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### TECHNOLOGY LAW

# Active Inducement In the Post-‘Grokster’ World

Even as worldwide sales of compact discs have declined 30 percent during the last six years, legal music downloading continues to grow. For example, digital music retailer eMusic has sold more than 300 million downloads and this year, Apple’s iTunes Store sold its 10 billionth song download since its service began.

Yet, the International Federation of the Phonographic Industry estimates that illegal transfers still account for approximately 95 percent of all music downloaded, resulting in no payments for musical artists or recording companies.

In fact, peer-to-peer (P2P) file sharing networks remain a concern for the music labels, movie studios and software makers whose content is copied and distributed online without authorization as well as for ISPs managing network traffic and infrastructure costs. Moreover, today’s popular file-sharing technologies, namely, the BitTorrent protocol, permit swifter downloads than in the past.

In response, copyright holders have sought to curb illegal file-sharing through various methods, including legal action. In 2005, copyright holders achieved a notable victory in the U.S. Supreme Court against the file-sharing network Grokster, with the Court importing the patent law concept of active inducement of infringement into copyright law.

Over the past year, courts have issued several major rulings concerning file-sharing networks, both in this country and abroad.

This article discusses the theory of active inducement in copyright law, the evolution of P2P technology over the past decade, and recent

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U.S. and foreign legal decisions and developments impacting copyright holders, file-sharing networks and Internet service providers.

### ‘Grokster’

*MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005), involved consolidated cases brought by a coalition of music publishers, songwriters and



motion picture studios against Grokster and others. The issue before the Court was the legality of the use of P2P file-sharing software enabling users to easily exchange digital music, videos and software files over the Internet “on a gigantic scale,” without the use of a centralized server.

In rendering its decision, the Supreme Court was unconcerned with how the technology worked and whether it was capable of “substantial non-

infringing use.” In the end, the Court fashioned an “active inducement” rule for copyright, relying on common-law principles and the active inducement rule in Patent Law, codified at 35 USC §271(b).

Generally speaking, in the file-sharing arena, active inducement is the distribution of software “with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement.” *Grokster*, 545 U.S. at 936-37.

Inducement liability goes beyond encouraging a particular consumer to infringe a holder’s copyrights, such that the distribution of a product can itself give rise to liability where evidence shows the distributor intended and encouraged the product to be used for infringement.

Such evidence might include, among other things, targeted advertising to potential infringers, a lack of effort to install filtering tools or employ other methods to stem infringement, and a business model built to foster high-volume infringement.

Following the Supreme Court’s decision, Grokster was shuttered, and in the subsequent fallout, countless other file-sharing sites closed. In addition, other music sites retooled and changed their business models to become legitimate subscription Web sites through licensing deals with the major recording studios.

For example, Napster, one of the first major P2P file-sharing networks and the subject of its own newsworthy litigation within the Ninth Circuit, reconfigured itself as a monthly digital music subscription service that also offers the ability to purchase legal downloads. However, even though the number of licensed music services has increased from 50 to 400 in the last five years and record companies have sought new business models, such as entering into deals to bundle music with mobile devices, digital piracy

still remains a growing concern.<sup>1</sup>

In the late 1990s, Napster operated a peer-to-peer network with a central “search index” that served as its collective directory for the files available on the server at any given time. To download the files from another user in the Napster network, an individual would search the Napster server for the desired file and then select it from a list of available users in the network.

In contrast, the technology in the Grokster networks did not offer central indexing of available files. Rather, an individual would enter a search term and the Grokster software itself would contact other computers seeking matching files and then the searching user would download directly from the relevant computer.

Within a modern BitTorrent network, however, the download process is unique from that of previous systems. Rather than downloading a file from an individual user, users of a BitTorrent network click on a dot-torrent file link, and, at that point, the downloading of a media work begins simultaneously from various sources around the Web.

As described by one California federal district court, BitTorrent technology involves a multistep process:

- A user must first install a client application to facilitate the transfer of the file to the user’s computer.
- The user then visits a BitTorrent indexing site, which collects and indexes dot-torrent files that point to downloadable media or software files, including popular copyrighted works. The dot-torrent files on the site do not contain the actual movie, music or software file; instead, the files contain the data used by the BitTorrent client to retrieve the content through a peer-to-peer transfer, including “hash” values that are used to identify the various pieces of the content file and the location of those pieces in the network.
- Once the user selects a file to download, “trackers” manage the download process and update the list of online users that are presenting all or part of the requested file, that is, members of the “swarm.” In terms of speed, the larger the swarm, the faster the download.
- The BitTorrent client application then simultaneously downloads pieces of the content file from as many users as are available at the time of the request, and then reassembles the content file on the user’s computer when the download is complete. Once a user downloads a given file, he

or she can choose to become part of the “swarm” and a source for future downloads.

### Recent Developments

Despite the evolution and decentralization of the last several years, file-sharing sites have generally not been successful in defending copyright infringement lawsuits in the United States.

For example, in *Arista Records LLC v. Usenet.com, Inc.*, 633 F.Supp.2d 124 (S.D.N.Y. 2009), a district court found that a subscription-based global online bulletin board network that hosted downloadable text articles and unauthorized copies of music recordings was liable for copyright infringement, despite its claims that its service had substantial non-infringing uses.

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In the face of declining compact disc sales and technological advances in peer-to-peer file distribution, the struggle to control the distribution of copyrighted material over the Internet continues.

The court granted summary judgment to the music recording company plaintiffs on their direct, contributory and vicarious copyright infringement claims, rejecting the defendant’s argument that it was merely a “passive conduit” facilitating the exchange of content between users.

Comparing this case to *Grokster*, the court found the record was replete with instances of the defendant specifically engendering copyright infringement and targeting infringement-minded users to become subscribers of its service, thereby facilitating a “staggering scale of infringement.”

Among other theories, the court held the defendant liable for inducement of infringement because the defendant openly and affirmatively sought to attract former users of other notorious file-sharing services, explicitly acknowledged the availability of infringing uses through its service during customer interactions, and failed to use available tools to block access to limit copyright infringement on its servers.<sup>2</sup>

The *Usenet* decision’s applicability to future P2P disputes is arguably lessened by the circumstances of the case, particularly given that the defendant was sanctioned for bad faith destruction of evidence and other acts of litigation misconduct. Moreover, the decision did not involve the use of the more modern BitTorrent protocol.

Indeed, as file-sharing technology has evolved, site operators have attempted to distinguish their technology from previous file-sharing arrangements, arguing that their sites are merely an index of links and do not host any copyrighted content.

At least one U.S. federal court was unconvinced, deeming one BitTorrent site nothing more than “old wine in a new bottle.”<sup>3</sup>

In *Columbia Pictures Industries, Inc., v. Fung*, No. 06-05578 (C.D. Cal. Dec. 21, 2009), a California district court found that a BitTorrent indexing site that facilitated users’ infringement of copyrighted files and encouraged users to copy and distribute copyrighted music and movie files and whose business model depended on massive infringing use was liable for active inducement of copyright infringement.

The court granted summary judgment to the copyright holders. In rejecting the defendants’ arguments that the BitTorrent indexing sites did not contain copies of the copyrighted musical works, but merely links to tracker sites that aided user downloads, the court concluded that because the site’s dot-torrent files automatically caused content files to be downloaded and assembled on users’ computers, the act of downloading dot-torrent files constituted actual copyright infringement.

The court reasoned that once that dot-torrent file triggers the process of downloading a content file, copyright infringement has taken place to conclude otherwise would “elevate form over substance.”

As to active inducement, the court determined that evidence of the defendants’ intent to induce infringement was “overwhelming”: the defendant Fung made statements on his site encouraging or assisting infringement; site moderators directly assisted users in engaging in infringement; the BitTorrent sites were designed to attract infringement, including the display of “top 20” lists containing almost exclusively the latest pirated works; and the defendants’ business model was based upon advertising revenue linked to the availability of copyrighted material.<sup>4</sup>

On the international front, major copyright holders have also pursued large file-sharing sites, most notably The Pirate Bay, a Swedish-based BitTorrent indexing site.

Last year, a Swedish criminal court convicted the administrators of The Pirate Bay of violating the state’s copyright law and sentenced each

defendant to a year in jail and levied several millions of dollars in fines and damages.<sup>5</sup>

Yet, following the ruling, the site remained operational. Subsequently, the major studios began a civil suit in Sweden seeking an injunction to shut down The Pirate Bay, and have also filed suits, with mixed success, in other European countries requesting that ISPs block access to the site.<sup>6</sup>

### New Focus on ISPs

Beyond bringing legal action against file-sharing networks and BitTorrent indexing sites, copyright holders have also attempted in foreign jurisdictions to address the problem of P2P file-sharing at the ISP level. For example, in *Roadshow Films Pty Ltd v iiNet Limited* (No. 3) [2010] FCA 24 (Feb. 4, 2010), the major Australian and U.S. movie studios filed suit in Australia against iiNet, an Australian ISP, for copyright infringement stemming from its subscribers' downloading of copyrighted works from BitTorrent indexing sites.

The critical issue before the court was whether iiNet, by failing to take any steps to stop infringing conduct even after being notified in a general sense about the infringement of its subscribers, "authorised" the copyright infringement of its users.

In a noteworthy ruling, the court found that while iiNet had knowledge of illegal downloading on its networks, an ISP that merely offers Internet access does not provide the necessary "means of infringement," particularly since iiNet had no control over the BitTorrent systems and was not responsible for the operation of the BitTorrent sites.

The Australian court also found that iiNet could not be seen as "sanctioning" or "countenancing" copyright infringement or intending that infringement occur, and as such, iiNet was not responsible if a subscriber chose to make use of its network to bring about copyright infringement.<sup>7</sup> Following the ruling, the plaintiffs announced that they will appeal the decision.

### Conclusion

In the face of declining compact disc sales and technological advances in peer-to-peer file distribution, the struggle to control the distribution of copyrighted material over the Internet continues.

Over the past year, the Recording Industry Association of America has sought to foster relationships with ISPs and lobby legislatures to

pass "graduated response" laws, whereby repeat infringers would be issued warning letters and face suspension of service if illegal downloading activities did not cease.

In fact, in late 2009, France passed a so-called "three-strikes law" that permits suspension of Internet access for repeat infringers upon judicial approval. The U.K. is currently considering its own "graduated response" proposal in its Digital Economy Bill, though it remains unsettled which party—the recording companies or the ISPs—will bear the majority of the costs of instituting such a program.

In the future, copyright holders will likely continue to petition legislatures in the U.S. and overseas for stronger protections for digital content, ideally, solutions that are workable to both the industry and individuals.



1. See "Legal downloads up, but piracy still rules," *The Independent* (Jan. 25, 2010), available at <http://www.independent.co.uk/life-style/gadgets-and-tech/news/legal-downloads-up-but-piracy-still-rules-1878249.html>.

2. Interestingly, the court also rejected the defendant's "Sony Betamax" defense, which purportedly provides immunity from contributory infringement if a service is capable of substantial non-infringing uses. In distinguishing the instant case from the Supreme Court's decision in *Sony Corp. of America v. Universal Studios, Inc.*, 464 U.S. 417 (1984), the court noted that Sony's last meaningful contact with the product or the purchaser was at the point of purchase, after which it had no ongoing relationship with the product or its end-user, but that in this case, it was undisputed that the defendant maintained an ongoing relationship with its users. *Usenet.com*, 633 F.Supp.2d at 156.

3. But see e.g., Kathrin Hille and Justine Lau, "Ruling on Baidu a blow to record groups," *Financial Times* (Jan. 27, 2010), available at <http://www.ft.com/cms/s/0/123c3dca-0af0-11df-8a26-00144feabdc0.html> (discussing recent ruling from Beijing No. 1 Intermediate People's Court finding Chinese search engine Baidu not liable for facilitating infringement by offering deep links to pirated music).

4. *Columbia Pictures Industries, Inc. v. Fung*, at pp. 25-35. Notably, the *Fung* court also held that the site had "turned a blind eye to 'red flags' of obvious infringement" and as such, could not qualify for the Digital Millennium Copyright Act safe harbor. The court stated that "inducement liability and the DMCA safe harbors are inherently contradictory," particularly since inducement liability is based on "active bad faith conduct aimed at promoting infringement" while the statutory safe harbors are based on "passive good faith conduct aimed at operating a legitimate internet business." *Id.* at p. 43.

5. However, at least one European appeals court has found

that a BitTorrent site that merely provided an index of links and does not host infringing content on its own site and did not have a commercial purpose did not constitute a criminal offense under Spanish copyright law. See European Digital Rights, "Spain: Indexing torrent files is not copyright infringement," EDRI-gram (Sept. 24, 2008), available at <http://www.edri.org/edriagram/number6.18/link-torrents-not-infringement> (last visited Feb. 8, 2010). But see Mark Hefflinger, "Owner of Spain-based File-Sharing Hub Gets Six Months in Prison," *Digital Media Wire Daily* (Apr. 13, 2009), available at <http://www.dmwmedia.com/news/2009/04/13/owner-spain-based-file-sharing-hub-gets-six-months-prison>.

6. See Chris Foresman, "US movie studios ask judge to board, scuttle Pirate Bay," *ars technica* (July 28, 2009), available at <http://arstechnica.com/tech-policy/news/2009/07/us-movie-studios-ask-judge-to-board-scuttle-pirate-bay>; Mike Masnick, "Italy Blocks The Pirate Bay Yet Again," *Techdirt* (Feb. 8, 2010), available at <http://techdirt.com/articles/20100207/2246518070.shtml>. But see Mark Hefflinger, "Norwegian Court Rules ISP Need Not Block The Pirate Bay," *Digital Media Wire Daily* (Feb. 10, 2010), available at <http://dmwmedia.com/news/2010/02/10/norwegian-court-rules-isp-need-not-block-pirate-bay>.

7. *Roadshow Films Pty Ltd v iiNet Limited*, at ¶¶ 400-415. See also *SABAM v. S.A. Scarlet*, District Court of Brussels, No. 04/8975/A, Decision of 29 June 2007 (Belgium court initially ruled that ISP was required to institute content filtering technology to block out file-sharing traffic). Subsequently, it was determined that the filtering technology was ineffective and the decision was reversed. On appeal, the action was stayed to allow The European Court of Justice to rule on certain fundamental issues).