Sony v. Universal

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WHY STUDY?

- Sony's Betamax machine was not a peer to peer technology in sense of Napster, Aimster, & Grokster (although some users did tape programs and share their copies with others)
- Principal defense in all 3 p2p cases was based on *Sony* decision:
  - my technology has and is capable of SNIUs
  - so I cannot be held indirectly liable for user infringements
- *Sony* ruling is being challenged both by MGM before SCt and by some in Congress

OVERVIEW

- Distinguishing direct and indirect infringement
- The role of common law & statutory analysis in © cases
- What happened "below"; issue before the Court
- Differences between the majority & dissent in *Sony*
- Private use copying/home taping as fair use (or not)
- Borrowing the staple item of commerce rule
- Holdings vs. dicta
- Congress in the background, before and after SCt decision
- Other considerations

DIRECT & INDIRECT

- Direct infringement: violating a statutory exclusive right (not otherwise privileged)
  - 76 Act: 106(1) reproduce work in copies, 106(2) make derivative works, 106(3) distribute copies to public, 106 (4),(5) public performance/display
- Indirect infringement:
  - inducing or materially contributing to another's infringement
  - responsible for other's infringement because of right of control and financial benefit from infringement

INDIRECT IN PATENT & TM LAW

- Patent law:
  - 271(b): active inducement of infringement (with specific intent to bring it about)
  - 271(c): selling product specially made to infringe, not a staple item of commerce
- TM law:
  - Lanham Act 32 (1)(b): copy mark on labels, signs, ads likely to confuse consumers as to source
  - Common law: intentional inducement; supplying products knowing others will use to infringe

COPYRIGHT LAW

- Exclusive right "to authorize" reproductions, etc.
- Otherwise statute was silent about indirect liability
- Legislative history: House and Senate reports indicated Congress' recognition of court evolution of indirect liability rules
- Scattered cases:
  - Kalem (1911) (producer held indirectly liable for infringing distribution of movie)
  - Gershwin (1971) (organizer of public performances knew performers were infringing)

COMMON LAW & STATUTES

- Many rules of law evolve over time when courts were asked to adjudicate a dispute between two parties
  - P has to have a theory of the legal wrong and offer to prove facts in support of theory
  - D may defend by saying law doesn't recognize this theory, P didn't offer enough proof, or extenuating circumstances exist
- Other rules are purely statutory: legal right exists only as set forth in statute

CL & STATUTES IN ©

- Copyright statute since 1790
- Some questions can be resolved by applying the statute (e.g., pre-1989, had statutory formalities been complied with (© notice)?)
- Some questions can only be resolved by interpretation which introduces common law elements into statutory laws
  - © law requires "originality" but doesn't define term
  - some copying may literally infringe, but courts have evolved the "fair use" doctrine to limit scope of author's exclusive rights (case by case evolution)

CASE "BELOW"

- Universal & Disney sued Sony for © infringement because it sold Betamax machines knowing that users would infringe © and encouraged them to do so
  - Griffiths, who owned a Betamax and had used it to copy movies, was made a defendant (on agreement not to enforce © vs. him)
- DCt: no direct or indirect infringement by Sony
  - Implied home taping privilege, so no infringement; Betamax was staple item of commerce
  - Case was tried in full to judge, not jury
  - Legal conclusion based on findings of fact
- Ct Ap: Sony is liable for contributory © infringement, remand for appropriate remedy (damages, injunction)
  - Appellate courts must accept lower court findings of fact (unless clearly erroneous), review legal conclusions

SUPREME COURT REVIEW

- Losing party petitions SCOTUS to accept its request to review lower court's decision
- Must identify "issue" on which the Court should take the case
- At least 4 Justices have to agree to review the case, then the petition for a writ of certioari is granted (bringing the record forward)
  - If cert is not granted, no or weak inference about Court's views
  - Very small per cent of cases taken by Supreme Court
  - Most often take cases to resolve conflicts among Circuits
- Once case is before the SCt, the petitioner's name comes first
  - Universal was plaintiff, but Sony lost at 9th Cir, so it is the petitioner and Universal the respondent

ISSUE BEFORE SCOTUS

- Whether 9th Circuit was correct in ruling that Sony was liable for contributory infringement for selling video tape recording machines knowing that the primary use of these machines would be to make illegal copies of programs, including movies made by Universal and Disney

KEY DIFFERENCES

- Stevens for the majority:
  - Common law perspective: Studios are trying to extend the limited monopoly grant in movies to control staple item of commerce (ie, VTR technology)
  - Making copies for time-shifting purposes was fair use, so Betamax had SNIUs, so OK
- Blackmun for the dissent:
  - Strict statutory analysis: home tape copies violate exclusive right to reproduce copies; no private use privilege/not fair use to home-tape because unproductive and potential to harm markets
  - Remand for determination of proportion of infringing and non-infringing uses

IRONY

- Blackmun was a strict constructionist when it came to the "implied exemption" for home taping, but if Congress intended to put every important rule in the 76 Act, then where was a secondary liability rule?
- Stevens was more comfortable with a common law approach: nothing in © so borrow rule from kindred body of law

PRIVATE USE COPYING

- Some countries have private use copying privileges; US statute doesn't
- Home taping privilege based on legislative testimony in 1970's (implicitly carried over?)
- Fair use (Blackmun's view):
  - "ordinary" (consumptive) v. "productive" uses
  - entertainment 80% of TV programming
  - amount copied (whole thing rarely if ever FU)
  - harm to actual or potential markets (Studios alleged)
- Time-shifting v. "librarying" v. authorized uses
- Stipulation of no harm to date (trial ruling)
- Main issue about which Justices debated

STAPLE ITEM RULE

- Patent caselaw prior to 1952: many cases involved sales of components of inventions, sometimes subject to license restrictions on use
- At first, patent holders won many of these cases (on the theory that D knew or should have known purchasers would infringe or intended to bring about infringement)
- Later, courts became concerned about patentees who were trying to extend their patent monopolies to control unpatented products, interfering with "wheels of commerce"
- Caselaw was unstable, unclear, confusing

RESOLUTION

- 271(b): illegal to intentionally induce patent infringement (need for overt act—e.g., ads encouraging infringement)
- 271(c): illegal to sell products knowing user will engage in patent infringement if non-staple items (specially made or adapted for infringing use)
  - Staple items (those "suitable for substantial noninfringing uses") OK (even if know purchasers will actually use for infringement)

RATIONALE FOR BORROWING

- "Historic kinship" of © and patent
- Congress had considered substantially same issue re contributory infringement in patent context
- Congress had decided that staple items should be free from patentee's exclusive rights
- Rule established a balance between rightsholders' interests and those of the public in access to technologies with SNIUs
- To rule otherwise would grant exclusive right not in the statute

HOLDING v. DICTA

- Holding = what the court actually ruled
  - Sony is not contributorily liable for user infringement because of SNIUs of Betamax machine
- Dicta = what an opinion says, but which a court might walk away from or embrace in later cases (often hard to predict)
  - example: "indeed, it need merely be capable" of SNIUs
  - example: presume unfair if commercial use; presume fair if private noncommercial copying

CONGRESS IN BACKGROUND

- Bills introduced in Congress while case was making way through courts
  - Some would have exempted private use or home taping, while others would make explicitly illegal
  - Congress virtually paralyzed (Senate Judiciary Committee quorum agreement)
  - Waiting for Court to say what baseline was
- No bill to change after ruling until DAT controversy in late 1980's/early 1990's

TIMELINE

- Sony introduced Betamax to market in 1975
- Universal & Disney sued Sony in 1976
- DCt decision after full trial in 1979
- Ct Ap decision in 1981
- SCOTUS took cert in 1982
- Heard argument 1st time in 1982-3 term, 2nd time in 1983-4 term; issued decision in 1984
- Blackmun would have remanded for fact-findings on proportion of infringing and noninfringing uses
- Even if the Court had affirmed 9th Circuit, remand proceedings on remedy would likely have taken till 1985 (and then Sony or Universal might have appealed if dissatisfied)
- Even if DCt eventually issued injunction vs. further sale, it would not have affected millions who already had VTRs
- Horse out of the barn?

OTHER CONSIDERATIONS

- "Library" copies, sharing tapes, cable TV
- Formality to have individual copier as defendant
- Only these two © owners suing (yet affecting interests of © owners who do not object)
- What would remedies look like if Universal won?
- Conversation within the Court (disagreements showing through; opinion as compromise)
- Subsequent history (VTR as main revenue source for MPAA firms; Macrovision; DMCA)