# Teen Rebel Napster Faces the Music – Will It Be a Swansong?

**Mia Garlick reviews the practical impact for Napster of the Appeal Court's decision.[1]**

July 2001 was to be a momentous occasion for Napster – the month when Napster grew up. Under Napster's agreement with Bertelsmann[2], announced on 31 October 2000 (a perhaps auspicious date?), July 2001 was earmarked as the date for release for a commercial and secure Napster service. Instead, as the US celebrated its independence on July 4, Napster suspended its service because it was unable to completely block the unauthorised trading of files[3]. The timing was poetic given claims that Napster was "igniting a revolution"[4].

Since the 9th Circuit Court of Appeals (**Appeals Court**) upheld[5] the original injunction issued by Judge Patel[6] against Napster in substance, Napster has engaged in a whirlwind of deal-making with non-major music labels[7] and with technology firms who specialise in security and fingerprinting technologies. Napster has even done a deal with MusicNet, the online music platform supported by EMI, BMG and AOL Time Warner[8] (albeit only a technology, not a music licensing deal).

Meanwhile, Napster repeatedly trooped in and out of court to report to Patel who has been overseeing Napster's compliance with the Appeals Court decision on its progress in blocking the music owned by the record industry plaintiffs.

By mid-July, Patel ruled that the Napster service cannot resume despite Napster's claims that it is able to block files with 99.4% accuracy.[9] Her ruling has been stayed by the Appeals Court. As at the date of this article, Napster had still not resumed its file trading service, claiming that it was "finetuning" its filters[10].

The practical reality of complying with the Appeals Court's decision appears to be a rod too large for Napster's back. Perhaps ironically, the Appeals Court attempted to limit Napster's obligation to police and remove infringing files. It seems that Napster simply cannot technically remove and block files effectively enough.

As Napster tries to transform from music industry teen rebel to a secure, commercial online music provider, Napster continues to alienate its original user base begging the question whether the entire process is ultimately worthwhile.

This article seeks to conduct a timely review of the Appeals Court's decision and its practical impact for Napster in the wake of the recent developments which surround the business which could be Napster.

## OVERVIEW APPEALS COURT DECISION

The Appeals Court's task was a legal, not a factual inquiry. The Court was responsible to review the legal standards applied by Judge Patel in granting the original injunction and determine whether she could reasonably have issued the injunction having regard to the relevant legal principles. Only if Patel had misapplied legal principles could the Appeals Court reconsider the facts.

The Appeals Court disagreed with Patel on only one point of law and remanded the injunction back to the District Court for redrafting with respect to that point. Otherwise, the Court upheld the substance of the injunction.

In summary, the practical difference between the District Court and the Appeals Court decision is that the former would have caused Napster to shut down entirely, the latter has allowed Napster to limp to its current suspension of service.

## FINER DETAILS

Napster raised similar and more detailed arguments in front of the Appeals Court in its defence including fair use, copyright misuse, free speech and compulsory royalties. The Appeals Court succinctly dismissed each of these arguments.

In rejecting Napster's claims of fair use, the Court accepted that Napster's free service had a "deleterious effect" on both the existing market of CDs and other physical music products, as well as hampering the record labels ability to enter and compete in future markets, such as pay-per-download. The Court commented that:

> *"Having digital downloads available for free on the Napster system necessarily harms the copyright holders' attempts to charge for the same downloads".*[11]

These were important findings about the commercial impact of a "free" service. Both the Appeals Court and the District Court recognised that a free service could be commercially significant to the music industry and have commercial value to Napster, even in those circumstances where the individual Napster user may come within a fair dealing exception[12] if they have ripped and emailed a friend a file outside of the Napster system.

The one point on which the Appeals Court differed from Patel was in relation to the extent of Napster's responsibility to block the trading of unauthorised files on the Napster network. The Appeals Court held that the "entire burden" should not be placed on Napster to ensure that no copyright protected music is transmitted via the Napster system. The Court considered that this went beyond what Napster was likely to be required to do even if Napster is ultimately found liable at trial. The Appeals judges stated:

> *"....absent any specific information which identifies infringing activity, a computer system operator cannot be liable for contributory infringement merely because the structure of the system allows for the exchange of copyright material".*[13]

In other words, Napster should only be required to remove those files which Napster knew were infringing. Patel had injuncted the Napster service simply because it was capable of infringing file trading.

The Appeals Court acknowledged that there was evidence that Napster executives had actual knowledge of infringing files. Nevertheless, the Court directed that the District Court redraft the injunction so that the record industry plaintiffs had the obligation to identify files containing infringing music before Napster was required to remove them. Once those files are identified to Napster, the Court confirmed that Napster has the obligation to police its system to the fullest extent possible otherwise Napster would be vicariously liable for the infringements occurring via its network.

Vicarious liability means that Napster would be jointly responsible for infringing file trading. Vicarious liability, under US copyright law, will be imposed where a person has the right and ability to supervise its users conduct and gains a direct financial interest in such activities.

Napster, by its terms of service, retains the legal right to remove users from its service. Technically, Napster is also able to supervise its user's activity. These factors meant Napster was potentially vicariously liable for the infringing activity of its users. To escape vicarious liability, Napster had to police its system to the fullest extent possible within the boundaries of the current system.

The evidence before the Appeals Court indicated that Napster could only patrol file names, which had to be correct for Napster to function properly. The evidence suggested that the Napster system could not "read" the content of the indexed files.

Interestingly, as will be discussed below, this technical limitation has been lifted in the months following the Appeal Court's decision and as a result, Napster is now claiming that the suspension of its service is for technical rather than legal reasons[14]. The legal requirements underpinning this technical incapacity cannot be ignored.

## NAPSTER - AN ISP?

The sleeper issue to arise in the case is the Appeals Court's treatment of Napster's attempts to categorise itself as an ISP and consequently Napster's ability to seek the protection of the "ISP safe harbour" provisions in the *Digital Millennium Copyright Act 1998* (**DMCA**).

The DMCA sought to update US copyright laws for the Internet age. It contains detailed provisions which provide a "safe harbour" for ISPs from liability for infringing content transmitted using their networks, provided that the ISP complied with the rules prescribed by the DMCA.

The particular provision (17USCs512(D)) relied on by Napster excuses provides:

> *"referring or linking users to an online location containing infringing material.....by using information location tools, including a directory, index, reference, pointer, or hypertext link"*[15]

from liability for monetary or injunctive relief for infringement of copyright provided that they have:

- no actual or constructive knowledge;
- act expeditiously upon obtaining such knowledge to remove the infringing material;

or,

- where they have a right to control the infringing activity, derive no financial benefit;

and,

- a policy, which is appropriately implemented, under which subscribers which are repeat infringers have their access to the service terminated.

Patel, in a footnote, had dismissed any consideration of the applicability of the section 512(D) safe harbour because Napster had constructive knowledge. Patel commented that there was insufficient evidence that section 512(D) "shelters contributory infringers".

The Appeals Court took issue with Patel's footnote comment saying that it did not agree that the ISP safe harbour never protected contributory or vicarious infringers. The Appeals Court's comments seem fair considering paragraphs (b) and (c) cited above seem to directly import the criteria of contributory and vicarious infringement.

The Appeals Court commented that a serious question of law had been raised in arguments such as whether Napster was an ISP as defined under the DMCA and whether Napster has established and implemented a detailed copyright compliance policy as required by the DMCA.

The main issue is the interrelationship between liability for contributory and vicarious infringement and the s512(D) ISP safe harbour (assuming Napster comes within the ISP safe harbour), namely, whether or not Napster loses the protection of the safe harbour by reason of its actual knowledge of the infringements occurring via its network.

Beezer J, giving the decision of the Appeals Court, commented that this issue would be more fully developed at trial but at this stage the music industry plaintiffs had raised serious questions about Napster's ability to come within the ISP safe harbour.

Amongst other arguments, the record industry plaintiffs highlighted Napster's direct and ongoing relationship with its users. Napster verifies files in its user's harddrives and updates them both before and after any file trading activity. This, they argued, took Napster outside of any analogy with a video recorder manufacturer or ISP. It took Napster, so the music industry plaintiffs argued, squarely outside of the safe harbour given Napster failed to act expeditiously to remove infringing content and derived financial benefit.

By virtue of the strength of these arguments, Patel's apparently cursive treatment of the issue was not fatal overall to the arguments of the music industry plaintiffs on the issue of the inapplicability of s512(D) to Napster.

If the Napster case does go to trial, the development and resolution of these arguments may have important ramifications for all online service providers, ISPs in particular.

## IMMEDIATE FALLOUT - A REVISED ORDER

Immediately after the decision was handed down, a war of attrition and publicity commenced.

Napster claimed that the file lists given by the music industry plaintiffs were incomplete. Napster also offered to pay licence fees of $1 billion over five years[16]. The music industry called on Napster to stand down and admit defeat[17]. Security firms bombarded Napster with offers of their secure technologies.

Meanwhile, Napster users responded by frantically trading as many files as possible prior to the anticipated shut down of free file swapping service. Over the weekend following the Appeals Court decision, reports estimate that over 250 million files were traded via the Napster network[18]. Napster users subsequently progressed to using "Pig Latin" translations of music file names to evade the gradually developing Napster's filtering technology[19].

Interestingly, despite their keen interest in perpetuating file swapping, Napster users were surprisingly restrained in response to Napster's calls to lobby Congress members for the continuance of the Napster service[20].

Amidst the public grandstanding and feverish user activity, the District Court rephrased its injunction consistent with the directions given by the Appeals Court and issued a revised order on 5 March 2001 (**March Order**).

The March Order placed a considerable compliance obligation both on the music industry plaintiffs to identify infringing files and on Napster to remove and confirm the removal of those files. Patel also allowed the music industry plaintiffs

to notify Napster in advance of these details with respect to new releases from popular artists and required Napster to include files of these new releases.

Once Napster has reasonable knowledge of specific infringing files, in the form of notice from the music industry plaintiffs or through its own investigations, Napster then has three days to prevent identified files appearing in the Napster index. Napster was required to submit compliance reports to the District Court about its progress in blocking unauthorised files.

The parties are also required to work together to identify variations of file names and artists' names. Where a misspelling or misnaming is suspected, the parties were to try to ascertain the correct identity of the file.

In response to the March Order, Napster has improved its file-blocking technologies from blocking based on file names, including misspelt file names, to blocking based on reading the unique acoustic qualities of a particular music file.

Napster achieved this level of technical accuracy by entering into agreements with numerous technology security companies such as Loudeye, Relatable, Gracenote and most recently, Gigabeat. Under the various agreements, Napster is using their technologies and databases to assist in blocking infringing files[21].

The extent of Napster's compliance to date has nevertheless been unacceptable to Patel. In April, Patel called Napster's failure to block infringing files "disgraceful" and appointed a technical expert, AJ Nichols, on whom Patel indicated she would rely heavily, rather than either of the parties to the proceedings[22].

Patel commented further to Napster's counsel that:

> *"It goes back to what I already said, you created this monster, you figure it out".*

## MOVING GOALPOSTS

In addition to their ongoing co-operation in complying with the March Order, both sides are engaging in various legal manoeuvres in an effort to contain the "Napster monster".

Napster is pursuing appeals. Napster's appeal of the Appeals Court decision to the Full Court of the Appeals Court was recently rejected[23]. However, Napster was successful in asking the Appeals Court to hear its appeal of Patel's recent ruling that Napster remains suspended until the Napster network can block infringing files with 100% accuracy. The Appeals Court has stayed the ruling and Napster has until 9 August 2001 to file its appeal [24].

The music industry plaintiffs are trying different strategies. The appeal of the music industry plaintiff's to the Full Court of the Appeals Court to broaden the injunction (as varied by the Appeals Court decision) has not yet been decided. Yet latest reports indicate that the music industry plaintiffs intend to ask the court on 3 August 2001 to hear it motion for a summary judgement against Napster to shut the service down without proceeding to trial[25].

At the same time, some of the legal pressure has been turned off Napster. Both Metallica and Dr Dre have settled their actions against Napster for cash payments and apologies[26]. Some music publishers have recently indicated they were willing to settle, but only because the Napster service had been switched off[27].

The main dilemma all parties and Judge Patel face is that Napster's goalposts have moved. The Appeals Court decision required Napster to police its system to the extent technically possible. Based on evidence before the Appeals Court, Napster's technical limits were restricted to blocking the files based on their names. The possibilities of fingerprinting technology were not considered by the Appeals Court.

Indeed the Appeals Court seemed to specifically countenance the fact that some infringing files may slip through the Napster network. Beezer J commented that the Court could:

> *"recognize that the files were user-named and may not match copyrighted material exactly (for example, the artist or the song could be spelt wrong). For Napster to function effectively, however, file names must reasonably or roughly correspond to the material contained in the files".*[28]

The Appeals Court decision of February 2001 is already outdated by technology. It seems the "Napster monster" continues to outstrips technology.

In June 2001, Napster released new software which filtered files based on audio fingerprinting. This new software was not completely successful in meeting Napster's legal obligations under the March Order.

The software was not effective to block all infringing files because, once the technology identifies a file, it must be checked against a database of files which are identified as infringing. The challenge for Napster is twofold. One the one hand, this database information must be sufficiently comprehensive and accurate to include all unauthorised files. On the other, Napster users can compress or change files in such a way as to change the audio fingerprint. As a result, Napster shut down its service.

The legal issue is now a technical one – how effective must Napster's file-blocking technology be?

It is fair to say that the Napster saga has dissolved into a war of technology. This is reflected by the fact that Napster and the music industry plaintiffs continue to meet with the court appointed technical adviser to work on how the filter can be improved.

## FINAL REACTIONS

The Appeals Court decision (as did the original injunction) confirms the application of copyright laws to online music distribution. The differences between US legal principles and Australian legal principles are not so divergent as to render the Napster decision irrelevant to the Australian Internet industry, despite the US specific ISP 'safe harbours'.

The decision gives an interesting indication of the potential extent to which ISPs and other online service providers can be exposed to liability for infringing content transmitted via their networks.

The traditionally accepted "hands off" approach adopted by many online service providers may not necessarily protect an ISP or online service provider. Most online service providers have the technical ability to control and also reserve the legal right to control access to their network. This potentially exposes online service providers to vicarious liability under Australian law unless those online service providers actively police their networks (although the circumstances of other ISPs and online service providers may not be as extreme as those surrounding Napster). Nevertheless, this latest development in Internet law possibly raises a new risk where digital service providers adopt a 'hands off' approach.

The tale of Napster may also mimic that of the Internet. The heady days of online anarchy, when Napster usage was at its peak, have ended in this sober environment of the dotbomb fallout and litigation corresponding with a considerable dip in Napster's popularity.

The online music space is rapidly consolidating. Universal (ironically the last of the majors not to settle with MP3.com) announced the intention to buy MP3.com and EMusic in May 2001. Yahoo announced its intention to acquire webcaster Launch in June 2001. Ric Dube of Webnoize was recently quoted as saying:

> *"We've now established the ABC, NBC, CBS and Fox of music distribution.....The era of the startup is over."*[29] (With the "big four" of online music distribution being RealNetworks, America Online, Napster and Yahoo.)

It seems that a gap may be opening soon amongst the frontmen of online music. Behind them rages the real battles of the technology firms, notably Microsoft and Realnetworks, trying to assert their secure technology platforms as the standard Napster is providing a poor example of user acceptance of such secure technologies.

Amidst all of these battles and consolidation, the very reason for Napster's popularity, its users, seem to be looking elsewhere. No one, it seems, is staying to cheer the eventual winner.

File trading on the Napster network is estimated to have decreased considerably with Webnoize estimating 1 billion fewer users in May 2001 compared with April 2001[30]. No doubt part of the reason for the decrease is that, in complying with the March Order, Napster may be engaging in 'overblocking', that is, blocking versions of songs which are not infringing. Another reason is that much of the material which attracted people to Napster is slowly becoming unavailable.

One commentator described the latest developments in the Napster saga as being like:

> *"playing legal and technical cat and mouse games with thousands of ingenious teenagers with lots of time on their hands"*[31]

Migration to other free file swapping services seems inevitable. Although it is doubtful whether these services will ever match the useability and scalability, and consequently the popularity, of Napster. The free Napster phenomenon may well be over. Napster may only have lived to lend its name to 'Napster-like' services which are unlikely to ever achieve the same heights. Smells like teen spirit.

1 This views is this article are those of the author and do not necessarily represent those of Gilbert & Tobin or its clients. Since Napster's suspension of its service since 4 July 2001, the Napster saga is developing daily. This article is current as of 21 July 2001.

## NAPSTER'S TOP TEN DOWN LOADS

1. @#!%LISTENTOTHEMUSIC.mp3
2. @#!%MYWAY.mp3
3. @#!%FREE.mp3
4. @#!%MONEYMONEYMONEY.mp3
5. @#!%JUSTCAN'TGETENOUGH.mp3
6. @#!%IFOUGHTTHE LAW.mp3
7. @#!%LOSER.mp3
8. @#!%IFYOULEAVEMENOW.mp3
9. @#!%REBELREBEL.mp3
10. @#!%PLEASEDON'TGO.mp3

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2 Kirkpatrick, D 'Napster's Shining Knight' *Australian Financial Review* 23-24 June 2001

3 'Napster Suspends its Service Because it Can't Stop Bootlegging', Siliconvalley.com 4 July 2001

4 Appellant Napster's Emergency Motion to Stay pursuant to Rule 27-3 and Motion to Expedite Appeal, filed with the 9th Circuit Court of Appeals in July 2001

5 *A&M Records & Ors v Napster*, No 00-16403, DC No CV 00-00074 – MHP, *9th Circuit Court of* Appeals 12 February 2001

6 *A&M Records & Ors v Napster*, 2000 US Dist. LEXIS 11862, 10 August 2000, for a discussion of this decision as well as an explanation of how the Napster service works, see "Ups and Downs of the Napster Revolution" by the same author.

7 Such as deals with the Independent Association of Music, whose members include Ministry of Sound as reported in King B 'Napster is Alive, Alive' *Wired News* 26 May 2001

8 Learmonth, M 'Napster Signs with Major Labels' *The Standard* 5 June 2001

9 Lewis, M 'Judge Rules Napster Must Stay In the Dark' *Webnoize News*, 11 July 2001

10 www.napster.com as at 21 July 2001

11 Supra, 5 at p20

12 It should be noted that the activity of individual Napster users is only likely to come within fair dealing exceptions under US Copyright Law, not Australia fair dealing exceptions.

13 Supra 5 at p31

14 Breitling, J 'Napster Says Suspension Linked To Technical, Not Legal, Issues', Webnoize News 5 July 2001

15 Digital Millennium Copyright Act, 17 USC 512(D)

16 'EMusic Chimes in on Napster Filter' *The Standard* 22 March 2001

17 King, B "Picking at the Bones of Napster' *Wired News* 14 February 2001

18 King & Clewley 'Musicians Play a Hopeful Tune' *Wired News* 13 February 2001

19 'Apster-Nay Ull-Pay Encoder-Day, *Webnoize News* 14 March 2001; *MediaGrok* TheStandard, 9 March 2001

20 'Napster Fans' Response to Ruling is Muted' *Washington Post* 14 February 2001

21 Lewis, M 'Shared Files on Napster Edge Up; Service Cuts a Deal with Gigabeat, *Webnoize* 23 March 2001; Lewis, M 'Napster Adds New Fingerprinting Technology To Its Service Mix' *Webnoize* 19 April 2001; King, B 'Farewell Free Downloads' *Wired News* 11 June 2001

22 Lewis, M 'Judge Calls Napster Failure to Block Infringed Music Disgraceful' 10 April 2001 Webnoize News

23 Lewis, M 'Full US 9th Circuit Refuses to Hear Napster Appeal' *Webnoize* 25 June 2001

24 Lewis, M, 'Appeals Court Gives Napster Temporary Reprieve' *Webnoize* 19 July 2001

25 Lewis & Robinson 'Labels, Publishers Seek Summary Judgement Against Napster' *Webnoize* 16 July 2001

26 Lewis, M 'Publishers Ready to Talk Settlement with Napster *Webnoize* 17 July 2001

27 Supra, n23

28 Supra n4, p37

29 'Yahoo Launches, Napster Fades' in TheStandard MediaGrok, 29 June 2001

30 'Stuck Between a Rock and a Hard Place' *Webnoize Research* 1 May 2001

31 Leonard, A 'Who's Leeching Who?' *Salon* 15 February 2001

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