nix Nifty Non-Napster Networks

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THE FILE-SHARING WARS: NATIONAL NINE NIX NIFTY NON-NAPSTER NETWORKS

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In the latest in the online file-swapping wars, the United States Supreme Court has ruled in favor of major movie studios and record companies in their suit against two file-sharing services, Grokster and StreamCast Networks, thus overturning a decision of the Ninth Circuit Court of Appeals. MGM Studios v. Grokster, Ltd., No. 04-480, June 27, 2005, reversing 380 F.3d 1154 (9th Cir. 2004), http://straylight.law.cornell.edu/supct/html/04-480.ZS.html.

The Defendants, Grokster and StreamCast Networks, distributed software that enabled users to share electronic files such as music and videos through peer-to-peer transfer networks, so called because users' computers communicate directly with each other, not through central servers. The software could be downloaded free of charge, and since both systems initially were powered by the same networking technology, users of the software were connected to the same peer-to-peer network and were able to exchange files seamlessly.

Although the networks could be used to share any type of digital file, they have primarily been employed to share copyrighted music and video files. The Defendants conceded that most downloads were infringements, and it was uncontested that they were aware that users employed their software primarily to download copyrighted files, even though their decentralized networks failed to reveal exactly which files were being copied, or when. Literally billions of files have been shared by users across peer-to-peer networks every month.

A group of copyright holders that included motion picture studios, recording companies, songwriters, and music publishers sued Grokster and StreamCast for their users' copyright infringements, alleging that they knowingly and intentionally distributed their software to enable users to reproduce and distribute copyrighted works in violation of the U.S. Copyright Act, 17 U.S.C. § 101 et seq.

In their suit, the Plaintiffs contended that the Defendants were liable for both contributory and vicarious infringement of their copyrighted works. However, the Defendants argued and the Ninth Circuit had ruled that since there was no evidence that the Defendants had the ability to supervise and control the infringing conduct, all of which occurred after the product had passed to end-users, the Defendants could not be held liable for contributory or vicarious infringement. The appeals court had relied to a large degree on the landmark 1984 Sony Betamax decision, Sony Corp. of America v. Universal City Studios, 464 U.S. 417 (1984), in which the Supreme Court ruled that manufacturers of video cassette recorders were not liable for their customers' taping of television programs, based on the "fair use" doctrine of the Copyright Act, 17 U.S.C. §107, because the VCRs were not only capable of infringing uses but also "substantial noninfringing uses."

However, Justice Souter, in an opinion written for a unanimous Court, said that, when a widely shared product is used to commit infringement, it may be impossible to enforce rights in the protected work effectively against all direct infringers, so that the only practical alternative is to go against the device's distributor for secondary liability on a theory of contributory or vicarious infringement. A person or entity infringes contributorily by intentionally inducing or encouraging direct infringement, and infringes vicariously by profiting from direct infringement while declining to exercise the right to stop or limit the infringement.

Justice Souter said that when one's object in promoting the use of a product is for third parties to infringe the copyrights of others, even though the product is capable of both lawful and unlawful uses, it is liable for the acts of copyright infringement by those third parties when there is a clear expression or other affirmative steps are taken to foster the infringements.

He noted that Grokster and StreamCast were not merely passive recipients of information about infringing use. Rather, the evidence showed that from the moment they began distributing their free software, they clearly promoted the idea that recipients would use it to download copyrighted works, and they took active steps to encourage infringements. Both companies developed promotional materials to market their services as the best alternative to Napster, the company that had started the file-sharing revolution and had been shut down by the courts in 2001. (For a discussion of that case, A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004 (9th Cir. 2001), see my article, "Ninth Nixes Napster's Nifty Network", http://easl.info/index.php?module=Static_Docs&func=view&f=20010216+David+Ellis+Napster+Article.htm.)

In sum, Justice Souter said that this case was significantly different from Sony and that the Ninth Circuit was in error to rely upon it to rule in favor of StreamCast and Grokster. The Sony case dealt with a claim of liability based solely on distributing a product with alternative lawful and unlawful uses, with knowledge that some users would act unlawfully. Here, however, the distributors' words and deeds went beyond mere distribution and showed a purpose to induce and profit from third-party acts of copyright infringement. The Court thus reversed the decision of the Ninth Circuit and ruled in favor of the movie studios and record companies.

David Ellis is a Largo, Florida attorney practicing computer and cyberspace law; copyrights, trademarks, trade secrets, patents, and intellectual property law; business, entertainment and arts law; and franchise, licensing and contract law. A graduate of M.I.T. and Harvard Law School, he is a registered patent attorney and the author of the book, A Computer Law Primer. He has taught Intellectual Property and Computer Law as an Adjunct Professor at the Law Schools of the University of Florida and Stetson University.

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