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## **Confronting Digital Technology: The Motion Picture Industry's Battle with Online Piracy<sup>1</sup>**

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### I. INTRODUCTION

This paper assesses the threats posed to the film industry as a consequence of evolving digital technology in the wake of case law that has shielded peer-to-peer networks from copyright infringement liability for facilitating online music downloads.<sup>2</sup> It surveys the law applicable to actions for online infringement of motion picture copyrights and analyzes how such cases may be resolved in accordance with relevant acts and case law precedents. This analysis will lead to the conclusion that the motion picture industry is likely to suffer the same harm and losses as the music industry due to the current state of the law.

Part I discusses the pertinent provisions of Chapter One of the Copyright Act,<sup>3</sup> including a consideration of two exclusive rights of

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1. An earlier draft of this document was awarded First Place in the 2004 Nathan Burkan Memorial Competition, sponsored by the American Society of Composers, Authors and Publishers.

2. This paper is written in support of an artist's right to control the manner in which their work is perceived. I would like to express my gratitude to professors Jerry Cohen and Andrew Beckerman-Rodau for the guidance and support that they have given to me during the preparation of this note. Please be advised that none of the views set forth herein are a reflection of their personal views.

3. 17 U.S.C. §§ 101-22 (1976). One relevant provision that this paper will not consider (because it is only indirectly related to online motion picture piracy) is the No Electronic Theft Act, which was enacted in 1997 to permit criminal prosecution

copyright owners, the manner in which those rights are violated by online piracy, and what forms of digital online piracy may in fact be considered fair uses of copyrighted materials.

Part II addresses the doctrines of secondary copyright liability and considers the manner in which courts have applied those doctrines in cases relating to peer-to-peer network liability for facilitating copyright infringement on the Internet. This portion of the paper also includes a consideration of whether courts have misapplied these doctrines of secondary liability.

Part III considers the specific nature of online piracy problem, including a discussion of a recent study conducted by the Motion Picture Association of America (hereinafter, "MPAA") and related academic and industry commentaries. Part IV is an evaluation of what the motion picture industry is currently doing to protect itself in the process of adapting to the digital age, and how the industry is trying to save itself from a seemingly inevitable demise.

#### VIOLATED? EXCLUSIVE RIGHTS AND FAIR USE IN THE CONTEXT OF ONLINE FILE-SHARING

##### *Introduction: Chapter One of the 1976 U.S. Copyright Act*

The 1976 Copyright Act provides that "[C]opyright protection subsists . . . in original works of authorship fixed in a tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or through the aid of machine or device."<sup>4</sup> Among the listed works of authorship covered by this provision are "motion pictures and other audiovisual works."<sup>5</sup>

The Act confers several exclusive rights on the owner of the

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of individuals who sell or distribute freely, unauthorized copies of copyrighted works. See Marshall Leaffer, *Understanding Copyright Law*, 14, 269-72 (3d ed. 1999).

4. 17 U.S.C. § 102(a).

5. 17 U.S.C. § 102(a)(6). The Copyright Act defines "audiovisual works" as "works that consist of a series of related images which are intrinsically intended to be shown by the use of machines or devices such as projectors, viewers, or electronic equipment, together with accompanying sounds, if any, regardless of the nature of the material objects, such as films or tapes, in which the works are embodied." 17 U.S.C. § 101. Similarly, the Act defines "Motion pictures" as, "audiovisual works consisting of a series of related images which, when shown in succession, impart an impression of motion, together with accompanying sounds, if any." *Id.*

copyrighted work,<sup>6</sup> including rights of reproduction<sup>7</sup> and distribution.<sup>8</sup> Online peer-to-peer file swapping networks facilitate violations of both of these rights. By uploading a copyrighted work onto its computer, a file-sharer creates a virtually identical copy<sup>9</sup> of the work on its computer, and then passing it on to an infinite number of downloaders who copy the work onto their own computers.

#### EXCLUSIVE RIGHTS: REPRODUCTION AND DISTRIBUTION

“[C]opyright infringement is a victimless crime.”<sup>10</sup> Such is the sentiment of the growing population of copyright pirates.<sup>11</sup> Copyright infringement does have victims, many in fact. Especially in the context of the motion picture industry where it often takes hundreds of people to make a single feature length film.<sup>12</sup> All of them are hurt by unauthorized reproduction and distribution of motion pictures.<sup>13</sup>

During the Clinton Administration, the Information Infrastructure Task Force’s Working Group on Intellectual Property issued its final report,<sup>14</sup> which recognizes that digital technology is “having an enormous impact on the creation, reproduction, and dissemination of copyrighted works.”<sup>15</sup> Despite concerns that copyright legislation

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6. 17 U.S.C. § 106, discussed *infra* at Part IB.

7. 17 U.S.C. § 106(1).

8. 17 U.S.C. § 106(3).

9. *See* 17 U.S.C. § 101 (defining a copy as a “material object” “in which a work is fixed” “from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of machine or device”).

10. Christopher Jensen, *The More Things Change, The More They Stay the Same: Copyright, Digital Technology and Social Norms*, 56 STAN. L. REV. 531, 540 (2003).

11. *See* <http://www.RespectCopyrights.org> (last visited Mar. 31, 2005).

12. *Id.*

13. *Id.*; *see also* Edwin Meese III, *When Sharing is Stealing*, *The Star Ledger*, Jan. 2, 2005. Copyright industries “account for more than 5% of gross domestic product pouring \$535 billion into the U.S. economy. The film industry alone provides 580,000 well-paying jobs.” *Id.* “Smith Barney estimates that if something is not done, movie industry losses will exceed a whopping \$5.4 billion by 2005.” *Id.*

14. Titled “Intellectual Property and the National Information Infrastructure,” or “White Paper,” H.R. 2441/S. 1284, 104th Cong., 2d Sess.

15. Craig Joyce, Marshall Leaffee, et al., *Copyright Law*, 489 (6th ed. 2003). *See generally* *MAI Systems Corporation v. Peak Computer, Inc.*, 991 F.2d 511, 517-519 (9th Cir. 1993) (concluding that a copy created in RAM is sufficient fixation of a copy for purposes of violating Section 106 of the Act, and explaining that “loading of software onto a computer constitutes the creation of a copy under the Copyright Act”). *See also* *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 260 (5th Cir. 1998) (setting forth that the DMCA overruled the *MAI* holding by “authorizing the making of certain ephemeral reproductions” for computer repair

afforded insufficient protection to copyrighted works in a digital world, the Digital Millennium Copyright Act (hereinafter, "DMCA") in 1998 made no amendments to section 106 of the Act.<sup>16</sup>

Section 106(3) extends an exclusive right of distribution to owners or authors of copyrighted works. While the right of reproduction may be infringed without infringing other rights, infringement of the reproduction right is often coupled with an infringement of the distribution right.<sup>17</sup> One early case against a file-sharing network awarded the largest sum of statutory damages ever to plaintiffs, owners of copyrights in musical recordings.<sup>18</sup> In that case, defendant, MP3.com purchased thousands of copyrighted CDs and copied the recordings onto its servers without authorization from the copyright holders, for the purpose of playing the recordings for its subscribers.<sup>19</sup> Thus, networks may be found liable for infringing activities conducted on the Internet, in cases where a copy is made on the user's hard drive.<sup>20</sup> Moreover, in a more recent case against a file-sharing network, one of the reasons why users were found to have been infringing copyrights is because making files on their own hard drives available to strangers constituted an unauthorized act of distribution.<sup>21</sup>

#### FAIR USE: 17 U.S.C. § 107

##### *What Constitutes a "Fair Use"*

Fair use is an absolute affirmative defense to a charge of copyright infringement.<sup>22</sup> A factor considered in determining whether a use is a

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and maintenance).

16. Joyce, *supra* note 15, at 490.

17. *Id.* at 497.

18. UMG Recordings, Inc. v. MP3.com, Inc., 92 F.Supp.2d 349 (S.D.N.Y. 2000).

19. *Id.*

20. Joyce, *supra* note 15, at 506. *But see id.* at 536, setting forth that the first sale doctrine, codified in 17 U.S.C. § 109(a) (which allows lawful purchasers to dispose of their particular copy without authorization from the copyright owner), poses problems with respect to infringing distribution of copyrighted materials on the Internet, because such distribution results in the making of an entirely new copy on the distributee's hard drive. Despite a 2001 report from the Copyright Office, no legislation has been enacted limiting the scope of the first sale doctrine with respect to Internet distribution of copyrighted works.

21. Joyce, *supra* note 15, at 534. *See also* A & M Records v. Napster, Inc., 239 F.3d 1004, 1014 (9th Cir., 2001). "Napster users who upload file names to the search index for others to copy violate plaintiffs' distribution rights." *Id.*

22. 17 U.S.C. § 107. In determining whether the use of a copyrighted work is a fair use, a court must consider "(1) the purpose and character of the use, including

fair use is whether it is for a legitimate purpose.<sup>23</sup> The Copyright Act does recognize the defense where the protective technology for a copyrighted work is descrambled for the purpose of understanding the manner in which it works.<sup>24</sup> Nevertheless, other uses do not meet the legitimate purpose standard.<sup>25</sup> For example, in *Video Pipeline Inc. v. Buena Vista Home Entertainment, Inc.*,<sup>26</sup> applying the four-step analysis of Section 107 of the Copyright Act, the court concluded that taking several minutes of footage from a motion picture to create an unauthorized “clip preview” was not a fair use.<sup>27</sup>

### *Personal Use*

In an era of evolving technology, there appears to be an increasing curiosity as to whether “personal reproduction”<sup>28</sup> qualifies as a fair use. Many downloaders of digital media, including copyrighted works, limit their use of the works to personal use, which may not constitute infringement.<sup>29</sup> In cases where use of the copyrighted

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whether such use is of a commercial nature...; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work.” *Id.*

23. *See, e.g., Sega Enterprises, Ltd. v. Accolide, Inc.*, 977 F.2d 1510 (9th Cir. 1993) (holding that it may be a fair use of a copyrighted computer program to disassemble the program for a legitimate purpose, such as access to the ideas contained within the program. There may be an issue as to what such a legitimate purpose would have to be in order for the act to be considered a fair use.)

24. 17 U.S.C. § 1201(g).

25. *See Kelly v. Arriba Soft Corp.*, 280 F.3d 934 (9th Cir. 2002) (holding that use of a photographer’s copyrighted photographs as a thumbnail link on a search engine is a fair use, but reproduction of a full-size image was not a fair use and did serve as an infringement of the photographer’s public distribution right).

26. 342 F.3d 191 (3d Cir. 2003).

27. *See id.* at 198-203. The court first addressed the issue of the purpose and character of the use, and determined that the use was commercial in nature and generated profits. *Id.* at 198. The court also determined that the clip previews served the same purpose of the motion pictures’ authorized trailers. *Id.* at 198-99. Under the second factor of 17 U.S.C. § 107(2), the court considered the “nature of the copyrighted work,” and determined that it was a creative work. *Id.* at 200-01. On the issue of the amount and substantiality of the work taken, under 17 U.S.C. § 107(3), only several minutes were taken from feature-length films. *Id.* at 201. On the Section 107(4) issue of the effect on the market, the court reasoned that because there was a potential of harm to the plaintiff’s derivative trailers, defendants could not fulfill this element of the fair use analysis. *Id.* at 201-03. The court ultimately concluded that three of the four factors were not met, so the act of making a clip preview was an infringement. *Id.* at 203.

28. Joyce, *supra* note 15, at 915.

29. *See Am. Geophysical Union v. Texaco Inc.*, 60 F.3d 913, 916 (2d Cir. 1994) (considering that copying by an individual for personal use may not be considered an act of infringement under the fair use doctrine or the *de minimis* doctrine).

material is not *de minimis*, it may still be a fair use.<sup>30</sup> Nevertheless, even if downloading a copyrighted work as a “personal reproduction” is a fair use, sending a file to an “anonymous requester” is not.<sup>31</sup>

*Commercial Use: Fair Use and Peer-to-Peer Networks*

The Ninth Circuit has held that users of Napster’s file-sharing network engage in commercial use of copyrighted materials not only because, “a host user sending a file cannot be said to engage in a personal use when distributing that file to an anonymous requester,” but also that “Napster users get for free something they would ordinarily have to buy.”<sup>32</sup> The Ninth Circuit explained that in regard to the fair use element of the effect of the use on the market, the district court was correct in holding that Napster’s service had a “deleterious effect on the present and future digital download market,” thus, “depriv[ing] the copyright holder of the free right to develop alternative markets for the work.”<sup>33</sup>

A commercial use may also be evidenced by “repeated and exploitative copying of copyrighted works, even if the copies are not offered for sale.”<sup>34</sup> The district court in *Napster* concluded that the service had a harmful impact on the market by reducing CD sales among college students and creating “barriers to plaintiffs’ entry into the market for the digital downloading of music.”<sup>35</sup> The development and growth of peer-to-peer networks has hindered the development of industry regulated on-demand networks which charge fees for their services.<sup>36</sup>

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30. See *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417 (1984) (holding that tape recording of children’s television programming for the purpose of “time-shifting” as a non-infringing use of the VCR).

31. *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1015 (9th Cir. 2001).

32. *A & M Records v. Napster, Inc.*, 114 F.Supp.2d 896, at 912 (N.D. Cal. 2000), *aff’d in part, rev’d in part by*, 239 F.3d 1004 (9th Cir. 2001).

33. *Napster*, 239 F.3d at 1017.

34. *Id.* at 1015; See, e.g., *Worldwide Church of God v. Philadelphia Church of God*, 227 F.3d 1110, 1118 (9th Cir.2000); *Am. Geophysical Union v. Texaco, Inc.*, 60 F.3d 913, 922 (2d Cir.1994); *Sony*, 464 U.S. 417, 442 (1984). *But see Napster.*, 239 F.3d 1004, 1016, *citing Sony*, 464 U.S. at 451, providing that in order to challenge a claim of noncommercial use of a copyrighted work, the opposing party must prove “either that the particular use is harmful, or that if it should become widespread, it would adversely affect the potential market for the copyrighted work.... *If the intended use is for commercial gain, that likelihood [of market harm] may be presumed. But if it is for a noncommercial purpose, the likelihood must be demonstrated.*” *Id.*

35. *Napster*, 114 F. Supp. 2d at 913.

36. See Ian C. Ballon, *Copyright, Digital Entertainment and Intellectual Property Law and Litigation*, 754 PLI/Pat 9, 35 (2003).

*Fair Use and the DMCA*

The DMCA authorizes use of digital rights management (hereinafter, “DRMs”)<sup>37</sup> and other access control devices to protect copyrighted works fixed in digital media from unauthorized use or distribution.<sup>38</sup> The Act states that no person shall circumvent such a technological measure,<sup>39</sup> or provide information or technology which is capable of such circumvention.<sup>40</sup> It has been argued that increased use of DRMs may make it difficult for the public to make authorized fair uses of copyrighted works.<sup>41</sup> While to a certain extent this may be true, in reality a large portion of Internet users who seek to circumvent protective technologies, or otherwise access copyrighted works, are not doing so for a “legitimate purpose,” but as a means of gaining the ability to access copyrighted works in a manner which is not authorized by the copyright owners. Perhaps, in effect, some of those that would make fair uses are being punished for the infringing activities of their pirating peers. Nevertheless, use of DRMs is one of the copyright industries’ few ways of impeding infringement activities in the digital age.

Critics of the DMCA find support for their argument in that uses held to fall within the definition of the fair use privilege are not recognized as exceptions to the anti-circumvention provisions of the DMCA.<sup>42</sup> Even if such a use is “allowed,” it may still be impossible to make such a use under §§ 1201(a)(2) and (b) which prohibit the distribution of technological devices to accomplish circumvention.<sup>43</sup> The Second Circuit addressed this issue in *Universal City Studios v. Corley*,<sup>44</sup> where it mentioned that under *Stewart v. Abend*,<sup>45</sup> the

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37. See Beth A. Thomas, *Solutions are on Track*, 6 VAND. J. ENT. L. & PRAC. 129, 132-33 (2003). DRMs come in two forms. The first is digital “watermarking,” which may only be used to track infringed copies, not to limit their production. The second are digital “fences” or “content management systems,” which “hold the key to decrypting the file,” and can be used to limit file-sharing. DRMs privatize “the digital media by permitting the artist to retain control of the product even after the artist sells it to the public.” *Id.*

38. 17 U.S.C. § 1201.

39. 17 U.S.C. § 1201(a).

40. 17 U.S.C. § 1201(b).

41. See Joyce, *supra* note 15, at 946-47; Dan L. Burk & Julie E. Cohen, *Fair Use Infrastructure for Rights Management Systems*, 15 Harv. J. L. & Tech. 41, 47-54 (Fall, 2001), proposing that DRMs should be designed to allow for fair uses of copyrighted materials. *Id.* at 55.

42. See 17 U.S.C. § 1201(a)(1) (1998); *infra* at III.D.2.; Joyce *supra* note 15, at 947.

43. Joyce *supra* note 15, at 947.

44. 273 F.3d 429 (2d Cir. 2001) The Second Circuit affirmed ruling which enjoined defendants from “posting DeCcss [a system designed to circumvent CSS, a

doctrine of fair use allows courts to limit the scope of the applicability of the Copyright Act where the creativity it is meant to encourage would be impeded.<sup>46</sup> The Second Circuit in *Corley* concluded that making an identical copy in the same format of the original copyrighted work cannot be a fair use.<sup>47</sup>

#### COPYRIGHT INFRINGEMENT LIABILITY OF PEER-TO-PEER NETWORKS STANDARDS FOR INFRINGEMENT

Chapter 5 of the 1976 U.S. Copyright Act describes copyright infringement and provides remedies for it.<sup>48</sup> Congress did not define “infringement” in the statute, but rather left the determination of its meaning to the courts.<sup>49</sup> The plaintiff bears the burden of proof in an action for copyright infringement, and must prove ownership, and infringing conduct on the part of the defendant to prevail.<sup>50</sup> The plaintiff may make a *prima facie* case for infringement if it can demonstrate that the defendant both copied and improperly appropriated the copyrighted material.<sup>51</sup>

In cases where copying is the basis for a claim of infringement, “[t]he issue is not whether the defendant copied a sufficient amount

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DRM designed to protect motion pictures embodied on DVDs from unauthorized use, copying and distribution] on their website and from knowingly linking their website to any other website on which DeCSS is posted.” *Id.* at 434-36.

45. 495 U.S. 207 (1990).

46. *Universal City Studios v. Corley*, 273 F.3d 429, 458, considering *Universal I*, 111 F. Supp. 2d 338 (S.D.N.Y. 2000). The Second Circuit declined to address whether fair use is subject to constitutional protection, declaring that issue to be beyond the scope of the case for several reasons, including, (1) appellants did not claim any fair use; and (2) “to whatever extent the anti- trafficking provisions of the DMCA might prevent others from copying portions of DVD movies in order to make fair use of them,” the appellants submitted only minimal evidence as to how the provisions of the DMCA banning the trafficking of circumvention technology will impact potential fair users. *Id.*

47. *Id.* at 459.

48. *See generally* 17 U.S.C. §§ 501-513. In pertinent part, section 501(a) provides that, one who violates an exclusive right “is an infringer of the copyright or right of the author, as the case may be.” Section 501(b) provides, “The legal or beneficial owner of an exclusive right under a copyright is entitled...to institute an action for any infringement of that particular right committed while he or she is the owner of it.” *See generally* 17 U.S.C. §§ 502-506 (providing remedies for infringement such as, injunctions, impounding and destruction of copies, damages, costs and attorney’s fees, as well as criminal liability.).

49. *See Peter Pan Fabrics, Inc. v. Martin Weiner Corp.*, 274 F.2d 487, 489 (2d Cir. 1960).

50. *See Ellison v. Robertson*, 357 F.3d 1072, 1076 (9th Cir. 2004); *see also* 17 U.S.C. § 501(a).

51. *See Arnstein v. Porter*, 154 F.2d 464 (2d Cir. 1946), *cert. denied*, 330 U.S. 851 (1957).



to constitute infringement—only whether the defendant copied, rather than independently created.”<sup>52</sup> To demonstrate “improper appropriation,” the plaintiff must show that; (1) the defendant appropriated the protected expression of the copyrighted work, and (2) “the intended audiences for the two works will find ‘substantial similarity’ between the defendant’s work and the plaintiff’s protected expression.”<sup>53</sup> A charge of unauthorized copying may be supported by indirect or circumstantial evidence, which may be established by a showing of access to the plaintiff’s copyrighted work, and substantial similarity between the two works.<sup>54</sup>

Based upon the definitions provided by the Copyright Act and principles derived from seminal cases, unauthorized downloading of motion pictures does constitute infringing activity.<sup>55</sup> First, by uploading the content of a DVD onto one’s hard-drive, a copy is made.<sup>56</sup> Second, an additional identical copy is made with each subsequent download. Third, the downloader improperly appropriates the downloaded material, because a substantial portion of a motion picture or a motion picture in its entirety is the protected expression of the owner of the copyright to the motion picture.<sup>57</sup> Finally, the intended audience will find that the motion picture as downloaded is not only “substantially similar”, but virtually identical to the motion picture in its DVD format, because digital technology currently available allows identical copies to be made.<sup>58</sup>

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52. See Joyce, *supra* note 15, at 668.

53. See *id.* at 668-69.

54. See Towler v. Sayles, 76 F3d 579, 582 (4th Cir. 1996). For a finding of access, “[a] mere possibility that such an opportunity [to view the plaintiff’s work] could have arisen will not suffice. Rather, it must be reasonably possible that the paths of the infringer and the infringed work crossed.” A “reasonable possibility” of access may be insufficient for a plaintiff to prevail. The plaintiff must demonstrate access plus unauthorized use on the part of the defendant to prevail on this element of the claim. An issue secondary to that of access, is whether access was used to make the copy. *Id.*

55. See *supra* Part I.B.

56. See *MAI*, *supra* note 15.

57. See Video Pipeline Inc. v. Buena Vista Home Entm’t, Inc., 342 F.3 191, *supra* at I.C.1. (even a taking of several minutes of motion picture footage is not a fair use).

58. See S.E. Oross, *Fighting the Phantom Menace*, 2 VAND. J. ENT. L. & PRAC. 149, 150 (2000).

## THEORIES OF LIABILITY

*Introduction*

Prior to the development of digital technology, a copyright holder was able to follow a trail of infringing copies to lead him to the infringer “and shut off the infringement at the source.”<sup>59</sup> Now, the “widespread availability of copying technology” has made it more difficult to identify the initial source of the infringing copies.<sup>60</sup> Consequently, in actions for infringement, copyright owners are forced to take intermediaries to court, rather than individual infringers.<sup>61</sup> This has created a number of additional problems, where recent judicial applications of secondary liability to cases of second generation peer-to-peer networks has shielded the intermediaries from liability, thus making it more difficult to enforce copyright in the digital era.

*A Consideration of the Liabilities of Peer-to-Peer File Sharing Services*

In actions against file-sharing networks, the copyright industries allege that the networks are secondarily liable for the copyright infringement of their users. A finding of secondary liability would necessitate a finding of direct infringement by the users, plus other factors enabling imputation of such liability to the network, or that the network was contributorily liable for the infringing conduct of its users.

By preliminary injunction, the district court in *A & M Records, Inc. v. Napster* obligated Napster to remove any user file from its music index if it had reasonable knowledge that the file contained plaintiffs’ copyrighted works.<sup>62</sup> While the results of *Napster* seem favorable to future victims of online copyright infringement, subsequent case law seems to digress. This is due in large part to the fact that the peer-to-

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59. *Universal City Studios, Inc. v. Reimerdes*, 111 F. Supp. 2d 294, 331 (S.D.N.Y. 2000).

60. Joyce, *supra* note 15 at 767.

61. *Id.* “Intermediaries” include “manufacturers of copying equipment, Internet service providers, software designers.” *Id.*

62. 284 F.3d 1091, 1095 (9th Cir. 2002). *See also* Ballon, *supra* note 36, at 35 (explaining that the Napster online file-sharing network was used primarily for the downloading of copyright-protected digital music). He surmises that Napster “reduced Audio CD sales among college students,” and “retarded the development of online music distribution services by raising barriers to plaintiff’s own entry into the market for digital downloading of music.” *Id.*

peer networks of more recent popularity do not have a centralized server like Napster.

In the case of *Metro-Goldwyn-Mayer Studios v. Grokster*,<sup>63</sup> defendants distribute free software that enables users to download music, motion pictures and other media from the Internet. Unlike Napster, the networks are decentralized.<sup>64</sup> Plaintiffs, organizations in the music and motion picture industries, brought this action against the defendants alleging contributory and vicarious infringement of their copyrights.<sup>65</sup>

### *Direct Infringement*

The decision of the *Grokster* court explained that to meet the standards for direct infringement, a plaintiff must show, “(1) copyright ownership of the allegedly infringing material, and (2) unauthorized copying of the work that is the original.”<sup>66</sup> Since it was “undisputed that at least some of the individuals who use this software are engaged in direct copyright infringement of Plaintiff’s copyrighted works,”<sup>67</sup> the court applied the reasoning of *Napster*, that use of the service to upload or download copyrighted music, without authorization of the copyright owner, constitutes direct infringement of the plaintiff’s work.<sup>68</sup>

### *Contributory Infringement*

The *Grokster* court then assessed whether Plaintiffs had a valid claim of contributory infringement.<sup>69</sup> To be contributorily liable for copyright infringement, one must have knowledge of the infringing

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63. 259 F. Supp. 2d 1029 (C.D. Cal. 2003), *aff’d by*, *Metro-Goldwyn-Mayer, Inc. v. Grokster, Ltd.*, 380 F.3d 1154 (9th Cir. 2004), *cert. granted* 125 S.Ct 686 (2004).

64. *Grokster*, 259 F. Supp. 2d 1029, 1031. *See also* 380 F.3d at 1158-59. In a peer-to-peer network with a decentralized server, the information available to users does not reside on a single host-computer, but on all of the computers in the network, thus, “each computer is both a server and a client.” *Id.* at 1158. The software that Gnutella provides allows users to connect with other users of the same or similar software to create an index of files for sharing. *Id.* “Under a decentralized index peer-to-peer file-sharing model, each user maintains an index of only those files that the user wishes to make available to other network users.” *Id.* at 1159. A search is then conducted on all of the network computers, and the results are then routed back to the requester. *Id.* This is the model which is used by defendant StreamCast. *Id.*

65. *Grokster*, 259 F. Supp. 2d at 1031.

66. *Id.* at 1034.

67. *Id.* at 1031.

68. *Id.* at 1034; *see Napster*, 239 F.3d 1004.

69. *Grokster*, 259 F. Supp. 2d at 1035.

activity, and materially contribute to it.<sup>70</sup> As to the requirement of knowledge, the Ninth Circuit has stated that the claim must set forth “evidence of actual knowledge of *specific acts* of infringement” on the part of the individual or entity alleged to have contributorily infringed copyright.<sup>71</sup>

Mere sale of a machine or device which enables copying is insufficient evidence for a charge of contributory infringement where the product also has a substantial non-infringing use.<sup>72</sup> To make a material contribution to the infringing activity of another, a defendant must encourage or assist in the infringement.<sup>73</sup> While the defendants in *Grokster* did provide a site for “known infringing activities,” by distributing software that enables users to access and download copyrighted works for free, they still could not be held liable for contributory infringement.<sup>74</sup> The design of defendants’ software is what shielded them from liability, as their decentralized servers made them unable to either materially contribute to, or to prevent continued infringing activities of their users upon receiving notice from copyright owners of the alleged infringing activities.<sup>75</sup> Furthermore, these decentralized servers have prevented the defendants from gaining actual knowledge of specific acts of infringement by monitoring the infringing activities of their users.<sup>76</sup>

### *Vicarious Infringement*

The concept of vicarious infringement is an outgrowth of the

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70. *Id.* citing *Napster*, 239 F.3d at 1019.

71. *Grokster*, 259 F. Supp. 2d at 1035, (citing *Napster*, 239 F.3d at 1021). See also *Grokster*, 380 F.3d 1154 at 1162.

72. *Sony v. Universal City Studios*, 464 U.S. 417, 442 (1984); see also *Grokster*, 259 F. Supp. 2d at 1035. “In *Sony v. Universal City Studios*, the sale of VCRs did not subject Sony to contributory copyright liability,” where Sony did not have actual knowledge of specific acts of infringements by VCR owners, “even though Sony knew as a general matter that the machines could be used, and were being used, to infringe the plaintiff’s copyrighted works.” *Id.* The Supreme Court concluded that generic or constructive knowledge of acts of infringement is insufficient to impose liability based on sales alone, where VCRs were also capable of substantial non-infringing uses. *Sony* 464 U.S. at 442. Moreover, contributory liability could not be imposed on *Sony* where the conduct of its users (time shifting) did not constitute direct infringement. See *supra* note 43.

73. 259 F. Supp. 2d at 1038. The Court in *Grokster I* applied the reasoning of the Ninth Circuit in *Fonovisa v. Cherry Auction*, 76 F.3d 259, 264 (9th Cir. 1996) where the court held that a defendant “did not have to directly promote the infringing products to be held liable,” but it was sufficient that he provided “the site and facilities for known infringing activities.” *Id.*

74. *Grokster*, 380 F.3d 1154, 1162-63.

75. *Id.*

76. *Id.* at 1164-65.

doctrine of *respondeat superior*.<sup>77</sup> The three elements required for vicarious infringement are “(1) direct infringement by a primary party, (2) a direct financial benefit to the defendant, and (3) the right and ability to supervise the infringers.”<sup>78</sup> The *Grokster* court concluded that where the network has a decentralized server, the network lacks the ability to supervise, and therefore cannot be liable for vicarious infringement, even though they may derive a financial benefit from the infringing activity.<sup>79</sup> Thus, upon Ninth Circuit applications of the law relating to third-party liability for copyright infringement, the defendants in *Grokster* were not liable for copyright infringement of any kind.<sup>80</sup>

*Insulation from Liability: Substantial Non-Infringing Use*

“Substantial noninfringing use” is a copyright law doctrine, borrowed from patent law,<sup>81</sup> which was first applied in the *Sony* litigation,<sup>82</sup> but it has more recently become a recurring issue in the peer-to-peer network cases.<sup>83</sup> Peer-to-peer networks have asserted it as a defense to charges of contributory liability.<sup>84</sup> In *In Re Aimster Copyright Litigation*,<sup>85</sup> the court explained that swapping of copyrighted music, “which involves making and transmitting a digital copy of the music, infringes copyright.”<sup>86</sup> Due to the fact that copies of the songs were not on Aimster’s server, but on the computers of its users, the Seventh Circuit held that Aimster was not a direct infringer

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77. *Id.* at 1164.

78. *Grokster*, 380 F.3d at 1164.

79. *Grokster*, 259 F. Supp. 2d at 1043-45.

80. *Grokster*, 380 F.3d at 1167.

81. See 35 U.S.C. § 271(c), providing that sale of a “staple article or commodity of commerce suitable for substantial noninfringing use” does not constitute contributory infringement. *Id.* The policy behind this rule is to effectively prevent the owner from “extend[ing] his monopoly beyond the limits of his specific grant.” *Sony*, 464 U.S. 417, 441.

82. *Sony*, 464 U.S. 417; See *supra* note 72.

83. See Jesse M. Feder, *Is Betamax Obsolete?: Sony Corp. of America v. Universal City Studios, Inc. In the Age of Napster*, 37 CREIGHTON L. REV. 859, 860 (2004).

84. See, e.g., *Grokster*, 380 F.3d at 1161-62. In the Ninth Circuit, *Grokster* defendants successfully demonstrated the substantially non-infringing capabilities of its software, including use for download of works in the public domain, thus shielding itself from contributory liability. See *id.* Nevertheless, in the Seventh Circuit, the court applied the doctrine narrowly, and the defendant in *Aimster* did not prevail in its argument of substantial non-infringing use, because it could not demonstrate that the service it provided was used for anything other than infringement. See *id.* at 1162.

85. 334 F.3d 643 (7th Cir. 2000).

86. *Id.* at 645.

of the copyrights to those songs.<sup>87</sup>

The Seventh Circuit rejected Aimster's argument that to prevail the recording industry would have to show that they lost money, and that it only needed to demonstrate substantial non-infringing use to escape liability for contributory infringement.<sup>88</sup> Although the Aimster system was clearly capable of non-infringing uses, the court concluded that when a "product is used *solely* to facilitate copyright infringement" the doctrine of substantial non-infringing use should not immunize the distributor of the product or service from liability for contributory infringement.<sup>89</sup>

Moreover, the court determined that by using encryption technology that was affective against its own server, Aimster had intentionally avoided the ability to gain knowledge of the infringing activities users, in an attempt to escape contributory liability under *Sony*.<sup>90</sup> The Seventh Circuit concluded that in order to escape liability as a contributory infringer, Aimster would have had to demonstrate that "it would have been disproportionately costly for [it] to eliminate or at least reduce substantially the infringing uses."<sup>91</sup> Aimster failed to do so.<sup>92</sup>

COMMON LAW DOCTRINES OF SECONDARY LIABILITY AND THE  
DEFENSE OF SUBSTANTIAL NON-INFRINGEMENT USE: MISAPPLIED IN  
*GROKSTER?*

On October 8, 2004, plaintiffs in the *Grokster* action filed a petition for a writ of certiorari in the Supreme Court of the United States.<sup>93</sup> The petition sets forth a request for the Supreme Court to consider whether file-sharing services, such as respondents, should be insulated from liability for copyright infringement.<sup>94</sup> On December 10, 2004, the Supreme Court agreed to hear the case.<sup>95</sup> In reviewing

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87. *Id.* at 646-47.

88. *Aimster*, 334 F.3d at 649.

89. *Id.* at 651 (emphasis added). This is supported by the Induce bill, which seeks to implement the patent law doctrine of intentional inducement of infringement into copyright law. See discussion *infra* at Part IV.D.3.

90. *Id.* at 653.

91. *Id.*

92. *Id.* At the time this note was written, this matter had not yet gone to trial. As such, the nature of Aimster's liability had not been determined.

93. Petition for Writ of Certiorari, *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.* (hereinafter "*Grokster Petition*"), filed Oct. 8, 2004, available at [http://www.eff.org/IP/P2P/MGM\\_v\\_Grokster/20041008\\_Grokster\\_final\\_petition.pdf](http://www.eff.org/IP/P2P/MGM_v_Grokster/20041008_Grokster_final_petition.pdf) (last visited Mar. 4, 2005).

94. *Id.*

95. See Hope Yen, *High Court to Hear Internet File-Sharing Dispute*, available

the Ninth Circuit holding, the Supreme Court will be required to consider the conflicting interpretations of the law by the Ninth and Seventh Circuits, the correct manner in which theories of secondary liability should be applied to such cases, and the proper application of the doctrine of substantial non-infringing use in the digital age.<sup>96</sup>

The Ninth Circuit has held that where a product or service is merely capable of substantial non-infringing use, it may not be subjected to copyright liability.<sup>97</sup> This holding is in direct conflict with the cost-benefit analysis of the Seventh Circuit,<sup>98</sup> which has held that where use of the product or service is primarily of an infringing nature, its ability to be used for non-infringing purposes should not bar liability.<sup>99</sup> On consideration by the Supreme Court, these standards would have to be clarified in order to resolve the conflict.<sup>100</sup>

Petitioners in *Grokster* successfully demonstrated that ninety-percent of the material on respondents' services is infringing.<sup>101</sup> Thus, the Ninth Circuit decision set forth that even if the court adopted the Seventh Circuit probability of non-infringing uses rationale, the fact that a portion of the uses of respondents' software is non-infringing would insulate them from contributory liability.<sup>102</sup> Nevertheless, petitioners have set forth two arguments against this statement. First, that this is not in fact the rationale of the Seventh Circuit, and that Judge Posner further explained that even where a service is capable of non-infringing uses, the burden is on the provider to demonstrate that it would have been "disproportionately costly" to either eliminate or reduce the infringing uses.<sup>103</sup> Second, that as in *Aimster*, no actual evidence of non-infringing uses has been presented, thus a conflict does, in fact, arise between the

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at <http://www.wavy.com/Global/story.asp?S=2676811&nav=23iiU49K> (last visited Mar. 31, 2005).

96. *Id.*

97. *See Grokster*, 380 F.3d at 1161-62.

98. *See Grokster Petition*, *supra* note 93, at 24-29.

99. *See Aimster*, 334 F.3d at 653.

100. *But see* Respondents' Brief in Opposition, *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.* at 24-25, filed Nov. 8, 2004, available at [http://www EFF.org/IP/P2P/MGM\\_v\\_Grokster/20041108\\_Final\\_Brief.pdf](http://www EFF.org/IP/P2P/MGM_v_Grokster/20041108_Final_Brief.pdf) (last visited Mar. 4, 2005), arguing that holdings of the Ninth Circuit in *Grokster* and Seventh Circuit in *Aimster* are not in conflict because *Aimster* had a centralized index, encouraged infringing activities, and did not have any non-infringing uses.

*Id.*

101. *See Grokster Petition*, *supra* note 93 at 9.

102. *Grokster*, 380 F.3d at 1162.

103. *Grokster Petition*, *supra* note 93, 26.

holdings of the two cases.<sup>104</sup> Additionally, the Ninth Circuit expressly rejected the Seventh Circuit's interpretation of *Sony's* exception to contributory liability as too narrow, but in support of a recent legislative proposal,<sup>105</sup> Marybeth Peters<sup>106</sup> expressed her view that *Grokster* was wrongly decided,<sup>107</sup> because the court applied an unnecessarily narrow test for secondary liability.<sup>108</sup> Thus a question confronting the Supreme Court is whether *Sony* or secondary liability theories, or neither, should be narrowly construed.

Another question that the Supreme Court must address is whether *Sony* should even be applied in *Grokster*. The two cases are distinguishable on many grounds. Most notably, the entertainment industry respondents in *Sony* "were unable to prove that the practice [of videotaping televised programs] has impaired the commercial value of their copyrights or has created any likelihood of future harm,"<sup>109</sup> whereas petitioners in *Grokster* have successfully demonstrated substantial financial losses to the copyright industries, in addition to the difficulties respondents' services have presented in petitioners' attempts to enter the market for lawful internet distribution.<sup>110</sup> Also, in *Sony*, the primary issue was whether actions by individual users constituted direct infringement, whereas in *Grokster*, there is no question that most of the uses of respondents' software constitute acts of direct infringement.<sup>111</sup>

It is clear that the Supreme Court will focus a great deal of attention on *Sony*, as it has served as framework of analysis in cases of contributory copyright liability for over twenty years, and its applicability has repeatedly been called into question in recent peer-to-peer cases. Reconsideration of *Sony* in this context will require

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104. *Id.* at 10. The remaining ten-percent of uses made of respondents' software is not necessarily non-infringing, rather, it "could not be categorized with confidence." *Id.*

105. *See infra* at Part IV.D.3.

106. Register of Copyrights and Associate Librarian for Copyright Services

107. *See* Hearing Before the Senate Comm. On the Judiciary, 108th Cong. (2004), *Protecting Innovation and Art While Preventing Piracy*, (testimony of Marybeth Peters) available at

[http://judiciary.senate.gov/print\\_testimony.cfm?id=1276&wit\\_id=307](http://judiciary.senate.gov/print_testimony.cfm?id=1276&wit_id=307) (last visited Mar. 4, 2005). (Note that Ms. Peters' testimony was given prior to the Ninth Circuit affirmation of the Central District's ruling in *Grokster*. Nevertheless, her comments are still relevant as the decision was upheld on the same grounds.)

108. *Id.*

109. *Sony*, 464 U.S. at 431.

110. *See infra* at Part IV.

111. *See Grokster Petition, supra* note 93 at 17, 21. This may call into question the dissenting opinion in *Sony*, which set forth that if virtually all of a product's use is to infringe, the maker should be held contributorily liable for the acts of infringement. *Sony*, 464 U.S. at 492 (Blackmun, J., dissenting).



consideration of a number of additional issues raised in the petition for certiorari. First, “whether noninfringing uses can be ‘commercially significant’” such as to fall within the *Sony* exception, when the defendants rely on infringing uses for their businesses’ commercial viability.<sup>112</sup> Second, whether the Ninth Circuit broadly misread *Sony* as “absolving a defendant of liability for contributory infringement” when the product or service is capable of a substantial non-infringing use unless the defendant failed to act on specific knowledge of specific infringements.<sup>113</sup> Third, the Court will have to address the Ninth Circuit’s failure to consider respondents’ intent to create networks of mass infringement,<sup>114</sup> a theory of liability borrowed from patent law, which has been proposed by the Senate as a candidate for incorporation into the Copyright Act.<sup>115</sup>

Aside from arguments raised in connection with *Sony* and *Aimster*, petitioners additionally set out to prove that the Ninth Circuit holding will serve to perpetuate the problem of unlawful downloading. They assert that the holding will “impede” technological progress by allowing illegal downloading to continue, thus hindering the development of technologies designed for legitimate online distribution.<sup>116</sup> Additionally, the petition sets forth that the Ninth Circuit created an exception to vicarious liability “whenever a defendant has engineered its service to disable mechanisms for preventing infringement,” thus encouraging defendants to avoid controlling infringement, rather than policing the activities of their users.<sup>117</sup>

In opposition to petitioners’ arguments regarding misapplication of doctrines of secondary liability, the circuit conflict, and misinterpretation of *Sony*, respondents argue primarily that under *Sony*, adoption of any law which would expand a copyright holder’s rights is to be left up to Congress.<sup>118</sup> Nevertheless, where Congress has not succeeded in formulating such a law in a timely manner, another issue confronting the Supreme Court is whether to adopt a doctrine which would serve as an exception to *Sony*, one which would hold respondents primarily accountable for the infringing conduct of their users.

It therefore appears that only a new cause of action will save the

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112. *Grokster Petition*, *supra* note 93 at 21.

113. *Id.*

114. *Id.*

115. *See infra* at Part IV.D.3.

116. *Grokster Petition*, *supra* note 93 at 14.

117. *Id.* at 23.

118. *See generally Brief in Opposition*, *supra* note 100.

copyright industries in an era where file-sharing services are capable of devising technology that would shield them from gaining actual knowledge or the ability to control the acts of their users. As elements of contributory and vicarious liability, respectively, current constructions of the common law doctrines of secondary liability would afford no protection against networks of such a design, regardless of the manner in which the doctrine of substantial non-infringing use is applied. The ultimate determination of how and whether to apply these doctrines in peer-to-peer cases will have to be made by the Supreme Court. Nevertheless, the Supreme Court may choose not to resolve the matter, upholding the Ninth Circuit's view that a legislative, rather than judicial resolution is in order.<sup>119</sup>

### *The Nature of the Online Motion Picture Piracy Problem*

A recent study<sup>120</sup> conducted by the MPAA in collaboration with Online Testing Exchange (hereinafter "OTX") found that one in four Internet users has downloaded a film.<sup>121</sup> Based upon the findings of the study, 17% of Internet users who have not yet downloaded a film plan to do so in the future.<sup>122</sup> The study was conducted on more than 3,600 Internet users worldwide who classify themselves as "active moviegoers."<sup>123</sup> Nevertheless, the participants expressed that they no longer go to the movies with the same frequency that they previously did, and that purchasing of movies has declined even more than attendance at movies.<sup>124</sup>

In addition to facilitating online copyright infringement by individual users, many Peer-to-Peer networks offer free downloads,

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119. Legislation in this area has reached a standstill in the Senate, thus a determination of how to resolve such cases may be warranted by the Supreme Court. *See infra* at Part IV.D.3.

120. Worldwide Internet Piracy Study, July 2004, available at [http://www.mpaapress.org/MPAAPress/2004/2004\\_07\\_08.pdf](http://www.mpaapress.org/MPAAPress/2004/2004_07_08.pdf) (last visited Apr. 10, 2005).

121. This number is significantly higher in Korea (58%), where the majority of Internet users have broadband access. *See also Online Film Piracy 'Set to Rise'*, available at <http://news.bbc.co.uk/1/hi/technology/3879519.stm> (last visited Mar. 4, 2005); *see also* Stephanie Olsen, *Stolen a Film? MPAA Wants to Know* (July 8, 2004), available at CNET News.com (last visited Mar. 4, 2005) (reporting that 98% of the South Korean population has broadband access).

122. Worldwide Internet Piracy Study, July 2004, *supra* note 120.

123. *Id.*

124. *Id.* The study findings express that one quarter of downloaders are purchasing videos less often than in the past. *But see* Olsen, *supra* note 121 (reporting that DVD sales and rentals have increased by 50% from 2002 to 2003). Nevertheless, this increase most likely reflects the decreasing price of DVD players, and the increase in the population of DVD-player owners.

which has made it difficult for the music industry and motion picture industry to enter the market for digital on-demand distribution.<sup>125</sup> Many of the downloaders who participated in the study expressed that they download films because it is at no cost to them.<sup>126</sup> While this revelation is not particularly shocking, a more alarming finding of the study is that twenty-one percent of participants see nothing wrong with downloading a motion picture prior to its theatrical release.<sup>127</sup>

Moreover, the participants who had already downloaded at least one film, stated that they would download films more frequently if it did not take as much time to do.<sup>128</sup> Nevertheless, the participants who have not downloaded a film indicated that the illegality of online piracy is what has deterred them from participating in pirating activities.<sup>129</sup>

On April 8, 2004, Jack Valenti, then MPAA President, spoke at MIT regarding new technology which will enable motion pictures to be downloaded with greater speed and ease.<sup>130</sup> Currently 400,000-600,000 movies are being downloaded each day.<sup>131</sup> New technology will no doubt be detrimental to the motion picture industry. Of course, the movie industry does not want to “stifle innovation,” and they do want movies to be shown, but not at the cost of lost revenues and piracy.<sup>132</sup> It therefore seems that part of the purpose of this study was to aid in the determination of how great an impact new technology would have on movie downloading.

This study sought to address the growing availability of new technology, so it was conducted in a proactive fashion, targeting broadband users as participants, so as to represent “the next generation of Internet users.”<sup>133</sup> Yet, it appears that the study cannot effectively predict the manner in which this problem will grow over time—or until the motion picture industry adapts its business model to accommodate such technological advances—as broadband access

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125. Discussed by MPAA President, Jack Valenti, April 8, 2004, MIT Conference on Movies in the Digital Age.

126. Worldwide Internet Piracy Study, July 2004, *supra* note 120.

127. *Id.*

128. *Id.*

129. *Id.*

130. Mr. Valenti mentioned that Cal Tech students downloaded a feature length film from the Internet in DVD quality in under 8 seconds, and that this technology would likely be on the market within the next 18 months.

131. Discussed by Jack Valenti, MIT Conference on Movies in the Digital Age, April 8, 2004.

132. *Id.*

133. 80% of participants were broadband users. *See* Worldwide Internet Piracy Study, July 2004, *supra* note 120.

becomes available to more Internet users, and compression technology continues to develop, allowing larger media files to be downloaded at an even faster speed.

#### ADAPTING TO THE DIGITAL ERA: INDUSTRY RESPONSE

##### *Introduction*

In spite of the dangers to the film industry spawned by the growing popularity of digital technology, it does provide benefits, as well.<sup>134</sup> But the Internet, technology from which the motion picture industry should be deriving great and cost efficient distribution benefits, has become a menace to the industry, posing greater threats than previous pirating activities by enabling instantaneous distribution.<sup>135</sup>

##### *Use of the Internet*

###### *To Educate the Public*

The motion picture industry and other copyright industries are now using the Internet as a means of disseminating information to the general public regarding the illegality of downloading copyrighted works, and the financial harm it causes to the industry.<sup>136</sup> Now, while in a movie theater, before the trailers are shown, viewers have the opportunity to see a public service-trailer designed to educate a lay audience about the people who are hurt by piracy.<sup>137</sup> This commercial is for a website dedicated to educating the general public about copyright law, what rights it protects, and how it is violated.<sup>138</sup>

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134. Digital technology can now be used in lieu of constructing vast movie sets, and manipulate the movements of cartoons and live actors. Filmmakers now have the ability to shoot their films with digital cameras, and may distribute their films digitally, cutting substantial costs from the distribution of film reels. (Discussed by Marshall Silverman, VP and Sr. Motion Picture Production Counsel at Warner Bros., and Thomas McGrath, Exec. VP, Viacom Entertainment Group, President, Paramount Corporation, at Harvard Law School Committee on Sports and Entertainment Law, March 11, 2004 Panel.)

135. Discussed by Ronald Jacobi, Former Executive Vice President and General Counsel at Sony Pictures, Of Counsel at Bryan Cave, Los Angeles, at Harvard Law School Committee on Sports and Entertainment Law, March 11, 2004 Panel.

136. See, e.g., <http://www.respectcopyrights.org> (last visited Mar. 4, 2005); <http://www.mpaa.org/anti-piracy/content.htm> (last visited Mar. 4, 2005).

137. <http://www.respectcopyrights.org>.

138. *Id.*

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*To Enter the Market for Digital On-Demand Distribution*

In 2001, Metro-Goldwyn-Mayer Studios, Paramount Pictures, Sony Pictures Entertainment, Universal Studios and Warner Brothers entered a joint venture to provide on-demand digital delivery of motion pictures.<sup>139</sup> But in his discussion at MIT, Mr. Valenti explained that part of the reason why this movement has not grown as rapidly as online piracy of motion pictures is that, at present, there is insufficient technology to protect these motion pictures from further reproduction and distribution once they are distributed from the service.<sup>140</sup> Furthermore, this service is provided at a cost to its users, unlike many peer-to-peer networks.<sup>141</sup>

*Litigation*

*Civil Lawsuits*

While the MPAA is working hard to educate the public and enter the market for on-demand distribution, they are now also following the Recording Industry Association of America (hereinafter "RIAA") model of bringing suits against hundreds of individual infringers who have illegally downloaded movies through use of file-sharing networks.<sup>142</sup> Lawsuit filings began in November 2004, seeking damages and injunctive relief.<sup>143</sup>

The RIAA, in its efforts to hamper the growth of digital online piracy, has been using the DMCA to its benefit by collaborating with law enforcement agencies to "coordinate seizures of pirated product[s],"<sup>144</sup> sending out subpoenas to "track and shut down repeat offenders and to deter those hiding behind the perceived anonymity of the internet."<sup>145</sup> This has resulted in the RIAA winning hundreds

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139. This service is [www.movielink.com](http://www.movielink.com); see August 16, 2001 press release at <http://www.movielink.com/commerce/about/pressreleasedetail.jhtml?id=100024> (last visited Mar. 17, 2004).

140. Discussed by Jack Valenti, MIT Conference on Movies in the Digital Age, April 8, 2004.

141. *Id.*

142. See Frank Ahrens, *MPAA to Sue Over Movie File Sharing*, November 5, 2004, available at <http://www.washingtonpost.com/wp-dyn/articles/A25784-2004Nov4.html> (last visited March 4, 2005).

143. See Press Release, *Studios to Begin Suing Illegal Film File Swappers*, Nov. 4, 2004, available at <http://www.mpaa.org/CurrentReleases> (last visited Mar. 4, 2005); *MPAA v. The People*, available at [http://www.eff.org/IP/P2P/MPAA\\_v\\_ThePeople/](http://www.eff.org/IP/P2P/MPAA_v_ThePeople/) (last visited Apr. 10, 2005).

144. <http://www.riaa.com/issues/piracy/riaa.asp> (last visited Mar. 4, 2005)

145. *Id.*

of guilty pleas, convictions, settlements and judgments.<sup>146</sup>

Nevertheless, some will argue that the RIAA is focused more on using scare tactics than other means of increasing public awareness.<sup>147</sup> In spite of the lack of public support for RIAA activities, the music industry did prevail in *Napster*,<sup>148</sup> which has set a precedent in its favor. Unfortunately, such triumph has not carried over into more recent cases, including the *Grokster* decision. It seems that while these decentralized peer-to-peer networks are clearly enabling pirating activities to take place, they cannot be subjected to liability under current constructions of third-party liability for copyright infringement. Continued application by the courts of the law in this manner may lead to future holdings favoring the peer-to-peer networks in similar challenges raised by the motion picture industry.

### *Criminal Prosecution*

Section 506 of the Act imposes a standard of *willfulness* for criminal copyright infringement liability to be imposed.<sup>149</sup> Recently, William Sprague was arrested on charges of criminal copyright infringement.<sup>150</sup> The arrest came as a result of a Los Angeles-based investigation of the source of many motion pictures appearing on the Internet, some before their theatrical release.<sup>151</sup> Among the affected studios were; Warner Brothers, Sony Pictures, Universal, Fox and Disney.<sup>152</sup> FBI investigators determined that a member of the Academy of Motion Picture Arts and Sciences<sup>153</sup> provided Sprague with Academy screeners of these films. The FBI seized hundreds of

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146. *Id.*

147. See John Borland, *RIAA Settles with 12-year-old Girl*, <http://news.com/2100-1027-5073717.html> (last visited Mar. 4, 2005). In bringing actions against individual users, the RIAA sought to discourage downloaders from continuing their pirating activities—but the number of on-line file-sharers has not greatly diminished. *Id.* Furthermore, where one of the individual users sued was a 12-year-old honors student residing in a New York City Housing Authority apartment, the RIAA did not gain public support of its actions. See Richard Menta, *The RIAA Settles Fast with 12-year-old Trader*, Sept. 10, 2003, [http://www.mp3newswire.net/stories/2003/brianna\\_lahara.html](http://www.mp3newswire.net/stories/2003/brianna_lahara.html) (last visited Mar. 4, 2005) (describing Brianna LaHara as a victim of the politics of on-line file-sharing activities).

148. Discussed *supra* at Parts I.C., and II.B.

149. 17 U.S.C. § 506(a).

150. Press Release, <http://www.usdoj.gov/criminal/cybercrime/spragueArrest.htm> (Jan. 22, 2004) (last visited Mar. 4, 2005).

151. *Id.*

152. *Id.*

153. *Id.* (Academy member was identified as Carmine Caridi.)

these screeners from Sprague, many of which had been converted to DVD.<sup>154</sup>

In response to such activities, on September 30, 2003, MPAA President, Jack Valenti, announced that several member companies would no longer distribute Academy Award screeners.<sup>155</sup> On October 23, 2003, Valenti announced a new plan for distribution of award screeners which includes a series of limitations placed on the use of such screeners, and provides that if “a pirated screener is found to be connected to a member, it will result in immediate expulsion of that member from the Academy.”<sup>156</sup>

### *Recent Legislation*

#### *Digital Millennium Copyright Act*

By enacting the DMCA in 1998 to “strengthen copyright protection in the digital age,” “Congress sought to combat piracy in its earlier stages, before the work was even copied.”<sup>157</sup> Although the anticircumvention provisions of the DMCA have provided the motion picture industry with an effective cause of action against creators and distributors of circumvention technology,<sup>158</sup> at the time of enacting the DMCA, Congress could not have envisioned the impact that growth of the internet would have on the manner in which works are disseminated. Congress did not foresee the development of peer-to-peer technology, or its popularity. As such, the DMCA does not provide the motion picture industry with an effective cause of action against peer-to-peer networks.

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154. Press Release, <http://www.usdoj.gov/criminal/cybercrime/spragueArrest.htm> (Jan. 22, 2004) (last visited Mar. 4, 2005).

155. See Press Release, *Film Studios Announce End to Award Screeners: Measure Taken to Combat Piracy*, (Sept. 30, 2003) available at <http://www.mpa.org/jack> (last visited Mar. 4, 2005). Companies included in this announcement were Dream Works, Metro-Goldwyn-Mayer, Newline, Paramount Pictures, Sony Pictures Entertainment, Twentieth Century Fox, Universal Studios, The Walt Disney Company, and Warner Bros. Entertainment. *Id.*

156. See Press Release, *MPAA, Academy Announce Plan to Reinstitute Award Screeners* (Oct. 23, 2003) available at <http://www.mpa.org/jack> (last visited Mar. 4, 2005).

157. *Corley*, 273 F.3d 429, 435; see also Peter S. Menell, *Symposium: IV. Can Our Current Conception of Copyright Law Survive the Internet Age?: Envisioning Copyright Law's Digital Future*, 46 N.Y.L. SCH. L. REV. 63 (2002-2003). “[T]he DMCA focuses on ensuring the efficacy of technological control measures put in place by copyright owners.” *Id.* at 135.

158. See *Corley*, *supra* note 46.

*ART Act*

On June 25, 2004, the United States Senate passed the Artists' Rights and Theft Prevention Act, also known as the ART Act,<sup>159</sup> which provides civil and criminal penalties for distribution of copyrighted works, including motion pictures, prior to public release by the copyright holder.<sup>160</sup> While this will assist in the resolution of pre-release piracy,<sup>161</sup> it will not strengthen enforcement of copyright where copyrighted works are illegally disseminated after release to the public.

*Inducing Infringement of Copyrights Act of 2004*

On July 22, 2004, Marybeth Peters, among many others,<sup>162</sup> addressed the Committee on the Judiciary regarding the Intentional Inducement of Copyright Infringements bill.<sup>163</sup> If passed, the Act would improve the law of secondary liability for copyright infringement.<sup>164</sup> Peters cites judicial misapplication of secondary liability for copyright infringements as what has prompted the need for this amendment to Section 501 of the Copyright Act.<sup>165</sup>

In her speech, she demonstrated the need for courts to consider whether the defendants in peer-to-peer network cases intended to "create a network of mass infringement,"<sup>166</sup> because "there should be no question that such services should be liable for the copyright infringement they encourage and from which they profit."<sup>167</sup> The act

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159. S. 1932, 108th Cong. (2004). *See also Senate Passes Cornyn-Feinstein Legislation to Curb Copyright Piracy, Protect Artists' Rights*, Jun. 25, 2004, available at <http://cornyn.senate.gov/record.cfm?id=223180> (last visited Mar. 4, 2005).

160. S. 1932, 108th Cong. (2004).

161. *See supra* Part IV.

162. Including Senators Orrin Hatch (UT), and Patrick Leahy (VT); Andrew Greenberg, Vice Chairman, Intellectual Property Committee, IEEE-USA; Kevin McGuinness, Executive Director and General Counsel, NetCoalition; Mitch Bainwol, Chairman and CEO, RIAA; Gary Shapiro, President and CEO, Consumer Electronics Association; and Robert Holleyman, President and CEO, Business Software Alliance.

163. *See* Hearing Before the Senate Comm. On the Judiciary, 108th Cong. (2004), *Hearing on S. 2560, the Intentional Inducement of Copyright Infringements Act of 2004*, (testimony of Marybeth Peters, Register of Copyrights) available at <http://www.copyright.gov/docs/regstat072204.html> (last visited Mar. 4, 2005).

164. *Id.*

165. *See id.* She states that "courts have not focused on the inducement aspect of contributory infringement," and that "*Grokster* was wrongly decided" because the Ninth Circuit holding "ignores defendants' intent to establish and create a network of massive infringement." *Id.*

166. *Id.*

167. *See* Hearing Before the Senate Comm. On the Judiciary, 108th Cong.



would allow for “enforcement [of copyright] against the ‘middlemen’ who encourage, facilitate and benefit from infringement.”<sup>168</sup>

The bill, as it was first introduced on June 22, 2004, provided that any party who “intentionally induces” another to infringe copyright shall be liable as an infringer.<sup>169</sup> Following the July 22 testimonies, the Committee on the Judiciary requested that interested parties propose alternative language for the act. Numerous proposals were subsequently submitted to the Committee, including one from the Copyright Office, which considered the comments and suggestions of interested parties in formulating the language of the bill.<sup>170</sup> The recommendation of the Copyright Office suggests four parameters for the bill including; (1) that it be “technology neutral,” (2) that it should “provide an effective cause of action those services . . . establishing massive networks of copyright infringement” including peer-to-peer networks, and “unforeseen” future products and services, (3) that it should not stifle innovation by creating too great a threat of liability, and (4) that it should not overrule the *Sony* decision.<sup>171</sup>

On October 9, 2004, the Senate Judiciary Committee approved a series of copyright bills in a composite now known as the Intellectual Property Protection Act of 2004 (hereinafter “IPPA”).<sup>172</sup> The Induce Act was not among the approved bills. Senator Hatch has decided to shelve the bill, at least until the next Senate, because the industry and technology groups could not come to an agreement on a law that would protect the copyright industries from infringements resulting from illegal downloads through the use of file-sharing services.<sup>173</sup> If enacted, this act would serve to assist in the enforcement and

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(2004), *Hearing on S. 2560, the Intentional Inducement of Copyright Infringements Act of 2004*, (testimony of Marybeth Peters, Register of Copyrights) available at <http://www.copyright.gov/docs/regstat072204.html> (last visited Mar. 4, 2005).

168. *Id.* This would resolve the problem discussed *supra* at II.B.1., by removing barriers to liability of online services which provide software to facilitate infringing downloads.

169. S. 2560 108th Cong. (2004). Like the doctrine of substantial non-infringing use, the concept of active inducement is also derived from patent law. See 35 U.S.C. § 271(b).

170. See *Recommended Statutory Language and Explanatory Memorandum*, available at <http://www.copyright.gov> (last visited Mar. 4, 2005).

171. *Id.*

172. See *Senate Judiciary Committee Approves Large Collection of Copyright Bills*, Tech Law Journal, October 9, 2004, available at <http://www.techlawjournal.com/2004/20041007.asp> (last visited Mar. 4, 2005).

173. See Jesse Hiestand, *Studios, Labels Take File-Sharing Fight to Supreme Court*, Hollywood Reporter, Oct. 9, 2004, available at [http://www.hollywoodreporter.com/thr/article\\_display.jsp?vnu\\_content\\_id=1000663290](http://www.hollywoodreporter.com/thr/article_display.jsp?vnu_content_id=1000663290) (last visited Mar. 4, 2005).

protection of motion picture copyrights in the digital era, by removing barriers to peer-to-peer network liability.

### CONCLUSION

“Creative property is private property. To take it without permission, without payment to its owners, collides with the core values of this society.”<sup>174</sup> Whether someone can be a creative person in this country without the products of their creativity being taken away is a growing concern in the Digital Era.<sup>175</sup> The apathy of online pirates is as much a threat to copyright industries as the digital technology which facilitates their actions.

Continued piracy of motion pictures on the Internet not only reflects a sociological problem and legal issue, but also the flawed business model of the motion picture industry. Over twenty years ago, the motion picture industry perceived the VCR as its greatest threat, but now it derives a substantial portion of its revenue from video and DVD sales and rentals. Consequently, with the growth of illegal file-sharing, free access to such products has greatly impacted the amount of money the industry generates. The industry’s effort to capitalize on the instantaneous distribution of the Internet has thus far proven to be a failed attempt. Nevertheless, through continued education of the public, growth of lawful Internet distribution will likely follow.

In the interim, however, the motion picture industry is relying on the law for recourse for the losses past and current Internet piracy has caused. While individual downloaders are clearly guilty of direct infringement, bringing suits against them is not only costly, but difficult, since the Internet affords them a certain anonymity. Consequently, one of the primary courses of action that the motion picture industry has taken is in bringing actions against intermediaries, the networks and software distributors which facilitate infringing conduct on the part of individual users.

While it seems that courts have favored the film industry in such actions under the DMCA, as demonstrated by the *Corley* line of cases, Ninth Circuit case law shielding the *Grokster* defendants from liability under doctrines of secondary liability, may demonstrate a movement toward holdings against the copyright industries. Despite

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174. Press Release, *Valenti Warns of Potentially Devastating Economic Impact of Copyright Theft* (Apr. 3, 2004) available at <http://www.mpa.org/jack>, 4/3/01 press release (last visited Mar. 4, 2005).

175. Discussed by Jack Valenti, MIT Conference on Movies in the Digital Age, April 8, 2004.

arguments that the DMCA is too far-reaching, it did provide effective protection for the motion picture industry. Nevertheless, drafters of the DMCA could not have predicted the development and growth of peer-to-peer technology, or the difficulties it presents to copyright enforcement. As such, it does not aid the copyright industries in their efforts to combat piracy which is enabled by use of such networks and software.

Accordingly, at present, the motion picture industry must rely on the common law doctrines of secondary liability in bringing actions against such networks and software distributors. Those doctrines might have been properly applied by the Ninth Circuit in *Grokster*, but the result to the copyright industries was disastrous. Whereas peer-to-peer developers now have the technological capability to design around the ability to either gain knowledge of, or to control the infringing conduct of their users, by their very nature, they cannot be subjected to liability under those common law models.

Thus, it appears that only a new cause of action could provide a source of recovery for the motion picture industry and other copyright industries. For the past two decades, defendants in actions for copyright infringement have relied on the patent doctrine of substantial non-infringing use as a defense. It seems surprising that while the Supreme Court was so willing to accept the doctrine, in the twenty years since *Sony*, the related doctrine of “active inducement” has not yet been incorporated into copyright law. The Induce Act would integrate that doctrine in to copyright law, thus providing a new cause of action against peer-to-peer networks, for which they would be primarily liable.

Unfortunately, however, the Induce Act has come to a halt in the Senate, leaving the Supreme Court with inadequate legislative guidance on how to rule in *Grokster*. The conundrum is that the Ninth Circuit suggested that a modification of the law should be handled by Congress rather than the courts, but Congress was unable to reach a consensus on the formulation of a new law, and now *Grokster* is pending in the Supreme Court.

Should the Supreme Court affirm the Ninth Circuit *Grokster* holding, and should the Induce Act be abandoned, the ultimate conclusion may be that the motion picture industry plaintiffs may have no judicial recourse against peer-to-peer file-sharing services. Ultimately, its response would have to be adaptation, in order to prevent continued financial losses in the future.

What is unfortunate is that since the primary purpose of copyright

is not to protect artists' and creators' interests in their works,<sup>176</sup> the law will always allow some violations of those interests to sneak by without punishment—regardless of whether such acts are morally right or wrong. As stated in Article 1, Section 8 of the Constitution of the United States, the primary purpose of copyright law is to benefit the public by the creation and dissemination of creative and artistic works. The law itself is only meant to serve as an incentive system for artists and creators, to encourage them to continue to produce new works by providing them with a monopolistic interest in such works for a limited period of time. As such, the motion picture industry should ultimately be fighting for the law to provide it with enough protection, such that it can still function as a prosperous and viable industry.

Oral arguments in *Grokster* were heard by the Justices of the United States Supreme Court on March 29, 2005. It is still unclear how the Court will decide this case. What is clear is that resolution of *Grokster* will greatly impact the future of copyright law, and copyright industries. Regardless of the manner in which the Supreme Court rules in *Grokster*, the motion picture industry is an industry which will continue to thrive. It has, in the past, confronted technological challenges, and survived by reinventing itself to accommodate technological change and growth.

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176. See *Sony*, 464 U.S. at 432 (copyright is meant to serve as an incentive system, allowing creators a temporary economic monopoly over their artistic works so as to encourage them to continue creating for the benefit of the public).