

SONY CORPORATION OF AMERICA, et al., *Petitioners, vs.*
UNIVERSAL CITY STUDIOS, INC. and WALT DISNEY PRODUCTIONS,
Respondents.

No. 81-1687

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BRIEF OF GENERAL ELECTRIC COMPANY, MATSUSHITA ELECTRIC CORPORATION OF AMERICA, MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD., N.A.P. CONSUMER ELECTRONICS CORP., PANASONIC HAWAII, INC., RCA CORPORATION, US JVC CORP., AND VICTOR COMPANY OF JAPAN, LTD., AS *AMICI CURIAE* IN SUPPORT OF REVERSAD

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INTEREST OF AMICI n1

n1 This Amicus Brief is presented to the Court under Rule 36.2 of the Rules of the Supreme Court and letters of consent from petitioners and respondents are on file with the Clerk of the Court.

Amici Matsushita Electric Industrial Co., Ltd. and Victor Company of Japan, Ltd. manufacture videotape recorders ("VTRs") which are distributed and sold in the United States. Amici General Electric Company (GE brand), Matsushita Electric Corporation of America (Panasonic and Quasar brands), N.A.P. Consumer Electronics Corp. (Sylvania, Magnavox and Philco brands), Panasonic Hawaii, Inc. (Panasonic brand), RCA Corporation (RCA brand) and US JVC Corp. (JVC brand) each distribute and sell VTRs in the United States: VTRs manufactured, distributed and sold by these Amici play an important role in the expanding U.S. VTR market n2 and compete with the Betamax brand VTRs manufactured by Sony, which are involved in the opinion of the Ninth Circuit in *Universal City Studios v. Sony Corp. of America* ("*Sony*"), 659 F.2d 963 (9th Cir. 1981), now before this Court for review.

n2 Total retail sales of Amici's VTRs and related products in 1981 exceeded an estimated 1.2 billion dollars.

On November 6, 1981, less than three (3) weeks after *Sony*, Universal City Studios, Inc. commenced an action ("*Universal v. RCA et al.*," No. 81-5723 FW, C.D. Cal.) n3 against Amici and virtually all other manufacturers and distributors of VTRs, and their advertising agencies. As in *Sony*, the complaint in *Universal v RCA et al.*, asserts that the in-home, non-commercial, private, off-the-air video recording of copyrighted works constitutes copyright infringement, for

which the manufacturers, distributors and advertisers of VTRs are all allegedly liable. Thus, Universal seeks to extend the erroneous holding of *Sony* to the entire VTR industry.

n3 The plaintiffs below are Universal City Studios, Inc. and Walt Disney Productions and are referred to herein collectively as "Universal". Disney is not a party to the new action.

The questions raised by *Sony* not only have a direct economic impact on the entire VTR industry, but also have far reaching and adverse consequences on all high technology industries and the consuming public which benefits both socially and economically from the development and commercial exploitation of new products. Prior to the Ninth Circuit opinion in *Sony*, the Copyright Law had always been construed so as to simultaneously accommodate the development of new technologies and the need for reasonable compensation to copyright proprietors. The courts have consistently recognized that copyright proprietors have the ability to adjust their economic relationships to accommodate the growth of new technologies, such as cable television ("CATV") and photocopying, and that regulation of these technologies with respect to emerging copyright issues should be defined and controlled (if at all) by Congress. In contrast, *Sony*, if upheld, would give a copyright proprietor control over the question of whether a new technology should be permitted to exist, or at least the right to define the economic conditions for that existence. Amici, as members of a high technology industry which invests huge sums of money in the development of new products, are significantly affected by the dangerous precedent created by *Sony* which, unless reversed by this Court, could undermine the orderly progress of science and the useful arts.

SUMMARY OF ARGUMENT

The Ninth Circuit opinion effectively holds that viewers must pay to watch free television in the privacy of their own home if such television viewers employ VTRs to time-shift a copyrighted televised program. The decision is based on the erroneous premise that the proprietors of copyrighted motion pictures and other copyrighted televised works should control, rather than adapt to, the means through which the public may gain access to their works. There is nothing in the constitutional philosophy or legislative history of the Copyright Law which supports this premise.

To the extent that the purely personal decision to time-shift a television program in the privacy of one's home may be a literal violation of any exclusive right granted by the Copyright Law, it is due solely to the understandable inability of Congress to anticipate the precise nature and impact of each new technology on such law and to create, in advance, a specific statutory exemption to deal with it. This Court has, therefore, recognized the need to construe the Copyright Law in a manner consistent with its constitutional purpose so as to promote, rather than undermine, the existence or development of new technology capable of increasing public access to copyrighted works. n4 Congress, in codifying the fair use exemption to literal infringement (*17 U.S.C. § 107*) and in urging the courts to retain a flexible view of the fair use doctrine in the light of emerging technologies has reinforced the correctness of this Court's approach.

n4 *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151 (1975); *Teleprompter Corp. v. Columbia Broadcasting Systems, Inc.*, 415 U.S. 394 (1974); *Fortnightly Corporation v. United Artists Television, Inc.*, 392 U.S. 390 (1960).

These judicial decisions and legislative actions are consistent with the principle that the Copyright Law was not designed or intended to give copyright proprietors control over the particular means by which the public obtains access to a copyrighted work. Nor was that law intended to control purely private, noncommercial uses of copyrighted works. To the contrary, both the extent of such access and the manner in which the copyright owner is compensated have always been solely a function of the nature of the work and the technology available to disseminate it in an economical manner.

For example, authors of books or other written works must seek their reward in an environment where the market for their books is limited by free public libraries, rental libraries, book swapping and other such alternatives which provide either free or inexpensive access to copyrighted works without additional remuneration to authors. Moreover, any attempt by such authors to control or limit the time or place in which a book is read would offend the most basic concepts on which our free society is based.

In contrast to books, public access to movies or other audiovisual works heretofore has been limited because of the unavailability of technology suitable for individualized delivery systems. Until recently, it simply was not economically feasible to provide individuals with means for controlling the time when an audiovisual work could be enjoyed, and motion picture theatres represented the only practical delivery system for audiovisual works. Free television, later augmented by CATV systems, has increased the public's access to audiovisual works and dramatically changed the potential rewards and bases for payment available to the copyright proprietor. Pay television, pay per view television in which individuals can select and pay for specific programs at selected times, and direct broadcast satellites are among the emerging delivery systems which are being profitably exploited by Universal and other motion picture producers to turn individual homes into private motion pictures theatres. The traditional time, place and manner in which motion pictures are viewed is changing and will continue to change with further technological developments. VTRs simply provide television viewers with electronic eyes which make it possible for them to have the same control over the time when they enjoy audiovisual works as has always been true for books. Such private use of VTRs by individuals does not interfere with the ability of copyright proprietors to negotiate fair compensation for their copyrighted works before they are made available to television viewers.

The Ninth Circuit reached the conclusion that the private, in-home, time-shifting of television programs is copyright infringement only by taking an inflexible view of both infringement and fair use and by ignoring the fundamental fact that the reward to copyright proprietors flows from, rather than controls, the interplay between public access to copyrighted works and the available technology for delivering those works. In so doing, it disregarded what it acknowledged to be the "elaborate, painstaking and thoughtful opinion" n5 of the *Sony* Trial Court; the proper flexible approach to evaluating infringement and fair use mandated by the prior decisions of this Court and the circuit courts; and Section 107 of the 1976 Copyright Act. As one significant example, the Ninth Circuit treated the economic facts surrounding time-shifting as being legally irrelevant to its fair use analysis even though prior precedent uniformly holds that economic harm is the central and most important element of a fair use analysis. n6 The Ninth Circuit simply ignored: that copyright proprietors are already being handsomely rewarded by television networks for permitting the broadcast of their works over "free" television; that advertisers pay the networks in the hope of achieving the largest audience for their message; that VTRs expand the audience size thus increasing the potential audience for the advertiser's message; that the increased audience size is measurable and can be taken into account in negotiating compensation prior to broadcast; and that the viewers of television programs, including VTR users, are also the consumers of the products advertised on television and indirectly pay for that advertising through increased prices. The viewer-consumer will be required to pay twice for a single viewing of the same program if copyright proprietors are permitted to extract a royalty from the manufacturers of VTRs, as suggested by the Ninth

Circuit -- once when they purchase a VTR or blank video cassette and a second time when they purchase the products advertised on television.

n5 659 F. 2d at 964.

n6 *Triangle Publications, Inc. v. Knight-Ridder Newspapers, Inc.*, 626 F. 2d 1171 (1980).

A wide variety of other economic facts, which have become more apparent as the number of VTR households has expanded, support the wisdom of the *Sony* Trial Court in exempting in-home video recording from the reach of the Copyright Law and demonstrate the error in the Ninth Circuit's reversal of that decision. It is completely disingenuous for Universal to argue that it is being irreparably damaged by the existence of VTRs, while simultaneously inducing and profiting from the purchase of VTRs by making pre-recorded video cassettes of Universal motion pictures available for purchase or rental. Universal could have limited the availability of its software to video disc players which lack any recording feature.

The plain fact is that the profit potential in producing motion pictures has been swelled by pay TV systems, VTRs and a wide arsenal of other new delivery systems without damaging revenues from traditional sources such as theatres and "free" television. If the marketplace is permitted to function in its normal fashion, copyright proprietors of audiovisual works will receive compensation for their works in direct proportion to the anticipated or actual number of viewers in each medium of delivery without impeding the use of any new technology and without the imposition of a bureaucracy for collecting and distributing royalties which would inefficiently attempt to achieve the same result achieved by the operation of the free marketplace.

The Ninth Circuit's opinion with respect to direct copyright infringement by individuals as a result of video recording in the privacy of their homes would be little more than an academic curiosity but for its holding that the manufacturer, distributor, retailers and advertisers of VTRs are liable as contributory infringers. Absent such a holding, private acts committed in an individual's home could not be proved and, in any event, the millions of VTRs in use would create an uncontrollable situation from an enforcement viewpoint. n7 The fact that private in-home audio recording was common and unrestrained was a primary motivation for congressional recognition that such recording was exempt from the reach of the Copyright Law. n8 It is also among the reasons expressed by this Court in *Aiken* for ruling that the playing of personal radios in public places does not constitute copyright infringement.

n7 Indeed, Universal has disavowed any intention or desire to impede or prevent direct infringement (*Universal v. RCA, et al.*, First Amended Complaint, par. 8) and was able to prove direct infringement in this case only by granting a release in exchange for an admission of individual direct infringement.

n8 The Ninth Circuit opinion (659 F. 2d at 967) clearly recognizes the existence of the audio recording exemption.

The Ninth Circuit erroneously believed that the privacy aspects and other practical barriers to the assertion of Universal's copyright infringement claim heightened the need for both an advisory opinion and the lowering of contributory infringement standards. In effect, it attempted to judicially legislate a solution to the existence of VTRs by first shifting infringement liability to the manufacturer and then ostensibly ameliorating the effect of that shift by strongly suggesting as the most appropriate remedy, a non-statutory, compulsory, continuing royalty rather than a permanent injunction.

However, in concluding that there was no contributory infringement, the *Sony* Trial Court found that VTRs have substantial non-infringing uses including the recording of news, public events, religious and sports programs and a wide variety of other televised material which is uncopyrighted, uncopyrightable, or copied with consent. n9 The Ninth Circuit simply disregarded these purely factual findings and erroneously concluded, without evidentiary support, that "virtually all television programming is copyrighted material"; that VTRs are "sold for the primary purpose of reproducing television programming"; n10 and that it should establish a broad precedent based upon those unsupported factual findings, which would economically control, if not eliminate, the use of VTRs. In reaching these conclusions, the Ninth Circuit not only violated the clearly erroneous standard of review but also disregarded the fundamental legal prerequisites to a holding of contributory infringement. *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 50 U.S.L.W. 4592 (1982); *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, 377 U.S. 476 (1964). This Court has held that *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 50 actions of their customers simply because they can anticipate that some customers will use their products to engage in such unauthorized conduct. To establish liability, the manufacturers must be active participants in the infringement, and the law will not presume such participation where, as here, there are substantial non-infringing uses for the product.

n9 480 F. Supp. at 468.

n10 659 F. 2d at 975.

With respect to an appropriate remedy, the Ninth Circuit's suggestions range from a permanent injunction against the use or sale of VTRs -- relief which has been publicly disavowed by Universal as being unnecessary -- to the imposition of compulsory license fees on VTRs -- a remedy not provided for as part of the comprehensive list of remedies in the Copyright Act. The Ninth Circuit improperly criticized the *Sony* Trial Court for permitting the complexity of the remedy question to unduly influence its evaluation of liability. It should have recognized that the absence of a suitable remedy was due to the absence of any violation of the basic purpose and intent of the Copyright Law.

ARGUMENT

I.

The Ninth Circuit applied the wrong standard in finding that in-home recording for private use is infringement.

At the heart of the Ninth Circuit's erroneous holding that the in-home recording of copyrighted television broadcasts is copyright infringement, is its stated belief that any reproduction of an entire copyrighted work for its intrinsic, or ordinary, use must always result in a finding of infringement. n11 In the Ninth Circuit's view, there are no technological, economic or other factors which can ever support a finding of non-infringement if an entire copyrighted work is reproduced and used in its ordinary manner. Such a construction of the Copyright Law is simply not supportable as a matter of constitutional policy, statutory language, legislative intent, or judicial precedent.

n11 659 F. 2d at 970, 971-2.

This Court has stated that the Copyright Law reflects a balance between the desire to encourage and reward creative work and the need to promote the broad public availability of

the arts: *Aiken*, 422 U.S. at 156. *American Tobacco v. Werckmeister*, 207 U.S. 284 (1907). To carry out that purpose, the law gives an author control over the sale or commercial use of copies of the copyrighted work. *Goldstein v. California*, 412 U.S. 546, 555 (1973). Nothing in this Court's expressions of copyright policy suggests that a finding of infringement will always flow from the copying of an entire copyrighted work for intrinsic purposes. To the contrary, the foregoing decisions strongly suggest that private, noncommercial uses of a copyrighted work are beyond the reach of the Copyright Law.

Express legislative approval has been given to the copying or use of an entire work for intrinsic purposes in a significant number of instances, including:

1. The in-home recording of copyrighted audio broadcasts for private listening purposes. This exception has clearly been recognized by Congress and was even acknowledged by the *Ninth Circuit*. 659 F. 2d at 967. See also, 1971 U.S. Code Cong. and Ad. News, 1566 at 1572.

2. Any performance which is not public. 17 U.S.C. § 106(4). This exception would unquestionably apply to the playback of a copyrighted video tape recording in the privacy of the home.

3. The library photocopying of single copies of copyrighted printed works. 17 U.S.C. § 108(a). n12

n12 This section of the Copyright Act essentially approves and expands upon the admittedly intrinsic copying exception established in *Williams & Wilkins Co. v. United States*, 487 F. 2d 1345 (Ct. Cl. 1973), affirmed by an equally divided Court, 420 U.S. 376 (1975) -- a case which the Ninth Circuit criticizes as bad law even though it has now been legislatively approved.

4. The playing of a copyrighted work on an ordinary radio in a public establishment. 17 U.S.C. § 110(5). n13

n13 This exception gives legislative approval to this Court's decision in *Aiken*.

5. The making of archival copies of copyrighted ephemeral recordings by broadcasters. 17 U.S.C. § 112(a).

6. The importation, for private use of the importer, of a single copy of an infringing a work published abroad. 17 U.S.C. § 602(a)(2).

These provisions and several others which may be found in 17 U.S.C. §§ 108-118, mainly involve private, non-commercial uses of an entire copyrighted work for its intrinsic purpose.

In addition to the foregoing provisions, the 1976 Copyright Act codifies the long-standing doctrine of fair use -- the broadest and most flexible limitation on claims of copyright infringement. 17 U.S.C. § 107. Fair use has been defined as a "privilege in others than the owner of a copyright to use the copyrighted material in a reasonable manner without his consent, notwithstanding the monopoly granted to the owner..." *Rosemont Enterprises, Inc. v. Random House, Inc.*, 366 F. 2d 303 (2d Cir. 1966). It has also been aptly characterized as a "rule of reason fashioned by judges to balance the author's right to compensation for his work, on the one hand, against the public's interest in the widest possible dissemination of ideas and information, on the other." Latman, *Fair Use of Copyrighted Works* 5 (Sen. Comm. on Judiciary Study, No. 141960); *Triangle Publications v. Knight-Ridder Newspapers*, 626 F. 2d 1171 (5th Cir. 1980).

In giving legislative approval to the fair use doctrine, Congress made it clear that it did not intend to limit the flexibility of the doctrine or retard its further development by the courts. Accordingly, both the House and Senate Reports n14 state:

n14 H.R. Rep. No. 94-1976, 94th Cong., 2d Sess. 66 (1976), reprinted 1970 U.S. Code Cong. & Ad. News, 5659, 5680; Sen. Rep. No. 473, 94th Cong., 1st Sess. 62 (1975).

"The Bill endorses the purpose and general scope of the judicial doctrine of fair use, *but there is no disposition to freeze the doctrine in the statute, especially during a period of rapid technological change*. Beyond a very broad statutory explanation of what fair use is and *some of the criteria* applicable to it, the courts must be free to adapt the doctrine to particular situations on case-by-case basis." (Emphasis added.)

This clear expression of legislative intent, as well as the language of Section 107 itself, are in conflict with the Ninth Circuit's attempt to develop a *per se* rule of infringement with respect to intrinsic copying. There are no *per se* exceptions to the fair use doctrine, and all evidence bearing on fair use must be considered in each case. *Triangle Publications v. Knight-Ridder Newspapers*, 626 F. 2d at 1175. See also, 3 *Nimmer on Copyrights*, § 13.05(A). n15

n15 Although the Ninth Circuit heavily relied on other portions of *Nimmer*, it elected to disregard his recognition of the fact that a determination of fair use requires consideration of all of the evidence in a particular case.

Even Universal City Studios, Inc. has disavowed the Ninth Circuit's *per se* infringement rule. During the same week in which the Ninth Circuit rendered its opinion, a group of educators and motion picture producers, including Universal City Studios, Inc., acting under Congressional auspices, agreed to fair use guidelines for off-the-air recording of copyrighted television broadcasts for educational purposes. 127 Cong. Rec. No. 145, E4751, Daily Ed., October 14, 1981. Those guidelines clearly permit the making of copies of an entire copyrighted work for intrinsic purposes.

In stark contrast to the Ninth Circuit, the *Sony* Trial Court thoroughly evaluated all of the relevant evidence bearing on the issues of infringement and fair use, including each of the specific factors listed in Section 107, and concluded that in-home recording of copyrighted television broadcasts for private viewing purposes was a fair use, rather than an infringement, because it did not injure the copyright owner's economic interests or otherwise adversely affect the balance between artistic reward and public access. The decision of the *Sony* Trial Court is not clearly erroneous as a matter of fact, and was based on an entirely correct discussion and application of the relevant law. It should have been affirmed.

II.

The Ninth Circuit decision improperly makes technology subservient to the Copyright Law.

One basic issue in this controversy is whether the Copyright Law should control new technology rather than be adapted to accommodate it. The Ninth Circuit, in rejecting the rationale of *Williams v. Wilkins*, which holds that library photocopying is fair use, expressed its attitude on this question as follows:

"New technology which makes possible the mass reproduction of copyrighted material (effectively taking control of access from the author), places a strain upon the fair use doctrine." 659 F. 2d at 971.

In contrast, Congress clearly stated that it was not disposed to freeze the doctrine of fair use "during a period of rapid technological change." Similarly, this Court in stating that the Copyright Law must be construed in the light of its basic purpose, rather than literally, as technology changes, offered the almost 200 year old words of Lord Mansfield as a guide:

"[W]e must take care to guard against two extremes equally prejudicial; the one, that men of ability, who have employed their time for the service of the community, may not be deprived of their just merits, and the reward of their ingenuity and labor; the other, that the world may not be deprived of improvements, nor the progress of the arts be retarded." *Aiken*, 422 U.S. at 156.

On three separate occasions during the past two decades, this Court has applied these principles to prevent attempts by copyright proprietors to gain control over instrumentalities which increased public access to copyrighted works. n16 Each of *Fortnightly*, *Teleprompter* and *Aiken*, like *Sony*, raised copyright infringement questions in connection with the reception of publicly broadcast video or audio material for which the copyright proprietor had received payment prior to such broadcast.

n16 *Fortnightly*; *Teleprompter*; and *Aiken*. A much earlier example of the Court's consistent attitude toward emerging technologies is its refusal to find that a piano roll capable of performing a copyrighted musical work was a "copy" of the musical composition within the meaning of the 1907 Copyright Act. *White Smith Music Pub. Co. v. Apollo Co.*, 209 U.S. 1 (1907).

Further, in each of the foregoing cases, the copyright proprietors urged that infringement existed because the activity charged as infringement made the copyrighted broadcast accessible to viewers or listeners who would not otherwise have seen or heard it, and that the party charged with infringement had directly profited by providing increased access to the copyrighted work. n17 This Court rejected that approach and stated:

n17 *Fortnightly* involved a CATV system which retransmitted copyrighted broadcasts within the local broadcast range to people with poor direct television reception. *Teleprompter* involved the importation of distant television broadcasts into a local viewing area by a CATV system. *Aiken* involved the playing of a copyrighted radio broadcast in a public business establishment.

"But mere quantitative contribution cannot be the proper test to determine copyright liability in the context of television broadcasting. If it were, many people who make large contributions to television viewing might find themselves liable for copyright infringement -- not only the apartment house owner who erects a common antenna for his tenants, but the shopkeeper who sells or rents television sets, and, indeed, every television set manufacturer. Rather, resolution of the issue before us depends upon a determination of the function that CATV plays in the total process of television broadcasting and reception." *Fortnightly*, 392 U.S. at 397.

The direct applicability of this statement to the use of VTRs is apparent.

Of even greater significance is this Court's emphasis on whether the increased public access which admittedly flowed from CATV interfered with any legitimate right of the copyright owner which the Copyright Law was designed to protect. In addressing that question in *Teleprompter*, this Court stated:

"By extending the range of viewability of a broadcast program, CATV systems thus do not interfere in any traditional sense with the copyright holder's means of extracting recompense

for their creativity or labor. When a broadcaster transmits a program under license from the copyright holder, he has no control over the segment of the population which may view the program -- the broadcaster cannot beam the program exclusively to the young or to the old, only to women or only to men -- but rather he gets paid by advertisers on the basis of all viewers who watch the program. The use of CATV does not significantly alter this situation. Instead of basing advertising fees on the number of viewers within the range of direct transmission plus those who may receive 'local signals' via a CATV system, broadcasters whose reception ranges have been extended by means of 'distant signal' CATV rechanneling will merely have a different and larger viewer market." *Teleprompter*, 415 U.S. at 412.

This Court went on to state that broadcasters and copyright proprietors could readily make adjustments in their licensing arrangements so as to compensate copyright proprietors for the increased audience size made possible by CATV systems. *Teleprompter*, 415 U.S. at 413. Thus, in the Court's view, copyright proprietors must adjust to technological changes which have an impact on public access to their works and may not control that access through suits for copyright infringement.

The basic holding of *Teleprompter* was reinforced in *Aiken*, where this Court concluded that it would be "wholly unenforceable" and "highly inequitable" to require the owners of business establishments to pay royalties for playing their radios in public places. *Aiken*, 422 U.S. at 162. The Court found that copyright proprietors are paid by broadcasters for the public broadcast of a copyrighted work, and that any additional payment by store owners for that same public broadcast simply because a radio is played in a place where other people can hear it, would result in the payment of a multiple tribute going far beyond that which is required for the economic protection of copyright owners. *Aiken*, 422 U.S. at 163. The Court also recognized that the Copyright Law must yield to the reality that any holding of infringement could not be equitably or practically enforced in view of the countless existing radios in small business establishments. *Aiken*, 422 U.S. at 162.

All of the fundamental logic, and even the specific analysis and language, of *Fortnightly*, *Teleprompter* and *Aiken* are applicable to *Sony* and the use of VTRs in the privacy of a person's home. VTRs simply increase viewer access to televised programs by expanding the *time* when those broadcasts can be enjoyed just as CATV and publicly played radios expanded the *place* of enjoyment. But the copyright proprietor was paid for that broadcast by the broadcaster; the advertiser paid the broadcaster; and viewers indirectly paid for the privilege of viewing the copyrighted broadcast through increased prices for the products and services of the advertisers. *Teleprompter*, 415 U.S. at 412.

Admittedly, *Fortnightly*, *Teleprompter*, and *Aiken* involved a determination of whether or not the copyrighted works had been "performed" and, therefore, infringed within the meaning of the Copyright Act, whereas, the use of a VTR technically raises a somewhat different, but closely related, infringement issue because it produces a "copy" of the copyrighted work for private viewing purposes. However, any attempt to distinguish *Fortnightly*, *Teleprompter* and *Aiken* from *Sony* on that ground, is an exercise in semantics rather than substance. In *Fortnightly*, this Court made it clear that the word "perform" was not limited either to its ordinary meaning or by its legislative history in the Copyright Act, and that infringement would be determined by looking at the impact which the challenged CATV activity had on the total broadcasting process. In *Aiken*, this Court clearly stated that the Copyright Act could not be construed literally, in the face of changing technology, but must be construed in the light of its basic purposes. *Fortnightly*, 392 U.S. at 395; *Aiken*, 422 U.S. at 156.

In each of *Fortnightly*, *Teleprompter*, and *Aiken*, this Court, in reaching a decision on the infringement issue, considered precisely the same types of factors as would be considered in a "fair use" analysis. Thus, the fact that the VTR in *Sony* makes a complete "copy" for private viewing purposes in the course of time-shifting a copyrighted audiovisual work is of no greater

significance to the ultimate infringement analysis than was the public reception and performance for profit of the complete copyrighted radio broadcast in *Aiken* or the transmission for profit of complete television programs in *Fortnightly* or *Teleprompter*. It is simply one factor, rather than the dispositive factor, in determining whether the rights of a copyright proprietor have been violated in a manner which the Copyright Act is designed to protect.

The Ninth Circuit's concern about the adverse impact of new technology on copyrights clearly stems from a misconception about the degree of control which the Copyright Law intends to give authors over access to their works. It confuses the author's right to exercise control over reproductions of a copyrighted work for commercial purposes with the public's right to use and enjoy such work, and mistakenly concludes that authors are entitled to control the delivery systems, and as VTRs, capable of reproducing a copyrighted work and not simply the commercial reproduction of the work itself.

The Copyright Law was simply not designed or intended to permit copyright proprietors to exercise control over the manufacture, distribution, sale or advertising of printing presses, cameras, radios, televisions, photocopying machines, or audio tape recorders, nor would such control make any sense since all of these instrumentalities, like the VTRs involved here, are capable of reproducing both copyrighted and uncopyrighted works and, indeed, of creating new works. The existence of these instrumentalities has actually served to increase the rewards available to copyright proprietors by increasing the number of techniques capable of delivering copyrighted works to a mass audience at a reasonable price. In fact, public access to a copyrighted work has always been a function of the nature of the work and the technology available to reproduce or disseminate it.

For example, under current law, copyright proprietors in books or other written works normally must seek their reward in an environment where the market for their work is reduced by free public libraries, rental libraries, book swapping, and other such alternatives made possible by the first sale doctrineⁿ¹⁸ all of which provide free or inexpensive access to copyrighted works without additional remuneration to authors. Technological advances in the field of printing have made paperback books possible, and consumers now have the option of owning a cheaper permanent copy of a book as a more convenient alternative to borrowing from libraries. Such innovations have increased the potential rewards for authors. However, any attempt by an author to control the time or place in which a book is read would offend the most basic concepts on which our free society is based.

ⁿ¹⁸ 17 U.S.C. § 109(a). The doctrine of first sale is intended to balance the conflict between the monopoly created by the Copyright Law and the free enterprise system by treating the monopoly as being exhausted once the copyright owner has obtained a reasonable reward. *Burke & Van Heusen, Inc. v. Arrow Drug, Inc.*, 233 F. Supp. 881, 884 (E.D. Pa. 1964).

Photocopy technology has further reduced the copyright proprietor's control over access to written works. Obviously, it is beyond the practical reach of the Copyright Law to prevent the purely private use of this technology to copy articles or even books. Indeed, even organized library photocopying has been statutorily exempted from infringement actions subject to certain guidelines despite the fact that such copying may diminish the market for a copyrighted work. 17 U.S.C. § 108. Congress apparently believed (as did this Court in *Aiken*) that the need to reward authors must operate within the realities of new technology and the impracticality of any attempt to control such use by individuals.

In contrast to books, public access to audiovisual works has been practically limited because of the unavailability of technology suitable for individualized delivery systems. It simply was not economically feasible to provide for individuals to watch a film when or where

they desired; and motion picture theatres and television represented the only practical delivery systems for audiovisual works. This lack of technology, and not any provision or purpose of the Copyright Law, previously gave the proprietors of audiovisual works greater control over both access to copies of their works and the time, place and manner of enjoyment. As a result, the practice of licensing audiovisual works for exhibition became a standard technique for remunerating copyright proprietors.

VTRs now make it possible for the consumers of audiovisual works to have the same control over the time when those works are enjoyed as has always been true for books. Pre-recorded video cassettes, pay TV systems, and other delivery systems are changing both access to audiovisual works and the means of remunerating copyright proprietors. Universal wishes to exploit the economic benefits which they are enjoying as a result of these newer forms of technology, while simultaneously retaining the same level of control over access to its works which was made possible only by the absence of that technology.

Time-shifting of television broadcasts does not involve any injury to the copyright proprietor who invited the viewer to view the broadcast program and who was paid by the broadcaster and, indirectly, by the advertiser and viewer. In seeking to extract a royalty on both the sale of VTRs or blank video cassettes and on the initial broadcast of a copyrighted television program, Universal is clearly looking for precisely the same type of multiple tribute for a single public broadcast which was condemned in *Aiken*. Such multiple tribute violates the spirit of the first sale doctrine and is an unnecessary interference with the development and use of a beneficial new technology.

III.

The economic facts support the *Sony* Trial Court's holding that there is no infringement.

With the notable exception of the Ninth Circuit's opinion, there is essentially unanimous agreement that the issue of economic harm to the copyright proprietor is the most important issue in determining whether a particular activity is a copyright infringement or a fair use. Even *Nimmer* has characterized economic impact as "the most important, and indeed, central fair use factor." n19 The *Sony* Trial Court properly held that the harm issue was primary, and the parties gave it most emphasis at trial. *480 F. Supp. at 450*. In contrast, the Ninth Circuit erroneously concluded, based on its finding that there had been excessive copying for intrinsic purposes, that "we do not believe it is necessary to address the harm issue with respect to the liability question." *659 F. 2d at 973*. The Ninth Circuit's ensuing discussion of the economic harm issue merely repeats that Court's basic belief, relying primarily on opinions expressed in *Nimmer on Copyright*, that copying for intrinsic purposes can never be fair use. Ironically, the latest version of the *Nimmer* treatise states that "the weakest portion of the *Sony* opinion lies in its rather sketchy treatment of the fourth [economic] factor." *3 Nimmer on Copyright*, B 13.05[F] at 13-99. n20

n19 *Nimmer on Copyright*, B 13.05[A][4] at 13-64 (1982); *Triangle Publications v. Knight-Ridder Newspapers*, *626 F. 2d at 1175*.

n20 *Nimmer's* position with respect to the Ninth Circuit opinion demonstrates the wisdom of basing judicial decisions on immutable precedent rather than scholarly criticism of that precedent which, as demonstrated here, is subject to continuing refinement and change.

The *Sony* Trial Court found that Universal had admitted that no actual harm to its copyrights had occurred and that predictions of future harm were based on unsupportable personal belief and speculation. *480 F. Supp. at 451, 466-467*. The Trial Court took special note of the facts that Universal is paid substantial sums of money for its copyrighted works by

the broadcast networks before consumers get any opportunity for private in-home recording; n21 that the use of the public airwaves provides Universal with the opportunity to disseminate its works more widely than it ever could on its own and has been very profitable; n22 that Universal's profits from television have increased in each year including the years in which VTR technology was introduced, and are still growing; n23 and that the situation presented by VTRs was analogous to the multiple tribute situation which this Court confronted in *Teleprompter* and *Aiken*. n24 All of these factual considerations, along with the private and non-commercial nature of in-home video recording, convinced the *Sony* Trial Court that Universal's speculations concerning potential future harm could not be taken seriously. To the contrary, the *Sony* Trial Court noted that the motion picture industry had proven itself to be resilient to changes to market practices arising from other innovations such as CATV and pay television and that VTRs and other technological advances would undoubtedly further change the industry and introduce new marketing considerations. n25

n21 480 F. Supp. at 452.

n22 480 F. Supp. at 453.

n23 480 F. Supp. at 452.

n24 480 F. Supp. at 453.

n25 480 F. Supp. at 452.

The fundamental wisdom and, indeed, prophetic nature of the *Sony* Trial Court's decision is demonstrated by the realities of the marketplace as the number of VTR households has grown from no more than a few hundred thousand (at the time of the *Sony* trial) to several million. n26 Universal's speculations concerning decreases in the size of theatre going audiences and television audiences as a result of VTR use have simply not materialized. To the contrary, Universal and other motion picture producers are on the threshold of a truly golden era in which VTRs and other innovations are providing them with a new array of systems for delivering their products to a massive new audience and for collecting rewards commensurate with the size of that audience. The potential revenue sources for Universal films are no longer limited to motion picture theatres and "free" television, but also include the sale and rental of pre-recorded video cassettes and video discs; subscription television; pay per view television in which the viewer can individually select and pay for specific programs; and direct broadcast satellites. n27 Indeed, viewers will soon be offered a pay television service which will broadcast televised films directly to their VTRs while they sleep. n28 Obviously, the size of audiences for "free", advertiser sponsored television are of diminishing concern to Universal in the face of new delivery systems which promise greater remuneration. Nevertheless, the revenues of Universal and its competitors from these conventional sources continues to grow. n29

n26 It is estimated that over 4.5 million VTRs will have been sold in the United States by the end of 1982. Electronics Industry Association, *Consumer Electronic Sales By Product Category*, June, 1982.

n27 *The Wall Street Transcript*, January 4, 1982.

n28 *The Wall Street Journal*, April 30, 1982; *The New York Times*, August 5, 1982. This, Indeed, is the ultimate in time-shifting and demonstrates motion picture industry recognition that time-shifting is a legitimate activity which is not economically detrimental.

n29 MCA Inc. 1981 Annual Report. The revenues of MCA, Inc., parent of Universal City Studios, Inc., from television have increased by almost 50%, and its revenues from "other" filmed entertainment, which includes pre-recorded video tapes and discs, has grown by 300% since the *Sony* trial. The Warner Communications Inc. 1981 Annual Report shows similar growth patterns for the industry leader.

A recent article describing the "carefully orchestrated campaign" to "extract every last penny" from the motion picture "Star Wars" illustrates the typical new marketing pattern for movies. n30 That article states:

n30 *On Cable*, July, 1982.

"First off, Twentieth Century Fox is releasing 'Star Wars' as a rental-only home video cassette, followed after three months by the outright sale of video cassettes. Next, the movie will be re-released in a thousand theatres around the country. Then it will be offered as a pay-per-view cable attraction. Finally, next February, it is the cable networks' turn--followed a year later with the movie's broadcast premiere on CBS-TV."

The suggestion by the *Sony* Trial Court that Universal and others in the motion picture industry would profitably adapt to VTRs is perhaps most dramatically demonstrated by the incredible expansion in the sale and rental of pre-recorded video cassettes. Well over 35,000 different pre-recorded video programs are currently available, and the domestic home video industry generated over \$ 300,000,000 in retail sales and rentals of pre-recorded video cassettes in 1981. n31 There are now over 10,000 retail outlets for the sale or inexpensive overnight rental of pre-recorded video cassettes, and the ability of VTRs to play pre-recorded video cassettes is second only to time-shifting as an inducement to purchase a VTR. n32

n31 National Video Clearing House, Inc., *The Video Source Book* (3rd Ed., 1981); Warner Communications, Inc. Annual Report 1981, p. 28.

n32 *Mart Magazine*, Video Recording Consumer Survey, September, 1981. It is also noteworthy that pre-recorded video cassette rentals are outdistancing sales by 12 to 1 -- a statistic which is consistent with the finding of the *Sony* Trial Court, *480 F. Supp. at 467*, that the building of a permanent library of recorded programs would not be a significant use of VTRs. *Home Video*, April, 1982, p. 46.

These facts demonstrate that Universal and others in the motion picture industry are clearly engaged in the active inducement of consumers to purchase VTRs. The claim of irreparable harm and damage caused by the existence of VTRs has been deprived of any potential credibility in view of this activity. It was certainly not necessary for Universal to make its films available in a form capable of playback on VTRs. It could have limited the availability of its copyrighted properties to video disc players which lack the recording capability of VTRs. Obviously, Universal believes that the recording capability is, and will continue to be, an important consideration (and inducement) in the consumer's video equipment purchasing decision, and it is desirous of encouraging VTR purchases because of the large potential profit to be derived from the sale and rental of pre-recorded cassettes to the growing number of VTR households. Undoubtedly, the enormous profit potential in pre-recorded programs is one of the many factors which have led Universal to publicly disavow n33 any desire to enjoin the use or sale of VTRs and to lobby heavily for new legislation which would incorporate a version of the compulsory licensing remedy suggested by the Ninth Circuit. n34 Such a licensing remedy is not only legally unsupportable as a multiple tribute for the reasons set forth in *Teleprompter*, *Aiken* and the decision of the *Sony* Trial Court, but would amount to an unnecessary judicial interference with the free marketplace.

n33 Statement of Sid Sheinberg, President, MCA, Inc. *ABC News Nightline*, November 16, 1981.

n34 H.R. 5705.

At trial, Universal acknowledged that syndication fees for the secondary distribution of television programs were directly and proportionately related to the size of the audience for the original program. *480 F. Supp. at 467*. The use of VTRs for time-shifting purposes is measurable and serves to increase the size of the original audience, thereby making the syndication rights more valuable. n35 *480 F. Supp. at 466*. Moreover, the value received in syndicating motion pictures to television has always been a function of box office receipts and other similar factors related to an estimate of the potential audience size for a film. n36 That data will now be augmented by similar data from subscription television, pre-recorded video cassette sales and rentals, and other existing delivery systems, all of which will permit the marketplace to determine the appropriate compensation to copyright proprietors before a program finally is released to free television.

n35 The value of time-shifting in preserving and expanding the audience for a soap opera or continuing drama is obviously of great benefit to both broadcasters and advertisers, and therefore to the potential compensation paid for the copyrighted work.

n36 Zaleski, *Successful Syndication of Completed Motion Pictures to Television*, Fifth Annual U.C.L.A. Entertainment Symposium, 1980.

IV.

There is no contributory infringement even if in-home recording is direct infringement.

The *Sony* Trial Court found that the manufacturer, distributor, retailers and advertisers of VTRs would not be liable for inducing or contributing to infringement within the standard defined in *Gershwin Publishing Corp. v. Columbia Artist Management, Inc.*, *443 F. 2d 1159, 1162 (2d Cir. 1971)* even if in-home recording is a direct infringement. n37 The Trial Court's holding was based entirely on findings of fact which were not clearly erroneous and which, therefore, could not properly be set aside by the Ninth Circuit. *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, *50 U.S.L.W. 4592 (1982)*. Those factual findings include the following:

n37 *480 F. Supp. at 429*.

a. No advertisements or other statements by the manufacturer, distributor, retailers or advertisers of VTRs had induced the individual defendant or any other individual who testified at trial to record copyrighted works off-the-air. *480 F. Supp. at 459*.

b. VTRs are staple articles of commerce which have substantial non-infringing uses, including the recording of educational, religious and sports programs and of other programs which are uncopyrighted, uncopyrightable, or copied with consent. *480 F. Supp. at 465, 468*.

The Ninth Circuit, in total disregard of the clearly erroneous rule, rejected these purely factual findings and held that the *Sony* Trial Court's reliance on the staple article of commerce theory was inappropriate because:

"Video tape recorders are manufactured, advertised and sold for the primary purpose of reproducing television programming. Virtually all television programming is copyrighted material. Therefore, video tape recorders are not 'suitable for substantial non-infringing use.' See 3 *Nimmer, supra*, β 12.04[A] at 12-39, 12-40. That some copyright owners choose, for

one reason or another, not to enforce their rights does not preclude those who legitimately choose to do so from protecting theirs." 659 F. 2d at 975.

There is not a shred of evidence to support any of these contrary "factual findings" by the Ninth Circuit. It is palpably obvious, even in the absence of the Trial Court's findings, that there are substantial amounts of TV programming which are uncopyrighted, uncopyrightable, the subject of expired copyrights or copied with consent. Given these undisputable facts, it was clearly erroneous for the Ninth Circuit to engage in unwarranted characterizations of either the primary purpose of those engaged in the sale or distribution of VTRs or the primary use by consumers. An appellate court cannot substitute its interpretation of the evidence for that of a trial court or give "a more sinister cast to actions which the District Court apparently deemed innocent." *Inwood*, 50 U.S.L.W. at 4596.

The Ninth Circuit's finding of contributory infringement based on factual suppositions bears a striking resemblance to an approach condemned in *Inwood* by this Court. *Inwood* held that manufacturers are not contributorily liable for the acts of customers which violate the rights of third parties solely because the manufacturer can reasonably anticipate that some customers might engage in such conduct. Rather, the evidence must establish that the manufacturer actively participated in or directly induced the infringing acts. Obviously, if a product has a multiplicity of uses, some of which would infringe a copyright and some of which would not, the existence of the non-infringing uses would preclude a finding that the manufacturer had contributed to the infringing uses simply because he could "reasonably anticipate" that some customers might engage in those uses. *Inwood*, 50 U.S.L.W. at 4596. The "substantial non-infringing use" or "staple article of commerce" defense to contributory infringement, which has been specifically applied by this Court in patent cases such as *Aro*, is simply a facet of the doctrine discussed in *Inwood* and its logic is clearly applicable whether the issue is patent infringement, unfair competition or copyright infringement.

The Ninth Circuit's motivation in erroneously making judgmental findings about the intent of manufacturers and consumers is apparent from its opinion. It recognized, as this Court did in *Aiken*, that a decision holding homeowners liable for direct infringement would be wholly unenforceable not only because it would require millions of lawsuits but also because it would intrude on acts committed in the privacy of an individual's home. n38 Indeed, it was the recognition that private in-home audio recording was essentially uncontrollable that led Congress to state that in-home audio recording was exempt from charges of copyright infringement. n39 In contrast, the Ninth Circuit erroneously believed that it was obligated to "legislate" a solution to what it perceived to be the "cumulative effect of mass reproduction of copyrighted works made possible by VTRs." n40

n38 The individual defendant, William Griffiths, admitted infringement in this case in exchange for a release and was not even represented by counsel. Appendix to the petition for writ of certiorari pp. 43-4.

n39 659 F. 2d at 967.

n40 659 F. 2d at 973.

CONCLUSION

The Copyright Law was not designed or intended to permit copyright proprietors to exercise control over either new developments which increase access to copyrighted works or the private, non-commercial copying of copyrighted works. The marketplace is much more adequately suited to accomplish the basic objectives of providing reasonable reward to copyright proprietors without impeding the public's access to and enjoyment of both

copyrighted works and the benefits of new technology. These basic principles are particularly applicable to the private in-home use of VTRs since off-the-air recording of copyrighted broadcasts can only occur after the copyright proprietor has already been paid for releasing the copyrighted work. Accordingly, off-the-air recording for personal use is a fair use and not an infringement.

Respectfully submitted,

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