MGM v. GROKSTER AND ITS AFTERMATH

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MGM v. GROKSTER

- In March, the US Supreme Court will review 9th Circuit's affirmance of partial summary judgment in favor of Grokster as to current versions of its file-sharing software
- 9th Cir ruled no contributory infringement because
  - Grokster did not have knowledge of user infringements at a time when it was possible to do something about it (only after the fact)
  - No acts, aside from distributing software, that facilitated user infringements
  - Uncontradicted evidence of non-infringing uses, capability for substantial non-infringing uses (SNIUs)
- No vicarious liability because Grokster could not exercise control over its users owing to decentralized architecture, no point of access for filtering

WHAT'S AT STAKE?

- Little interest in the *MGM* case if it was just about Grokster and revenues it derives from user file-sharing
- Interest because of impact on balance of power between entertainment and information technology industries
- *Sony*'s safe harbor for technologies capable of SNIUs has been a "Magna Carta" for the high growth IT industry
  - Has created a stable investment environment for Internet and IT industries, many beneficial technologies because of this
  - Has enabled entrepreneurs & startups to make objective judgments about whether to go forward with technology projects
- Open and robust Internet important for economic growth
  - File-sharing, porn, spyware, & spam must be weighed vs. many benefits (electronic commerce, e-gov't, online communities)

WHAT WILL THE COURT DO?

- It will be a big surprise if the Court decides the 9th Circuit got it exactly right
- It might deplore file-sharing but defer to Congress because of broad impacts of major change to *Sony* safe harbor and unclarity of Copyright Act on secondary liability
  - "to authorize" in Sec. 106 is a thin reed on which to predicate liability in the *MGM* case
  - Many stakeholders affected are not before the Court
- Reverse & remand on active inducement theory not considered by DCt or 9th Circuit (most likely)
  - No *Sony* safe harbor if actively induce infringement

WHAT MIGHT THE COURT DO?

- Sony 2.0: clarify secondary liability standards and remand for further proceedings as to
  - Capability for SNIUs
  - Substantiality of NIUs
  - Knowledge requirement in contributory infringement technology cases
  - Safe harbor for vicarious as well as contributory?
- MGM wants "primary use" test for secondary liability (9th Circuit standard rejected in *Sony*)
  - *Sony* is being characterized as primary use case
  - Problems: uses change over time, unpredictable, puts developer liability in hands of users, hard to measure accurately

WHAT MIGHT THE COURT DO?

- SG's 3 part test:
  - safe harbor if commercially SNIUs are primary and efficient
  - strict liability if high level of infringement & business model depends on infringement
  - multi-factor balancing test if in between
- *Aimster*-like balancing test
  - How costly would it be to design technology to reduce or eliminate infringement cf. how many infringement losses might be deterred?
  - Problems: would force courts to second-guess technology design decisions; injects too much uncertainty into design/investment decisions; easy to allege large losses & "cheap" alternative designs and difficult and costly to prove otherwise; probably the worst possible outcome (even the SG abjures it as a basis for vicarious liability)

WHAT SHOULD CONGRESS DO?

- Codify secondary liability rules, including the *Sony* safe harbor for technologies with SNIUs as general default rule
  - IEEE-USA proposal: active inducement + contributory infringement rule akin to 271
- Consider carefully targeted response to Grokster et al. (as Congress did in response to DATs in Audio Home Recording Act)
  - Not simple to craft appropriately (as experience with INDUCE Act drafting demonstrated last fall)
  - Such a law will not be a silver bullet (even a law that shuts Grokster down is not likely to stop Internet file-sharing of cop'd works)

WHAT SHOULD CONGRESS DO?

- If one believes the proposed findings of HR 4077 from the 108th Congress that
  - 600 million copies of file-sharing software have been downloaded,
  - More than 3 million file-sharers 24/7, and
  - More than 2.3 billion © files shared every month,
- Then maybe it's time to hold some hearings about collective licensing as an option (Netanel, Fisher, Gervais, Lichtman, Litman, Sobel proposals worth considering)
  - Not a first- or second-best option, but better than further criminalizing ©, DOJ civil lawsuits

CONCLUSION

- Copyright has weathered other technology-related crises before, can weather p2p crisis too
- Courts and Congress have complementary roles to play
- Too much intellectual property protection is as bad as too little
  - Commercial software is also widely available on p2p networks, yet software industry is not calling for radical change to © rules
  - Don't use blunderbuss for what can be handled with flyswatter
- The *Sony* safe harbor has been a success
  - Its simple, predictable, objective rule promotes high levels of investment in innovation & judicial efficiency
  - When presented with sound reasons to deviate from it, Congress has balanced competing interests in the past and should do so in the future