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Inducers and Authorisers: A Comparison of the US Supreme Court's *Grokster* Decision and the Australian Federal Court's *KaZaa* Ruling

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Inducers and Authorisers: A Comparison of the US Supreme Court's *Grokster* decision and the Australian Federal Court's *KaZaa* ruling

Jane C Ginsburg* and Sam Ricketson**

Introduction

On 27 June 2005, the US Supreme Court announced its much-awaited decision in *MGM Studios, Inc v Grokster Ltd.*¹ A few months after this, the Federal Court of Australia handed down its decision at first instance in relation to parallel litigation in that country concerning the KaZaa file sharing system. Both decisions repay careful consideration of the way in which the respective courts have addressed the relationship between the protection of authors' rights and the advent of new technologies, particularly in relation to peer-to-peer networks.

In the *Grokster* case, songwriters, record producers and motion picture producers alleged that two popular 'file-sharing' networks, Grokster and Streamcast (dba Morpheus) should be held liable for facilitating the commission of massive amounts of copyright infringement by the end-users who employed the defendants' peer-to-peer (P2P) software to copy and redistribute films and sound recordings to each others' hard drives. The court reversed the Ninth Circuit's grant of summary judgment for defendants, holding that the technology entrepreneurs could be held liable for 'actively inducing' the end-users' acts of infringement. A similar decision was reached in Australia with respect to the KaZaa software, albeit in this proceeding the court had the advantage of much greater factual material as to the operation of the KaZaa system than did the US Supreme Court in *Grokster*. Nonetheless, both cases illustrate the difficulties that arise as consumer-wielded digital media increasingly supplant the traditional intermediaries who made copyrighted works available to the public (and who traditionally were the targets of copyright enforcement) and as courts struggle to balance meaningful protection for works of authorship against the progress of technological innovation. For some, the weakening of copyright control is the necessary price to pay for technological advancement.² For others, authors' ability to maintain exclusive rights remains a cornerstone of any copyright system as it adapts to accommodate new modes of exploitation.³

Grokster is the latest, and most important, in a series of US decisions to address that balance by articulating the liability of an enterprise which does not itself commit copyright infringement, but instead makes it possible for others to infringe. To appreciate the Supreme Court's analysis, it helps to set the case in both domestic and

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¹ 125 S Ct 2764 (2005).

² See eg *ibid*, at 2793 (Breyer J concurring); L Lessig, *Free Culture: How Big Media Uses Technology and the Law to Lock Down Culture and Control Creativity*, Penguin Books, New York, 2004.

³ See eg S Dogan, 'Code Versus the Common Law' (2003) 2 *Journal of Telecommunications & High Technology Law* 73; J C Ginsburg, 'Copyright and Control over New Technologies of Dissemination' (2001) 101 *Columbia Law Review* 1613.

international doctrinal context. Because unauthorised P2P distribution of copyrighted works extends well beyond the US, copyright owners have pursued legal actions in other countries, including the Netherlands⁴ and Australia.⁵ While the Australian case still awaits full appellate consideration, it provides a useful example of how another common law jurisdiction (Australia) analyses the liability of those who provide goods or services to facilitate infringement. In this regard, it is also useful to consider what obligations, if any, exist at the international level with respect to the liability of infringement-facilitators. We will conclude with some (perhaps foolhardy) forecasts for the post-*Grokster/KaZaa* future of copyright enforcement.

Liability in the US for facilitating copyright infringement

Copyright infringement is a tort.⁶ So is knowingly enabling or inciting another to infringe. Decisions dating back several decades recognise that one who supplies the means to infringe and knows of the use to which the means will be put (or turns a blind eye) can be held liable for contributory infringement.⁷ In the early cases, however, the relationship between the supplier and the user of the means was sufficiently close, that there could be little doubt of either the knowledge or the nexus between the means and the infringement.⁸ For example, in the 'make-a-tape' case, a record shop rented sound recordings to customers who would also purchase a blank tape and then use a recording machine on the store premises to copy the rented recording onto the blank tape.⁹ The store owner's knowledge of the likely use of the blank tape was patent. When, however, the infringement-facilitating device leaves the direct control of the facilitator, so that he or she no longer knows in fact what the customers are up to, contributory infringement may be more difficult to establish. That, in essence, was the copyright owners' problem in the '*Betamax*' case.¹⁰ Sony, the distributor of the video tape recorder, could well anticipate that consumers would use the record function to copy protected programs, but once the device was out of the manufacturer's hands, it could neither know precisely what the end users were doing, nor limit their use to permissible copying.

In absolving Sony of liability, the US Supreme Court added a gloss to the prior standard: one who distributes an infringement-enabling device will not be liable for the ensuing infringements if the device is 'widely used for legitimate, unobjectionable

⁴ *Vereniging Buma, Stichting Stemra v KaZaa BV*, Supreme Court of the Netherlands (Hoge Raad), decision of 19 December 2003, AN7253 Case no: C02/186HR.

⁵ *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* [2005] FCA 1242.

⁶ See Latman and Tager, 'Innocent Infringement of Copyright', 2 *Studies on Copyright* 139 (Fisher memorial edition 1963).

⁷ See generally Paul Goldstein, *Goldstein on Copyright* Aspen Publishers, New York, 3rd ed, 2005, para 8.1 (citing cases).

⁸ See *ibid* (advancing the general proposition that 'the closer the defendant's acts are to the infringing activity, the stronger will be the inference that the defendant knew of the activity').

⁹ *Elektra Records Co v Gem Electronic Distributors, Inc.*, 360 F Supp 821 (EDNY 1973). See also *RCA Records v A;-Fast Systems, Inc.*, 594 F Supp 335 (SDNY 1984) (defendant's employees used 'Rezound' cassette recorder to make copies of sound recordings on customers' request); *A&M Records v General Audio Video Cassettes*, 948 F Supp 1449 (CD Cal 1996) (sale of custom-length blank tape timed to correspond to particular sound recordings).

¹⁰ *Sony Corp of America v Universal City Studios*, 464 US 417 (1984).

purposes. Indeed it need merely be capable of substantial non-infringing use'.¹¹ This is so even though the distributor was aware that at least some of the use to which the device would be put would be infringing. The court then held that time-shifting (recording for subsequent viewing and then erasure) of free broadcast television programs was a fair use.¹² On the record in the case, the 'primary use' of the VTR was for time-shifting.¹³ A use held to be non-infringing thus predominated and certainly met the 'substantial' standard.

The *Sony* 'substantial non-infringing use' standard did not again come into play with respect to mass-market means of copying until the *Napster* controversy.¹⁴ There, an online peer-to-peer music 'sharing' service maintained a central database that allowed end users to find other users currently online and to copy MP3 files from their hard drives. Napster invoked the *Sony* standard, asserting that not all the files were copied without authorisation. Napster also asserted that P2P architecture could in the future spawn more non-infringing uses. The Ninth Circuit agreed that *Sony* required taking into account the service's capacity for future lawful use but nonetheless held Napster a contributory infringer. In yet another gloss on the standard of liability, the *Napster* court held that courts should inquire into non-infringing uses when the distributor of the device lacks actual knowledge of and control over specific infringements. Where, however, it is possible to segregate and prevent infringing uses, it is not appropriate to exculpate the entire system by virtue of its capacity for non-infringing uses. In other words, the consequences to technology of enforcing copyright rules were different in *Sony* and in *Napster*. *Sony* presented the court with an all-or-nothing challenge: either the device would be enjoined, frustrating legitimate uses, or no liability would attach, despite the infringements the device enabled. In *Napster*, by contrast, the service could disable infringing uses by blocking access to listings of protected files, while allowing permissible uses to continue. *Napster* thus transformed *Sony* into an inquiry into knowledge of and ability to prevent specific infringements.¹⁵

Of course, *Napster* set out the instructions for its own demise: if Napster was liable because it could maintain control over its users' activities, then the next device or service would make sure to make it difficult if not impossible for the service to exercise control.¹⁶ So were born KaZaa, and its US licensees, Grokster and Morpheus. Unlike Napster, these services had no centralised directory: they dispersed information about file location across computer 'nodes' around the world. Users could find each other, but the services disclaimed the ability to prevent infringements as they were occurring. Although it recognised that Grokster and Morpheus had intentionally built their systems to defeat copyright enforcement, the Ninth Circuit held that, without the ability to prevent specific infringements, the services could not

¹¹ 464 US at 442

¹² *Ibid.*, at 447–56.

¹³ *Ibid.*, at 493 (Blackmun J dissenting).

¹⁴ *A&M Records, Inc v Napster, Inc* 239 F 3d 1004 (9th Cir 2001). But see *Vault v Quaid Software*, 874 F 2d 255 (5th Cir 1988) (distributor of program designed to circumvent software copyright protection held not liable for contributory infringement because program could be used for non-infringing purpose of making back up copies authorised by 17 USC § 117).

¹⁵ For a criticism of the Ninth Circuit's approach, see Goldstein, above n 7, at § 8.1.2.

¹⁶ See eg F Von Lohmann, 'IAAL: Peer-to-Peer File Sharing and Copyright Law after Napster' (2001) available at <<http://www.gtamarketing.com/P2Panalyst/VonLohmann-article.html>>.

be liable.¹⁷ The court scarcely considered whether the services enabled substantial non-infringing use; it acknowledged that 90% of the uses were infringing, but observed in footnote that 10% could be substantial, particularly when the 10% referenced many millions of uses. (That the other 90% would be even more extensive seems not to have troubled the court.)¹⁸

A unanimous US Supreme Court reversed. It held that the Ninth Circuit had misapplied the *Sony* standard, or, more accurately, that the Ninth Circuit did not appreciate that the *Sony* standard does not even come into play when the defendant is 'actively inducing' copyright infringement. That is, a device might well be capable of substantial non-infringing uses. But if it can be shown that the distributor *intended* users to employ the device in order to infringe copyright, then the distributor will be liable as a matter of basic tort principles. In this light, *Sony* was a case articulating a standard for assessing liability when it cannot be shown that the device distributor sought to foster infringement. But if the defendant has actively induced infringement, there is no need to revisit the *Sony* standard in order to clarify what 'substantial non-infringing use' actually means.

The court set out three elements probative of intent to induce infringement: (1) the defendant promoted the infringement-enabling virtues of its device; (2) the defendant failed to filter out infringing uses; (3) defendant's business plan depended on a high volume of infringement. In *Grokster's* case, all three elements were easily demonstrated. *Grokster* had sent out emails extolling P2P copying, and it had 'aim[ed] to satisfy a known source of demand for copyright infringement, the market comprising former Napster users.'¹⁹ *Grokster* not only declined to devise its own filters; it blocked third-party filters. And *Grokster's* business plan depended on advertising, whose rates would turn on the volume of users encountering the ads. The more *Grokster* could attract visitors, the better for its business, and the prospect of free music attracts more visitors than paid music. Taken together, these factors demonstrated a clear intention to foster infringement. As the court declared: 'The unlawful objective is unmistakable.'²⁰

Of course, inducement to infringe is actionable only if infringements in fact occur. Because the liability derives from primary infringing conduct, bad intent must join with unlawful end user acts. Thus, for example, distributing a copying device together with an exhortation to use the device to engage in massive unauthorised copying does not give rise to liability if no one in fact so uses it. In *Grokster*, however, end user infringement was never in doubt; plaintiffs' studies showed that 90% of the works copied were copyrighted,²¹ and even the Ninth Circuit acknowledged that the 'Copyright Owners assert, without serious contest by the

¹⁷ *MGM Studios, Inc v Grokster Ltd*, 380 F 3d 1154 at 1165–66 (9th Cir 2004) rev'd 125 S Ct 2764 (2005).

¹⁸ 380 F3d at 1162 n 10.

¹⁹ 125 S Ct at 2781. See also S Högberg, 'Note, The Judicial Search For Intent-Based Doctrines Of Secondary Liability In Copyright Law' (2006) 106 *Columbia Law Review* (forthcoming) (discussing the post-*Grokster* dangers of targeting a 'risky demographic').

²⁰ 125 S Ct at 2782.

²¹ *Ibid*, at 2772, 2778.

Software Distributors, that the vast majority of the files are exchanged illegally in violation of copyright law.'²² The Supreme Court thus could exclaim: 'The probable scope of copyright infringement is staggering.'²³

Having ruled that bad intent, if proved, sufficed to establish liability for infringements thus induced, the full court declined to analyse what the standard for contributory infringement would be when intent to foster infringement cannot be shown. The full court opinion provided some clues, however, when it stressed that certain of the three indicia of intent could not, in isolation, establish inducement, because basing liability solely on defendant's business plan or solely on the design of its product would be inconsistent with *Sony*.²⁴ But the court assiduously declined to offer further guidance on the meaning of 'substantial non-infringing use.'

Two concurring opinions, each signed by three justices, ventured onto that terrain, advancing opposing analyses. For Ginsburg J, *Sony* requires that copyright protection be 'effective – not merely symbolic'.²⁵ Where the overwhelming use of the device is to infringe, to reject the distributor's liability would reduce copyright protection to the merely symbolic. The three justices also stressed factual differences between the uses of the 'Betamax' and the activities of Grokster and Streamcast. In *Sony*, the 'timeshifting' that the court deemed fair use was in fact the primary use of the video tape recorder at the time. By contrast, the copies the Grokster and Streamcast users made were not ruled fair uses, and the defendants made no showing of significant actual non-infringing uses. The concurring opinion chided the Ninth Circuit for its failure to 'distinguish between uses of Grokster's and StreamCast's software products (which this case is about) and uses of peer-to-peer technology generally (which this case is not about)';²⁶ the evidence of non-infringing use presented by the defendants, and credited by the Ninth Circuit, addressed the general benefits of P2P and not the particular application of P2P by Grokster and Streamcast.

Failure to distinguish between peer-to-peer in general and the particular exploitation made of that technology by Grokster and Streamcast characterises the other concurring opinion by Breyer J, signed as well by Stevens and O'Connor JJ, who had authored or signed the majority opinion in *Sony*. This opinion urged a broad interpretation of *Sony* in order to provide security to technology entrepreneurs against attacks by copyright owners allegedly harmed by the distribution of devices that enable end users to make unauthorised uses of works of authorship. For these justices, the phrase 'capable of substantial non-infringing use' must be understood to excuse the distributor of a device whose lawful use is as low as 10%, especially if non-infringing uses might develop in the future. Moreover, this concurrence stressed, the potential for non-infringing use should be assessed with respect to devices 'of this type', and not specifically in relation to the defendant's device. Breyer J thus could assert that it did not matter that Grokster 'may not want to develop these other non-infringing uses. But *Sony*'s standard seeks to protect not the Groksters of this world

²² 380 F 3d at 1160.

²³ 125 S Ct at 2772.

²⁴ *Ibid*, at 2781–82 and n 12.

²⁵ *Ibid*, at 2783 (Ginsburg J concurring). Rehnquist CJ and Kennedy J joined this concurrence.

²⁶ *Ibid*, at 2786.

(which in any event may well be liable under today's holding), but the development of technology more generally'.²⁷

Breyer J emphasised four benefits to the *Sony* doctrine (as understood by the three concurring justices): The rule is clear; it is 'strongly technology protecting'; it is forward-looking; and it does not require judges to evaluate the technology at issue.²⁸ The opinion does not hide its bias in favour of technological development: in weighing the disadvantages inflicted on technology against the advantages to authors and copyright owners that would flow from a stricter interpretation of *Sony* such as that pressed by the Ginsburg concurrence, Breyer J's opinion does not allude to the interests of creativity, but to 'greater revenue security for copyright holders'.²⁹ In this perspective, the only creators who count appear to be the technology innovators, here confronted with the anonymous and oppressive financial interests of the 'copyright holders.' The opinion goes farther, declaring that in any event that 'the law disfavours equating the two different kinds of gain [(copyright)] and loss [(technology)]; rather, it leans in favour of protecting technology'.³⁰ This striking affirmation is based neither on the text of 1976 Copyright Act nor in the Constitution. Its principal foundation is the *Sony* decision, which, as we have seen, can be understood in several different ways.³¹

But perhaps the disagreement over the *Sony* standard will not in fact matter very much because the *Grokster* inducement standard may displace inquiries into the substantiality of non-infringing uses. Speculation is hazardous, but one might predict that, where a device facilitates infringement on a massive scale, its distributor will likely be found to have intended that result. Where the infringement the device enables is relatively modest in scale, inducement will not be found, but neither will the *Sony* threshold for liability be held to have been crossed, whatever its height. In other words, 'inducement' and 'substantial non-infringing use' will become legal conclusions, separating the *Sony* (good technology) sheep from the *Grokster* (evil entrepreneur) goats.

The following analysis supports the speculation. Suppose in each of the ensuing cases, the device made available to the public enables a very high volume of infringement.

²⁷ *Ibid.*, at 2790 (Breyer J concurring).

²⁸ *Ibid.*, at 2791–92.

²⁹ *Ibid.*, at 2793.

³⁰ *Ibid.*

³¹ Breyer J's declaration proposes a starker opposition than the court's earlier dictum in *Twentieth Century Music Corp v Aiken*, 422 US 151 at 156 (1975) ('The limited scope of the copyright holder's statutory monopoly ... reflects a balance of competing claims upon the public interest: Creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts. ... When technological change has rendered its literal terms ambiguous, the Copyright Act must be construed in light of this basic purpose.'). The *Aiken* decision did not, however, concern new technologies; the question there was whether a small commercial establishment's receipt of radio programming by means of a home style receiving device was a 'performance' of the broadcast.

Case 1: The distributor, culture-wants-to-be-free.com, promotes the infringement-facilitating features of its device or service, and does not filter out infringing uses. But it has no business plan because it does not seek revenues; rather it wishes to liberate content from copyright's clutches.

Although one of the three *Grokster* elements is missing, this still seems like a straightforward case of 'inducement', and, assuming the device is used as intended, liability would be found.

Case 2: The distributor, culture-for-me.com, neither promotes infringement, nor filters infringements out; its business plan requires a high volume of traffic to the site. Bloggers on the unaffiliated culture-wants-to-be-free.com site identify and promote the infringement-facilitating features of culture-for-me.com's device or service.

The most probative *Grokster* element – advertising – seems absent here. If culture-for-me.com merely benefits from, but is not in league with, culture-wants-to-be-free.com, then the question becomes whether failure to filter, plus an infringement-dependent business plan, suffice to establish inducement. *Grokster* tells us that each of these two in isolation will not demonstrate inducement, but neither did *Grokster* explicitly require all three elements to be present before inducement could be found. Moreover, as the Australian Federal Court in its *KaZaa* case recognised,³² the distributor of a device or service is not likely to filter if to do so would reduce its economic benefit. In other words, the two go hand in hand. Other *Grokster* elements prove interdependent as well: a site that *does* filter is not likely to advertise an ability to facilitate infringement if it has in fact hampered that capacity. A site that does filter, moreover, will probably not be engendering massive infringement.

To determine whether advertising is the *sine qua non* of inducement, one might consider whether, once it is shown that the distributor promoted infringing uses of the device, it necessarily follows that inducement will be found. The *Sony* case itself suggests not. As Jessica Litman has convincingly recounted, there was considerable evidence that could have led to characterising the Sony Corporation of America as an 'inducer'. Sony published advertisements encouraging consumers to build libraries of recorded television programming.³³ One advertisement depicted a television set next to a large bookcase fully stocked with hand-labelled boxes of Betamax tapes and congratulated consumers on their creation of a home tape library of programs. But, despite this evidence of incitement to unauthorised copying – and retention – of protected works, the court did not find Sony liable. As Litman's study also shows, a bare majority of the court was unlikely to find Sony liable on any theory, convinced as Stevens J and his allies were that the primary consumer conduct should not be deemed wrongful. But recall that most of that conduct was in connection with an activity – time-shifting – that the majority held non-infringing. In other words, the Sony Corporation may have been proposing that consumers engage in an activity – librarying – whose characterisation as a fair use was very doubtful, but

³² *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* [2005] FCA 1242.

³³ See J Litman, 'The Story of *Sony Corp of America v Universal City Studios: Mary Poppins Meets the Boston Strangler*' in J Ginsburg and R Dreyfuss (eds), *Intellectual Property Stories*, Foundation Press, New York, 2005, p358 at pp. 360–61.

most consumers in fact used the Betamax for a purpose the court deemed 'fair'. This suggests that incitement unaccompanied by substantial infringements does not give rise to liability.

If promotion standing alone does not necessarily amount to inducement, perhaps it is also true that non-filtering together with infringement-dependent business plans can so add up. With or without advertising, the economy of the operation depends on infringement. If that is so, it is difficult to see how the entrepreneur could not have intended to foster infringement.³⁴ And *Grokster* tells us that where there is (realised) intent, there will be liability.

Does this prove too much? *Grokster* may instruct that technology entrepreneurs should not draw their start-up capital from other people's copyrights.³⁵ Pressing copyright owners into service as the principal (uncompensated) investors in a new technology seems rather problematic. But what if there are other investors? That is, let's assume that lawful uses account for some portion of the device or service's appeal, so that the service could start up thanks to the revenues derived from the lawful uses, although input from other people's copyrights may remain necessary to profitability. The *Grokster* goats are those technologists whose business plans would not exist but for the infringements they enable. What barnyard characterisation fits those whose business plans, albeit copyright-parasitic, contemplate mixing infringing and non-infringing sources of revenue? If we take *Grokster*'s treatment of the role of intent literally, then the partial foundation of the business plan (and the concomitant device design) on non-infringing uses should not matter; the entrepreneur still intends to foster some infringement.³⁶ Liability, however, may turn on how much infringement, for we have posited that *Grokster* will supply the rule when the actual

³⁴ Tim Wu has suggested that, while failure to filter may not of itself prove bad intent, the entrepreneur who does filter may defeat inferences of intent to induce infringement. Filtering thus may afford a 'safe harbor' from future inducement claims. See T Wu, 'The Copyright Paradox: Understanding *Grokster*' (2005) *Supreme Court Review* (forthcoming), available at <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=828784>. An early post-*Grokster* decision appears to bear this out, see *Monotype Imaging v Bitstream*, 376 F Supp 2d 877, 888-89 (ND Ill 2005) (finding no inducement because, inter alia, defendant submitted evidence that it had taken steps to avoid the infringing use of its compatible type fonts. The court also found that 'unlike in *Grokster*, there is no evidence in the record to show that Bitstream's business was benefited by increasing the number of infringing uses of [its product]').

³⁵ See Oral Argument Transcript at 36, *MGM Studios, Inc v Grokster Ltd*, 125 S Ct 2764 (2005) (No 04-480), available at <http://www.supremecourtus.gov/oral_arguments/argument_transcripts/04-480.pdf>.

'Kennedy J: -- but what you have -- what you want to do is to say that unlawfully expropriated property can be used by the owner of the instrumentality as part of the startup capital for his product. Mr Taranto: I -- well --

Kennedy J: And I -- just from an economic standpoint and a legal standpoint, that sounds wrong to me.'

³⁶ A more charitable characterisation might state that the non filtering entrepreneur does not seek to encourage infringement, but has concluded that the cost of designing the product to avoid infringements exceeds the returns expected from the product's sale. It would follow that if *Grokster* points toward an obligation to filter, some number of products will not be made or commercialised. See eg M D Brown, O Armon, L Ploeger and M Traynor, 'Secondary Liability for Inducing Copyright Infringement After *MGM v Grokster*: Infringement-Prevention and Product Design' (2005) 9 *Journal of Internet Law* 1.

or potential volume of infringement is 'staggering'. Short of that (but how much short of that remains uncertain), the *Sony* standard reappears with (as we have posited) the result that the challenged technology will be deemed lawful.³⁷

If this prediction is incorrect, then we can expect further development of the *Sony* standard for exculpatory non-infringing use. In the absence of intent to induce infringement, will even trivial non-infringing use suffice to insulate the technology entrepreneur so long as the technology in the abstract is capable of future non-infringing use? Or will any device or service primarily used to infringe run afoul of the standard? Perhaps a glance at the analysis in a related jurisdiction might clarify the liability of infringement facilitators. The decision of the Federal Court of Australia in *Universal Music v Sharman Networking* addressed the liability of the KaZaa network for 'authorising' infringements, in violation of the Australian Copyright Act.

Liability under Australian law for facilitating infringement

Liability for *Grokster*-type activities in Australia potentially falls under several heads: while the net result may be similar to that under US law, the labels are different and there are some differences in emphasis. Thus, an Australian plaintiff will seek to establish liability by reference to (a) the statutory concept of 'authorisation' of infringement of copyright, and (b) common law principles governing joint tortfeasors. These are considered in turn below.

Authorisation

The Copyright Act 1968 deals with the exclusive rights of copyright owners and infringement of those rights in separate provisions. In the case of works ('literary, dramatic, musical and artistic'), the exclusive rights to do certain 'acts' are enumerated in s 31(1) and include the exclusive right to reproduce the work in a material form, to publish it, to perform it in public, communicate it to the public, and adapt it. Separate, and more limited, exclusive rights are conferred on other subject-matter, such as sound recordings (s 85), films (s 86), broadcasts (s 87) and published editions (s 88). These rights, in turn, are infringed by anyone 'who, not being the owner of the copyright, and without the license of the owner of the copyright, does in Australia *or authorises* the doing in Australia of, any act comprised in the copyright' (ss 36(1) and 101(1)).

Australian copyright law therefore envisages that infringement of the exclusive rights of a copyright in works or other subject matter may occur in one of two ways: directly, through the hands of the infringer, or indirectly, through the act of

³⁷ If the sheep are to be divided from the goats based on volume of infringement, this poses challenges for the timing of any lawsuit. If suit is brought too soon, the record on actual use may not be sufficiently established. But if copyright owners wait to see how the device or service is used in fact, it may become difficult to dislodge; 'fair use' may reduce to a synonym for '*fait accompli*'. Cf D G Baird, 'Changing Technology and Unchanging Doctrine: *Sony Corp v Universal Studios* (1984) *Supreme Court Review* 237 at 249 (making a similar observation regarding the timing of the *Betamax* case).

authorising another party (the direct infringer) to commit the infringing act. 'Authorisation' is a separate species or form of infringement, which is distinct from general law principles of joint tortfeasorship and vicarious liability.³⁸ While the latter may still have a role to play (see below), it seems that the concept of 'authorisation' was first introduced into Australian³⁹ (and UK⁴⁰) copyright laws as a means of filling gaps that were left by the application of those principles.⁴¹ A rich body of case law, both Australian and English, has developed and refined the concept of 'authorisation' as follows.

Although liability for authorising infringements of copyright is distinct from direct liability for infringement, in many cases it may be possible to establish direct liability by invoking the doctrine of vicarious liability in the case of employees or agents acting on behalf of principals.⁴² 'Authorisation', however, extends beyond the authority given to an agent, and has been interpreted by courts in both Australia and the UK as having its ordinary dictionary sense of 'sanction, approve and countenance'.⁴³ It seems clear that this includes the specific grant of permission to do the act in question, but it may also be possible to imply such permission from the surrounding circumstances.⁴⁴ In each instance, however, it will be a question of fact as to what is the correct inference to be drawn from the conduct of the defendant. Thus, in *Falcon v Famous Players Film Co Ltd*,⁴⁵ a person who had entered a hiring agreement with the proprietor of a picture theatre, purporting to let the right to exhibit a film, was held to have authorised its exhibition in public.⁴⁶ Likewise, in *Wilden Pump & Engineering Co v Fufeld*,⁴⁷ the placing of an order for the manufacture of articles which infringed the copyright in certain drawings was held to constitute an authorisation of these infringing acts. These are probably fairly clear instances of 'authorisation', but the factual circumstances in which this may arise are many and various, meaning that

...any attempt to prescribe beforehand ready-made tests for determining on which side of the line a particular case will fall, would seem doomed to failure. In the end

³⁸ Although the US Copyright Act also sets out the author's exclusive rights as 'to do or to authorise,' see 17 USC sec 106, US courts have not given independent content to the authorisation prong. See eg *Sony Corp of America v Universal City Studios, Inc*, 464 US 417 at 435–36 (1984) (no discussion of statutory text 'to do or to authorise,' but discussing *Kalem v Harper Bros*, 222 US 55 (1911) in which the court found 'authorisation' of infringing public performances of unlicensed film adaptation of novel *Ben Hur*).

³⁹ Copyright Act 1905 (Cth) s 13(1).

⁴⁰ Copyright Act 1911 (UK) s 1(1).

⁴¹ See the discussion by Gummow J in *WEA Int v Hanimex Corporation Ltd* (1987) 10 IPR 349 at 359ff.

⁴² See, for example, *Australasian Performing Right Association Ltd v Miles* [1965] NSW 405.

⁴³ *Falcon v Famous Players Film Co Ltd* [1926] 2 KB 474 (CA) and *University of New South Wales v Moorhouse* (1975) 133 CLR 1.

⁴⁴ *University of New South Wales v Moorhouse* (1975) 133 CLR 1 at 21 (Jacobs J) and see Gibbs J at 12, citing *City of Adelaide v Australasian Performing Right Association Ltd* (1928) 40 CLR 481 at 504. See also *Performing Right Society Ltd v Ciry Theatre Syndicate Ltd* [1924] 1 KB 1 at 9 (Bankes LJ).

⁴⁵ *Falcon v Famous Players Film Co Ltd* [1926] 2 KB 474 (CA).

⁴⁶ See also *Performing Right Society Ltd v Ciry Theatre Syndicate Ltd* [1924] 1 KB 1 (Bankes LJ)

⁴⁷ (1985) 8 IPR 250 at 279–280 (Ch, Whitford J).

the matter must in each case depend on a careful examination of all the relevant facts.⁴⁸

Courts, both in Australia and the UK, have also emphasised the need for there to be some ability, on the part of the alleged authoriser, to control or prevent the infringing act. The paradigm instance of this is provided by *UNSW v Moorhouse*⁴⁹ where the infringing copies were made on a photocopying machine situated within the premises of a university library and where the librarian had placed no apparent controls on whom might use the machine. At the other end of the spectrum, where there was no liability for authorisation, is *WEA International Inc v Hanimex Corporation Ltd*,⁵⁰ where the respondent had advertised its tapes for sale in such a way as to provide an invitation to purchasers to copy protected sound recordings, but there was no evidence of any connection or control between the respondent and any unauthorised copies that were made. To similar effect is *CBS Songs Ltd v Amstrad Consumer Electronics plc*,⁵¹ where the House of Lords held that the manufacturers of twin-deck tape-recording machines which enabled the copying of one tape onto another were not thereby authorising any acts of infringing reproduction that might occur because Amstrad had no control over the use of these machines once they were sold to consumers. In the same way, in *RCA Corp v John Fairfax & Sons Ltd*,⁵² the writing of a newspaper article that pointed to the ease with which rock music could be taped from the (then) new FM broadcasts was not an authorisation of any infringement that may have occurred – it was necessary for there to be some link or connection, 'however tenuous', between the authoriser and the infringer.⁵³ A corollary, or perhaps more correctly, a preliminary requirement, to this is that there must be some actual evidence that infringements have occurred: mere invitations or encouragements issued to all and sundry will not suffice.

No specific mental element for authorisation is indicated in the legislation. From the case law, however, it seems that, while the actual acts of infringement may be committed unintentionally, some degree of knowledge is necessary for the purposes of establishing that there has been an authorisation of such acts. Thus, in *Australasian Performing Right Association Ltd v Jain*,⁵⁴ the full Federal Court said:⁵⁵

...the word 'authorise' connotes a mental element and it could not be inferred that a person had, by mere inactivity, authorised something to be done if he neither knew nor had reason to suspect that the act might be done.

It is unnecessary, in this regard, that a respondent should know that a particular infringing act has occurred, providing that, from their awareness of the circumstances, he or she recognises that it is likely that such an act may occur. In *City of Adelaide v*

⁴⁸ *Winstone v Wurlitzer Automatic Phonograph Co of Australia Pty Ltd* [1946] VLR 338 (Herring CJ).

⁴⁹ (1975) 133 CLR 1.

⁵⁰ (1987) 10 IPR 349.

⁵¹ (1988) 11 IPR 1. To similar effect see *Australian Tape Manufacturers Association Ltd v Commonwealth of Australia* (1993) 25 IPR 1 at 4 (Mason CJ, Brennan, Deane and Gaudron JJ).

⁵² *RCA Corp v John Fairfax & Sons Ltd* [1982] RPC 91.

⁵³ 100 (Kearney J).

⁵⁴ (1990) 18 IPR 663.

⁵⁵ *Ibid*, at 667.

Australasian Performing Right Association Ltd,⁵⁶ Knox CJ thought that it was sufficient for the purposes of 'permission' (which he equated with 'authorisation') if the defendant 'knows or has reason to anticipate or suspect that the particular act is to be or is likely to be done'. Isaacs J's formulation in the same case (at 490-491) was a little wider than this, considering it sufficient if the defendant 'knows or has reason to know or believe' that the particular act of infringement 'will or may' be done. In *University of New South Wales v Moorhouse*,⁵⁷ Gibbs J summed up these requirements as follows:

It seems to me ... that a person who has under his control the means by which an infringement of copyright may be committed – such as a photocopying machine – and who makes it available to other persons, knowing, or having reason to suspect that it is likely to be used for the purpose of committing an infringement, and omitting to take reasonable steps to limit its use to legitimate purposes, would authorise any infringement that resulted from its use.⁵⁸

Obviously, where the invitation is 'at large', the inviter/authoriser may know nothing of the specific act of infringement that occurs, but can still be liable on the basis that he or she should have realised that it was likely that such an infringement might occur. This point was made specifically by Jacob J in *UNSW v Moorhouse* where his Honour said:

Where a general permission or invitation may be implied it is clearly unnecessary that the authorising party have knowledge that a particular act comprised in the copyright will be done (at p21).

The acts and omissions of the alleged authorising party must be looked at in the circumstances in which the act comprised in the copyright is done. The circumstances will include the likelihood that such an act will be done.

'(t)he Court may infer an authorisation or permission from acts which fall short of being direct and positive; ... indifference, exhibited by acts of commission or omission, may reach a degree from which authorisation or permission may be inferred. It is a question of fact in each case what is the true inference to be drawn from the conduct of the person who is said to have authorised ...' (per Bankes LJ in *Performing Right Society Ltd v Cyril Theatrical Syndicate Ltd* (1924) 1 KB 1, at p 9) (at p21).

A corollary to the above is that if a defendant realises that there is a likelihood that infringing acts will be committed, with the use of facilities or equipment that it has provided, and takes reasonable steps to avoid this happening, liability for authorisation should then be avoided.

Until 2000, in Australia, these principles had been developed solely through the cases, but, in that year, the Copyright Act 1968 was amended (as part of the Copyright

⁵⁶ (1928) 40 CLR 481 at 487.

⁵⁷ (1975) 133 CLR 1 at 13.

⁵⁸ To similar effect see also *Mellor v Australian Broadcasting Commission* [1940] AC 491 (PC); *Winstone v Wurlitzer Automatic Phonograph Co of Australia Pty Ltd* [1946] VLR 338.

(Digital Agenda) Amendment Act 2000) by the addition of s 36(1A), which now contains a list of the kinds of factors that 'must be taken into account' by a court in determining whether a person has authorised the doing in Australia of any act comprised in the copyright of a work, without the licence of the copyright owner. These are as follows:

- (a) the extent (if any) of the person's power to prevent the doing of the act concerned;
- (b) the nature of any relationship existing between the person and the person who did the act concerned;
- (c) whether the person took any reasonable steps to prevent or avoid the doing of the act, including whether the person complied with any relevant industry codes of practice.

It is suggested in the *Explanatory Memorandum* to the Digital Agenda Bill (para 57) that these essentially codify the principles that had been developed in the previous cases (in particular *University of New South Wales v Moorhouse*⁵⁹), and were 'intended to provide a degree of legislative certainty about liability for authorising infringements'. But this may be too broad a statement, particularly with respect to sub-para (a) and its reference to 'if any'. This suggests that liability for authorisation may arise, even where the authoriser has no power to prevent the infringement, for example, where he or she has deliberately put themselves in a position where they cannot intervene to prevent the infringement. But the possession of power to prevent infringements is a temporal matter, and sub-para (c), with its reference to 'reasonable steps' seems to underline the point that a defendant will not escape liability if it was previously in a position to prevent the infringements and failed to take such steps. It seems clear here that courts will look at the reality of the situation, and that a defendant will not avoid liability through reliance on, for example, a warranty in a contractual arrangement with another party that the latter will not engage in infringing activities.⁶⁰ Furthermore, the significance of sub-para (b), with its reference to the 'nature of the relationship' between the alleged authoriser and end user should not be overlooked. In the classic vendor-purchaser situation, as in *Amstrad* and *Hanimax*, the relationship between the parties usually comes to an end post-sale. In the online environment, however, where there is a provision of P2P software, the relationship may be a continuing one, with the provision of upgrades, help lines and the like. From the perspective of the supplier, the continuing relationship may be a commercially important one as well, for example, where the supplier depends upon advertising to support its activities and therefore wants to remain in contact with the end-user.

With a particular view to online communications, the 2000 amendments also inserted a new s 39B, which seeks to limit the liability of persons (including 'carriers or carriage service providers'⁶¹) who provide facilities for making, or facilitating the making of, a communication': such persons are not to be taken to have authorised any

⁵⁹ (1975) 133 CLR 1.

⁶⁰ See eg *Australasian Performing Right Association Limited v Metro on George Pty Limited* [2004] FCA 1123 (31 August 2004), currently on appeal.

⁶¹ These two terms are defined by reference to the definitions of these terms that appear in the Telecommunications Act 1997.

infringement of copyright in a work 'merely because another person uses the facilities so provided to do something the right to do which is included in the copyright'. (A similar provision applies under s 112E in relation to other subject matter, including sound recordings and films.) The adverb 'merely' is important here, leaving it open that liability may arise where there is knowledge of infringing activities, coupled with a failure to take steps to prevent this occurring. Until amendments passed late in 2004 as part of the US Free Trade Agreement with Australia, the position of carriage service providers ('CSPs') remained precarious, so far as liability for authorisation was concerned, but there is now an elaborate array of provisions that provide 'safe harbours' for ISPs in particular circumstances depending upon knowledge, the taking of precautions, etc.⁶² These are analogous to the provisions found in section 512 of the US Copyright Act, but an examination of their operation lies outside the scope of the present article.⁶³

Joint tortfeasor liability

Quite distinct from the liability for authorisation is the possibility of liability arising as a joint tortfeasor in the acts of infringement committed by another party. In general terms, this would cover what is referred to in US law as 'contributory infringement', but it is likely that it is a more limited concept than in US law. The activities covered by principles of joint tortfeasorship are aiding, abetting, facilitating and inducing the commission of infringing acts, but these activities must be underpinned by a 'common design' with the direct infringer, ie that both parties are engaged in some common enterprise or are acting 'in concert' in committing the tort'.⁶⁴ Accordingly, in the case of patent infringement, supply of a product which is capable of both infringing and non-infringing uses will not of itself render the supplier liable for patent infringement merely because the person supplied uses the product so as to infringe; furthermore, supplying a product knowing that it will be used for the purpose of infringing a patent will not of itself give rise to liability as a joint tortfeasor.⁶⁵ In the same way, advertising a product in such a way as to suggest that it can be used for infringing purposes will not be sufficient, in the absence of showing some common design between supplier and infringer to infringe.⁶⁶ This suggests that, on the facts of *Grokster*, an Australian court would not impose liability on the basis of joint tortfeasorship, because it would be difficult to spell out any common design between the supplier of the software and the end-user who uses this for the purpose of downloading infringing reproductions (liability for authorisation, of course, is a different matter). This distinction is nicely illustrated in a recent decision of Tamberlin J of the Federal Court, in which the respondent was sued for infringement

⁶² See now Division 2AA, Part V, Copyright Act 1968.

⁶³ For an analysis of the US 'safe harbour' provisions, see eg Goldstein, above n 7, para 8.3.2; J Ginsburg, 'Copyright Legislation for the "Digital Millennium"' (1999) 23 *Columbia Journal of Law & the Arts* 137 at 160–64; D M Barker, 'Defining the Contours of the Digital Millennium Copyright Act: The Growing Body of Case Law Surrounding the DMCA' (2005) 20 *Berkeley Technology Law Journal* 47 at 57–63.

⁶⁴ *Thompson v Australian Capital Television Pty Ltd* (1996) 169 CLR 574 at 580–581 (Brennan CJ, Dawson and Toohey JJ and Gummow J at 600); *CBS Sony Ltd v Amstrad Plc* [1988] 1 AC 1013 (HL) (Templeton L at 1057A–C, and 1055E–1057H).

⁶⁵ See *Walker v Alemite Corporation* (1933) 49 CLR 643 at 658 (Dixon J) cf s117 Patents Act 1990.

⁶⁶ See further *WEA v Hanimax* (1987) 10 IPR 349 and *RCA v John Fairfax* [1982] RPC 91.

of copyright through the provision of links on his website which led customers to other websites from which infringing music files could then be downloaded. On these facts, his Honour held that there was authorisation, in that the respondent could have taken steps to remove the offending links and had reason to suspect that infringing reproductions and communications would occur if this was not done. On the other hand, there was no liability on the basis of joint tortfeasorship principles in that a common design between the respondents and his customers was not present.⁶⁷

Peer to peer in Australia: *Universal Music v Sharman Networking*

The Federal Court of Australia gave its decision on 5 September 2005, following more than a year of evidence-gathering in defendant Sharman Networks' computers. Perhaps learning its lesson from the ruling by the Dutch Supreme Court rejecting liability on the ground that Buma-Stemra (the performing and mechanical rights society of the Netherlands) had failed to demonstrate that KaZaa (which had been located in the Netherlands before its move to Sydney and Vanuatu) was able to control the infringing activities of its customers,⁶⁸ the copyright owners obtained an 'Anton Piller order'⁶⁹ authorising pre-trial discovery of Sharman's computers. For over a year, the right holders monitored every transaction and every email transiting through the Sharman servers. This enabled them to establish an extensive record concerning both the measures that could be taken to control users, and Sharman's apparent relinquishment of that control. Even then, it should be noted that there were significant gaps in the evidence, for example, as to whether there was a central server in the KaZaa system.

It was argued by the applicants that the statute did not require that the defendant in fact be able to prevent the infringement; the statutory language '(if any)' that was used in s 36(1A)(a) suggested the possibility that the extent of the power might be nil.⁷⁰ The court did not rule explicitly on this submission, but, by implication, did so in its emphasis on the third element in s 36(1A)(c), which focussed on the reasonable steps the defendant could have taken to avoid infringement.⁷¹ On that score, the record of the defendant's calculated inactivity spoke starkly. As the court summarised its findings:

- (i) despite the fact that the KaZaa website contains warnings against the sharing of copyright files, and an end user licence agreement under which users are made to agree

⁶⁷ See generally *Universal Music Australia Pty Ltd v Cooper* [2005] FCA 972 (14 July 2005); the facts here were similar to those in *Universal City Studios Inc v Reimerdes* 111 F Supp 2d 294 (SDNY, 2000).

⁶⁸ *Vereniging Buma, Stichting Stemra v KaZaa BV*, Supreme Court of the Netherlands (Hoge Raad), decision of 19 December 2003, AN7253 Case no: C02/186HR.

⁶⁹ See *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* [2004] FCA 183 (4 March 2004). An 'Anton Piller' order is an *ex parte* order granted by a court that enables a potential plaintiff to enter premises and seize evidence when there are strong reasons to fear that the defendant may destroy or remove it. Such orders are usually subject to strict conditions by the court and named after the original UK Chancery decision of *Anton Piller KG v Manufacturing Processes Ltd* [1976] Ch 55.

⁷⁰ *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* [2004] FCA 183 (4 March 2004) at 360.

⁷¹ *Ibid*, at 328, 330.

not to infringe copyright, it has long been obvious that those measures are ineffective to prevent, or even substantially to curtail, copyright infringements by users. The respondents have long known that the KaZaa system is widely used for the sharing of copyright files;

- (ii) there are technical measures ... that would enable the respondents to curtail – although probably not totally to prevent – the sharing of copyright files. The respondents have not taken any action to implement those measures. It would be against their financial interest to do so. It is in the respondents' financial interest to maximise, not to minimise, music file-sharing. Advertising provides the bulk of the revenue earned by the KaZaa system, which revenue is shared between Sharman Networks and Altnet;
- (iii) far from taking steps that are likely effectively to curtail copyright file-sharing, Sharman Networks and Altnet have included on the KaZaa website exhortations to users to increase their file-sharing and a webpage headed 'Join the Revolution' that criticises record companies for opposing peer-to-peer file-sharing. They also sponsored a 'KaZaa Revolution' campaign attacking the record companies. The revolutionary material does not expressly advocate the sharing of copyright files. However, to a young audience, and it seems that KaZaa users are predominantly young people, the effect of this webpage would be to encourage visitors to think it 'cool' to defy the record companies by ignoring copyright constraints.⁷²

The *KaZaa* decision's resemblance to *Grokster*'s three-point analysis is striking. Like the US Supreme Court, the Australian Federal Court addressed the defendant's promotion of the infringement-facilitating features of its service to a 'risky demographic'⁷³ of likely infringers; defendant's deliberate failure to filter out infringing content; and its infringement-dependent business plan. The Federal Court also noted the colourable nature of such copyright-protective measures as KaZaa had taken (wink-and-nod website warnings not to commit infringement). Unlike the US Supreme Court, however, the Federal Court had the advantage of extensive evidence, albeit much contested, as to the steps that the defendant could have taken to restrict infringing activities. For both courts, however, the knowledge of the defendants as to the likelihood of infringements occurring – and the scale of these infringements – was clear: neither was an innovator 'innocently' developing a new technology which might inevitably spawn infringements in its wake. Nonetheless, despite the similarities between the two decisions, the prospects of finding liability for enabling infringement may be greater in Australia than in the US, principally because there is no precedent in Australia equivalent to *Sony*: where UK and Australian courts have rejected 'authorisation liability' with respect to recording devices and media, this has been based on lack of control over the users' acts, not on the non-infringing uses to which the recorders could be put.⁷⁴ On the other hand, it should be noted that a 'bad

⁷² Court's summary; see also 184 ('I do not doubt that some people use KaZaa only in a non-infringing way. However, it seems unlikely that non-infringing uses would sustain the enormous KaZaa traffic claimed by the respondents. The explanation of that volume of traffic must be a more populist use.'), 403–15 (legal conclusions concerning 'authorisation').

⁷³ The phrase is borrowed from S Högberg, 'Note, Doctrinal Problems in the Judicial Expansion of Secondary Copyright Liability' (2006) 106 *Columbia Law Review* (forthcoming).

⁷⁴ See eg *CBS Songs Ltd v Amstrad Consumer Electronics plc* [1988] 1 AC 1013 (HL) (multiple-headed tape recorder); *WEA International Inc v Hanimex Corporation Ltd* (1987) 10 IPR 349 (blank tape); *Australian Tape Manufacturers Association Ltd v Commonwealth of Australia* (1993) 176 CLR 480 (HC Australia) (blank tape).

guy' inducement theory of liability, absent some degree of control and/or lack of reasonable steps to prevent infringement, will not succeed in Australia on current theories of joint tortfeasor liability. Thus, the *KaZaa* court rejected out of hand an extravagant claim by the applicant against the defendant on the ground of civil conspiracy, and it is also likely that any lesser claim based on procuring and facilitating end user infringements would have failed on the basis of lack of common design between Sharman and end users.⁷⁵

While *KaZaa* remains still a 'work in progress', with an appeal pending to the Full Federal Court in late February 2006 (and, perhaps, thereafter to the High Court), the decision of Wilcox J is notable for certain other features:

1) The interventions of *amicus curiae*: this is not as common a feature in Australian litigation as it is in the US. Australian *amici* must possess a degree of independence from the parties to the proceeding and must have further material or considerations that they are able to place before the court.⁷⁶ At the same time, Wilcox J was eager to confine the case to the 'true issue', ie authorisation, noting that there were two matters that this was not a case about:

First, many people (including the respondents) argue that the Internet is here to stay, it is being used by an ever increasing number of people and peer-to-peer file-sharing is one of its most valuable potential uses. They say that copyright owners, such as the present applicants, could eliminate (or at least substantially reduce) infringement of their copyrights if they were willing to make copyright works available on a licensed basis for a fee, in the way in which Altnet offers gold files. Second, it was suggested at one stage of this case that it would have been possible for the applicants to have made their compact discs less vulnerable to being 'ripped' into a computer program by issuing them in a digital rights managed, rather than open, format.

Neither of these matters falls for decision in this case. I understand the argument in favour of more widespread licensing of copyright works. No doubt that course would have commercial implications for sound recording distributors. Whether or not they should take it is a matter to be determined by them. Unless and until they do decide to take that course, they are entitled to invoke such protective rights as the law affords them. Similarly in regard to making compact discs less susceptible to ripping; although, in regard to that matter, I add the evidence is insufficient for me to reach any conclusion about the feasibility of doing this.⁷⁷

2) Despite attempts by the respondents to find refuge behind s 112E of the Copyright Act (see above), it was clear that the 'something more' than the mere provision of facilities required for the purposes of liability for authorisation was present. On the other hand, the proposed orders of Wilcox J display a concern to strike a balance between what might be called the 'legitimate concerns' of the parties. While the past conduct of the respondents might have shown a disregard for the rights of copyright

⁷⁵ To the same effect, see *Universal Music v Cooper* [2005] FCA 972 (14 July 2005).

⁷⁶ His Honour gave leave here to representatives of the Australian Consumers Association Pty Ltd, Electronic Frontiers Australia Inc and the New South Wales Council for Civil Liberties Inc.

⁷⁷ *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* (with Corrigendum dated 22 September 2005) [2005] FCA 1242 (5 September 2005)

owners, the technology being used by Sharman and Altnet was innovative and potentially of wider and more beneficial, ie non-infringing, applications, and his Honour was clearly concerned that his findings should not constitute a freeze on such activities. These matters were clearly put to the court by the *amici* whose views could not be regarded as self-interested as those of the respondents. Hence, the form of orders proposed by Wilcox J is of great interest. After the appropriate declaratory and injunctive orders in relation to the infringing conduct, notably order 4, his Honour formulated the following order that envisages the continuation of the KaZaa system under certain circumstances:

- 5 Continuation of the KaZaa Internet file-sharing system (including the provision of software programs to new users) shall not be regarded as a contravention of order 4 if that system is first modified pursuant to a protocol, to be agreed between the infringing respondents and the applicants, or to be approved by the Court, that ensures either of the following situations:
 - (i) that:
 - (a) the software program received by all new users of the KaZaa file-sharing system contains non-optional key word filter technology that excludes from the displayed blue file search results all works identified (by titles, composers' or performers' names or otherwise) in such lists of their copyright works as may be provided, and periodically updated, by any of the applicants; and
 - (b) all future versions of the KaZaa file-sharing system contain the said non-optional key word filter technology; and
 - (c) maximum pressure is placed on existing users, by the use of dialogue boxes on the KaZaa website, to upgrade their existing KaZaa software program to a new version of the program containing the said non-optional key word filter technology; or
 - (ii) that the TopSearch component of the KaZaa system will provide, in answer to a request for a work identified in any such list, search results that are limited to licensed works and warnings against copyright infringement and that will exclude provision of a copy of any such identified work.⁷⁸

3) Later in his judgment, Wilcox J also made the point that copyright owners are not obliged, under existing law, to adopt self-protective measures and to minimise their losses. This point arose particularly in relation to the effect to be given to s 112E of the Copyright Act, given his Honour's finding that Sharman et al had done 'something more' than simply providing facilities or means that could be used for copyright infringement by third parties:

[418] I accept that Parliament intended to 'protect the messenger', although only to the extent indicated by the Act; notably s 112E. However, on my findings, Sharman is and was more than a 'messenger'. Whether it is 'unrealistic and unfair' that a software provider in Sharman's position should be held to have authorised copyright infringement by users of the software is a matter of opinion. The Court must take guidance from the Act, as elucidated by relevant judicial decisions. It is not for the Court to reject that guidance on the basis that the particular judge considers the result to be unrealistic and unfair. If Parliament thinks that is, indeed, the result of applying the Act, the remedy is in its hands.

⁷⁸ Universal Music Australia Pty Ltd v Sharman License Holdings Ltd (with Corrigendum dated 22 September 2005) [2005] FCA 1242 (5 September 2005), para 5.

[419] The available evidence does not permit me to reach any clear conclusion as to the steps that might have been available to the applicants directly to protect their copyright in works reproduced in CDs distributed by them. The reason that evidence was not adduced, I surmise, is that all the respondents' counsel realised it is not a defence to an action for copyright infringement for a respondent to point to failings in self-protection by the copyright owner. Copyright law contains no equivalent of the doctrine of contributory negligence. If counsel is correct in asserting the applicants could have achieved some protection by adopting a DRM format, the applicants might do well to consider taking that course. However, neither the assertion nor the applicants' reaction to it can affect the legal issues now before the Court.⁷⁹

Liability under the International conventions for facilitation of infringement

It is worth concluding this comparative study with a brief examination of the position under the international copyright conventions: do these provide any stipulations and/or guidance on the matter of liability for those who facilitate copyright infringements? In this article we simply adumbrate these questions, leaving their fuller development to a future study.

At first blush, the answer is 'no': issues of secondary or contributory liability have never figured explicitly in any of the international conventions that now bind countries such as the USA and Australia and there is no explicit treaty obligation that deals with these matters. On the other hand, the language of the *Berne Convention for the Protection of Literary and Artistic Works* is suggestive, to an Australian reader, of an underlying doctrine of 'authorisation', in that each exclusive right is formulated as the right to 'authorise' the doing of certain acts, such as translation, reproduction, public performance, etc, and the same language appears in the WCT. Such language can be traced back to the original Berne Act of 1886 where the translation right in article V was referred to as the 'exclusive right of making or authorising', and was replicated in later Acts as more exclusive rights came to be protected. It is therefore likely that the convention language was the inspiration for the inclusion of 'authorisation' in s 1(2) of the UK Copyright Act 1911 whence it travelled into the Australian Copyright Act 1968. But nothing is to be found in the Berne convention materials to indicate what is meant by the word 'authorise' and whether it would extend to the activities of those who facilitate the carrying out of infringements of the kind in issue in *Grokster* and *KaZaa*. On one reading, 'authorise' could extend even to the infringement-inducing activities of the vendors of machines and media which are then used for the making of infringing copies after the vendor has lost any control over the end user. But the convention texts, and the supporting conference materials, are silent on this point, suggesting that such an extended form of liability was never in the minds of those formulating these treaty texts. This may be because, at least until the 1967 Stockholm revision, the circumstances leading to an 'authorisation' would not likely have extended beyond an agency context (master-servant, or other hired party), to encompass the mass market provision of copying equipment. The better view, therefore, must be that 'authorise' has a more limited connotation, and, at its

⁷⁹ Universal Music Australia Pty Ltd v Sharman License Holdings Ltd (with Corrigendum dated 22 September 2005) [2005] FCA 1242 (5 September 2005)

most generous, as in Australian law, envisages some degree of control and continuing relationship between the 'authoriser' and the end user. Beyond this, it is unlikely that the Berne and WCT directly support any additional obligation to impose liability on 'bad person' inducers of the Grokster-KaZaa kind. In this regard, it should also be noted that there are no specific contributory liability obligations in the related areas of patents and trade marks under the *Paris Convention for the Protection of Industrial Property*, although contributory infringers, particularly in the case of patent method claims, have always been problematic for patentees, and some national laws do provide for contributory liability.⁸⁰

On further inquiry, however, it is possible to derive from the international conventions an evolving obligation to protect against the kind of facilitation present in the *Grokster* and *KaZaa* cases. For example, specific obligations to provide against contributory infringing activities in copyright may be deduced from the provisions of the *Universal Copyright Convention*, which continues to bind both Australia and the USA. This instrument, now frequently overlooked, does not contain a series of specific provisions requiring protection of exclusive rights (as under Berne) but begins with a general obligation in Article I under which each Contracting State 'undertakes to provide for the adequate and effective protection of the rights of authors and other copyright proprietors in literary, scientific and artistic works'. Article IVbis of the Paris version of 1971 then provides that the rights referred to in Article I 'shall include the basic rights ensuring the author's economic interests, including the exclusive right to authorise reproduction by any means, public performance and broadcasting'. The reference to 'authorise' here raises similar, and unresolved, issues of interpretation as under the Berne and WCT texts. However, the reference to provision for the 'adequate and effective protection of the rights of authors and copyright proprietors' is suggestive that this might require appropriate contributory liability provisions to form part of national copyright laws. There is nothing in the conference records or commentaries to this effect, but it is surely arguable, in the online environment, that 'adequate and effective protection' would require national laws to provide for liability in the case of intermediaries such as *Grokster* and *KaZaa*.

By contrast, it may not be so easy to distil such an obligation in the terms of the *TRIPS Agreement* (which, incidentally, does not require compliance with the UCC), which deals with the matter of enforcement in great detail in Part III. The very specificity of these provisions argues against any further obligation to impose liability upon facilitators and intermediaries: thus, the obligation in article 41 for contracting countries to 'ensure that enforcement procedures as are specified in this Part are available ... so as to permit effective action against any act of infringement of intellectual property rights covered by this agreement' indicates that the focus is to be on the remedies and procedures detailed in the following provisions rather than on the imposition of a further substantive liability on the part of facilitators and intermediaries.

⁸⁰ See eg US Patent Act, 35 USC § 271(b); German Patent Law s 10(2); Ireland Patents Act s 41(2); Belgium Patent Law art 27-2.

Nonetheless, the WCT, and perhaps ultimately the Berne Convention, provide indications that the scope of the author's rights can extend to rights against persons who knowingly or intentionally supply the means to infringe. First, WCT article 11 obliges member states to provide 'adequate legal protection and effective legal remedies' against 'the circumvention' of technological measures used by authors to protect their rights. Although that instrument does not explicitly require member states to prohibit the provision of devices designed to circumvent technological measures, the leading commentators agree that protection would not be 'adequate and effective' unless the obligation extended beyond the act of circumvention to the devices designed or predominantly used to circumvent.⁸¹ National laws implementing the WCT have, moreover, prohibited the circulation of such devices.⁸² This suggests a recognition that the direction to national laws to ensure 'adequate and effective' coverage of technological protection measures includes the understanding that, in a digital environment in which end users are the direct infringers, and the commercial intermediaries may not themselves directly commit infringing acts, to confine the scope of protection to direct infringement may significantly short-change the copyright.

To this point, the argument indicates that 'adequate and effective' provisos can and should be understood to encompass at least some forms of liability for facilitators, including those who provide end users with the means to infringe. But where a treaty does not explicitly provide for 'adequate and effective' protection, does it follow that there can be no obligation to prohibit inducement or 'authorisation' (in the Anglo-Australian sense)? The structure of the Berne Convention suggests another basis for inferring a requirement that protection be 'adequate and effective' (and thus for obliging member states to extend liability beyond direct actors in certain circumstances). The Berne Convention combines two fundamental approaches to international copyright: the rule of national treatment, and substantive minima of protection.⁸³ With each revision, the Convention has added further rights or subject matter to the minimum substantive protections which all Union members must provide to authors from other Union members. The minima have expanded as member states have come to agree on the necessity for effective protections in evolving commercial or technological marketplaces. Arguably, the rule of national treatment should ensure appropriate protection, for one might assume that member states will provide their own authors with the necessary extent of coverage. What, then, do substantive minima add? For one thing, in the event that a member state does not adequately protect its own authors, Berne requires that the state at least provide the internationally-agreed level of protection to other Berne authors. If Berne did not implicitly require that member states provide adequate and effective coverage, it would leave the level of coverage entirely to the member states. That member states

⁸¹ See eg J Reinbothe and S von Lewinski, *The WIPO Treaties 1996*, Butterworths Lexis Nexis, London, 2002, p 145; M Ficsor, *The Law of Copyright and the Internet: The 1996 WIPO Treaties, Their Interpretation and Implementation*, Oxford University Press, Oxford, 2002, p 549; S Ricketson and J C Ginsburg, *International Copyright and Neighbouring Rights: The Berne Convention and Beyond*, Oxford University Press, Oxford, 2006, para 15.17.

⁸² See eg 17 USC sec 1201(a)(2), 1201(b); Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society, *Official Journal L* 167, 22/06/2001 (the 'Information Society Directive') art 6.

⁸³ See generally Ricketson and Ginsburg, above n 81, chapter 6.

incur obligations over and above domestic norms suggests a Conventional intent that protection be real, not merely formal. Second, the accumulation of minima has over time come to articulate a supranational code of copyright, albeit with gaps and ambiguities left to member state resolution. For example, article 5(2) provides, 'apart from the provisions of this Convention, the extent of protection, as well as the means of redress afforded to the author to protect his rights, shall be governed exclusively by the laws of the country where protection is claimed'. Thus, as to the coverage of subject matter and rights not specifically mandated by the Convention, the protecting country's law will determine the existence and scope of protection and remedies available to the author. Because the text prefaces this delegation to domestic law as 'apart from' the substantive minima, it would follow that art 5(2) does not permit a member state to set the scope of protection for the minimum rights so narrowly as to defeat claims to effective protection. The minimum rights relevant to P2P exchanges include, with respect to all Berne-protected works, the reproduction right (article 9(2)); with respect to recorded musical works, the right of 'any communication to the public' (article 11(1)(ii)); and with respect to cinematographic works, the right of 'communication to the public by wire' (article 14bis(1) referencing article 14(1)(ii)).⁸⁴

Concluding comments

While always difficult to predict future developments, it is possible that facilitators of online infringements may now be more vulnerable in Australia than in the US. In the US if bad intent is not shown (or not inferred from the scale of the enabled infringements) the prospect of non-infringing uses (albeit in still-undefined proportion) may relieve the technology entrepreneur of liability for contributory infringement. This may be true even where the entrepreneur relinquishes the ability to control end user conduct, at least where that relinquishment is not probative of intent to induce.⁸⁵

After *KaZaa*, by contrast, an entrepreneur who deliberately foregoes control that it could have exercised had it designed its service differently may well be found to have authorised the ensuing infringements in violation of Australian law. Whether the contrast is more theoretical than real may turn on whether there are bona fide reasons to decline to undertake measures to prevent or limit infringements. If there are not, the entrepreneur is likely to be held an inducer in the US and an authoriser in Australia. If there are, the *Sony* standard may protect the entrepreneur in the US; it is possible that an Australian court would require a more persuasive showing that the bona fide explanation in fact supplied the entrepreneur's reasons for declining to avoid infringements.

The possible difference in outcome poses some fascinating private international law consequences. Copyright law is generally territorial: liability in a given state arises out of wrongful acts occurring or impacting in that state. Unexcused copying in the

⁸⁴ While there may be uncertainty as to whether a communication to the public within the meaning of the 1971 Berne text requires coverage of 'pull' as well as 'push' technologies, see Ricketson and Ginsburg, above n 81, paras 12.48–12.51, the right of 'making available to the public' set out at WCT art 8 clearly covers individual on-demand transmissions; see *ibid*, at paras 12.57–12.58.

⁸⁵ But see above n 34 (entrepreneur who does filter may be found to lack requisite bad intent).

US violates US copyright law, and unexcused copying in Australia violates Australian copyright law. Unexcused communication to the US public violates US law, and unexcused communication to the Australian public violates Australian law. But, unexcused communication from Australia to the public outside Australia also appears to violate Australian law.⁸⁶ This suggests that a technology entrepreneur who makes it possible for Australians to communicate works to the public outside Australia without the right holders' permission may be violating Australian law, even if the entrepreneur would not be liable under the law of the recipients' countries.⁸⁷ An even bolder forecast might be ventured: the Australian Act s 36(1A) establishes liability for authorising the 'doing in Australia,' but does not explicitly require that the *authorising* be done *from* Australia. This could mean that a KaZaa-like operation located outside Australia, such as Grokster or Streamcast, might be found to 'authorise' the communication to the public in Australia if Australian subscribers use the Grokster or Streamcast software to make works on their hard drives available to web surfers inside or outside Australia. The communication to the public will have been done from Australia, and, by providing the software and updates, promoting the free copying features of the service, and planning their businesses to depend on attracting infringers, Grokster or Streamcast would have 'authorised' the Australian subscriber to engage in that communication. Assuming personal jurisdiction could be obtained over the off-shore P2P providers (most likely on the basis of their commission of a tort in Australia), then Australia could become the litigation nerve centre for future P2P controversies wherever the providers may be located.⁸⁸

The US *Grokster* and Australian *KaZaa* decisions illustrate the adaptation of general principles to problems spawned by new technologies. Even though *KaZaa* applies a statutory text, the reasoning draws on broader pre-statutory caselaw and seems largely consistent with the US Supreme Court's federal common law analysis in *Grokster*. The two decisions may also have taken some of the wind out of the sails of proposals to substitute a P2P levy scheme for authors' exclusive rights.⁸⁹ At least to the extent those proposals were propelled by an *énergie du désespoir* at copyright's apparent inability to confront the latest technological challenge, an effective compensation right seemed more appealing than a hollow exclusive right. But if, as more recent decisions suggest, copyright can rein in the intermediaries who enable infringement

⁸⁶ See Copyright Act 1968 s 10 ('to the public means to the public within or outside Australia').

⁸⁷ For extensive analysis of the international consequences of the *KaZaa* and *Grokster* analyses, see G W Austin, 'Importing *KaZaa* – Exporting *Grokster*' (2006) 22 *Santa Clara Computer and High Technology Journal* (forthcoming), available at <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=861224>.

⁸⁸ For further elaboration of this analysis, see *ibid*.

⁸⁹ For examples of these proposals, see eg W Fisher III, *Promises to Keep: Technology, Law, and the Future of Entertainment*, Stanford University Press, Stanford, 2004, chapter 6: 'An Alternative Compensation System'; J Litman, 'Sharing and Stealing' (2004) 26 *Hastings Communications and Entertainment Law Journal (COMM/ENT)* 1; N W Netanel, 'Impose a Noncommercial Use Levy to Allow Free Peer-to-Peer File Sharing' (2003) 17 *Harvard Law Journal & Technology* 1. Decisions subsequent to *Grokster* and *KaZaa* in other countries have also held against the facilitating intermediary. See A Strowel, 'Le P2P: un problème pressant en attente d'une réponse législative?' (forthcoming) citing developments in Taiwan, 'Kuro Conviction Threatens P2P', 10 September 2005, www.etaiwannews.com/Taiwan/Society/2005/09/10/1126320681.htm; South Korea (Soribada), 'Prosecution Indicts Web Site Operators of Music Sharing', 9 September 2005, <www.koreaherald.co.kr>; and Germany (eDonkey), <www.respectcopyrights.org>.

for their own profit, then the climate may prove conducive to licensing P2P exploitations.⁹⁰ The goal, after all, is not to extirpate new modes of exploitation, but to bring them within the zone of exclusive rights, so that authors may avail themselves of technological advances for the benefit of both consumers and copyright owners.

⁹⁰ Similarly, in the early US caselaw on derivative liability, the purpose of establishing the liability of the dance hall proprietors was not to prohibit them from hiring orchestras to perform music (the musicians being the direct infringers, who were not sued), but to oblige them to enter into public performance licenses with the performing rights society, ASCAP. See eg *Buck v Jewell-LaSalle Realty Co*, 283 US 191 (1931); *Dreamland Ballroom, Inc v Shapiro, Bernstein & Co*, 36 F2d 354 (7th Cir 1929); *Famous Music Corp v Bay State Harness Racing and Breeding Assn*, 554 F 2d 1213 (1st Cir 1977). See also B Korman and I F Koenigsberg, 'Performing Rights in Music and Performing Rights Societies' (1986) 33 *Journal of the Copyright Society of the USA* 332 at 348 (reviewing the 'development of the performing right in music and the operation of ASCAP, the oldest and largest performing rights society in the United States').