CASE NOTE

The Napster Appeal
A&M Records v Napster 00-16401, filed 02/12/01, 9th Cir.

Peter Dehlsen*

Background

Napster, an Internet start-up based in California, is the proprietor of the freely available music sharing software program known as MusicShare. The software allows users to share MP3 music files directly over the Internet with other users logged into the Napster system. Napster's software is generically known as peer-to-peer software, or P2P.

To use the Napster system, the user makes available their personal MP3 music files for download to others, by using MusicShare to send a list of files to the Napster servers. The list is then available for searching by other users logged onto the Napster system. When a user requests a file the request is routed to the host users address, if the host user can supply the file, MusicShare will inform the requesting user, a connection is made and the file transferred. The Napster system, in its relatively brief history, has been extraordinarily successful because of its ability for users to swap copyright music files over the Internet for free. Napster has attracted well over 65 million users in less than three years of operation. It is claimed that 20 million songs are downloaded daily, of which nearly 90 percent are copyrighted, and that Napster aimed to have 75 million users by the end of the year 2000[1].

The volume of users and the amount of copyright material traded over the Internet has caused alarm to the recording industry and artists alike. Accordingly, several suits have been filed against Napster by

---

* Peter Dehlsen, LLB, Solicitor, Wall Lawyers, Byron Bay. The author acknowledges the generous assistance of Associate Professor Brian Fitzgerald, Dean, Faculty of Law, Southern Cross University.

1 Bowman L, "Judge slams door on Napster", *ZDNet News*, 26 July 2000, <http://www.zdnet.com/zdnn/stories/news/0,4586,2601877,00.htmll>, (27 July 2000).

both industry and artists, most notably though, and for the purposes of this note, that of Recording Industry Association of America (RIAA)[2]. RIAA filed its complaint against Napster in the US District Court in December 1999[3], essentially claiming contributory copyright infringement, arguing that Napster provided the tools for infringement. Napster countered that it was a service provider within the 'safe harbour' provisions of the US *Copyright Act*[4] and thus were not liable for contributory infringement. Whether Napster was an ISP within the meaning of 512 was not fully determined at the preliminary trial, Patel J of the District Court assumed though that Napster was a service provider.

The District Court found that there was sufficient evidence of damage and that the balance of hardship tips in favour of the Plaintiff and in July, 2000 issued a temporary injunction placing the onus on Napster to remove all offending material. Napster immediately obtained a stay of the injunction pending an appeal.

The Appeal

The United States Court of Appeal for the Ninth Circuit handed down its decision on the *Napster case* on 12 February 2001[5]. The Court affirmed in part and reversed in part, the District Court's ruling that a preliminary injunction should be granted against Napster for contributory and vicarious copyright infringement. This case note examines a number of points of the Court of Appeals decision.

Infringement

The Court of Appeal agreed with the District Courts finding that direct infringement of the rights of reproduction and distribution occurrs when Napster users engage in uploading or downloading copyright

---

2 Separate suits have been filed by heavy-metal band *Metallica*, rap artist *Dr Dre*, *Emusic*, *A&M Records* and *TVT Records*.

3 See *A&M Records, Geffen Records, Interscope Records, Sony Music Entertainment, MCA Records, Atlantic Recording Corporation, Island Records, Motown Recording Company, Capital Records, La Face Records, BMG Music, Universal Records, Elektra Entertainment Group, Arista Records, Sire Records Group, Virgin Records, Warner Bros*, (Plaintiffs) *v Napster Inc* (Defendants) No. C 99-05183 MHP (US District Court) Marilyn Hall Patel, Chief Judge, Northern District of California. Filed 6 December 1999.

4 17 U.S.C. ➔ 512

5 *RIAA v Napster* 2001 US App. LEXIS 5446, Amended opinion by Beezer J, <http://www.lexis.com> (Accessed 21 May 2001).

music. However, the Ninth Circuit went further, "*Napster users who upload file names* to the search index for others to copy violate plaintiff's distribution rights" (emphasis added)[6].

Fair Use

The fair use provisions under 17 USC ➔107, contain 4 elements; i) the purpose and character of the use, ii) the nature of the use, iii) the portion used, and iv) the effect of the use on the market. The Court affirmed the District Court findings that Napster users were not engaged in fair use of copyright material. However, in discussing the purpose and character of the use, the Court made some notable points.

The purpose and character of the use, was discussed under two sub-heads of argument, i) whether the use is transformative, and, ii) whether the use is commercial or non-commercial. If the use was transformative, arguably it may have been fair, whether commercial or not, as it would have been a different product. However, according to the Court, since an MP3 copy is 'not transformative', and even where no money changes hands, the use is unfair because the user profits from not paying for the copyright product[7]. The Court was harsh on this point saying the use was "commercial use…repeated and exploitative…made to save the expense of purchasing authorised copies"[8]. The Court pushed the point by noting that trading infringing copies for other copyright works fell within the definition of a "financial gain" for purposes of criminal liability under the *No Electronic Theft Act* (18 USC ➔101)[9].

Sampling

Napster argues that its user download files in order to 'sample' the music to decide whether to purchase or not and that the sampling tends to increase audio CD sales. At first instance the court disagreed. On Appeal, the Court found that the District Court did not err in its analysis that even if some users eventually purchase the CD, "sampling remains a commercial use"[10]. The Court distinguished between record company samples and Napster samples. The record

---

6 Already cited at n5, p 10.

7 *RIAA v Napster*, note 5, at [11].

8 *RIAA v Napster*, note 5, at [12].

9 *RIAA v Napster*, note 5, at [12].

10 *RIAA v Napster*, note 5, at [14].

companies provide 30-60 second samples that 'time out', or disappear of the users hard drive, whereas Napster users download the whole song, which remains on the hard drive[11].

The Court agreed with the District Court that even if the sampling were non-commercial, the Plaintiff's have demonstrated that it adversely affects their 'potential market' if it were to become widespread[12]. And further, even if CD sales did increase, due to unauthorised uses, that should not deprive the copyright holder's right to licence the work[13].

Space

ShiftingNapster argues 'space shifting' occurs when a user downloads an MP3 file, to listen to music he or she already owns. However the Court disagreed, distinguishing both *Sony Betamax* and *Diamond Rio* cases[14], where the space shifting did not also involve the simultaneous distribution of copyright material to the general public[15].

Other Uses

As the Plaintiffs did not challenge other non-infringing uses, such as permissive reproduction by an artist, chat rooms, message boards and Napster's New Artist Program, the court merely noted the point[16].

Overall, the Court found that Plaintiffs are likely to succeed in showing, "Napster users do not have a fair use defence" [17].

Contributory Infringement

There must be direct infringement of copyright before a defendant will be found liable for contributory infringement. The District Court found that prima facie Napster users directly infringed the Plaintiff's

---

11 *RIAA v Napster*, note 5, at [14].

12 *RIAA v Napster* , note 5, at [14].

13 *RIAA v Napster* , note 5, at [15].

14 *RIAA v Diamond Multimedia System Inc*, 180 F. 3d, 1072, 1079 (Ninth Cir. 1999). *Sony Corp v Universal City Studios, Inc* 464 US 417 (1984).

15 *RIAA v Napster*, note 5, at [15].

16 *RIAA v Napster*, note 5, at [15].

17 *RIAA v Napster*, note 5, at [15].

copyrights. As this finding was not appealed, Napster could therefore be found liable for contributory infringement[18].

There are two elements to a finding of contributory infringement i) whether the defendant had knowledge and ii) whether the defendant materially contributed to the infringing actions. Napster's main defence to contributory infringement is the *Sony Betamax* case[19]. In *Sony*, the Supreme Court held that allowing copyright holders to ban technology that has substantial non-infringing uses would go beyond the power of the copyright monopoly even where the creator knew that the technology could be used to infringe copyrights. "The *Sony* Court declined to impute the requisite level of knowledge"[20].

The Appeals Court felt compelled to draw a distinction between the architecture of the system and the conduct of the operators of such a system[21]. However, it is unclear from the judgement exactly what that distinction was, but it would appear that the architecture of the system includes such things as infringing and non-infringing uses with knowledge of such uses, either actual or constructive.

At first instance, the District Court found that Napster had failed to demonstrate that its system was capable of "commercially significant non-infringing uses". On appeal, the Court disagreed and found that the District Court had placed "undue weight on the proportion of current infringing use compared to current and future non-infringing use", in other words, Napster *is* capable of non-infringing use. The Court thus applied *Sony* and declined to impute the requisite degree of knowledge because of the non-infringing potential[22]. Nevertheless, the Court concluded that there was sufficient evidence to support the preliminary injunction because of Napster's actual and specific knowledge of direct infringement[23].

The Court stated in very clear terms, "if a computer system operator learns of specific infringing material available on his system and fails to purge such material from the system, the operator knows of and contributes to direct infringement" [24]. The Electronic Frontiers

---

18 *RIAA v Napster*, note 5, at [10].

19 See also *Universal City Studios, Inc v Sony Corp* 480 F. Supp. 429, 459 (C.D. Cal 1979), rev'd 659 F. 2d 963 (Ninth Cir. 1981), rev'd 464 US 417 (1984).

20 *RIAA v Napster* , note 5, at [16].

21 *RIAA v Napster*. note 5, at [16].

22 *RIAA v Napster*, note 5, at [17].

23 *RIAA v Napster*, note 5, at [17].

24 *RIAA v Napster*, note 5, at [17].

Foundation argued that the ruling chips away at the Betamax defence for third party liability[25].

Vicarious Liability

A defendant may be held liable for the activities of another under the doctrine of vicarious liability where the defendant has a right and ability to supervise, and a financial interest in the activity. The Court said that Napster's financial interest was the "ample evidence" that Napster's future revenue was dependent upon increases in its user base[26].

According to the Ninth Circuit the "right and ability to supervise", is shown by Napster's express rights posted on its web site to refuse and terminate accounts where Napster believes the conduct violates applicable laws[27]. Said the Court this right is a "right to police" that "must be exercised to its fullest extent", and is only curtailed by the boundaries of the premises to be policed[28]. The premises, being the architecture of the system. The Court said that while Napster does not read the content of MP3 files, it has practical access, along with the plaintiff's and users, to the file names, and therefore has the ability to police the file name indices. The Court believed that the District Court had failed to correctly identify the boundaries of the premise to be policed, but, because Napster failed to police the file name indices, combined with the financial benefit, Napster was nevertheless vicariously liable[29].

Arguably, the finding casts an affirmative onus on operators of a P2P system, dependant on central servers for file indices, such as Aimster, to police the system. On the other hand operators of P2P systems that have no central servers, such as Freenet, would appear to have a legal advantage, being an inability to police the system.

---

25 Gross R. EFF Staff Attorney *Ninth Circuit Napster ruling requires P2P developers to ensure no one misuses their system.* <www.eff.org.a.>

26 *RIAA v Napster*, note 5, at [19].

27 *RIAA v Napster*, note 5, at [19].

28 *RIAA v Napster*, note 5, at [19].

29 *RIAA v Napster*, note 5, at [19-20].

Statutory Defences

Digital Millenium Copyright Act (*DMCA*)

Section 512 *DMCA*[30] is the safe harbour provision that protects qualifying service providers from all monetary relief for direct, vicarious and contributory infringement. At first instance Napster failed to pursuade the District Court that ➔512 *DMCA* shelters contributory infringers. The Court of Appeal however, relying on Nimmer on Copyright and Congressional Reports, believed that there were significant questions to be determined, such as whether Napster is a service provider within the definition of the section, and that these questions would be "more fully developed at trial" [31]. But, for the issue at hand, the balance tipped in favour of the plaintiff's, since without the injunction, the uploading and downloading of copyright material will "mushroom", due to "publicity" and the "scramble to obtain as much free music as possible before trial" [32].

Napster asserted that its users were protected by the US *Audio Home Recording Act*[33]. However any defence under the Act would not apply as the action was not brought under the *Home Recording Act.* The Court also stated that the Act did not apply to MP3 downloads because a computer and its hard drive is not a digital audio recording device as defined by the act[34].

Scope of Injunction

Since the Napster system does not read the content of MP3 files, the Appeals Court found the preliminary injunction overbroad because it placed the onus on Napster to ensure that "no copying, downloading, uploading, transmitting or distributing" of the plaintiff's works occur. The Court concluded that while Napster bears the burden of policing the system within the limits of the architecture the onus is on the copyright owner to provide notice of copyright works on the system before Napster has a duty to remove the material. The injunction was therefore stayed and sent back to the District Court for modification in

30 17 U.S.C. ➔ 512

31 *RIAA v Napster*, note 5, at [21].

32 *RIAA v Napster*, note 5, at [21], quoting the District Court at 114 F. Supp. 2d at 926

33 17 U.S.C. ➔1008

34 *RIAA v Napster*, note 5, at [20].

a way that directs the record companies to give Napster reasonable notice of specific infringing files[35].

The modified injunction was issued 6 March 2001, by Judge Patel of the District Court. Under the modified injunction the record companies must provide Napster with a list of songs to which they own copyright, along with evidence that those songs are being traded on Napster. Both Napster and record companies must seek to identify any variation in song names. The record companies may also give notice of songs awaiting release, of which Napster must block access "beginning with the first infringing file"[36]. Since the naming of files is determined by the user, and with over 65 million users and as many as 10,000 files traded per second, it is clearly not a simple task.

On 9 March 2001 the Plaintiffs were preparing to hand to Napster a list of 135,000 songs to be removed within three working days, with more lists to be delivered in the future[37].

As at the time of writing there has been no indication of the success of the modified injunction. Napster is however negotiating with several record companies to develop a user pays system.

Conclusion

There are significant difficulties that the music industry must overcome in the near future. Such as, the amount of infringing material in MP3 format residing on users hard drives and the simplicity in converting to MP3 format; the global nature of the Internet; the ready availability of alternate P2P systems; and the willingness of users to download free music. Further, the proliferation of alternate P2P systems, such as Freenet, Dalnet, gnutella etc, that do not rely on a centralised server system, will be exceedingly difficult to police by present legal methods. These issues and more must be addressed if the incentives offered by copyright protection are to be preserved.

The Appeals Court confirmed the argument by many, that i) the more music that sampling users download, the less likely they are to purchase, and ii) even if the audio CD market is not harmed, Napster has adverse affects on the developing digital market[38]. Unfortunately,

---

35 *RIAA v Napster*, note 5, at [23].

36 Richtel, M, "Judge Orders Napster to Police Trading", *New York Times*, March 7, 2001.

37 Richtel, M, "Record Labels Sending Napster List of 135,000 Songs to Block", *New York Times*, March 10, 2001.

38 *RIAA v Napster*, note 5, at [14].

the Napster case, while it sends a strong message to service providers, software developers and over 65 million Napster users that unauthorised trading in copyright music will not be tolerated, will do little to stem the flow of unauthorised copyright material. As the injunction will cause many users to install alternate P2P software offering better privacy and security.