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## Defending Artistry by Deleting "Dead Capital:" Sony, Grokster, and the Supreme Court's Lost Opportunity to Eradicate the "Substantial Non-Infringing Use" Doctrine

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# Defending Artistry by Deleting “Dead Capital:” *Sony, Grokster*, and the Supreme Court’s Lost Opportunity to Eradicate the “Substantial Non-Infringing Use” Doctrine

*Joshua E. Carpenter\**

|      |  |     |
|------|--|-----|
| I.   | SUPREME COURT DECISIONS.....   | 511 |
| A.   | <i>The “Betamax” Case: Sony Corporation of America v. Universal City Studios</i> ..... | 511 |
| B.   | <i>Peer-to-Peer Networks: Metro-Goldwyn-Mayer Studios, Inc. v. Grokster</i> .....      | 512 |
| II.  | THE MUSIC INDUSTRY’S OWN “DEAD CAPITAL” .....  | 514 |
| III. | CONCLUSION .....   | 516 |

Consider the following scenario: an individual walking at night in a private, secure parking lot notices a key dangling from a parked car’s ignition. He glances one way, and then looks the other way, seeing no one. He is alone with himself and with his moral inclination, which prevents him from stealing away with the car. Despite the ease with which he could take this car, our society overwhelmingly would decry such an act as criminal and worthy of strict penalty. No moral and ethical society could condone such disrespectful, irresponsible behavior. So, why is the theft of a musical recording any less offensive? The music industry rightfully owns musical content, yet the stigma attached to an individual’s stealing a car does not carry the same gravitas as an individual’s exploitative music downloading. Why are the moral and ethical impulses that restrain an individual from stealing a car numb when the individual has the opportunity to access a pirated music product?

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America's Founders recognized value in the arts and had respect for artists: Article I, Section 8 of the United States Constitution empowers Congress "to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."<sup>1</sup> Unfortunately, modern society's corrosive sense of entitlement to pirated music threatens to destroy the fundamental protection that artists and their music industry patrons need in order to continue to produce transcendent works. Such an attitude overlooks the primacy of artistic content: the devices that make music transportable and accessible would be of insignificant use without the sacrifices of those in the music industry. To sustain an enriching exchange between artist and audience, lawmakers and the judiciary must promote and enforce a stable legal framework that protects basic property rights. Without secure laws that clearly protect the interests of the artist and those sacrificing financially on his behalf, innovation and growth will be eviscerated. Why should an artist and his patron invest time, energy, emotion, and money into an endeavor when they cannot be confident that they will be protected from those exploiting the artist's work?

The Supreme Court's landmark decision in *Sony Corporation of America v. Universal City Studios*<sup>2</sup> introduced the doctrine that a manufacturer and distributor of a product cannot be held liable for the product's infringing uses as long as the product is capable of noncommercial, "substantial, non-infringing uses."<sup>3</sup> This concept, having never been given a quantified description adequately establishing the point of balance between protection and commerce, failed to anticipate the ways in which technology would evolve. Law and economics principles illuminate the importance of eliminating *Sony's* "substantial non-infringing use" doctrine to securely preclude the exploitation of copyrighted music.<sup>4</sup> Unfortunately, since the *Sony* decision, the Supreme Court has deviated from a strict interpretation of the Copyright Act, paving the way for technology predators to operate and flourish at the expense of the artist.<sup>5</sup> The "substantial

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1. U.S. CONST. art. I, § 8, cl. 8. Congress limits the grant of these "monopoly privileges" to motivate creative activity and to secure fair return for artists' labors, but, through the limits of this clause, Congress also encourages creativity for the general public good.

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

3. *Id.* at 418.

4. *See infra* Part II.

5. *See, e.g., Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 125 U.S. 2764 (2005) (demonstrating the Supreme Court's willingness to adopt into copyright law

non-infringing use” doctrine allows these predators to shield themselves from sanction. Until our legal system adequately quashes stealing, incentives for creative, artistic expression will continue to erode.

## I. SUPREME COURT DECISIONS

### A. *The “Betamax” Case: Sony Corporation of America v. Universal City Studios*

At issue in the *Sony* decision was whether Sony’s selling of home video tape recorders (“VTRs”) to the general public violated Universal’s copyrights to television programs broadcast on public airwaves, and whether the Betamax VTR was capable of commercially-significant non-infringing uses.<sup>6</sup> Universal sued Sony for copyright infringement, alleging that, because Sony’s consumers used VTRs to record Universal’s copyrighted works, Sony was liable for the copyright infringement allegedly committed by those consumers.<sup>7</sup> Ultimately, the Court’s rationale borrowed from patent law’s traditional “staple article of commerce” doctrine, which states that distribution of a component of a patented device will not violate the patent if the device is suitable for use in other ways.<sup>8</sup>

The *Sony* majority held that Sony’s VTRs did not infringe on Universal’s exclusive copyrights of its broadcasts.<sup>9</sup> The Court reasoned that authorized private home “time-shifting” was a fair use under Section 107 of the Copyright Act since “time-shifting” merely enables a viewer to see a work that he had been invited to witness in its entirety free of charge at another time.<sup>10</sup> More significantly, the

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concepts not codified in the Copyright Act when the Court liberally borrowed from patent law the “inducement of infringement” doctrine).

6. *Sony*, 464 U.S. at 420, 442.

7. *Id.* at 417.

8. 35 U.S.C.A. § 271(c) (2003).

9. *Sony*, 464 U.S. at 418.

10. Pursuant to Section 107 of the Copyright Act, the following factors are to be considered in determining whether the use made of a work in any particular case is a fair use (an affirmative defense):

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.

Court recognized that a company making or marketing a product cannot be held liable for the infringing uses of the product as long as the product is capable of noncommercial, “substantial, non-infringing uses.”<sup>11</sup>

A challenge to the “substantial non-infringing use” doctrine requires proof by a preponderance of the evidence that either (1) the product’s particular use is harmful or that it likely will lead to harm, or (2) if the product should become widespread, it would adversely affect the copyrighted works’ potential market.<sup>12</sup> If the intended use of the product is for commercial gain, the likelihood of future harm may be presumed; if the use is for a noncommercial purpose, the likelihood must be demonstrated.<sup>13</sup> Universal failed to provide evidence that people were giving or selling tapes to others and offered no evidence of decreased television viewing by Betamax owners.<sup>14</sup> Further, Universal failed to show that “time-shifting” had impaired the commercial value of their copyrights or had created any likelihood of future harm, significantly bolstering the argument that VTRs were capable of “substantial, non-infringing uses.”<sup>15</sup>

*Sony’s* “substantial non-infringing use” doctrine opened a wide door enabling technology innovators with misguided ambitions to enter the marketplace and threaten to cannibalize the music industry. Instead of bowing to concerns about curtailing motivation for technological innovation, the Court’s concern should have focused on the investment, vision, and dedication of artists and music labels, without whom artistic musical content does not exist.

#### *B. Peer-to-Peer Networks: Metro-Goldwyn-Mayer Studios, Inc. v. Grokster*

In *Metro-Goldwyn-Mayer Studios v. Grokster*,<sup>16</sup> the Supreme Court passed up an important opportunity to revisit *Sony’s* “substantial non-infringing use” doctrine. Instead, the Court—again

17 U.S.C. § 107 (2000).

11. *Sony*, 464 U.S. at 418.

12. *Id.* at 451.

13. *Id.*

14. *Id.* at 424. This is not the case in the music industry, where empirical studies confirm that services like Grokster’s and Streamcast’s have caused a steep decline in music sales. See Petition for Writ of Certiorari at 8, *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005) (No. 04-480, 2004 WL 2289200) (citing SIMON DYSON, *INFORMA MEDIA GROUP REPORT, MUSIC ON THE INTERNET 25* (4th ed. 2003) (estimating losses at \$700 million to several billion dollars annually)).

15. *Sony*, 464 U.S. at 421.

16. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005).

operating outside of the Copyright Act—opted to use another patent law rationale to craft yet another doctrine of copyright infringement, which the Court called “inducement.”<sup>17</sup> At issue in *Grokster* was the tension between the competing values of supporting creativity through copyright protection and promoting technological innovation by limiting infringement liability.<sup>18</sup> *Grokster* and *Streamcast* were distributors of free software products that allowed computer users to share electronic files through peer-to-peer networks.<sup>19</sup> In the case, a group of copyright holders sued *Grokster* and *Streamcast* for their users’ copyright infringement.<sup>20</sup> Specifically, the complaint alleged that the companies knowingly and intentionally distributed their software, thereby enabling users to illegally reproduce and distribute copyrighted works.<sup>21</sup>

The Court held that one who distributes a device with the objective of promoting its use to infringe copyright, as demonstrated by “clear expression or other affirmative steps taken to foster infringement,” is liable for the resulting infringing acts by third parties using the device, regardless of the device’s lawful uses.<sup>22</sup> “[N]othing in *Sony* requires courts to ignore evidence of intent [to promote infringement].”<sup>23</sup> Further, where evidence goes beyond a product’s characteristics or the knowledge that it may be put to infringing uses and shows statements or actions directed to promoting infringement, *Sony*’s “staple-article rule” will not preclude liability.<sup>24</sup>

Several tangible factors led to the Court’s finding against *Grokster* and *Streamcast*. First, each company aimed to satisfy a known source of demand for copyright infringement: the market comprising the users of the legally discredited *Napster*.<sup>25</sup> Next, neither provider attempted to deliver filtering tools or other mechanisms to diminish the activity of copyright infringers using

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17. *Id.* at 935-36.

18. *Id.* at 928-29.

19. *Id.* at 919-20.

20. *Id.* at 920-21.

21. *Id.*

22. *Id.* at 919.

23. *Id.* at 935.

24. *Id.* The Court stated:

MGM’s evidence gives reason to think that the vast majority of users’ downloads are acts of infringement, and because well over 100 million copies of the software in question are known to have been downloaded, and billions of files are shared across the *FastTrack* and *Gnutella* networks each month, the probable scope of copyright infringement is staggering.

*Id.* at 923.

25. *Id.* at 923-24.

their software.<sup>26</sup> Also, the technology providers made money by selling advertising space and then directing ads to the computers employing their software.<sup>27</sup> The more the companies' software was used, the more ads were sent out, and the greater the advertising revenue.<sup>28</sup> As a result, the technology providers' commercial enterprise turned on high-volume use of infringing content, which the Court considered when assessing the circumstances since nothing in *Sony* requires courts to ignore evidence of intent to promote infringement.<sup>29</sup>

Despite this seeming win for the music industry against technology predators, the Court myopically refused to overturn *Sony's* "substantial non-infringing use" doctrine, or to appropriately discourage technology that continues to produce a long list of new and unchecked copying devices that infringe music industry copyrights. Instead, the Court has left unanswered disparate interpretations of *Sony* that still question the usefulness and clarity of this doctrine.<sup>30</sup>

## II. THE MUSIC INDUSTRY'S OWN "DEAD CAPITAL"

Among the major questions at the nexus of law and economics queries is how private property law affects economic development.<sup>31</sup> Analogizing to the music industry, an individual may question how the Supreme Court's failure to unconditionally protect an artist's copyrights affects artistic risk, creative innovation, and resultantly, the growth of the industry. *Grokster* kept alive such nebulous terms from *Sony* as "substantial" and "commercially significant," thereby perpetuating the danger of continued violative behavior against the

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26. *Id.* at 926-27.

27. *Id.* at 926.

28. *Id.*

29. *Id.* at 935, 926-27.

30. There is no consensus on when *Sony* precludes liability, with interpretations ranging from "not if there is actual knowledge or willful blindness" or "not if there are substantial infringing uses and available means to prevent them" or "when the principal of primary use is non-infringing" to "when there is a reasonable possibility of substantial non-infringing uses" or "when a product is merely capable of substantial non-infringing uses" or "whether there was an intentional facilitation of infringement, including design decisions" or "whether conduct other than the design encouraged infringement." Jonathan Band, *The Grokster Scorecard*, [http://www.eff.org/IP/P2P/MGM\\_v\\_Grokster/summary.pdf](http://www.eff.org/IP/P2P/MGM_v_Grokster/summary.pdf). (last visited Apr. 4, 2007) (compiling in chart form the different standards put forward by the parties and various *amicus* briefs).

31. HERNANDO DE SOTO, *THE MYSTERY OF CAPITAL: WHY CAPITALISM TRIUMPHS IN THE WEST AND FAILS EVERYWHERE ELSE* 157 (2000).

music industry's copyrights.<sup>32</sup> Consequently, this uncertainty threatens to paralyze musical innovation and development.

According to economist Hernando de Soto, secure and stable property rights drive substantive, sustainable economic growth.<sup>33</sup> De Soto's basic premise is that a nation cannot develop economically without societal respect for property rights.<sup>34</sup> He observes that while the poor in developing countries already own land and houses, this "capital" is "dead capital" because the undefined property is not officially recognized.<sup>35</sup> Because the properties are not recorded anywhere and there is no clear title for the land or house, the property value cannot be borrowed against.<sup>36</sup> Such property is not fungible, and thus can serve only its most basic usage.<sup>37</sup> Creating certainty over this property would free this "dead capital" to become an engine for growth, as such property functions as capital in rich countries.<sup>38</sup>

*Sony* does not state precisely how much non-infringing use a defendant must show to escape liability, just as it alternately does not quantify how much infringing use a product must have for its manufacturer and distributor to be liable for copyright infringement. Ill-specified and ill-defined copyright protection leads to wasted artistic capital, since *Sony's* "substantial non-infringing use" doctrine fails to adequately protect the music industry's investments from individuals' access to recordings that they do not own. Just as insecure property rights lead to waste and unrealized growth because of uncertain land titles, the Court's failure to unconditionally protect copyrights threatens the music industry, since it creates disincentives for the industry to invest in creating new and innovative sounds, technologies, and other breakthroughs. Moreover, failed copyright protection perpetuates the existence of a black market for free music files available to the masses.

While de Soto's legal rationale about incentives and disincentives to growth is universally applicable, there exist, of course, key distinctions between his concern for third world economies and the concerns of those in the music industry; if anything, though, such distinctions only strengthen the music industry's argument against the "substantial non-infringing use" doctrine. Whereas de Soto's poor

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32. *Grokster*, 545 U.S. at 932-33.

33. See DE SOTO, *supra* note 31, at 159.

34. *Id.*

35. *Id.* at 32.

36. *Id.* at 6.

37. *Id.*

38. *Id.* at 35. The "total value of the real estate held but not legally owned by the poor of the Third World and former communist nations is at least \$9.3 trillion." *Id.*



have no way of turning their untitled land into development and growth because they do not have legitimate and effective systems of property rights, the Copyright Act provides clear direction for protecting copyrighted products and allotting asset ownership.<sup>39</sup> Moreover, the music industry owns clear legal title to creative products and thus is entitled to innovate without the risk of others' court-sanctioned stealing of its product.

Eliminating *Sony's* "substantial non-infringing use" doctrine brings the security and certainty needed to fully develop the music industry, leaving nothing as wasted potential or "dead capital." The Court should view copyright infringement through *de Soto's* lens linking secure legal protection with development. The Court must recognize the importance of strictly applying the Copyright Act's plain language to protect unconditionally the rights of artists and those funding artistic growth. Secure legal protection encourages greater creative risks benefiting all touched by the music industry.

### III. CONCLUSION

Development, or an environment that nurtures development, results from a society that respects legitimately-acquired property. This environment can be reached by voluntarily restraining aggression against others' property or by using force to defend legitimately-acquired property. In case others do not engage in voluntary restraint, society needs to actively defend property against aggressors. Without protection of private property, predators, whether private or state, can freely exploit one's rightful possession and unfettered use of his creation.

*Sony's* "substantial non-infringing use" doctrine creates "dead capital" in the music industry because the Court has failed to assuredly protect the industry's investment, which leads to more risk-averse behavior and lost innovation. Moreover, one may measure the music industry's "dead capital" by the corrosive effects of a black market for free files—lost profits that could have been recycled into the business. With money earmarked for legal protection of its legitimate copyrights, the music industry has less capital for business development.

The administration of copyright law manages the trade-off between the benefits derived from encouraging the creation of works

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39. 17 U.S.C. §§ 101, 106. The Copyright Act unequivocally grants copyright holder exclusive rights to use and to authorize the use of his work in five qualified ways, including reproduction of the copyrighted work in copies. *Id.* § 106.

and artistic protection and the cost of restricting access.<sup>40</sup> Copyright law cannot work without a strong legal system that strictly reads the rights granted to those seeking the law's protection and against those seeking to find creative ways to avert the law's protections. Ironically, certain technology providers want protection against others' infringement on their technological creations, but they accept that their businesses base themselves on eroding the value of another's hard work and innovation. *Sony* allows technology companies to hide behind the "substantial non-infringing use" doctrine. This shield not only erodes the value of sound recordings and musical compositions, but it also diminishes respect for the very foundation of copyright law in the digital age. *Sony* betrays the public good in failing to adequately protect artists and their music industry patrons. It is time that the Court firmly reevaluate copyright infringement doctrine in the post-*Sony* marketplace.

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40. See *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 431 n.12 (1984).

