

Volume 55 | Issue 4

2005

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Recommended Citation

Alfred C. Yen, *Sony, Tort Doctrines, and the Puzzle of Peer-to-Peer*, 55 Case W. Res. L. Rev. 815 (2005)

Available at: <https://scholarlycommons.law.case.edu/caselrev/vol55/iss4/5>

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SONY, TORT DOCTRINES, AND THE PUZZLE OF PEER-TO-PEER

Alfred C. Yen[†]

INTRODUCTION

This Article analyzes and reconstructs the law of third party copyright liability¹ as it applies to providers of peer-to-peer technology. By doing so, the Article accomplishes three things. First, it identifies doctrinal tension between broad third party copyright liability endorsed by lower courts and the Supreme Court's skepticism of such liability as expressed in *Sony Corporation of America v. Universal City Studios*.² Second, it describes how existing interpretations of the law fail to direct judicial attention to important considerations that ought to influence the third party copyright liability of peer-to-peer providers. Third, it uses concepts borrowed from common law torts to improve the law by resolving doctrinal tension and directing judicial attention to important considerations that are presently overlooked.

An understanding of the peer-to-peer puzzle begins with *Sony*, a case that is one of the most important in all of copyright law. Although perhaps best known for declaring legal the practice of time-shifting, *Sony* has also influenced the development and distribution of

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¹ The term "secondary copyright liability" is also sometimes used to describe the liability analyzed in this Article.

² 464 U.S. 417 (1984).

technology through its holding that the Sony Corporation of America (“Sony”) was not contributorily liable for selling video cassette recorders (“VCRs”) to people who used those machines to commit copyright infringement. Indeed, *Sony* is generally credited with making it legal to sell photocopy machines, disk drives, software, and other technology that can be used to commit copyright infringement.³

Sony ranks among the wisest copyright decisions ever rendered by the Supreme Court, but it was also controversial. The final 5-4 margin emerged only after considerable debate and negotiation turned a dissent by Justice Stevens into a majority,⁴ and it is easy to see why. After all, Sony had made it possible for millions of people to make unauthorized copies of copyrighted works. The Court therefore had to deal with the possibility that the movie industry might be seriously harmed unless the court held Sony liable.⁵ Of course, hindsight is 20-20, and it is now clear that society, including the movie industry, had much to gain from the free availability of VCRs. Indeed, the sale of movies on tape eventually outstripped the very theater sales the movie industry sought to protect.⁶ *Sony* therefore created the ultimate “win-win” situation. Consumers reaped the benefits of making millions of free, unauthorized copies of copyrighted works, and the producers of those works made even more money by exploiting the technology that made all that copying possible.

One might imagine that hindsight has removed *Sony* from controversy, and that the case now lends coherence to the law of third party

³ The copyright code reserves to copyright holders the right to reproduce the copyrighted work. 17 U.S.C. § 106(1) (2002). Accordingly, any technology that makes copies can be used to commit infringement.

⁴ See Jonathan Band and Andrew J. McLaughlin, *The Marshall Papers: A Peek Behind the Scenes at the Making of Sony v. Universal*, 17 COLUM.-VLA J.L. & ARTS 427 (1993); 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, 874-75 (2004); Lee A. Hollaar, *Sony Revisited: A New Look at Contributory Copyright Infringement*, available at <http://digital-law-online.info/papers/lah/sony-revisited.htm>, 4-5 (last updated Apr. 8, 2005).

⁵ See *Home Truths for Hollywood*, THE ECONOMIST, July 30, 1983 at 72-73 (reporting concern about effect of VCRs on the movie industry). The most colorful statement about possible harm to the movie industry was Jack Valenti’s statement that “the VCR is to the American film producer and the American public what the Boston strangler is to the woman alone.” See *Home Recording of Copyrighted Works: Hearing on H.R. 4783, H.R. 4794, H.R. 4808, H.R. 5250, H.R. 5488, and H.R. 5705 Before the Subcomm. on Courts, Civil Liberties, and the Admin. of Justice of the Comm. on the Judiciary, 97th Cong. 8* (1982) (testimony of Jack Valenti, President, Motion Picture Association of America, Inc.).

⁶ See S. J. Diamond, *Videotape Industry Schism – Sell or Rent*, LOS ANGELES TIMES, April 19, 1991, Business, Part D, p. 1 (reporting that sales of movies on videotape earned more than theater sales by the end of the 1980’s). In 2003, the sale of home video (both VHS tapes and DVDs) accounted for approximately 60% of movie studio revenue. See *Highlights of the VSDA’s 2004 Annual Report on the Home Entertainment Industry*, available at <http://www.vsd.org/Resource.phx/vsda/publications/2004annualreport/index.htm> (last visited March 26, 2005).

copyright liability. However, this has not occurred. In fact, *Sony* is actually a source of tension within copyright. Controversy exists because the very technological progress fostered by *Sony* has raised fresh questions about whether it is desirable for society to tolerate copyright infringement in order to gain the benefits of new technology.

The recent debate over peer-to-peer technology offers an excellent example of this controversy. Peer-to-peer technology is the latest, and perhaps most powerful, method for empowering an Internet user to offer and receive entire libraries of information at no cost. This technology makes it very easy for individuals to share files on their hard disks with other users of the same peer-to-peer network, and it lets each user search for and download files from the others.⁷ In theory, people could use peer-to-peer technology to distribute any kind of computer file. In practice, however, people generally use it to commit copyright infringement by swapping unauthorized copies of copyrighted music and movies. The most popular networks support millions of users simultaneously, so peer-to-peer technology supports a great deal of infringement. Not surprisingly, many copyright holders believe that the infringement facilitated by peer-to-peer technology poses an unacceptable threat to the security of copyright and, by extension, the public interest. They believe that providers of peer-to-peer technology should be held liable for their users' infringement, and they have sued to back up their claims.⁸

Both sides of these peer-to-peer suits have strong doctrinal and policy arguments to support their positions. The plaintiffs can point to a steady expansion of third party copyright liability that supports liability against peer-to-peer providers. Such liability would control technology before it reduces copyright's incentive to produce socially valuable works. The defendants can respond by arguing that the cases expanding third party copyright liability do not involve the creation or distribution of technology, and that *Sony* prohibits liability against any technology provider whose technology is capable of non-infringing use. This reading of *Sony* makes sense because *Sony* stands for the principle that copyright ought not stifle the development of technology. If technology providers become responsible for their users' misbehavior, they will stop developing and creating for

⁷ For descriptions of various peer-to-peer systems, see *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster Ltd.*, 380 F.3d 1154, 1158-60 (9th Cir. 2004), *certiorari granted*, 125 S. Ct. 686 (2004); *In re Aimster Copyright Litigation*, 334 F.3d 643, 646-47 (7th Cir. 2003); *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1011-13 (9th Cir. 2001).

⁸ See *Napster*, 239 F.3d 1004; *Aimster*, 334 F.3d 642; *Grokster*, 380 F.3d 1154.

fear of liability, and this will ultimately rob society of the many benefits that technology brings.

Not surprisingly, courts have found it difficult to choose between the positions expressed above. Both sides have a point, and courts are trying to strike a compromise that leaves appropriate room for the development of technology while offering some protection against unreasonable risks to copyright. Unfortunately, courts have found it difficult to accomplish this task. As of this writing, three appellate courts have issued conflicting opinions about the liability of peer-to-peer providers, and the Supreme Court is about to weigh in on the subject.⁹

The desired compromise has proven elusive because the existing law of third party copyright liability does not effectively analyze facts important to the liability of peer-to-peer providers. As an intuitive matter, the third party copyright liability of any technology provider ought to depend on two things. First, it matters why the defendant created or distributed the technology. A defendant who creates technology and hopes that others will use it to infringe becomes culpable in a way that strongly supports liability. By contrast, a defendant who acts to facilitate noninfringing behavior is far less culpable if it turns out that others deliberately misuse the defendant's technology to infringe, and the case for his liability would be debatable.

Second, it matters what the social costs and benefits of a particular technology are. Peer-to-peer technology obviously causes copyright infringement, but there are social benefits associated with the technology as well. People can use peer-to-peer networks to distribute copies of their own work, public domain works, and works they have permission to distribute. Peer-to-peer networks are also relatively easy to maintain and reliable because they frequently operate with little reliance upon a central actor whose disruption will destroy the network. These relative costs and benefits need to be measured, and it is likely that they will vary with the design of particular peer-to-peer systems. Liability makes more sense when the infringement associated with a particular system seems large in relation to any anticipated social benefits, and it makes less sense when the amount of infringement seems small in relation to those benefits.

Unfortunately, the doctrinal elements that govern third party copyright liability do not direct judicial attention to these considerations. Vicarious liability depends on a defendant's control over and financial interest in another's infringement, while contributory liability

⁹ *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster Ltd.*, 125 S. Ct. 686, 160 L. Ed. 2d 518 (2004) (granting certiorari).

depends on a defendant's knowledge of and contribution to another's infringement. These elements may affect the desirability of third party liability, but they do not get to the heart of the matter. Courts will therefore find it almost impossible to construct an effective solution to the peer-to-peer puzzle without reconstructing the law of the third party copyright liability.¹⁰

This Article will show that the application of common law tort principles accomplishes the necessary reconstruction. In so doing, the Article does not argue for a particular result in any particular case. The point is simply to demonstrate that principles drawn from intentional torts, negligence, *respondeat superior*, and strict products liability do better than existing doctrine at accounting for the motivations of defendants and the social costs and benefits of peer-to-peer technology. If courts were to use these principles to analyze peer-to-peer cases, their analysis of peer-to-peer cases would become more responsive to basic policy concerns and the wisdom of *Sony*. This increases the likelihood of decisions that serve the greater public good.

The Article proceeds in three parts. Part I identifies the major doctrines that govern third party copyright liability and studies their development. This leads to a discussion of the tension between the expansion of such liability and the policies expressed in *Sony*. Part II examines how courts have tried to apply these doctrines in three modern peer-to-peer technology cases, *A & M Records v. Napster, Inc.*,¹¹ *In re Aimster Copyright Litigation*,¹² and *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*¹³ The examination shows that judges struggle in modern cases because existing doctrine does not effectively analyze the facts courts consider most important in peer-to-peer cases. Part III uses the common law of tort to develop an improved framework for third party copyright liability. The Article concludes with some thoughts about the future of third party copyright liability and the development of technology.

¹⁰ See *infra* Section I. A. 1-2. This Article is not alone in arguing that courts have had difficulty solving the peer-to-peer puzzle, and that some attention to the relative costs and benefits of peer-to-peer technology is desirable. See Tom Graves, *Picking up the Pieces of Grokster: A New Approach to File Sharing*, 27 HASTINGS COMM. & ENT. L.J. 137, 160 (2004) (pointing out difficulties in existing interpretations of vicarious and contributory copyright liability and advocating the use of burden shifting and presumptions as part of a cost-benefit analysis); Feder, *Is Betamax Obsolete?*, *supra* note 4, at 859 (expressing dissatisfaction with existing law and proposing the comparison of social costs and benefits of technology); Elizabeth Miles, *In re Aimster & MGM, Inc. v. Grokster, Ltd.: Peer-to-Peer and the Sony Doctrine*, 19 BERKELEY TECH. L.J. 21 (2004) (noting problems in the application of *Sony* to peer-to-peer).

¹¹ 239 F.3d 1004 (9th Cir. 2001).

¹² 334 F.3d 643 (7th Cir. 2003).

¹³ 380 F.3d 1154 (9th Cir. 2004), *certiorari granted*, 125 S. Ct. 686 (2004).

I. THE DEVELOPMENT OF THIRD PARTY COPYRIGHT LIABILITY

A. *The Expansion of Third Party Copyright Liability*

Two doctrines—vicarious liability and contributory liability—govern secondary liability in copyright. Although both of these doctrines originated in tort law, courts have developed them with little regard for limits on the reach of analogous doctrines in tort law. This has led to the expansion of third party copyright liability.

1. *Vicarious Copyright Liability*

*Shapiro, Bernstein & Co. v. H.L. Green Co.*¹⁴ provides the modern definition of vicarious copyright liability.¹⁵ The *Shapiro* plaintiffs sued two defendants for the unauthorized manufacture and sale of bootleg records. The first defendant, Jalen Amusement Company, made and sold the records in question. The second defendant, the H.L. Green Company, operated a chain of 23 department stores in which Jalen sold records as a licensed concessionaire. The claim against Jalen was straightforward. The district court found that Jalen had infringed and imposed liability.¹⁶ However, the district court dismissed the complaint against Green.¹⁷ On appeal, the Second Circuit reversed and remanded.¹⁸

The case against Green was far from obvious. The agreement between Green and Jalen allowed Jalen to sell records in Green's stores in exchange for a percentage of sales. Jalen ordered and paid for all of the records sold, and Green did not actively participate in the sales nor know of the infringements. Indeed, the district court refused to impose liability because "Green, in effect, was a lessor of space to Jalen under a percentage lease,"¹⁹ and the Second Circuit could easily have affirmed on the ground that Jalen was not Green's employee.²⁰ Such a ruling would have been consistent with the general tort rule

¹⁴ 316 F.2d 304 (2d Cir. 1963).

¹⁵ For cases referring to *Shapiro* as providing the definition of vicarious liability, see *Gordon v. Nextel Communications*, 345 F.3d 922, 925 (6th Cir. 2003); *Adobe Systems, Inc. v. Canus Prods, Inc.*, 173 F. Supp. 2d 1044, 1048-49 (C.D. Cal. 2001); *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 262 (9th Cir. 1996); *Polygram Int'l Publ'g Inc. v. Nevada/TIG, Inc.*, 855 F. Supp. 1314, 1324 (D. Mass. 1994).

¹⁶ *Shapiro*, 316 F.2d at 305-06.

¹⁷ *Id.* at 306.

¹⁸ *Id.* at 310.

¹⁹ *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 35 U.S.P.Q. 181 (S.D.N.Y. 1962).

²⁰ See *id.* (the District court opinion does not state the legal basis for its dismissal of the claim against Green).

that *respondeat superior* liability exists only when the defendant and primary tortfeasor are in a master/servant relationship.²¹

However, the Second Circuit saw the case differently. After acknowledging the usual limit of *respondeat superior*, the court noted that courts sometimes impose *respondeat superior* when no master/servant relationship exists.²² The court therefore was willing to consider holding Green liable in the case at hand. In doing so, the court consciously turned away from the guidance of tort law and created a new definition for vicarious liability that expressed a broader vision of liability. The court wrote:

Many of the elements which have given rise to the doctrine of *respondeat superior* may also be evident in factual settings other than that of a technical employer-employee relationship. When the right and ability to supervise coalesce with an obvious and direct financial interest in the exploitation of copyrighted materials—even in the absence of actual knowledge that the copyright monopoly is being impaired—the purposes of copyright law may be best effectuated by the imposition of liability upon the beneficiary of that exploitation.²³

Next, the court applied this definition to Green by referring to prior precedent distinguishing the vicarious liability of dance hall operators from landlords. The court noted that landlords are not held liable for infringement committed by tenants who pay a fixed rental rate because landlords do not supervise tenants and receive no profits from the infringement. By contrast, dance hall operators are held liable when musicians they hire perform copyrighted music without authorization, even if the musicians are independent contractors. Such liability presumably exists because dance hall operators can supervise the musicians they hire. Moreover, dance hall operators have “a most definite financial interest” in the infringement because patrons come to hear the infringing performances.²⁴ According to the court, Green was more like the dance hall operator than a landlord because Green retained the right to supervise Jalen’s operation and received a percentage of Jalen’s sales.²⁵ The court further supported

²¹ See RESTATEMENT (SECOND) OF AGENCY § 2 (1958) (defining master/servant relationship); *id.* at § 219 (limiting liability of master with respect to torts not committed by servant within scope of employment).

²² 316 F.2d at 307.

²³ *Id.* (citations omitted).

²⁴ *Id.*

²⁵ *Id.* at 308.

this outcome by stating that the imposition of liability on Green would encourage businesses like Green to prevent infringement or insure against infringement. If the court were to decide otherwise, businesses might shield themselves from liability by delegating infringing activities to independent contractors.²⁶

Shapiro illustrates how judicial concerns about copyright infringement have encouraged courts to expand the scope of vicarious liability. The court explicitly considered doctrinal limits on vicarious liability from tort and rejected them because "the purposes of copyright law may best be effectuated by the imposition of liability."²⁷ This resulted in the creation of a new test designed to impose liability beyond the limits suggested by tort law. Such liability might have been justified as a matter of abstract theory, and the court no doubt sincerely believed that it had promulgated a workable limit on the reach of vicarious copyright liability. However, future courts have given *Shapiro* an even more open-ended interpretation by steadily weakening the requirements of control and financial interest.

Consider, for example, *Polygram International Publishing, Inc. v. Nevada/TIG, Inc.*,²⁸ a case that raised the question of whether the organizers of the world's largest computer industry trade show were vicariously liable for copyright infringement allegedly committed by exhibitors at the show.²⁹ After a one day, non-jury trial, the district court held for the defendants on the ground that the plaintiffs had failed to establish infringement by any exhibitor.³⁰ However, the court also addressed the question of vicarious liability and held that the defendants would have been liable if the underlying infringement had been proven.³¹

The court's opinion on vicarious liability started by citing *Shapiro* and the Second Circuit's conscious decision to impose vicarious liability beyond the usual limits found in tort.³² Next, the court began a fairly lengthy discussion about the purposes behind vicarious liability and the appropriate interpretation of *Shapiro*.³³ The court wrote:

²⁶ *Id.* at 308-09.

²⁷ *Id.* at 307.

²⁸ 855 F. Supp. 1314 (D. Mass. 1994).

²⁹ *Id.* at 1317-18.

³⁰ *Id.* at 1318, 1323-24.

³¹ *Id.* at 1324-33.

³² *Id.* at 1324

The [*Shapiro*] court extracted from these cases the principle that, rather than following strict agency or independent contractor doctrines, courts should impose vicarious liability when the facts indicate that the defendant has the 'right and ability to supervise' the infringer coupled with 'an obvious and direct financial interest in exploitation of the copyrighted materials.'

³³ *Polygram Int'l. Publishing*, 855 F. Supp. at 1324-27.

When an individual seeks to profit from an enterprise in which identifiable types of losses are expected to occur, it is ordinarily fair and reasonable to place responsibility for those losses on the person who profits, even if that person makes arrangements for others to perform the acts that foreseeably [*sic*] cause the losses. The law of vicarious liability treats the expected losses as simply another cost of doing business. The enterprise and the person profiting from it are better able than either the innocent injured plaintiff or the person whose act caused the loss to distribute the costs and to shift them to others who have profited from the enterprise. In addition, placing responsibility for the loss on the enterprise has the added benefit of creating a greater incentive for the enterprise to police its operations carefully to avoid unnecessary losses.³⁴

The *Polygram* court stated that *Shapiro* implemented these policies and then the court adopted generous interpretations of both prongs of the *Shapiro* test.³⁵

With respect to the right and ability to supervise, the court consciously rejected the proposition that a defendant had to have control over “the manner and means of performance,”³⁶ and it did so despite explicitly recognizing that such a requirement would be “common elsewhere in the law of vicarious liability.”³⁷ Instead, the court endorsed the principle that the simple ability to veto the use of music by the primary infringer would be enough to establish the necessary control.³⁸ The court found that the trade show organizers had this ability because they could set the terms under which exhibitors rented space and employed staff who could patrol the convention hall to ensure that no music would be played.³⁹

The court went even further in interpreting the requirement of an “obvious and direct financial interest.” According to the court, the law permitted the imposition of vicarious liability on a showing of “direct or indirect financial benefit.”⁴⁰ This contradicted *Shapiro*, and it directly affected the outcome of the case. Not surprisingly, the *Polygram* defendant had argued that it lacked the necessary financial interest to support vicarious liability. This argument had doctrinal

³⁴ *Id.* at 1325.

³⁵ *Id.* at 1324-26.

³⁶ *Id.* at 1326.

³⁷ *Id.*

³⁸ *Id.*

³⁹ *Id.* at 1328-30.

⁴⁰ *Id.* at 1326 (internal citations omitted) (emphasis added).

merit. The *Shapiro* defendant's financial interest was direct in the sense that it took a percentage of the sales generated by infringing records. By contrast, the *Polygram* defendant earned no money from infringement by trade show exhibitors, so its financial interest in the infringement could not be considered direct. The court's expansion of *Shapiro* rendered this argument irrelevant. Removing the requirement of a "direct" financial interest meant that "commercial gain from the overall operation and either a direct or indirect financial benefit from the infringement itself" would support liability. Obviously, the defendant operated the trade show to make money. Additionally, the performance of music by exhibitors made the show's exhibits more attractive to the show's attendees. Hence, the defendant had the necessary indirect financial interest.⁴¹

Polygram has greatly influenced the law of vicarious copyright liability. There are, of course, opinions that take a more cautious approach to vicarious liability than *Polygram*.⁴² However, the *Polygram* approach has become prevalent through its adoption by the Ninth Circuit in the leading case of *Fonovisa v. Cherry Auction*.⁴³

Fonovisa's facts were somewhat similar to *Polygram's*, yet readily distinguishable. The defendant Cherry Auction operated a swap meet at which vendors would rent booths for a daily fee. Cherry Auction also collected revenue from admission fees paid by customers as well as parking and concessions.⁴⁴ Cherry Auction's vendors apparently included a number of individuals who sold counterfeit recordings of copyrighted music, and Cherry Auction knew that such activity was going on. A 1991 Fresno County Sheriff's raid resulted in seizure of more than 38,000 such recordings, and the Sheriff specifically advised Cherry Auction that the sale of counterfeit recordings was still continuing a year later.⁴⁵ The plaintiff Fonovisa held copyright in a number of the infringed recordings and filed a complaint alleging both vicarious and contributory liability.⁴⁶ The district court dismissed the complaint, but the Ninth Circuit reversed.⁴⁷

Polygram's influence over *Fonovisa* becomes apparent upon an examination of the district court's decision and the appellate court's reaction. The district court's dismissal of the complaint was perfectly understandable as a measured reading of *Shapiro*. The *Shapiro* de-

⁴¹ *Id.* at 1331-32.

⁴² *See, e.g.,* Adobe Systems, Inc. v. Canus Prods., Inc., 173 F. Supp. 2d 1044 (C.D. Cal. 2001); Artists Music, Inc. v. Reed Publishing, Inc., 31 U.S.P.Q. 2d 1623 (S.D.N.Y. 1994).

⁴³ 76 F.3d 259 (9th Cir. 1996).

⁴⁴ *Id.* at 261-62.

⁴⁵ *Id.* at 261.

⁴⁶ *Id.*

⁴⁷ *Id.*

defendant Green had the necessary control over its concessionaire Jalen because Green had retained the right to fire Jalen's employees. Green had the necessary financial interest because it took a percentage of Jalen's receipts from counterfeit record sales. By contrast, Cherry Auction did not have the necessary control over its vendors because it had less control over them than Green did over Jalen. More importantly, Cherry Auction lacked an obvious and direct financial interest in the underlying infringement because it did not share in the receipts derived from the vendors' sale of counterfeit records.⁴⁸

By contrast, the Ninth Circuit's reversal closely follows the blueprint laid down by *Polygram*. Indeed, the court characterizes *Polygram* as "[t]he most recent and comprehensive discussion of the evolution of the doctrine of vicarious liability for copyright infringement."⁴⁹ The Ninth Circuit then held that Cherry Auction had the necessary control because it could terminate vendors for selling counterfeit records and had the ability to police the premises on which the swap meet took place.⁵⁰ Cherry Auction also had the requisite financial interest because it profited from admission, parking, and concession stand revenues paid by those who attended the swap meet to buy counterfeit records.⁵¹ This had the effect of making vicarious copyright liability relatively easy to allege and prove.

2. Contributory Copyright Liability

The modern development of contributory liability in copyright begins with *Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc.*⁵² The plaintiffs, four music publishers, alleged that Mark-Fi Records made and sold records that violated the plaintiffs' copyrights.⁵³ According to the complaint, Mark-Fi was a typically shady bootleg record operation. It sold recordings for very low prices and its executive absconded after those sales, making it impossible to serve Mark-Fi with process.⁵⁴ Not surprisingly, the plaintiffs looked for someone else to sue, and they targeted a number of defendants who did business with Mark-Fi. These defendants included an advertising agency that purchased air time for the broadcast of commercials for the infringing album, the owner of the radio stations which played the commercials., and a company which packaged and mailed the infring-

⁴⁸ *Id.* at 263.

⁴⁹ *Id.* at 262.

⁵⁰ *Id.* at 262.

⁵¹ *Id.* at 263-64.

⁵² 256 F. Supp. 399 (S.D.N.Y. 1966).

⁵³ *Id.* at 401.

⁵⁴ *Id.*

ing albums to people who had already ordered and paid for the albums through Mark-Fi.⁵⁵

The *Screen Gems* litigation developed along predictable lines. The plaintiffs acknowledged that the defendants had not themselves committed infringement,⁵⁶ but they claimed that summary judgment against the defendants was necessary to discourage infringement.⁵⁷ The defendants responded by filing their own motion for summary judgment on the ground that they did not directly participate in Mark-Fi's infringing scheme and did not control or directly benefit from that scheme.⁵⁸ The court denied both motions in an opinion focused primarily on contributory liability.

In so ruling, the court noted that plaintiffs sought to hold the defendants liable for assisting Mark-Fi despite knowing about the infringing nature of Mark-Fi's records.⁵⁹ According to the plaintiffs, the defendants actually knew or should have known about Mark-Fi's infringement from the suspiciously low price of Mark-Fi's records and the nature of Mark-Fi's operation.⁶⁰ The court considered this argument important because copyright infringement is a tort. Accordingly, "the basic common law doctrine is that one who knowingly participates in or furthers a tortious act is jointly and severally liable with the prime tortfeasor."⁶¹ The court went on to find that a triable issue of fact existed about whether the defendants had actual or constructive knowledge of Mark-Fi's infringement and still furthered Mark-Fi's scheme.⁶²

The development of contributory liability continued in *Gershwin Pub. Corp. v. Columbia Artists' Management, Inc.*⁶³ In this case, the defendant Columbia Artists' Management managed a number of performing artists. Columbia also facilitated the creation and operation of local organizations to sponsor concerts in various communities at which Columbia managed artists would appear.⁶⁴ Columbia would profit by taking a share of each artist's performance fee.⁶⁵ As it turned out, Columbia's artists sometimes performed copyrighted mu-

⁵⁵ *Id.* at 401-02.

⁵⁶ *Id.* at 401.

⁵⁷ *Id.* at 403 ("The plaintiffs acknowledge that such indeed is their purpose as the only feasible means to meet the challenge of the bootleg record.").

⁵⁸ *Id.* at 402-03.

⁵⁹ *Id.* at 403.

⁶⁰ *Id.* at 403-04.

⁶¹ *Id.* at 403.

⁶² *Id.* at 403-04. The court did find in favor of a fourth defendant, an officer and stockholder of the advertising agency, because he was on leave from the company at the time.

⁶³ 443 F.2d 1159 (2d Cir. 1971).

⁶⁴ *Id.* at 1160-61.

⁶⁵ *Id.* at 1161.

sic without authorization at these concerts, and the copyright holders sued Columbia for vicarious and contributory liability.⁶⁶

The Second Circuit imposed contributory liability and cited *Screen Gems* to support its decision.⁶⁷ According to the Second Circuit, “[O]ne who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a ‘contributory’ infringer.”⁶⁸ Columbia was therefore liable because it played a major role in creating concert engagements for its artists despite knowing that its artists performed copyrighted works without permission.⁶⁹ Among other things, the court noted that Columbia knew the works being performed by each artist yet continued to promote those concerts.⁷⁰

The decisions of *Screen Gems* and *Gershwin* rest on the idea that it is wrong to provide significant assistance to another with knowledge that the assistance will facilitate copyright infringement. However, this does not necessarily mean that any kind of knowledge and any kind of assistance should establish liability. It is one thing if a defendant knows that a specific person will commit a particular act of infringement and chooses to provide direct and significant assistance. In such a case, the defendant’s decision to provide the assistance is unreasonable, and his culpability makes it fair to hold him legally responsible for the infringement. By contrast, it is something else if a defendant does not know the identity of an infringer, the nature or likelihood of the infringement, and provides indirect assistance to the infringer. Such a defendant’s choice to provide assistance may be entirely reasonable and it would then be unfair to hold him liable.

The foregoing shows that contributory copyright liability requires a finding that the defendant’s knowledge and contribution are sufficiently unreasonable to support a particular level of culpability. In *Screen Gems* and *Gershwin*, the defendants knew the specific identities of the infringers, knew the specific works infringed, and directly promoted or distributed infringing performances or products. Such specific knowledge and direct assistance support an inference that these defendants were fairly culpable in their behavior. One might therefore expect courts to limit contributory liability to cases with similar facts, but this has not occurred. Instead, a number of courts have accepted the proposition that general knowledge and indirect facilitation of infringement establish contributory liability, and this

⁶⁶ *Id.* at 1160.

⁶⁷ *Id.* at 1162.

⁶⁸ *Id.*

⁶⁹ *Id.* at 1162-63.

⁷⁰ *Id.* at 1161.

has opened the door to further expansion of third party copyright liability.

Once again, the leading case is *Fonovisa v. Cherry Auction*.⁷¹ Brief reflection reveals that the case for contributory liability was far from clear. Cherry Auction knew that some of those who rented swap meet booths were selling infringing records and tapes, and the availability of swap meet booths facilitated infringing sales.⁷² At the same time, however, Cherry Auction apparently did not know the infringers' identities, and the renting of swap meet booths is not the same kind of assistance as the promotion of concerts or distribution of infringing records. Indeed, the district court recognized the relative weakness of the claim in dismissing Fonovisa's complaint.⁷³

The relative weakness of the plaintiff's case for contributory liability means that the Ninth Circuit's reversal of the district court extended contributory liability beyond the facts of *Screen Gems and Gershwin*. The court refers to *Gershwin* as the "classic statement" of the doctrine,⁷⁴ but it applies the *Gershwin* elements in a somewhat sloppy and expansive way. The court simply stated that Fonovisa adequately alleged the requirement of knowledge. The opinion could have gone on to explain that contributory liability normally requires specific knowledge about an infringer's identity and the works infringed because such specificity permits an inference of culpability, and that Cherry Auction's unusual form of general knowledge permitted a similar inference. However, by not doing so, the Ninth Circuit allowed an allegation of general knowledge, as opposed to specific knowledge, to satisfy the first element of a contributory copyright liability claim without any analysis of the connection between the defendant's knowledge and culpability.⁷⁵

The Ninth Circuit followed this up with an equally broad understanding of material contribution. To be sure, the court discussed Cherry Auction's failure to assist law enforcement and its willingness to foster infringement, and it could have stated that material contribution required active encouragement or concealment of infringement

⁷¹ 76 F.3d 259 (9th Cir. 1996).

⁷² See *id.* at 260-61.

⁷³ *Id.* at 261.

⁷⁴ *Id.* at 264.

⁷⁵ Note that this Article is not taking the position that the Ninth Circuit reached the wrong conclusion. The sheriff's raids and the prevalence of infringing vendors might well have supported the kind of culpability that would justify liability. Rather, the Article is pointing out that the Ninth Circuit's analysis does not properly establish the connection between knowledge and culpability. This disconnect between knowledge and culpability creates an interpretation of law in which any kind of actual knowledge satisfies one of the prerequisites for contributory liability.

and infringers. However, the court did not do this and stated that the mere facilitation of infringement would suffice.⁷⁶ This had the effect of making contributory liability much easier to allege and prove.

3. *The Effect of Fonovisa*

Fonovisa clearly helps plaintiffs who bring third party copyright claims against technology providers.⁷⁷ After all, technology providers can always refuse to distribute technology to potential infringers, and the possibility of infringement generally increases demand for the technology and the provider's profits. Plaintiffs will therefore consistently argue that *Fonovisa* holds technology providers vicariously liable for user infringement. Similarly, technology providers frequently know that people use their technology to infringe, and that their technology facilitates infringement. Accordingly, plaintiffs will surely contend that *Fonovisa* imposes contributory liability on technology providers.

Of course, this does not mean that technology providers always lose third party copyright liability cases, or that providers are destined to do so in the future. Courts obviously will not decide every case in the plaintiff's favor, and they occasionally recognize and resist *Fonovisa*'s potential for practically limitless expansion of liability.⁷⁸ However, these efforts generally rely on factual distinctions that have not resulted in widely adopted statements of principle that effectively limit *Fonovisa*'s reach. Accordingly, *Fonovisa* offers plaintiffs considerable doctrinal support that cannot be easily denied because it comes from a leading case that adopts a blunt analysis devoid of important nuance.

⁷⁶ 76 F.3d at 264 (“[W]e agree . . . that providing the site and facilities for known infringing activity is sufficient to establish contributory liability.”).

⁷⁷ See Barbara Kolsun, and Jonathan Bayer, *Indirect Infringement and Counterfeiting: Remedies Available Against Those Who Knowingly Rent To Counterfeiters*, 16 CARDOZO ARTS & ENT. L.J. 383, 409-10 (1998) (describing *Fonovisa* as lowering the standard of *Gershwin* and exposing new defendants to liability); David Nimmer, *Brains and Other Paraphernalia of the Digital Age*, 10 HARVARD J.L. & TECH. 1, 34 n.142 (1996) (*Fonovisa* “arguably portends a liberalization of the standards for vicarious liability in cyberspace”); Kenneth Walton, *Is A Website Like A Flea Market Stall? How Fonovisa v. Cherry Auction Increases the Risk of Third-Party Copyright Infringement Liability For Online Service Providers*, 19 HASTINGS COMM. & ENT. L.J. 921, 942 (1997) (describing *Fonovisa*'s expansion of third party copyright liability, especially vicarious liability).

⁷⁸ See *Ellison v. Robertson*, 357 F.3d 1072, 1079 (9th Cir. 2004) (distinguishing degree of financial interest in affirming dismissal of plaintiff's claim of vicarious copyright liability against Internet service provider); *Costar Group, Inc. v. Loopnet, Inc.*, 164 F. Supp. 2d 688, 697-99 (D. Md. 2001) (distinguishing claim against Web site operator from *Fonovisa*); *Adobe Systems, Inc. v. Canus Prods., Inc.*, 173 F. Supp. 2d 1044 (C.D. Cal. 2001) (reading *Fonovisa* somewhat narrowly and denying plaintiff's motion for summary judgment in case involving sales of infringing software at a computer fair).

B. Sony and the Benefits of Technology

The second major influence in the law of third party copyright liability is the case of *Sony Corporation of America v. Universal City Studios*.⁷⁹ In *Sony*, the Supreme Court considered whether Sony was contributorily liable for infringement committed by users of its Betamax VCRs. The *Sony* plaintiffs owned the copyrights on various works that were broadcast as ordinary television programs. They contended that *Sony* became liable for copyright infringement by selling VCRs to members of the public who used the VCRs to copy the plaintiffs' works for later viewing.⁸⁰ The plaintiffs lost in the district court, but the 9th Circuit reversed, setting the stage for one of copyright's most important Supreme Court decisions.

Sony could easily have been a case that supported the expansive reading of *Screen Gems*, *Gershwin*, and their progeny. The 9th Circuit's reasoning clearly foreshadowed the analysis later adopted in *Fonovisa*.⁸¹ According to the court, Sony had knowledge because Sony knew that some purchasers of VCRs would use them to infringe.⁸² Additionally, Sony materially contributed to the purchasers' infringement because Sony's customers would be unable to commit infringement without the VCRs.⁸³ This reasoning could easily have been affirmed as consistent with *Screen Gems*, and *Gershwin*.⁸⁴ However, the Supreme Court rejected this possibility and reversed.

In reversing, the Supreme Court applied a somewhat unusual, but ultimately wise, cost-benefit analysis to the problem of secondary copyright liability. According to the Court, the question of Sony's liability depended on the characterization of its knowledge. The Court wrote, "[i]f vicarious liability is to be imposed on Sony in this case, it must rest on the fact that it has sold equipment with construc-

⁷⁹ 464 U.S. 417 (1984).

⁸⁰ *Id.* at 420.

⁸¹ The Ninth Circuit *Sony* opinion was handed down in 1981, and *Fonovisa* was decided in 1996.

⁸² *Universal City Studios, Inc. v. Sony Corp. of America*, 659 F.2d 963, 975 (9th Cir. 1981)

The corporate appellees 'know' that the Betamax will be used to reproduce copyrighted materials. In fact, that is the most conspicuous use of the product. That use is intended, expected, encouraged, and the source of the product's consumer appeal. The record establishes that appellees knew and expected that Betamax's major use would be to record copyrighted programs off-the-air.
Id. at 975.

⁸³ *Id.* at 975-76 ("[T]here is no doubt that appellees have met the other requirements for contributory infringement—inducing, causing, or materially contributing to the infringing conduct of another.").

⁸⁴ Indeed, the court cited the standard definition from *Gershwin*. *Id.* at 975.

tive knowledge of the fact that its customers may use that equipment to make unauthorized copies of copyrighted material.”⁸⁵

The Court then explained why Sony lacked constructive knowledge. If the Court had simply followed the reasoning of cases like *Screen Gems* or *Gershwin*, it would have explained its decision in terms of whether Sony deserved to be held liable because it knew what its customers were up to. However, the Court chose not to explain its decision with reference to Sony’s culpability. Instead, the Court analyzed the broader social consequences of liability. In doing so, the Court gave great importance to noninfringing uses of VCRs. These included the authorized copying of certain television programs and the unauthorized, temporary copying of programs for later viewing that constituted fair use.⁸⁶

The Court understood that liability against Sony would eliminate the infringing and noninfringing use of VCRs.⁸⁷ As an initial matter, Sony would probably have responded to the financial burden of potentially unlimited copyright liability removing VCRs from the market. Moreover, Courts routinely grant injunctions against copyright infringers,⁸⁸ so liability against Sony would have given copyright holders the legal power to prohibit the sale of VCRs, even if Sony still wanted to sell them. Either way, the removal of VCRs from the market would affect both infringing and noninfringing uses of VCRs.

According to the Court, contributory liability’s broad effect on noninfringing uses showed that such liability does not always advance society’s best interests. To be sure, liability would have the benefit of reducing infringement, but society would also lose the benefits asso-

⁸⁵ Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417, 439 (1984). The Court’s use of “vicarious” liability is confusing because the entire discussion that follows interprets the meaning of constructive knowledge, which in turn is an element of contributory, and not vicarious, copyright liability. The Article proceeds on the assumption that the Court intended to discuss contributory liability.

⁸⁶ See *id.* at 442-56.

⁸⁷ The court wrote:

It seems extraordinary to suggest that the Copyright Act confers upon all copyright owners collectively, much less the two respondents in this case, the exclusive right to distribute VTR’s simply because they may be used to infringe copyrights. That, however, is the logical implication of their claim. The request for an injunction below indicates that respondents seek, in effect, to declare VTR’s contraband. Their suggestion in this Court that a continuing royalty pursuant to a judicially created compulsory license would be an acceptable remedy merely indicates that respondents, for their part, would be willing to license their claimed monopoly interest in VTR’s to Sony in return for a royalty.

464 U.S. at 441, n. 21.

⁸⁸ See 17 U.S.C. § 502 (2005) (authorizing injunctive relief); Mark A. Lemley and Eugene Volokh, *Freedom of Speech and Injunctions in Intellectual Property Cases*, 48 DUKE L.J. 147, 150 (1998) (“In copyright cases, though, preliminary injunctions are granted pretty much as a matter of course . . .”).

ciated with noninfringing uses of VCRs. The Court therefore decided to balance the benefits of contributory liability against its costs,⁸⁹ but it conducted that balancing in a somewhat surprising way. Instead of simply comparing the benefits of stopping infringement against the loss of existing noninfringing uses for VCRs, the Court weighed the benefits of enforcing copyright against the loss of existing *and potential* noninfringing uses of VCRs. This led to the conclusion that “the sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be capable of substantial noninfringing uses.”⁹⁰

At first blush, the Court’s consideration of potential noninfringing uses for VCRs seems odd because there can be no guarantee the potential uses would ever arise. It therefore seems rather speculative to account for the loss of such potential uses in deciding whether to impose contributory liability on defendants like Sony. Further reflection reveals, however, that the Court’s reasoning made sense. History teaches us that society rarely appreciates the full benefits of new technologies immediately upon their invention. It sometimes takes years, or even decades, for society to identify highly productive uses for new technologies, and the implementation of today’s technology is a necessary prerequisite to the development of tomorrow’s technology.⁹¹ Accordingly, courts that do not weigh the loss of potential noninfringing uses in a cost-benefit analysis of contributory liability will underestimate the social losses that such liability imposes. This would in turn lead to the overuse of contributory copyright liability. *Sony* therefore wisely admonishes future courts to avoid secondary copyright liability for technology providers if the technology in question could have substantial noninfringing use.⁹²

⁸⁹ *Sony*, 417 U.S. at 442.

⁹⁰ *Id.*

⁹¹ A striking example of this would be the effect of radio technology. When first invented, radio was used as a method of communication that facilitated copyright infringement, namely the unlicensed broadcast of music. Since then, the basic technology of radio has given rise to radar, television, cellular telephones, and many other socially valuable inventions that could not have been foreseen if a cost-benefit analysis of radio technology had been conducted in the early 20th century. See Dave Finley, *The Radio Century*, ALBUQUERQUE J., November 26, 1999, available at <http://www.aoc.nrao.edu/~dfinley/radcent.html> (visited January 30, 2005) (describing radio technology and some of its future uses).

⁹² Indeed, the wisdom of this admonition is confirmed by the history of VCRs themselves. At the time of *Sony*, the principal identified noninfringing uses for VCRs were the authorized taping of television programs and unauthorized timeshifting. The movie industry clearly felt that the value of these uses was not large enough to make up for what the industry believed would be catastrophic losses in the value of copyrighted movies. Ironically, the VCR has not had the effect predicted by the movie industry. To the contrary, the VCR made possible the market for the lucrative sale and rental of movies on videotape. This market has proven so

II. THIRD PARTY COPYRIGHT LIABILITY AND PEER-TO-PEER TECHNOLOGY

The foregoing makes a general outline of the peer-to-peer puzzle fairly clear. On the one hand, courts could follow the expansive interpretation of vicarious and contributory liability embodied in *Fonovisa* and hold the creators of peer-to-peer networks liable for infringement committed by those who use the networks.⁹³ On the other hand, courts could vigorously apply *Sony* and refuse to hold the creators of peer-to-peer networks liable. Both of these possibilities are doctrinally plausible, but each has its benefits and costs.

A generous application of third party copyright liability would undoubtedly prevent copyright infringement by discouraging people from starting or maintaining peer-to-peer networks. Indeed, many will shy away from even researching or experimenting with such technology. The benefits of stopping infringement will, however, come with a price. Peer-to-peer networks support more than infringement. People can use them to distribute files of public domain material or files that the copyright holder wants to have widely shared. Moreover, as *Sony* has taught, peer-to-peer networks will probably have valuable noninfringing uses that society has not even thought of yet. Accordingly, if courts outlaw peer-to-peer technology, they do so at the cost of all present and future noninfringing uses of that technology. By contrast, a vigorous application of *Sony* would give society the current and future benefits of peer-to-peer technology, but it would also allow a great deal of copyright infringement to continue. Such infringement could damage the economic viability of some businesses that sell copyrighted material.⁹⁴

profitable that many movies now make more through that market than through exhibition in movie theaters. Society's experience with VCRs illustrates why the Supreme Court was wise to look past predictions of gloom and instead accept the likelihood that VCRs would bring society (and indeed copyright holders) significant benefits that could not have been anticipated at the time of the *Sony* litigation.

⁹³ With respect to vicarious liability, control arguably exists because peer-to-peer providers can keep potential infringers from getting the technology, and a financial interest might exist because peer-to-peer providers hope to profit from their networks. With respect to contributory liability, knowledge arguably exists because peer-to-peer providers know that people will misuse the technology, and material contribution could exist because peer-to-peer technology facilitates infringement.

⁹⁴ Economists have differed on the actual effect of peer-to-peer file sharing. See Kai-Lung Hui & Ivan Png, *Piracy and the Legitimate Demand for Recorded Music*, 2 CONTRIBUTIONS TO ECON. ANALYSIS & POL'Y, No. 1, Art. 11 (2003), available at <http://www.bepress.com/bejeap/contributions/vol2/iss1/art11/> (finding that peer-to-peer file sharing decreased demand for music CDs, but in smaller amounts than estimated by the music industry); Stan Liebowitz, *Will MP3 Downloads Annihilate and Record Industry? The Evidence so Far*, in GARY LIBECAP, *INTELLECTUAL PROPERTY AND ENTREPRENEURSHIP* 15 (2004),

The foregoing suggests that society's best interests would be served by a compromise between the all-or-nothing approaches suggested above. Legitimate technology developers ought to have room to experiment with and implement peer-to-peer systems without fear that they will be liable for the deliberate misbehavior of others. At the same time, copyright holders ought to have meaningful recourse against those who irresponsibly facilitate infringement. It therefore comes as no surprise that the courts are trying to strike the suggested compromise. As of this writing, courts have decided three cases involving peer-to-peer technology, and the results have been split, with two favoring liability and one against liability.⁹⁵

Ideally, the repeated judicial consideration of peer-to-peer technology would create a cogent interpretation of law that connects doctrine to the policy concerns raised by peer-to-peer technology. Such a connection would guide decisions towards the public interest by drawing judicial attention to important considerations like motivation and the relative costs and benefits of particular peer-to-peer systems. Unfortunately, this has not happened. As this section will show, courts are trying to do the right thing, but they are hampered by the clumsy structure of vicarious and contributory liability. This suggests that a cogent solution to the peer-to-peer puzzle is unlikely without significant doctrinal reform.

A. Napster

The first peer-to-peer case to be decided was *A & M Records, Inc. v. Napster, Inc.*⁹⁶ In this case, the defendant Napster, Inc. established and maintained the eponymous file swapping service. Individuals who wanted to use the Napster system would do so by downloading and installing Napster's MusicShare software on their personal computers.⁹⁷ Once installed, this software allowed users to connect via

available at <http://www.utdallas.edu/~liebowitz/> (concluding that file sharing does harm the music industry, but that the harm may not be fatal); Felix Oberholzer & Koleman Strumpf, *The Effect of File Sharing on Record Sales. An Empirical Analysis*, available at www.unc.edu/~cigar/papers/FileSharing_March2004.pdf (concluding that file sharing does not affect record sales). It is therefore possible to argue that peer-to-peer systems cause little or no damage to copyright holders of any works infringed. The empirical accuracy of such arguments could affect the outcome of any cost-benefit analysis concerning peer-to-peer technology, but this Article does not take a position on the truth of such arguments.

⁹⁵ See *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster Ltd.*, 380 F.3d 1154 (9th Cir. 2004); *In Re Aimster Copyright Litigation*, 334 F.3d 642 (7th Cir. 2003); *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).

⁹⁶ 239 F.3d 1004.

⁹⁷ *Id.* at 1011.

the Internet to Napster's central servers.⁹⁸ These servers kept track of all users logged into the Napster system, including the names of any music files each user was willing to share.⁹⁹ Napster users who wanted copies of a particular song could then type in a query and the Napster system would return a list of all "host users" who had made the song available. The requesting user could then choose a host user, and the MusicShare software would send a request from the requesting user's computer directly to the host user's computer. The host user's computer would then send the desired copy.¹⁰⁰

The Napster service proved wildly popular. The district court noted that Napster expected to have 75 million users by the end of 2000, and that 10,000 files per second were shared over the Napster system.¹⁰¹ Most of these shared files were unauthorized copies of copyrighted songs.¹⁰² This meant that the Napster system supported a great deal of copyright infringement.¹⁰³ The music industry took considerable exception to this, and it notified Napster that its users were sharing unauthorized copies of copyrighted songs. The music industry demanded that Napster stop this infringement, but Napster refused on the ground that Napster itself committed no copyright infringement. Only Napster's users infringed because the copying and transmission of copyrighted material happened only through direct communication between Napster users. Napster took the position that it was not responsible for its users' behavior. Not surprisingly, the music industry disagreed, and a number of its members sued Napster on theories of vicarious and contributory liability.¹⁰⁴ The plaintiffs successfully moved for a preliminary injunction against Napster's operation, and Napster appealed to the Ninth Circuit.¹⁰⁵ The Ninth Circuit affirmed the district court in an opinion that struggles to reconcile the doctrinal themes of third party copyright liability.

Consider first the plaintiffs' claim of contributory copyright liability. *Fonovisa's* generous interpretation of contributory liability made it easy for the court to find Napster liable for its users' infringement. After all, the recording industry had complained many times about the infringing use of Napster. This gave Napster knowledge comparable

⁹⁸ *Id.*

⁹⁹ *Id.* at 1012.

¹⁰⁰ *Id.*

¹⁰¹ *A & M Records Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896, 902 (N.D. Cal. 2000).

¹⁰² *Napster*, 293 F.3d at 1013-14.

¹⁰³ The copyright code reserves to the copyright holder exclusive rights of reproduction and distribution. 17 U.S.C. § 106. Violation of these rights over a peer-to-peer network therefore constitutes infringement.

¹⁰⁴ *Napster*, 293 F.3d at 1011.

¹⁰⁵ *Id.*

to that of Cherry Auction, which knew that most of those renting swap meet booths were committing infringement. Thus, when Napster continued to make its service available for infringing use, Napster became liable. At the same time, however, *Sony* could just as easily have been applied to shield Napster from liability. Like *Sony*, Napster knew that some, but not all, of its customers committed infringement. Moreover, as noted earlier, there were actual and potential non-infringing uses for Napster.¹⁰⁶ The Ninth Circuit could have characterized these noninfringing uses as "substantial" and concluded that *Sony* prohibited imputing constructive knowledge to Napster.

The court responded to this problem by distinguishing *Napster* from *Sony*, but not very successfully. It began by observing that the Supreme Court refused to impute constructive knowledge to *Sony*. This led to the conclusion that Napster's infringing capabilities alone were not enough to justify the imputation of constructive knowledge.¹⁰⁷ However, the court argued that *Sony* did not apply to Napster because the plaintiffs had clearly notified Napster that specific works were being traded on the Napster system. The court then found that Napster had *actual* knowledge of infringement on its system, and *Sony* did not apply because *Sony* only barred the court from imputing *constructive* knowledge to Napster.¹⁰⁸ This reasoning seems persuasive on first inspection, but closer scrutiny reveals some problems.

The *Napster* court's analysis questionably characterizes the difference between Napster's knowledge and *Sony*'s knowledge as one of kind, and not of degree. *Sony*'s logic implies that actual knowledge exists only when the defendant knows that a particular person is going to commit infringement. Without question, one could argue that actual knowledge exists when a defendant knows that its technology supports infringement, even if the defendant does not know exactly who commits the infringement. However, *Sony*'s logic rejects this possibility. As the district court noted, *Sony* advertised its VCRs by suggesting that purchasers make libraries of recorded copyrighted material.¹⁰⁹ Additionally, *Sony* conducted surveys that showed substantial use of VCRs for that purpose.¹¹⁰ It is therefore difficult to conclude that *Sony* did not truly know that some of its customers used its VCRs to infringe.¹¹¹ The Supreme Court's refusal to characterize

¹⁰⁶ *Id.* at 1021.

¹⁰⁷ *Id.* at 1020-21.

¹⁰⁸ *Id.* at 1021.

¹⁰⁹ *Universal City Studios, Inc. v. Sony Corp. of America*, 480 F. Supp. 429, 436 (C.D. Cal 1979), *rev'd*, 464 U.S. 417 (1984).

¹¹⁰ *Id.* at 438-39.

¹¹¹ *See In re Aimster Copyright Litigation*, 334 F.3d 643, 647 (7th Cir. 2003) (stating that *Sony* surely knew about infringing use of VCRs).

this knowledge as “actual knowledge” for purposes of contributory liability means that actual knowledge doesn’t exist until a defendant knows that a particular person is going to commit infringement. A generalized knowledge that someone will commit infringement is not enough.

An application of *Sony*’s logic to the facts of *Napster* shows that Napster did not have actual knowledge of its users’ infringement. Like Sony, Napster truly knew that its users committed infringement, but it did not know exactly which users were doing so. Napster therefore could not have had actual knowledge within the meaning of contributory copyright liability, and its liability would have to depend on the existence of constructive knowledge. This does not mean that Napster’s situation was indistinguishable from Sony’s. Napster’s primary use was infringing, while the primary use of VCRs was noninfringing. The case for Napster’s constructive knowledge was therefore stronger than the case for Sony’s constructive knowledge. However, this distinction is one of degree, and not of kind.

The foregoing shows that the Ninth Circuit’s attempt to integrate *Sony* and *Fonovisa* is not satisfactory. If Napster’s liability depends on constructive knowledge, then *Sony* applies. The Ninth Circuit was not free to impute such knowledge to Napster unless it determined that Napster was not capable of substantial noninfringing uses. Of course, Napster could be used for noninfringing purposes. Users could legally share music files with the consent of copyright holders, and public domain recordings would be fair game as well. However, the overwhelming prevalence of Napster’s infringing uses left open the question of whether its noninfringing uses could ever be “substantial.” As noted earlier, *Sony*’s policy concerning substantial noninfringing uses reflects the wise policy judgment that technology should not be declared illegal without comparing the benefits gained by outlawing technology used for infringement against the costs of losing the present and future noninfringing uses of the technology.¹¹² It was therefore questionable for the Ninth Circuit to find against Napster without conducting the cost-benefit analysis implied by *Sony*.

The *Napster* court’s analysis of vicarious liability was also problematic. Not surprisingly, the opinion followed the approach of *Fonovisa*. The court stated that Napster had the necessary control because it could block users from its system.¹¹³ Additionally, the court found that Napster had the necessary financial interest in user

¹¹² See *supra* notes 80-91 and accompanying text.

¹¹³ *Napster*, 239 F.3d at 1023 (stating that “[t]he ability to block infringers’ access to a particular environment for any reason whatsoever is evidence of the right and ability to supervise.” (citing *Fonovisa Inc., v. Cherry Auction Inc.*, 76 F.3d 259, 262 (9th Cir. 1996))).

infringement because the availability of infringing music files attracted users to Napster.¹¹⁴ The Ninth Circuit could have held Napster liable on precisely this reasoning, but it chose to elaborate in a curious way.

Ordinarily, the existence of vicarious liability means that the defendant can do almost nothing to escape liability short of preventing infringement. The elements of vicarious liability make this clear. A defendant who has enough control over an infringer and a high enough financial interest in the infringement is liable for the infringement. Such a defendant can escape liability only if it changes its relationship with the underlying infringer, either by giving up control over the infringing activity or by reducing financial interest in the infringement. In Napster's case, it seems highly unlikely that these changes could ever occur. After all, the court found that Napster had the necessary control because it could kick infringers off of the Napster system. It is hard to imagine that Napster would ever allow people to use the Napster system without Napster's consent. Similarly, users would always be attracted to Napster in order to download music. Napster's attractiveness increases with the number and variety of files on its system, so infringing music would always be a draw to the Napster system. This makes it almost impossible for Napster to not have the necessary financial interest in its user's infringements.

Oddly enough, the Ninth Circuit indicated that Napster had another way to escape liability for its users' misbehavior. The court wrote, "To escape the imposition of vicarious liability, the reserved right to police must be exercised to its fullest extent."¹¹⁵ This meant that Napster did not have to prevent infringement in order to escape liability. Napster only had to make an effort to stop infringement consistent with the architecture of the Napster system.¹¹⁶ Napster could accomplish this by refusing to list files with names similar to those of copyrighted songs because this would prevent users from sending download requests for those files.¹¹⁷

This interpretation of vicarious liability is very odd because it has the effect of converting vicarious liability into a form of contributory liability. A defendant who has the necessary knowledge of another's infringement is liable if he provides the infringer with material assis-

¹¹⁴ *Id.* at 1023. ("Financial benefit exists where the availability of infringing material 'acts as a 'draw' for customers.'").

¹¹⁵ *Id.* at 1023.

¹¹⁶ *Id.* at 1024 ("Put differently, Napster's reserved 'right and ability' to police is cabined by the system's current architecture.").

¹¹⁷ See *supra* notes 95-99 and accompanying text (describing operation of the Napster system).

tance.¹¹⁸ The logical structure of these elements implies that a defendant can escape contributory liability by changing the nature of the assistance he offers the infringer. If provision of the unaltered Napster service were considered material assistance (as indeed it was by the court), provision of the Napster service without the listing of infringing files would probably not be material assistance because such a service would offer relatively little support to those wanting to commit infringement.

The conversion of vicarious liability to contributory liability offers clues about what the *Napster* court may have been thinking about the precedent it had to work with. The court apparently believed that existing doctrine, particularly *Fonovisa*, required a finding against Napster on both contributory and vicarious liability grounds. However, the court might also have thought that vicarious liability would be too harsh because it would expose too many technology providers to liability. After all, many computer and internet technologies facilitate copyright infringement. If, as the *Napster* court believed, the ability to deny a service and the draw of infringing material establish liability, then Internet service providers, software companies, network operators, and many others would be vicariously liable, and they could do nothing about their liability.¹¹⁹ Such a result may have seemed extreme to the *Napster* court, and this may explain why the court modified the law to give relief to at least some technology providers.

The *Napster* opinion offers a good example of the problems that presently beset the law of third party copyright liability. There is an obvious and unresolved conflict between the generous interpretation of contributory and vicarious liability from cases like *Fonovisa* and the public policy concerns expressed in *Sony*. The *Napster* court properly worried about the negative consequences of unrestrained third party liability, and it also worried that an overly aggressive application of *Sony* would leave too much room for the irresponsible development of peer-to-peer technology. The court admirably tried to strike a balance between these concerns, but it was hampered from doing so effectively by the blunt and clumsy doctrinal formulation of vicarious and contributory liability. This meant that the court could

¹¹⁸ See *supra* notes 67-70 and accompanying text (describing elements of contributory liability).

¹¹⁹ This outcome is softened somewhat by the so-called "notice and take-down" provisions of the Digital Millennium Copyright Act, 17 U.S.C. § 512. See Alfred C. Yen, *Internet Service Provider Liability for Subscriber Copyright Infringement, Enterprise Liability, and the First Amendment*, 88 GEO. L.J. 1833, 1882-84 (2000) for further analysis of the notice and take-down provisions.

not explain its admirable instincts without warping the logic of contributory liability, altering vicarious liability beyond recognition, and avoiding the cost-benefit analysis called for in *Sony*. The outcome of the case may have been correct, but its logic was highly problematic.

B. Aimster

The case of *In re Aimster Copyright Litigation, Appeal of: John Deep*¹²⁰ offers a more cogent, but still problematic, approach to the third party copyright liability of peer-to-peer providers. The facts of the case were similar to *Napster* in that the defendant, John Deep, created a peer-to-peer network that was widely used to trade infringing copies of recorded songs. Like *Napster*, Deep's Aimster service required the user to download and install software that allowed the user to log on to Aimster's central server.¹²¹ This server assisted users in their search for music files. A requesting user would type in the name of a song she desired, and Aimster's server would identify other Aimster users who had made the song available for downloading.¹²² Once a suitable source for the desired song had been identified, the requesting user could then send a request for a copy of the song to be sent.¹²³

The Aimster service also offered three features that distinguished it from *Napster*. First, Aimster automatically encrypted all communication between Aimster users, thereby making it impossible to know exactly what files were being shared.¹²⁴ Second, Aimster offered a tutorial on its website about how to download music over the Aimster system. This tutorial used examples based on the downloading of copyright files.¹²⁵ Third, Aimster operated Club Aimster, a fee-based service that automatically listed and facilitated downloading of the most popular songs. These songs were almost always copyrighted material owned by the plaintiffs.¹²⁶

The recording industry had the same objections to Aimster that it did to *Napster*, and a number of those who held copyrights in popular music sued.¹²⁷ The District court granted a preliminary injunction against Aimster on grounds of vicarious and contributory infringe-

¹²⁰ 334 F.3d 643 (7th Cir. 2003).

¹²¹ *Id.* at 646.

¹²² *Id.*

¹²³ *Id.* The Seventh Circuit's opinion is not entirely clear about the operation of the Aimster service. However, the District Court opinion contains the necessary details. See *In re Aimster Copyright Litigation*, 252 F. Supp. 2d 634, 642-43 (N.D. Ill. 2002).

¹²⁴ *Aimster*, 334 F.3d at 646.

¹²⁵ *Id.* at 651-52.

¹²⁶ *Id.*

¹²⁷ *Id.* at 645.

ment.¹²⁸ The Seventh Circuit affirmed the injunction, but only on grounds of contributory infringement.¹²⁹

The *Aimster* court tried to strike a compromise between extreme interpretations of the law. The plaintiffs urged the court to adopt an easily satisfied interpretation of actual knowledge that would hold a technology provider liable if the provider knew that its service was being used to infringe copyrights.¹³⁰ The court rejected this contention on the ground that it would expose too many potential defendants to liability.¹³¹ The court also rejected as extreme Deep's argument that *Sony* prohibited liability against a technology or service provider upon the mere possibility of a noninfringing use.¹³² The court then interpreted *Sony* as requiring a cost-benefit analysis of infringing and noninfringing uses whenever a supplier offers a "product or service that has noninfringing as well as infringing uses."¹³³

The Seventh Circuit's analysis has much to commend it. The court wisely rejected the extreme positions advocated by the parties in favor of a cost-benefit approach. Unfortunately, the rest of the Seventh Circuit's analysis is disappointing because the court adopts a cost-benefit analysis that ultimately overlooks *Sony*'s fundamental insight about the importance of substantial noninfringing uses.

The trouble starts with the defendant's claim that, under *Napster*, he did not have constructive knowledge of infringement committed by *Aimster* users. Deep apparently argued that *Aimster*'s encryption of user communication made it impossible for him to know exactly

¹²⁸ *Id.* at 646.

¹²⁹ *Id.* at 654 ("[W]e are less confident than the district judge was that the recording industry would also be likely to prevail on the issue of vicarious infringement should the case be tried, though we shall not have to resolve our doubts in order to decide the appeal.").

¹³⁰ *Id.* at 648 (stating that the test with respect to services "is merely whether the provider knows it's being used to infringe copyright").

¹³¹ *Id.* at 649.

¹³² *Id.* at 649. The court wrote:

We also do not buy *Aimster*'s argument that since the Supreme Court distinguished, in the long passage from the *Sony* opinion that we quoted earlier, between actual and potential noninfringing uses, all *Aimster* has to show in order to escape liability for contributory infringement is that its file-sharing system *could* be used in noninfringing ways, which obviously it could be. Were that the law, the seller of a product or service used *solely* to facilitate copyright infringement, though it was capable in principle of noninfringing uses, would be immune from liability for contributory infringement. That would be an extreme result, and one not envisaged by the *Sony* majority. *Id.* at 651.

¹³³ *Id.* at 649. The court's use of the words "has infringing as well as noninfringing uses" is a bit puzzling, given *Sony*'s statement that the imputation of constructive knowledge to a defendant is prohibited as long as the defendant's technology is "merely capable of substantial noninfringing use." This implies that the noninfringing uses of a defendant's technology need not be present ones. They could be potential future uses. The Seventh Circuit's language noted here suggests that there must be present, actual noninfringing uses before *Sony*'s cost-benefit analysis can shield a defendant. If this suggested result were intended by the Seventh Circuit, then this aspect of *Aimster* would appear inconsistent with *Sony*.

what works were infringed. Of course, the *Napster* court stated that Napster had enough knowledge to support contributory infringement because it knew what works users traded over the Napster system. Deep's lack of that knowledge therefore meant that he could not have the necessary degree of knowledge.¹³⁴ The court rejected Deep's argument as a transparent attempt to evade his responsibilities under *Napster*.¹³⁵ According to the court, Deep knew that he was creating a tool for copyright infringement, and he willfully avoided knowledge of infringement to escape liability. This "willful blindness" was a form of knowledge in copyright, but the court stopped short of holding that Deep's willful blindness alone established his contributory liability, saying only that such blindness could not absolve Deep of contributory liability.¹³⁶

Next, the court analyzed why it was proper to impute constructive knowledge to Deep. In doing so, the court focused on Club Aimster and the Aimster tutorials, noting that both focused solely on the downloading of copyrighted files. The tutorials showed users only how to swap copyrighted music owned by the plaintiffs, and Club Aimster listed songs that were invariably copyrighted.¹³⁷ This showed that Aimster wanted its users to infringe,¹³⁸ but it did not lead directly to the conclusion that Deep had actual or constructive knowledge. Instead, it led the court to give Deep the burden of demonstrating that Aimster had substantial noninfringing uses,¹³⁹ and it did so in a manner inconsistent with *Sony*.

Sony clearly prohibited the imputation of constructive knowledge when a defendant's technology was merely capable of substantial noninfringing uses.¹⁴⁰ However, the *Aimster* court forced Deep to

¹³⁴ *Id.* at 650.

¹³⁵ *Id.*

¹³⁶ *Id.* at 650-51 (stating that "[o]ur point is only that a service provider that would otherwise be a contributory infringer does not obtain immunity by using encryption to shield itself from actual knowledge of the unlawful purposes for which the service is being used.").

¹³⁷ *Id.* at 651-52. The court wrote:

In explaining how to use the Aimster software, the tutorial gives as its *only* examples of file sharing the sharing of copyrighted music, including copyrighted music that the recording industry had notified Aimster was being infringed by Aimster's users. The tutorial is the invitation to infringement that the Supreme Court found was missing in *Sony*. In addition, membership in Club Aimster enables the member for a fee of \$4.95 a month to download with a single click the music most often shared by Aimster users, which turns out to be music copyrighted by the plaintiffs.

Id.

¹³⁸ *Id.* at 651 ("The tutorial is the invitation to infringement that the Supreme Court found was missing in *Sony*.").

¹³⁹ *Id.* at 652 (stating that evidence of willful blindness "is sufficient . . . to shift the burden of production to Aimster to demonstrate that its service *has* substantial noninfringing uses") (emphasis added).

¹⁴⁰ *Id.* at 651-52.

prove that Aimster had *actual* substantial noninfringing uses. The court wrote:

It is not enough, as we have said, that a product or service be physically capable, as it were, of a noninfringing use. Aimster has failed to produce any evidence that its service has ever been used for a noninfringing use, let alone evidence concerning the frequency of such uses.¹⁴¹

This led to the conclusion that the court did not have to balance Aimster's relative social costs and benefits.¹⁴² Indeed, the court followed this conclusion that even in cases where noninfringing uses had been shown, the defendant still had to establish that it would be "disproportionately costly" for him to take any further measures to reduce infringement.¹⁴³

The Seventh Circuit's analysis misses the point of *Sony* in two ways. First, it allows liability against defendants whose technology is merely capable of substantial noninfringing use. Deep lost because he failed to show that Aimster had ever been used for a noninfringing purpose. According to *Sony*, Deep should have been able to avoid constructive knowledge by showing that Aimster was merely capable of substantial noninfringing use.¹⁴⁴

Second, the Seventh Circuit imposed a second cost-benefit analysis in cases involving substantial infringing use that is also contrary to *Sony*'s logic about noninfringing uses. The court wrote:

Even when there are noninfringing uses of an Internet file-sharing service, moreover, if the infringing uses are substantial then to avoid liability as a contributory infringer the provider of the service must show that it would have been disproportionately costly for him to eliminate or at least reduce substantially the infringing uses.¹⁴⁵

The problem with this statement becomes apparent when one realizes that an Internet file-sharing service, or any other technology for that matter, can have both substantial actual or potential noninfringing

¹⁴¹ *Id.* at 653.

¹⁴² *Id.* ("Because Aimster failed to show that its service is ever used for any purpose other than to infringe the plaintiffs' copyrights, the question . . . of the net effect of Napster-like services on the music industry's income is irrelevant to this case.")

¹⁴³ *Id.*

¹⁴⁴ This does not mean that Deep should necessarily have been able to avoid liability, as he could easily be held liable on a rationale borrowed from intentional torts. See *infra* note 173 and accompanying text.

¹⁴⁵ *Aimster*, 334 F.3d at 653.

uses and substantial infringing uses. For example, a technology might have its infringing and noninfringing uses evenly split. In cases like this, *Sony* clearly and wisely prohibits an inference of constructive knowledge because the technology has substantial actual or potential noninfringing uses. However, the *Aimster* court's analysis permits that inference because it forces at least some defendants whose technology has substantial noninfringing use to show that they any further efforts to reduce infringement would have been "disproportionately costly." Any defendant who failed would be exposed to liability, contrary to *Sony*.

The conflicts between *Aimster* and *Sony* exemplify the problems that arise because the law of third party copyright liability is too clumsy to support a sophisticated analysis of the peer-to-peer puzzle. The *Aimster* defendant Deep did two things that surely demonstrated his culpability. First, he cynically tried to evade liability by using encryption to eliminate a *Napster* type finding of actual knowledge. Second, he implemented Club Aimster and the Aimster tutorials for the specific purpose of helping people commit infringement.¹⁴⁶ Such behavior is comparably blameworthy to that of the defendants in *Gershwin*, where Columbia promoted concerts at which it knew its artists gave unlicensed performances of music.

As a doctrinal matter, it was easy for the courts to hold the *Gershwin* defendant liable because Columbia actually knew exactly what its artists were up to. By contrast, things were much harder for the *Aimster* court. Deep may have been culpable, but he did not know exactly what his users were doing because the Aimster encryption scheme made it impossible to find out. Accordingly, liability on the basis of actual knowledge was impossible, and this left constructive knowledge as the only possible avenue to Deep's contributory liability. The court might have been able to infer Deep's constructive knowledge from his behavior, but *Sony* stood in the way. The *Aimster* court therefore had to interpret its way around *Sony*, and in doing so the court wound up ignoring *Sony*'s wisdom. Things would have been much easier for the court if the doctrine of contributory liability had made it possible to hold Deep liable on account of his deliberate behavior without regard to his knowledge. Unfortunately, the doctrinal elements of knowledge and material assistance did not allow this, and the court's analysis paid the price.

The foregoing shows that *Aimster* cannot be considered a truly successful integration of the various doctrines and policies of third party copyright liability. The opinion improves upon *Napster* by rec-

¹⁴⁶ See *supra* notes 123-25 and accompanying text.

ognizing the importance of a social cost-benefit analysis and by suggesting a defendant's purposeful and cynical behavior ought to raise his chances of liability. However, *Aimster* ultimately falls short in the quality of its analysis because the clumsiness of existing doctrine made it difficult, if not impossible, for the courts to properly account for the defendants purposeful and cynical behavior. This led the court to ignore the wisdom of *Sony*, and it creates the danger that courts will incorrectly apply *Sony* in future cases.

C. Grokster

The third and most recent major peer-to-peer case is *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster Ltd.*¹⁴⁷ In this case, the defendants Grokster Ltd. and StreamCast Networks, Inc. freely distributed software that facilitated the sharing of computer files.¹⁴⁸ Users who downloaded and installed the software gained the ability to join networks on which music and movie files could be swapped as on Napster. However, there were two key distinctions between this case and *Napster* and *Aimster*.

As an initial matter, the *Grokster* defendants introduced a great deal of evidence about actual noninfringing uses for their systems.¹⁴⁹ This led the court to the conclusion that the systems were capable of substantial noninfringing uses.¹⁵⁰ Additionally, the Grokster and StreamCast systems operated in a manner technically distinct from Napster and Aimster. As noted earlier, Napster and Aimster used central server systems to index lists of available files, and the users of those systems had to communicate directly with the central servers to find desired files.¹⁵¹ The *Napster* and *Aimster* defendants operated these servers, so they had the ability to disconnect users who committed copyright infringement and block the swapping of copyrighted files. By contrast, the Grokster and StreamCast networks operated without central server systems.¹⁵² Instead, computers operated by network users performed the indexing function. Users of those networks therefore never communicated with servers operated by the defendants, and the defendants therefore had no ability to disconnect users or interfere with the swapping of copyrighted files.¹⁵³ This

¹⁴⁷ 380 F.3d 1154 (9th Cir. 2004).

¹⁴⁸ *Id.* at 1158.

¹⁴⁹ *Id.* at 1161.

¹⁵⁰ *Id.* (finding no material question of fact on the question of whether the defendants had demonstrated the existence of substantial noninfringing uses).

¹⁵¹ See *supra* notes 99, 120-21 and accompanying text.

¹⁵² *Grokster*, 380 F.3d at 1150-60.

¹⁵³ *Id.* at 1158-60, 1165 (describing operation of Grokster and StreamCast networks and

technical distinction played a key role in the district court's partial grant of summary judgment in the defendants' favor and the Ninth Circuit's decision to affirm.

Consider first the Ninth Circuit's analysis of contributory infringement. Here, as in *Aimster* and *Napster*, the principal challenge was the integration of *Sony* with other cases that could easily be interpreted to hold the defendants liable. The court chose to do this by referring to the *Napster* court's attempt to distinguish between constructive and actual knowledge:

[I]n order to analyze the required element of knowledge of infringement, we must first determine what level of knowledge to require. If the product at issue is not capable of substantial or commercially significant noninfringing uses, then the copyright owner need only show that the defendant had constructive knowledge of the infringement. On the other hand, if the product at issue *is* capable of substantial or commercially significant noninfringing uses, then the copyright owner must demonstrate that the defendant had reasonable knowledge of specific infringing files and failed to act on that knowledge to prevent infringement.¹⁵⁴

This analytical framework gave the above referenced distinctions great importance. According to the court, the demonstrated noninfringing uses meant that the defendants could not be charged with knowledge unless they had knowledge of specific infringing files.¹⁵⁵ Such knowledge might have seemed easy for the plaintiffs to establish because they had sent the defendants "thousands of notices" about infringement.¹⁵⁶ However, the *Grokster* court held that the design of the defendants systems rendered those notices irrelevant.¹⁵⁷ According to the court, the plaintiffs' notices imposed liability on Napster because Napster used a centralized server system to maintain an index of files that could be downloaded. The defendants could have responded to the plaintiffs' notices by refusing to list files whose names matched those of the plaintiffs' copyrighted songs, and the defendants' failure to do so made them contributorily liable. By con-

the defendants' lack of control over user behavior).

¹⁵⁴ *Id.* at 1161 (citing *A & M Records v. Napster*, 239 F.3d 1004 (9th Cir. 2001)).

¹⁵⁵ *Grokster*, 380 F.3d at 1162.

¹⁵⁶ *In re Grokster*, 259 F. Supp. 2d 1029, 1036-37 (C.D. Cal 2003) (referring to "thousands of notices" sent by plaintiffs to defendants); *Grokster*, 380 F.3d at 1162 (referring to notices sent by plaintiffs to defendants).

¹⁵⁷ *Id.* at 1163.

trast, the *Grokster* defendants used decentralized indexing systems that did not rely on central servers operated by the defendants. This meant that the defendants had no control over the listing of files and could not respond to the plaintiffs' notices as Napster could have responded. The Ninth Circuit held that the defendants' knowledge of specific infringing files could establish liability only if the defendants acquired that knowledge while they still had the opportunity to stop the infringement from occurring. In this case, the technical design of the defendants' system made it impossible for the defendants to stop infringement from occurring, so contributory liability was impossible.¹⁵⁸ In fact, the court went on to hold that the defendants did not even materially contribute to their users' infringement because it was the users' computers that performed all of the indexing and communication related to the infringement.¹⁵⁹

The court's decision with respect to vicarious liability turned on a similar analysis. The court cited *Napster* and *Fonovisa* for the proposition that some degree of control over user behavior and the ability to terminate access were strong evidence of the control necessary to establish vicarious liability. However, the *Grokster* defendants had no such control because their decentralized design made it impossible for the defendants to either block user access or control user behavior. The plaintiffs argued that the defendants could control user behavior by altering the software already loaded onto users' computers, but the court rejected the notion that copyright required the defendants to tamper with the operation of computers they did not control. Accordingly, the defendants were not vicariously liable.¹⁶⁰

The Ninth Circuit concluded its analysis by dismissing the plaintiffs' final argument that the defendants should be held liable because they turned a "blind eye" to their users' infringement. The *Aimster* court had suggested that willful blindness would be a way to prove a defendant's knowledge for purposes of contributory liability,¹⁶¹ but

¹⁵⁸ *Id.* ("[E]ven if the Software Distributors 'closed their doors and deactivated all computers within their control, users of their products could continue sharing files with little or no interruption.'").

¹⁵⁹ *Id.* at 1163-64. The court wrote:

If the Software Distributors were true access providers, failure to disable that access after acquiring specific knowledge of a user's infringement might be material contribution. Or, if the Software Distributors stored files or indices, failure to delete the offending files or offending index listings might be material contribution. However, the Software Distributors here are not access providers, and they do not provide file storage and index maintenance. Rather, it is the users of the software who, by connecting to each other over the internet, create the network and provide the access.

Id.

¹⁶⁰ *Id.* at 1165-66.

¹⁶¹ *In re Aimster*, 334 F.3d 642, 650-51 (7th Cir. 2001).

the *Napster* court refused to follow along. According to the court, “there is no separate ‘blind eye’ theory or element of vicarious liability that exists independently of the traditional elements of liability. Thus, this theory is subsumed into the Copyright Owners’ claim for vicarious copyright infringement and necessarily fails for the same reasons.”¹⁶²

Grokster is perhaps the clearest of the three major opinions about the third party copyright liability of peer-to-peer technology providers. It lacks *Napster*’s transformation of vicarious liability into contributory liability, it avoids *Aimster*’s misapplication of *Sony*, and its logic is easy to follow. At the same time, *Grokster* is also the most puzzling opinion about third party copyright liability.

Grokster’s puzzling aspects flow directly from its clear logic. The defendants escaped liability because the design of their systems made it impossible to control the behavior of their users. However, this logic leads to an odd result. Third party copyright liability exists to prevent the infringement of copyrighted works, but there are limits to the reach of such liability because too much third party liability suppresses too much noninfringing behavior. The rationale behind third party copyright liability implies that creators of peer-to-peer networks are more likely to be held liable when their networks lead to the unchecked infringement of copyrighted works, and less likely to be held liable when their networks retain some ability to prevent infringement. Oddly enough, *Grokster*’s logic leads to exactly the opposite result.

According to the Ninth Circuit, defendants who retain some ability to control their users stand a pretty good chance of being held liable for their users’ infringement. Indeed, this is precisely what happened to *Napster*. The *Grokster* defendants had no such control over their users, so they were not vicariously or contributorily liable. However, this lack of control makes the peer-to-peer technology of *Grokster* far more threatening to the security of copyright than then technology of *Napster* or *Aimster*. As the *Grokster* court noted, there was nothing the defendants could do about the infringement committed over their networks. The defendants could go out of business and turn off all of their computers, and infringement would continue unabated.¹⁶³ It therefore makes little sense to excuse the *Grokster* defendants from liability because such a decision appears to give future technology providers every incentive to behave with complete disregard for the security of copyright. *Grokster* indicates that creators of peer-to-peer

¹⁶² *Grokster*, 380 F.3d at 1166.

¹⁶³ *Id.* at 1163.

networks who retain some control over network operations give themselves the duty of policing their networks. However, no liability exists when creators relinquish control over network operations. Accordingly, creators who want to avoid third party copyright liability should design new networks with no safeguards against infringement. This result is precisely the opposite of what ought to occur.

The odd result in *Grokster* offers yet another example of how existing doctrine fails to create an effective analysis of the peer-to-peer puzzle. If system design is to affect liability, the relevant considerations should include more than a system's control over infringement. Peer-to-peer providers make numerous design decisions, and the particular circumstances and consequences of these decisions surely affect the appropriateness of liability. For example, a defendant might increase the risk of unchecked copyright infringement by selecting a decentralized system architecture. If that design served no purpose other than to increase the likelihood of unchecked infringement, then holding the defendants liable would seem relatively sensible because an alternately designed system could offer the same functionality with less risk of infringement. By contrast, if the design increased the functional utility of the system, liability would make less sense because the benefits of the design might be larger than the risk of increased infringement.

From a public policy perspective, the *Grokster* court's inability to grapple with the nuances of peer-to-peer system design is disappointing because it led to an odd result that might have been contrary to the public interest. From a doctrinal point, however, the failure is perfectly understandable because there is little, if anything, about the elements of vicarious or contributory infringement that would direct a court towards an appropriate analysis. This shows, again, that the doctrine needs to be reformed.

D. Taking Stock of *Napster*, *Aimster*, and *Grokster*

The foregoing description of *Napster*, *Aimster*, and *Grokster* makes it possible to begin thinking about ways to improve the law of third party copyright liability. Taken together, these cases show that courts condition the liability of peer-to-peer providers on the design of peer-to-peer systems and the motivation of those who create them. The Ninth Circuit held *Napster* liable because the company did not take advantage of its system's design to discourage infringement. The Seventh Circuit held *Deep* liable in large part because *Deep* designed and operated a peer-to-peer system for the express purpose of facilitating infringement. Finally, the Ninth Circuit excused the

Grokster defendants from liability because their systems did not offer the defendants meaningful control.

The *Napster*, *Aimster*, and *Grokster* courts may not have gotten the logic of their opinions perfectly straight, but their interest in system design and designer's motivation make excellent sense because design and motivation affect the social utility of peer-to-peer systems and the culpability of those who create them. The social utility of a peer-to-peer system depends on the mix of its uses. Social utility rises and falls with the prevalence of actual and potential noninfringing uses. The case for third party copyright liability is therefore weaker when the design of a peer-to-peer system supports noninfringing uses while discouraging infringing ones, and stronger when the system supports few noninfringing uses while supporting many infringing ones. Motivation matters because there is a difference between designing a system for the express purpose of facilitating infringement and designing a system for innocent reasons only to find out that others misuse the system to commit infringement. Unfortunately, the doctrine of third party copyright liability does not handle these concerns well.

Consider first the doctrine of vicarious liability. Its elements of control and financial interest measure the defendant's relationship with the underlying infringer. As such, they are insensitive to a defendant's motivation, but sensitive to the design of a defendant's network because network design affects whether a defendant has control over an infringer's behavior. However, as discussed earlier, the existing interpretation of vicarious liability responds to the design of a network in a rather unusual way. Defendants who design systems with some built-in control face a higher risk of liability than those whose systems have no control, this encourages potential defendants to increase, and not reduce, the likelihood of uncontrolled copyright infringement.¹⁶⁴

Contributory liability is similarly flawed, but in a more complicated way. Its elements evaluate the culpability of a defendant who provides assistance to an infringer. If defendants know enough about the behavior of potential infringers and still choose to lend sufficiently meaningful assistance, it is fair to hold them liable for the infringement because they have become responsible for the infringement. However, the elements of knowledge and material assistance do not adequately guide a court's consideration of motivation or design.

¹⁶⁴ See *supra* notes 161-62 and accompanying text.

Difficulties arise because a simple interpretation of knowledge is insufficiently nuanced to define the kind of culpability that renders a defendant liable for the infringement of another. For example, Sony “knew” that its customers used VCRs to commit infringement, and it chose to keep selling the technology anyway. A simple interpretation of knowledge and material assistance would probably have led to Sony’s liability. However, the Supreme Court correctly understood that variations in technical design greatly affected the wisdom of contributory liability, particularly when the defendant’s technology was capable of substantial noninfringing use. The Court therefore added nuance to the analysis of culpability by making the consideration of technical design a prerequisite to any inference of knowledge in contributory liability cases involving the distribution of technology. This reasoning worked well in *Sony*, but the *Napster*, *Aimster*, and *Grokster* courts have struggled to make it work in peer-to-peer cases. First, the courts are not clear about whether technical design alone can shield a defendant from the imputation of knowledge. *Napster* and *Grokster* appear to support this proposition, but *Aimster* at least suggests that the presence of substantial noninfringing uses cannot shield a defendant from liability unless the defendant can “show that it would have been disproportionately costly for him to eliminate or at least reduce substantially the infringing uses.”¹⁶⁵ Second, the courts are equally unclear about whether a defendant’s purposefully irresponsible behavior can overcome any protection offered by a peer-to-peer system’s substantial noninfringing uses. The *Aimster* court certainly suggested as much with its statement that “willful blindness” is a form of knowledge.¹⁶⁶ However, the *Grokster* court unequivocally rejected the plaintiffs’ willful blindness argument, at least as it applied to vicarious liability.¹⁶⁷ In short, the courts appear to understand that a defendant’s responsibility depends on what he did and why he did it, but they have yet to articulate a framework that effectively accounts for variations in design and motivation.

III. TORT LAW AND THIRD PARTY COPYRIGHT LIABILITY

The foregoing has shown that the law of third party copyright liability is not sufficiently nuanced to analyze peer-to-peer cases effectively. Try as they might, the courts simply cannot make the relevant doctrines properly account for important considerations like system design and the motivation of defendants. Significant doctrinal reform

¹⁶⁵ *Aimster*, 334 F.3d at 653.

¹⁶⁶ See *supra* note 135 and accompanying text.

¹⁶⁷ See *supra* notes 160-61 and accompanying text.

is required if the law is to cogently direct judicial attention and analysis to issues that matter most.

This Article now applies concepts and doctrines from the common law of tort to accomplish this reform. The approach makes a great deal of intuitive sense. Vicarious and contributory copyright liability are both descendants of tort doctrines,¹⁶⁸ so the proposal made here is not radical. Indeed, the point being made here is that the courts have borrowed too little from tort law in the existing construction of third party copyright liability.

The intuitions behind vicarious and contributory liability provide a good starting point for the desired reconstruction. As noted earlier, contributory liability measures the culpability of the defendant, and vicarious liability measures the relationship between the defendant and infringer without regard for the defendant's culpability. To put it in slightly different tort-inspired terms, contributory liability is a form of fault based liability, and vicarious liability is a form of strict liability. This insight suggests that the law of third party copyright liability could be improved by the application of fault based and strict liability doctrines.

A. Fault and the Problems of Contributory Liability

Courts often hold tort defendants liable because they intended to cause injury to the plaintiff or because they negligently failed to protect the plaintiff from the risk of injury. It is possible to analyze contributory liability from both of these perspectives.

1. Contributory Copyright Liability as Intentional Tort

Consider first an intentional torts approach to contributory infringement. A person who intentionally injures another is culpable in a way that justifies liability. This reasoning implies that a defendant who provides assistance to another with the intent of causing infringement ought to be held liable should the infringement occur.

What then might it mean for a defendant to provide assistance with the "intent" of causing infringement? Standard tort doctrine recognizes two distinct methods for establishing a defendant's intent. A defendant intends to cause a particular result when she acts with the purpose of producing the result or knowing with substantial certainty that the result will occur.¹⁶⁹ Both of these possibilities could easily arise in contributory copyright liability cases.

¹⁶⁸ See *supra* notes 21-22, 60 and accompanying text.

¹⁶⁹ RESTATEMENT (SECOND) OF TORTS §8A (1965).

The first branch of intent is fairly straightforward and evaluates the result a defendant desires. It would apply to a defendant who creates a peer-to-peer network hoping that others will use it to infringe. It would not apply, however, to a defendant who creates a peer-to-peer network hoping that others will use it for legitimate purposes, even if she knows that some of the network's users will commit infringement.¹⁷⁰ Liability might be possible under the second branch of intent or some other theory of liability, but such a defendant cannot be held liable under the first branch of intent because she does not want infringement to occur.

The second branch of intent is more complicated than the first because it requires a sophisticated understanding of a defendant's knowledge. A defendant who acts with substantial certainty that her actions will injure others arguably wants to cause the result. However, it is clear that only some types of substantial certainty justify the imposition of intentional tort liability.

Many actors know that their behavior will cause injury to others in a general way, but courts do not label them intentional tortfeasors. Gun manufacturers know that someone will eventually suffer an unjustified gunshot wound. Railroads know that passengers will someday be injured. Drug companies know that their medication will make some people violently ill. All of these potential defendants know with substantial certainty that their actions will lead to injury, but their form of substantial certainty does not support intentional tort liability for a number of reasons. First, the harm will occur in the relatively distant future. Second, the defendant is not likely to know the specific identity of the victim. Third, the behavior of other, potentially more culpable individuals will often be involved in causing the injury. Fourth, society may reap benefits from the defendant's behavior that offset the losses to victims. All of these complications make it unwise to impose liability simply because of what the defendant knows. Courts therefore prefer to use concepts like negligence to measure the liability of defendants who have generalized substantial certainty about future injury because negligence explicitly accounts for the specific circumstances of each case. This allows courts to ensure that liability for injury gets assigned only to those who deserve to be held responsible.

The knowledge of defendants who have general substantial certainty can be distinguished from the knowledge of other defendants who have substantial certainty about relatively immediate injury to specific victims. For example, consider an individual who pulls a

¹⁷⁰ See *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984).

chair out from under a person who is sitting¹⁷¹ or a hotel that rents rooms to customers despite knowing that the entire building is horribly infested with bedbugs.¹⁷² In these cases, the complicating factors referred to above are relatively absent. The victims are known, and they will suffer injury soon. The involvement of other culpable individuals is unlikely, and it is hard to identify a socially useful reason for the defendant's behavior. Accordingly, courts generally reserve the second branch of intentional tort liability for defendants who know with substantial certainty that their behavior will cause relatively immediate injury to identifiable victims without significant intervention by others.¹⁷³

¹⁷¹ See *Garratt v. Dailey*, 279 P.2d 1091 (Wash. 1955).

¹⁷² *Mathias v. Accor Economy Lodging, Inc.*, 347 F.3d 672 (7th Cir. 2003).

¹⁷³ See RESTATEMENT (THIRD) OF TORTS: LIABILITY FOR PHYSICAL HARM (BASIC PRINCIPLES) (Tentative Draft), § 1, comment e:

The applications of the substantial-certainty test should be limited to situations in which the defendant has knowledge to a substantial certainty that the conduct will bring about harm to a particular victim, or to someone within a small class of potential victims within a localized area. The test loses its persuasiveness when the identity of potential victims becomes vaguer, and when in a related way the time frame involving the actor's conduct expands and the causal sequence connecting conduct and harm becomes more complex. Consider, for example, the company engaged in the mass production of products, which are distributed to consumers nationwide. The company may well know that in light of the inevitable limits of quality control, over time some number of its products will end up containing manufacturing defects of the sort that will cause physical injuries. The company's knowledge of the certainty of harm, at some undefined time and place, does provide an argument in favor of the company's liability. Yet that liability, when imposed, is understood as a form of strict liability, not as liability for anything that can properly be regarded as an intentional tort. Moreover, in many situations a defendant's knowledge of substantially certain harms is entirely consistent with the absence of any liability in tort. For example, an owner of land, arranging for the construction of a high-rise building, can confidently predict that some number of workers will be seriously injured in the course of the construction project; the company that runs a railroad can be sure that railroad operations will over time result in a significant number of serious personal injuries; the manufacturer of knives can easily predict that a certain number of persons using its knives will inadvertently cut themselves. Despite their knowledge, these actors do not intentionally cause the injuries that result. Moreover, despite their knowledge, none of the companies—absent further facts—can even be found guilty of negligence; nor does the knowledge possessed by the knife manufacturer subject it to liability under products-liability doctrines.

See also *Shaw v. Brown & Williamson Tobacco Corp.*, 973 F. Supp. 539, 548 (D. Md. 1997) (rejecting claim of battery by alleged victim of second hand smoke against tobacco company):

Similarly, *Brown & Williamson* does not manufacture, market, or distribute cigarettes for the purpose of touching non-smokers with second-hand smoke. Furthermore, *Brown & Williamson* did not know with a substantial degree of certainty that second-hand smoke would touch any particular non-smoker. While it may have had knowledge that second-hand smoke would reach some non-smokers, the Court finds that such generalized knowledge is insufficient to satisfy the intent requirement for battery. Indeed, as defendant points out, a finding that *Brown & Williamson* has committed a battery by manufacturing cigarettes would be tantamount to holding manufacturers of handguns liable in battery for exposing third parties to gunfire. Such a finding would expose the courts to a flood of far-fetched and nebulous litigation concerning the tort of battery. It is unsurprising that neither plaintiffs nor the Court have been able to unearth any case where a manufacturer of cigarettes or handguns was found to have committed a battery against those allegedly in-

The foregoing implies that it would be wrong to use the second branch of intent to impose liability on providers of peer-to-peer technology simply because they know with substantial certainty that others will use the technology to infringe.¹⁷⁴ Peer-to-peer technology requires affirmative misuse before infringement occurs, and the identities of those who commit the misuse and the works they infringe are unknown. Furthermore, the noninfringing uses of peer-to-peer technology may be sufficiently valuable to outweigh the social losses caused by infringement. Accordingly, the link between the simple provision of peer-to-peer technology and infringement is too attenuated to justify a blanket rule of liability, and it makes more sense to use negligence to determine whether liability in any particular case is justified.¹⁷⁵

2. *Contributory Copyright Liability as Negligence*

The foregoing discussion of intentional tort principles suggests that negligence principles can help clarify contributory copyright liability. Most defendants will claim that they do not want infringement to occur, and that they developed or distributed copying technology for legitimate reasons. A court that accepts such a claim cannot impose a blanket rule of liability from intentional tort, so it has to inquire into the specific circumstances under which the defendant acts. Negligence cogently directs the court's attention to relevant considerations.

jured by its products.

¹⁷⁴ If this were not the case, even the electric company would be held liable for infringement committed by its customers. After all, the electric company knows with substantial certainty that the sale of electricity will eventually facilitate copyright infringement. This kind of knowledge with substantial certainty ought not to be enough.

¹⁷⁵ It is at least theoretically possible to use the second branch of intent to impose liability when providers of peer-to-peer technology have more specific certainty about the users of their network and the prevalence of infringement. For example, a person might create a peer-to-peer network for personal friends who he knows will use the network solely to commit infringement. Our hypothetical creator might hope that infringement will not occur, and that they will somehow miraculously decide to use the network for noninfringing purposes. In such a case, the link between the provider's behavior and infringement may be close enough to justify intentional tort liability. However, it makes more sense to avoid this theoretical possibility for two reasons. First, such facts would be quite rare. A person who gives peer-to-peer to specific people whose propensity to infringement is substantially certain will have great difficulty arguing that he didn't want the infringement to occur. This means that the first branch of intent will often be available to establish intentional tort liability. Second, the unavailability of second branch liability does not mean that the defendant would escape. The provision of peer-to-peer technology under these conditions would surely give rise to a strong claim of negligence. In short, avoiding this theoretical possibility will not allow any defendants to escape liability without justification, and it will keep the analysis of third party copyright liability from becoming unduly complex.

According to standard doctrine, a defendant has the duty to behave as a reasonable person under the same or similar circumstances. A defendant breaches this duty when he fails to take reasonable precautions against foreseeable risks associated with his behavior.¹⁷⁶ A defendant's behavior is unreasonable, and hence negligent, when it creates more risk than social utility.¹⁷⁷

Negligence is an effective way to analyze the contributory liability of a defendant who creates or distributes peer-to-peer technology, but not for the express purposes of causing infringement. As courts have already recognized, peer-to-peer technology creates the certainty of copyright infringement, but it also has noninfringing uses. Defendants who distribute such technology for noninfringing purposes reasonably foresee the risk of infringement associated with their behavior. Liability therefore depends on whether the defendants took reasonable precaution against the risk of infringement.

Contributory liability based on negligence works because it creates an analytical framework that is flexible enough to handle a wide variety of cases. In some cases, plaintiffs will argue that it is unreasonable to distribute any kind of peer-to-peer technology. Courts can use negligence to analyze such claims by weighing the social value of peer-to-peer technology against the infringement caused by such technology. If a particular peer-to-peer system seems capable of many noninfringing uses, its distribution is more likely to be reasonable. In other cases, plaintiffs will contend that a particular form or peer-to-peer technology is unreasonable, and that the defendant should have designed its system with certain precautions against infringement. Courts can use negligence to analyze these claims by weighing the pros and cons of alternate designs for peer-to-peer systems.

For example, a plaintiff may claim that a defendant is negligent because his peer-to-peer technology contains no method by which users can be monitored and the transmission of files blocked. A court could adjudicate such a claim by measuring the pros and cons of the suggested monitoring and blocking precautions. On the one hand, the precautions might or might not reduce a great deal of infringement.

¹⁷⁶ See RESTATEMENT (SECOND) OF TORTS, § 284(A) (1965) (describing negligent conduct as "an act which the actor as a reasonable man should recognize as involving an unreasonable risk of causing an invasion of an interest of another"); *Weinberg v. Dinger*, 524 A.2d 366, 374 (N.J. 1987) ("The standard of care ordinarily imposed by negligence law is well established. To act non-negligently is to take reasonable precautions to prevent the occurrence of foreseeable harm to others.").

¹⁷⁷ See RESTATEMENT (SECOND) OF TORTS § 291 (1965) (stating that an act "is negligent if the risk is of such magnitude as to outweigh what the law regards as the utility of the act or the particular manner in which it is done").

On the other hand, the precautions might impair the overall system's utility by slowing its operation or reducing the types of files it could transfer, and it might also be very costly to implement. It is of course, impossible to anticipate the relative weight of these possibilities in this Article. However, the discussion provided here shows that a negligence analysis gives the court an effective framework for handling cases as they arise.

3. *Improvements in the Law of Contributory Liability*

The explicit application of fault principles to contributory copyright liability addresses some of the shortcomings of existing doctrine as applied to peer-to-peer cases. This Article has already shown that existing doctrine fails to account adequately for the facts that courts seem most concerned about, namely the motivation of defendants and the technical design of their systems. Additionally, courts have had great difficulty integrating *Sony's* wisdom about potential noninfringing uses with a convincing analysis of knowledge. The application of fault principles allows courts to analyze a defendant's motivation and the design of a peer-to-peer system while giving appropriate weight to potential noninfringing uses as dictated by *Sony*.

As an initial matter, distinctions between intentional torts and negligence account for the different motivations of defendants. The most culpable defendants are those who act for the purpose of causing infringement. Intentional tort principles hold these defendants liable with little regard for protestations about alternate uses for their technology. This makes sense because defendants who specifically want to cause infringement cannot plausibly claim that they have inadvertently and innocently given assistance to someone who has deliberately misused their technology.¹⁷⁸

Additionally, negligence gives courts an effective method for determining whether the actual or potential noninfringing use of technology justifies its distribution and misuse for infringing purposes. Defendants who successfully argue that they have created technology for legitimate purposes are less culpable than those who want to cause

¹⁷⁸ The proposal made here has obvious connections to the discussions about willful blindness in *Grokster* and *Aimster*. In most cases, allegations of willful blindness lead to a negligence analysis as long as the court believes that the defendant did not act for the purpose of causing infringement. Accordingly, courts should ordinarily evaluate such a defendant's entire behavior for its reasonableness under the circumstances. There may be, however, some cases in which the defendant's willful blindness is evidence of a desire to cause infringement. This may have been the case in *Aimster*, where Deep deliberately encrypted communications between Aimster users in order to disclaim knowledge about infringement he hoped would occur. In these cases, intentional tort liability becomes possible.

infringement, and they ought not to be held liable unless particular circumstances make their behavior unreasonable. Negligence helps courts make the necessary determination by directing their attention to the costs and benefits of peer-to-peer technology as well as the many alternate designs or methods of distribution that become possible in the future.

Finally, and perhaps most importantly, the application of tort principles effectively integrates *Sony* into the law of contributory copyright liability. Courts have struggled with *Sony* because its most obvious interpretations lead to results that seem risky and extreme. On the one hand, most peer-to-peer systems could be characterized as capable of substantial noninfringing use. If courts did so, then *Sony* could practically eliminate the possibility of contributory liability against peer-to-peer providers. Such a result seems risky and extreme because it protects even the most irresponsible and culpable defendants from liability, and courts understandably want some method for protecting copyright through responsible development and use of peer-to-peer technology. On the other hand, courts could decide that peer-to-peer systems are not capable of substantial noninfringing use. This would impose liability on most, if not all, peer-to-peer providers. This result would have the advantage of protecting copyrights, but it would halt the development of peer-to-peer technology and deprive society of benefits it would have otherwise enjoyed. This seems particularly risky and extreme because peer-to-peer technology is very promising way of distributing information quickly and cheaply. Accordingly, courts shy away from condemning all forms of the technology, at least in part because it is impossible to forecast how the technology will develop and the kinds of social benefits that will emerge.

The use of tort principles creates a framework for contributory liability that avoids extreme results. First, it imposes clear liability on the most culpable and irresponsible developers of technology, namely those who intentionally cause infringement. This result is fully consistent with the holding of *Sony* because *Sony* affected only the imputation of constructive knowledge.¹⁷⁹ The imposition of liability against those who intentionally cause infringement does not rely on constructive knowledge, so *Sony* need not be applied to intentional tort cases.¹⁸⁰

¹⁷⁹ See *supra* notes 84-89 and accompanying text.

¹⁸⁰ It is also worth noting that the *Sony* court noted that Sony had not "influenced or encouraged" unlawful copies. *Sony Corp. of America v. Universal Studios, Inc.*, 464 U.S. 417, 438 (1984).

Second, tort principles allow courts to make fine distinctions between various forms of peer-to-peer technology and the circumstances of their distribution. Indeed, the application of negligence to contributory liability incorporates a cost-benefit analysis that is consistent with *Sony's* emphasis on actual and potential noninfringing uses, but the results are not as extreme or inflexible. A finding for or against one provider of peer-to-peer technology does not necessarily lead to the same result in all other cases because negligence asks courts to consider the specific circumstances of each case. Courts who decide that a defendant is negligent are essentially deciding that his particular technology and its distribution are not "capable of substantial noninfringing use" because the social benefits of the technology do not outweigh its costs. Such decisions, however, do not preclude findings in favor of other defendants whose technology is designed or distributed differently. Courts can give room to defendants who develop peer-to-peer technology responsibly while discouraging those who behave unreasonably. Moreover, courts who follow a negligence analysis think about the very factors that are most important to the future legality of technology. They will decide cases by paying careful attention to the design of technology and the attendant costs and benefits, including the value of actual and potential noninfringing uses identified in *Sony*. This sort of analysis is precisely what society should desire, and it is a significant improvement over the current analysis that focuses solely on knowledge and contribution.

B. *Strict Liability and the Problems of Vicarious Liability*

There are two strict liability doctrines under which a peer-to-peer provider might be held liable for the infringement of users: *respondeat superior* and strict products liability. At present, courts generally treat vicarious copyright liability as the greatly enlarged descendant of *respondeat superior*.¹⁸¹ However, as this section will show, it makes more sense to use strict products liability to analyze the vicarious liability of providers of peer-to-peer technology.

1. *Vicarious Copyright Liability and Respondeat Superior*

The application of *respondeat superior* in copyright is nothing new. Indeed, courts generally describe vicarious copyright liability as an outgrowth of *respondeat superior*,¹⁸² and both vicarious copyright

¹⁸¹ See *supra* Section I.A.1.

¹⁸² See *Fonovisa*, 76 F.3d at 262; *Napster*, 239 F.3d at 1022; *Faulkner v. National Geographic Soc'y*, 211 F. Supp. 2d 450, 472 (S.D.N.Y. 2002) ("The concept of vicarious copyright liability was developed in the Second Circuit as an outgrowth of the agency principles of *re-*

liability and *respondeat superior* work by measuring the relationship between the defendant and an underlying tortfeasor. However, a careful application of *respondeat superior* limits third party copyright liability to a relatively narrow range of defendants.

Respondeat superior holds employers liable for torts committed by their employees within the scope of employment. The modern explanation for this doctrine makes no mention of fault. *Respondeat superior* serves society's interests by encouraging defendants to take precautions against tortious behavior by others, provide compensation for losses that do occur, and spread the costs of harm throughout society.¹⁸³

It is interesting and important to note that courts could use the modern justification for *respondeat superior* to impose liability on a far broader class of defendants than employers. Liability always encourages defendants to prevent or insure against loss. Courts have, however, generally refused to extend *respondeat superior* to its logical limit because it seems either inefficient or unfair to extend liability beyond situations in which defendants have a fairly close unity of purpose and interest with underlying tortfeasors.¹⁸⁴ Accordingly, courts limit *respondeat superior* liability to cases in which some kind of agency relationship exists between the defendant and the underlying tortfeasor. These agency relationships include those of a traditional master and servant,¹⁸⁵ a few independent contractor relationships involving the nondelegable duties of principals,¹⁸⁶ and apparent agents.¹⁸⁷

The traditional limits of *respondeat superior* suggest that courts should hold defendants liable for infringement committed by their employees with the scope of employment. They further suggest that courts should be circumspect about imposing liability in cases that

spondeat superior.”).

¹⁸³ See Riviello v. Waldron, 391 N.E.2d 1278, 1280 (N.Y. 1979) (identifying reasons for *respondeat superior* as concern about employee produced injury, ensuring compensation, and spreading loss); Fruit v. Schreiner, 502 P.2d 133, 141 (Alaska 1972) (stating that purpose of *respondeat superior* is to internalize and spread loss).

¹⁸⁴ See Gregory C. Keating, *The Idea of Fairness in the Law of Enterprise Liability*, 95 MICH. L. REV. 1266, 1293 (1997) (discussing efficiency and fairness explanations for limitation of *respondeat superior*); Gary T. Schwartz, *The Hidden and Fundamental Issue of Employer Vicarious Liability*, 69 S. CAL L. REV. 1739, 1749-64 (1996) (discussing fairness and efficiency justifications for vicarious liability of employers).

¹⁸⁵ See RESTATEMENT (SECOND) OF AGENCY § 219 (1958) (establishing liability of master for torts of servants committed within the scope of employment); see *id.* at § 220 (defining “servant”).

¹⁸⁶ See *id.* at § 214 (holding master or other principal liable for tort committed by agent if master or other principal confided performance of a nondelegable duty to agent).

¹⁸⁷ See *id.* at § 265 (describing vicarious liability on the basis of apparent agency).

involve independent contractors or apparent agents, and that liability is inappropriate without the existence of some kind of principal-agent relationship. Such reasoning, if adopted, would imply that most peer-to-peer providers are not vicariously liable for infringement committed by their users on a *respondeat superior* theory.

2. Vicarious Liability, Abnormally Dangerous Activities, and Strict Products Liability

The foregoing analysis implies that tort doctrine would not impose strict liability on most providers of peer-to-peer technology simply because of the relationship between providers and their users. However, this does not rule out the possibility of strict liability on some other basis. Two possible causes of action come to mind. First, courts might consider peer-to-peer file trading an abnormally dangerous activity. Second, courts could analyze peer-to-peer systems under the framework used for design defect strict product liability cases.

The first of these possibilities seems initially attractive. After all, peer-to-peer systems appear to create unusual risks of copyright infringement, risks that might be comparable to those associated with the manufacturing of dynamite or the generation of nuclear power. The adoption of such an analogy might justify calling the provision or maintenance of peer-to-peer systems an abnormally dangerous activity with the meaning of Restatement 2d of Torts §§519-520. However, there are important differences between peer-to-peer technology and typical abnormally dangerous activities like dynamite blasting.

Courts impose strict liability on abnormally dangerous activities because the risk of harm is great and cannot be eliminated by the exercise of due care.¹⁸⁸ Dynamite is risky, and it has the nasty habit of being so unpredictable that injuries result despite reasonable precaution. Accordingly, courts hold someone who stores dynamite strictly liable for accidents that occur.¹⁸⁹ Peer-to-peer technology may be comparable to storing dynamite because it creates a significant risk of mass copyright infringement, but it is also different because the risks of peer-to-peer technology are easily reduced with due care. Peer-to-peer technology does not, by itself, cause infringement. Infringement never occurs unless a person deliberately misuses the technology. Accordingly, the creation or distribution of peer-to-peer is a plausible

¹⁸⁸ See RESTATEMENT (SECOND) OF TORTS § 519 (1965) (liability against those carrying on abnormally dangerous activities); *id.* at § 520 (describing abnormally dangerous activities); *id.* at § 520, cmt. H (ability to eliminate danger with due care is important in defining an abnormally dangerous activity).

¹⁸⁹ See *id.* at § 519, cmt. e (describing strict liability principles as applied against a person storing dynamite in a city).

but poor candidate for strict liability as an abnormally dangerous activity.

The second of these possibilities leads to a cogent and nuanced method for adjudicating claims against peer-to-peer providers. Numerous cases have held those who make or sell defectively designed products liable for injuries proximately caused by those defects.¹⁹⁰ As the reader is undoubtedly aware, courts analyze design defect cases by comparing the risks and benefits of the product's actual, allegedly defective design with the risks and benefits associated with an alternate, allegedly non-defective design. Products are considered defective "when the foreseeable risks of harm posed by the product could have been reduced or avoided by the adoption of a reasonable alternative design . . . and the omission of the alternative design renders the product not reasonably safe."¹⁹¹

A defective design analysis encourages courts to develop the law of third party copyright liability by studying the details of peer-to-peer systems. A judge would first measure the infringement caused by a peer-to-peer system and the social utility of the technology. This measurement of the technology's social utility should include its actual and potential noninfringing uses. Next, the judge would identify an alternate design for the system. This would likely include the removal of some or all of the system's peer-to-peer capabilities or the addition of safeguards that would discourage the commission of infringement. The judge would determine the cost and feasibility of implementing the alternate design, the infringement prevented by the alternate design, and any associated increase or decrease in the system's overall utility. Finally, the judge would compare the alternately designed system with the original system to determine whether, on balance, the original system's design is unreasonable.

3. *Improvements in the Law of Vicarious Liability*

As with contributory liability, a tort-inspired approach to vicarious copyright liability is superior to existing approaches because it directs judicial attention to things that matter most. Existing doctrine conditions liability on the existence of control and financial interest, and it leads to a blunt analysis that does not incorporate the most important policy concerns. Indeed, courts have already interpreted existing doc-

¹⁹⁰ See RESTATEMENT (THIRD) OF TORTS: PRODUCTS LIABILITY § 1 (1998) (describing strict products liability); RESTATEMENT (SECOND) OF TORTS § 402A (1977) (describing strict products liability); *Greenman v. Yuba Power Products, Inc.*, 377 P.2d 897 (Cal. 1963).

¹⁹¹ RESTATEMENT (THIRD) OF TORTS § 2 (1998); *id.* at § 2, Reporter's Note, cmt. d (1998) (discussing numerous opinions applying risk-benefit analysis in strict product liability cases).

trine to deny liability against providers of the peer-to-peer technology most likely to cause unrestrained copyright infringement while imposing liability on providers of technology that is less risky.¹⁹² Existing doctrine's inability to account for the relative costs and benefits of peer-to-peer technology is undesirable because it raises the risk that courts will reach socially undesirable results.

By contrast, a tort-inspired approach to vicarious liability draws judicial attention to the actual *and potential* costs and benefits of peer-to-peer technology. It only imposes liability without regard to these costs and benefits when the underlying infringer is an agent of the technology provider. In all other cases, it encourages courts to analyze the merits of specific peer-to-peer systems in a careful, sensitive way. Courts will therefore probably avoid imposing liability on all providers of peer-to-peer technology. To be sure, peer-to-peer systems create the risk of significant copyright infringement, but they also create the promise of inexpensive and rapid distribution of information. Courts that pay heed to the enormous social benefits made possible by video recorders, photocopy machines, televisions, radios, tape recorders, and other technologies will rightly refrain from declaring all peer-to-peer systems illegal even though their distribution enables infringement. Instead, they will scrutinize peer-to-peer systems on a case by case basis to identify designs that are, on the whole, unreasonable. As was the case with negligence, such a determination can and should include consideration of a system's actual and potential noninfringing uses. This will draw judicial attention to important questions of system design and construction.

For example, courts may find themselves deciding whether decentralized peer-to-peer systems are unreasonable. Systems like *Grokster* have the advantage of being reliable and cost-effective because no single entity must bear the expense of maintaining essential equipment of the sort used by *Napster*. However, these advantages may also come at the expense of a fairly complete inability to monitor or defeat infringement. Courts will have to decide whether these design tradeoffs are reasonable. Courts may also find themselves considering the relative merits of smaller design issues like limits on the number of users for a given peer-to-peer system, default settings that make it harder for users to infringe, or the existence of operating instructions or warnings that discourage users from infringement. All

¹⁹² The point being made here is not that *Grokster* was wrongly decided. That is obviously a question the Supreme Court will soon decide. The Article is simply pointing out that neither *Napster* nor *Grokster* really analyzes the costs and benefits of the systems under consideration, including specific design choices. That is why the opinions in those cases seem rather unsatisfying. They simply do not address the things that matter most.

of these possibilities and others presently unimagined may reduce the likelihood of infringement without unreasonably costing society the benefits of peer-to-peer technology.¹⁹³

It does not take long to see why the analysis suggested here is superior to one derived from existing doctrine. The third party copyright liability of peer-to-peer providers is controversial, and the stakes are high. Society has much to gain from the careful, well-reasoned development of law. In situations like this, it is particularly dangerous for courts to issue broad, blanket pronouncements that foreclose the case-by-case refinement of law. Unfortunately, existing doctrine threatens this result because it bluntly draws judicial attention away from the careful analysis of peer-to-peer technology. By contrast, the tort-inspired approach suggested here encourages courts to apply relevant policy to the merits of each case. This approach will, over time, result in the kind of careful construction of law that benefits society most.

CONCLUSION

This Article has demonstrated that a tort-inspired approach to third party copyright liability can help courts solve the peer-to-peer puzzle. The third party copyright liability of peer-to-peer providers is controversial, and the stakes are high. In situations like this, it is particularly dangerous for courts to issue broad, blanket pronouncements that foreclose the case-by-case refinement of law. Unfortunately, existing doctrine hampers development of the law because it bluntly draws judicial attention away from the careful analysis of peer-to-peer technology. By contrast, the tort-inspired approach suggested here encourages courts to apply relevant policy to the merits of each case.¹⁹⁴

¹⁹³ One possible objection to the analysis suggested here is that certainty will be impossible. This might be undesirable because risk-averse technology providers may leave the market for peer-to-peer technology without greater assurances against liability. There are two responses to this objection. First, the alternative possibilities are not likely to have more certainty. Granted, certainty could be achieved if courts decided that any possible noninfringing use protects a technology provider from liability. However, this position is so extreme that its adoption is unlikely. Any attempt at compromise will involve some kind of fact-specific, case by case analysis. At least the proposal made here contains a relatively clear method of analysis which gives peer-to-peer providers the opportunity to make a reasonable estimate of their exposure to liability. Second, technology providers routinely face similar uncertainty in tort law. No manufacturer can be sure that its design will be found reasonable, but this has not stopped manufacturers from designing new technologies, making them reasonably safe under the circumstances, and profitably marketing them.

¹⁹⁴ The changes suggested here raise the question of how a tort-inspired approach might affect third party copyright liability more generally. Full consideration of this is beyond the scope of this Article, but a preliminary analysis indicates that a tort-inspired approach would narrow the scope of vicarious liability while leaving contributory liability relatively unchanged. How-

It is, of course, never easy to make the kind of doctrinal changes suggested here. Existing doctrine becomes well-entrenched through habit and weight of *stare decisis*. However, it is particularly important to make the necessary effort now because the peer-to-peer puzzle is only one of many sources of pressure on the law. Plaintiffs have recently claimed that Napster's investors are liable for the infringement of Napster users,¹⁹⁵ that Internet search engines are liable for infringement on websites,¹⁹⁶ that credit card companies are liable for doing business with infringers,¹⁹⁷ and that the makers of digital video recorders like ReplayTV and TiVo are liable for infringement.¹⁹⁸ These claims may or may not prove successful, but their very assertion demonstrates the increasing likelihood of novel third party copyright suits for which the existing structure of existing doctrine will be insufficient. Failure to begin improving the law of third party copyright liability allows existing doctrine to continue leading judicial attention away from the factors that matter most in third party copyright liability, and this increases the likelihood of decisions that do not serve society's interest. Hopefully, this Article will contribute to a dialog that results in constructive change.

ever, relatively few results would change because many vicarious liability cases also make sense as contributory liability cases. It is therefore the author's present belief that the proposals made by this Article can be implemented without upsetting widely accepted results.

¹⁹⁵ *UMG Recordings, Inc. v. Bertelsmann AG*, 222 F.R.D. 408 (N.D. Cal. 2004).

¹⁹⁶ *Perfect 10, Inc. v. Cybernet Ventures, Inc.*, 213 F. Supp. 2d 1146 (C.D. Cal. 2002).

¹⁹⁷ *Perfect 10, Inc. v. Visa Inter. Svc. Ass'n.*, 71 U.S.P.Q.2d 1914 (N.D. Cal. 2004).

¹⁹⁸ *See Paramount Pictures Corporation v. RePlayTV, Inc.*, 298 F. Supp. 2d 921 (C.D. Cal. 2004).

