Fair Use: The Electronic Frontier Foundation Jumps Into the Movie Studios' Fight with SONICBlue

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"The tighter you squeeze your hand the more will slip through your fingers".
Princess Leia to Darth Vader

SONICBlue, Inc. has introduced a consumer electronic device, the ReplayTV 4000, that contains two features the media companies love to hate: First, it allows users to skip over commercials automatically; and second, it allows users to record TV shows digitally and forward copies of them over the Internet to other ReplayTV owners. This second activity (the **"Send Show Feature"**) has an obvious potential to result in wholesale copyright infringement. As a result, SONICBlue is embroiled in litigation that may significantly affect the future of consumer electronics and with it the fair use doctrine.

THE SONICBLUE LITIGATION

On October 31, 2001 a number of major motion picture studios, all of the major TV networks and some of the cable content providers (referred to herein as the "**Studios**") sued SONICBlue and its subsidiary, ReplayTV, Inc. alleging contributory copyright infringement, vicarious copyright infringement, violations of the Federal Communications Act and unfair business practices under the California Business and Profession Code.[1] SONICBlue has of course denied all alleged violations of the law.

The litigation attracted a lot of attention this spring, when the magistrate handling the discovery motions ordered SONICBlue to develop software to collect information about use of the ReplayTV. The order prompted amicus filings by numerous organizations, including the Electronic Frontier Foundation (**EFF**). SONICBlue argued that the order would cause it to violate its own privacy policy, was impossible to carry out in the 60-day period allotted, and might compel SONICBlue to violate third-party patents. Finally, SONICBlue argued that the Federal Rules did not authorize the Court to compel the creation of new records for purposes of discovery. On May 30, 2002, the District Court accepted this last point, and reversed the magistrate's order.[2]

On June 6, 2002, attorneys for the EFF filed a complaint for declaratory relief on behalf of five individuals, naming all parties to the SONICBlue litigation as defendants, including SONICBlue itself.[3] The EFF complaint describes the plaintiffs as individuals who use the ReplayTV for time-shifting,[4] to avoid commercials, to view programming from their personal laptop computers while traveling and to forward TV shows to other ReplayTV units within their homes. The latter two activities are referred to herein as **"Space-Shifting"**.

The EFF plaintiffs seek a declaratory judgement affirming their rights to lawfully record television programs, whether broadcast free or on a subscription basis, for purposes of time-shifting or space shifting; to skip commercials; and to send programs to "one or more specific individuals" as long as they do not receive any compensation or direct commercial benefit from doing so.

SONY V. UNIVERSAL CITY STUDIOS

The legal issues presented by this case relate directly back to *Sony Corporation of America v. Universal City Studios, Inc.*[5], in which the Supreme Court, in a 5-4 decision, held that the sale by Sony of its Betamax video tape recorder (a "**VCR**") did not implicate Sony in copyright infringement.

The *Sony* majority found that time-shifting constituted fair use. In support of this finding, the Court noted that the use was non-commercial; and that no proof had been put into evidence to support a claim that it would harm the potential market or value of the copyrighted works. In supporting its finding of no apparent economic harm to the copyright holder, the Court considered the importance of advertising revenue to TV stations, the relationship of advertising revenue to Nielsen ratings, and the potential effect of time-shifting on Nielsen ratings. The Court took comfort in a finding of the District Court to the effect that "current measurement technology allows the Betamax audiences to be reflected [in audience ratings]." [6]

The Court also noted that the copyright owners of significant amounts of broadcast content had testified that they had no objection to time-shifting of their content. For example, Fred Rogers, the President of the corporation that produced *Mr. Rogers Neighborhood*, expressed his opinion that time-shifting was a real service to families. [7]

Having found that time-shifting constituted fair use, and having found further that time-shifting was a substantial use to which the Betamax was put, the Court was able to conclude that Sony was not liable as a contributory infringer because the Betamax had a substantial non-infringing use to which it could be put.[8]

Justice Blackmun wrote a dissent in which Justice (now Chief Justice) Rehnquist joined along with three others. In it, he traced the legislative history of the Copyright Act to make the case that there is no "private use" exemption to copyright infringement. He also reviewed the language of Section 107 of the Copyright Act and drew from it the conclusion that fair use is nearly always a productive use, "resulting in some added benefit to the public beyond that produced by the first author's work." [9]

Sony has widely been commended because of the consequences that it has spawned. Near-universal acceptance of the VCR has given birth to the video rental business, creating an entirely new market for the Studios. Ironically, Sony later lost the standards war to VHS. *Sony* has been interpreted by commentators as the Court saving the Studios from themselves, and permitting the advance of technology to continue unfettered. It is a hugely popular decision.

DEVELOPMENTS SINCE *SONY*

Within months after *Sony*, Congress made changes to the Federal Communications Act designed to protect broadcasters and cable operators from theft of service. Section 553, added in 1984, makes it unlawful for any person to "intercept or receive or assist in intercepting or receiving any communication service offered over a cable system, unless specifically authorized to do so by a cable operator or as may otherwise may be specifically authorized by law." Section 605 is a similar statue applicable to encrypted over-the-air communications. In setting forth the penalties for violations of this criminal statue, Congress distinguished between those who intercept communications for commercial purposes and those who do not. Thus, non-commercial use is clearly actionable (and punishable) under this act.

The Studios contend that the Send Show Feature is intended to enable ReplayTV owners to receive programming without authorization, whether the show is an over-the-air broadcast, or offered over basic, premium, or pay per view cable service, in violation of sections 553 and 605 of the Federal Communications Act. [10] This article will not focus on this aspect of the case, other than to note that ReplayTV owners are most likely authorized recipients of the programs that they record; and that, as explained below, the Send Show feature is disabled for pay-per-view programming and copy-protected content.

The Digital Millennium Copyright Act[11] (**DMCA**) was enacted in 1998. One of it central purposes was to outlaw the circumvention of copyright protection technologies, and the trafficking in devices that are primarily designed for that purpose. [12] This criminal statute is a powerful tool for the Studios. If they copy-protect DVDs and broadcasts with encryption or scrambling, they can pursue those who offer devices intended to circumvent those copy-protection system civilly and refer them to the criminal authorities.

The Supreme Court rendered another important fair use decision in 1994. That decision, *Campbell v. Acuff-Rose Music, Inc.*,[13] upheld as fair use a parody of a popular song, notwithstanding that the parody was clearly commercial, that it involved a near-total copy, and that the copyrighted material was itself an artistic expression. [14] This decision appears to fly in the face of three of the four factors listed in section 107 of the Copyright Act,[15] and seems to signal the predominance of the fourth factor over the other three. That fourth factor is "the effect of the work upon the potential market for or value of the copyrighted work." The *Campbell* Court believed that it had the power to go beyond a mere rote analysis of the four factors in section 107 because "Congress meant Section 107 'to restate the present judicial doctrine of fair use . . .' and intended that courts continue the common law tradition of fair use adjudication." [16]

Consumers today want all the convenience that modern electronics can supply. They would prefer to be able to skip over commercials and share content with their friends and family. Music CD sales are declining, which the record labels attribute at least in part to Internet file swapping services like Napster, which offer content sharing and convenience at no cost to the consumer. Clearly, the Studios are extremely concerned that, as file compression techniques improve and bandwidth expands, ready exchange of TV programs and even full-length motion pictures will soon be as easy as swapping songs is today. Protection against this risk is offered by third-party vendors such as Macrovision Inc.,[17] who offer encryption systems that are fairly robust and certain to trigger the tripwire of the DMCA.[18]

THE REPLAYTV SYSTEM

SONICBlue's device is much more sophisticated than a VCR. SONICBlue keeps track of virtually all scheduled TV and cable programming on a central server. Nearly all ReplayTVs are in daily contact with the central server, providing users access to current listings. This allows the users to record programs virtually without regard to when they are scheduled to be broadcast, or on what channel. The server also segregates programming into types of content so that the user can, for example, record Westerns without worrying about which shows are being captured. Similarly, a user can designate actors, directors, etc. for recording.

The SONICBlue server also classifies channels with a "service tier" indicator. These indicators seem to correspond to basic cable, premium cable, pay per view and digital music. [19] In addition each program is tagged with a separate flag to indicate whether or not the show is a pay-per-view show. Programs tagged as pay-per-view cannot be sent over the Internet using the Send Show Feature. In addition, a ReplayTV that receives a copy of a show is unable to then resend it to a third Replay unit. While the ReplayTV will allow a user to store and replay content protected by Macrovision,[20] the user cannot send such content over the Internet. When the ReplayTV copies a Macrovision-protected DVD, it does so through its auxiliary inputs. This involves digital to analog conversion, causing a degradation of the signal, similar to what occurs with a VCR. The ReplayTV automatically limits the number of transferees to which a particular file can be sent. This limit is currently set a 15, but can probably be changed with a downloaded software patch.

SONICBlue's central server assists in directing content from one ReplayTV to another by tying ReplayTV aliases to actual Internet addresses. In that sense, there is some similarity between the SONICBlue system and Napster, a similarity that the Studios emphasize in their complaint. This comparison is not entirely apt, however, for at least two reasons. First, SONICBlue is not keeping track of the content on each ReplayTV for the purpose of facilitating file-swapping between strangers. And second, the ReplayTV's compliance with the DMCA sets it apart from Napster.

FAIR USE IN THE REPLAYTV CONTEXT

In *Sony*, the Court held that recording broadcast TV shows for purposes of time-shifting constitutes fair use; and that, since the Betamax was capable of substantial non-infringing uses (i.e., time-shifting), its sale was not unlawful. The applicability of *Sony* to SONICBlue is not at all clear because of changes in technology, the marketplace, the law and the composition of the Court.[21]

The ultimate judicial resolution of the fair use issues presented by the ReplayTV is likely to rest on three questions:

1) How will the alleged infringement affect the potential market for or value of the copyrighted work?
2) Will the relief sought by the plaintiffs infringe on the rights of innocent parties? and
3) Will the decision of the court "Promote the Progress of Science and the useful Arts?" [22]

ECONOMIC HARM

According to *Nimmer on Copyright*, the Supreme Court's *Sony* analysis "was predicated upon an only partial articulated double payment theory." [23] This theory holds that, since the networks have been paid once for broadcasting the TV shows to the Betamax owners (indirectly through their inclusion in the Nielsen ratings), it is not fair for them to recoup a second time through copyright infringement damages. If that is relevant today, the question arises as to whether Nielsen can capture the viewing of a TV show when a ReplayTV owner has sent multiple copies to friends and family electronically. Because of the frequent communication between ReplayTV devices and the SONICBlue servers, it may well be possible for SONICBlue to capture that data and give it to the ratings services. Without such assistance, it is hard to know how Nielsen can do it alone.

The Studios argue that, if users can watch TV programs without seeing the commercials, then advertisers will no longer support the programming, which will adversely affect the Studios' ability to produce it. They have a good point.

This issue was actually argued and discussed in *Sony*, where the Court found that skipping through the commercials on a Betamax was too tedious to be a serious issue of concern. [24] This conclusion was based upon *Sony's* surveys showing that 92% of programs were recorded with commercials, and only 25% of owners fast-forwarded through them. It is probably safe to speculate that owners of the ReplayTV do not find it tedious to skip commercials, and do so with great frequency.

However, advances in VCRs permit users to fast forward through commercials with nearly equivalent ease. There is little basis for distinguishing the two devices. If SONICBlue can convince the court that commercial-skipping on VCRs has not hurt the Studios, the courts will most likely shy away from trying to strip VCRs and their more advanced cousins like the ReplayTV of their commercial skipping features.

Perhaps the determinative factor regarding harm to the Studios, however, is that they are not defenseless against the ReplayTV features that they find offensive. The ReplayTV is programmed to defeat the Send Show feature for shows that have Macrovision or similar encoding. The Studios can enable those copy protection features, and the problem is gone. The commercial skip feature is not foolproof, and relies upon a patented technology.[25] An examination of the patent should disclose enough of the technology to permit the Studios to outsmart the ReplayTV's commercial detection technology.

OTHER FACTORS

The EFF brief helps bring to the fore the fact that there are many users of the ReplayTV who use the device only for time-shifting and space-shifting. The Court is reluctant to infringe on those rights. To do so gives the holder of the copyright market control over electronic devices developed by others. The EFF plaintiffs are likely to cause the court to focus on the substantiality of such innocent use of the ReplayTV. If the evidence is strong that most use involves only time and space shifting, the courts will be reluctant to rule against SONICBlue.

While unspoken in *Sony*, the decision can be seen as representing the reluctance of the Court to impede the development of technology. This reluctance relates directly to the purpose of the copyright power as set forth in the Constitution: to promote progress. The ReplayTV is a clever step forward in consumer electronics. It seems unlikely that courts will attempt to ban it, as long as innocent use predominates over intentional copyright infringement.

POSSIBLE REMEDIES

Justice Blackmun, in his dissent in *Sony*, criticized the majority of confusing the potential harm of a complete ban on VCRs with the merits of the fair use defense. He agreed with the "The Court of Appeals' suggestion that a award of damages, or continuing royalties, or even some form of limited injunction, may well be an appropriate means of balancing the equities in this case." [26]

The courts resolving the SONICBlue litigation may look again at this reasoning and fashion a remedy that permits SONICBlue to sell the ReplayTV in modified form. For example, it might be possible for SONICBlue to keep track of which devices have been registered to the same owner so as to permit transfer of files only between ReplayTVs under common ownership. Or, it may be possible to reduce the number of ReplayTVs that any one machine can share files with from 15 to a much smaller number.

CONCLUSION

In deciding this case, the courts may be faced with a policy choice between promoting the "progress" of technology and "progress" of the arts that the Studios contribute. When the Supreme Court last faced this choice in *Sony*, technology, the media markets, and the legal protections available to the Studios were quite different. Today, the courts are likely to look carefully at the potential of technology not only to facilitate the private non-commercial use of content, but to protect the rights of the Studios. The ability of the Studios to harness technology to protect their content, and the DMCA prohibitions on thwarting those technologies, may cause the courts to decide that the Studios are not really threatened by devices, such as the ReplayTV, that are DMCA compliant.

Any relief granted to the Studios is likely to be carefully crafted to permit the continued development of useful home entertainment devices, while perhaps imposing some restrictions on the ease with which they can be used for thwarting copy-protected content.

No matter how carefully crafted the restrictions may be, however, they run the danger of quickly becoming obsolete, and they may tend to look more like legislation than case law. Highly tailored remedies such as continuing royalties, which Justice Blackmun suggested in dissent in *Sony*, might require ongoing administration that the courts would find difficult. These problems may tempt the courts to follow *Sony*, and conclude that since the Replay TV can be put to non-infringing uses, its sale cannot be prohibited. Whatever the result, it seems unlikely that the ReplayTV will be banned altogether or stripped completely of its controversial features.

ENDNOTES

1. *Paramount Pictures Corporation v. ReplayTV, Inc.* (Civ.No.01-9358FMC, C.D.Cal.). The original complaint is available at http://www.eff.org/IP/Video/Paramount_v_ReplayTV/20011031_complaint.pdf .
2. The order is available at http://www.eff.org/IP/Video/Paramount_v_ReplayTV/20020531_replay_discovery_reversal.pdf .
3. The EFF complaint is available at: http://www.eff.org/IP/Video/Newmark_v_Turner/20020606_replaytv_complaint.pdf .
4. This term is used to describe the recording of broadcast material for the purpose of viewing at a time other than its original time of broadcast.
5. 464 US 417 (1984).

6. Id. at 453 (quoting 480 F. Supp. 466: "There was testimony at trial, however, that Nielsen ratings had already developed the ability to measure when a Betamax in a sample home is recording the program").
7. Id. at 445.
8. Id. at 440.
9. Id. at 479.
   Justice Blackmun allowed that there might be some non-productive uses covered by the fair use doctrine. He gave as examples photocopying a newspaper clipping to send to a friend, and pinning a quotation on a bulletin board. He excused these examples as being truly *de minimus*. Id. at 482.
10. 47 U.S.C. §553, 605.
11. Pub. L. 105-304, 112 Stat. 2863; most of which is codified at 17 USC ch. 12.
12. 17 USC sec. 1201.
13. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 576 (1994).
14. *Id.*
15. Section 107 also calls for an inquiry into four factors:
    1) The purpose and character of the use, including whether if such use is of a commercial purpose or is for non-profit educational purposes;
    2) The nature of the copyrighted work;
    3) The amount and substantiality of the proportion used in relation to the copyrighted work as a whole; and
    4) The effect of the work upon the potential market for or value of the copyrighted work.

    17 USC sec. 107.
16. *Campbell, supra* note 13, 510 U.S. at 576.
17. According to Macrovision's website, "Macrovision's copy protection technologies … allow content owners to protect their videocassettes, digital Pay-Per-View (PPV) programs and Digital Video Discs (DVD) from unauthorized recording on VCRs. Major Hollywood studios, independent home video companies, and … educational program providers use the company's videocassette copy protection technology to protect against unauthorized home copying of rental and sell-through videos." http://www.macrovision.com/solutions/video/copyprotect/ .
18. Interestingly, Warner Brothers has apparently released the *Harry Potter* and *Lord of the Rings* DVDs without copy-protection in place, possibly in order to save on the royalties that it would have to pay to Macrovision. See http://www.avsforum.com/avs-vb/showthread.php?s=&threadid=147227 .
19. See www.avsforum.com/avs-dv/showtread.php?s=treadid=148701 (JTL posting 5:15 p.m., July 19, 2002).
20. A similar system, "The Copy Generation Management Signal-Analog ("CGMS-A") has been developed to prevent the copying of analog TV programs. Content containing a CGMS-A determines the number of copies that can be made. The ReplayTV is designed to be compliant with CGMS-A signals, but ReplayTV has stated that this system is not in use.
21. Only three *Sony* justices remain on the Court and one of them, Chief Justice Rehnquist, was a dissenter in that opinion.
22. U.S. Constitution Article 1, § 8.
23. *Nimmer on Copyright* Sec. 13.05[F][5][b] at 13-266.
24. *Universal City Studio v. Sony Corporate of America*, 480 F.Supp. 429, 468 (cd. Cal. 1979)
25. See Answer of SonicBlue at para. 29.
26. 464 U.S. at 499.