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The Chronicles of *Grokster*: Who is the Biggest Threat in the P2P Battle?

Alvin Chan*

I. INTRODUCTION.....	291
II. THE TECHNOLOGY LOBBY V. THE WOLF.....	293
A. <i>Background</i>	294
B. <i>The Inducement Test: A Contextual Interpretation</i>	296
C. <i>What's Left of Sony?</i>	300
D. <i>The Boy Who Cried Wolf</i>	303
III. THE MUSIC INDUSTRY V. THE ESCAPOLOGIST.....	305
A. <i>Background</i>	306
B. <i>The Illusion of Escape</i>	308
C. <i>Total Escape</i>	314
IV. THE MUSIC INDUSTRY V. THE WORLD?.....	317
A. <i>Shooting the Messenger: The "P2P Problem"</i> <i>Identified</i>	318
B. <i>Compensation is Not the Solution</i>	319
C. <i>Facing the Music</i>	322
V. CONCLUSION.....	325

I. INTRODUCTION

The United States Supreme Court's decision in *MGM Studios, Inc. v. Grokster Ltd.*¹ highlights the multilateral nature of the peer-to-peer (P2P) controversy, as it has resulted in an explosion of discussion from

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¹ *MGM Studios, Inc. v. Grokster Ltd.*, 545 U.S. 913 (2005).

all sides of the prism. Copyright holders, academics, consumers, innovators, practitioners and other interested parties did not hesitate to engage in a meticulous dissection of the decision, resulting in myriad postulations about its impact.² Dissent over the copyright regime has turned a remediable conflict into a full-blown war.³

As with any conflict, identification of the enemy is paramount.⁴ As each party will invariably identify a different threat as marginalizing its interests, this article seeks to approach the controversy from various angles. Three parties will be identified as the primary “stakeholders”⁵ in the P2P divide, each with its own view of who or what is to be blamed for its predicament. This article argues that the most prominently identifiable threats are perhaps not as hazardous as expected, and that attention should be diverted toward a common enemy whose presence is far more evasive.

The three major stakeholders involved in the P2P debate are as follows: the technology lobby, the music industry, and the consumers. In the aftermath of *Grokster*, each stakeholder is faced with an antagonist to confront: the “Wolf”, the “Escapologist” and the “Ghost”, respectively. Part II provides a blow-by-blow account of the first match-up, which pits stakeholder #1, the Technologists, against the “Wolf”. This overhyped opponent with the menacing moniker is the “chilling effect” that *Grokster* has allegedly cast over innovation that may or may not incite copyright infringement. The technology lobby identifies the Wolf, allegedly created out of the uncertainty surrounding the *Grokster* decision, as a prominent threat to its vitality. The fact that copyright law often pits the interests of innovators against copyright holders is well documented, so the technology lobby has much at stake in the P2P controversy. This Part analyzes the accuracy of the allegation that *Grokster* was responsible for the creation of a “chilling effect” on innovation,⁶ concluding that such an allegation is largely inaccurate. This leads us to the inevitable conclusion that the very existence of the

² See, e.g., Ernest Miller, *The Day After: Grokster Roundup*, CORANTE WEBLOG COLUMNS, June 28, 2005, http://importance.corante.com/archives/2005/06/28/the_day_after_grokster_roundup.php.

³ Peter K. Yu, *The Copyright Divide*, 25 CARDOZO L. REV. 331, 442 (2003): (“What began as a war on piracy has now become a war against the whole world!”).

⁴ See Jessica Litman, *War Stories*, 20 CARDOZO ARTS & ENT. LAW JOURNAL 337, 337(2002) (Litman’s metaphor describing courtrooms as “battlefields” in the “war on the new digital media” highlights the escalatory nature of the conflict).

⁵ Yu, *supra* note 3, (Yu identifies “stakeholders” as those who are eager to protect what they have under the copyright regime. On the other side of the divide are the non-stakeholders, who do not understand or believe in the system).

⁶ See, e.g., Electronic Frontier Foundation, *Supreme Court Ruling will Chill Technology Innovation*, June 27, 2005, <http://www.eff.org/press/archives/2005/06/27-0> [hereinafter EFF].

Wolf is questionable, meaning it amounts to little more than an illusory opponent whose howl is worse than its bite.

Part III shifts the focus to the music industry, whose claim as a stakeholder #2 is unquestioned. Its opponent is the “Escapologist,” the cunning P2P developer who takes advantage of jurisdictions without strong incitement laws in an attempt to escape liability. Post-*Grokster*, the threat posed by the unscrupulous P2P developer who actively induces copyright infringement within U.S. borders has been reduced substantially. However, there remains the possibility that the Escapologist will thrive by moving its business offshore or crafting an illusion of escape in an effort to exploit the more lenient laws of the world’s copyright havens. To determine whether this opponent is a threat to be reckoned with, a cross-border analysis of copyright law is in order. This Part notes that the prospect for the extraterritorial application of *Grokster*, coupled with the gradual move towards international unification in the P2P arena, means that even the most furtive inducer will eventually have nowhere to hide.

Part IV examines the futility of the long-running feud between consumers (stakeholder #3) and the music industry, two parties that have mistakenly identified each another as opponents. All the while, an abstract entity (the “Ghost”) remains untouched by the warfare. In truth, the Ghost, which is the countercultural belief held by many in the listening public that music longs to be free, ought to be regarded as the opponent. However, its presence is known but not directly acknowledged. In spreading the mistaken view that music does not come with a price, this Ghost poses a threat to all three primary stakeholders. This Part suggests that since it is the party which took the first shot, the music industry bears the greatest responsibility to instill value back into music, and that the other stakeholders should facilitate the industry in its endeavors. In short, the ultimate conclusion is that the spotlight should be cast firmly back on our main event: the three stakeholders v. The Ghost.

II. THE TECHNOLOGY LOBBY V. THE WOLF

Copyright law is driven by stakeholders.⁷ In the context of the P2P controversy, it is evident that the interests of the music industry and its consumers will be determined by the balance struck within the copyright regime. However, another party which has staked a claim over the outcome of the *Grokster* decision is the technology lobby at large. Numerous companies attempting and intending to design, test, and com-

⁷ Yu, *supra* note 3, at 402

mercialize new products have expressed the view that the legal muddle resulting from the decision has created a climate in which courts are free to question every decision an innovator has made, resulting in a “chilling effect”⁸ on innovation. Technology companies have expressed concern that they presently operate amidst a landmine of gadget-killing lawsuits.⁹ Despite their concerns, thorough analysis of the *Grokster* decision and its surrounding circumstances suggests that the alleged threat is perhaps better characterized as the Wolf whose arrival is not due, in spite of the boy’s repeated cries for help.¹⁰ While the *Grokster* decision may have left some ambiguities in its wake, the contention that this necessarily leads to the alleged chilling effect is questionable.

A. *Background*

A brief summary of the background leading up to the decision is required in order to comprehend the precise reasons for the technology lobby’s dissatisfaction. The fact that P2P has given rise to substantial legal controversy is well documented.¹¹ In 2005, the Supreme Court was faced with the task of addressing the balance between twenty-eight of the world’s largest entertainment companies and the creators of Morpheus, Grokster and KaZaA software products. Despite having won in two previous courts, the fate of Grokster was sealed when the Court unanimously held that producers of technologies which promoted the ease of copyright infringement could incur secondary liability under a new theory of inducement. Justice Souter authored the opinion of the Court, holding that “one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.”¹² The Supreme Court lay down three elements probative of intent to induce infringement, namely: (1) the promotion of the infringement-enabling capacities of the device; (2) the failure to filter out infringing uses; and (3) the fact that a defendant’s business plan was dependent upon a high

⁸ The contention that speech or conduct is inhibited by a fear of the legal consequences which may be incurred. For examples in the intellectual property context, *see* Chilling Effects Clearinghouse, <http://www.chillingeffects.org>.

⁹ *See, e.g.* Katie Dean, *Grokster Loss Sucks for Tech*, WIRED, June 27, 2005, <http://www.wired.com/news/digiwood/0,1412,68018,00.html>.

¹⁰ Aesop, *The Boy Who Cried Wolf*, STORY ARTS, <http://www.storyarts.org/library/aesops/stories/boy.html>.

¹¹ *See* Peter K. Yu, *P2P and the Future of Private Copying*, 76 U. COLO. L. REV. 653 (2005).

¹² *Grokster*, 545 U.S. at 919.

volume of infringement.¹³ These three criteria were satisfied on the facts of the case. Pursuant to the decision, the technology lobby has consistently asserted that the ambiguity inherent in this underdeveloped concept of inducement empowers future courts to second-guess every decision an innovator has made. It is argued that this has the potential to render companies so fearful of potential litigation that innovation could be paralyzed. In the words of Derek Slater, “Every marketing campaign, every design choice, every business plan, every document concerning how the software might be used are potentially fair game.”¹⁴

The *Grokster* case was also characterized as presenting the perfect opportunity for the Court to re-examine the “substantial non-infringing use” test (henceforth the “*Sony* test”) originally laid out in *Sony Corp. of America v Universal City Studios, Inc.*,¹⁵ the seminal decision which excused the creators of the Betamax technology from contributory copyright infringement liability because the devices were sold for legitimate purposes and had substantial non-infringing uses. Despite the Court’s unanimity about the fact that *Grokster* was liable under an inducement theory, it was split in considering whether the *Sony* test would otherwise have provided the defendants with a “safe harbor”. Justice Ginsburg, who was joined by Justices Kennedy and Rehnquist, adopted a strict construction of the *Sony* safe harbor, concluding that *Grokster* would have been liable for contributory infringement absent evidence of inducement.¹⁶ On the contrary, Justice Breyer, joined by Justices Stevens and O’Connor, asserted that *Grokster* had qualified for a *Sony* defense on account of its substantial non-infringing uses. Justice Breyer was of the view that Justice Ginsburg’s concurrence amounted to a modification of the *Sony* test, which, if adopted, would weaken the law’s ability to protect innovation.¹⁷ However, the opinion of the Court, authored by Justice Souter, did not address this specific point, choosing to “leave further consideration of the *Sony* rule for a day when that day may be required.”¹⁸ The absence of a resolute clarification of the *Sony* test in *Grokster* has also drawn the ire of technolo-

¹³ *Id.* at 939-40.

¹⁴ Derek Slater, *What is “Inducement”?*, EFF, June 27, 2005, <http://www.eff.org/deeplinks/2005/06/what-inducement>. See also Miller, *supra* note 2 (Miller notes that it is not clear what *Grokster* could have to have done to avoid liability for following in the footsteps of *Napster*).

¹⁵ *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).

¹⁶ *Grokster*, 545 U.S. at 948.

¹⁷ *Id.* at 959-60.

¹⁸ *Id.* at 934.

gists, who argue that the chilling effect is exacerbated by this indeterminacy.¹⁹

B. *The Inducement Test: A Contextual Interpretation*

The establishment of any novel basis of liability is likely to attract a certain degree of surrounding uncertainty. However, an inducement theory in the copyright context may not be as groundbreaking as it appears.²⁰ While it may be farfetched to argue that the inducement theory as developed in *Grokster* is perfectly clear, exegesis of the decision points to an inclination towards an interpretation of inducement which is more technology-friendly than one might imagine. Further, the fact-specificity of the *Grokster* decision indicates the Court did not intend for the decision to ensnare all future innovation.

A future precedent-abiding court likely will be inclined to hold that in order to establish liability for inducing copyright infringement, a plaintiff must prove the defendant not only intended inducement, but also made an affirmative act toward that goal.²¹ This stems from fact that throughout the *Grokster* Court's discussion of the three elements evidencing intent, particularly vague and obscure language was used to characterize the failure-to-filter element. In regards to the first feature, the Court emphatically pointed to the fact that the distribution of Streamcast and Grokster through an OpenNap program compatible with Napster sufficed to show that the defendants were "aiming to satisfy a known source of demand for copyright infringement, the market comprising former Napster users."²² Further, evidence of the existence of an infringement-dependent business model was provided by the fact that the high-volume infringing use helped facilitate the increase of advertising revenue for the enterprise. While the court emphasized that the adoption of this business model alone, absent other evidence, "would not justify an inference of unlawful intent,"²³ the significance of

¹⁹ See, e.g., Fred von Lohmann, *Remedying 'Grokster'*, LAW.COM, July 25, 2005, (Von Lohmann advocates the view that the Court's refusal to address the *Sony* question leads to a "copyright chill") <http://www.law.com/jsp/article.jsp?id=1122023112436>.

²⁰ *Gershwin Publ'g Corp. v. Columbia Artists Mgmt.*, 443 F.2d 1159, 1162 (2d Cir. 1971). (The court held that a party is liable for contributory infringement when it ". . .with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another").

²¹ This interpretation may be labelled the "active step" theory. See Tim Wu, *The Copyright Paradox - Understanding Grokster*, 16 (Stanford Law & Econ. Olin Working Paper No. 317 Sup. Ct. Rev., 2006), available at <http://ssrn.com/abstract=828784>.

²² *Grokster*, 545 U.S. at 939.

²³ *Id.* at 939-40

this feature as probative evidence of intent is highlighted by the court's assertion that "in the context of the entire record its import is clear."²⁴

In contrast, the Court's references to product-design omission of a filter as an element of intent appear much less emphatic.²⁵ The Court deemed that the defendant's failure to develop filtering merely gave the evidence of an unlawful objective "added significance."²⁶ This design omission "underscores"²⁷ Grokster's and StreamCast's intentional facilitation of their users' infringement. Once again, the Court emphasized that this feature in isolation will not demonstrate inducement. The hesitant language used by the Court begs the question of the extent to which a product-design omission actually matters to the discussion. Perhaps the Court included this factor as an afterthought in an attempt to heighten awareness that technological developers have a positive duty to ensure that their innovations are used responsibly. The intentional use of language to underplay the "design omission" element is consistent with the Court's emphatic assertion that inducement liability requires "clear expression or other affirmative steps taken to foster infringement."²⁸ An omission is neither a "clear expression" nor an "affirmative step," so the inference appears to be that failure to filter is little more than the cherry atop a rich sundae of positive acts evidencing inducement. For instance, given a borderline case which straddles the line between intent evidencing inducement and an absence of such intent, the enterprise's failure to filter may provide the "added significance" which tips the balance in favor of liability.

Such an "active step" theory is relatively technologist friendly; by making the promotion of the infringement-enabling capacities of the device a crucial element of the liability equation, future courts will be more limited in their ability to premise liability upon a variety of combinations.²⁹ For instance, the mere combination of non-filtering with an infringement-dependent business plan will not result in liability unless courts also find the defendant made overt active steps. Further, the imprecision with which the filtering factor is formulated may actually afford technologists with a safe harbor from future inducement claims. It has been observed that the entrepreneur who *does* filter could poten-

²⁴ *Id.* at 940.

²⁵ See Matthew D. Brown et al., *Secondary Liability for Inducing Copyright Infringement After MGM v. Grokster: Infringement-Prevention and Product Design*, 9 J. INTERNET LAW 21, 23 (2005).

²⁶ Grokster, 545 U.S. at 939

²⁷ *Id.*

²⁸ *Id.* at 914.

²⁹ That is, criterion one of the three-part Grokster test must form part of any liability equation. *Id.* at 936 n.11.

tially defeat inferences of intent to induce infringement.³⁰ In the post-*Grokster* decision of *Monotype Imaging Inc. v. Bitstream Inc.*,³¹ the fact that Bitstream took positive steps in an attempt to diminish infringement bolstered the district court's finding that the intent necessary for inducement liability was absent.³² While this decision differed from *Grokster* due to the fact that there was no evidence indicating that Bitstream's business was facilitated by increasing the number of infringing uses, perhaps logic dictates that if an omission to filter underscores the presence of intent, the *positive act of filtering* should correspondingly serve to underscore an *absence of intent* as well. It may even be the case that a future court will hold that evidence of such positive acts may vitiate intent entirely by offering a complete defense. Given the *Grokster* court's emphasis on "clear expression or other affirmative steps taken to foster infringement,"³³ the positive act of filtering should logically assume a position of presumptive dominance over a failure to filter. In view of the court's inference that positive acts are more telling of liability than omissions, it is rational to deduce that a positive act intended to negate intent should also have greater preponderance than merely providing added significance.

Even if this technology-friendly interpretation of *Grokster* were to be applied to future litigation, the technology lobby is likely to bemoan the fact that it remains manifestly unclear what constitutes "clear expression or other affirmative steps," particularly given that some of the factual evidence presented to demonstrate *Grokster* and *Streamcast*'s intent was far from strong.³⁴ As Eric Goldman points out, the defendants seemed to suffer a "'taint by association' – by having been associated with the Napster collapse, they got tarred by the same brush,"³⁵ an assertion supported by the presence of the weak factual evidence.³⁶ This lack of clarity provides the requisite ammunition for the technology lobby to argue that the point at which one steps over the line into

³⁰ *Id.* at 2781 n.12. The authors also suggest that the copyright holder's failure to take infringement-preventing steps may work in the defendant's favor.

³¹ *Monotype Imaging Inc. v. Bitstream Inc.*, 376 F. Supp. 2d 877 (N.D. Ill. 2005).

³² *Id.* at 889.

³³ *Grokster*, 545 U.S. at 914.

³⁴ *Id.* at 2781 n.12. For instance, Miller raises the point that invoking *Grokster*'s distribution of an electronic newsletter containing links to articles promoting the software's potentially infringing uses is feeble evidence of intent. He writes: "[What does this mean? If the New York Times profiles your product and mentions its infringing uses you can't cite that article?]" See *supra* note 2.

³⁵ Eric Goldman, *Grokster Supreme Court Ruling*, TECHNOLOGY & MARKETING LAW BLOG, June 27, 2005, http://blog.ericgoldman.org/archives/2005/06/grokster_suprem.htm.

³⁶ For instance, the Supreme Court mentioned that *Grokster*'s name appeared to be derived from Napster. *Grokster*, 545 U.S. at 2781.

the realm of inducement is indiscernible.³⁷ However, perhaps it is the very fact that these facts are so defendant-specific which is most informative for the purposes of gauging the breadth of the *Grokster* decision. The technology lobby must recognize that legal decisions need to be considered in the broader context rather than within the confines of an adjudicatory bubble. It was clear that given the gigantic scale of copyright infringement facilitated by *Grokster* and *Streamcast*, the Supreme Court had no choice but to find them liable, even though the evidence was not conclusively damning, as hoped. Taking this into account, it is logical to regard *Grokster* as a largely purposive decision which may be little more than a political compromise.³⁸ The disagreement over the *Sony* standard evidences that while there was concurrence over the fact that the defendants should lose, the Court was unclear about how to formulate the basis for liability without opening the floodgates to excessive liability. The fact-specificity employed in finding the defendants liable evinces the fact that the court wanted to reach a minimalist decision³⁹ which would suffice to get rid of *Grokster* without making any broad all-technology-encompassing proclamations. The following exchange illustrates the Court's adoption of a more minimalist and intuitive approach:

JUSTICE KENNEDY: "What you want to do is say that unlawfully expropriated property can be used by the owner of the instrumentality as part of the startup capital for his product.

MR. TARANTO: I-well—

JUSTICE KENNEDY: And I – just from an economic standpoint and a legal standpoint, *that sounds wrong to me* (emphasis added).⁴⁰

The Court's stance appears to be as follows: "If it sounds wrong, it probably is." Consequently, the admission of allegedly weak⁴¹ evidence

³⁷ See Siva Vaidhyanathan, *Supreme Court's Unsound Decision*, SALON, June 28, 2005 (suggesting that even Google may unwittingly overstep this blurry line), <http://dir.salon.com/story/news/feature/2005/06/28/grokster/index.html>.

³⁸ Tim Wu acknowledges that the view that *Grokster* may not mean much from a legal standpoint is held by some. "[W]hat decision?" See *supra* note 19 at 18.

³⁹ See Cass R. Sunstein, *Minimalism at War*, SUP. CT. REV., (forthcoming) available at <http://ssrn.com/abstract=629285>. Sunstein notes that many judges are minimalists who are reluctant to go beyond what is necessary to resolve cases. One feature of minimalism is the preference for narrowness over depth, and the consequent distaste for excessively broad judgments which may turn out to be unwarranted.

⁴⁰ Oral Arguments Transcript at 36, *MGM Studios Inc. v. Grokster*, 545 U.S. 913(2005) (No.04-480), available at http://www.supremecourtus.gov/oral_arguments/argument_transcripts/04-480.pdf.

⁴¹ It cannot be generalized that all the evidence was weak. One proposed advert was quite emphatic of *Grokster's* intention: ["Napster Inc. has announced that it will soon begin charging you a fee. That's if the courts don't order it to shut down first. What will you do to get around it?"] *Grokster*, 545 U.S. at 925.

does not speak to the fact that the inducement test creates a general imbalance in favor of copyright holders, given that *Grokster* was such an extreme example because of the rampant primary infringement facilitated by the defendants. The fact-specificity invoked to put *Grokster* on the hook highlights how the vagueness of the inducement test may actually work to the advantage of technologists, even those with malicious intents. A year after the decision, the prediction that other P2P file-sharing services are unlikely to make drastic changes to their behavior pursuant to *Grokster* appears to be accurate.⁴² It is also true that innovations such as BitTorrent have been insulated from liability thus far.⁴³ Even if one does not subscribe to the notion that *Grokster* is primarily a purposive decision, a future court which chooses to obsess over the nuances of every word in the decision is unlikely to be unduly harsh on the defendant. The fact that the inducement standard is borrowed from patent law means that defendants in copyright infringement actions should not expect to be treated any differently given the historical kinship between the two branches of intellectual property. Inducement liability in patent law generally requires affirmative acts,⁴⁴ which should give innovators added confidence that any alleged “chill” is at most a mild, temporary breeze.

C. *What's Left of Sony?*

Despite the fact that the language of the decision favors an active-step inducement theory, *Grokster* is liable to misconstruction by future

⁴² For a substantial period of time after *Grokster*, LimeWire LLC continued to regard a disclaimer as being sufficient to insulate itself from future liability. On June 21, 2006, LimeWire released a new version of its software which included an option to filter material which copyright owners have denied access to. In practice, however, many of the so-called “legal” downloads have a spoofed license. Although the music industry decided to initiate proceedings against LimeWire on August 4, 2006, what is important for our purpose is that the company’s lack of responsiveness towards the *Grokster* decision indicates that the chilling effect is exaggerated. In fact, LimeWire retaliated by counterclaiming against the RIAA for antitrust violations, consumer fraud, and other misconduct on September 25, 2006. See Greg Sandoval, *Music Industry sues P2P firm LimeWire*, CNET NEWS, Aug. 4, 2006, http://news.com.com/Music+industry+sues+P2P+firm+LimeWire/2100-1025_3-6102509.html. See also: Ray Beckerman, *LimeWire sues RIAA for Antitrust Violations*, RECORDING INDUSTRY VS THE PEOPLE, Sept. 25, 2006, <http://recordingindustryvspeople.blogspot.com/2006/09/lime-wire-sues-riaa-for-antitrust.html>.

⁴³ While BitTorrent tracker sites have been subject to legal action, BitTorrent programmer Bram Cohen, who is the true “innovator” for our purpose, has remained unscathed. The academic consensus appears to be that as a technology, BitTorrent will remain safe post-*Grokster*. See e.g. Mark Schultz, *What Happens to BitTorrent after Grokster?*, TECHNOLOGY & MARKETING LAW BLOG, June 28, 2005, http://blog.ericgoldman.org/archives/2005/06/what_happens_to.htm.

⁴⁴ See, e.g., *Ferguson Beauregard/Logic Controls, Div. of Dover Res., Inc. v Mega Sys., LLC*, 350 F.3d 1327 (Fed. Cir. 2003).

courts. Should other interpretations of inducement be adopted, there is a possibility that the inducement test will be construed less favorably to technologists. Jane Ginsburg posits an interpretation of *Grokster* which in substance makes liability turn on the old *Sony* question by speculating that “one might predict that where a device facilitates infringement on a massive scale, its distributor will likely be found to have intended that result. Where the infringement is relatively modest in scale, inducement will not be found, but neither will the *Sony* threshold for liability be crossed.”⁴⁵ Another interpretation is what Tim Wu labels the “lineage theory,”⁴⁶ which suggests that the inducement test may only be relevant to technologies which are “tainted by association.”⁴⁷ This means that for many untainted innovations designed for primarily non-infringing purposes such as e-mail, the *Sony* test will determine whether secondary liability will be incurred. The *Sony* test also continues to be relevant for the purposes of determining the fate of companies which do not incur inducement liability under an active-step theory.

The status and scope of the *Sony* safe harbor post-*Grokster* warrants further discussion for the reason that it forms the second limb of the technology lobby’s allegations. It is argued that the Court’s refusal to delineate the scope of the *Sony* defense has exacerbated the chilling effect by making it impossible for innovators to speculate when the defense will work in their favor. In particular, the disagreement between Justice Ginsburg and Justice Breyer points to the possibility of two divergent interpretations. Admittedly, one interpretation is significantly less technology-protecting than the other. Justice Ginsburg pointed to the fact that there was little evidence of any non-infringing use in order to substantiate her assertion that *actual* non-infringing use must be demonstrated for the defense to be effective.⁴⁸ On the contrary, Justice Breyer focuses on the fact that new technologies with the *capability* of legitimate non-infringing uses ought to be protected,⁴⁹ ultimately concluding that *Sony* did indeed offer a safe harbor “unless the technology in question will be used almost exclusively to infringe copyrights.”⁵⁰

⁴⁵ Jane Ginsburg & Sam Ricketson, *Inducers and Authorisers: A Comparison of the US Supreme Court’s Grokster Decision and the Australian Federal Court’s Kazaa Ruling*, Columbia Public Law Research Paper No. 06-105 at 6, available at <http://ssrn.com/abstract=888928>.

⁴⁶ See *supra*, note 21 at 16.

⁴⁷ See *supra*, note 35.

⁴⁸ *Grokster*, 545 U.S. at 948.

⁴⁹ *Id.* at 952-54. Justice Breyer reasoned that just as previously unanticipated substantial non-infringing uses ultimately developed with the Betamax and the VCR, P2P may have the latent capability to develop such uses despite the fact that we are presently not able to precisely envision these possibilities.

⁵⁰ *Id.*

The technology lobby has seized upon Justice Breyer's concurrence to argue that the Court's refusal to settle on a bright-line *Sony* rule has contributed to the chilling effect.

However, what such an assertion fails to account for is the fact that the line separating infringing from non-infringing use has never been all that bright. While bright line rules may be desirable,⁵¹ there are many aspects of US copyright law that are anything but crystal clear. For example, whether the concept of fair use⁵² can be successfully invoked depends on the consideration of four broad and indeterminate factors, none of which are accorded a certain weight by the statute. Ever since the *Sony* ruling, technologists and the entertainment industry have been hotly disputing the scope of the *Sony* defense without a conclusive resolution being reached, culminating in the plea for a clarification in *Grokster*. While Justice Stevens had originally intended to create a bright line rule,⁵³ courts are not blind to the necessity of leaving sufficient room for interpretation in order to limit the possibility of technologists following the letter but not the spirit of the law. Furthermore, the very efficacy of the *Sony* rule as a shield for technology is questionable, since over the past twenty years some innovations have perished in spite of its existence. As Jessica Litman has observed, while some technology companies may have survived a lawsuit on account of the substantial non-infringing capabilities of their products, the crippling costs of litigation, coupled with the deep pockets of many copyright holders, meant that they had little choice but to fold, rendering the *Sony* test redundant.⁵⁴ While this occurrence may give rise to a chilling effect, it is important to note that it stems from the economic disparity between the parties rather than the *Grokster* decision. Even if *Sony* serves as an effective shield for defendants with sufficient financial means to engage in litigation, the *Grokster* Court did not add to any existing chilling effect by merely refusing to eradicate it. Certainly, Justice Ginsburg's concurrence may be regarded as modifying the *Sony* safe harbor, but Justice Breyer's judgment effectively neutralizes its effect, culminating in a decision which, when looked at in its entirety, leaves us none the

⁵¹ See, e.g., Brett M. Frischmann, *An Economic Theory of Infrastructure and Commerce Management*, MINN. L. REV. 917 (2005).

⁵² 17 U.S.C. § 107 (2000).

⁵³ *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 US 417, 442 (1984), Justice Stevens stated that ["the sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be capable of substantial non-infringing uses."] The capability of the Betamax being used for non-commercial time-shifting meant that this test was clearly satisfied.

⁵⁴ Jessica Litman, *The Sony Paradox*, 55 CASE W. RES. L. REV. 917, 952 (2005). Litman cites RecordTV, Scour.com and SonicBlue as examples of this occurrence.

wiser about *Sony* but does not amend it in any way. Another pertinent point stems from the Court's insistence on preserving the *Sony* test. The very fact that the *Sony* test was not thrown out should be seen as a partial victory for the technology lobby.⁵⁵ The plaintiffs envisioned that the Supreme Court would be inspired by the massive scale of illegitimate downloading to abandon the *Sony* safe harbor in favor of one of the stricter rules proposed to the Court. The fact that this did not materialize should alert the technology lobby that the ruling could have been substantially less technology-friendly.⁵⁶ An opportunity to recast the *Sony* rule in a clearer way may have come and gone, but just as *Grokster's* failure to filter does not, in itself, lead to liability, the Supreme Court's omission to ascertain the scope of *Sony* should not be indicted as contributing to the chilling effect.

D. *The Boy Who Cried Wolf*

It will be observed that secondary liability for P2P developers could arise via a variety of permutations. While the preceding discussion concedes that *Grokster* leaves some considerable ambiguities in its wake, there is no necessary connection between this indeterminacy and the creation of a chilling effect. First, the function of the law as a barometer for predicting behavior accurately is questionable. Legal history is replete with examples of instances where everyone "cried wolf" over a certain decision, only to have none of the anticipated consequences actually materialize.⁵⁷ One need not look further than American copyright law itself for such examples.⁵⁸ Second, it cannot be assumed that all innovators will feel that *Grokster* will have any relevance to them due to the fact-specific nature of the decision. Indeed, while it is true that large commercial enterprises such as Apple and Microsoft are armed with a barrage of lawyers who may advocate a more conservative approach post-*Grokster*, it is arguable that many garage entrepreneurs rarely think twice about liability.

⁵⁵ As observed by Pamela Samuelson, *Did MGM really win the Grokster case?* 48 Communications of the ACM 19 (2005) at 21.

⁵⁶ *Supra* n.45 – Ginsburg notes that Australian copyright law does not recognise a substantial non-infringing use defence (at 22).

⁵⁷ A good example is provided by the House of Lords decision in *Donoghue v Stevenson*, [1932] All ER Rep 1, Also reported [1932] AC 562, the landmark English law decision on the tort of negligence. It was widely speculated that the "neighbor" principle established by Lord Atkin would open up the "floodgates" to an excess of liability. However, its apparent width did not give rise to the problems initially contemplated, and English tort law has continued to develop under this principle.

⁵⁸ Fears of "chilling effects" were similarly made in regards to the No Electric Theft (NET) Act in 1997 and the Digital Millennium Copyright Act in 1998. However, the anticipated horrors did not materialise. See generally *supra* n.8

It must also be noted that where there is alleged to be uncertainty in the law, the pendulum swings both ways. Consequently, a decision such as *Grokster* is equally as unclear for the technology lobby as it is for copyright holders. Notable chilling effects are more likely to be occasioned in situations where the law is clearly in favor of one party,⁵⁹ as opposed to in a *Grokster* situation where neither party can claim to be completely victorious. In a *Grokster* situation, any purported chill on innovation may be neutralized, and indeed overshadowed, by the possibility that copyright holders may themselves be chilled from going down the *Grokster* route. Even the deep-pocketed copyright holder would prefer not to be embroiled in complicated litigation in which victory is not guaranteed. Consequently, they may pursue an alternative avenue of protection by focusing their attention on targeting end-users due to the relative simplicity of primary infringement lawsuits,⁶⁰ a development which may ironically give the technology lobby a greater sense of immunity.

What has been labeled a “chilling effect”⁶¹ is perhaps more accurately represented as an admonition to developers that they have a social responsibility to ensure that their proposed innovations meet a certain standard,⁶² as well as serving as a reminder that firms should exercise greater caution in building markets for their products and services. It may even be fair to conclude that any “chill” stems not from the *Grokster* decision itself, but from the fact that the technology lobby immediately began “crying wolf” pursuant to the decision, alarming the entire world of a threat which did not even exist at the time. The little boy who cried wolf learned his lesson the hard way. While innovators may one day be faced with a wolf-like decision which inhibits innovation to the point of paralysis, *Grokster* is not that decision. The technology lobby would be wise to reserve its wolf cries for the arrival of a legitimate threat, rather than a sheep in wolf’s clothing.

⁵⁹ English defamation law provides a good example of this occurrence. For instance, the presupposition that every defamation is false means that defendants are often placed in an unenviable position. The crippling costs of a defamation trial, exacerbates the considerable “chilling effects” already felt by the English media.

⁶⁰ Since primary infringement suits are simple and low-cost, they may become a profitable legal activity. (Professor Justin Hughes, COPYRIGHT AND THE PEER-TO-PEER LITIGATION EXPLOSION, Guest Lecture at the London School of Economics, (2006).

⁶¹ An expression which connotes a paralyzing fear of innovation.

⁶² At the very least, firms should be prepared to present strong factual evidence of non-infringing use in the event of litigation. In *Grokster*, 545 U.S. at 945 (2005), Justice Ginsburg noted that since most of the evidence presented was anecdotal and generalised, the defendants would not have been saved by *Sony*.

III. THE MUSIC INDUSTRY V. THE ESCAPOLOGIST

The music industry continues to view P2P as a viable threat to its future, evident by the succession of aggressive litigation against P2P developers. It may be questioned whether such lawsuits have the desired effect of curbing demand for illegitimate downloading.⁶³ However, legal recourse against the bad-intentioned P2P developer remains important not just for the purposes of offering some compensation to the industry. Such measures send a message to innovators of technologies which have potentially infringing uses, encouraging them to take the requisite prophylactic measures to ensure that the copyright regime is respected. Further, stamping out egregious inducers may also be conducive towards educating consumers about the copyright regime without attracting the same degree of negative publicity associated with suing end users. However, it is important for such legal measures to transcend geographic borders, since despite the important ongoing efforts to achieve international harmony of substantive copyright rules, it remains the case that secondary liability in a P2P context has only been entrenched in a handful of jurisdictions. In the Dutch decision of *Buma/Stemra Inc. v. KaZaA*⁶⁴, for instance, the Dutch Court of Appeal ruled that any acts which infringed copyright law were committed by KaZaA users as opposed to by KaZaA itself, since merely providing the means to publish or multiply copyrighted works was not tantamount to an act of publication or multiplication. The claimants' appeal was rejected by the Dutch Supreme Court.⁶⁵ This lack of international uniformity illustrates the possibility of developers "escaping" to jurisdictions with laxer copyright laws in an attempt to evade the laws of countries such as the US, further threatening the music industry. Whether such evasive methods are likely to be successful warrants further consideration.

Before proceeding, two clarifications are in order. In view of the fact that the U.S. music market is the largest music market in the world, the transnational "export" of decisions such as *Grokster* is particularly pertinent to US copyright holders. However, with the advent of unprec-

⁶³ See Part IV.

⁶⁴ *Amsterdam Appellate Judgment in favour of P2P in Burma & Stemra v. Kazaa*, ELECTRONIC FRONTIER FOUNDATION, March 28, 2002, Amsterdam Ct. App. 2002, <http://w2.eff.org/IP/P2P/BUMA_v_Kazaa/20020328_kazaa_appeal_judgment.html>, (last visited Apr. 6, 2008).

⁶⁵ Jan Libbenga, *Dutch Supreme Court rules Kazaa legal*, The Register, Dec. 19, 2003, http://www.theregister.co.uk/2003/12/19/dutch_supreme_court_rules_kazaa/, (last visited Apr. 6, 2008).

edented growth in other music markets,⁶⁶ the prospect of the extraterritorial application of the copyright laws of other countries may be equally, if not more, important. Nevertheless, to keep a complex issue simple, this article will limit the focus of the analysis to the U.S.⁶⁷ Further, it is acknowledged that matters concerning choice of forum and the recognition and enforcement of judgments are pertinent issues. However, this article focuses on substantive choice of law issues. Therefore, many of the examples rest upon the assumption that the U.S. court has jurisdiction over the dispute and that enforcement does not present any notable problems. This does not detract from the fact that the practicalities of “exporting” *Grokster* may involve complexities not discussed at length in this article.⁶⁸

A. Background

Since very little has been written about conflict of laws in the context of P2P, a general discussion of the territoriality principle and an overview of the U.S. courts’ approach towards P2P copyright infringement will assist in illuminating the key issues. The principle of territoriality is a firmly ingrained norm in copyright law. The idea that a state generally lacks the legal capacity to govern activities occurring outside its national borders creates an intrinsic link between the territoriality principle and choice of law. As Paul Goldstein observes, “[s]ince the relevant choice of law rule for copyright infringement calls for application of the law in force in the place where the infringement occurred, territoriality implies that the law governing an infringement will in most, if not all, cases be the law of the country where the infringement occurred.”⁶⁹ Despite the fact that the principle is generally respected, the prevalence of Internet-based activities which cut across geographical boundaries means that territoriality has come under increasing

⁶⁶ See, e.g., *Global Digital Music Sales Triple to US\$1.1 Billion in 2005 as New Market Takes Shape*, IFPI, Jan 19, 2006, www.ifpi.org/site-content/section_news/dmr-2006.html, (last visited Apr. 6, 2008).

⁶⁷ However, it is recognized that the U.S. concepts may diverge significantly from those of other jurisdictions.

⁶⁸ On jurisdictional issues, see *MGM Studios, Inc. v Grokster Ltd.*, 243 F. Supp. 2d 1073 (C.D. Cal. 2003) and *Arista Records v. Sakfield Holding Company*, 314 F. Supp. 2d 27, 2004 (U.S. court asserting jurisdiction over a Spanish-based site). Matthew Rimmer, *Hail to the Thief: A Tribute to Kazaa*, U. OTTAWA L. & TECH. J., 173 (2005) (noting how U.S. courts are taking an increasingly expansive view of jurisdiction. In regards to enforcement, shutting down a foreign based P2P provider may involve cooperation from the foreign government in the form of a court order. See, e.g., John Borland, *Ruling Bolsters File-Traders’ Prospects*, CNETNEWS.COM, March 28, 2002, <http://news.com.com/2100-1023-870396.html>. (last visited Apr. 6, 2008).

⁶⁹ Paul Goldstein, *International Copyright: Principles, Law and Practice*, 61 (Oxford University Press 2001).

strain.⁷⁰ P2P litigation represents an area in which the suitability of strict adherence to the territoriality principle has become contested.

Unsurprisingly, the territoriality principle leads to the default position that unwarranted copying in the U.S. amounts to a violation of American copyright law. In the context of P2P, the unexcused reproduction of copyrighted works is a common basis upon which liability for direct infringement is premised.⁷¹ However, another category of infringement which may be applied in order to capture the initial provision of files for exchange is the unauthorized distribution of copyrighted material. In *A&M Records Inc. v. Napster Inc.*,⁷² the court specifically concluded that the distribution right is violated when music files are uploaded by users, while the reproduction right is violated when they download, and hence copy, the files onto their own computer systems.⁷³ Since indirect infringement by the P2P provider is predicated upon direct infringement by end-users, the location of the file-sharers is an important consideration in cases such as *Grokster*. In the *Grokster* decision itself, the Supreme Court did not have to give much thought to the issue as it related to the appropriateness of applying U.S. law due to the unquestioned sufficiency of infringing acts occurring domestically.⁷⁴ However, the presence of the crafty “Escapologist” may mean that in future, P2P developers will exploit this technicality to their advantage,⁷⁵ seeking solace in the more lenient laws of the world’s “copyright havens.”⁷⁶

⁷⁰ See, e.g., Andreas P. Reindl, *Choosing Law in Cyberspace: Copyright Conflicts on Global Networks*, 19 MICH. J. INT’L L. 799, 800 (1998).

⁷¹ Since, in the absence of a physical transfer, the nature of the Internet necessitates the replication of content from one computer’s memory to another’s.

⁷² *A & M Records Inc. v. Napster Inc.*, 239 F. 3d 1004 (9th Cir. 2001).

⁷³ *Id.* at 1014.

⁷⁴ Graeme Austin, *Importing Kazaa · Exporting Grokster*, 22 Santa Clara Computer & High Tech. L.J. 577, 593 (2006).

⁷⁵ See, e.g., *Irish Software Designer to Create P2P Network Secured from Official Monitoring*, NEWSFROMRUSSIA.COM, August 1, 2005, <http://newsfromrussia.com/science/2005/08/01/60884.html> (last visited Apr. 6, 2008). However, note that such “Darknets” may not be under substantial legal threat, given their limited commercial impact.

⁷⁶ The extraterritorial reach of US copyright law could potentially become an increasingly pertinent issue as a result of recent developments. On December 18, 2006, the RIAA, on behalf of Sony BMG, EMI, Universal Music Group, and Warner Music Group filed a \$1.65 trillion lawsuit against Russian online music distribution company Mediaservices, which owns AllofMP3.com and allTunes.com, for illegally selling copyrighted music. While the company does not operate P2P services, a parallel may be drawn between the extraterritoriality issues involved in the Mediaservices lawsuit and the P2P controversy. In response to the lawsuit, a company official of Mediaservices stated, “This suit is unjustified as AllofMP3 does not operate in New York. Certainly the labels are free to file any suit they wish, despite knowing full well that AllofMP3 operates legally in Russia. In the mean time, AllofMP3 plans to continue to operate legally and comply with all Russian laws.” See *RIAA sues*

In *Grokster*, the defendant company was based in Nevis, West Indies. However, the volume of primary infringements in the U.S., coupled with the fact that the advertisements regarded by the Court as an element of inducement were partly targeted towards U.S. end-users, meant that the suitability of applying U.S. law was unquestioned. This also shows that for a would-be inducer, the simple act of relocating offshore to develop an enterprise in a jurisdiction which does not recognize a stringent concept of secondary P2P infringement does not suffice as a means of evading U.S. copyright laws. The presence of ultimate infringements in the U.S. provides a sufficient anchor for the application of US law. However, despite contemporary efforts toward international harmonization of copyright laws, it remains a fact that copyright laws differ from country to country,⁷⁷ allowing P2P developers to capitalize upon these discrepancies. Two hypothetical scenarios may be postulated as examples of this possibility. While it is acknowledged that other factual permutations are possible, consideration of two relatively extreme methods of attempting to distance oneself from American soil will suffice to illustrate the dilemma.

B. *The Illusion of Escape*

Let us envision the following hypothetical situation. The P2P developer, Inducester Ltd., actively promotes its infringement-facilitating nature. It makes no attempt to develop filtering tools to detect infringing uses and its business model is dependent upon a high volume of infringing uses. The company conducts a continuous and substantial amount of business in the U.S. However, the company incorporates a dependable form of geographical authentication into its P2P software, barring end users from certain countries, including the U.S., from utilizing the program. A substantial volume of primary infringements occurs in the country we shall call Shareldia. The Shareldian High Court has recently exculpated a P2P developer on the basis that merely providing the means to reproduce and distribute copyrighted materials does not suffice to subject a developer to secondary liability under Shareldian law, even if the defendant actively induced the primary infringements.

Analysis of this scenario must be prefaced by noting that geographical authentication may not be one hundred percent technologi-

AllofMP3 for \$1.65 trillion, Zeropaid.com, December 28, 2006, [http://www.zeropaid.com/news/8175/RIAA+sues+AllofMP3+for+\\$1.65+trillion](http://www.zeropaid.com/news/8175/RIAA+sues+AllofMP3+for+$1.65+trillion). (last visited Apr. 6, 2008).

⁷⁷ Yu, *supra* note 3, at 407. Yu notes that countries must enact distinctive copyright systems to reflect their different economic structures, technological capabilities, levels of wealth, political systems and cultural traditions.

cally effective. The case of *Yahoo! Inc. v. La Ligue Contre Le Racisme*⁷⁸ illustrates this point. In reconsidering earlier expert evidence, the court made the following remarks: "Assuming that '70% of the IP addresses assigned to French surfers can be matched with certainty to a service provider located in France, and can be filtered,' all three experts agreed that 'no filtering method is capable of identifying all French surfers or surfers connecting from French territory.'" ⁷⁹ Putting the possibility of technological advancement aside, the gist of the expert evidence appears to be that while geographical authentication is possible, its efficacy rate is likely to be greater than seventy percent, but less than one hundred percent. Therefore, in practice, Inducester's filtering mechanism may not be foolproof, and it will be seen that this may have important legal consequences. However, in order to facilitate the discussion, let us begin by assuming that the filtering method employed is one hundred percent effective.

Bearing this assumption in mind, it appears that a U.S. court⁸⁰ may encounter considerable difficulties justifying the application of U.S. law to the present case. Certainly, the court could apply the laws of other countries in which the infringements culminate. However, assuming that Inducester successfully filters out all users from countries where secondary P2P liability is recognized, this may leave the U.S. court with a choice between the laws of the Shareldias of the world, allowing Inducester to evade liability at the expense of the copyright holders. Despite the fact that Inducester conducts a substantial amount of business in the U.S., the absence of any primary infringements in the jurisdiction presents an illusion of escape, rendering it difficult to justify the application of *Grokster*. The argument for doing so appears to hit a dead end when faced with the territoriality principle.⁸¹ In the specific context of U.S. copyright law, the Ninth Circuit upheld the importance of the territoriality principle in *Subafilms Ltd. v. MGM-Pathé Communications Co.*⁸² in a secondary infringement context. In considering the issue of whether the defendant's U.S.-based "authorization" of acts of infringement committed abroad sufficed to justify the application of American law, the court held that such a defiance of the territoriality principle

⁷⁸ *Yahoo! Inc. v. La Ligue Contre Le Racisme*, 433 F.3d 1199 (9th Cir. 2006).

⁷⁹ *Id.* at 1246.

⁸⁰ With the requisite jurisdiction, for instance on the ground that the defendant "transacts business" in the forum. See Jane Ginsburg, *The Private International Law of Copyright*, 273 *Receuil des Cours*, 239, 287 (1998).

⁸¹ "[I]t is a longstanding principle of American law 'that legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States.'" *EEOC v. Arabian Am. Oil Co.*, 499 U.S. 244, 248 (1991).

⁸² *Subafilms, Ltd. v. MGM-Pathé Commc'ns Co.*, 24 F.3d 1088 (9th Cir.1994).

would be “contrary to the spirit of the Berne Convention, and might offend other member nations by effectively displacing their law in circumstances in which previously it was assumed to govern.”⁸³ A U.S. court which followed this approach may be reluctant to apply American law to acts which do not culminate in infringement in the U.S.

Theoretically, this default rule that the Copyright Act has no extra-territorial application for offshore acts still prevails. In practice, however, more recent developments evidence a move away from strict adherence to the territoriality principle. While it must be conceded that technically, the *Subafilms* decision is yet to be overruled and remains good law to this day, it must also be noted that territoriality was perhaps not designed to be a rigid doctrine which is incapable of responding to the times. In the words of Graeme Dinwoodie, “[T]erritoriality reflected pragmatism, or practicality. Private international law is really all about practicality, about enforcing rights. . . .”⁸⁴ This is indicative of the fact that perhaps the need to justify departures from the territoriality principle based upon pragmatic concerns may not be as pressing as one would imagine.

Beyond striving to attain a fair, pragmatic outcome, doctrinal symmetry is also desirable. An examination of patent law highlights the fact that declining to extend copyright law beyond geographical borders would render it largely anomalous in the intellectual property family.⁸⁵ As the “inducement” theory as developed in *Grokster* was borrowed from patent law, examining the possibility of the cross-border application of U.S. patent laws may assist in determining whether *Grokster* can be applied extraterritorially. In spite of the contention that patents may be the most “explicitly territorial”⁸⁶ of intellectual property rights, two recent Federal Circuit decisions illuminate judicial willingness to extend the reach of U.S. patent law beyond geographical borders by adopting a more purposive approach. In *AT&T Corp. v. Microsoft Corp.*,⁸⁷ the court considered whether the fact that the foreign-replicated copies of Windows software were all installed abroad sufficed to insulate Microsoft from liability under 35 U.S.C. § 271(f). The Court held that liability for the foreign copies could be incurred, since sending a copy abroad with the intention that it be replicated could not be used as a

⁸³ *Id.* at 1097.

⁸⁴ Symposium, *Intellectual Property Online: The Challenge of Multi-territorial disputes: Panel I: Resolution Through Conflict of Laws*, 30 BROOKLYN J. INT’L L. 885 (2005).

⁸⁵ Austin, *supra* note 74, at 602. (remarking that of all the intellectual property rights, trademark law has been more prone to extraterritorial application compared to the others.)

⁸⁶ Donald S. Chisum, Comment, *Normative and Empirical Territoriality in Intellectual Property: Lessons from Patent Law*, 37 VA. J. INT’L L. 603 (1997) at 605.

⁸⁷ *AT&T Corp. v. Microsoft Corp.*, 2007 U.S. App. Lexis 14852 (Fed. Cir. June 14, 2007).

means of circumventing the patent statute. In *NTP v. Research In Motion*,⁸⁸ the court demonstrated a similar distaste towards allowing geography to operate as a loophole for defendants, indicating that the offshore presence of certain components was not destructive of a patent infringement of system claims under § 271(f) provided that control of the system is exercised in the U.S. and beneficial use of the system is also obtained locally. It is expected that such a purposive attitude will similarly be “borrowed” from patent law to ensure that the Escapologist will have nowhere to hide.

The relaxation of territoriality is also evident in other jurisdictions. Such liberalizing trends may have an effect on the way future U.S. courts regard the principle based upon the fact that the Berne Convention is premised upon symbiotic relationships.⁸⁹ For example, in deciding on the “real and substantial connection test” as the appropriate test to determine when a communication to the public on the internet occurs “in Canada”, the Canadian Supreme Court in *Society of Composers, Authors and Music Publishers of Canada v Canadian Association of Internet Providers*⁹⁰ paved the way for the displacement of the conventional understanding of territoriality. The recent Australian P2P litigation⁹¹ provides a more striking parallel with *Grokster*. As Graeme Austin has discussed extensively,⁹² the Court’s holdings were largely indifferent to the issue of where the act constituting the authorization occurred, highlighting a judicial awareness of the possible need to relax the principle in a P2P context. The Court’s omission to demarcate the territorial boundaries of its decision cannot be accidental, since the Australian courts are more than familiar with the application of Austra-

⁸⁸ *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282 (2005).

⁸⁹ Goldstein, *supra* note 69, at 72 (in §3.2 on National Treatment of the Berne Convention).

⁹⁰ *Soc’y of Composers, Authors and Music Publishers of Canada v. Canadian Assn. of Internet Providers* [2004] 2 S.C.R. 427, 2004 SCC 45 (Can.). While this case is primarily concerned with jurisdiction, it nevertheless illustrates a lesser degree of commitment towards the territoriality principle. The test adopted allows a Canadian court to consider factors such as the locations of the content providers, the host server, the intermediaries and the end users in determining when a communication occurs in Canada. In doing so, territoriality may be compromised, since, by way of example, liability in Canada may be incurred by a content provider in country X who posts content on a server in country Y.

⁹¹ *Universal Music Australia Pty Ltd v. Sharman License Holdings Ltd.* (2005) F.C.R. 1242.

⁹² Austin, *supra* note 74, at 589-592 (noting that the Australian copyright owners’ right to “communicate” a work to the public has an expressly extraterritorial reach. This elaboration goes beyond the communication right provided by Article 8 of the WIPO Copyright Treaty, which is silent on the issue of extraterritoriality).

lian law to conduct occurring extraterritorially.⁹³ It is perhaps more aptly regarded as a pre-emptive strike against forum shopping, a consideration which U.S. courts are equally likely to bear in mind in the context of P2P litigation.

Territoriality can no longer be invoked as a trump card to confine laws within their national boundaries, since numerous concessions have already been made to the principle both within the U.S. and internationally. While the doctrinal significance of the principle as being representative of the default position remains intact, at least in name, recent developments evidence a diminution in the level of commitment towards territoriality.⁹⁴ Recognition of this relaxation removes the main theoretical impediment that prevents *Inducester* from being liable under a *Grokster* inducement analysis. Indeed, liberation from the shackles of an uncompromising view of territoriality presents the court with numerous options besides adhering to the rigid view of making the action turn on the location of the primary infringement.⁹⁵ Of these alternatives, since the P2P service derives commercial gain from the infringements, the court should consider applying the law of the countries where substantial economic harm is incurred. This suggestion is posited as a theoretical alternative to territoriality by Ginsburg, who writes, “[W]here the United States is the nerve centre for foreign distributions, the domestic acts of planning and intellectually implementing the dissemination via an offshore website would justify the application of US law to the foreign communications, because the United States is the country with the “closest relationship” to the resulting harm.”⁹⁶

More importantly, the *Inducester* scenario represents a theoretical abstraction which may rarely materialize in practice, meaning present U.S. copyright law may already provide the answer. Most factual scena-

⁹³ In *Dow Jones and Co. Inc. v Gutnick*, (2002) 210 C.L.R. 575, the Australian High Court held that Australian law was applicable to a dispute concerning allegedly defamatory statements uploaded in New Jersey, on the basis that the statements were received in Victoria, where the damage to the plaintiff's reputation was held to have occurred.

⁹⁴ See, e.g., Graeme Dinwoodie, *Commitments to Territoriality in International Copyright Scholarship*, in COPYRIGHT-INTERNET WORLD: REPORT ON THE NEUCHÂTEL STUDY SESSION 16-17 September, 2002, Lausanne: GROUPE SUISSE DE L'ALAI, 2003, at 74 (P.Brugger ed., 2003). Dinwoodie notes that levels of commitment to territoriality can be categorized as follows: regressive/nationalistic territoriality, reformed territorialism, pragmatic territorialism and internationalism. It appears from the cases discussed that both US and international courts may have shifted from a “regressive/nationalistic” approach to one of “pragmatic territorialism” in order to reflect how the times have changed.

⁹⁵ Ginsburg, *supra* note 80, at 325. Ginsburg posits several theoretical alternatives to strictly adhering to territoriality. For instance, the law of the upload, the law of the author's residence and the law of the defendant's residence/principal place of business are all possibilities.

⁹⁶ *Id.* at 342.

rios will likely lie somewhere in between *Grokster* and *Inducester* for several reasons. First, one may question the profitability of an *Inducester*-like enterprise which shuts itself out from one of the world's biggest music markets as a means of evading the law. More pertinently, while it is possible for P2P developer to incorporate geographical authentication checks into their software, this would undoubtedly involve extra expense for the developer, as well as extra latency for users. This may not be a good business decision for an enterprise whose profitability is already in doubt. Further, as already mentioned, geographical authentication is unlikely to be foolproof, meaning the possibility of excluding all primary infringement from the U.S. may be remote. It may be the case that the presence of just one unauthorized copy in the U.S. will suffice to provide an anchor for the application of U.S. law. In *Los Angeles News Service v. Reuters Television International*,⁹⁷ the court applied a "root copy" theory, concluding that once US copyright law is applied to an initial act within the United States, the court may continue extending the application of U.S. law to encompass offshore acts of unauthorized copying if they were facilitated by the initial "predicate act." Bearing in mind that the complete removal of unauthorized copying in the U.S. may be difficult to guarantee, particularly in the internet context,⁹⁸ the "root copy" theory may hold the key to finding *Inducester* liable under U.S. law, particularly given that courts have been prone to working the facts to locate some infringing act in the U.S.⁹⁹ While the "root copy" approach has thus far only been applied to catch primary infringements, it suffices to say that its mere existence evidences the U.S. courts' more pragmatic approach towards the territoriality principle. If the practice of strict adherence to the principle was already abandoned as far back as in 1998, the advent of P2P only serves to provide greater reason for its relaxation.

⁹⁷ *Los Angeles News Serv. v. Reuters Tel. Int'l, Ltd.*, 149 F.3d 398 (9th Cir.1998).

⁹⁸ Ginsburg, *supra* note 80 at 341-342. The presence of just one unauthorised copy of the work on a server located in the US should be enough to justify the "root copy" approach. The nature of the Internet makes it even easier to locate infringements in the US, since even temporary digital storage is regarded as a legally cognizable copy under US copyright law. See Austin, *supra* note 74, at 598. Austin argues that in practice, the predicate act theory may greatly facilitate the application of U.S. law to "catch" many instances of infringements occurring abroad.

⁹⁹ See, e.g., *National Football League v PrimeTime 24 Joint Venture*, 211 F.3d 10 (2nd Cir. 2000). The court interpreted the Copyright Act to mean that a "public performance or display" includes "each step in the process by which a protected work wends its way to its audience." (citing *David v. Showtime/The Movie Channel, Inc.*, 697 F. Supp. 752, 759 (1988)). It was consequently held that PrimeTime's uplink transmission of signals captured in the United States was a step in this process, and hence the infringement occurred in the US, despite the fact that the broadcast signals were transmitted to Canada.

C. *Total Escape*

Now imagine Eskapia Ltd., a P2P developer whose business plans and operational model are completely identical to Inducester. However, Eskapia is based in Shareldia and has no business at all within the United States.¹⁰⁰ As the biggest music market in the world, the U.S. music industry clearly has an interest in the offshore operations of Eskapia, which may be contributing significantly to lower international sales. However, there appears to be little basis for the application of U.S. law and U.S. courts are unlikely to have jurisdiction over the dispute to begin with. The fate of Eskapia will be determined by the courts and copyright laws of jurisdictions which may be copyright havens, leaving U.S. copyright holders impotent to enforce their rights.

It must be conceded that with respect to the scope and standards of secondary P2P liability, worldwide consensus is largely absent. Courts in other nations may not be inclined to go down the *Grokster* route.¹⁰¹ For instance, while it does not directly pertain to P2P, transplanting the analysis in a recent Belgian decision on CD copy-centers to a P2P situation seems to indicate that so long as the P2P distributor does not materially make the actual copy, liability is unlikely to be incurred under Belgian law.¹⁰² Under English copyright law, the concept of inducement liability appears to be narrower than that propounded in *Grokster*.¹⁰³ The fact that technology plays such a pivotal role in the debate means that such divergences are not surprising, given that innovation policies in the U.S. are undoubtedly very different from those in the majority of countries around the world. As different countries require different copyright laws which cater specifically to the needs of the particular community,¹⁰⁴ it would be unreasonable to compel every jurisdiction to adopt a standardized response toward the P2P issue. Use of coercive tactics to compel other countries into changing their copyright systems into one more akin to the American model may not lead to the desired outcome. As Peter Yu observes, such heavy-handed tac-

¹⁰⁰ Once again, the feasibility of the geographical filter and the profitability of such an enterprise may be open to question. In regards to the latter, such an offshore firm will have to be ruthless about cutting all US ties, since if it conducts business with US firms, any revenue the former sends to the latter could be subject to attachment.

¹⁰¹ *Supra* note 64.

¹⁰² See Hilary Pearson and Graham Smith, *Internet filesharing – a European perspective on Grokster*, BIRD & BIRD PUBLICATION, August 2005, http://www.twobirds.com/English/publications/articles/Internet_filesharing_Grokster.cfm.

¹⁰³ *CBS Songs Ltd. v. Amstrad Consumer Elecs.*, [1988] A.C. 1013 (H.L.) (quoting Lord Templeman: “Generally speaking, inducement, incitement or persuasion to infringe must be by a defendant to an individual infringer and must identifiably procure a particular infringement in order to make the defendant liable as a joint infringer”).

¹⁰⁴ *Supra* note 74.

tics are unlikely to be sustained if these countries do not regard themselves as stakeholders in the international intellectual property system.¹⁰⁵

The foregoing discussion suggests that discrepancies between jurisdictions may not be resolved on an international level anytime soon. However, international developments post-*Grokster* show that not only is some degree of harmony a possibility, it may come sooner than expected. Increasingly, more countries are gravitating towards recognition of secondary liability for P2P services,¹⁰⁶ despite the adoption of different standards governing the doctrine. For instance, in September 2005, Taiwan-based Kuro was convicted in the world's first criminal conviction of a P2P service.¹⁰⁷ Along the same limb, the European Commission published a draft directive which included provisions to criminalize "attempting, aiding or abetting and inciting" acts of copyright infringement shortly after *Grokster* was decided.¹⁰⁸ It can also be observed that countries which formerly favored a more lenient standard of liability may change their position in the midst of rampant file-swapping, a fact not lost on many defendants. In January 2005, a South Korean court found that a P2P service, Soribada, was not guilty of "aiding and condoning" copyright infringement.¹⁰⁹ However, pursuant to being sued again, Soribada converted to an authorized paid service in April 2006 as part of its settlement with the Korean music industry.¹¹⁰ While the Dutch *KaZaA* decision remains authoritative, a different outcome may be reached if it were litigated today. Evidence of a pendulum shift may be gleaned from a Dutch court's recent ruling against a "deeplinks" search engine.¹¹¹ The court held that the website "significantly assisted" the illegal downloading of files, a concept reminiscent

¹⁰⁵ Yu, *supra* note 3, at 434-35.

¹⁰⁶ This is in addition to the doctrines of secondary P2P infringement already established in Japan and Germany, *supra* note 60.

¹⁰⁷ See IFPI welcomes landmark conviction of Taiwan file-sharing service Kuro, IFPI News, Sept. 9, 2005, <http://www.ifpi.org/site-content/press/20050909.html>. (The differences between criminal conviction and civil liability under a *Grokster* analysis are acknowledged. However, criminal liability similarly serves the purpose of stamping out services which actively induce infringements while dissuading others from engaging in comparable behaviour. As such, the *functional* similarities cannot be neglected).

¹⁰⁸ Commission of the European Communities, *Proposal for a Directive of the European Parliament and of the Council on criminal measures aimed at ensuring the enforcement of intellectual property rights*, Dec. 7, 2005, http://europa.eu.int/eur-lex/lex/LexUriServ/site/en/com/2005/com2005_0276en01.pdf.

¹⁰⁹ *Music sharing site settles with industry*, JOONGANG DAILY, Feb. 28, 2006, <http://joongangdaily.joins.com/200602/27/200602272239185909900090409041.html>

¹¹⁰ *Id.*

¹¹¹ *Dutch MP3 search site shut down*, BBC NEWS, Jun. 20, 2006, <http://news.bbc.co.uk/1/hi/technology/5097664.stm>.

of inducement as formulated in *Grokster*. Indeed, it has even been suggested that beneath these seemingly divergent analyses may lie a common thread tying all the decisions together.¹¹² The Australian litigation also highlights the possibility that other jurisdictions may adopt liability standards which are even more copyright holder friendly than *Grokster*.¹¹³

Bearing such trends in mind, perhaps soft international consensus on the view that a P2P developer who actively induces infringement should be held liable may not be such an unthinkable prospect. It may even be posited that many countries have yet to establish a clearly cognizable concept of secondary P2P liability for the simple reason that relevant cases have yet to reach the courts of these nations. In a Stanford symposium on creating the protecting intellectual property in the international arena, Carl Opendahl made the following remarks:

I see a general trend with a sort of a race towards the most restrictive for intellectual property around the world. I can see it most advanced in the trademark area where, for example with the ICANN domain name policies and other things, you end up with a situation where whichever country in the world has the strictest limits on what somebody could do with respect to trademarks, that ends up being sort of the rule for the whole world on Internet domain names.¹¹⁴

Short of overt trade pressures being enacted and express treaty obligations being negotiated, the natural gravitational force of one country's laws to influence other countries – perhaps leading to some eventual convergence – cannot be underestimated.¹¹⁵ Globalization enhances the possibility that the legal concepts of one country will organically percolate into the substantive law of another, particularly if the issue in question is not adequately addressed by the laws of the latter. It is arguable that in a copyright context, countries which subscribe to dif-

¹¹² Hughes, *supra* note 60. Professor Hughes suggests that three key elements are important to any secondary P2P liability theory: causation, knowledge, and intent.

¹¹³ See Ginsburg and Ricketson, *supra* note 45, at 420. Ginsburg and Ricketson suggest that the absence of a substantial non-infringing uses defense in Australian law could mean that Australian facilitators of online infringements may be more vulnerable than their American counterparts.

¹¹⁴ *Copyright's Long Arm: Enforcing US Copyrights Abroad*, 24 LOY. L.A. ENT. L. REV. 45, 69 (2004).

¹¹⁵ Nevertheless, the potential efficacy of strong-arm tactics should not be neglected. For instance, US trade negotiators have warned Russia that the continued existence of Al-lopMP3.com in potential violation of intellectual property rights could jeopardize Russia's entry into the World Trade Organization. See Thomas Crampton, *Russian Download Site Is Popular and Possibly Illegal*, N.Y. TIMES, Jun. 1, 2006, <http://www.nytimes.com/2006/06/01/world/europe/01cnd-mp3.html?ex=1306814400&en=4c9bcb30952e86b&ei=5090&partner=rssuserland&emc=rss>.

ferent philosophical justifications of copyright may be less inclined to engage in this process of “organic” harmonization. In practice however, justificatory theories are rarely influential in the formulation of substantive laws, meaning such an argument is perhaps misplaced.¹¹⁶ If this convergence were to materialize, it may not be too long before Eskapia runs out of places to escape to. This legal convergence is also relevant to the Inducester situation. In the absence of international consensus, individual countries are likely to depart from the principle of extraterritoriality and “export” their *Grokster*-equivalents in the manner described in the previous section. The only notable limit on this approach is that due regard has to be paid towards notions of comity,¹¹⁷ but otherwise it represents a sensible solution to the problem of forum-shopping. However, should more countries converge around the stricter position in the manner described by Oppendahl, the extraterritorial exportation of a country’s copyright laws may be a temporary occurrence used to plug a gap which will one day be filled, resulting in less of a need to relax the territoriality principle.

The continual erosion of the territoriality principle illustrates that the bark of the Escapologist may be worse than its bite. The gradual international convergence of secondary P2P liability theories highlights that in the near future, the proverbial phone call will result in liability irrespective of whether it was made to Nebraska or to France.¹¹⁸ Even the most furtive escapist will attest that crafty evasion techniques will only serve to increase vigilance and is a sure-fire way for one to get caught. Just ask Frank Abagnale Jr.¹¹⁹

IV. THE MUSIC INDUSTRY V. THE WORLD?

The preceding discussion highlights the emphasis placed upon using legal enforcement methods to address the P2P file-sharing problem. Copyright holders, innovators and consumers have been drawn into the mix by the incessant litigation, resulting in a need to reassess the stakes

¹¹⁶ Lionel Bently, Brad Sherman, *INTELLECTUAL PROPERTY LAW 37* (Oxford University Press 2004) (citing Jennifer Litman, *Digital Copyright* (2001) 77: “In the ongoing negotiations among industry representatives, normative arguments about the nature of copyright show up as rhetorical flourishes, but, typically, change nobody’s mind”).

¹¹⁷ Since an overly nationalistic approach towards adjudication could result in the court of one country effectively negating another country’s decision. The series of US and French cases leading to the *Yahoo!* decision illustrate this possibility. *Yahoo! Inc.*, 433 F.3d at 1199.

¹¹⁸ A reference to Judge Wiseman’s renowned statement that under a *Subafilms* approach: “. . . a phone call to Nebraska results in liability; the same phone call to France results in riches. In a global marketplace, it is literally a distinction without a difference.” *Curb v. MCA Records Inc.*, 898 F. Supp 586 at 595 (MD Tenn. 1995).

¹¹⁹ The infamous American con-artist renowned for his escape tactics.

they possess in the copyright regime. This Part contends that in spite of its prominence in academic literature, litigation in a P2P context does not serve as a direct response to the core of the controversy, since legal rules are never strong enough to overcome radical technological innovations. All three primary stakeholders will benefit if it is finally acknowledged that extralegal solutions are more likely to provide the answer.

A. *Shooting the Messenger: The "P2P Problem" Identified*

The bitter rivalry between the recording industry and many of its customers is well documented.¹²⁰ Amidst the battles, there lies a sleeper threat whose elusive presence places the vitality of the music industry at much greater risk than the active inducer. While *Grokster* has contributed greatly to the music industry's legal arsenal, a holistic look at the file-sharing controversy shows that the need to resort to litigation is symptomatic of a much graver problem, one which the music industry is unwittingly exacerbating. This threat is far removed from the likes of an unclear judgment or a P2P developer, since the intangible presence of this opponent renders the law inept to deal with it. What began as "civil disobedience" by a finite group of individuals¹²¹ has now, arguably, snowballed into the glue which holds an entire generation together.¹²² The "copyright divide" has caused a Ghost to emerge from the woodworks. The Ghost represents a belief, held by many in the listening public, that music longs to be free. It rests nonchalantly between the music industry and consumers, misleading consumers into believing that music is, or at least ought to be, without charge, and that the industry had been ripping them off for years. Instead of collaborating with the public to shoot the errant messenger, the Recording Industry Association of America (RIAA) launched a full-blown war against consumers. Indignant consumers retaliated by flocking to illegitimate P2P.¹²³ Rather than seizing the opportunity to soften

¹²⁰ See, e.g., Paul Roberts (IDG News Service), *RIAA sues 532 'John Doe' file swappers*, InfoWorld, Jan. 21, 2004, http://www.infoworld.com/article/04/01/21/HNdoe_1.html.

¹²¹ See, e.g., Siva Vaidhyanathan, *After the Copyright Smackdown: What's Next?*, SALON.COM, Jan. 17, 2003, <http://archive.salon.com/tech/feature/2003/01/17/copyright/print.html>.

¹²² See Yu, *supra* note 11, at 756. Yu notes that "Generation Y" as a whole does not comprehend copyright law and its benefits. For these teenagers, illegal file-sharing is the norm. In fact, those who do not engage in illegal downloading may be regarded as social deviants.

¹²³ See *Committee on Intellectual Property Rights and The Emerging Information Infrastructure*, National Research Council, THE DIGITAL DILEMMA 310 (2000): "Heavy-handed rhetoric and enforcement practices bred less respect for the law, not more, and left people feeling justified in flouting the law."

the prevalent conception that the music industry was greedy and ruthless, the RIAA returned the favor with more guerrilla tactics,¹²⁴ antagonizing the whole world in the process.¹²⁵

The refusal of the music industry to acknowledge the presence of the Ghost threatens all those involved. Artists will continue to lose money as disgruntled former customers devise increasingly ingenious ways to obtain music illegitimately, if only as a sign of rebellion. All the while, digital rights management technologies will continue to be imposed, inconveniencing legitimate users while failing to curb piracy. The technology lobby is drawn into the dispute as the copyright industry continues litigating and lobbying for potentially gadget-killing laws. Mutual suspicion between the entertainment industry and innovators has resulted in many opportunities for legitimate collaboration to be forgone.¹²⁶ While *Grokster* facilitates litigation against the active inducer, this is equivalent to slaying Dr. Frankenstein but sparing his progeny: it is simply a solution which does not correspond to the aim. Indeed, there is such a thing as winning the battle but losing the war, since post-*Grokster*, there is empirical evidence to suggest that P2P file-sharing has actually gone up.¹²⁷ A variety of solutions have been posited in an effort to combat the so-called “P2P problem,” but it will be seen that not all of them are conducive towards eradicating the threat identified. The resolution hinges upon understanding that the “P2P problem” can only be resolved by a rejuvenation of the music industry, designed to re-establish the trust and confidence of consumers.

B. *Compensation is Not the Solution*

A commonly raised suggestion is that in order to eradicate the “P2P problem,” some sort of compensation mechanism should be devised in an attempt to offset the losses suffered by the industry stemming from unauthorized downloading. Even those who believe that

¹²⁴ While legal action against egregious offenders is justifiable, the heavy-handedness employed by the RIAA is disproportionate. See, e.g. Ray Beckerman, *RIAA Wants to Depose Dead Defendant's Children; But Will Allow them 60 days to "Grieve"*, RECORDING INDUSTRY VS. THE PEOPLE, Aug. 13, 2006, <http://recordingindustryvspeople.blogspot.com>. See also: Grant Robertson, *Default Judgment entered in Santangelo part deux*, DIGITAL MUSIC WEBLOG, Jan. 11, 2007, <http://digitalmusic.weblogsinc.com/2007/01/11/default-judgment-entered-in-santangelo-part-deux>.

¹²⁵ Yu, *supra* note 3, at 442.

¹²⁶ Although the movie industry is clearly vigilant about not repeating the mistakes made by the music industry. See, e.g. Nate Anderson, *WARNER BROS. PARTNERS WITH BITTORRENT, OFFERS DOWNLOADABLE MOVIES*, ARS TECHNICA, May 9, 2006, <http://arstechnica.com/news.ars/post/20060509-6782.html>.

¹²⁷ See, e.g. Thomas Mennecke, *P2P Population Reaches Record High*, SLYCK, Aug. 8, 2005, <http://www.slyck.com/news.php?story=880>.

music is free to create and enjoy have to concede that music does not travel far without a framework capable of compensating the creators. A popular suggestion is the imposition of compulsory licensing schemes by which the government imposes fees on P2P goods and services in a manner akin to taxation. For instance, Neil Netanel proposes imposing a levy on the sale of “any consumer product or service whose value is substantially enhanced by the P2P file sharing,”¹²⁸ such as internet access, P2P software and services, computer hardware, consumer electronic devices such as CD burners and MP3 players, and storage media such as blank CDs. Compulsory licensing has been employed in an attempt to counteract the P2P problems in Germany and Canada, arguably with some success.¹²⁹ The compulsory licensing model has a variety of benefits. Most notably, it appears to be a logical compromise between copyright holders and consumers. While there are those who will object to the inevitable outcome that some will pay too much whereas others will not pay enough based upon the extent to which they share files, that is a problem with any type of tax and cannot be isolated to criticize this proposal. Despite the advantages, the model presents a number of challenges and concerns.¹³⁰ It may be true that compulsory licensing offers a workable short-term solution to a “P2P problem,”¹³¹ but its fatal deficiency for our purposes is that it does not serve as a direct response to *our* P2P problem, namely the misinformed notion that music should be free. If the ultimate goal is to instill the mentality that music should come with a price back into consumers, such a levy will actually be counterproductive since it amounts to nothing more than a concession. Imposing a levy on accessories such as MP3 players merely serves to mislead consumers into believing that the incidentals are worth more than the music itself. Along the same limb, other proposals purporting to offer some compensation may not be suitable for our purposes. For instance, the “voluntary collective licensing”¹³²

¹²⁸ Neil Netanel, *Impose a Noncommercial Use Levy to Allow Free Peer-to-Peer File Sharing*, 17 HARV. J.L. & TECH. 1, 4 (2003).

¹²⁹ See, e.g. Michael Geist, *Piercing the peer-to-peer myths: An examination of the Canadian experience*, FIRST MONDAY, Apr. 5, 2005, http://www.firstmonday.org/issues/issue10_4/geist. (Geist presents empirical evidence to show that the Canadian private copying levy adequately compensates artists for any losses incurred as a result of P2P. However, the fact that it has yet to be distributed means this is pure conjecture. See Interview with Shout Out Out Out Out (full transcript on file with author): “I’ve never received a dime from this levy and I have been registered with SOCAN for years and years”).

¹³⁰ See Yu, *supra* note 11, at 708. (For instance, division of the royalty pool may present some problems. Furthermore, compulsory licensing may culminate in a misconception that everything in society should be licensed).

¹³¹ Viz. the loss of revenue.

¹³² *A Better Way Forward: Voluntary Collective Licensing of Music File Sharing*, ELECTRONIC FRONTIER FOUNDATION (Apr. 2004), http://www.eff.org/share/collective_lic_wp.pdf.

model proposed by the Electronic Frontier Foundation (“EFF”), which gives consumers and copyright holders an option as to whether they want to participate in the regime, is deficient for the reason that users who opt out of the system may free-ride off those in the system. This not only makes the scheme impractical, but also gives rise to the fallacy that the price of music is relative to an individual’s choice. Reliance on voluntary contributions has also been proposed as a possibility, but this appears to overestimate the propensity for generosity of illegal file-sharers. Further, it similarly detracts from the value of music by advancing the view that tipping takes precedence over paying the actual bill.

The most counterproductive measure the recording industry could take for our purposes is the development of encryption, digital watermarking and other copy-protection technologies.¹³³ These measures leave illegitimate file-sharers untouched, while inconveniencing those consumers who actually pay for their music.¹³⁴ These indignant consumers will feel as if they are being penalized, consequently turning to the black market.¹³⁵ Further, any system devised to prevent file-swapping without addressing the prior issue of curbing black-market demand will almost instantaneously lead to the development of a technological counter-measure. Litigation against end-users is another counterproductive measure. While the RIAA may have every legal right to take action against egregious offenders,¹³⁶ there is no reason to further antagonize the public. It is also questionable whether such lawsuits serve any purpose at all. Excessive use of heavy-handed tactics may beget apathy rather than instill fear.¹³⁷ It is also not apparent that the proceeds from successful lawsuits compensate artists in any way at all, since it is suggested that the money is simply rolled back into the

¹³³ Recent developments suggest that the recording industry is cognizant of the futility of digital rights management as a response to the P2P controversy. See, e.g. Grant Robertson, *EMI abandons CD DRM*, THE DIGITAL MUSIC WEBLOG, Jan. 9, 2007, <http://digitalmusic.weblogsinc.com/2007/01/09/emi-abandons-cd-drm>.

¹³⁴ For example, many encrypted CDs are not playable on older CD players and car stereos.

¹³⁵ See Yu, *supra* note 11, at 701. This “indignant consumer” problem may be replicated by the advent of mass-licensing models such as iTunes which offer “tethered” downloads that expire when a user ceases subscription to the service. Dissatisfied consumers are likely to turn to the black market for less restrictive alternatives. In fact, some countries have voiced their distaste towards such models. See, e.g. Estelle Dumout and Jo Best, *Apple gets reprieve from French DRM-busting law*, CNET.COM, July 31, 2006, http://news.com.com/Apple+gets+reprieve+from+French+DRM-busting+law/2100-1027_3-6100629.html.

¹³⁶ See, e.g. On the Logic of Suing One’s Customers and the Dilemma of Infringement-Based Business Models, 22 CARDOZO ARTS & ENT. L.J. 725 (2005).

¹³⁷ Even if such tactics manage to instill fear, compliance with copyright laws should ideally stem not solely from an aversion towards the possible consequences of non-compliance.

legal fund used by the RIAA to pay its legal costs.¹³⁸ The contention that victory is virtually guaranteed in such lawsuits may also be challenged. Primary infringement cases are favored by the music industry due to the fact that they are regarded as relatively uncomplicated from a legal viewpoint. However, two recent cases demonstrate the possibility of defendants backing the RIAA into withdrawing their complaint by moving for summary judgment.¹³⁹

C. *Facing the Music*

If the ultimate goal is to exorcise the Ghost, the music industry must take responsibility for its proliferation and initiate the remedial process. After all, the industry is the stakeholder which is hardest hit by this misconception that music should not come with a price. Consumers and technologists must then supplement the industry's efforts in order to convert the multilateral war into a "handicap match"¹⁴⁰ against a common opponent. The stakeholders' concerted efforts will hopefully result in a climate in which the majority of consumers will feel voluntarily compelled not to download copyrighted materials from the P2P pool.¹⁴¹ This may not be an overly idealistic supposition for several reasons. First, illegitimate downloads are rarely able to replicate the quality of legitimate copies, and the process of searching for the right songs via P2P can be onerous and frustrating. A revitalization of the music industry has the potential to enhance consumer awareness of these qualitative differences. More pertinently, despite the Ghost's repeated chants that music *should* be free, we have fortuitously not reached the point of complete liberation. The success of iTunes shows that the inherent notion that music has a price is very much accurate, and remains a part of the cultural fabric despite its overshadowing by P2P.¹⁴² After all, most people do not complain about having to pay for cable televi-

¹³⁸ See Grant Robertson, *The RIAA vs. John Doe, a layperson's guide to filesharing lawsuits*, The Digital Music Weblog, Aug. 7, 2006, <http://digitalmusic.weblogsinc.com/2006/08/07/the-riaa-vs-john-doe-a-laypersons-guide-to-filesharing-lawsuit/>.

¹³⁹ See Ray Beckerman, *How the RIAA Litigation Process Works*, Recording Industry vs. The People, Last updated: Aug. 20, 2006. (Referring to Priority Records v. Brittany Chan and Capitol v. Foster), <http://info.riaalawsuits.us/howriaa.htm>.

¹⁴⁰ In professional wrestling, a "handicap match" takes place when one wrestler faces another team of wrestlers with numerical superiority.

¹⁴¹ Even independent artists now have little to gain from the circulation of their works via P2P, since with the advent of new mediums such as MySpace.com, there is a variety of alternative ways for them to gain publicity. See, e.g., Can I Buy You a Drink?, May 9, 2006, http://www.saidthegramophone.com/archives/can_i_buy_you_a_drin.php.

¹⁴² There is conflicting evidence as to whether iTunes continues to be dwarfed by the volume of files shared via P2P or whether the former is outpacing the latter. See, e.g., Spencer Critchley, *Is iTunes REALLY Beating P2P?* O'REILLYNET.COM, June 14, 2005, http://www.oreillynet.com/digitalmedia/blog/2005/06/is_itunes_really_beating_p2p.html.

sion,¹⁴³ showing that the reluctance to pay for music is not inherent, but stems from the failure of the music industry to nip illegitimate P2P in the bud when it had the opportunity. While we have yet to reach the point at which music has “become like running water or electricity,”¹⁴⁴ the Ghost’s work is far from done. Demand for illegitimate alternatives will continue to multiply if the “free music” incantations are not put to an end.

According to the principle of supply and demand, when the free market fails to provide what consumers desire, a black market will emerge to fill that void. The time has come for the recording industry to rectify the errors arising out of its complacency and unresponsiveness to consumer demands. Numerous measures can be considered in an attempt to recapture the market. Prices may simply need to be lowered. Alternatively, differential pricing to reflect the different standards of living in each state may help rejuvenate the international music market.¹⁴⁵ However, the most sensible solution requires the music industry to make the long-overdue admission that just like vinyl records and cassette tapes, the days of the simple compact disc are over. The long-anticipated transition from physical to ethereal music might finally be upon us, since the advent of new media has rendered record stores increasingly obsolete.¹⁴⁶ Consumers now demand more, and P2P provided them with the perfect avenue to voice their displeasure. Increasingly, artists are expected to produce innovative products representative of their “brand.”¹⁴⁷ This might involve adding bonus features and free giveaways to albums, physical or digital, in order to recapture

¹⁴³ Professor Michael Landau, *IT Practitioner Series Seminar #2* at the London School of Economics (2005).

¹⁴⁴ See Robert Plummer, *Winners take all in rockonomics*, BBC.COM, Apr. 20, 2006 (referencing David Bowie’s speculation that in ten years time, copyright will be rendered obsolete), <http://news.bbc.co.uk/1/hi/business/4896262.stm>.

¹⁴⁵ However, this raises an issue of parallel importing. With DVDs, there is the possibility of counteracting this problem by dubbing the original products in the local language or adding subtitles to make the product less appealing to customers in other countries. However, the nature of CDs is, admittedly, very different.

¹⁴⁶ See Michael Geist, *Numbers Don’t Crunch Against Downloading*, Toronto Star (Nov. 29, 2004), http://www.michaelgeist.ca/resc/html_bkup/nov292004.html (Geist suggests that the increasing popularity of DVDs has contributed to the decline in Canadian CD sales and “the shrinking shelf space allocated to CDs by music retailers.” This implies that many patrons of music retailers are there to purchase DVDs as opposed to CDs).

¹⁴⁷ See, e.g., Hal Niedzvieki, *Hello, I’m Special: How Individuality Became the New Conformity*, City Light Books, Apr. 2006 (on the fixation with personal branding in modern culture. MySpace.com has made this trend even more pronounced. Bands such as Arctic Monkeys are widely regarded as using MySpace.com as a career launch pad).

consumer interest.¹⁴⁸ For instance, a major music label has indicated that it will soon unveil a DVD-based album release concept, which will be packaged with extras such as ringtones and music videos.¹⁴⁹ The success of “mobile music” in China highlights another potential market which the U.S. music industry can exploit.¹⁵⁰ Technology developers can assist by being more receptive towards collaborating with the music industry to offer more innovative products and services.¹⁵¹ In the meantime, should the music industry feel a need for intermediate compensation while it pursues the long-term goal of regaining public confidence, it should pursue an option which is less overt than discussed in the preceding section. For instance, to supplement royalties, artists can turn to revenues from concerts, merchandise and movies.¹⁵² Further exploitation of these alternative streams of income does not detract from the value of the music itself in the manner which a licensing system does. If anything, it enhances consumer interest by engaging the fans to experience the artist’s “brand” in its totality.¹⁵³

It is also high time for a public relations overhaul on the part of the music industry in order to undo the damage inflicted by the RIAA. Musicians should re-educate the public about how illegitimate acquisition of music damages their business interests, adopting a manner which does not involve spewing expletives at their fans.¹⁵⁴ The recent admission by many high-profile and independent Canadian artists that

¹⁴⁸ See, e.g., *EMI, 30 Seconds to Mars Toss New Bundling Experiment*, DIGITALMUSICNEWS.COM, <http://www.digitalmusicnews.com/stories/051606emi/searchterm=EMI%2030%20seconds%20to%20mars>.

¹⁴⁹ Joseph Palenchar, *Warner: DVD Albums To Replace DualDiscs*, TWICE, Aug. 8, 2006, <http://twice.com/article/CA6360704>.

¹⁵⁰ *Mobile Music Boom in China*, RINGTONIA.COM, Apr. 18, 2006, <http://www.textually.org/rintonia/archives/2006/04/012092.htm>, (The importance of innovation is also highlighted by the unveiling of the iPhone by Apple). See Gordon Finlayson, *The iPhone Finally Arrives*, The Digital Music Weblog, Jan. 10, 2007, <http://digitalmusic.weblogsinc.com/2007/01/10/the-iphone-finally-arrives/>.

¹⁵¹ See, e.g., *EMI Music becomes the first major music company to make its catalogue available to Qtrax: the world's first ad-supported, legitimate P2P service*, EMI Press Release, June 5, 2006, <http://www.emigroup.com/Press/2006/press25.htm>.

¹⁵² Plummer, *supra* note 144 (on Madonna’s solid touring base despite the high ticket prices).

¹⁵³ See Alvin Chan, *Angels & Airwaves- Between the Blinks*, MUSICOHM.COM, June 2006, http://www.musicohm.com/interviews/angels-and-airwaves_0606.htm. (The band is in negotiations with scientists to incorporate new technologies into lives shows in order to enhance the concert-goer’s experience.)

¹⁵⁴ See Eric Olsen, *Madonna Not Digging the P2P*, Blogcritics.org, Apr. 17, 2003, <http://blogcritics.org/archives/2003/04/17/104402.php>. (referring to the release of fake files into P2P networks by Madonna’s record label. An angry hacker retaliated by posting downloadable MP3s of every track on the album on Madonna’s official website); referenced in John Alderman, *Sonic Boom: Napster, P2P and The Battle for the Future of Music*, 2001, 114 (Fourth Estate 2001) (Eminem’s tirade in *Wall of Sound*).

the recording industry had been suing fans against artists' wills is precisely the type of message which needs to be conveyed.¹⁵⁵ Musicians need to express their justifiable disappointment towards file-sharers while distancing themselves from the anger-laden tactics infamously associated with the industry. Re-establishing the connection between artists and their fans enhances the possibility that the latter will refrain from downloading music illegitimately out of a feeling of social responsibility and respect for their idols, as opposed to a fear of getting caught. Consumers who are enlightened as to the virtues of copyright law can facilitate this effort by educating the segment of the population which neither understands copyright law nor bothers to respect the system. While Generation Y may have been misinformed and antagonized to a point beyond salvation, it is not too late to win the trust of Generation Z, who collectively hold the key to the music industry's future vitality.¹⁵⁶

When one is in the presence of a Ghost, the correct approach is to acknowledge its presence, and release it. The music industry may be its own worst enemy, since its inability to acknowledge and confront the real problem has resulted in the present predicament. Non-legal mechanisms are needed in order for the music industry to resume the status of legitimacy it once held and to re-establish the trust and confidence of consumers. While the interests of competing stakeholders will never be fully aligned, a temporary ceasefire is in order such that attention can be refocused on a legitimate threat which has been flying under the radar amidst the escalation of an unwarranted war.

V. CONCLUSION

Grokster was heralded as the most important copyright case in decades for good reason. Even before the Supreme Court reached its decision, the American public exhibited an unprecedented degree of interest towards the controversy.¹⁵⁷ A year after the decision, any remnant "post-*Grokster* buzz" has yet to be silenced. Discussion of its potential chilling effects on innovation continues to pervade the technology industry, while the place of the decision in the international context has generated incremental interest in academic literature. De-

¹⁵⁵ *A New Voice: Policy Positions of the Canadian Music Creators Coalition*, [Canadian Music Creators Coalition], Apr. 26, 2006. (Artists such as Sum 41, Avril Lavigne and Sarah McLachlan contended that litigation against fans was "destructive and hypocritical"), available at: http://www.musiccreators.ca/docs/A_New_Voice-Policy_Paper.pdf.

¹⁵⁶ Dean, *supra* note 9. (Yu identifies the futility of wasting valuable resources on attempting to change the minds of Generation Y).

¹⁵⁷ See, e.g., Andrew Raff, *Grokster: More important than God*, IPTAblog, Mar. 30, 2005, http://www.iptablog.org/2005/03/30/grokster_more_important_than_god.html.

spite the doctrinal significance of the decision, *Grokster's* practical impact on innovation may have been overrated. Further, the potential for its international entrenchment, whether via its exportation or a process of organic harmonization, means that the Court's failure to consider its extraterritorial scope should not give rise to the proliferation of the threat of forum-shopping. Bearing this in mind, perhaps the time has come for *Grokster* to be neatly chronicled such that it can take its rightful place in legal history.

Like the *Sony* rule, further consideration of *Grokster* should be left "for a day when that may be required."¹⁵⁸ Withdrawal from the tunnel-vision view that litigation is the only resolution to the P2P controversy is the only way for the music industry to recover from the relentless chain of self-inflicted setbacks. Reinvigoration of the true value of music can be achieved only by stripping P2P of its Robin Hood status, an objective accomplishable by a grasp of simple economics rather than complicated litigation.

¹⁵⁸ *Grokster*, 545 U.S. at 2782.