

## **P2P TECHNOLOGY ON TRIAL AGAIN: THE GROKSTER AND STREAMCAST CASES**

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### **Introduction**

[249] Most internet users have probably heard of the terms ‘MP3’, ‘peer-to-peer’, ‘Napster’ and ‘Kazaa’. Together these concepts allowed internet users to download high quality files of their favourite songs or movies free of charge. They also provided a nightmare for the music and movie industries as such behaviour deprives them of millions of dollars from CD and video sales. But the entertainment industry has not taken these technological developments lying down — they have launched numerous copyright infringement actions against the networks who enable users to share copyright material with others.

This paper will explain the legal ramifications of adopting different infrastructures for file sharing systems as appeared in the latest legal battle in the United States between the entertainment industry and file sharing programs. It will commence by describing the Napster system, the pioneer of peer-to-peer networks, and then analyse the recent decision in the litigation between the entertainment industry and the Grokster and StreamCast networks.

### **Napster**

Napster provided a file swapping system across the internet for collectors of MP3 music files. It did not store or copy these MP3 files onto its own equipment. Instead, the files were only located on the hard disk drives of [250] Napster users. Napster’s function was to supply a directory service containing an index of the MP3 files that current Napster users wished to share and to permit one user to directly access another user’s hard disk drive. For example, Karen wished to obtain an MP3 file for Shakira’s song ‘Objection Tango’. After having downloaded and installed the Napster software, she would connect to the Napster server and automatically provide her online address and a list of songs to share with other users. She would then ‘tell’ the Napster server that she wanted to download ‘Objection Tango’ and the Napster Server in turn searched the other online users to see who was willing to share this song. Then, Karen

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would be given a choice of users, such as Mark, who wished to share the particular song. The Napster service would then allow Karen to 'contact' Mark and access Mark's hard disk drive to download the file containing 'Objection Tango'.

Not surprisingly, Napster became a global phenomenon. This popularity was due to the system being reliable, fast and easy to use and, most of all, free. Indeed, by early 2001, the use of Napster had allegedly increased to an estimated 65 million users world wide.

Also not surprisingly, the music industry did not share users' enthusiasm for this new service, as they again believed that free internet music was depriving them of CD sales. In December 1999, over 17 music record companies filed a complaint against Napster for contributory and vicarious copyright infringement under United States law and sought preliminary injunctions restraining Napster's activities. This injunction was granted in February 2001.<sup>2</sup> Afterwards, Napster became embroiled in protracted legal and financial battles with the music industry and shut down in mid-2001.

Although the Napster system is no longer in operation, it left an everlasting legacy; with a 65 million-plus following built up in such a short time, downloadable music is clearly not just going to disappear quietly into the pages of internet history. Numerous Napster 'alternatives' appeared on the internet for users to obtain their fix of free digital music. Some of these services, such as Aimster and Audiogalaxy, used a similar system to Napster and subsequently encountered the same type of legal problems as Napster when the music industry became aware of their existence.<sup>3</sup> Both of these services incurred the legal wrath of the music industry and were forced to change their networks to legitimate subscription services. Others, such as Kazaa and Gnutella, sought to avoid the legal problems encountered by Napster by creating an allegedly litigation-proof music service. Were they right? The recent decision involving Grokster and Streamcast Networks as distributors of the Kazaa FastTrack

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<sup>2</sup> *A & M Records Inc v Napster Inc*, 239 F 3d 1004 (9th Cir, 2001), 1013 (*Napster*).

<sup>3</sup> Aimster was found liable for copyright infringement in *Re: Aimster Copyright Litigation* (2002) US Dist Lexis 17054 (NDI11 4 September 2002). Audiogalaxy was sued by the RIAA for indirect copyright infringement. The matter was settled in July 2002.

software (created by Consumer Empowerment BV) provides a landmark decision on US copyright law in relation to peer-to-peer technology.

### **Grokster**

Although the Napster and Grokster networks appear the same because they both allow users to share digital files, the architecture of the two systems is very different.

One of the central features distinguishing FastTrack-based software from other peer-to-peer technology such as Napster is the lack of a centralised server. If Karen wanted to download The Calling's 'Wherever You Will Go', she would first need to download the FastTrack software. Once properly installed, the software enables Karen to connect her computer to a supernode, a powerful computer, with a high-bandwidth connection which is operated by another user already connected to the network. That supernode then compiles an index of digital files being offered by Karen for downloading by other network users and processes any requests, such as for 'Wherever You Will Go', which Karen may have submitted. In response to a search request, the supernode reviews its own index of files, and if necessary, the indices [251] maintained by other supernodes and then displays for Karen the search results. With a few simple keystrokes, Karen can then download this song file from the hard drive of another user, say Julia, who already hosts a copy of the song. Napster, in effect, utilised a single 'supernode' which it owned and operated. As a consequence, all Napster search traffic went through, and relied upon, Napster.

While Grokster and other systems using the FastTrack software may briefly have had some control over a root supernode, the technical process of locating and connecting to a supernode presently occurs independently of Grokster. Indeed, when users search for and transfer files using Grokster, they do so without any information being transmitted to or through any computers owned or controlled by Grokster. Further, Grokster does not have access to the source code for the FastTrack software and could not alter it in any way.

### **Morpheus**

Certain versions of Streamcast's Morpheus product prior to March 2002 were, like Grokster today, based on the FastTrack technology. However, there are key

differences from the Grokster application. First, Morpheus is now a proprietary program owned and controlled exclusively by StreamCast. This means that, unlike Grokster, StreamCast has access to the source code for the software, and can modify the software at will. Second, Morpheus now is based on the open-source Gnutella peer-to-peer platform and does not employ a proprietary protocol such as FastTrack.

### **Peer-to-Peer Technology and Copyright Law**

Again, the combination of download speed, ease of use and wide variety of material have made the FastTrack software extremely popular with the internet community. As could be expected, the entertainment industry was far from pleased and commenced legal action in October 2001 against Consumer Empowerment BV, Grokster and StreamCast Networks on the ground that their conduct renders them liable, both as contributory and vicarious infringers, for copyright infringement committed by users on their networks.<sup>4</sup> In response, the networks argued that they merely provide software to users over whom they have no control, and accordingly that they are not liable under US copyright law.

The matter came before Judge Stephen Wilson in the United States District Court.<sup>5</sup> As there were no disputed issues of fact, Grokster and StreamCast sought a summary judgment of the copyright issues remaining in the case (but not Sharman Networks which had subsequently acquired Consumer Empowerment BV in 2002).<sup>6</sup>

### ***Direct Infringement***

Before either Grokster or StreamCast could be found liable for contributory or vicarious copyright infringement, it was necessary to show that users of the two networks were engaged in direct copyright infringement. Under US copyright [252] law, to establish a prima facie case of copyright infringement one must show:

- (1) ownership of the allegedly infringed material; and

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<sup>4</sup> *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* (CV 8541)

<sup>5</sup> *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* (Cal, 25 April 2003, Wilson J).

<sup>6</sup> *Ibid* 2.

(2) violation by the alleged infringers of at least one exclusive right granted to copyright holders by appropriate legislation.<sup>7</sup>

In *Napster*, the second element was satisfied by ‘unauthorised copying of the original work’.<sup>8</sup>

It was undisputed that at least some of the users of the *Grokster* and *StreamCast* software were engaged in direct copyright infringement of entertainment industry’s copyrighted works.<sup>9</sup> Consequently, Judge Wilson found that entertainment industry had established direct infringement of their copyrighted works by some users of the software.<sup>10</sup>

### ***Contributory Infringement***

Traditionally, under US law, to be held liable as a contributory infringer, one must ‘with knowledge of the infringing activity, induce, cause or materially contribute to the infringing conduct of another’.<sup>11</sup>

### ***Knowledge of Infringing Activity***

According to previous US cases, contributory liability requires that the secondary infringer (such as *Grokster* or *StreamCast*) ‘know or have reason to know’ of direct infringement.<sup>12</sup> Following decisions in *Sony Corp v Universal Studios*<sup>13</sup> and *Napster*, mere constructive knowledge is not enough. Rather, evidence of actual knowledge or specific acts of infringement is required for contributory infringement liability as well as a failure to act on that information.<sup>14</sup>

In this case, the entertainment industry submitted a massive volume of evidence to show that both *Grokster* and *StreamCast* clearly knew that many if not most of those individuals who download their software subsequently use it to infringe copyrights. Although both *Grokster* and *StreamCast* may have known generally that copyright infringement occurred on their networks, Judge Wilson found that the critical issue

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<sup>7</sup> 17 USC § 501(9).

<sup>8</sup> *A & M Records Inc v Napster Inc*, 239 F 3d 1004 (9th Cir, 2001), 1013.

<sup>9</sup> *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* (Cal, 25 April 2003, Wilson J) 9.

<sup>10</sup> *Grokster* (Cal, 25 April 2003, Wilson J) 10.

<sup>11</sup> *Gershwin Publishing Corp v Columbia Artists Management Inc* 443 F 2d 1159, 1162 (2d Cir, 1971).

<sup>12</sup> *Cable/Home Communication Corp Network Products Inc* 902 F 2d 829, 845, 846 (11th Cir, 1990).

<sup>13</sup> *Sony Corp v Universal Studios* 464 US 417, 104 (S Ct 774, 1984).

was whether actual knowledge of specific infringement occurred at a time when either the company materially contributed to the alleged infringement and could therefore do something about it.<sup>15</sup>

### ***Material Contribution***

Napster highlights that liability for contributory infringement exists if one engages in personal conduct that encourages or assists copyright infringement.<sup>16</sup> In that case it was found that 'without the support services the defendant provides, Napster users could not find and download the music they want with the ease of which the defendants boast'.<sup>17</sup> Did Grokster or StreamCast do anything apart from distributing software to actively facilitate the infringing activities of their users? Could they do anything to stop such activities?

[253] The entertainment industry argued that like Napster, Grokster and StreamCast did facilitate the actual exchange of copyrighted files by providing the means, environment, and support that enabled users to locate, distribute and copy copyrighted works. Further, the networks allegedly provided minimal technological support and communicated with their users by supplying system updates.<sup>18</sup>

Judge Wilson disagreed. His Honour found that neither Grokster nor StreamCast facilitated the exchange of files in the way that Napster did. Napster hosted a central list of the files available on each user's computer, and therefore served as the axis of the file-sharing network's wheel. When Napster closed down, the Napster file-sharing network disappeared with it. Users connected to the respective Grokster or StreamCast networks, select which files to share, send and receive searches and download files without the material involvement of Grokster or StreamCast. If either entity closed their doors and deactivated all computers under its control, users of the networks could continue to share files with little interruption.

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<sup>14</sup> *A & M Records Inc v Napster Inc*, 239 F 3d 1004 (9th Cir, 2001), 1021.

<sup>15</sup> *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* (Cal, 25 April 2003, Wilson J) 16.

<sup>16</sup> *A & M Records Inc v Napster Inc*, 239 F 3d 1004 (9th Cir, 2001), 1019.

<sup>17</sup> *Napster* (District Court) 114 F Supp 2d at 919–20, affirmed on appeal.

<sup>18</sup> *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* (Cal, 25 April 2003, Wilson J) 24–6.

His Honour further stated that Grokster and StreamCast are not significantly different from companies who sell video recorders or photocopiers, both of which are used to infringe copyrights. Accordingly, while Grokster and StreamCast, (like Sony or Xerox) may know generally that their products will be used illegally by some users, and may provide support services and refinements which indirectly support such use, they cannot be liable for contributory infringement merely because their peer-to-peer file-sharing technology may be used to infringe copyright.<sup>19</sup> In the absence of evidence of active or substantial contribution to the actual infringement, Judge Wilson found that Grokster and StreamCast were not liable for contributory copyright infringement.

### ***Vicarious Infringement***

In US copyright law, vicarious infringement extends liability for copyright infringement to situations where one 'has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities'.<sup>20</sup>

### ***Financial Benefit***

The Napster decision stated that financial benefit exists where the availability of infringing material acts as a 'draw' for customers.<sup>21</sup> Judge Wilson had little difficulty in finding that Grokster and StreamCast derive a financial benefit from the infringing conduct. Indeed, the ability to trade copyright songs and movies certainly acts as a draw for many users of the software and has resulted in both networks having a userbase in the tens of millions. Further, while users do not pay for the Grokster or Morpheus software, both Grokster and StreamCast receive substantial revenue from advertising.<sup>22</sup> The more individuals who download the software, the more revenue collected. As a substantial number of users download the software to obtain copyright material, a significant proportion of the advertising revenue depends upon the infringement.

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<sup>19</sup> Ibid 27.

<sup>20</sup> *Gershwin Publishing Corp v Columbia Artists Management Inc* 443 F 2d 1159, 1162 (2d Cir, 1971).

<sup>21</sup> *A & M Records Inc v Napster Inc*, 239 F 3d 1004 (9th Cir, 2001), 1023.

[254] *Right and Ability to Supervise the Infringing Conduct*

Napster identified that the ability to influence and control a network provides evidence of supervision of infringing conduct.<sup>23</sup> In that case, Napster's supervision of infringing conduct was shown by maintaining the central server of files being shared, by requiring users to register with Napster and by being able to terminate user's access for violation of its policies. Both Grokster and StreamCast argued that the decentralised structure their systems means that the communication between users is completely outside their control. Judge Wilson agreed. His Honour stated that the Grokster network is the proprietary FastTrack network, which was clearly not controlled by Grokster. Similarly, with StreamCast, the network is Gnutella, the open source nature of which places it outside the control of any single entity.<sup>24</sup>

The music and movies industry contended that the software could have been altered to prevent users from sharing files. This was rejected by Judge Wilson on the basis that the doctrine of vicarious liability does not contemplate liability on that grounds that a product could be made so that it is less susceptible to unlawful use, where no control over the use of the product existed.<sup>25</sup> As the entertainment industry could not provide any evidence of the ability to supervise and control the conduct of users, the claim of vicarious infringement was dismissed.

**Where to From Here?**

Although Grokster and StreamCast were successful in defending the claims of contributory and vicarious copyright infringement, Judge Wilson noted that the Court was not blind to the possibility that both entities had intentionally structured their businesses to avoid liability whilst benefiting financially from the illicit draw of their networks.<sup>26</sup> To justify a judicial remedy, the entertainment industry was inviting the Court to expand existing US copyright law beyond its well-drawn boundaries. Judge Wilson was not prepared to take such a step and suggested that additional legislative guidance maybe required in the area.

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<sup>22</sup> *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* (Cal, 25 April 2003, Wilson J) 29.

<sup>23</sup> *A & M Records Inc v Napster Inc*, 239 F 3d 1004 (9th Cir, 2001), 1023.

<sup>24</sup> *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* (Cal, 25 April 2003, Wilson J) 32.

<sup>25</sup> *Ibid* 31.

<sup>26</sup> *Ibid* 33.

Despite the ruling being a major setback for the entertainment industry to combat online file sharing of its works, it has vowed to fight on and appeal the decision. Indeed, if the decision is not quickly overturned on appeal, the entertainment industry may well take Judge Wilson's suggestion and move the peer-to-peer policy battle to the United States Congress. Presumably, the entertainment industry would lobby Congress to pass legislation changing the rules so that they would be successful in copyright infringement actions against decentralised peer-to-peer networks. Further, if the present decision stands, it would probably force members of the entertainment industry to accelerate the development of their own online subscription services or adopt new legal strategies that they have been previously reluctant to employ, such as taking action against individuals who copy unauthorised works through peer-to-peer networks.

It is important to realise that this decision does not directly affect Kazaa, the software now distributed by Sharman Networks and used by Grokster and StreamCast, which was also targeted in copyright actions by the entertainment industry. This is because Sharman Networks did not join the request for summary judgment. The parties in that case were back in court on 28 April 2003 hearing Sharman's counterclaims which accuse the entertainment industry of engaging in anti-competitive behaviour. A decision in relation to Sharman's liability as distributor and controller of the FastTrack software is eagerly awaited to determine the precise position of peer-to-peer technology in US copyright law.