

4-1-2008

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### Recommended Citation

Christopher A. Howe, *Reviving Fair Use: Why Sony's Expansion of Fair Use Sparked the File-Sharing Craze*, 7 Chi. -Kent J. Intell. Prop. 75 (2008).

Available at: <http://scholarship.kentlaw.iit.edu/ckjip/vol7/iss2/2>

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REVIVING FAIR USE:  
WHY *SONY'S* EXPANSION OF FAIR USE SPARKED  
THE FILE-SHARING CRAZE

Christopher Alan Hower\*

**Introduction**

In 1492, everyone believed the world was flat. In 1984, the Supreme Court tried to convince us that time-shifting is fair use.<sup>1</sup> Prior to this ruling, copyright holders enjoyed the right to control access to their work under a statutory monopoly.<sup>2</sup> The Supreme Court upset this state of affairs by granting an unprecedented extension of power to consumers to infringe copyrighted works.<sup>3</sup> Justice Stevens characterized this ruling as a backlash against industry's desire to "control the way [consumers watch] television," when in actuality it was the Court controlling the way artists could provide access to their works.<sup>4</sup>

In effect, videotape recording of television programming deprived copyright owners of the right to market convenience for their content, and instead granted the benefit solely to technology producers.<sup>5</sup> Videotape recording not only disproportionately advantaged technology producers at the expense of artists,<sup>6</sup> but also led consumers to feel entitled to an unwarranted level of control over access to copyrighted works.<sup>7</sup> With the ability to decide on what terms they would watch television programming, it is no surprise that many viewers and listeners felt justified participating in unauthorized file-sharing.<sup>8</sup> Record labels and publishers could not react fast enough to a new market for online sales, similar to how movie studios could not react fast enough to the technological development of the home videotape recorder market. Consequently, consumers decided to exploit the "right" to infringe copyrighted works granted by the Court, resulting in substantial harm to artists.

This comment first discusses the development of the fair use affirmative defense and how courts attempted to apply the defense to emerging technologies. Next, this comment proposes a

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<sup>1</sup> Universal City Studios, Inc. v. Sony Corp. of Am., 464 U.S. 417 (1984) (hereinafter "*Sony III*").

<sup>2</sup> Jessica Litman, *The Sony Paradox*, 55 CASE W. RES. L. REV. 917, 944 (Summer 2005) (citing *Sony III*, 464 U.S. at 457-93 (Blackmun, J., dissenting)).

<sup>3</sup> *Sony III*, 464 U.S. 417.

<sup>4</sup> Litman, *supra* note 2, at 932 (citing 1st draft, Memorandum of Justice Stevens, *Sony III* (No. 81-1687) (circulated June 13, 1983) at 22).

<sup>5</sup> *Id.* at 944 (citing *Sony III*, 464 U.S. at 457-93 (Blackmun, J., dissenting)).

<sup>6</sup> Maribel Rose Hilo, *Tivo and the Incentive/Dissemination Conflict: The Economics of Extending Betamax to Personal Video Recorders*, 81 WASH. U. L. Q. 1043, 1056 (Winter 2003) (citing Wendy J. Gordon, *Fair Use as Market Failure: A Structural and Economic Analysis of the Betamax Case and Its Predecessors*, 82 COLUM. L. REV. 1600, 1630-31 (1982)).

<sup>7</sup> Litman, *supra* note 2, at 944 (citing *Sony III* at 457-93 (Blackmun, J., dissenting)).

<sup>8</sup> *Id.*

legislative remedy for the current misapplication of fair use. Finally, this comment concludes with the justification and effects of such legislation.

## I. Background

### A. Sony: *Stealing Control for the First Time*

#### 1. The District Court

In *Universal City Studios, Inc. v. Sony Corporation of America*, content owners Universal City Studios, Inc. and Walt Disney Productions, Inc. sued Sony Corporation and its distributor Sony Corporation of America for direct and indirect copyright infringement caused by allowing consumers to infringe copyright owners' reproduction right with the Betamax device.<sup>9</sup> Sony alleged that home recording was not infringement and that even if it was that no theory of infringement or vicarious liability could hold Sony responsible.<sup>10</sup> Additionally, Sony argued that its videotape recorders were a staple article of commerce, rendering Sony exempt from contributory liability under the staple article of commerce doctrine from patent law.<sup>11</sup>

Videotape recorders, such as the Betamax machines, introduced consumers to a level of control over television content never before imagined by allowing a user to record a television broadcast off-the-air.<sup>12</sup> Prior to this innovation, broadcasters dictated when and what television programs viewers could watch, but the Betamax enabled viewers to create a copy of a broadcast television program on tape cassettes.<sup>13</sup> Furthermore, the Betamax allowed users to skip commercials using the pause and fast forward functions.<sup>14</sup> Sony also invited the public to "record favorite shows" or "build a library" without warning that creating copies of copyrighted works may be copyright infringement.<sup>15</sup>

Universal and Disney proffered evidence documenting several accounts of consumers' copying activity such as time-shifting<sup>16</sup> and creating libraries of their favorite shows.<sup>17</sup> Survey evidence indicated that a substantial amount of consumers owned a large number of videotape

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<sup>9</sup> *Universal City Studios, Inc. v. Sony Corp. of Am.*, 480 F. Supp. 429 (C.D. Cal. 1979) (hereinafter "*Sony I*"), *aff'd in part, rev'd in part*, 659 F.2d 963 (9th Cir. 1981), *rev'd*, 464 U.S. 417 (1984) (*Sony III*).

<sup>10</sup> *Sony I*, 480 F. Supp. at 433.

<sup>11</sup> *Id.* at 459–461 (describing how the contribution made by a staple article of commerce towards infringement is insufficient to establish contributory liability without impermissibly expanding infringement beyond precedent and judicial management).

<sup>12</sup> *Id.* at 435 (describing how consumers could record off-the-air broadcasts manually, or set timers to record for remote recording).

<sup>13</sup> *Id.* (noting that tapes are not universally compatible with videotape recorders, and that at the time of litigation the highest-capacity tapes cost twenty one dollars each and record three hours of video).

<sup>14</sup> *Id.* at 435–36 (clarifying that pause allows a user to omit commercials if the user is present throughout the recording, and that a user can skip commercial segments by fast forwarding during playback).

<sup>15</sup> *Id.* at 436 (stipulating that Sony reimbursed merchandise to an individual franchise dealer for creating advertisements using "record your favorite show" and "build a library" language).

<sup>16</sup> *Id.* at 465 (defining time-shifting as "[r]ecording off-the-air while not viewing the program, watching the copy within a short period of time and erasing it thereafter"; recording a program while watching it is considered infringing activity).

<sup>17</sup> *Id.* at 436–38 (confirming that users created copies of copyrighted television programs and movies owned by Universal and Disney).

cassettes, did not engage exclusively in time-shifting, and engaged in activities to avoid commercial advertisements.<sup>18</sup> Despite the survey evidence, Universal and Disney were not able to establish measurable economic loss at the time of trial, though they did present expert testimony alleging prospective harm to the value of their copyrights.<sup>19</sup>

The District Court examined the exclusive rights granted to copyright owners<sup>20</sup> and determined that Congress did not intend to protect copyright holders' right of reproduction with respect to videotape recorders because of enforcement problems discussed in the legislative history.<sup>21</sup> Next, the District Court outlined the four factors of the fair use balancing test: (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work.<sup>22</sup> Walking through the analysis, the court concluded that time-shifting is fair use because it is a noncommercial use of copyrighted material and has no effect on the market for such material.<sup>23</sup>

Next, the court held that Sony lacked sufficient knowledge of the infringing activity to be contributorily liable, even though Sony knew "that the main use of the Betamax would be to record copyrighted works off-the-air and that such recording is a copyright infringement."<sup>24</sup> Instead, the court introduced the staple article of commerce defense from patent law to justify that "commerce would indeed be hampered if manufacturers of staple items were held liable as contributory infringers whenever they 'constructively' knew that some purchasers on some occasions would use their product for a purpose which a court later deemed, as a matter of first impression, to be an infringement."<sup>25</sup> Similarly, the court declined to impose vicarious liability upon Sony because it found that Sony had neither a direct financial interest in consumers' infringing activities, nor the right and ability to supervise the infringing activities.<sup>26</sup>

## 2. *The Ninth Circuit*

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<sup>18</sup> *Id.* at 438–39 (finding that both plaintiff's and defendant's surveys revealed that the average consumer owned 31.73 videotape cassettes, 29.6% of viewers watched recorded programs more than once, 41.7% of owners regularly eliminated commercials from the recordings, and between 26.4% and 43.9% of interviewees used fast forward to skip commercials often).

<sup>19</sup> *Id.* at 439–40 (predicting that the Betamax would diminish the public's interest in watching reruns, decrease the size of live television audiences, and result in fewer film rentals).

<sup>20</sup> See 17 U.S.C. § 106 (2000) (focusing on the exclusive rights to reproduce the copyrighted work in copies or phonorecords and to prepare derivative works based upon the copyrighted work).

<sup>21</sup> *Sony I*, 480 F. Supp. at 446 (analyzing the difficulty of managing privacy interests in monitoring home-use recording, which the infringement rendered uncontrollable and therefore outside the scope of copyright legislation).

<sup>22</sup> *Id.* at 338 (noting that the statute codifies the factors presented in *Williams & Wilkins v. United States*, 487 F.2d 1345, 1352 (1973)); 17 U.S.C. § 107.

<sup>23</sup> *Sony I*, 480 F. Supp. at 456 (rationalizing that the potential for future harm, the fact that studios broadcast the works for free, recording occurs in private homes, and that consumers copy the work in its entirety for a private use equates to a fair use).

<sup>24</sup> *Id.* at 459 (citing deposition testimony by Sony executives).

<sup>25</sup> *Id.* at 461.

<sup>26</sup> *Id.* (believing that a jamming system is outside the scope of Sony's ability to enforce, and that Sony profits from the sale of tapes regardless of their subsequent use).

On appeal before the Ninth Circuit, the court concluded that time-shifting constituted an infringement<sup>27</sup> and failed the fair use balancing test.<sup>28</sup> The court focused on Congress's broad legislative language, reasoning that Congress intended to cover current and future technology subject to specific exceptions that did not include time-shifting.<sup>29</sup> The court specified that exemption from liability extends only to "productive uses," which involve a second author's use of a first author's work.<sup>30</sup> The court determined that fair use does not extend to "ordinary uses."<sup>31</sup> Walking through the fair use factors, the Ninth Circuit articulated that copying the entirety of an entertaining work for convenience weighs against finding a fair use because it "tends to diminish or prejudice the potential sale" of a work.<sup>32</sup>

As a result of the fair use analysis, the court held Sony liable as a contributory infringer.<sup>33</sup> Wholly rejecting the "staple article of commerce" defense imported from patent law by the District Court, the Ninth Circuit distinguished videotape recorders from cameras or photocopying machines because videotape recorders primarily reproduce television programming, nearly all of which is copyrighted.<sup>34</sup> Confronting the difficulty of fashioning an appropriate remedy, the court conceded that an injunction may result in great public injury and that more appropriate relief may include damages or a continuing royalty.<sup>35</sup>

### 3. *The Supreme Court*

#### a. *The Majority Opinion*

Reciting the District Court's factual findings in painstaking detail, in a five-to-four split the Supreme Court reversed the Ninth Circuit, claiming that imposing liability upon Sony would impermissibly expand the scope of copyright protection.<sup>36</sup> According to the Court, the public benefit from the dissemination of works justified construing copyright protection against the copyright holder.<sup>37</sup> Turning to secondary liability, the Court determined that Sony did not

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<sup>27</sup> *Universal City Studios, Inc. v. Sony Corp. of Am.*, 659 F.2d 963, 969 (9th Cir. 1981) (hereinafter "*Sony II*") (interpreting 17 U.S.C. § 106 of the 1976 Copyright Act to deny a fair use defense for off-the-air copying).

<sup>28</sup> *Id.* at 971-72 (disallowing the fair use defense for unproductive uses, such as reproducing copyrighted material "for its intrinsic use").

<sup>29</sup> *Id.* at 967 (acknowledging that language permitting libraries to make off-the-air videotape recordings of newscasts for research purposes "is intended to preclude performance, copying, or sale, whether or not for profit, by the recipient of a copy of a television broadcast taped off-the-air pursuant to this clause").

<sup>30</sup> *Id.* at 970 (citing *Universal City Studios, Inc. v. Sony Corp.*: '*Fair Use*' Looks Different on Videotape, 66 VA. L. REV. 1005, 1011-12 (1980) (establishing that the traditional applications of fair use deal with productive uses)).

<sup>31</sup> *Id.* (quoting Leon Seltzer, *Exemptions and Fair Use in Copyright* at 24 (1978) (confirming that copying for an ordinary use results in ordinary infringement)).

<sup>32</sup> *Id.* at 972-74 (quoting 3 Nimmer on Copyright, § 13.05[E][4][c] at 13-84 (1981)).

<sup>33</sup> *Id.* at 975-76 (finding that Sony knew infringement existed because the Betamax functions mainly to create a copy of copyrighted material, and that Sony materially contributed to the infringing conduct through sufficient commercial engagement).

<sup>34</sup> *Id.* at 975 (concluding that videotape recorders are not suitable for substantial noninfringing uses, regardless of whether some copyright owners choose not to protect their rights).

<sup>35</sup> *Id.* at 976 (favoring a reasonable royalty, and reprimanding Sony for "[expecting] a return on investment from activities which violate the copyright laws").

<sup>36</sup> *Sony III*, 464 U.S. 417, 421 (1984) (focusing on the benefit of an expanded audience for time-shifted programs and the lack of present economic harm in justifying the reversal).

<sup>37</sup> *Id.* at 432 (quoting *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975)).

intentionally induce its customers to infringe copyrights.<sup>38</sup> Additionally, the Court adopted the “staple article” defense from patent law for contributory copyright infringement, which dictates that a device need “merely be capable of substantial noninfringing uses” in order to escape liability.<sup>39</sup> In the Court’s view, a copying device will not infringe copyrights if it is merely “capable of substantial noninfringing use.”<sup>40</sup> Refusing to define what constitutes “substantial noninfringing uses,”<sup>41</sup> the Court held that under this standard Sony is not liable as a contributory infringer because the Betamax is capable of at least one noninfringing use.<sup>42</sup>

To arrive at this conclusion, the Court first addressed authorized time-shifting.<sup>43</sup> Focusing on the benefit conferred to copyright owners who permit time-shifting by expanding their audience, the majority recognized that copyright owners who permit time-shifting create a substantial market for noninfringing uses.<sup>44</sup> Furthermore, it continued that even unauthorized time-shifting did not infringe.<sup>45</sup> Discarding a “productive use” restriction, the Court reasoned that time-shifting is not done for a profit, and the purpose of time-shifting permits copying an entire work because private home use is why stations broadcast the work.<sup>46</sup> Moreover, the majority held that Universal and Disney failed to prove that a likelihood of future harm exists, and established the legal precedent that unauthorized time-shifting is a fair use.<sup>47</sup>

*b. Justice Blackmun’s Dissenting Opinion*

Contrariwise, Justice Blackmun agreed with the Ninth Circuit, concluding that time-shifting infringes copyrighted works, fails the fair use balancing test, and renders Sony liable for infringement.<sup>48</sup> Justice Blackmun asserted that the majority evaded its duty to the law in refusing to confront the tough copyright issues presented in the case.<sup>49</sup>

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<sup>38</sup> *Id.* at 439 n.19 (ignoring the findings of the district court, which evidence that Betamax advertisements encouraged library building, which is an infringing use regardless of the interpretation of time-shifting).

<sup>39</sup> *Id.* at 443 (lowering the bar for equipment manufacturers, who must only demonstrate that their device be capable of operation without infringing--a standard that is almost impossible to for a manufacturer to fail).

<sup>40</sup> *Id.*

<sup>41</sup> *Id.* (disregarding the district court’s factual findings demonstrating a significant number of infringing uses).

<sup>42</sup> *Id.* at 456 (proffering that because some copyright holders do not object to time-shifting and because Universal and Disney did not show a likelihood of harm to the potential market for their works, Sony is not a contributory infringer).

<sup>43</sup> *Id.* at 443 (emphasizing that Universal and Disney own fewer than ten percent of the market share for television programming).

<sup>44</sup> *Id.* at 447 n.28 (“they have created a substantial market for a paradigmatic noninfringing use of Sony’s product”). *But see, Id.* at 485 (Blackmun, J., dissenting) (“the fact that a given market for a copyrighted work would not be available to the copyright holder were it not for the infringer’s activities does not permit the infringer to exploit that market without compensating the copyright holder” (citing *Iowa State University Research Foundation, Inc. v. American Broadcasting Cos.*, 621 F.2d 57 (CA2 1980)).

<sup>45</sup> *Id.* at 447 (applying the fair use doctrine to unauthorized time-shifting).

<sup>46</sup> *Id.* at 449–50 (presuming fair use when the copyist does not profit).

<sup>47</sup> *Id.* at 451 (shifting the burden of proof to the copyright owner to show “by a preponderance of the evidence” that future harm is likely when the use of a copyrighted work is noncommercial).

<sup>48</sup> *Id.* at 457–500 (Blackmun, J., dissenting).

<sup>49</sup> *Id.* at 458 (identifying with the Ninth Circuit that finding fair use merely sidesteps the difficulty in fashioning a remedy).

After detailing his own version of the facts, Justice Blackmun determined that time-shifting constituted infringement of copyright works.<sup>50</sup> With respect to motion pictures, he noted that “mere duplication of a copy may constitute an infringement even if it is never viewed.”<sup>51</sup> Proceeding to the fair use analysis, the dissenting Justices rejected applying the defense to unproductive uses. Justice Blackmun reasoned that that no court ever found fair use when the reproduction benefited only the user.<sup>52</sup> Attacking the majority view that time-shifting is fair use because television programs are broadcast for free over-the-air, Justice Blackmun employed a powerful analogy: “Although a television broadcast may be free to the viewer, this fact is equally irrelevant; a book borrowed from the public library may not be copied any more freely than a book that is purchased.”<sup>53</sup> For a plaintiff to meet his burden of proof, the dissent would require only proof of potential harm to the value of the work.<sup>54</sup> According to the dissent, a market for Betamax machines inherently constitutes proof of harm to the potential market for copyrighted works.<sup>55</sup>

Having determined that time-shifting infringes a copyright owner’s works, Justice Blackmun would have upheld the Ninth Circuit and found Sony liable for “induc[ing] and materially contribut[ing] to the infringing conduct of Betamax owners.”<sup>56</sup> The dissent reasoned that Sony knew that infringement occurred because the intended use of the Betamax is off-the-air recording, and it is not necessary to know that the infringing activity is a copyright violation; one only needs to know that the infringing act takes place.<sup>57</sup> In addition, Sony encouraged infringing activity by advertising without warning of possible copyright infringement.<sup>58</sup>

The dissenting Justices saw no need to employ the staple article of commerce to copyright law, which is based on patent law principles.<sup>59</sup> However, in an effort to foster commerce, Justice Blackmun proposed that “if a significant portion of the product’s use is noninfringing, the manufacturers and sellers cannot be held contributorily liable for the product’s infringing uses.”<sup>60</sup> He continued to say that in order to resolve the present issue, the entire market

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<sup>50</sup> *Id.* at 464–70 (rejecting that neither the statute nor its legislative history suggest “any intent to create a general exemption for a single copy made for a personal or private use”).

<sup>51</sup> *Id.* at 474 (quoting Register’s Supplementary Report 16).

<sup>52</sup> *Id.* at 479 (citing *Williams & Wilkins Co. v. United States*, 487 F.2d 1345, 1354 (1973), *aff’d*, 420 U.S. 376 (1975)).

<sup>53</sup> *Id.* at 480 (reiterating a copyright owners’ exclusive right to control reproduction of a work).

<sup>54</sup> *Id.* at 482 (calculating that while little harm may currently result from an isolated use, on aggregate, these uses may multiply to a great harm in the future).

<sup>55</sup> *Id.* at 485 (advancing that the Betamax deprives copyright owners from charging a price for convenient access to their works).

<sup>56</sup> *Id.* at 489–90 (explaining that contributory liability in copyright depends neither on formal control over the infringer nor actual knowledge of particular instances of infringement).

<sup>57</sup> *Id.* at 489 (outlining a reduction in damages for unintentional infringement in 17 U.S.C. § 504(c)(2), but no general exemption from liability); *see also Sony II*, 659 F.2d 963, 975 (9th Cir. 1981).

<sup>58</sup> *Sony III*, 464 U.S. at 489–90 (Blackmun, J., dissenting) (citing *Sony I*, 480 F. Supp. 429, 436 (C.D. Cal. 1979) (finding that Sony advertised the Betamax by encouraging consumers to record “favorite shows,” and “classic movies”)).

<sup>59</sup> *Id.* at 490–91 (noting that patent law and copyright law evolved separately and distinctly from one another).

<sup>60</sup> *Id.* at 491 (suggesting that where one would not buy a product for a use other than infringing activity, the manufacturer cannot escape liability).

must be considered, not merely the share of the plaintiff's works.<sup>61</sup> Thus, the availability of the staple defense depends on the quantum of infringing use of a device in the entire market.<sup>62</sup> Echoing the Ninth Circuit, the dissent posited that the majority refrained from finding liability to escape the difficulty in fashioning an appropriate remedy.<sup>63</sup> Discussing the four fair use factors once more, the dissent first advanced that the consumptive use of time-shifting is hardly noncommercial because the benefit accrues to the user rather than others.<sup>64</sup> Next, Justice Blackmun stated that the second and third factors negate finding fair use because television programming is highly creative and copied in its entirety.<sup>65</sup> Finally, he concluded that current harm exists because the value in a copyright would increase for compensation due to time-shifting.<sup>66</sup>

### *B. Repercussions: Consumers Steal Control on Their Own*

This section observes effects the Supreme Court's decision in *Sony III* had on fair use and emerging technologies. First, this section details the Ninth Circuit approach to the fair use defense and how it declined to apply fair use to new internet technologies.<sup>67</sup> Next, this section observes how the Seventh Circuit imposed secondary liability on a defendant in the presence of "substantial noninfringing uses" more favorable than those found in *Sony*.<sup>68</sup> Finally, this section revisits the fair use defense with the Supreme Court's addition of intent as a factor to be considered in the fair use defense analysis.<sup>69</sup>

#### *1. Napster*

##### *a. The District Court*

In *A&M Records, Inc. v. Napster, Inc.*, several record companies sued Napster, Inc., an internet start-up company, for creating a program that enabled users to download music files without payment to the music industry.<sup>70</sup> The District Court declined to expand the "fair use" doctrine from *Sony III*, and granted a preliminary injunction against Napster from engaging or

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<sup>61</sup> *Id.* at 492 n.44 (criticizing the majority for excusing Sony from liability because Universal and Disney do not own a large amount of the television programming market).

<sup>62</sup> *Id.* at 492 (stating that the amount of television programming that is copyrighted is irrelevant, and observing that the district court declined to inquire what proportion of Betamax usage is illegal).

<sup>63</sup> *Id.* at 493–94 ( lambasting the majority's justification that finding infringement would frustrate those copyright owners who permit time-shifting).

<sup>64</sup> *Id.* at 496 (analogizing this interpretation to a jewelry thief who wears the stolen goods rather than selling them).

<sup>65</sup> *Id.* at 496–97 (indicating that fair use extends more to informational works, and permits copying only the amount necessary to further an author's own creative endeavor).

<sup>66</sup> *Id.* at 498 (Blackmun, J., dissenting) (embracing the cost of convenience as the price time-shifting denies copyright owners).

<sup>67</sup> *A & M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896 (N.D. Cal. 2000) (hereinafter "*Napster I*"), *aff'd in part, rev'd in part*, 239 F.3d 1004 (9th Cir. 2001) (hereinafter "*Napster II*").

<sup>68</sup> *In Re Aimster Copyright Litig.*, 334 F.3d 643 (7th Cir. 2003) (hereinafter "*Aimster*"), *cert denied*, *Deep v. Recording Indus. Ass'n of Am., Inc.*, 540 U.S. 1107 (2004).

<sup>69</sup> *See, generally*, *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 919 (2005) (hereinafter "*Grokster*").

<sup>70</sup> *Napster I*, 114 F.Supp.2d at 1004.



assisting others in “copying, downloading, uploading, transmitting, or distributing copyrighted music without the express permission of the rights owner.”<sup>71</sup>

Offering its file-sharing software free of charge, Napster provided search and browse functions for locating music files without regard to the copyright status of the files.<sup>72</sup> Napster indexed lists of shared files on the user’s computer and transmitted this data to a master server, which coordinated communication between users and facilitated their searches.<sup>73</sup> The Napster system worked as follows: Napster’s software allowed users to search for a file, Napster’s server answered the search by providing a list of all other users with the desired music file, and the user who requested the search then initiated a connection to download the music file from the selected source.<sup>74</sup>

The plaintiffs planned or had already attempted to offer their own authorized digital downloading.<sup>75</sup> Digital music offered by the plaintiffs typically contained watermarks, encryption, or other limitations that cause a download to expire after a certain time, whereas files obtained through Napster had no restrictions.<sup>76</sup> Napster’s unrestricted music distribution allegedly harmed plaintiffs by decreasing album sales in college markets, thwarting plaintiffs’ own efforts to begin digital music sales, and disrupting plaintiffs’ promotional efforts in releasing restricted downloads.<sup>77</sup> Notably, the court pointed out testimony of one expert who claimed that “[Napster] has contributed to a new attitude that digitally-downloaded songs ought to be free—an attitude that creates formidable hurdles for the establishment of a commercial downloading market.”<sup>78</sup>

The court concluded that the commercially significant use of Napster’s file-sharing program involved unauthorized transfers of copyrighted music without considering whether such transfers constituted fair use, or whether the staple article of commerce doctrine exempted Napster from liability.<sup>79</sup> Going through the fair use balancing test, for the first factor the court held that the nature of the use weighed against fair use because users got something for free that they would ordinarily pay for, even if the users did not themselves sell the downloaded music.<sup>80</sup> Next, the court found that both the inherent creativity of music and copying the entire song weighed against finding fair use for the second and third factors concerning the nature and extent

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<sup>71</sup> *Id.* at 900–01.

<sup>72</sup> *Id.* at 905 (acknowledging that the software permits users to share their own music files).

<sup>73</sup> *Id.* at 905–06 (indicating that Napster maintains an ongoing interaction with its users, updating lists of each user’s shared files when they log in and sign off).

<sup>74</sup> *Id.* at 906 (qualifying that Napster does not store music files on its own server, but facilitates establishing connections between users logged in to the system).

<sup>75</sup> *Id.* at 908 (detailing entry into the online marketplace by BMG Music, EMI Recorded Music, North America, Sony Music Entertainment, Universal Records, Warner Music Group and others).

<sup>76</sup> *Id.* at 909 (emphasizing the need for restrictions to prevent copyright infringement).

<sup>77</sup> *Id.* at 909–11 (reviewing survey evidence that indicated a decrease in sales near the most “wired” colleges).

<sup>78</sup> *Id.* at 910–11 (indicating that consumers may feel entitled to a level of control over copyrights that has no lawful precedent or other justification).

<sup>79</sup> *Id.* at 912 (enunciating that the defendant must prove an affirmative defense such as fair use or the staple article of commerce doctrine after having established that direct infringement exists).

<sup>80</sup> *Id.* at 912 (announcing that at a minimum, sharing files cannot be considered a private use).

of the use.<sup>81</sup> Finally, the court addressed potential harm to the market for the copyrighted work and decided against finding fair use because users obtained songs that they would otherwise have to pay for.<sup>82</sup> The court noted that even if record sales increased when a user downloaded a song or eventually bought the album legitimately, positive impacts on the market do not mitigate potential market harm or excuse infringement.<sup>83</sup> Additionally, Napster could not claim protection under the staple article of commerce doctrine because space-shifting<sup>84</sup> did not constitute a substantial enough use of Napster's software, and because Napster provided a service that it maintained control over.<sup>85</sup>

After finding that file downloading constituted direct infringement on behalf of third party users, the court held that Napster was liable for such third party use both contributorily and vicariously. The court reasoned that Napster had reason to know of users' direct infringement because of internal documents, RIAA notices of infringement, and exemplary screenshots that displayed infringing files.<sup>86</sup> Napster also contributed to the infringement because Napster actively facilitated the infringement.<sup>87</sup> Finally, the court held Napster vicariously liable because Napster exercised control over its service and benefited financially from a large user base which it could commercially exploit at a later date.<sup>88</sup>

#### *b. The Ninth Circuit*

On appeal, the Ninth Circuit affirmed the District Court, holding Napster liable for contributory and vicarious infringement.<sup>89</sup> First, the Ninth Circuit agreed that the first fair use factor weighed against Napster because users repeatedly exploited unauthorized copies of copyrighted works to avoid paying for legitimate copies.<sup>90</sup> Second, users copied creative works in their entirety, tilting the second and third factors against finding fair use.<sup>91</sup> Lastly, the Court determined that Napster's offering a service for free in competition with the plaintiff's system of pay-per download constituted, at the very least, a potential harm to the market for the plaintiff's copyright works.<sup>92</sup> Furthermore, the court rejected Napster's argument that sampling<sup>93</sup> uses were

<sup>81</sup> *Id.* at 913 (restating that even if the first factor finds a private use, the third factor may weigh against fair use if the copying is likely to harm the potential market for the copyrighted works).

<sup>82</sup> *Id.* at 913–14 (rejecting Napster's comparisons of its file transfers to promotional downloads because Napster downloads are permanent and unrestricted).

<sup>83</sup> *Id.* at 914 (citing *Ringgold v. Black Entertainment Television*, 126 F.3d 70, 81 n.16 (2d Cir. 1997) (clarifying that subsequent benefit to the copyright holder does not deny entitlement to licensing fees)).

<sup>84</sup> *Id.* at 915–16 (defining space-shifting as downloading music files of songs when the user already owns the accompanying album).

<sup>85</sup> *Id.* at 916–17 (distinguishing *Sony III*, where Sony could not control the Betamax device after a sale).

<sup>86</sup> *Id.* at 918–19 (articulating that the law does not require knowledge of specific acts of infringement).

<sup>87</sup> *Id.* at 920 (analogizing Napster to the swap meet vendors in *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1976) (finding contributory liability for swap meet operators who permitted vendors to sell counterfeit music recordings)).

<sup>88</sup> *Id.* at 920–21 (citing *Gershwin Publ'g Corp. v. Columbia Artists Management, Inc.*, 443 F.3d 1159 (2d Cir. 1971) (reiterating that a defendant need only be capable of supervising, and that a defendant need not actually supervise)).

<sup>89</sup> *Napster II*, 239 F.3d 1004 (9th Cir. 2001).

<sup>90</sup> *Id.* at 1015 (indicating that "direct economic benefit is not required to demonstrate a commercial use").

<sup>91</sup> *Id.* at 1016 (distinguishing *Sony III* as having circumstances for allowing fair use copying of a creative work in its entirety not present here).

<sup>92</sup> *Id.* at 1017 (reasoning that consumers would not pay for what they may obtain for free).

<sup>93</sup> *Id.* at 1018 (defining sampling as downloading a track on an evaluation basis before purchasing an album).

noncommercial and fair because copyright owners commercialized internet song samples and enjoyed the right to license their content regardless of any benefit conferred by Napster.<sup>94</sup> Similarly, the court did not agree that space-shifting is a fair use because users who may not own a legitimate copy may access all files.<sup>95</sup>

Next, the Ninth Circuit addressed contributory infringement and agreed with the lower court that Napster had actual and constructive knowledge of,<sup>96</sup> and materially contributed to, its users' infringement.<sup>97</sup> Moreover, the court held Napster vicariously liable because Napster declined to block or remove unauthorized material because it stood to financially benefit through advertising as more users subscribed for access to infringing material.<sup>98</sup> Consequently, the Ninth Circuit upheld the preliminary injunction, disfavoring compulsory royalties as a remedy.<sup>99</sup> Royalties alone would deny copyright owners their right to not license their works, in addition to their right to negotiate the terms of an agreement.<sup>100</sup>

## 2. Disregarding Substantial Non-Infringing Uses in Aimster

*In re Aimster Copyright Litigation* involved copyright owners suing another file-sharing program called "Aimster."<sup>101</sup> Aimster worked in conjunction with instant-messaging applications and allowed users to share files.<sup>102</sup> Someone running Aimster would specify what files they wished to share, searched for a file that another Aimster user had, and initiated an encrypted transfer of the file.<sup>103</sup>

Judge Posner concluded that Aimster contributorily infringed plaintiff's copyrights, focusing on evidence that Aimster encouraged infringement, instead of focusing on Aimster's failure to limit infringement.<sup>104</sup> He explained that willful blindness constitutes knowledge in copyright law.<sup>105</sup> The court found that encrypting all user transfers weighed against Aimster because Aimster proffered no evidence that monitoring its service would be disproportionately costly compared to reduced piracy rates, regardless of whether Aimster had substantial noninfringing uses.<sup>106</sup> Judge Posner rebuffed Aimster's argument that plaintiffs failed to prove

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<sup>94</sup> *Id.* (recognizing that internet sites obtained licenses to offer song samples).

<sup>95</sup> *Id.* (reconciling the space-shifting use in *Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys., Inc.*, 180 F.3d 1072 (9th Cir. 1999), because in that case space-shifting occurred on a private device).

<sup>96</sup> *Id.* at 1020 (asserting that a computer system operator who knows of infringing activity and fails to remove it "knows of and contributes to direct infringement").

<sup>97</sup> *Id.* (reasoning that without Napster's service, there would not be any infringement, so Napster must necessarily contribute to the infringement).

<sup>98</sup> *Id.* at 1024 (tweaking the district court's ruling because Napster could not police the content of files, but it could monitor file names, which must retain accuracy to search effectively).

<sup>99</sup> *Id.* at 1029 (refusing to allow Napster to avoid future injunctions, statutory damages, and criminal penalties for future violations).

<sup>100</sup> *Id.*

<sup>101</sup> 334 F.3d 643 (7th Cir. 2003).

<sup>102</sup> *Id.* at 646 (articulating that a user may share with other users on his "buddy list," or if no buddies are specified, all other Aimster users).

<sup>103</sup> *Id.* (acknowledging that Aimster cannot monitor what files users transfer because it encrypts all transmissions).

<sup>104</sup> *Id.* at 653 (fixating on a tutorial example that displayed only infringing material).

<sup>105</sup> *Id.* at 650 (citing *Casella v. Morris*, 820 F.2d 362, 365 (11th Cir. 1987)).

<sup>106</sup> *Id.* at 653 (continuing that Aimster did not show how hiding the data users transfer from itself helped or saved costs).

damages because copyright law does not require established harm; instead, it allows plaintiffs to seek statutory damages or an injunction.<sup>107</sup> Lastly, the Seventh Circuit affirmed the District Court's judgment of vicarious infringement because of Aimster's "ostrich-like refusal to discover the extent to which its system was being used to infringe copyright."<sup>108</sup>

### 3. *Indirect Liability Gains Intent in Grokster*

In *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, the Supreme Court held Grokster, Ltd., ("Grokster") liable for promoting copyright infringement to distribute a device capable of infringement.<sup>109</sup> Grokster completely decentralized their software, negating the need for intermediary servers to coordinate searches like its predecessor, Napster.<sup>110</sup> Plaintiff Metro-Goldwyn-Mayer Studios, Inc., ("MGM") commissioned a study concluding that copyrighted works constituted almost 90% of Grokster's content.<sup>111</sup> Additionally, through internal documents and advertising, Grokster heavily leveraged itself as the ultimate beneficiary of the Napster shutdown.<sup>112</sup>

Discussing whether to hold Grokster indirectly liable, the Court discussed the tension between technological innovation and artistic protection.<sup>113</sup> Overruling the lower court's interpretation of *Sony III*, the Supreme Court clarified its precedent to limit intent inferred from the characteristics or uses of product but not direct evidence from the distributor.<sup>114</sup> Consequently, the Court reiterated the rule for inducement of infringement as "active steps . . . taken to encourage direct infringement," such as advertising, instructing, or encouraging infringing uses.<sup>115</sup> Three factors motivated the Justices to find indirect liability: (1) Grokster attempted to fill Napster's void for copyright infringement; (2) Grokster failed to take any technological steps to limit infringement; and (3) Grokster profited more for each user recruited because of the popularity of infringement.<sup>116</sup>

Justice Breyer wrote a concurrence comparing the statistics of infringement in Grokster to those from the Betamax, and concluded that both had similar levels of noninfringing activity

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<sup>107</sup> *Id.* at 649 (distinguishing the Justices' reasoning in *Sony III* because in that case, Universal could not establish harm and benefited from a new market).

<sup>108</sup> *Id.* at 655 (contrasting *Sony III*, where the Court treated vicarious and contributory liability the same, and declined to recognize that Sony could have reduced the likelihood of infringement).

<sup>109</sup> 545 U.S. 913, 919 (2005).

<sup>110</sup> *Id.* at 922 (conceding that Grokster has no knowledge of what or when users copied files because each user's computer communicates directly with other users' computers).

<sup>111</sup> *Id.* at 923 (comparing this result to the 87% of infringing material found in *Napster II*, 239 F.3d 1004 (9th Cir. 2001)).

<sup>112</sup> *Id.* at 924–26 (elaborating how Grokster: intended to "leverage Napster's 50 million user base;" planned to place an ad encouraging users to "get around" a re-launched, legal, fee-based Napster; sought to provoke an infringement lawsuit for publicity; strove to provide a large number of copyrighted songs; and sent newsletters extolling its ability to provide copyrighted works).

<sup>113</sup> *Id.* at 928–29 (considering that it may be impossible for plaintiffs to seek relief realistically, except against software distributors).

<sup>114</sup> *Id.* at 934 (rejecting the lower court's ruling that Grokster is not liable because the software has substantial noninfringing uses).

<sup>115</sup> *Id.* at 936 (quoting *Oak Industries, Inc. v. Zenith Electronics Corp.*, 697 F. Supp. 988, 992 (N.D. Ill. 1988)).

<sup>116</sup> *Id.* at 939–40 (establishing induced infringement from these indicia for intent with the evidence of direct infringement).

at 10% and 9%, respectively.<sup>117</sup> He listed the noninfringing uses for Grokster and questioned whether to modify the *Sony III* rule to account for further development of such noninfringing activity.<sup>118</sup> Declining to modify *Sony III*, he concluded that it would be premature to modify the rule, and that Congress is capable of weighing in if necessary.<sup>119</sup>

## II. Proposed Legislative Solution

This legislation clarifies the guidelines for applying the fair use defense to better aid courts in determining when this defense should be available.<sup>120</sup> Clear boundaries for what constitutes fair use will allow technological innovators to design their products accordingly and eliminate the uncertainty of potential infringement suits.<sup>121</sup> However, the boundaries must strike a fair balance meaning that “the interests of authors must yield to the public welfare where they conflict.”<sup>122</sup>

### A. Legislative Text

#### A BILL

To amend chapter 1 of title 17, United States Code, relating to fair use as a limitation on exclusive rights, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

#### SECTION 1. SHORT TITLE.

This Act may be cited as the “Artists’ Rights and Technology Act of 2008.”

#### SEC. 2. FAIR USE.

Section 107 of title 17, United States Code, is amended by inserting “productive” before “purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research.”

### B. Legislative Intent

Here, the public interests served by the fair use exception find their roots in a quote by Justice Story, who first described fair use as

a nice balance of the comparative use made in one of the materials of the other;  
the nature, extent, and value of the materials thus used; the objects of each work;

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<sup>117</sup> *Id.* at 952 (Breyer, J., concurring) (inferring approximately the same amount of lawful use as found in *Sony III*).

<sup>118</sup> *Id.* at 954–55 (Breyer, J., concurring) (asking whether the *Sony III* rule succeeded in protecting new technology while preserving copyright protection).

<sup>119</sup> *Id.* at 965 (Breyer, J., concurring) (discussing other solutions to the technology/copyright tension such as suing direct infringers, developing anti-copying measures, and facilitating lawful downloading).

<sup>120</sup> See Blake Evan Reese, *Fixing Through Legislative Fixation: A Call for the Codification and Modernization of the Staple Article of Commerce Doctrine as It Applies to Copyright Law*, 11 MARQ. INTELL. PROP. L. REV. 443 (Summer 2007) (citing Kathleen M. Sullivan, *The Justices of Rules and Standards*, 106 HARV. L. REV. 22, 62–66 (1992)).

<sup>121</sup> *Id.* (suggesting that clear boundaries afford greater freedom and fairness to decision-makers, immunizing them from arbitrary judgments).

<sup>122</sup> STAFF OF H. COMM. ON THE JUDICIARY, 87TH CONG., COPYRIGHT LAW REVISION: REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW 3-6 (1961) (considering the legislative intent for copyright as an economic incentive to encourage creation in order to ultimately serve the public).

and the degree to which each writer may be fairly presumed to have resorted to the same common sources of information.”<sup>123</sup>

Adding his own judicial gloss, Justice Story continued to distill precedent into the four factors adopted almost verbatim by Congress: “the nature and objects of the selections made, the quantity and value of the materials used, and the degree in which the use may prejudice the sale, or diminish the profits, or supersede the objects, of the original work.”<sup>124</sup> With those guiding principles, the proposed Artists’ Rights and Technology Act of 2008 (ART Act) preserves the fair use doctrine to encourage authorship while establishing clear guideposts for future innovators.

Justice Fortas spoke with great wisdom when he cautioned the Court to “do as little damage as possible to traditional copyright principles and to business relationships, until the Congress legislates and relieves the embarrassment which we and the interested parties face.”<sup>125</sup> Twenty-three years ago, the Supreme Court would have better served the law by heeding this warning. Instead, it failed to follow its own advice to defer to Congress in the face of technological advancements and shifting markets.<sup>126</sup> “[There] can be no really satisfactory solution to the problem presented here, until Congress acts.”<sup>127</sup> Even the District Court in *Sony I* recognized that it had no place divining the effects that videotape recorders would have on copyrighted television and movie programming because courts are not suited for such economic predictions.<sup>128</sup> Consequently, when the Supreme Court expanded fair use to include time-shifting, it upset the delicate balance between technological innovation and artists’ rights.<sup>129</sup> Never before had the public been given so much freedom to trample the exclusive rights protected by copyright.<sup>130</sup>

### *1. Productive Uses Embrace the Notion of Fair Use*

Case law suggests that until *Sony III*, courts reserved fair use solely for productive uses.<sup>131</sup> This legislation codifies that distinction because Congressional studies rejected

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<sup>123</sup> Alan L. Durham, *Consumer Modification of Copyrighted Works*, 81 IND. L.J. 851 (Summer 2006) (quoting *Folsom v. Marsh*, 9 F. Cas. 342, 344 (C.C. Mass. 1841) (No. 4,901)).

<sup>124</sup> *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 576 (1994) (quoting *Folsom v. Marsh*, 9 F. Cas. 342, 348 (C.C. Mass. 1841) (No. 4,901)).

<sup>125</sup> *Fortnightly Corp. v. United Artists Television, Inc.*, 392 U.S. 390, 404 (1968) (Fortas, J., dissenting).

<sup>126</sup> *Sony III*, 464 U.S. 417, 431 (1984) (“Sound policy, as well as history, supports our consistent deference to Congress when major technological innovations alter the market for copyright materials. Congress has the constitutional authority and the institutional ability to accommodate fully the varied permutations of competing interests that are inevitably implicated by such new technology.”; “defining the contours of copyright law is a job for Congress”).

<sup>127</sup> *Id.* at 500 (Blackmun, J., dissenting) (quoting *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 167 (Burger, C.J., dissenting)).

<sup>128</sup> *Sony I*, 480 F. Supp. 429, 442 (C.D. Cal. 1979) (recognizing the magnitude of the implications for this new technology and deferring to “government commission or legislative body” to evaluate the repercussions).

<sup>129</sup> *Id.*

<sup>130</sup> *Napster I*, 114 F. Supp. 2d 896, 910–11 (N.D. Cal. 2000).

<sup>131</sup> *Sony III*, 464 U.S. 417, 479 (1984) (Blackmun, J., dissenting) (distinguishing copying for the advancement of scientific research, private study or scholarship with purely personal use).

exempting private, unproductive uses.<sup>132</sup> Copyright law must permit productive fair use because it fosters authorship by allowing borrowers to take the material necessary to complete their works, whereas protecting private uses becomes “a fair use subsidy at the author’s expense.”<sup>133</sup>

On the other hand, unproductive, ordinary uses involve no authorship and contribute no greater good to society.<sup>134</sup> The Supreme Court agreed, recognizing the important distinction between productive and ordinary uses.<sup>135</sup> Indeed, an unproductive use such as time-shifting merely displaces the demand for the original work because an ordinary use consumes the work without adding any further value, and courts explicitly exempt from fair use those uses that displace demand for the original work.<sup>136</sup>

To avoid this pitfall, Justice Blackmun suggested that ordinary uses may qualify for fair use after showing that no potential harm exists to the value of the owner’s work.<sup>137</sup> However, it is far too difficult to prove an absence of harm to potential markets, so practical reasons alone favor legislatively closing this hole.<sup>138</sup> In addition, it may be difficult or impossible to determine what harm exists at the time of suit, and waiting will only further damage the copyright owner’s position in the market.<sup>139</sup>

For example, suppose a study commissioned today found that over-the-air time-shifting, as considered by the Court in *Sony III*,<sup>140</sup> substantially diminished the demand for streaming web-casts of the same program. Content owners would rightly expect to capitalize on advertising inserted into a web-cast, similar to how commercial interruptions subsidize an original over-the-air broadcast.<sup>141</sup> However, time-shifting deprives the copyright owner the advertising revenue he is entitled to for offering a convenient web-cast service because the time-shifting displaces the demand for an on-demand web-cast.<sup>142</sup> Thus, harm exists even in the vacuum of the *Sony III* majority’s idealized definition of time-shifting where no one fast-forwards, watches a program a second time, or records while watching the original broadcast—hardly a practical presumption

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<sup>132</sup> *Id.* at 465–66 (Blackmun, J., dissenting) (citing A. Latman, *Fair Use of Copyrighted Works* (1958), reprinted in STUDY NO. 14 FOR THE SENATE COMMITTEE ON THE JUDICIARY, COPYRIGHT LAW REVISION, STUDIES PREPARED FOR THE SUBCOMMITTEE ON PATENTS, TRADEMARKS, AND COPYRIGHTS, 86TH CONG., 2D SESS., 1 (1960)).

<sup>133</sup> *Id.* at 480 (Blackmun, J., dissenting) (concluding that home recording is an ordinary use).

<sup>134</sup> *Id.* at 479 (Blackmun, J., dissenting) (comparing the benefits of criticism, education and research with a purely consumptive use for entertainment value).

<sup>135</sup> Litman, *supra* note 2, at 950 (citing *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994)).

<sup>136</sup> *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 550 (1985) (citing *Folsom v. Marsh*, 9 F. Cas. 342, 344–45 (C.C. Mass. 1841) (No. 4,901) (allowing a hypothetical review to cite excerpts from a work, but not allowing a review to quote the most important parts of a work in order to substitute the review for the original)).

<sup>137</sup> Litman, *supra* note 2, at 950 (citing 1st Draft, Opinion in *Sony* (No. 81-1687 (circulated by Justice Blackmun, June 13, 1983) at 62).

<sup>138</sup> *Sony III*, 464 U.S. 417, 497–99 (1984) (Blackmun, J., dissenting) (explaining the difficulty in finding potential market harm when new technology creates a new market for old copyrighted works).

<sup>139</sup> Litman, *supra* note 2, at 944 (citing *Sony III*, 464 U.S. at 457–93 (Blackmun, J., dissenting) (contending that videotape recording denies copyright owners the ability to exploit the price a viewer will pay for convenience)).

<sup>140</sup> *Id.* at 923 (citing James Lardner, *Fast Forward* 60–81 at 97–106 (2002) (announcing that stores across America sold out of blank videotapes when studios broadcast *Gone with the Wind*, and Disney feared copying and declined to broadcast movies); see also *Sony I*, 480 F. Supp. 429, 436–40 (C.D. Cal. 1979).

<sup>141</sup> *Sony III*, 464 U.S. at 446 n.28 (explaining that copyright owners capitalize upon television by subsidizing broadcasts with advertising).

<sup>142</sup> *Id.*

for a realistic potential market harm analysis.<sup>143</sup> Consequently, this legislation closes the loophole for unproductive fair uses in order to allow artists to maximize the benefit deserved for their work.<sup>144</sup>

## 2. Applying the Fair Use Factors under the New Statutory Scheme

### a. Purpose and Character of the Use

The first fair use factor embraces the notion that only productive uses should warrant protection. In *Sony III*, the Supreme Court suggested that commercial uses presumptively weighed against a finding of fair use,<sup>145</sup> but the Court abandoned this presumption in *Campbell v. Acuff-Rose Music*.<sup>146</sup> However, the Court did not abandon its presumption of harm from commercial exploitation; it merely clarified that it will presume harm only for unproductive commercial copying.<sup>147</sup>

The ART Act codifies the distinction between productive and ordinary uses to guide courts when balancing the first fair use factor. The term “commercial” suggests an economic exchange without specifying whether that entails seeking a profit, denying the copyright owner royalties, or exacting a toll from the public.<sup>148</sup> Under this Act, “commercial use” embodies transactions where an infringing copy is made without returning value to society.<sup>149</sup> A second artist justifies his commercial gain in taking from an existing work by creating a new work.<sup>150</sup> His contribution of a new work tends to negate any unjust enrichment and renders this use noncommercial.<sup>151</sup> Copyright law encourages artists to create by rewarding them economically,<sup>152</sup> but occasionally the public desire for further creation mandates that an artist

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<sup>143</sup> *Id.* at 922 (citing Macy’s Sony Betamax display ad, N.Y. TIMES, March 30, 1976, at 13 (encouraging users to build “a priceless videotape library in no time”)).

<sup>144</sup> *Id.* at 927 (citing HOME RECORDING OF COPYRIGHTED WORKS: HEARINGS ON H.R. 4783, H.R. 4794, H.R. 4808, H.R. 5250, H.R. 5488, AND H.R. 5705 BEFORE THE SUBCOM. ON COURTS, CIVIL LIBERTIES, AND THE ADMINISTRATION OF JUSTICE OF THE HOUSE COMM. ON THE JUDICIARY, 97TH CONG. 1-3 at 4-16, 67-115 (1982) (testimony of Jack Valenti, President, Motion Picture Association of America, Inc. and memorandum of Prof. Laurence H. Tribe) (“any law that exempted home videotaping from liability for copyright infringement would be an unconstitutional taking of private property in violation of the Fifth Amendment.”)).

<sup>145</sup> 464 U.S. at 451 (presuming likely future harm when copying is for a commercial purpose); *cf.*, Litman, *supra* note 2, at 949 (clarifying that noncommercial uses require proof of present or potential harm but commercial uses do not).

<sup>146</sup> 510 U.S. 569, 584–91 (1994) (refuting that *Sony III* established a presumption of harm for commercial uses); Litman, *supra* note 2, at 949; Durham, *supra* note 123, at 868.

<sup>147</sup> Durham, *supra* note 123, at 868 (maintaining the presumption of likely future harm for “outright duplication for commercial uses, as opposed to more complex situations like parody”).

<sup>148</sup> 17 U.S.C. § 102(a) (2007).

<sup>149</sup> Durham, *supra* note 123, at 883 (likening copying for personal benefit to stealing).

<sup>150</sup> U.S. CONST. art. I, § 8, cl. 8 (encouraging the promotion of science).

<sup>151</sup> *Sony III*, 464 U.S. 417, 478 (1984) (Blackmun, J., dissenting) (“the fair use doctrine acts as a form of subsidy--albeit at the first author's expense--to permit the second author to make limited use of the first author's work for the public good.” (citations omitted)).

<sup>152</sup> Viktor Mayer-Schonberger, *In Search of the Story: Narratives of Intellectual Property*, 10 VA. J.L. & TECH. 11, 15 (2005) (contrasting the economic motivation that guided the drafters of the Constitution with the inalienable personal right to a work embraced by Europe).



forego his usual fee.<sup>153</sup> Value created by the new work outweighs the loss to the original artist, which justifies the infringing copy.<sup>154</sup>

Commercial use cannot refer to whether the second work is for a profit—copyright law understands that every work is for a profit because every fixed work gets copyright protection to encourage its creation.<sup>155</sup> Thus, the second work is always broadly “commercial” because it receives copyright protection automatically.<sup>156</sup> Adding the word “productive” focuses the meaning of “commercial” to those uses that do not return value to society in exchange for their unauthorized copying, which better allows courts to make consistent decisions when applying the fair use defense.

Consequently, the time-shifting present in *Sony III* constituted a commercial use despite taking place in private homes.<sup>157</sup> Copying with a Betamax device does not give back to the public; no redeeming quality justifies fair use for such copying because a Betamax contributes no value to society as a whole.<sup>158</sup> Instead of consulting a moving target like “substantial noninfringing uses,” exempting only productive noncommercial uses under this definition solves the line-drawing problem the Supreme Court had in *Sony III*.<sup>159</sup> The Court’s mistake stole from copyright owners the right to value convenient access to their works, which instilled a sense of entitlement in the public to justify taking for convenience.<sup>160</sup>

Unfortunately, this new attitude led consumers to take music when file-sharing offered it more conveniently than record labels and publishers. Similar to how many Betamax users infringed works under the *Sony III* majority’s erroneous fair use standard,<sup>161</sup> file-sharers infringe copyrighted works by downloading and keeping instead of “time-shifting” songs broadcast on the radio for free.<sup>162</sup> The Supreme Court gave consumers an unjustified inch, and in return consumers have taken a mile. Ed. Note: while grammatically correct, this language is a bit clichéd.

*b. Nature of the Work and Amount and Substantiality of the Portion Used*

<sup>153</sup> *Sony III*, 464 U.S. at 478.

<sup>154</sup> *Id.* at 477 (Blackmun, J., dissenting) (citing Chafee, *Reflections on the Law of Copyright: I*, 45 COLUM. L. REV. 503, 511 (1945) (“The world goes ahead because each of us builds on the work of our predecessors. ‘A dwarf standing on the shoulders of a giant can see farther than the giant himself.’”)).

<sup>155</sup> Mayer-Schonberger, *supra* note 152.

<sup>156</sup> 17 U.S.C. § 102(a) (2000) (“Copyright protection subsists . . . in original works of authorship fixed in any tangible medium of expression”).

<sup>157</sup> Durham, *supra* note 123, at 880 (classifying home taping as copying).

<sup>158</sup> Litman, *supra* note 2, at 928 (explaining that the Betamax creates a more convenient copy for personal use with no compensation for the work’s owner).

<sup>159</sup> A. Samuel Oddi, *Contributory Copyright Infringement: The Tort and Technological Tensions*, 64 NOTRE DAME L. REV. 47, 78 (1989) (speculating that the majority would have been different if more evidence showed more “librarying” Betamax usage).

<sup>160</sup> *Sony I*, 480 F. Supp. 429, 435 (C.D. Cal. 1979) (describing how the Betamax granted additional control over programming to consumers).

<sup>161</sup> Reese, *supra* note 120, at 467 (noting that at least 25 percent of Betamax users fast-forwarded through commercials).

<sup>162</sup> Litman, *supra* note 2, at 953 (detailing that most consumers build music libraries rather than time-shift).

With no discernable effect on the second and third fair use factors, the ART Act leaves little to discuss here. Even the overly-broad application of fair use by the *Sony III* majority struggled to conclude that copying a creative work in its entirety does not weigh against fair use.<sup>163</sup> Productive uses justify copying only to the extent necessary to create the new work,<sup>164</sup> so these provisions continue to protect creative works independent of any new technology.

*c. Effect of the Use upon the Potential Market or Value of the Work*

The ART Act eliminates unproductive uses from claiming fair use because unproductive uses harm the potential market or value of a work.<sup>165</sup> Allowing harmful, unproductive uses to qualify fair use may discourage artists from creating.<sup>166</sup> Ordinary uses may seem innocuous at first, but when considered in aggregate they can prove quite harmful.<sup>167</sup>

Also, because fair use excuses an infringer from compensating the original artist, fair use presumes that the defendant harms the copyright holder.<sup>168</sup> This presumption protects artists who cannot demonstrate harm when brand-new technologies facilitate copying.<sup>169</sup> Assessing the effects copying technology will have on works takes time,<sup>170</sup> but often such a delay may decimate a legitimate market, particularly when the market is newly formed as a result of technological advances.<sup>171</sup>

Again, once technology enables viewers to watch programs whenever they desire, the market for such convenience diminishes greatly because the public is no longer motivated to pay for access when they can merely copy a program on its own.<sup>172</sup> Maintaining that copying for

<sup>163</sup> Oddi, *supra* note 159, at 62 (denigrating the majority view that offering a work at some point for free affects how much may be copied).

<sup>164</sup> *Sony III*, 464 U.S. 417, 496–97 (1984) (Blackmun, J., dissenting) (permitting copying small excerpts to facilitate further authorship).

<sup>165</sup> *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 568 (1985) (citing 3 Nimmer § 13.05[B], at 13–77 – 13–78 (prohibiting fair use when any rights in a copyrighted work are adversely affected)).

<sup>166</sup> *Id.* at 566 (recognizing the fourth factor as the most important in the fair use analysis); *New Era Publication v. Carol Pub. Group*, 904 F.2d 152, 159 (2d Cir. 1990).

<sup>167</sup> *Nation Enterprises*, 471 U.S. at 568 (citing *Sony III*, 464 U.S. at 451 (maintaining that widespread use resulting in harm negates fair use)).

<sup>168</sup> Oddi, *supra* note 159, at 63 (citing *Sony III*, 464 U.S. at 485); Litman, *supra* note 2, at 949–50 (citing *Campbell v. Acuff-Rose Music*, 510 U.S. 569, 576 (1994) (placing the burden of proof on defendant)). *But see*, *Nation Enterprises*, 471 U.S. at 567 (requiring the copyright owner to establish a loss in revenue to shift the burden to the infringer); Litman, *supra* note 2, at 944 (shifting the burden of proof to plaintiffs for noncommercial uses).

<sup>169</sup> Durham, *supra* note 123, at 884 (observing that the studios in *Sony III* could not initially demonstrate harm from time-shifting).

<sup>170</sup> Hilo, *supra* note 6, at 1056 (citing *Sony III*, 464 U.S. at 497-98 (Blackmun, J., dissenting) (criticizing the majority for not considering the future market, and myopically focusing on the current effect of time-shifting)).

<sup>171</sup> Seth A. Miller, *Peer-to-Peer File Distribution: An Analysis of Design, Liability, Litigation, and Potential Solutions*, 25 REV. LITIG. 181, 186–87 (Winter 2006) (citing Benny Evangelista, *RIAA Smells Victory*, S.F. CHRON., Nov. 22, 2003, at B1; Anna E. Engelman & Dale A. Scott, *Arrgh! Hollywood Targets Internet Piracy*, 11 RICH. J.L. & TECH. 3 (2004)) (attributing a decline of \$2.4 billion in revenue to the music industry and \$3 billion to the film industry from illegal downloading).

<sup>172</sup> Litman, *supra* note 2, at 941 (providing that time-shifting competes with the market for pre-recorded cassettes); Hilo, *supra* note 6, at 1064 (citing Wendy J. Gordon, *Fair Use as Market Failure: A Structural and Economic Analysis of the Betamax Case and Its Predecessors*, 82 COLUM. L. REV. 1600, 1630-31 (1982) (implying that authors will have less incentive to create when viewers command greater control over access to works)).

unproductive personal use is not fair use opens up a new market for revenue where the copyright owner can exploit the demand for the ability to create convenient copies.<sup>173</sup> However, allowing ordinary copying under fair use accrues benefit to the technology rather than the content creator and discourages creation.<sup>174</sup> Moreover, technology that allows unproductive copying may bypass advertisements,<sup>175</sup> which could decrease advertising revenues.<sup>176</sup> Thus, this legislation eliminates unproductive copying from fair use because such activity disproportionately harms copyright owners with no resulting benefit to society.

### 3. *Effects of This Legislation on Indirect Liability*

Allowing only productive fair uses will affect technology developers by imposing liability upon parties who were in the clear before. However, this legislation provides predictable results for companies to plan accordingly.<sup>177</sup> Many ordinary uses are personal because the motivation is for self-gain by consuming a work. For this reason, going after direct infringers is overly burdensome<sup>178</sup> and copyright holders should be able to protect their investments by pursuing those who facilitate or encourage infringement.<sup>179</sup>

Infringement liability by inducement remains unaffected because any party encouraging infringement should be held liable for their acts, though more parties may be found liable given the productive definition of fair use.<sup>180</sup> New technologies enable consumers to infringe easier today than in the past, which may weaken copyright protection.<sup>181</sup> Any party who promotes infringement and compounds the harm created by advancements in copying technology will be held indirectly liable of inducing infringement.<sup>182</sup>

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<sup>173</sup> Oddi, *supra* note 159, at 64 (professing that denying fair use to time-shifting allows for exploitation by “royalties, fees, or other means”). *But see* Oddi, *supra* note 159, at 99–100 (citing *The Sound of Money*, NEWSWEEK, Oct. 5, 1987, at 73 (asserting that authors profit more from home video sales than first performances)).

<sup>174</sup> Hilo, *supra* note 6, at 1056 (citing *Sony III*, 464 U.S. at 498 (observing that Sony benefits from the sale of Betamax devices and tapes, not the studios)).

<sup>175</sup> *Id.* at 1064 (declaring that eliminating commercials is both possible and easy).

<sup>176</sup> *Id.* at 1066 (inferring that advertisers would not pay as high rates if the number of viewers watching the advertisements decreases).

<sup>177</sup> Reese, *supra* note 120, at 478 (favoring bright-line rules for business decisions).

<sup>178</sup> Litman, *supra* note 2, at 927 (citing HOME RECORDING OF COPYRIGHTED WORKS: HEARINGS ON H.R. 4783, H.R. 4794, H.R. 4808, H.R. 5250, H.R. 5488, AND H.R. 5705 BEFORE THE SUBCOM. ON COURTS, CIVIL LIBERTIES, AND THE ADMINISTRATION OF JUSTICE OF THE HOUSE COMM. ON THE JUDICIARY, 97TH CONG. 1-3 at 4-16, 67-115 (1982) (testimony of Jack Valenti, President, Motion Picture Association of America, Inc.) which announced that the motion picture industry declined to pursue actions against individual infringers “now or in the future”). *But see, e.g., Id.* (proffering that the industry filed suit against consumers).

<sup>179</sup> Durham, *supra* note 123, at 881 (quoting *Sony III*, 464 U.S. at 442 (providing effective protection for copyrighted works through indirect copyright liability)).

<sup>180</sup> Miller, *supra* note 171, at 213 (citing *Grokster*, 545 U.S. at 926 (extrapolating that evidence of encouraging infringement overcomes evidence of a product’s merely infringing capabilities)).

<sup>181</sup> Oddi, *supra* note 159, at 64 (announcing that no one induced infringement of television programming prior to the release of home videotape recorders).

<sup>182</sup> Litman, *supra* note 2, at 932 (citing 1st Draft, Opinion in *Sony* (No. 81-1687 (circulated by Justice Blackmun, June 13, 1983), at 32-33 (reasoning that Sony induced infringement by advertising the Betamax for recording “favorite shows” and “classic movies”)).

Similarly, this legislation does not modify existing contributory liability law or the staple article of commerce doctrine, but the modified definition of fair use may result in greater liability, because if a device is not capable of substantial noninfringing uses, courts will hold the manufacturer liable.<sup>183</sup> To mitigate or even escape liability, manufacturers can implement technological measures to dissuade their customers from infringing copyrighted material.<sup>184</sup> There is no affirmative duty to take such preventative action,<sup>185</sup> but such effort allows manufacturers to retain control over the use of their product lest consumers make use of it against the manufacturer's intentions.<sup>186</sup>

#### 4. Re-Evaluating Remedies for Productive Fair Use

Eliminating the fair use defense for ordinary uses such as time-shifting will result in more instances of infringement. With the influx of additional infringers, traditional remedies will not adequately satisfy the parties involved.<sup>187</sup> Every act of infringement warrants minimum statutory damages, but these damages may be unreasonably high; new remedy schemes such as limited injunctions or compulsory licenses are necessary to encourage technological growth.<sup>188</sup>

First, limited injunctions may provide that manufacturers found indirectly liable for infringement must utilize anti-infringement measures,<sup>189</sup> or modify the culpable device in such a way that impedes infringing activity.<sup>190</sup> However, in some circumstances anti-infringement mechanisms could present a market disadvantage and make this remedy unsuitable.<sup>191</sup>

When limited injunctions provide unsatisfactory results, compulsory licensing schemes offer new solutions.<sup>192</sup> Compulsory licensing is particularly attractive when "technology has created new uses for which the author's exclusive rights have not been clearly established . . . [or] when technology has made old licensing methods for established rights ponderous or

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<sup>183</sup> Oddi, *supra* note 159, at 63 (interpreting *Sony III* to establish that the standard for contributory infringement is the amount of direct infringement). *But see, id.* at 56 (citing *Sony III*, 464 U.S. at 456 (Blackmun, J., dissenting) (applying the standard for contributory infringement from trademark law to inquire whether the defendant "suggested, even by implication" that its customers infringe)).

<sup>184</sup> *Id.* at 90 (calculating that manufacturers can escape liability by taking their product off the market, implementing anti-copying measures, or seeking a license from copyright owners); *cf.*, Reese, *supra* note 120, at 468 (citing *In re Aimster Copyright Litig.*, 334 F.3d 643, 653 (7th Cir. 2003), which allowed service providers to escape liability when anti-copying technology proves disproportionately costly to implement).

<sup>185</sup> Miller, *supra* note 171, at 186-87 (discussing Cal. Penal Code 653aa (West 2005), which criminalizes file-sharing applications that do not include anti-copying measures).

<sup>186</sup> *But see*, Oddi, *supra* note 159, at 89-90 (imposing a general duty on VCR sellers to not permit customers to infringe).

<sup>187</sup> 17 U.S.C. § 504(c) (2000) (providing for statutory damages in the range of \$750 to \$30,000 at the court's discretion, and as low as \$200 or high as \$150,000 if the infringer unintentionally or willfully infringed, respectively).

<sup>188</sup> Hilo, *supra* note 6, at 1056 (discussing royalty schemes for infringement in Austria and Germany).

<sup>189</sup> Oddi, *supra* note 159, at 91-97 (advocating "playback only" systems, degrading copy quality, or engineering devices incapable of copying copyrighted content directly from a source).

<sup>190</sup> *Id.* at 99 (discussing how studios did not object to the sale of Betamax recorders with no tuners).

<sup>191</sup> *Id.* at 91 (analyzing how the VCR eliminated the market for the playback-only videodisc format).

<sup>192</sup> Hilo, *supra* note 6, at 1053 (reiterating that *Sony III*, 464 U.S. 417 (1984), did not overturn the 9th Circuit's continuing royalties remedy in *Sony II*, 659 F.2d 963); *see also*, Litman, *supra* note 2, at 927-28 (indicating support from the motion picture industry for compulsory licenses on video recorders and blank cassette tapes).

inefficient.”<sup>193</sup> Indeed, this approach proved successful in many foreign members of the Berne Convention, and should likewise do well in the United States.<sup>194</sup>

### Conclusion

Expanding the fair use defense beyond its intended confines over-extended consumer control of access to copyrighted works.<sup>195</sup> This additional control trampled on artists’ rights to lawfully exploit their works, and encouraged consumers to take like never before.<sup>196</sup> Before artists lose the incentive to create, Congress should address the current consumer climate of indifference and the resulting rampant infringement. Currently, content providers stand to lose substantial revenue to technologies that enable widespread infringement of perfect copies with unparalleled ease.<sup>197</sup> After the Supreme Court granted consumers the “right” to control access to copyrighted works, consumers naturally grew to expect similar unrestrained access to all media. Congress should adopt the ART Act to restore fair use to its role protecting and encouraging authorship and put an end to harmful “convenience theft.”

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<sup>193</sup> Hilo, *supra* note 6, at 1065 (quoting Robert Stephen Lee, *An Economic Analysis of Compulsory Licensing in Copyright Law*, 5 W. NEW ENG. L. REV. 203, 209 (1982)).

<sup>194</sup> *Id.* at 1056 (noting that *Sony III*, 464 U.S. at 499 n.51, considered royalty schemes for infringement in Austria and Germany).

<sup>195</sup> *Sony I*, 480 F. Supp. 429, 435 (C.D. Cal. 1979) (explaining how consumers could decide when to view content).

<sup>196</sup> *See generally*, *Napster II*, 239 F.3d 1004 (9th Cir. 2001); *Grokster*, 545 U.S. 913, 919 (2005); *Aimster*, 334 F.3d 643 (7th Cir. 2003).

<sup>197</sup> *See, e.g., Id.* at 1057-66 (observing that personal video recording devices skip commercials with ease); Amy Harmon, *Skip-the-Ads Has Madison Ave. Upset*, N.Y. Times, May 23, 2002, at A1 (discussing devices that enable consumers to record programs without commercials); Christine Caulfield, *XM Invokes Home Recording Law in Copyright Suit*, IP LAW 360, July 5, 2007, <http://ip.law360.com/Secure/printview.aspx?id=28709> (detailing potential infringement for satellite radio tuners capable of recording music in a digital format).