

WILL THE SUPREME COURT OR CONGRESS MODIFY COPYRIGHT LAW IN AN ERA OF RAMPANT DIGITAL PIRACY?

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I.

MGM v. GROKSTER

On August 19, 2004, the Ninth Circuit Court of Appeals unanimously ruled in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.* ("*Grokster II*")¹ that certain online file-sharing software companies were not liable for the direct copyright infringement committed by users of their software. This decision represents another significant obstacle to film and music companies' efforts to combat illegal file-sharing on the Internet.² Although the result of recent case law is probably legally correct, it is nonetheless a harsh result for companies that produce software that facilitates massive piracy.

The United States Supreme Court, responding to a *certiorari* petition filed by the plaintiffs/petitioners—who include movie and music studios and other owners of digital rights—agreed to hear an appeal addressing fundamental issues regarding the responsibilities and liability of hardware and software providers whose products may be used for improper

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1. 380 F.3d 1154 (9th Cir. 2004), *cert. granted*, 2004 WL 2289054 (Dec. 10, 2004) (No. 04-480).

2. The entertainment industry has filed copyright infringement suits against thousands of individuals who have downloaded files from the Internet. *RIAA Puts More 'John Does' in the Dock*, HIGH TECH MAGAZINE, Aug. 25, 2004, available at <http://hightechmagazine.com/managearticle.asp?C=140&A=3905>. The Ninth Circuit's decision is only binding upon courts within the states of that district, but it appears to be the first appellate decision on the issues in question and could have considerable persuasive authority to courts in other jurisdictions as well.

access to, and trading of, copyrighted digital material. Additionally, the Court sought to determine the power of the federal courts to redress such alleged wrongs. Meanwhile, Congress has been contemplating a number of proposed legislative solutions to the new problems presented by the application of established copyright laws to rapidly-developing, networked computer systems that facilitate access to digitally-stored files, including proprietary, copyrighted materials, on an instantaneous and global basis. The outcome of the Supreme Court's consideration of this matter—which was the subject of oral argument before the Court in late March 2005—as well as the fate of the numerous legislative proposals for addressing digital rights, remains uncertain for the moment.

II.

THE BATTLE BEGINS: THE NINTH CIRCUIT'S *GROKSTER II* DECISION

The Ninth Circuit's *Grokster II* opinion addressed issues raised on appeal from a ruling by the Central District Court of California.³ The plaintiff class of copyright owners was comprised of several songwriters and most of the major film and music studios. The plaintiffs sued Grokster Ltd. and Streamcast Networks, Inc.,⁴ which are companies that distribute free peer-to-peer ("P2P") computer software that allow users to share movie, music, and other files with one another. Affirming the district court's partial grant of summary judgment for the defendants, the Ninth Circuit held that Grokster and Streamcast were not liable for contributory or vicarious copyright infringement.

3. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029 (C.D. Cal. 2003), *aff'd*, 380 F.3d 1154 (9th Cir. 2004), *cert. granted*, 2004 WL 2289054 (Dec. 10, 2004) (No. 04-480).

4. Streamcast distributes Morpheus software. Sharman Networks, the distributor of popular P2P company KaZaa, was also named a defendant but was not a party to the motions addressed in these actions. Sharman Networks is currently defending its software in a trial in Australia. *Grokster II* provides persuasive though not binding support for the Australian court, which might similarly decline to hold KaZaa liable for copyright infringement. *Peer-to-Peer Software Ruled Legal in the U.S.*, SHARMAN NETWORKS, Aug. 20, 2004, available at <http://www.sharmannetworks.com/content/view/full/301>.

To demonstrate that the defendants were liable under the doctrine of contributory copyright infringement, the plaintiffs were required to prove: (1) direct infringement by a primary party;⁵ (2) knowledge on the part of the defendants of the primary infringement; and (3) a material contribution by the defendants to the infringement. In applying this test, the appellate court was guided by the Supreme Court's decision in the landmark case *Sony Corp. of America v. Universal City Studios, Inc.* ("Sony"),⁶ which held that sellers of copying devices, such as VCRs, are not liable for contributory copyright infringement if the devices are substantially used, or even simply capable of being used, for legitimate purposes. Under this "merely capable" rule, the possibility of legitimate use effectively precludes a showing that the defendant had culpable knowledge of the primary offender's misuse of defendant's technology.

Relying on this principle, the Ninth Circuit found that the defendants' P2P software was capable of commercially significant and substantially legitimate uses, as the defendants' software networks have distributed thousands of public domain films and literary works as well as numerous songs offered free of charge by music artists. Thus, the Ninth Circuit did not apply a "constructive knowledge of infringement" standard to the defendants, which would hold the defendants liable if they generally knew that their software could be used for infringement. Rather, the court required the copyright owners to prove that the defendants had "reasonable knowledge of specific infringement" by end users of the software and failed to act on that knowledge.

After analyzing the defendants' software, the Ninth Circuit found that the plaintiffs failed to carry their burden. The defendants' programs operate by connecting Internet users who have the same or similar software. Once connected, every user's computer makes information available for downloading to all other computers in the network and, accordingly, the available information does not reside on a central server. Additionally, the networks do not maintain a central file index or

5. Primary infringement was not disputed in this case.

6. 464 U.S. 417 (1984). The *Sony* case, also known as the *Betamax* case, concerned the legality of the Sony Betamax VCRs. The non-infringing usage of VCRs—to tape shows for later viewing at home—led the Supreme Court to uphold the legality of the devices.

have the ability to suspend user accounts. Taking these circumstances into account, the court held that the P2P networks cannot and do not have actual knowledge of specific infringement, and that accordingly they do not materially contribute to the copyright infringement.

To establish their second theory of relief, for vicarious copyright infringement, the plaintiffs were required to show: (1) direct infringement by a primary party; (2) a direct financial benefit to the defendants from such infringement;⁷ and (3) the right and ability of the defendants to supervise those infringing. The appellate court found that, due to the decentralized relationship between the P2P networks and their users, the element of supervision necessary for vicarious liability could not be established. It also noted that no separate "blind eye" theory or element applies to vicarious liability. Therefore, the P2P networks were under no affirmative obligation to investigate or inform themselves of the conduct of the users of their software, but were instead permitted to proceed, ignorant of the actions of the end users.

The court limited its holding to the defendants' current software; the court's ruling does not apply either to previous versions of their software or to other file-sharing networks. Interestingly, in 2001, the same court held in *A&M Records v. Napster* ("*Napster*")⁸ that the makers of the more centralized Napster software, which, crucially, maintained an index of available files and controlled user access, were contributorily and vicariously liable for copyright infringement.

The Ninth Circuit interpreted the standards of vicarious and contributory liability rather narrowly, placing no weight on factors such as the predominantly illicit use of the software or any showing of intent—or inattention—on the part of the software companies. Rather, policy rationales and precedent played prominent roles in the court's interpretation of the liability standards. For example, the court explained that although new technology always harms copyright owners whose works are sold through existing commercial mediums, market forces and time often help to provide a balance. The court

7. As with the primary infringement element of the test, an additional element, direct financial benefit—via advertising revenue—was undisputed in this case.

8. 239 F.3d 1004, 1011-24 (9th Cir. 2001).

also noted that a wholesale re-examination of current copyright law (which would be required to extend the established vicarious liability law to impose an affirmative duty to investigate end user conduct) would conflict with precedent. Guided by the Supreme Court's statements in *Sony*, the Ninth Circuit further stated that Congress should ultimately provide direction on copyright issues regarding new technologies.

III.

APPEAL TO THE U.S. SUPREME COURT

The entertainment industry appealed the *Grokster II* ruling, and filed a petition for a writ of certiorari on October 8, 2004.⁹ In addition to the parties' briefs, several *amicus curiae* briefs have been filed weighing in and expressing strong opinions on the issues at stake.¹⁰ The Supreme Court granted certiorari on December 10, 2004.¹¹

Questions Presented

The plaintiffs in this case (hereinafter referred to as the "petitioners") frame the question presented to the Supreme Court as whether *Grokster* and *Streamcast* (the "respondents") should be secondarily liable for the large amount of infringement occurring on their networks.¹² In contrast, the respondents frame the question presented as whether Congress, not the courts, should determine the scope of the statutory copyright monopoly and its application to new technologies with substantial non-infringing uses.¹³

The parties, of course, continue to vigorously debate the Ninth Circuit's analysis of the standards for contributory and vicarious copyright infringement. They also disagree as to whether a circuit conflict or an urgency exists requiring Su-

9. Petition for Writ of Certiorari, *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1154 (9th Cir. 2004), *cert. granted*, 2004 WL 2289054 (Dec. 10, 2004) (No. 04-480).

10. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 2004 WL 2289054 (Dec. 10, 2004) (No. 04-480).

11. *Id.*

12. Petition for Writ of Certiorari at i, *Grokster* (No. 04-480).

13. Brief in Opposition to Writ of Certiorari at i, 15, *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1154 (9th Cir. 2004), *cert. granted*, 2004 WL 2289054 (Dec. 10, 2004) (No. 04-480).

preme Court review, begging the question of whether the Court is even the appropriate governmental branch to resolve the uncertainty surrounding the file-sharing and secondary copyright liability landscape. Additionally, a fundamental issue which has yet to be decided is whether the Supreme Court should determine the standards of secondary copyright liability to be applied to new technologies, or whether the Court should leave such determinations to Congress.

Standards For Secondary Liability

The parties starkly disagree on the Ninth Circuit's analysis of the standards for secondary liability and how these standards should apply to the file-sharing software at issue in the *Grokster II* case.

In general, the petitioners claim that the Ninth Circuit standards for knowledge of infringement, material contribution to the primary infringement, and the right and ability to control end users, were construed far too narrowly and allowed software companies to avoid liability simply by designing their networks in such a way as to blind themselves to direct infringement.¹⁴ The petitioners argue that there is very little evidence of non-infringing use on the networks, and that the Ninth Circuit relied only on anecdotal evidence of non-infringing material and provided no explanation as to why these materials have "commercial viability."¹⁵ They also claim that the Ninth Circuit was misguided in finding that the Court in *Sony* applied a mere capability standard. Accordingly, the petitioners contend that the Ninth Circuit should have found *Grokster* and *Streamcast* liable even if only ten percent of the activity on their software network was non-infringing.¹⁶

The petitioners further contend that, after the Ninth Circuit found substantial non-infringing uses, its application of a higher standard of specific knowledge of infringement was not

14. Reply Brief at *2, *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1154 (9th Cir. 2004), *cert. granted*, 2004 WL 2289054 (Dec. 10, 2004) (No. 04-480).

15. Petition for Writ of Certiorari at 9-10, *Grokster* (No. 04-480).

16. Reply Brief at *3, *Grokster* (No. 04-480). *Grokster* and *Streamcast* do not dispute that at least ninety percent of the activity on their software is infringing. *Id.* at *2.

supported by *Sony*.¹⁷ Even if that standard applied, they argue, the networks had ample notice of infringement, the ability to police infringement, and a duty to design their services and software differently.¹⁸ The petitioners assert that the respondents' networks are very similar to the Napster network and that the respondents, knowing that the infringing activity on their networks drove their advertising and, therefore, their business, intentionally designed their software to avoid liability under the *Napster* rule.¹⁹

In opposition, the respondents emphasize the lower courts' factual findings that their software is both capable of and is being used for significant non-infringing uses and that the respondents have no ability or duty to monitor the files shared or downloaded by the end users.²⁰ They also note that the number of non-infringing uses on the networks has increased tremendously since the district court's decision.²¹ They point out that the petitioners, in their petition for certiorari, did not address the Ninth Circuit's finding that the material contribution element of contributory infringement, which calls for an assessment of any steps taken by the respondents to provide for or regulate direct infringement, was not satisfied.²² Additionally, the respondents contend that the merely capable standard—which was expounded by *Sony*—was properly applied by the Ninth Circuit, and that this standard should not be rejected because it serves to avoid unnecessary litigation for new technologies.²³ They remind the Supreme Court that novel technologies, such as the VCR, were initially challenged in court as violating copyright laws, but ultimately these technologies became profitable vehicles for the entertainment industry.²⁴

In response to these arguments the Supreme Court may decide to modify the standard for contributory infringement. The petitioners fear that upholding the Ninth Circuit standard—that distributors of products capable of substantial non-

17. Petition for Writ of Certiorari at 10, *Grokster* (No. 04-480).

18. *Id.* at 10-12.

19. Brief in Opposition to Writ of Certiorari at 4-7, *Grokster* (No. 04-480).

20. *Id.* at 5-8.

21. *Id.* at 7.

22. *Id.* at 23.

23. *Id.* at 20-21.

24. *Id.* at 21-22.

infringing uses (as well as possibly-infringing uses) are liable only if they know of specific infringement and fail to act—would allow software companies to intentionally design networks so as to blind themselves to direct infringement (and to any attendant obligations).²⁵ The Supreme Court could ameliorate that concern by broadening the definition of what constitutes “knowledge” of direct infringement (so as to include constructive or imputed knowledge, for instance), and it might determine that evidence of bad faith or intent should play a more significant role in determining contributory liability.

Additionally, the Supreme Court may provide guidance on vicarious copyright infringement. The technical nature of the respondents’ decentralized computer networks have enabled the respondents to escape vicarious liability thus far. Should the Court continue to narrowly construe the standard for the ability to supervise direct infringers, such that technology companies can avoid liability without the need for actively taking steps to monitor users’ activities, then decentralized file-sharing networks and other media-sharing products will continue to thrive. Removing or relaxing the element of vicarious liability that requires a defendant to directly financially benefit from direct infringement, on the other hand, could provide incentives for technology companies to better police infringement and attempt to increase the number of legitimate uses for their products in order to avoid facing increased vicarious liability exposure.

The Circuit Conflict

The parties disagree over whether there is a circuit court conflict that would warrant Supreme Court review. According to the petitioners, the Seventh Circuit’s ruling in *In re Aimster Copyright Legislation* (“*Aimster*”)²⁶ conflicts with the Ninth Circuit’s ruling in *Grokster II*. In *Aimster*, the defendant offered a P2P service, which utilized a centralized indexing system, giving the company control over its users’ infringing activities. Furthermore, the defendant’s networks offered services to en-

25. Petition for Writ of Certiorari at 22-23, *Grokster* (No. 04-480).

26. *Id.* at 24-29.

courage end users' infringement.²⁷ The Seventh Circuit held the defendant liable for contributory infringement.²⁸ The petitioners argue that *Aimster* requires a defendant invoking the *Sony* defense to demonstrate actual non-infringing uses for its technology, and requires the court to analyze the relative proportions of infringing to non-infringing uses.²⁹ The petitioners state that the court must then balance the copyright holders' interests with the public's interest to use the product for non-infringing purposes to determine liability.³⁰ In contrast, as explained, the Ninth Circuit did not accept this balancing test but rather ruled that where a product was capable of substantial non-infringing uses, the distributor would be liable only if it knew of specific infringement and failed to act on such knowledge.³¹

To counter, the respondents point out that the Seventh Circuit law does provide for an assessment of capable non-infringing uses, and the *Aimster* defendant failed because it did not introduce evidence of actual and probable—or even merely potential—non-infringing uses.³² The respondents also distinguish their software, which lacks central indices or the ability to monitor or control end users, from the software at issue in *Aimster*.³³ They argue that because the *Aimster* court did not analyze vicarious liability and, on the issue of contributory liability, found that the defendant did not introduce any evidence that its network was capable of non-infringing uses, the Seventh and Ninth Circuits are not incongruous.³⁴

In conclusion, a Supreme Court ruling addressing whether a successful defense requires a showing of possible non-infringing uses—rather than a showing that these uses are probable and proportionately significant—would provide useful guidance to technology companies particularly as file-sharing techniques continue to evolve.

27. *In re Aimster Copyright Litig.*, 334 F.3d 643, 646-47 & 651-52 (7th Cir. 2003), *cert. denied*, 540 U.S. 1107 (2004).

28. *Id.* at 654-55.

29. Petition for Writ of Certiorari at 13 & 25-26, *Grokster* (No. 04-480).

30. *Id.* at 24.

31. *Id.* at 24-25.

32. Brief in Opposition to Writ of Certiorari at 26, *Grokster* (No. 04-480); *Aimster*, 334 F.3d at 650.

33. *Id.* at 25.

34. *Id.* at 25; *Aimster*, 334 F.3d at 653-54.

Urgency

The parties also diverge on the issue of whether the copyright issues regarding P2P technology are sufficiently urgent to require Supreme Court review. The petitioners claim that immediate review is necessary because the music and movie businesses are suffering "catastrophic, multibillion-dollar harm," which cannot be redressed through the initiation of lawsuits against direct infringers, and argue that the Ninth Circuit's decision threatens the foundation of copyright law in the digital era.³⁵ They state that P2P technology threatens to eliminate the need to purchase or rent CDs or DVDs and that the *Grokster II* rule sends a message to network users that direct infringement is permissible.³⁶ Implicitly, the petitioners raise the spectre of a worst-case scenario in which artists and studios will have no incentive, or perhaps no ability, to produce and distribute movies and music, since the Ninth Circuit rule will eliminate any prospect of deriving a profit.

The petitioners also argue, in somewhat cursory fashion, that the Ninth Circuit's rule would stifle or impede "innovative" ventures that legitimately distribute entertainment files.³⁷ That argument, however, is not well-founded. Although the Ninth Circuit's ruling accepted the petitioners' claim that the large majority of the files on the networks are shared illegally,³⁸ many P2P file-sharers are also surely aware of the movie and music industries' well-publicized lawsuits against hundreds of file-sharers since its August 2004 decision.³⁹ Thus, the entertainment industry's actions since the *Grokster II* ruling would not cause individuals to reasonably believe that the Ninth Circuit has validated the sharing and downloading of copyrighted files.

35. Petition for Writ of Certiorari at 2-3, *Grokster* (No. 04-480).

36. *Id.* at 5 & 30.

37. *Id.* at 14.

38. *Grokster*, 380 F.3d at 1160.

39. See, e.g., Staff, *RIAA Files New Lawsuits Against 750 Illegal File Sharers*, COLLEGIATE PRESSWIRE, Oct. 28, 2004, available at <http://www.cpwire.com/archive/2004/10/28/1685.asp>; *U.S. Movie Industry Plans Legal Onslaught Against Online File Sharers*, INTELLECTUAL PROPERTY LAW BULLETIN, Nov. 3, 2004, available at <http://www.iplawbulletin.com/cgi-bin/absolutenm/anviewer.asp?a=2497&z=18>; *Court Blocks Movie Studios' Bulldozer Legal Strategy*, ELECTRONIC FRONTIER FOUNDATION, Nov. 23, 2004, available at http://www.eff.org/news/archives/2004_11.php.

The respondents, in turn, note that: (1) the copyright holders did not file suit in this case until eight months after learning of the P2P software; (2) the petitioners never sought preliminary injunctive relief; and (3) the music and movie industries have endured and grown despite the petitioners' claims that the industries have lost and will continue to lose significant sales.⁴⁰ The respondents further assert that the institution of thousands of lawsuits against individual file sharers by the entertainment industry has in fact reduced infringing downloading significantly.⁴¹ The respondents do not deny that millions of copyrighted files are shared on the networks, nor do they address the petitioners' claim that the development of P2P software has made it unnecessary for individuals to purchase movies and music. The respondents defend, as several technology companies have also asserted quite vocally and publicly, that individuals are still purchasing CDs and DVDs even though they may not need to do so. Just as the petitioners' arguments suggest that the *Grokster II* decision threatens to suppress artistic expression and endeavors by limiting the ability to profit from them, the respondents and their supporters suggest that taking a punitive approach to P2P software providers would suppress the kind of technical innovation that has enriched American Internet companies and provided a vast range of popular technology to American consumers.

Congress vs. the Court

As was to be expected from the way they framed the issue, the respondents focus much of their brief on the need for Congress ultimately to fashion the copyright law concerning new technologies. First, the respondents emphasize the rule promulgated in *Sony* that the Supreme Court should defer to Congress in addressing copyright issues regarding new technologies.⁴² Second, they point out that Congress has amended the Copyright Act seven times in recent years to address new technologies, and eight bills addressing P2P file-sharing concerns are currently pending before Congress. But, they note, in the course of all these legislative developments,

40. Brief in Opposition to Writ of Certiorari at 27-29, *Grokster* (No. 04-480).

41. *Id.* at 29.

42. *Id.* at 2.

Congress has left the *Sony* rule of judicial deference undisturbed.⁴³ Third, the respondents argue that Congress is best equipped to weigh the competing interests of the technology industry, copyright holders, and society at large, and that Congress can act quickly and on an industry-by-industry and technology-by-technology basis.⁴⁴

In their petition for certiorari, the petitioners make a somewhat weak case supporting the ability and need for the Supreme Court to resolve fundamental copyright questions. They point to three cases in which the Court has granted certiorari for major copyright questions, but notably they cite no case decided after *Sony*.⁴⁵ The petitioners fail to address the policy developed in *Sony* that Congress should develop the copyright standards for new technologies, or alternatively to explain why Congress should not ultimately decide these questions.

In their response to the respondent's brief, however, the petitioners more adequately address the policy developed in *Sony*. They claim that the respondents point to Congress as the proper body to resolve the issues in this case merely in order to avoid judicial review, because the Ninth Circuit had rewritten the law on secondary liability and applied *Sony* improperly.⁴⁶ They also argue that Congress does not and should not create the standards for secondary copyright liability and that courts have on several occasions applied secondary liability principles to address novel technologies. However, the petitioners arguably fail to cite enough on-point case-law authority to support the latter claim.⁴⁷ Relying on the Supreme Court's previous grant of certiorari in *Sony*, the petitioners further contend that a speculative possibility of corrective legislation is an inadequate reason to deny review.⁴⁸ However, they fail to justify the ruling in *Sony* that the Court should, in fact, defer to Congress to structure the secondary liability framework for new technologies.

43. *Id.* at 4-5 & 13-14. Some of the more pertinent—and controversial—bills which are addressing file-sharing and pending in Congress are described later in this article. See *infra* notes 49-79 and accompanying text.

44. *Id.* at 18-19.

45. Petition for Writ of Certiorari at 24, *Grokster* (No. 04-480).

46. Reply Brief at *1, *Grokster* (No. 04-480).

47. *Id.* at *8.

48. *Id.* at *9.

Oral Argument at the Supreme Court

Oral argument before the Supreme Court in *Grokster II* took place on March 29, 2005. In the light of considerable media and industry scrutiny, fairly vigorous questioning was forthcoming from several of the Justices.

Counsel for the respondents argued that even if the *Sony* rule were reaffirmed, copyright owners would still have effective recourse against overt facilitation of piracy, under the inducement doctrine. Justice Souter questioned counsel as to why the lower court decisions had not thoroughly addressed the active inducement issue. Several other Justices joined Justice Souter in expressing confusion as to whether the lower courts had adequately distinguished, and conducted, discrete inquiries into Grokster's alleged participation in infringement under the *Sony* test, and Grokster's potential active inducement of infringement. The respondents conceded that the record was somewhat muddled, but continued to maintain that leaving the *Sony* rule intact would not leave copyright owners helpless against true inducers of infringement (albeit in the *Grokster II* case, a proper determination of the inducement issues might require remand and further development of a record that is thus far factually-insufficient).

The petitioners, in their oral argument, did not dwell at length upon active inducement or how it might be proven, focusing instead on their continued insistence that the respondents' software and networks, and the overwhelmingly-infringing uses to which these were actually put in practice, established direct infringement liability even under the *Sony* rule.

The petitioners argued for an interpretation of the *Sony* rule, under which a party such as Grokster could escape liability only to the extent that its overall operations or business plan could be found to be not "substantially related to infringement." Under such a test, the relative ratios of infringing and non-infringing use on the accused infringer's system (rather than the mere existence of *some* non-infringing use) would form the crucial inquiry for a court in determining infringement.

Echoing arguments made by the respondents in their briefing, several Justices pointed to the uncertainty, and possible prejudice, that could ensue from imposing a harsher standard of scrutiny than the *Sony* rule has for years imposed

against companies who develop software or apparatuses that might be put to improper uses. The Justices noted that even the most diligent hardware and software developers could not control adaptations of their products for infringing uses, and observed that many popular and successful products (such as the VCRs in the *Sony* case, or the Apple iPod) had been accused of or associated with copyright infringement, but were nonetheless arguably widely accepted as important contributions to consumer technology products. It seems that during oral advocacy the respondents' arguments about the possible thwarting of entrepreneurial technology development found a receptive ear among at least some of the Justices.

No date has been set for the issuance of a Supreme Court decision of the appeal. Meanwhile, as the Court considers the fully briefed and argued positions of the parties, Congress has not been standing idle in considering how best to grapple with digital copyright policy.

IV. LEGISLATION

The Implications Of Pending Legislation

Not only are copyright holders currently unable to recover damages for secondary copyright liability from P2P companies and Internet service providers ("ISPs"),⁴⁹ but two recent appellate court rulings granted ISPs and their users additional protection from legal attack. In *Recording Industry Ass'n of America, Inc. v. Verizon Internet Services, Inc.* ("Verizon"), the Court of Appeals for the District of Columbia immunized ISPs against certain subpoenas for information about end users.⁵⁰ The court rejected the music industry's efforts to compel ISPs to disclose subscribers' names, where files that were allegedly shared through P2P networks in violation of copyright law were stored on subscribers' computers and not on the ISP servers.⁵¹ The court reasoned that the ISPs were not responsible for, or deemed on notice of, end users' misconduct.⁵² The D.C. Court of Appeals in *Verizon*, like the Ninth Circuit in *Grok-*

49. 17 U.S.C. §§ 512(a)-(d) (1999).

50. 351 F.3d 1229 (D.C. Cir. 2003), *cert. denied*, 125 S. Ct. 347 (U.S. 2004).

51. *Id.*

52. *Id.*

ster II, showed reluctance in resolving the copyright concerns implicated by new technology, reserving that task for Congress.⁵³ Following the approach applied in *Verizon*, the Court of Appeals for the Eighth Circuit similarly ruled in *Recording Industry Ass'n of America, Inc. v. Charter Communications, Inc.* ("Charter")⁵⁴ that ISPs cannot be compelled to disclose information about end users who allegedly transmit copyrighted files on P2P networks.

The judiciary has thus granted a considerable amount of legal protection to software and Internet companies. Legislative action could eliminate much of that protection, however. Congress deliberated during much of the past session on several bills bearing on P2P concerns. Enactment of any of these bills would dramatically alter the landscape for copyright holders, the music and movie industries, and the audience for entertainment works. The discussion below summarizes some of the key pending legislation addressing P2P and copyright concerns.

The Induce Act

The Senate recently reviewed the Inducing Infringement of Copyrights Act of 2004 ("Induce Act"), a controversial bill introduced on June 22, 2004, by Senate Judiciary Committee Chairman Orrin Hatch, a longtime opponent of file-sharing on P2P networks.⁵⁵ The Induce Act would amend the Copyright Act to make software companies liable for inducing or encouraging users to violate copyright laws.⁵⁶ It would punish violators with fines up to \$30,000 for each act of infringement and up to \$150,000 for willful infringement, with damages or even prison terms to be determined at trial.⁵⁷ It is not limited to peer-to-peer software companies or even to software compa-

53. *Id.* at 1238.

54. 2005 WL 15416 (8th Cir. Jan. 4, 2005).

55. S. 2560, 108th Cong. (2004).

56. Staff, *High-Tech Industry Asks Senate To Soften "Induce" Copyright Bill*, INTELLECTUAL PROPERTY LAW BULLETIN Aug. 27, 2004, available at <http://www.iplawbulletin.com/cgi-bin/absolutenm/anmviewer.asp?a=2066&z=19>.

57. *Senate Bill Would Expand Copyright Protection*, INTELLECTUAL PROPERTY LAW BULLETIN, June 24, 2004, available at <http://www.iplawbulletin.com/cgi-bin/absolutenm/anmviewer.asp?a=1661&z=27>; *Induce Act Dies in Senate Committee*, INTELLECTUAL PROPERTY LAW BULLETIN, October 8, 2004, available at <http://www.iplawbulletin.com/cgi-bin/absolutenm/anmviewer.asp?a=2340>.

nies generally. Several drafts of the bill have been submitted and discussed, including a second version by Senator Hatch that clarified the term "inducement" to indicate conscious and deliberate affirmative acts.⁵⁸ Predictably, the entertainment industry strongly supports the Induce Act.⁵⁹

The Copyright Office also supports the Act. The Register of Copyrights testified before Congress on July 22, 2004, even suggesting a reexamination of the *Sony* decision in light of recent advances in technology.⁶⁰ The Office also provided the Senate Judiciary Committee with proposed language for discussion on September 10, 2004.⁶¹ The suggested language is quite broad, targeting companies that make public dissemination technologies and financially benefit from, or attract users with, copyright infringement.⁶² The language does, however, narrow the definition of "inducement" to affirmative, overt actions reasonably expected to lead persons to violate copyright law.⁶³ The Office also contends that any injunction on a P2P network or other product should be limited to the service's infringing uses, and it asserts that its draft would not chill innovation or impose liability for the distribution of devices that can generate private reproductions.⁶⁴

The bill has received harsh criticism as well, with opponents challenging its broad scope and vague definition of inducement.⁶⁵ Opponents argue that the Induce Act would es-

58. Declan McCullagh, *Conservative Group Savages Anti-P2P Bill*, CNET NEWS.COM, Sep. 24, 2004, available at http://news.com.com/2102-1028_3-5381593.html?tag=st.util.print.

59. *Tech Companies Oppose Copyright Inducement Bill at Senate Hearing*, INTELLECTUAL PROPERTY LAW BULLETIN, July 23, 2004, available at <http://www.iplawbulletin.com/cgi-bin/absolutenm/anmviewer.asp?a=1812&z=27>.

60. *Hearing on S.2560, the Intentional Inducement of Copyright Infringements Act of 2004*, 108th Cong. (2004) (testimony of Hon. Marybeth Peters, Register of Copyrights).

61. U.S. Copyright Office, *Explanatory Memorandum to Recommended Statutory Language for Amending 17 U.S.C. § 501* (Sept. 9, 2004).

62. *Id.*

63. *Id.*

64. *Id.*

65. Roy Mark, *Copyright Office Jumps into P2P Fray*, INTERNETNEWS.COM, Sep. 7, 2004, available at <http://internetnews.com/bus-news/print.php/3404461>. Thousands of individuals have volunteered to protest the bill, and many companies and organizations have protested as well. Katie Dean, *New Induce Act Alarms Foes*, WIRED NEWS, Sep. 27, 2004, available at <http://www.wired.com/news/print/0,1294,65084,00.html>; Joanne Glasner, *File-*

entially overrule not only *Grokster II* but also the twenty-year old precedent established by *Sony*, because manufacturers or distributors of products with substantial non-infringing uses could be liable for infringement.⁶⁶ The Act would severely threaten the livelihood of many file-sharing and other technology companies. It could effectively ban—or at least imperil—products that could be used to store or play illegally obtained files, such as CD burners, digital video recorders (e.g., TiVo), and MP3 players. The Act could even apply to ISPs, computers, copying machines, and VCRs.⁶⁷ Although the music and movie industries have been the most vocal—and litigious—in their fight against P2P networks, the video game and software industries have also expressed concern about infringement of their files, as web users frequently download software and game files through P2P networks.⁶⁸

Several technology companies, including ISPs, have implored the Senate to limit the Induce Act to apply only to software created for the purpose of distributing copyrighted works.⁶⁹ The technology industry has offered an alternative to the Induce Act, the Discouraging Online Networked Trafficking Inducement Act of 2004, which narrows the language at issue to target those companies that intentionally induce consumers to infringe upon copyrights—that is, companies that distribute computer programs particularly designed for large-scale piracy.⁷⁰

Efforts to agree on the Induce Act language have failed, and on October 7, 2004, Senator Hatch canceled plans to pre-

Trading Bill Stokes Fury, WIRED NEWS, June 24, 2004, available at <http://www.wired.com/news/print/0,1294,63969,00.html>.

66. Dean, *supra* note 65.

67. *Id.* See also Glasner, *supra* note 65; *High-Tech Industry Asks Senate To Soften "Induce" Copyright Bill*, *supra* note 56.

68. Congressional Budget Office, *Copyright Issues in Digital Media*, (Aug. 2004), available at <http://www.cbo.gov/ftpdocs/57xx/doc5738/08-09-copyright.pdf>. See also Bernhard Warner, *File-Sharing Thrives as Net Users Find New Outlets*, REUTERS, Jul. 13, 2004, available at <http://www.reuters.com/printer-FriendlyPopup.jhtml?type=topNews&storyID=5654335>.

69. *High-Tech Industry Asks Senate To Soften "Induce" Copyright Bill*, *supra* note 56.

70. *Induce Act Markup is Postponed, As Groups Continue Negotiations*, 68 BNA'S PATENT, TRADEMARK & COPYRIGHT JOURNAL 619, 626 (2004); *'Induce Act' Senate Markup Expected, Despite Tech Industry's Continuing Concerns*, 68 BNA'S PATENT, TRADEMARK & COPYRIGHT JOURNAL 599, 603 (2004).

sent it to his Senate committee by the end of the past session of the 108th Congress.⁷¹ Hatch has expressed his intention to return to the bill sometime this year.⁷²

The PDEA

The House of Representatives passed the Piracy Deterrence and Education Act ("PDEA") on September 28, 2004.⁷³ The PDEA would require the Federal Bureau of Investigation to establish programs that educate the public about the value of copyrighted works and the harms of copyright infringement on the Internet.⁷⁴ The FBI also must facilitate the sharing of infringement activity information among enforcement agencies, ISPs, and copyright holders.⁷⁵ The PDEA would enhance the penalties for direct infringement by imposing criminal penalties, including up to five years in prison for first-time offenders, on persons sharing more than 1,000 infringing files on a P2P network.⁷⁶

To understand the context under which Congress is reviewing the PDEA, it is useful to assess a similar piece of legislation passed several years ago: the No Electronic Theft ("NET") Act of 1997. The NET Act allows federal prosecutors to pursue

71. *Induce Act Markup is Postponed, As Groups Continue Negotiations*, *supra* note 57.

72. Brief in Opposition to Writ of Certiorari at 15, *Grokster* (No. 04-480), citing Ted Bridis, *Senate Talks Fail on File-sharing Software*, AP NEWSWIRE (Oct. 7, 2004).

73. H.R. 4077, 108th Cong. (2004); *EFF on Copyright Bill Moving in Congress*, ELECTRONIC FRONTIER FOUNDATION, Sept. 8, 2004, available at http://www.eff.org/news/archives/2004_09.php; *Create Act and Pirate Act are Folded into DOJ Reauthorization Bill*, 68 BNA'S PATENT, TRADEMARK & COPYRIGHT JOURNAL 717, 723 (2004). The PDEA was formerly under House review as H.R. 2517.

74. THOMAS LEGISLATIVE INFORMATION ON THE INTERNET, *Bill Summary & Status for the 108th Congress*, available at <http://thomas.loc.gov/cgi-bin/bd-query/z?d108:HR04077:@@L&summ2=m&>.

75. *Id.*

76. *House Panel Moves to Criminalize Spyware, Net Piracy*, WASHINGTONPOST.COM, Sep. 8, 2004, available at <http://www.washingtonpost.com/wp-dyn/articles/A6091-2004Sep8.html>; *EFF on Copyright Bill Moving in Congress*, ELECTRONIC FRONTIER FOUNDATION, Sept. 8, 2004, available at http://www.eff.org/news/archives/2004_09.php. Surveys have recently shown that the average college student who uses P2P networks shares about 1,100 files. *Id.* Thus, the average college user of P2P software could face criminal liability.

criminal actions against suspected copyright infringers, with infringers facing up to \$250,000 in damages and prison terms as lengthy as six years.⁷⁷ It has had limited utility, however, because it only applies to those who make or distribute copies of copyrighted files and is rarely implemented.⁷⁸ The PDEA, on the other hand, would impose liability on simply making copyrighted files publicly accessible, thus making a finding of liability more likely. It is unclear whether, if enacted, prosecutors would implement the PDEA as a means for punishing copyright infringers through a more frequent and targeted approach than they have used under the NET Act. It is certainly possible that the PDEA will have a stronger bite than that of the NET Act thus far, particularly if opponents to file-sharing continue to press for legal action to restrain its “catastrophic” consequences.

The PIRATE Act

Another pending bill that would impact educational and enforcement programs regarding copyright infringement is the Protecting Intellectual Rights Against Theft and Expropriation (“PIRATE”) Act of 2004.⁷⁹ The Senate passed this bill on June 25, 2004, and it now awaits House approval. The PIRATE Act requires the Attorney General to develop a program to train Department of Justice and U.S. Attorney Office personnel on enforcing copyright piracy actions.⁸⁰ It also authorizes the Department of Justice to bring civil suits against suspected copyright infringers, thus requiring that the prosecution meet only a “preponderance of the evidence” standard rather than the “beyond a reasonable doubt” standard used in criminal cases, including those cases that would be prosecuted under the PDEA.⁸¹ Especially if it is passed in conjunction with the PDEA, enactment of the PIRATE Act would provide prosecu-

77. Pub. L. No. 105-147, § 2(c) (1997); 18 U.S.C. § 2319A (1997); 17 U.S.C. § 506 (1997); John Borland, *Justice Dept. Probes for Pirates*, CNET NEWS.COM, Aug. 25, 2004, available at http://news.com.com/2102-1032_3-5323904.html?tag=st.util.print.

78. Borland, *supra* note 77.

79. 9 S. 2237, 108th Cong. (2004).

80. *Id.*

81. *Create Act and Pirate Act are Folded into DOJ Reauthorization Bill*, *supra* note 73.

tors with much ammunition to deter and punish copyright infringement on P2P networks.

The Family Entertainment and Copyright Act

Congress recently passed a law addressing infringement of copyrighted works through file-sharing. The Family Entertainment and Copyright Act of 2005, signed into law by President Bush on April 27, 2005, introduced several new measures designed to protect copyrights. Title I of the Act, the Artists' Rights and Theft Prevention Act of 2005 (the "ART Act"), specifically addresses file-sharing. The ART Act requires the Register of Copyrights to establish a preregistration system, allowing copyright owners to register—before commercial distribution—works in classes that have historically faced infringement. Moreover, the Act criminalizes the willful distribution on the Internet of any music file, movie, computer program, or other audiovisual work. Accordingly, if a person who shared a file knew or should have known that the work was intended for commercial distribution, the file-sharer could face three to ten years in prison.

The Act does not address the issues of secondary liability presently being considered by the Supreme Court in *MGM v. Grokster* and previously considered by Congress in its deliberations on the Induce Act. Therefore, P2P networks (and ISPs) currently remain free to operate without fear of punishment for secondary copyright infringement liability. If enforced, however, the Family Entertainment and Copyright Act might at least provide an additional deterrent to individuals considering distributing music and movies on P2P networks before the works are commercially released.

IV.

CONCLUSION

The legality of promulgating software useful for (possibly unlawful) distributed file-sharing presents a matter of first impression for the U.S. Supreme Court. The *MGM v. Grokster* decision will undoubtedly have far-reaching implications for not only file-sharing networks but also other present and future distributors of technology products as well as copyright holders.

It seems unlikely that the Court will overrule *Sony*, which would not only reverse a leading copyright law precedent, but could also lead to an eruption of innovation-stifling lawsuits against technology companies whose software can (despite their best intentions) be misused by unrelated parties. If *Sony* were broadly renounced by the Court, P2P companies would likely be forced out of their current business, but would no doubt eventually introduce new products for sharing digital content in a fashion that preserves the proprietary interests of rights-holders and thus allows network providers to avoid liability for the sins of their users.

If the Court instead affirms the Ninth Circuit, such a decision would likely fuel introduction of new file-sharing products with minimal fear of secondary liability findings on the part of the distributors.

There seems a strong possibility that the Supreme Court—like the Ninth Circuit in this case, the D.C. Circuit (and the Supreme Court itself, which denied certiorari) in *Verizon*, and the Eighth Circuit in *Charter*—will agree with the respondents and hesitate to usurp the role of Congress in addressing the unique issues raised by the advent of Internet technology, even if most observers can agree that the existing copyright common law seems to place copyright holders in an unenviable, even unfair, position in battling digital piracy. Therefore, content owners might have no remaining remedy except suing thousands of shallow-pocketed end users—most anonymous and nearly impossible to find.

In the meantime, at least in the states under the Ninth Circuit's jurisdiction, P2P and other file-sharing companies can continue operating with the knowledge that copyright law is presently on their side. Until Congress or the Supreme Court provides some effectual redress for the concerns of copyright owners, content owners might attempt to solve the thorny problems posed by the Ninth Circuit's *Grokster II* decision by finding a way to work with the P2P operators to develop a mutually-beneficial and mutually-profitable form of authorized electronic distribution of digital content that would optimize the advantages offered by the sophisticated P2P functionalities.

