THE PAST, PRESENT, AND FUTURE OF PROTECTING ONE’S COPYRIGHT IN THE DIGITAL AGE
WHAT THE ENTERTAINMENT INDUSTRY HAS DONE TO PROTECT ITS RIGHTS, AND WHETHER THIS IS A BENEFICIAL STRATEGY FOR THE COPYRIGHT HOLDER AND SOCIETY

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Introduction

From its very beginnings this country has provided for copyright protection, as written in the Constitution, “To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” Such protection for the creative works of authors is intended to ensure they receive compensation for their works, and thus can continue creating. It is unlikely our forefathers could have ever imagined the conflicts that would arise with the advancement of technology, particularly in the digital age.

Over the past decade the advancement of Internet technology has led to faster methods of transmitting data and the capability of creating near-perfect copies of sound and visual information with little to no deterioration in their quality. This advancement has caused an uproar in the entertainment industry, specifically within the music and movie businesses, over how to protect creative copyrighted works in cyberspace. Unlike the Copyright infringement concerns of old, the current infringing activity is of particular concern to the music and movie industries because many of their potential customers, particularly those of the younger generation, do not consider such online activity illegal or, at least, not as bad as stealing a compact disc (“CD”) from a retail store. In an attempt to combat this view, the Recording Industry Association of America (RIAA) has begun educational campaigns to inform consumers that their music-sharing activities may be illegal.

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1 U.S. Const. art. 1, § 8, cl. 8.
4 Id.
Previously, in the analog era, the music industry did not perceive the making of copies of purchased music by an individual as problematic as file-sharing. Not only did the sound quality degenerate as multiple copies were produced, but it was unlikely that an individual would make more than a few copies of an album for personal use or to distribute to a couple friends. Today, in the digital age, an individual who has purchased an album has the capability through peer-to-peer networks to have that copy duplicated thousands of times, with hardly any reduction in sound quality to the initial recording.

The dangers of such mass distribution have sent copyright owners searching frantically for ways to prevent, and eventually put a stop to, such behavior. This paper will begin with an examination of the attempts by the RIAA to obtain individual information through Internet Service Providers (ISPs) for those they believed to be committing mass amounts of online copyright infringement. When this strategy was denied by the courts under the protections of the Digital Millennium Copyright Act (DMCA), copyright owners sought other, more substantial and cost-effective measures to stop online copyright infringers by going after the source, the software companies that created the software which enable peer-to-peer networks.

Once the efforts by the RIAA to gain access to individual user’s information through ISPs were prevented by the DMCA, its main tactic was to go after the peer-to-peer network providers in an attempt to shut down the system that enabled file-sharers to infringe on its copyrights. The second part of this paper will examine the empirical findings of the effects of online sharing on the sale of music albums and how these new findings might effect the decisions made in the online music swapping cases.

The RIAA, the Motion Picture Association of America (MPAA), and numerous recording companies have waged a multi-pronged attack against online copyright infringement. Their goal: To inform the younger generation that online music “sharing” of copyrighted material is illegal without express permission and to shut down the software companies that make such networks and such sharing possible. The danger in seeking such massive protection of copyrighted works is that it stops all activity, including the distribution of works that are not copyrighted, are within the realm of public use, or that authors have given express permission to be shared, while at the same time stifling technological innovation. The initial attempts by the RIAA to obtain internet users’ information was thwarted by the court’s interpretation of legislation passed in an attempt to protect the providers of internet service through the DMCA.

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8 Id. at 15.
9 *In re Aimster Copy., Litig.*, 334 F.3d 643 (7th Cir. 2003); *A&M Recs., Inc. v. Napster, Inc.*, 239 F.3d 1004, 1021 (9th Cir. 2001); *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 380 F.3d 1154 (9th Cir. 2004).
11 *In re Aimster Copy., Litig.*, 334 F.3d 643 (7th Cir. 2003); *A&M Recs., Inc. v. Napster, Inc.*, 239 F.3d 1004, 1021 (9th Cir. 2001); *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 380 F.3d 1154 (9th Cir. 2004).
I. The Purpose of the DMCA, and the RIAA Attempts to Misuse the Subpoena Provisions of § 512(h).

Section 512(h) of the Digital Millennium Copyright Act (DMCA) was enacted to protect ISPs from liability for copyright infringement committed by customers using its networks. The hope was to limit the crippling effects of monetary liability for copyright infringement where the ISP was not involved in the infringing activity, thereby enabling ISPs to continue operating. If these safe harbor provisions had not been enacted, there would be very few ISPs that could afford to remain in business. Without the DMCA, the higher cost of operating an ISP resulting from copyright-infringement liability would be passed onto the consumer, making it more difficult and prohibitively expensive for people to access the Internet.

ISPs must first have a termination policy for repeat infringers and must inform their subscribers and account holders of this policy to qualify for protection under the DMCA. ISPs must not interfere with the reasonable measures copyright owners take to protect their copyrighted works or identify their copyrighted works on the Internet. Once an ISP has met these two conditions for eligibility, there are four areas under § 512 for which they are provided immunity: (1) transitory digital network communications, (2) system caching, (3) information stored on systems or networks controlled by the users, and (4) information location tools. The first safe harbor for ISPs, immunity for transitory digital network communications, means that an ISP cannot be found liable for copyright infringement where it is acting as a mere conduit for information being shared between users. The second safe harbor, immunity from liability for system caching, protects ISPs from liability where there is an intermediate or temporary storage of material on their system or network. The third instance where ISPs are shielded from liability is for information residing on its systems or networks that is at the direction of its users. The ISP is protected so long as it does not have actual knowledge that the distribution of the material is infringing a copyright, does not receive financial benefit from the infringing activity, and moves quickly once notified of the infringing material to remove or deny access to the material. The final safe harbor provision is where an ISP uses information location tools such as a “directory, index, reference point, or hypertext link.” Additionally, ISPs must not initiate the transmittal of copyrighted work, select the material or recipients, make a copy of the copyrighted material, or modify the contents of the copyrighted material being transmitted. The DMCA requires that ISPs do not have actual knowledge that the material on its network is infringing a copyright and must act quickly to remove any infringing material.

15 Id.
17 § 512(i)(1)(B).
18 § 512(a) – (d).
19 § 512(a).
20 § 512(b).
21 § 512(c).
22 § 512(d).
23 § 512(a).
24 § 512(c).
The subpoena provision enables a copyright owner, or a person authorized to act on the owner’s behalf, to request a subpoena from the clerk to identify an alleged copyright infringer.\(^\text{25}\) The provision requires that the copyright owner submit a sworn declaration stating their belief that the individual, whose information they are seeking, is infringing upon their copyrighted material.\(^\text{26}\) This puts enormous power in the hands of the copyright owner to act with good faith, with negligible judicial oversight.

### A. The RIAA’s Use of the Subpoena Provision.

The RIAA attempted to use the subpoena provisions of the DMCA in July 2002 and February 2003 when it subpoenaed Verizon Internet Services to determine the identities of two alleged copyright infringers using KaZaa peer-to-peer software.\(^\text{27}\) Verizon argued that the alleged infringing material was transmitted through their network and not stored on it, thus falling outside the parameters of the subpoena powers provided for in § 512(h).\(^\text{28}\) The district court granted RIAA’s motion to uphold the subpoena and rejected Verizon’s argument.\(^\text{29}\) The D.C. Circuit consolidated the two actions and found that under the DMCA a subpoena may be issued only where the ISP was storing the alleged infringing material.\(^\text{30}\) Where two users merely use an ISP as a method for communicating, the ISP cannot be subpoenaed for the users’ identities because no infringing information was actually stored on the ISP’s server.\(^\text{31}\) The Court reasoned that the requirements of § 512(c)(3)(A) that an ISP “remove” or “disable access to” alleged infringing material was impossible where the infringing material was not being stored on a server maintained by Verizon, but rather was stored on an individual user’s computer.\(^\text{32}\) Furthermore, when the DMCA was enacted, peer-to-peer software was not yet in existence and Congress did not consider such a technological development when it enacted it.\(^\text{33}\) The Court reasoned that enacting new laws to cover peer-to-peer networks was for Congress to act on and the Court would not expand the DMCA to protect copyright owners.\(^\text{34}\)

The decision by the U.S. Court of Appeals for the D.C. Circuit was followed by a similar case in the U.S. Court of Appeals for the Eighth Circuit where the RIAA sought enforcement of a subpoena acquired under § 512(h) of the DMCA.\(^\text{35}\) Similar to Verizon, the ISP Charter Communications was merely acting as a conduit between users and was not storing any of the

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\(^\text{25}\) § 512(h).
\(^\text{26}\) § 512(h)(2)(C).
\(^\text{29}\) Id. at 45.
\(^\text{31}\) Recording Indus. Assn. of Am., Inc., Inc., 351 F.3d at 1233.
\(^\text{32}\) Id. at 1235.
\(^\text{33}\) Id. at 1238.
\(^\text{34}\) Id.
allegedly infringing material on their servers. The Eighth Circuit adopted the D.C. Circuit’s holding that § 512(h) does not allow a subpoena to be issued where an ISP merely acts as a conduit between two users and does not store any of the allegedly infringing material. The Eighth Circuit also noted that it was the role of Congress to expand the provisions of the DMCA to include peer-to-peer networks.

Since these rulings, the RIAA has made no other attempt to obtain information on alleged copyright infringers through the subpoena provision of § 512. Without the subpoena power, the RIAA may still bring John Doe actions in the courts to discover the identities of alleged infringers, but these actions are more difficult and time consuming.

The decisions by the D.C. and Eighth Circuits demonstrate the reluctance of the courts to expand legislative acts addressing online copyright infringement where the statute does not specifically provide for such protection. Technological innovation appears to be outpacing congressional legislation to protect copyright owners. Nowhere is this more clearly detailed than in the peer-to-peer litigation and attempts by copyright owners to shut down online sharing between individual users.

B. The RIAA Sues Individual File-Sharers

The RIAA, in an attempt to scare off current and potential file sharers, sued thousands of individuals for sharing copyrighted works online. This strategy generated bad press for the RIAA and branded them greedy and heartless, with headlines relaying cases of children and grandparents forced to pay fines for activity they did not know was illegal or were unaware that was occurring on their computers. In one extreme case, the RIAA sued a dead grandmother who detested computers. The intention of the RIAA in such suits was to slow down and eventually stop illegal music-swapping. According to one study, the RIAA may not have achieved its intended effect of slowing the peer-to-peer activity. Contrary to reports from the RIAA that the growth of file-sharing networks had been stalled, research conducted from 2002-2004 showed that peer-to-peer volume had not dropped. In fact, the research indicated that if there had been any change at all, it was an increase in activity. The difficulty in accurately measuring peer-to-peer volume arises from the fact that peer-to-peer networks have begun to

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36 Id. at 775.
37 Id. at 777.
40 Gorski, supra n. 38 at 158.
41 Id. at 166.
45 Id.
camouflage their activities. Whereas, in the early days of peer-to-peer networking it was easy to
discern the amount of activity occurring, today there are new technologies and methods to shield
detection.\textsuperscript{46}

\section*{II. Empirical Findings about Effects on the Market and the \textit{Sony} Decision}

Are copyright owners and the music industry protecting their copyright by shutting down
online file swappers? They may be protecting their distribution right to the copyrighted material,
but recent empirical studies have shown that trading music online does not decrease record sales
and may, in fact, increase them.\textsuperscript{47} Over a 17-week period in 2002, two researchers, Oberholzer-
Gee and Strumpf, monitored 1.75 million downloads on OpenNap (an open source Napster
server). They compared the sales of almost 700 albums (that had the downloaded songs on them)
that were reported from Nielsen Soundscan to arrive at the conclusion that there was no
relationship between online sharing and album sales.\textsuperscript{48} Oberholzer-Gee further notes that in the
final two quarters there was an increase in music sales coupled with an increase in the popularity
of file-sharing.\textsuperscript{49} The research found that individuals using peer-to-peer networks to download
music were using it to download a few songs rather than entire albums, thus suggesting that peer-
to-peer activity works similar in manner to the radio.\textsuperscript{50} Oberlozer-Gee stated that most of the
illegal file-sharing originated in countries that do not have a good history of protecting an
owner’s copyright and that to shut down file-sharing from the United States would have minimal
effect on the worldwide network of file-sharers.\textsuperscript{51}

In a worst-case scenario analysis, Harvard and University of North Carolina researchers
found that illegal file-sharing reduced album sales by less than two million, with an overall
reduction of sales for the same time period of 139 million - representing a reduction of little
more than one percent (1.4).\textsuperscript{52} According to the researchers, this means that online file-sharing
has no effect on record sales from a statistical point of view.\textsuperscript{53} In 2002 a Jupiter research study
showed that people who participated in online file-sharing were seventy-five percent more likely
to purchase music than those who did not.\textsuperscript{54} The RIAA blames the fifteen percent decline in the
number of CD’s shipped from 2000 - 2002 on illegal file sharing of copyrighted works (despite

\textsuperscript{46} Id.
\textsuperscript{47} Felix Oberholzer and Koleman Strumpf, The Effect of File Sharing on Record Sales: An Empirical Analysis
\textsuperscript{48} \textit{See}, Sean Silverthorne, \textit{Music Downloads: Pirates – or Customers?}, HBS Working Knowledge,
\textsuperscript{49} Id.
\textsuperscript{50} Id.
\textsuperscript{51} Id. Oberholzer-Gee notes that further research needs to be done on the reasons behind why peer-to-peer users
tend to download individual songs rather than entire albums. If this is a result of slow internet speed, he
concedes this could have an effect on the recording industry once users gain access to faster ways to access the
Internet, such as broadband. Once an individual can download an entire album, this would be more likely to
replace album sales.
\textsuperscript{52} \textit{See}, David McGuire, \textit{Study: File-Sharing No Threat to Music Sales}, Washington Post,
\url{http://www.findarticles.com/p/articles/mi_m0NTQ/is_2004_March_29/ai_n6097501} (accessed Aug. 20, 2005),
\textsuperscript{53} Id.
\textsuperscript{54} Id.
the fact that in the first two years of popular file-sharing, CD shipments increased.\textsuperscript{55} The president of the RIAA stated in 2003 that, “There’s no minimizing the impact of illegal file-sharing. It robs songwriters and recording artists of their livelihoods, and it ultimately undermines the future of music itself, not to mention threatening the jobs of tens of thousands.”\textsuperscript{56}

The gloom and doom prophecy brings to mind a similar statement made in 1982 by Jack Valenti, then President of the MPAA:

“But now we are facing a very new and a very troubling assault on our fiscal security, on our very economic life and we are facing it from a thing called the video cassette recorder and its necessary companion called the blank tape. And it is like a great tidal wave just off the shore. This video cassette recorder and the blank tape threaten profoundly the life-sustaining protection, I guess you would call it, on which copyright owners depend, on which film people depend, on which television people depend and it is called copyright. . . I say to you that the VCR is to the American film producer and the American public as the Boston strangler is to the woman home alone.”\textsuperscript{57}

Quite the opposite of being an assault on film producers’ fiscal security, the VCR created an entirely new industry from which films could make money after their run in the theaters or on television. In 1982 the MPAA faced what they believed to be a threat to the livelihood of their industry due to technological innovations. The VCR was a boon to the movie industry by increasing moviemakers’ profits and creating a new forum in which films could be shown.

The concern over the VCR and its possible use as a copyright infringement device culminated in the \textit{Sony} case decided by the U.S. Supreme Court.\textsuperscript{58} The \textit{Sony} case involved Betamax video tape recorders (VTRs), an earlier form of the video cassette recorders.\textsuperscript{59} The VTR allowed users to record, fast forward through commercials and make numerous copies of television programs and movies broadcast over the air.\textsuperscript{60} The owners of the copyrights brought suit against the Sony Corporation claiming that Sony was liable for the alleged copyright infringement committed by its customers because it marketed its VTR products to consumers.\textsuperscript{61} The United States District Court for the Central District of California found against Universal and denied it any of the relief it sought.\textsuperscript{62} The Ninth Circuit Court of Appeals overruled the District Court’s ruling and found that Sony had committed contributory copyright infringement.\textsuperscript{63} The Supreme Court reversed the Ninth Circuit’s ruling and found that Sony was not liable for copyright infringement.\textsuperscript{64}

\textsuperscript{59} Id. at 420. 
\textsuperscript{60} Id. at 422-423. 
\textsuperscript{61} Id. at 420. 
\textsuperscript{62} Id. 
\textsuperscript{63} Id. 
\textsuperscript{64} Id. at 421.
The Court found from the trial court proceedings that the primary use of the VTR was for "time-shifting," or recording a program so one can watch it at a later time. The Court reasoned that this expanded the audience of a television program and did not detract from the copyright owner’s rights. The central issue the Court addressed was whether Betamax was capable of commercially significant non-infringing uses. The Court noted that Universal and Disney represent well below ten percent of programs available on television and that there were many other copyright owners that found nothing wrong with the practice of time-shifting for private home use. The Court further noted that some producers of television programming felt that allowing home users to make copies of their programs actually increased the value of their copyright and, thus, expressly allowed the recording of their programs. For this reason, the Court found that a commercially significant non-infringing use of the VTR did exist.

The Court detailed an analysis of the Fair-Use Doctrine to determine whether unauthorized time-shifting was considered copyright infringement. A fair use analysis involves four considerations in determining whether an act of alleged copyright infringement qualifies as a under fair use:

"(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
(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."  

The Court focused on the fourth aspect of fair use and stated that a "use that has no demonstrable effect upon the potential market for, or the value of, the copyrighted work need not be prohibited in order to protect the author's incentive to create." Since, presumably, ensuring an author’s incentive to create is a primary objective of the Copyright Act, use of a work that does not interfere with the market for the work will not interfere with the artist’s incentive to create and should be permissible under the Fair Use Doctrine. The Court further said that an accusation of copyright infringement for a non-commercial use required a showing that the use is harmful or that it will have a negative impact on the market for the copyrighted material. The Court specified that the commercial harm need not be present, but that some future commercial harm must exist by a preponderance of the evidence. Universal Studios failed to meet this burden of showing past, present, or future harm with regard to time-shifting.

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65 Id.
66 Id.
67 Id. at 442.
68 Id. at 443.
69 Id. at 447.
70 Id. at 456.
71 Id.
73 Sony Corp. of Am., 464 U.S. at 450.
74 Id. at 451.
75 Id.
76 Id.

5 Chi.-Kent J. Intell. Prop. 35
III. Online Music-Swapping Cases: Napster, Aimster and Grokster; Did the Courts Go too Far?

The technology at issue in peer-to-peer copyright infringement cases did not exist when *Sony* was decided in 1984. Peer-to-peer systems function by enabling users to connect to one another to share and download files on one another’s computer. The user begins by downloading the necessary software to connect to other users. The software may maintain an index and search library (like Napster) or may have a more decentralized function (like Aimster and Grokster).

There are various gradations of decentralization that a software provider may consider that will affect the speed and efficiency of the system. The Napster system was not completely decentralized. It enabled users to conduct file searches and transfers through a centralized file server. Napster was susceptible to secondary copyright infringement because of this centralized function, which, while providing a valuable service for its users, enabled Napster to monitor infringing activity. The more centralized a peer-to-peer system, the more exposed it will be to secondary copyright infringement liability.

A. Napster is shut down.

Given the emphasis the Court placed in its fair use analysis on the effects of the marketplace, a review of the District Court’s opinion in Napster is appropriate. Using observations of actual file sharing behavior to determine the impact on sales, the empirical analysis study found that file sharing had only a limited effect on record sales. Although downloading music could serve to replace the purchase of music, there are other alternatives to what might occur as a result of file-sharing. For one thing, individuals could discover music to which they otherwise would not have been exposed, thus promoting new sales. Furthermore, most individuals who download music are not likely to have purchased the music in the absence of file-sharing. According to the study, five thousand downloads would be required to replace a single album sale using the most pessimistic specification. The study further found that high selling albums benefited from file-sharing and that the less popular albums showed no statistically significant decline in sales as a result of file-sharing. If these recent findings are correct, they would have had a significant impact on the fair use analysis detailed by the District Court in *Napster*.

A&M Records, along with seventeen other record companies filed suit against Napster for contributory and vicarious copyright infringement and sought an injunction to prevent

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78 *Id.* at 628.
79 See, *In re Aimster Copy., Litig.*, 334 F.3d 643, 647 (7th Cir. 2003); *A&M Recs., Inc. v. Napster, Inc.*, 239 F.3d 1004, 1021 (9th Cir. 2001).
80 Oberholzer and Strumpf, *supra* note 47 at 4.
81 *Id.* at 3.
82 *Id.*
83 *Id.* at 4.
84 *Id.* at 3.
85 *Id.* at 3-4.
Napster from enabling others to download music without the express permission of the copyright owner. The concept of secondary liability for copyright infringement is not explicitly provided for in the Copyright Act. Rather, the courts established the concepts of contributory and vicarious liability. Contributory copyright infringement means, “one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another.” In other words, if one encourages or assists another with copyright infringement, that person will be liable for contributory copyright infringement. Vicarious copyright infringement means that one has supervisory ability over an infringer and has a direct financial interest in their activity.

Napster argued to expand the Sony defense to cover the downloading of MP3 files by its users. Napster did not collect fees from its users and did not profit from the downloading of music, although the court noted that it had plans to profit from its user base through email, advertising, and direct marketing of Napster products. Napster was aware of the massive uploading and downloading of copyrighted works on their system. Napster argued that there was a non-infringing component of their service, the promotion of new artists. The court found that this encompassed a small percentage of what Napster was being used for and that it was not a factor of their business strategy until litigation made it desirable to pursue. Napster attempted to argue that their service could be used for “space-shifting,” that is, uploading music from a purchased CD to the site and transferring it to another location, such as the office. However, the court felt this was unlikely, as a user would have to leave their computer on while they traveled to the other location to download the music and that this was an insignificant portion of Napster use and business.

The Ninth Circuit Court of Appeals disagreed with the District Court’s finding that Napster failed to demonstrate that it was capable of commercially significant non-infringing uses. The Ninth Circuit noted that the District Court erroneously focused on Napster’s current uses, rather than the proper analysis under Sony: whether the item at issue is capable of non-infringing uses, not whether it is currently being used in such a non-infringing manner. The Ninth Circuit further ruled that Sony meant that a computer system operator would not be liable for infringing activity merely because the system allowed it to be used as such if the operator had no knowledge of the infringing activity. Unfortunately for Napster, the Ninth Circuit found that it did have actual knowledge of the infringing activity, particularly after receiving notice on

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87 Gershwin Publ’g. Corp. v. Columbia Artists Mgmt., Inc., 443 F.2d 1159, 1162 (2nd Cir. 1971).
88 Id. at 1162.
89 Matthew Bender & Co. v. West Publ’g Co., 158 F.3d 693, 706 (2d Cir. 1998).
90 Gershwin Publ’g Corp., 443 F.2d at 1162.
91 Napster, 114 F. Supp. 2d at 916.
92 Id. at 902.
93 Id.
94 Id. at 904.
95 Id.
96 Id.
97 Id. at 904-905.
98 A&M Recs., Inc., 239 F.3d at 1021.
99 Id.
100 Id.
December 3, 1999 from the RIAA that the copyrights of more than 12,000 songs had being infringed.\textsuperscript{101}

Under the vicarious liability analysis, the District Court found that Napster had the ability to and failed to police users from sharing copyrighted material.\textsuperscript{102} Turning a blind eye to the infringing activities of its users did not shield Napster from vicarious copyright liability.\textsuperscript{103} The Ninth Circuit found that the District Court failed to note the limits of Napster to “control and patrol” - which was limited because the files being uploaded were only initially scanned to determine that they were in the proper MP3 format, not to determine the material contained therein.\textsuperscript{104} However, using the search indices (assuming the user correctly labeled the file) and Napster’s ability to terminate any user’s account for improper use, it could have policed the material once it was loaded onto the system.\textsuperscript{105}

The District Court addressed the business structure of the record companies, noting that they received royalties from sales of its sound recordings and that Napster did not pay the record companies any royalties for the songs that were downloaded from Napster’s site.\textsuperscript{106} The court made the assumption that those who were downloading copyrighted songs would have purchased the songs had the Napster service not been available, thus depriving record companies of royalties they would have received from such purchases. If the Oberholzer-Gee and Strumpf empirical data mentioned above is correct, however, this would not be a valid assumption. Therefore, compensating the record companies would, in effect, constitute a double payment.

The court goes into detail that the real profit for the record companies is derived from their “hit” or popular recordings.\textsuperscript{107} Thus, this would suggest that if less popular music is negatively impacted in sales by online file-sharing, the peer-to-peer forum could serve as a means to increase the popularity of the music.

At the time of its decision, the court had two conflicting analyses of the effects of online music swapping on record sales. Using college-student surveys, the court found that use of Napster was likely to reduce CD sales, despite the fact that surveys are necessarily prone to errors since they must rely on the honesty of those filling out the survey.\textsuperscript{108} An individual’s behavior and what he or she believes that behavior to be can be very different. Relying on surveys alone is insufficient to determine the true effect of file-sharing. Additionally, these surveys may not have been an accurate representation of all potential music purchasers (and would have overstated the harm done to the record industry) since they were completed by college students with lots of free time and limited funds. This decision was particularly poignant for Napster since the ruling against them effectively shut down its business.

\textsuperscript{101} Id. at 1022.
\textsuperscript{102} Id. at 1023.
\textsuperscript{103} Id.
\textsuperscript{104} Id.
\textsuperscript{105} Id. at 1024.
\textsuperscript{106} Napster, 114 F. Supp. at 908.
\textsuperscript{107} Id.
\textsuperscript{108} Id. at 909.
To make a determination about the validity of a defense for Napster, the District Court addressed the two tests employed in *Sony*: (1) whether a staple article of commerce is capable of commercially significant non-infringing uses and (2) whether the alleged copyright infringement is protected under the fair use doctrine.\(^{109}\) The court finds that the commercially significant use of Napster is the unauthorized downloading and uploading of copyrighted music.\(^{110}\) The court does not consider the possibility that this music swapping could increase record sales, which would benefit the copyright owners, reward their creativity, and encourage them to continue making music, which are some of the main goals of copyright protection.

Copyright owners do have the right to determine how their works are distributed, but it seems counterintuitive (in a scenario where the copyright owner desires to sell their work to the public) to prevent behavior that, in fact, benefits authors and makes their work more profitable. Furthermore, the majority of music files traded online are not copyrighted works that an author does not want released. Where copyright owners do not want their work distributed to the public, they would have a stronger case against the online music swappers. Otherwise, peer-to-peer networks provide an alternate distribution method for copyright owners to gain exposure and turn a profit.

Under the four part analysis for fair use, the first factor could lean in favor of Napster if it could be shown that online music-swapping does not detract from CD sales. The court noted that if a use is non-commercial, the burden is on the plaintiff to show that the market for the copyrighted work is adversely affected by such use.\(^{111}\) The court further noted that the majority of Napster users do not turn around and sell the music they download for profit. It also noted that the downloading and uploading of MP3 files is not private use (as the recording of a television show in your home was found to be private use in *Sony*).\(^{112}\) The second factor leans in favor of the record companies since the nature of sound recordings are creative and entertaining.\(^{113}\) The third factor also leans in favor of the record companies, since it is undisputed that file-swappers download an entire song or the entire copyrighted work.\(^{114}\) The fourth factor would tend to favor a finding of fair use if the empirical data that online music-swapping does not lead to a decrease in album sales is correct.\(^{115}\) In deciding against Napster’s fair use defense, the Court relied on potentially mistaken and inconclusive evidence produced by the music companies from college student surveys.\(^{116}\) It also relied on the raised barrier to entry into the market for record companies for online music downloading to arrive at its decision.\(^{117}\)

The final point about a barrier raised to entry in the market is not convincing. If the record companies are unable to compete with Napster or other similar services, they should either find a way to work with them or adjust the amount charged to download a song that is both

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\(^{109}\) *Id.* at 912.

\(^{110}\) *Id.*

\(^{111}\) *Id.*

\(^{112}\) *Id.*

\(^{113}\) *Id.*

\(^{114}\) *Id.* at 913.

\(^{115}\) *Id.*

\(^{116}\) *Id.*

\(^{117}\) *Id.*

5 Chi.-Kent J. Intell. Prop. 39
acceptable to the consumer and profitable for the copyright holder. Record companies were slow to realize the popularity and incredible distributive possibilities that arose from providing and downloading music online. The record companies may be prevented from adequately investing in such a stream-lined distribution method because of previous contracts and agreements with the traditional distributors.

The court then addressed Napster’s fair use arguments for sampling, space-shifting, and the authorized use of new artists’ works. Sampling occurs when a user makes a temporary copy of a copyrighted work before purchasing. Space-shifting occurs when a user accesses a sound recording he or she already owns. The court dismissed sampling as a way that users may avoid paying for the copyrighted work and notes the possibility that the user, once having downloaded a copyrighted work, may continue to distribute sampled music to millions of other users. The court distinguished sampling songs on Napster from recording television shows in Sony by noting that television viewers are able to watch a show free of charge whereas record companies almost always charge customers for the ability to listen to their music. This analysis ignores the fact that most television viewers must pay a monthly fee to be able to watch the majority of programs. Moreover, while one who records a television program is unlikely to sell it for a profit, a taped popular television show will often be shared among individuals.

The court relied on an incomplete survey provided by the recording companies. The survey was inadequate in its scope because it failed show that there would be an adverse effect on the market for copyrighted works if use were to become widespread. Napster provided its own survey that concluded that users do not use MP3 files as a substitute for CDs and that twenty-eight percent of Napster users had purchased more CDs since they began using Napster. The court dismissed Napster’s report as unreliable and stated that it does not rebut the record companies’ evidence of harm. The court further stated that even if use of Napster

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118 Itunes has experienced some success in their business model of offering songs to download at $0.99 a song.
They might find that a lower cost per song could lead to an increase in the total number of downloads and an increase in the ultimate profit. A few dollars seems a small price for consumers to pay to avoid facing a suit by the record companies and potentially thousands of dollars in fines. However, Oberholzer-Gee and Strumpf found that paid digital downloads account for less than one percent of total industry revenues, an amount slightly greater than the statistical difference that could be attributed to the displacement of record sales for digital downloads (which the researchers noted was inconclusive anyway). Amici Curiae Br. of Felix Oberholzer-Gee and Koleman Strumpf Amici Curiae in Support of Respondents [hereinafter Oberholzer-Gee and Strumpf Brief], Metro-Goldwyn-Mayer Studios Inc. v Grokster, Ltd, 125 S.Ct. 686 (2004) (referencing Phil Gallo, 2004 is Music to Diskeries’ Ears, Daily Variety, Jan, 6, 2005, at 1 and Band Radio, Report: Average CD Price Drops 4% in Q3 2004 to $12.95, Nov. 15, 2004, at http://www.bandradio.com/news/?id-2236 (accessed Apr. 9, 2005)).
119 Napster, 114 F. Supp. at 913.
120 Napster, 239 F.3d at 1014.
121 Id.
122 Napster, 114 F. Supp. at 913.
123 Id.
124 I have often overheard people asking for recorded tapes of popular television shows and this does not appear to be decreasing the market value for complete sets of these shows given the abundance of television series that are released on DVD for sale.
125 Napster, 114 F. Supp. at 914.
126 Id.
127 Id.
led to an increase of CD sales, this does not give a copyright infringer the right to infringe, thus sampling would not be considered fair use. This seems counter-intuitive to the goals of providing copyright protection to artists: rewarding them for their creative works and encouraging them to produce more.

The court refused to apply the staple article of the commerce doctrine because Napster maintained continuous control over its users, unlike the manufacturers in Sony, who did not interact with its customers beyond the manufacture and sale of its VTR. The staple article of commerce doctrine provides an affirmative defense to a copyright infringement action when a manufacturer is selling a product that is capable of commercially significant non-infringing uses. The court found that this type of control by Napster led to a conclusion of contributory copyright infringement. It was further stated that Sony is inapplicable due to Napster’s role in enabling unauthorized copying and distribution of copyrighted works. An injunction was issued against Napster, prohibiting it from “engaging in, or facilitating others in copyright, downloading, uploading, transmitting, or distributing plaintiffs’ copyright musical compositions and sound recordings . . . without express permission of the rights owner.”

The Ninth Circuit Court of Appeals largely upheld the injunction granted by the District Court with an amendment to the scope of contributory liability. Napster was not liable for contributory copyright infringement just by its mere existence, but rather only if actual notice had been provided and Napster failed to remove the infringing material. The Ninth Circuit placed the burden on the plaintiffs to provide notice to Napster of their copyrighted material being infringed upon prior to Napster being required to remove the infringing material.

B. Aimster: The Seventh Circuit’s Application of a New Fair Use Formula

Aimster’s peer-to-peer system was based upon America On Line’s (“AOL”) Instant Messaging service, whereby individual users could chat with one another once they had installed the necessary software. Once downloaded, Aimster’s software enabled users logged onto a chat room to share files with one another. The Aimster server did not record copies of files shared among users, but rather collected and organized information obtained about its users.

Use of the Aimster peer-to-peer software did not cost anything. However, it did provide a service called “Club Aimster” for a fee where a member could download the top forty most popular songs. The Seventh Circuit noted that it was not relevant whether the copyright

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128 Id.
129 Id. at 916.
130 Id. at 912.
131 Id. at 916.
132 Id. at 917.
133 Id. at 927.
134 Napster, 239 F.3d at 1027.
135 Id.
136 Id.
137 Aimster, 334 F.3d at 646.
138 Id.
139 Id.
owners lost money due to the online sharing of their copyrighted music. The reason is because an effect on the market for the copyrighted work is the determination necessary for a fair use analysis, not where infringement of a copyright is shown. A copyright owner will not be able to recover damages without a showing of a decline in the marketability of their copyrighted work, but they may be able to obtain an injunction or statutory damages.

The Seventh Circuit opinion added a balancing test of costs and benefits to the Sony Doctrine of significant non-infringing uses. The forty most popular songs that Club Aimster members paid $4.95 a month to retrieve are copyrighted materials, however, Aimster was not granted permission to share and distribute these materials for a monetary fee. Since Aimster did not charge for downloading its file-sharing software, nor sell online advertising space, this was the sole money-producing aspect of its service. The court found the infringing activity sufficient to shift the burden of production of substantial non-infringing use to Aimster. Since Aimster did not provide any evidence of a non-infringing use for its service, the court ruled that it failed to meet its burden of production and could not use the Sony defense. The court discussed five potentially non-infringing uses of Aimster, but dismissed them by stating that Aimster failed to present evidence that anyone utilized the Aimster software in this way. The court also qualified just how likely a user is to use the Aimster service in this non-infringing manner, thus creating a new requirement to be met that was not applied in the Sony case. The Seventh Circuit found that the lower court was correct in granting the preliminary injunction and shutting down Aimster’s service.

C. Grokster: Why the Courts Should Not Interfere with the Sony Doctrine.

The Computer and Communications Industry Association and Internet Archive Amicus Curiae brief (hereinafter, “Computer Brief”), authored by Peter Jaszi, offers an insightful view into why the courts should leave the Sony doctrine alone. The Grokster case, on appeal from the Ninth Circuit Court of Appeals, involves a decentralized file-sharing system that does not have supervisory control over the content shared (as Napster did). The Ninth Circuit found that Grokster was not liable for contributory and vicarious copyright infringement because its

140 Id. at 649.
141 Id. However, later in its ruling, the court mentions the monetary damage that would be incurred by the recording industry due to file-sharing taking replacing the sales of albums as a reason to uphold the grant of preliminary injunction. Id. at 655. The court seems comfortable jumping to this automatic conclusion without any significant empirical evidence provided by either side.
142 Id.
143 Id. at 652.
144 Id.
145 Id.
147 Aimster, 334 F.3d at 653.
148 Id.
149 Id. at 656.
The copyright owner would bear the burden of showing that a defendant had reasonable knowledge of infringing material. In its reasoning, the court held that if a defendant was able to show significant non-infringing uses of its product, constructive knowledge would not be implied. This decision directly conflicted with the Seventh Circuit’s decision in *Aimster*, where the court found that a defendant was responsible for providing evidence of non-infringing uses and that this finding of non-infringing use must meet some undefined level of activity to shield the defendant from vicarious and contributory copyright infringement.

The Seventh Circuit, contrary to the Ninth Circuit, insisted upon using a second test once significant non-infringing use was shown, that the defendant must provide evidence about usage and frequency of such uses. The Seventh Circuit focused on the “legitimate unobjectionable purposes” requirement of the *Sony* holding, whereas the Ninth Circuit focused on the “capable of substantial non-infringing uses” requirement under *Sony*.

The Computer Brief details various non-infringing uses of the peer-to-peer networks that have an extremely beneficial effect on society, creating a new gateway to an enormous amount of information in an easily accessible format. The brief notes that libraries use the peer-to-peer networks for programs such as LOCKSS (“Lots of Copies Keep Stuff Safe”) to ensure access to electronic journals and avoid reliance on a publisher’s server. This system enables the library to maintain its own database as well as share the information with other subscribing libraries.

Peer-to-peer servers also provide a more stable platform on which information can be shared that is not vulnerable to the types of attacks that a centralized server faces. Peer-to-peer networks can also help reduce the traffic caused from the dissemination of large files or a great number of small files that use up the bandwidth and slow transmission. The scientific community can also benefit from the peer-to-peer platform, creating a decentralized location where information and data can be shared instantly and across great distances, without using up the bandwidth and resources normally needed to share such vast amounts of information. The British Broadcasting Corporation (BBC) has also utilized the peer-to-peer technology to distribute its collection of 600,000 hours of television and 500,000 hours of audio recordings. This incredible amount of information sharing cannot be shut down to protect the copyrights of

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152 *Id.*
153 *Id.*
154 *Id.* at 1160-1161.
156 *Aimster*, 334 F.3d at 653.
158 *Computer Brief, supra* n. 150, at 9.
159 *Id.*
160 *Id.*
161 *Id.* at 10.
162 *Id.* at 11.
163 *Id.*
concerned musicians and movie producers when there are alternative methods to protect their rights.

In addition to educational and scientific discovery uses, peer-to-peer networks are beneficial for providing widespread, easy access to classic works of history, religion, politics and literature that might otherwise be difficult to obtain due to its obscurity or inaccessibility.\textsuperscript{164} This levels the playing field by providing a researcher in the middle of nowhere with the same resources as someone in a major metropolitan city or at a research university. Use of peer-to-peer networks also creates a new platform for the dissemination of an individual’s speech and ideas.\textsuperscript{165} In a developing society where people have become more and more removed from one another, with the elimination of central squares and common meeting grounds, the peer-to-peer network provides a safe space where individuals can come together and exchange ideas and information using audiovisual and other technology available to them.

There are a number of popular musicians that encourage the online trading of their live performances.\textsuperscript{166} Both authors and musicians have reaped the benefits of sharing their creative works online.\textsuperscript{167} There are new services being created, such as Weed which reward its users for sharing music while encouraging sales and compensating artists for their work.\textsuperscript{168} Other distribution methods, such as Creative Common licenses, are structured to encourage open legal distribution which compensates the artists while adding to the pool of creative works available to the public.\textsuperscript{169}

Oberholzer-Gee and Strumpf also filed an amicus brief for the \textit{Grokster} case before the Supreme Court in support of Grokster. They stated that findings that file-sharing led to a reduction in sales of its copyrighted materials had been materially overstated and were speculative, based on their own findings from their empirical research.\textsuperscript{170} It is interesting to note that Oberholzer-Gee and Strumpf are disinterested parties in this debate, are not funded by either side, and will receive no benefit from the outcome of this case, quite unlike either the copyright owners or Grokster.\textsuperscript{171}

Oberholzer-Gee and Strumpf further note some of the mistaken assumptions made by the phone survey studies that the copyright owners relied upon. The first: individuals surveyed would have purchased the same number of albums if file-sharing did not exist.\textsuperscript{172} The two researchers state that file-sharing is particularly attractive to those individuals who are cash-poor but time-rich and these individuals would likely purchase fewer albums in the absence of file-sharing.\textsuperscript{173} The second: where a drop in sales of albums cannot be linked to problems with the economy, linking such discrepancy to file-sharing and the replacement effects such activity has

\textsuperscript{164} \textit{Id.} at 12.
\textsuperscript{165} \textit{Id.} at 13.
\textsuperscript{166} \textit{Id.} at 14.
\textsuperscript{167} \textit{Id.}
\textsuperscript{168} \textit{Id.} at 15; see, e.g., http://www.weedshare.com.
\textsuperscript{169} \textit{Computer Brief, supra} n. 150, at 15-16; see, e.g., http://creativecommons.org.
\textsuperscript{170} \textit{Oberholzer-Gee and Strumpf Brief, supra} n. 118 at 12-13.
\textsuperscript{171} \textit{Id.} at 6.
\textsuperscript{172} \textit{Id.}
\textsuperscript{173} \textit{Id.}

5 Chi.-Kent J. Intell. Prop. 44
for the potential consumer is weak.\textsuperscript{174} Oberholzer-Gee and Strumpf point out that music industry sales are cyclical and that this type of decline is far less than the type of decline that was seen in the 1970’s.\textsuperscript{175}

Some alternative explanations for the decline in music sales could be the increased competition from DVDs, video games, and cell phones, and the fact that consumers are spending more of their disposable income on these newer technologies.\textsuperscript{176} Sales of DVD and VHS tapes increased by over a staggering $5 billion between 1999 and 2003, a similar time frame to that during which file-sharing behaviors saw a steady increase.\textsuperscript{177} Combine that with the following shifts in pricing of the various technologies and the decline in music sales begins to seem inevitable. Since 1999 (1) CD prices increased ten percent while (2) DVD prices decreased by twenty percent and (3) the price of DVD players decreased by 60 percent.\textsuperscript{178} The final two factors rarely noted by the recording industry is the decline in shipments that major vendors such as Wal-Mart have had on the industry coupled with consumers completing the replacement purchasing activities that occurred due to the switch from cassette tapes to CDs.\textsuperscript{179} Once a consumer has replaced his older record albums in a CD format, there is no longer a need for him to continue purchasing at the same volume. The aggregate effect of numerous consumers completing their music purchase in the new CD format could look like a decline in sales, when what is occurring is the market is stabilizing to a more normal and accurate sales volume.

**Conclusion**

A solution to the problem of online music piracy is not to go after the peer-to-peer creators and networks that encourage the dissemination of information. Attacking the technology developers does not increase social welfare, but rather slows innovation. Moreover, other legitimate uses of peer-to-peer technology – such as the distribution of works that are in the public domain, as well as works that have been granted express permission by the copyright owner may be deterred. This harms the fledging artists as well as other established artists who want their music to be shared and heard. The music industry should be spending its time and money searching for a way to root out the copyright infringing users and work with the peer-to-peer file-sharing developers rather than against them.

\textsuperscript{174} Id. \\
\textsuperscript{175} Id. at 11-12. \\
\textsuperscript{176} Id. at 12-13. \\
\textsuperscript{177} Id. at 13. \\
\textsuperscript{178} Id. \\
\textsuperscript{179} Id.