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NEWSLETTER

A Courtesy to Our Clients and Friends

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## PUTTING A COIN SLOT ON THE VIRTUAL JUKEBOX

### COPYRIGHT PROTECTION IN THE POST-NAPSTER WORLD

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The much-publicized in the *Napster* litigation may have generated more public attention and passion than any other copyright case in recent memory. At stake, according to Napster's defenders, is the right of individuals to share information freely on the Internet. To the music recording industry, the issue is the fundamental right of artists, authors, composers and publishers to be paid for their work. The Ninth Circuit for now has agreed with the recording industry that the Napster system, which enables virtually unlimited millions of Internet users worldwide to copy and swap recordings of music directly between each other's computers, causes infringement of the copyrights in the songs being swapped.<sup>1</sup>

This article looks at three aspects of the *Napster* case: (1) the history that led up to *Napster*; (2) the Ninth Circuit's decision; and (3) the trends signaled by *Napster* and other important developments in the current uneasy state of copyright protection in cyberspace.

## BACKGROUND

The seeds of the *Napster* case were sown in 1984 when the United States Supreme Court had to decide in the *Sony* “Betamax” case,<sup>2</sup> whether the selling of videocassette recorders (VCRs) for home taping of television programs constituted contributory infringement of the copyrights in those programs. Since contributory infringement cannot exist without direct infringement, the *Sony* case also posed the question whether home videotaping of television programs was a permissible “fair use” of copyrighted material or whether it constituted copyright infringement.

The Supreme Court decided these issues with a careful eye toward not holding every American household with a VCR potentially guilty of copyright infringement. Specifically, the Court concluded that the principal home use of VCRs was for “time shifting” – *i.e.*, the recording of a program for later viewing followed by erasing or reusing the same tape – and that such use is not infringing. In reaching this decision, the Court emphasized that consumers do not typically use home-recorded videotapes of television broadcasts to facilitate the redistribution, sale or other commercial use of the taped programs.

The *Sony* case did not involve audio taping of music, and the Court said nothing about home audio recording in its decision. If one assumes, however, that people typically record music for multiple listenings and sharing of tapes (rather than for simple, private time shifting), then *Sony* clearly suggests, at least indirectly, that home copying of

music, whether from phonograph records, the radio, or other media, could constitute copyright infringement.

The home audio recording question came to a head a few years later with the advent of digital audio tape (DAT). Unlike traditional magnetic tape, DAT enables people to make copies that do not lose quality from the original and do not lose quality even when copies are made from copies. The recording industry understandably feared that DAT could destroy the lucrative market for digital recordings on compact discs (CDs). To hold back a feared flood of pirated copies of the CD's, the recording industry in the late 1980's sought to block the importation or sale of DAT equipment in the United States.

In 1992, a compromise was reached in Congress on DAT technology. Consumer digital audio recording devices (recording machines) and digital audio recording media (blank tapes and blank CDs) were allowed to be sold in the U.S., but a mandatory royalty was imposed on them with the proceeds to be deposited in a pool to compensate the owners of copyrighted music on digital recordings that presumably would be copied by consumers.<sup>3</sup> The compensation system was based upon the familiar system used for decades by the American Society of Composers, Authors and Publishers (ASCAP) and Broadcast Music, Inc. (BMI) to collect royalties from the presenters of public performances of music (including broadcasts) and to redistribute that money to the publishers of the music on a pro rata basis reflecting the percentage of the performed music owned by each publisher.<sup>4</sup>

As part of the compromise, the Digital Home Audio Recording Act of 1992 added the following provision to the Copyright Act to exempt certain kinds of home audio recording from liability for copyright infringement:

No action may be brought under this title alleging infringement of copyright based on the manufacture, importation, or distribution of a digital audio recording device, a digital audio recording medium, an analog recording device, or an analog recording medium, *or based on the noncommercial use by a consumer of such a device or medium for making digital musical recordings or analog musical recordings.*<sup>5</sup>

The rationale was clear. Consumers were paying for the right to make home audio recordings via the royalty imposed on the hardware. The copyright owners were being compensated. Accordingly, home audio recording could safely be deemed non-infringing. Until the Internet came along.

### **THE NAPSTER CASE**

The Napster web site was created in the late 1990's to meet a demand for Internet-based access to music that was not being served by the recording industry. Napster's owners have taken the position that their music-sharing system is legal in part because it does nothing more than facilitate the kind of home audio recording sanctioned by the Digital Home Audio Recording Act of 1992. Consistent with this view, Napster does not actually copy any music itself. Nor does it act as a central switchboard through which copies of music are transferred (though it does maintain a central directory of the titles of songs its users have on their own computers). Rather, Napster gives its users a software program which enables them to search each other's computer files for songs they want, and then to copy and transfer those files directly between themselves.

The Ninth Circuit acknowledged the fact that Napster does not itself copy the music that its users share. The court nevertheless rejected Napster's legal arguments.

Specifically, the court concluded that computers are not “digital recording devices” within the meaning of the 1992 Act, because they do not meet the statutory definition of being used “for the primary purpose of . . . making a digital audio copied recording for private use.”<sup>6</sup> While this is a seemingly technical basis on which to decide the case, the result is clearly sound. The 1992 exemption for home audio recording was enacted in tandem with a compensation system for copyright owners. That compensation system depends on royalties being collected on the hardware used to make the copies. No such royalty is imposed on computers. Moreover, recognizing that Napster is used by millions of people who for the most part are completely unknown to one another, the Ninth Circuit held that the copying and sharing of files by such users via Napster should be viewed as commercial use, rather than a personal one, and that it does not qualify for the “fair use” exception to copyright infringement.

The upshot of the Napster litigation has been an injunction which, as of this writing, is still being hotly contested in the courts. On remand, the federal district court in California has required Napster to block access to copyrighted songs that the recording companies specifically identify. Users, however, are reportedly circumventing the Napster’s blocking efforts by various means such as altering the spelling of song titles to avoid being blocked. The recording companies are alleging that Napster is not making a good faith effort to combat this circumvention. Napster is arguing that it is doing everything humanly possible to comply with the order. In short, the copyright battle is over, but the technological war continues.

Eventually, some form of pay-per-download, or a monthly or annual subscription fee for unlimited downloads, will have to be imposed if Napster is to continue facilitating online copying and sharing of copyrighted music. Alternatively, the music industry may create its own fee-based, online system to take Napster's place. Many recording companies are already working to create such systems.<sup>7</sup> Regardless of the precise mechanism (which in any event cannot be predicted given the rapid changes in technology), it is clear that online music is here to stay. It is also clear that some form of coin slot will be put on the virtual jukebox so that copyright owners will get paid for the millions of copies of songs that will be distributed online. The only questions are how much it will cost and how the money will be collected.

### **COPYRIGHT IN CYBERSPACE**

The *Napster* case marks an important victory for the defenders of traditional copyright in cyberspace, many of whom have worried for years that copyrighted material would be difficult if not impossible to protect once it went online. While that is still a valid concern, a reverse trend is also emerging that is equally disturbing to copyright purists: the possibility of protecting material in cyberspace that would not be entitled to much copyright protection, if any, in the physical world.

One example of this contrary trend can be found in *Ebay, Inc. v. Bidder's Edge, Inc.*<sup>8</sup> In *Ebay* a federal district court in California applied a trespass theory to bar Bidder's Edge, a cataloguer of information about items for sale anywhere on the Internet, from sending electronic agents to visit the popular Ebay auction site to gather information. While the particular facts of the case make clear that Bidder's Edge engaged in some undesirable conduct that bothered the court, the result is nonetheless

potentially troubling from a copyright perspective. The law of trespass was used to bar an activity in cyberspace – copying of publicly accessible, non-copyrighted data – that would generally be permissible in the physical world.<sup>9</sup>

Another example is the portion of the Digital Millennium Copyright Act (DMCA) that prohibits dissemination of technology or devices that circumvent access controls to a copyrighted work.<sup>10</sup> This provision makes no exception for “fair use” and has been interpreted by at least one federal district court to apply to the distribution of a computer program that decrypts digital video discs (DVD’s) without regard to the purpose or particular use to which the program may be put.<sup>11</sup> Emboldened by this decision, the recording industry recently threatened legal action against a Princeton computer science professor if he presented a paper at an academic conference describing how a music-industry encryption system can be circumvented.<sup>12</sup> As of this writing, the relevant portion of the DMCA is being challenged in the Second Circuit as overbroad and unconstitutional.<sup>13</sup> Regardless whether the DMCA is upheld as constitutional, one needs to consider carefully whether it is wise public policy to give copyright owners the power to decide what kinds of technology are legal to develop and use or even discuss at an academic conference.

## **CONCLUSION**

Centuries of experience have led to a careful balancing of the rights of copyright owners and the public in the physical world. Cyberspace has upset that balance, and the courts and Congress are just beginning to sort out the issues. In the process of finding a new balance in cyberspace, all parties, including Congress, the courts, industry, and the technicians writing code to run web sites, need to keep in mind that copyright is not

intended solely for the enrichment of authors, but also for the benefit of the public by promoting the availability of works of authorship.<sup>14</sup> Consequently, in the effort to keep the Internet from destroying the rights of copyright owners, society must at the same time be careful not to impose restrictions that go too far beyond the control those owners can exert in the physical world. Such restrictions may arise from statutes, reinterpretations of common law doctrines such as trespass, or through attempts to manipulate software or hardware in a way that limits the electronic data that can be accessed and used.<sup>15</sup>

Solutions to these problems will emerge over time through a combination of case law, legislation, structuring of fee-based methods of access to online content, and continuing changes in technology. In the meantime, the *Napster* decision confirms that, even in cyberspace, he who calls the tune must pay the piper.

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<sup>1</sup> *A&M Records, Inc., et al. v. Napster, Inc., et al.*, 239 F.3d 1004 (9<sup>th</sup> Cir. 2001), 2001 U.S. App. LEXIS 1941.

<sup>2</sup> *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 104 S.Ct.774, 78 L. Ed. 2d 574 (1984).

<sup>3</sup> 17 U.S.C. § 1001 *et seq.*

<sup>4</sup> *See generally*, M.W. Krasilovsky and S.Shemel, *This Business of Music*, ch. 19 (Billboard, 7<sup>th</sup> Ed. 1995).

<sup>5</sup> 17 U.S.C. § 1008. (Emphasis added.)

<sup>6</sup> *A&M Records, supra*, 239 F.3d at 1024 (applying definition set forth in 17 U.S.C. § 1001(3)).

<sup>7</sup> *See*, R. Tedeschi, “E-Commerce Report: Record labels struggle with Napster alternatives that will make money and please consumers,” *The New York Times*, April 23, 2001.

<sup>8</sup> 100 F.Supp. 2d 1058 (N.D.Cal. 2000).

<sup>9</sup> *See Feist Publications, Inc. v. Rural Telephone Service Co.*, 499 U.S. 340, 111 S.Ct. 1282, 113 L.Ed.2d 358 (1991) (copying of a telephone directory by a competitor was not infringing because data in the directory was not copyrightable, and no amount of effort in collecting data can confer copyright protection on material that is non-copyrightable).

<sup>10</sup> 17 U.S.C. § 1201(a)(2).

<sup>11</sup> *Universal City Studios, Inc. v. Reimerdes*, 82 F.Supp. 2d 211 (S.D. N.Y. 2000).

<sup>12</sup> J. Markoff, “Record Panel Threatens Researcher with Lawsuit,” *The New York Times*, April 24, 2001.

<sup>13</sup> M. Hamblett, “2d Circuit Weighs DVD Copying ,” *The Connecticut Law Tribune*, May 7, 2001, p.4 (appeal of the *Reimerdes* decision cited in n. 11 above).

<sup>14</sup> U.S. Const., art. I, sec. 8, cl. 8 (authorizing Congress “to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries”).

<sup>15</sup>*See*, L. Lessig, “Adobe in Wonderland,” *The Industry Standard*, March 26, 2001, p. 32 (discussing risk that technological controls may be designed to be much stronger than copyright law).