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CREATING AN INNOVATION EXCEPTION? COPYRIGHT LAW AS THE INFRASTRUCTURE FOR INNOVATION

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Abstract

Innovation is clearly essential for economic growth, cultural development and personal autonomy. Yet the relationship between innovation and copyright law in Australia is uncertain and perhaps overly restrictive. After the Australia-United States Free Trade Agreement Australia now has a copyright regime that can broadly be described as a lock up and lock out scheme. Whilst the Australian Government has paid lip service to innovation the Australian Copyright Act, which provides the essential legal infrastructure for innovation, now privileges the rights of owners over the interests of the public. In particular, the Copyright Act neglects to create a specific exception for technology innovation. If there is to be some coherence in Australia thinking with regards to innovation and copyright policy it is crucial that such an exception be created. Arguably, it is possible that such an exception can withstand the scrutiny of the three step test. At present the only 'exception' that can be said to exist is in the form of the limits of the authorisation liability provisions or the ISP safe harbour scheme. Australian copyright law needs something more substantial than that and needs for there to be a clear hierarchy between the exceptions and the liability provisions.

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1. Introduction

No business can really succeed unless there is some form of public infrastructure to support its operations. Without workable roads, telecommunications, postal systems, ports and many other utilities, many enterprises would be unable to carry out their basic functions. In a sense, law is a type of infrastructure that supports enterprise and individual endeavour.¹ Using the metaphor of law as infrastructure is a helpful way to think about the issues surrounding the interaction of copyright law and technological and cultural innovation. There are many difficult issues at play in this area, particularly where Australian law is concerned. On one level copyright law is a matter of international concern as evidenced by the various multilateral treaties and bilateral free trade agreements that address copyright.² On another level copyright owners have legitimate rights and expectations that need to be accommodated within the law.³ On another level, consumers and users of copyright material also have legitimate needs and expectations both with regard to technology and the use of copyright materials.⁴ Consumers want to take advantage of the increased functionality of the devices that are available in the marketplace.⁵ They want to use materials in different ways and without having to pay the owners of copyright several times for much the same material. To enable any of these things to happen the creators and developers of technology must have the freedom to experiment, design and to bring to market new products without having to face the prospect of crippling lawsuits.

¹ Professor Brian Fitzgerald and Kylie Pappalardo have written of the concept of law as cyber-infrastructure in relation to open content licensing schemes and I rely on this notion of law as infrastructure in this paper. See further, Professor B Fitzgerald and K Pappalardo, "Law as Cyber Infrastructure", in Professor B Fitzgerald (ed), *Legal Framework for e-Research: Realising the Potential* (Australia: Sydney University Press, 2008).

² The Berne Convention governs Australian copyright law at an international level for the Protection of Literary and Artistic Works, the Agreement on the Trade Related Aspects of Intellectual Property Rights, The WIPO Performances and Phonograms Treaty, the WIPO Copyright Treaty and the Rome Convention. On a bilateral level Australia must also comply with the Australia-United States Free Trade Agreement and various other FTA's with nations such as Singapore, Malaysia, Thailand, Chile, and Japan. Australia is currently negotiating an FTA with China.

³ Though arguably, copyright owners have largely dominated the legislative changes to copyright laws in Australia and elsewhere after the advent of the digital era. See for example, N Netanel, "Why has Copyright Expanded? Analysis and Critique" in F MacMillan (ed), *New Directions in Copyright Law: Volume 6* (Cheltenham: Edward Elgar, 2008). Netanel at 3-4 writes, "It is quite natural for firms aggressively to seek advantage to solidify and further their market position. Firms regularly look to government for regulatory protections that enable them to earn 'rents', greater profits than could otherwise be reaped in a competitive market. Indeed, as economic analysts have noted, one of the disadvantages of legal regimes that allow firms to earn supracompetitive profits is that they provide a strong incentive for socially wasteful spending on lobbying and litigation to maintain and expand those rents".

⁴ M Rimmer, *Digital Copyright and the Consumer Revolution: Hands off My iPod* (Cheltenham: Edward Elgar, 2007).

⁵ F von Lohmann, "Fair Use as Innovation Policy," (2008) 23 *Berkeley Technology Law Journal* 829-865.

From this perspective the state of Australia's copyright laws, particularly those that deal with secondary liability, create the "infrastructure" within which technology innovators operate. But if it is desirable for technological innovation to occur then the law needs to reflect that and needs to create the type of environment in which such innovation can occur. This is very much an issue of determining where the default rules lie, that is, when a new and innovative technology emerges that makes use of copyright in some way, are the copyright laws geared towards finding liability or are they more likely to support the new innovation?

This article addresses the question of whether Australia's copyright laws should be revised to accommodate an innovation exception. That is, an exception that protects technology innovators from liability where their devices can facilitate potential copyright infringement. It is impossible to predict how new technologies will develop in the future. With this in mind it makes sense to have in place laws that are forward-looking and more neutral where potential liability is concerned. In effect, the argument that this article makes is that Australian law should bring the *Sony* rule, a product of the United States' fair use jurisprudence, into its own statutory law.⁶ The *Sony* rule provides that where a product is capable of substantial non-infringing uses no form of secondary liability will be imposed on the producer of that product. Australia's High Court has previously considered the *Sony* rule in the *Australian Tape Manufacturers* case.⁷ There is an obiter remark in *Australian Tape Manufacturers* that suggests that the Australian High Court would support a *Sony*-type rule. In *Australian Tape Manufacturers* the High Court stated:

[T]hat manufacture and sale of articles such as blank tapes or video recorders, which have lawful uses, do not constitute authorization of infringement of copyright, even if the manufacturer or vendor knows that there is a likelihood that the articles will be used for an infringing purpose such as home taping of sound recordings, so long as the manufacturer or vendor has no control over the purchaser's use of the article.⁸

But this obiter remark has been superseded by the digital era. Since *Tape Manufacturers* was decided two notable authorisation liability cases, *Universal v Sharman*⁹ and *Cooper v Universal*,¹⁰ have been decided by the Federal Court. In both of these peer-to-peer cases liability has been found irrespective of whether the defendant had control over the consumer's infringement. Further, the changes to the Australia's *Copyright Act 1968 (Cth)*, most notably the partial codification of the rules on authorisation as a result of the 2000 Digital Agenda amendments, have created a very different environment to that which existed when the Australian High Court last considered a matter like *Australian Tape Manufacturers*.

⁶ *Sony Corporation v Universal City Studios, Inc.*, 464 U.S. 417 (1984).

⁷ *Australian Tape Manufacturers Association Ltd v Commonwealth* (1993) 176 CLR 480.

⁸ *Ibid*, 498.

⁹ *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* (2005) 65 IPR 289.

¹⁰ *Cooper v Universal Music Australia Pty Ltd* (2006) 71 IPR 1.

Australia's initial response to the digital era, the *Copyright Amendment Digital Agenda Act 2000 (Cth)*, was arguably a more balanced approach than the changes that followed the signing of the Australia-United States Free Trade Agreement (AUSFTA). As a result of the AUSFTA, Australia made several changes to its copyright laws. Notably, Australia increased the penalties for copyright infringement, created a harsher scheme for the circumvention of technology protection measures,¹¹ lengthened the copyright term, ratified the WCT and WPPT and modified its internet service provider's liability scheme.¹² The United States made no changes to its own copyright laws. The AUSFTA was very controversial in Australia and in response to stakeholder pressure the then Howard Government commenced the Fair Use Inquiry.¹³

The Fair Use Inquiry set out to examine what type of new exceptions could be inserted into Australia's Copyright Act.¹⁴ Many of the stakeholders wanted Australia to adopt the fair use doctrine. At first glance this would have made sense. Australia had broadly aligned itself with the United States and brought its copyright regime into harmony with that of the US. It appeared that Australia had adopted the harsher aspects of US copyright law, whilst neglecting to adopt the most significant free use exception available in the US. However, there have long been concerns that the fair use doctrine does not comply with the three step test from article 9(2) of the Berne Convention. Moreover, as the three step test has now become the international standard for copyright exceptions, non-compliance would have left Australia in violation of a number of treaties including the TRIPS Agreement and the AUSFTA itself.

Perhaps, somewhat disappointingly, the results of the Fair Use Inquiry did little more than legalise much of the status quo concerning the behaviour of copyright users. In Australia, consumers were already time-shifting television programs and format-shifting mp3s. The amendments brought about by the *Copyright Amendment Act 2006 (Cth)* simply legalised these practices. The Act permitted time-shifting, some format

¹¹ See further *Copyright Amendment Act 2006 (Cth)*. See also, B Fitzgerald, "Copyright Visions, Copyright Jails" *Online Opinion* 2006, available at <http://www.onlineopinion.com.au/view.asp?article=5068> (accessed 27 Jan 10). See also M De Zwart, "Technological enclosure of copyright: The end of fair dealing?" (2007) 18 *Australian Intellectual Property Journal* 7-38.

¹² See the *Australia-United States Free Trade Agreement Implementation Act 2004 (Cth)*.

¹³ For a criticism of the AUSFTA reforms see further, M Rimmer, "Robbery Under Arms: Copyright Law and the Australia-United States Free Trade Agreement" (2006) 11 (3) *First Monday*, available at <http://firstmonday.org/htbin/cgiwrap/bin/ojs/index.php/fm/article/view/1316/1236> (accessed 27 Jan 10). See also, C Bond, A Paramaguru and G Greenleaf, "Advance Australia Fair? The Copyright Reform Process" (2007) 10(3) *Journal of World Intellectual Property* 284-313. See also, R Burrell and K Weatherall, "Exporting Controversy? Reactions to the Copyright Provisions of the U.S.-Australia Free Trade Agreement: Lessons for U.S. Trade Policy" (2008) 2 *University of Illinois Journal of Law, Technology and Policy* 259-319. See also K Weatherall, "Locked In: Australia Gets a Bad Intellectual Property Deal" (2004) *Policy* 18-24.

¹⁴ See Attorney-General's Department, "Fair Use and other Copyright Exceptions" Issues Paper, May 2005. Available at [http://www.ag.gov.au/www/agd/rwpattach.nsf/VAP/\(CFD7369FCAE9B8F32F341DBE097801FF\)~FairUseIssuesPaper050505.pdf/\\$file/FairUseIssuesPaper050505.pdf](http://www.ag.gov.au/www/agd/rwpattach.nsf/VAP/(CFD7369FCAE9B8F32F341DBE097801FF)~FairUseIssuesPaper050505.pdf/$file/FairUseIssuesPaper050505.pdf)

shifting, created a new fair dealing exception for parody and implemented section 200AB as a free use exception for certain institutions. Apart from section 200AB, these changes mirrored past developments in US copyright law. For example, time-shifting had been legal in the United States since the Supreme Court's decision in *Sony Corporation v Universal*.¹⁵ Similarly in *RIAA v Diamond Rio*¹⁶ the Ninth Circuit held that format shifting was fair use. The fair dealing exception for parody was also based on the US Supreme Court's decision in *Campbell v Acuff-Rose*.¹⁷ These changes then accorded only to the limits of US copyright law and went no further than that. The inherently conservative nature of the Australian Government's approach to copyright exceptions is evident in the terms of section 200AB.¹⁸ This provision is intended to provide a free use exception for public and cultural institutions where the existing statutory schemes do not apply. However, the terms of section 200AB mirror the terms of the three step test. Section 200AB provides:

- (1) The [copyright](#) in a [work](#) or other subject-matter is not infringed by a use of the [work](#) or other subject-matter if all the following conditions exist:
 - (a) the circumstances of the use (including those described in paragraphs (b), (c) and (d) amount to a [special case](#);
 - (b) the use is covered by subsection (2), (3) or (4);
 - (c) the use does not conflict with a [normal exploitation](#) of the [work](#) or other subject-matter;
 - (d) the use does not unreasonably [prejudice the legitimate interests](#) of the owner of the [copyright](#).

This mirroring of the international standard for copyright exceptions is a curious decision. The three step test is designed to measure the compliance of a nation's domestic copyright laws against a particular international standard. The three step test is not designed to actually operate as part of domestic legislation. There is even a passable argument that section 200AB, which is open-ended, actually fails the first step of the three step test as it exists in art 9(2) of the Berne Convention and other copyright treaties as it does not delineate specific uses.¹⁹ The provision has been

¹⁵ See note 6 above. Time-shifting is widely regarded in the United States as fair use and this is evident in the design of a number of new technologies such as Foxtel IQ-Tel and a number of other technologies that have time-shifting or even space-shifting capabilities.

¹⁶ *Recording Industry Association of America v Diamond Multimedia Systems* 180 F.3d 1072 (9th Cir. 1999). Samuelson has argued that the Sony decision created the safe harbour for technologies such as that at issue in Diamond to be protected from liability. See further P Samuelson, "The Generativity of Sony v Universal: The Intellectual Property Legacy of Justice Stevens" (2006) 74 *Fordham Law Review* 1831-1876.

¹⁷ *Campbell v Acuff-Rose Music* 510 U.S. 569 (1994).

¹⁸ The Australian Government has also been criticised for being less consultative in implementing the AUSFTA obligations than it has been in past copyright reform processes. See further, K Weatherall, "[Of Copyright Bureaucracies and Incoherence: Stepping Back from Australia's Recent Copyright Reforms](#)" (2007) 31 (3) *Melbourne University Law Review* 967-1016. Also, C Bond, A Paramaguru and G Greenleaf, see note 13 above.

¹⁹ See for example Fairness in Music Licensing case Panel Report, 15 June 2000, WT/DS/160/R.

described as “unworkable” and as “a poor substitute to the open-ended, flexible defence of fair use.”²⁰

On the whole the Australian Government’s approach to copyright law and exceptions is conservative. The advent of the AUSFTA and its consequent changes has ramped up the rights of copyright owners. The penalties that apply for liability have increased thereby increasing the risk factor associated with any innovations that might infringe copyright law. The question that now faces Australia is whether it needs to counter-balance the laws favouring copyright owners with an exception or scheme that encourages technology innovation. The answer to this question may lay in an analysis of US law and copyright policy, in particular, the jurisprudence and theory surrounding the Sony decision.

1.1. Copyright and Innovation

History has shown us that new technologies will disrupt older established copyright interests. Invariably, the taxonomy has been the same, the users face primary liability, whilst the developers of the new technology face secondary liability. The users are either too numerous, their individual liabilities too small or too difficult to capture, while the developer as intermediary is an easier target for copyright liability.²¹ The photocopy machine, video-cassette recorders, tape recorders, DVD recorders, CD burners and peer-to-peer technologies have all demonstrated the capacity of innovation to enable the infringement of copyright.²² Litigation invariably followed the advent of these technologies. Arguably, it is in the nature of technological development and progress that older, entrenched interests will be disrupted and even displaced.²³ The question for copyright law is how this process is managed. That is,

²⁰ M Rimmer, “Copyright Proposals Fail Test of Brevity, Simplicity and Fairness,”

The House of Commons (2006), available at

<http://www.cyberlawcentre.org/unlocking-ip/blog/2006/11/copyright-proposals-fail-test-of.html>
(accessed 27 Jan 10).

²¹ In *re Aimster Copyright Litigation* 334 F.3d 643, 645-6 (7th Cir. 2003) Judge Posner quite neatly summarised the reasons for pursuing the firms that develop file-swapping technologies by stating: “The swappers, who are ignorant or more commonly disdainful of copyright and in any event discount the likelihood of being sued or prosecuted for copyright infringement, are the direct infringers. But firms that facilitate their infringement, even if they are not themselves infringers because they are not making copies of the music that is shared, may be liable to the copyright owners as contributory infringers. Recognizing the impracticability or futility of a copyright owner's suing a multitude of individual infringers [‘chasing individual consumers is time consuming and is a teaspoon solution to an ocean problem,’ Randal C Picker, “Copyright as Entry Policy: The Case of Digital Distribution” (2002) 47 *Antitrust Bulletin* 423-464, at 442], the law allows a copyright holder to sue a contributor to the infringement instead, in effect as an aider and abettor”.

²² For example, in *University of New South Wales v Moorhouse* (1975) 133 CLR 1 the use of a photocopy machine for copyright infringement was the subject of litigation. In *Australian Tape Manufacturers Association Ltd v Commonwealth* (1993) 176 CLR 480, the Commonwealth attempted to impose a levy on blank tapes in order to compensate copyright owners for unauthorised copying. Similarly, in the seminal case of *Sony Corporation v Universal City Studios, Inc.*, 464 U.S. 417 (1984) Universal Studios brought a suit against Sony Corporation in relation to the time-shifting of copyright protected programmes by home consumers.

²³ R Ku, “Consumers and Creative Destruction: Fair Use Beyond Market Failure” (2003) 18 *Berkeley Technology Law Journal* 539-575.

when should copyright law step in and impose liability, thereby culling a new technology or an innovator and protecting an established interest?

For the most part, recent history does suggest that new technologies will eventually be accommodated by the established copyright interests. Despite the litigation in *Sony v Universal* the content industry eventually came to rely on video-cassette recorders to provide it with a secondary market for renting movies.²⁴ Even with peer-to-peer copyright technologies, were it not for cases such as *Napster*²⁵ and *Aimster*²⁶ Apple's i-tunes service and other legal music download stores would not have emerged.²⁷ With the more recent personal copying technologies that have emerged, and the websites such as YouTube that present their work, copyright owners have begun to engage commercially with the emerging market. For example, Warner Music and Universal Music have both licensed some of their material to YouTube.²⁸ This process of engagement is somewhat slow. It took a few years from the beginning of Napster for the music studios to recognise the existence of a potential market and to act accordingly.²⁹ The threat of litigation is ever present. This is particularly true where new personal copying technology; especially those that support remix, and hosting sites such as YouTube and MySpace are concerned.

The issue of accommodation and challenge between copyright owners and the developers of new technologies continues to be relevant today. The digital era has seen the rise of new private copying technologies.³⁰ Users can now remix content, format shift music, library mp3 and other files and experience content in numerous different ways. For all of these things to happen technology had to be invented and brought to market. This type of innovation requires a legal system that allows it some space to breathe before liability or any other type of restriction is brought to bear upon it.³¹ Even though some form of market accommodation and compromise might eventually take place between the new technologies developers and the established copyright interests, there is the very real risk that in the interim copyright liability will crush or chill innovation. In this sense, law is the vital infrastructure that either supports or restrains innovation.

But it is not that technological innovation is an end in itself. Innovation matters because it makes human life easier in some way or because it opens up new productive and creative possibilities. Those technologies that support the creation of user-generated content and remixing can be seen in this light as they allow users to

²⁴ P Samuelson, see note 16 above.

²⁵ *A&M Records Inc v Napster Inc* 239 F.3d 1004 (9th Cir. 2001).

²⁶ *Re: Aimster Corporation* 334 F.3d 643 (2003).

²⁷ M Rimmer, see note 4 above.

²⁸ N Netanel, *Copyright's Paradox* (Oxford: OUP, 2008).

²⁹ M Rimmer, see note 4 above. See also M Rimmer and K Bowery, "Rip, Mix, Burn: The Politics of Peer to Peer and Copyright Law" *First Monday* (4 July 2005), available at <http://firstmonday.org/htbin/cgiwrap/bin/ojs/index.php/fm/article/view/1456/1371>

³⁰ F von Lohmann, see note 5 above.

³¹ There are actually two types of innovation at play here, cultural innovation and technology innovation. This article will address technology innovation.

interact with culture and content.³² As Lessig has written, the current copyright laws of the United States and other jurisdictions favour a Read-Only culture.³³ That is, a culture where a certain group of people, the creative classes (invariably copyright owners), are the writers of culture whilst the vast majority of copyright users are passive. Lessig argues that remix technologies allow the vast majority of users to write back to the culture.³⁴ Lessig writes that consumers now, “add to the culture that they read by creating and recreating the culture around them...culture in this world is flat, it is shared person to person”.³⁵ On websites such as YouTube users can post the results of their mash-ups and remixes for other users to view and respond.³⁶ In this way technologies that allow for copying enable a Read-Write culture to emerge, wherein the audience can respond and participate in the creation of culture.³⁷ Lessig argues that an exemption should be provided for non-commercial amateur remixing.

The copyright law issues relating to user-generated content are unclear. As Gervais has noted, “the shift from a one-to-many entertainment and information infrastructure to a many-to-many infrastructure has deep consequences on many levels”.³⁸ This is a change in the market dynamic that is as profound as the one that occurred when consumers started home-taping and time-shifting in the late 1970’s and early 1980’s and as significant as the peer-to-peer crisis of recent times. In sum, this is a challenge to monopoly. Moreover, it is a challenge that is taking place in a real world climate of copyright infringement where users will download, file-share and remix provided that they can evade liability.³⁹

³² User generated content has become an issue of international concern. See further, Organisation for Economic Cooperation and Development (OECD), Report, “Participative Web and User-Created Content” (2007) 34-38, available at <http://213.253.134.43/oecd/pdfs/browseit/9307031E.PDF> (accessed 27 Jan 10).

³³ L Lessig, *Remix Making Art and Commerce Thrive in the Hybrid Economy* (London: Bloomsbury, 2008).

³⁴ Lessig’s argument is that this is a Read-Write culture where the audience is able to interact with their culture. This is inherently more democratic than the Read-Only culture. See also Y Benkler, “The Wealth of Networks” (2006), available at www.benkler.org/Benkler_Wealth_Of_Networks.pdf (accessed 27 Jan 10).

³⁵ L Lessig, see note 33 above.

³⁶ See B Fitzgerald and D O’Brien, “Digital sampling and culture jamming in a remix world: what does the law allow?” (2005) 10(4) *Media and Arts Law Review* 279-298. See also, D Gervais, “The Tangled Web of UGC: Making Copyright Sense of User-Generated Content” (2009) 11(4) *Vanderbilt Journal of Entertainment and Technology Law* 841-870. Also, B Fitzgerald, “Copyright 2010: The Future of Copyright” (2008) 30 *European Intellectual Property Review* 43-49. Also, N Netanel, see note 28 above.

³⁷ This proliferation of sites user-generated content has created new problems for copyright law. See further, J Coates, N Suzor and A Fitzgerald, *Legal Aspects of Web 2.0 Activities: Management of Legal Risk Associated with Use of YouTube, MySpace and Second Life*, Queensland University of Technology, (2007), available at <http://www.ip.qut.edu.au/files/Queensland%20Government%20Report%20-%20reformat.pdf> (accessed 27 Jan 10)

³⁸ D Gervais, see note 36 above, at 842-843.

³⁹ B Luncford and S Luncford, “Meh. The Irrelevance of Copyright in the Public Mind” (2008) 7 *North-Western Journal of Technology & Intellectual Property* 33-49.

It is possible that many of the remixes and mash-ups would be legal in Australia under sections 41A and 103AA as fair dealings relating to parody.⁴⁰ But this would necessarily turn on a case by case basis. An individual user might be faced with bankruptcy were they to have to defend an infringement suit. Regardless of the legal merits of remix culture, it is clear that there is a substantial portion of society that sees some cultural value in this practice. There are also democratic concerns that attend remix culture. Writing back is an exercise in autonomy and speech.⁴¹ Particularly in a liberal democracy, where copyright law is just one subset of rules within a greater constitutional architecture, these issues of participative democracy cannot easily be discounted.⁴² This provides some support for allowing innovative technologies that assist in this practice room to develop. Further, if the legal position of the end-user is unclear it would make sense to safeguard the position of the intermediary even if there is the possibility that some uses of the relevant product will result in copyright infringement.

Leaving aside the issue of cultural development, technological innovations have the ability to enhance the chattel rights of users. This argument, one based on private property, would suggest that where the user has purchased content, they should have the right to use that content for personal use only, without further interference from the copyright owner. In this regard the format shifting exceptions in sections 109AA and 110A of the Copyright Act advance these private property rights. In *Stevens v Sony*⁴³ the High Court upheld the right of a user to have the region coding locks broken by an intermediary. The High Court held that the circumvention of the region coding technology protection measures by the intermediary Stevens, did not infringe the statutory scheme that then existed. Justice Kirby stated:

Yet, in construing the Copyright Act there are peculiar difficulties that, in my view, may be traced, ultimately, to the constitutional head of power by which the Federal Parliament enjoys the legislative authority to make laws with respect to “copyrights, patents of inventions and designs, and trade marks”. That power is granted in a constitutional and legal setting in which competing legal interests must also be upheld by the law, including, generally,

⁴⁰ Such material would likely be lawful in the United States under the fair use doctrine. For a discussion of parody in Australia see further N Suzor, “Where the bloody hell does parody fit in Australian copyright law?” (2008) 13 *Media and Arts Law Review* 218-248.

⁴¹ Y Benkler, see note 34 above. Also, J Balkin, “Digital Speech and Democratic Culture: A Theory of Freedom of Expression for the Information Society” (2004) 79 *New York University Law Review* 1-58. See also, W Fisher, *Promises to Keep. Technology, Law, and the Future of Entertainment* (California: Stanford University Press, 2004).

⁴² In the United States First Amendment concerns might restrain the role of copyright law. See further, L Lessig, *Free Culture: How Big Media Uses Technology and the Law to Lock Down Culture and Control Creativity* (New York: Penguin Press, 2004). Also, Y Benkler, “Free as the Air to Common Use: First Amendment Constraints on Enclosure of the Public Domain” (1999) 74 *New York University Law Review* 354-446. Whilst Australian law has no direct equivalent of the First Amendment there is an argument that the implied freedom can restrain the over-reach of copyright laws where they imperil the democratic process. See also *Commonwealth v John Fairfax & Sons* (1980) 147 CLR 39.

⁴³ *Stevens v Kabushiki Kaisha Sony Computer Entertainment* (2005) 224 CLR 193.

free expression and the normal interest of property owners in the undisturbed enjoyment of their property.⁴⁴

Having paid for multi-media products consumers have a right to explore their functionality and inter-operability with other devices. These are legitimate chattel rights. But policing the boundaries of usage when file-sharing is a distinct possibility will be seen as an imperative by copyright owners. To the extent that users may share content, and, as remixing and peer-to-peer practices suggest, a culture of file-sharing does exist, there is again uncertainty as to when copyright liability will be imposed. As Marybeth Peters, the US Register of Copyright, private uses have become intertwined with public distribution.⁴⁵ Though technical infringements of copyright still exist under the Copyright Act, as any act of copying, even for private use, can still give rise to a claim for infringement, it is really copying coupled with distribution or downloading that seems to attract the attention of copyright owners.⁴⁶ Nevertheless, as any technology that can enhance individual use can also aid and abet distribution the threat of liability is still a concern. As Cohen has stated:

Legal battles over secondary liability are understood as zero-sum games between copyright owners and technology developers, in which the certain risk of widespread lawlessness is pitted against the uncertain benefits of unconstrained innovation. This framing has produced a legal climate that rewards technologies that more tightly constrain private use of copyrighted content and punishes those that do not.⁴⁷

This zero sum mentality, which recent and immediate past history has proven to be mostly false, is a concerning reality where innovation is concerned. Unduly constraining innovation, and, with that, the private use of copyright, is, as Cohen argues, undesirable.

In the present context, the rise of user generated content, the entrenchment of a file-sharing culture, the legitimate expectations of consumers and the creation of new technologies that facilitate all three, gives rise to heady issues of copyright law and policy. It is innovation that drives this process, as it has done before from the inception of copyright law, and the crucial question is how the process can be managed within copyright law, if, in fact, it can be managed at all. In Part II Australia's current arrangements, the over-strength of the authorisation liability provisions, the futility of section 112E and the uncertainty of the fair dealing provisions, will be identified as impediments in the path of innovation. In contrast, the

⁴⁴ *Ibid*, 241.

⁴⁵ M Peters, "Copyright Enters the Public Domain" (2004) 51 *Journal of the Copyright Society U.S.A* 701, at 708–709.

⁴⁶ In those cases where copyright owners have targeted individuals or small groups of users this has happened because the downloading by individual users has been significant or they have assisted in distribution in some way.

⁴⁷ J Cohen, "The Place of the User in Copyright Law" (2005) 74 *Fordham Law Review* 347-374, at 353. However, the use of VCRs in the film rental market, the emerging relationship between YouTube and content owning companies and the emergence of i-tunes suggests that the relationship between copyright owners and technology developers need not be a zero sum game.

Sony rule, although not a cure all, creates a better and slightly clearer infrastructure for innovation.

1.2. *The Sony Rule*

The value of the *Sony* rule can in part be discerned from an analysis of the case itself and its subsequent passage through US copyright jurisprudence. *Sony* demonstrates the way in which a seemingly disruptive technology can pose a challenge for copyright owners and yet ultimately prove to be beneficial to the copyright owners.⁴⁸ The case also clearly demonstrates the difficulties that new technologies pose for the judiciary. However, the rule that the US Supreme Court ultimately derived from the *Sony* litigation has successfully stood in place in American jurisprudence for the past twenty-five years.

In the late 1970's Sony began to market a device known as the Betamax video-cassette recorders.⁴⁹ The Betamax device had two primary uses; it allowed users to watch video-tapes and it also allowed them to tape programmes from the television. The latter activity earned the ire of some copyright owners. Once the Betamax device left Sony's control it could not prevent consumers from taping copyright protected material, but Sony was certainly aware that this was a possibility.⁵⁰

Accordingly, one of the major affected copyright owners, Universal, set out to commence litigation against Sony with regard to the Betamax device. Universal first engaged in litigation against a nominal defendant.⁵¹ Universal then sued Sony for secondary liability for copyright infringement.⁵² At first instance the District Court ruled in Sony's favour.⁵³ The District Court accepted the proposition that the Betamax was a staple article of commerce.⁵⁴ The Ninth Circuit demurred and reversed this ruling.⁵⁵ The Ninth Circuit also viewed time-shifting as not being a fair use of

⁴⁸ There is much US academic commentary on the history of the Sony technology and innovation policy generally. See further, J Litman, "Copyright and Personal Copying: Sony v Universal Studios Twenty-One Years Later: The Sony Paradox" (2005) *Case Western Reserve Law Review*, 917-961. See also, F von Lohmann, "Fair Use as Innovation Policy" (2008) 23 *Berkeley Technology Law Journal* 829-865.

⁴⁹ For a discussion of the *Sony* case in depth see J Litman, see note 48 above.

⁵⁰ See note 6 above.

⁵¹ See J Lardner, *Fast Forward: Hollywood, the Japanese, and the Onslaught of the VCR*, WW Norton & Co, (1987) cited in J Litman, see note 28 above, at 923.

⁵² *Ibid.*

⁵³ *Universal City Studios Inc. v Sony Corporation of America*, 480 F. Supp. 429 (C.D. Cal. 1979).

⁵⁴ Judge Ferguson stated, "Selling a staple article of commerce e.g., a typewriter, a recorder, a camera, a photocopying machine technically contributes to any infringing use subsequently made thereof, but this kind of 'contribution,' if deemed sufficient as a basis for liability, would expand the theory beyond precedent and arguably beyond judicial management". 480 F. Supp. 429, 461 (C.D. Cal. 1979).

⁵⁵ *Universal City Studios, Inc. v Sony Corporation of America*, 659 F.2d 963 (9th Cir. 1981).

copyright.⁵⁶ The case made its way to the US Supreme Court where a landmark decision was handed down in 1984.⁵⁷

The question that came before the Supreme Court was whether to impose liability on the creator of a dual-use device. On the one hand the Betamax could be used for infringing copyright, whilst on the other hand it could safely be employed for non-infringing uses. Further, a number of the copyright owners whose programmes had been taped by Betamax users did not object to the practice. Provided that the users engaged only in time-shifting, that is, taping the show to watch later and then taping over it, many of the copyright owners had no objections. It was only the practice of librarying or collecting copyright-protected programs that attracted objections. Sony argued that time-shifting constituted fair use.

The Supreme Court was split on the issue of liability. Initially the Court was inclined to uphold the decision of the Ninth Circuit, as Blackmun J began to draft the majority opinion.⁵⁸ However, when Stevens J circulated his draft dissent he attracted the support of the other members of the Court to the proposition that time-shifting was fair use.⁵⁹ Justice Stevens revised his opinion in response to concerns from the judges and a majority comprising of Stevens, Brennan, O'Connor, Burger and White JJ was formed.⁶⁰ Justice Blackmun along with Marshall, Powell and Rehnquist JJ dissented.⁶¹

The eventual decision of the Supreme Court, that time-shifting constitutes fair use, produced the rule that where a product is capable of substantial non-infringing use liability will not be imposed. The majority held:

The staple article of commerce doctrine must strike a balance between a copyright holder's legitimate demand for effective -- not merely symbolic -- protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce. Accordingly, the sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate,

⁵⁶ *Ibid*, 975.

⁵⁷ An enormous amount of literature and discussion has been generated by the Sony case. Some of the more famous examples are W Gordon, "Fair Use as Market Failure: A Structural and Economic Analysis of the Betamax Case and Its Predecessors" (1982) 82 *Columbia Law R*, 1600-1657; S Dogan, "Is Napster a VCR? The Implications of Sony for Napster and Other Internet Technologies" (2001) 52 *Hastings Law Journal* 939-959; M A Lemley, A Reese, "Reducing Digital Copyright Infringement Without Restricting Innovation" (2004) 56 *Stanford Law Review* 1345-1432; D Lichtman and W Landes, "Indirect Liability for Copyright Infringement" (2003) 16 *Harvard Journal of Law and Technology* 395-410; G S Lunney, "Fair Use and Market Failure? Sony Revisited" (2002) 82 *Boston University Law Review* 975-1030; P Menell and D Nimmer, "Unwinding Sony" (2007) 95 *California Law Review* 941-1025.

⁵⁸ J Litman, see note 48 above, at 930.

⁵⁹ *Ibid*, 932.

⁶⁰ *Ibid*. See also note 6 above.

⁶¹ *Ibid*.

unobjectionable purposes. Indeed, it need merely be capable of substantial non-infringing uses.⁶²

Crucially, there were two arms to the majority's decision in *Sony*. Firstly, the act of time-shifting was seen as a legitimate fair use. Secondly, the device was capable of substantial non-infringing use. In other words, a large part of the usage of Sony's Betamax device was in fact non-infringing.⁶³

In the context of this article, which attempts to explore the question of an innovation exception within Australian copyright law, there are three issues that arise with regard to the *Sony* decision; firstly, the nature of the analytical framework supportive of such a rule must be determined. Secondly, whether *Sony* constituted a rule supportive of technology that positively influenced later US jurisprudence needs to be evaluated with respect to later cases. If Australian copyright law is conceived within a different framework then the rule would be unlikely to be successfully transplanted into Australian law. Thirdly, it is worth considering whether Australian law would at all be receptive to the *Sony* rule.

Several key issues related to the inter-relationship between copyright interests and new technologies emerged in the *Sony* case. These issues are (i) knowledge of the likelihood of copyright infringement, (ii) future control over the technology in the event of a finding of infringement, (iii) the nature of private copying, (iv) the significance of the substantial non-infringing uses and (v) the amount of disruption to a copyright owner's monopoly that is tolerable.

Samuelson has noted that Stevens J and Blackmun J approached their opinions in *Sony* from very different philosophical starting points.⁶⁴ Samuelson notes that Steven J began his *Sony* opinion with reference to the Copyright Clause in the US Constitution. Article I, section 8, clause 8 of the US Constitution provides "The Congress shall have Power...To Promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." Justice Stevens thereby began his opinion with a view that the copyright owner's monopoly is limited by legitimate public interest concerns.⁶⁵ In contrast Blackmun J approached his opinion in *Sony* on the basis of a proprietary view of copyright law.⁶⁶

In *Sony* Stevens J stated:

As the text of the Constitution makes plain, it is Congress that has been assigned the task of defining the scope of the *limited monopoly*

⁶² *Ibid*, 442.

⁶³ This particular factual matrix has been largely absent in the peer-to-peer copyright infringement cases.

⁶⁴ P Samuelson, see note 16 above. Samuelson notes at 112-113: "The Stevens majority and Blackmun dissenting opinions are notable not simply for their differing interpretations of the legal issues presented by the case, but also for the very different frameworks they employ for analysing copyright issues."

⁶⁵ *Ibid*.

⁶⁶ P Samuelson, see note 16 above, at 116: "Blackmun's starting point was the congressional grant to copyright owners of an exclusive right to control reproductions of their works in copies."

that should be granted to authors or to inventors in order to give the public appropriate access to their work product. Because this task involves a difficult balance between the interests of authors and inventors in the control and exploitation of their writings and discoveries on the one hand, and society's competing interest in the free flow of ideas, information, and commerce on the other hand, our patent and copyright statutes have been amended repeatedly.⁶⁷ [Emphasis added]

Justice Stevens then reviewed the case law to that time before noting that the judiciary had been reluctant to expand the copyright owner's monopoly in the absence of legislative guidance.⁶⁸ Approaching the issue from the view that copyright law provided a limited monopoly to the owner Stevens J took a technology and user-friendly view of several key issues in *Sony*. It was perhaps helpful as well that the particular facts in *Sony* meant that Sony itself, whilst aware of the possibility or likelihood of infringement, they were unable to control the use of the devices, nor did they have actual knowledge of specific infringements.⁶⁹ This effectively precluded contributory liability.⁷⁰ Moreover, the knowledge of possible infringement alone in the absence of any ability to control the unauthorised acts of the infringer meant that the claim of vicarious liability was unsustainable.⁷¹ Justice Stevens did, however, express the view that if Sony had control over the possible infringement then a finding of either contributory or vicarious liability would be justified.⁷²

Justice Stevens was thus able to dismiss a number of the claims made by Universal and Disney. One of the issues that arose in *Sony* was whether the co-plaintiffs could take control or gain a royalty over Sony's video-tape recorder technology. Justice Stevens dismissed this as "extraordinary."⁷³ Though, it should be noted that during the time of the peer-to-peer copyright infringement cases there were suggestions that a

⁶⁷ See note 6 above, at 429.

⁶⁸ *Ibid*, 431.

⁶⁹ See note 6 above.

⁷⁰ *Ibid*, 436-438.

⁷¹ *Ibid*, 439. Stevens J opined, "If vicarious liability is to be imposed on Sony in this case, it must rest on the fact that it has sold equipment with constructive knowledge of the fact that its customers may use that equipment to make unauthorized copies of copyrighted material. There is no precedent in the law of copyright for the imposition of vicarious liability on such a theory".

⁷² *Ibid*, 435. Surveying the prior cases, Stevens J stated, "In such cases, as in other situations in which the imposition of vicarious liability is manifestly just, the 'contributory' infringer was in a position to control the use of copyrighted works by others and had authorized the use without permission from the copyright owner".

⁷³ *Ibid*, 441, footnote 21. Stevens J stated, "It seems extraordinary to suggest that the Copyright Act confers upon all copyright owners collectively, much less the two respondents in this case, the exclusive right to distribute VTR's simply because they may be used to infringe copyrights. That, however, is the logical implication of their claim. The request for an injunction below indicates that respondents seek, in effect, to declare VTR's contraband. Their suggestion in this Court that a continuing royalty pursuant to a judicially created compulsory licence would be an acceptable remedy merely indicates that respondents, for their part, would be willing to licence their claimed monopoly interest in VTR's to Sony in return for a royalty".

levy be imposed for using the Internet.⁷⁴ Similarly, Stevens J was resistant to any suggestion that liability should attach to non-commercial private uses. Justice Stevens stated:

...a use that has no demonstrable effect upon the potential market for, or the value of, the copyrighted work need not be prohibited in order to protect the author's incentive to create. The prohibition of such non-commercial uses would merely inhibit access to ideas without any countervailing benefit.⁷⁵

Importantly, Stevens J did not accept the proposition that fair use required a “productive” use of the copyright protected material. For Stevens J the demarcation between commercial and non-commercial was of more significance in *Sony*.⁷⁶ The majority’s finding of fair use for time-shifting under-pinned its ruling on substantial non-infringing uses. Were it not for the finding of fair use the Betamax device would not have been capable of substantial non-infringing uses.

Justice Blackmun in his dissent took an opposite view. The proprietary view of copyright contained in Blackmun J’s opinion is evident in his first substantive paragraph on the legal issues at dispute in the case. Justice Blackmun stated:

This Nation's initial copyright statute was passed by the First Congress. Entitled “An Act for the encouragement of learning,” it gave an author “the sole right and liberty of printing, reprinting, publishing and vending” his “map, chart, book or books” for a period of 14 years. Act of May 31, 1790, [§ 1](#), 1 Stat. 124. Since then, as the technology available to authors for creating and preserving their writings has changed, the governing statute has changed with it. By many amendments, and by complete revisions in 1831, 1870, 1909, and 1976, authors' rights have been expanded to provide protection to any “original works of authorship fixed in any tangible medium of expression,” including “motion pictures and other audiovisual works”.⁷⁷

This proprietary view of copyright influenced Blackmun J in *Sony*. It lead to four very notable features of Blackmun J’s opinion that have continuing relevance today in many of the disputes between copyright owners and the developers of new technology. Firstly, Blackmun J demonstrated a significant concern with the future

⁷⁴ W Fisher, see note 41 above. See also, N Netanel, “Impose a Noncommercial Use Levy to Allow Free Peer-to-Peer Sharing” (2003) 17 *Harvard Journal of Law & Technology* 1-84. Also, J Litman, “Sharing and Stealing” (2004) 27 *Hastings Communications and Entertainment Law Journal* 1-49. Also, D J. Gervais, “The Price of Social Norms: Towards a Licensing Regime for File-Sharing” (2003), available at <http://ssrn.com/abstract=525083> (accessed 1 Feb 10). R Shih Ray Ku, “The Creative Destruction of Copyright: Napster and the New Economics of Digital Technology” (2002) 69 *University of Chicago Law Review* 263-324, at 305. Also, L Lessig, see note 42 above, at 133-39.

⁷⁵ See note 6 above, at 450. However, Stevens J did acknowledge that non-commercial copying could impermissibly adversely affect the copyright owner’s monopoly.

⁷⁶ See note 6 above, at 455, footnote 40.

⁷⁷ *Ibid*, 460-461.

economic interests of the copyright owners. In relation to fair use, Blackmun J emphasised the importance of considering the potential market of the copyright owner.⁷⁸ Moreover, Blackmun J found this issue all the more compelling in light of his characterisation of time-shifting as an unproductive use.⁷⁹ Secondly, Blackmun J's view that the private non-commercial uses were unproductive, and thereby not fair use, demonstrates a very conservative and property-centric view of copyright law and the copyright owner's monopoly. Thirdly, Blackmun J was willing to accept Sony's constructive knowledge as sufficient to support a finding of contributory infringement.⁸⁰ Fourthly, Blackmun J was willing to contemplate allowing Universal and Disney to have some control over Sony's technology.⁸¹ Blackmun J stated:

Remedies may well be available that would not interfere with authorized time-shifting at all. The Court of Appeals mentioned the possibility of a royalty payment that would allow VTR sales and time-shifting to continue unabated, and the parties may be able to devise other narrowly tailored remedies. Sony may be able, for example, to build a VTR that enables broadcasters to scramble the signal of individual programs and "jam" the unauthorized recording of them. Even were an appropriate remedy not available at this time, the Court should not misconstrue copyright holders' rights in a manner that prevents enforcement of them when, through development of better techniques, an appropriate remedy becomes available.⁸²

Had Blackmun J's view prevailed in the Supreme Court, it is unlikely that *Sony* would have been hailed as the Magna Carta of the technology age.⁸³ Arguably, the *Sony* rule influenced the development of technology in the United States. But the rule is not a free for all – the safe harbour does have limits and may be unavailable under certain circumstances as the peer-to-peer cases demonstrated.⁸⁴ However, the most obvious influences of *Sony* can be seen in legislative, judicial and consumer attitudes to back-

⁷⁸ *Ibid*, 481.

⁷⁹ *Ibid*, 481-482.

⁸⁰ *Ibid*, 488. Blackmun J stated, "In the so-called 'dance hall' cases, in which questions of contributory infringement arise with some frequency, proprietors of entertainment establishments routinely are held liable for unauthorized performances on their premises, even when they have no knowledge that copyrighted works are being performed. In effect, the proprietors in those cases are charged with constructive knowledge of the performances". See further, *Famous Music Corp. v. Bay State Harness Horse Racing & Breeding Assn., Inc.*, 554 F.2d 1213 (CA1 1977); *Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co.*, 36 F.2d 354 (CA7 1929); *M. Witmark & Sons v. Tremont Social & Athletic Club*, 188 F.Supp. 787, 790 (Mass. 1960).

⁸¹ *Ibid*, 494.

⁸² *Ibid*.

⁸³ R Picker, "Rewinding Sony: The Evolving Product, Phoning Home, and the Duty of Ongoing Design" (2005) 55 *Case Western Reserve Law Review* 749-775, at 753. See also, J Litman, see note 48 above, at 31.

⁸⁴ See below for the discussion in relation to *Napster*, *Re Aimster* and *Grokster*.

up copying and format shifting. Both have been legalised by common law in the United States and by the legislature in Australia.⁸⁵

Sony's influence is evident also in other cases where fair use has been raised in relation to new technologies.⁸⁶ In the Internet search engine cases, such as *Perfect 10 v Google*,⁸⁷ *Sony* is cited in support of fair use. Similarly in the reverse engineering cases *Sony* was also influential in the fair use discussion.⁸⁸ *Sony's* legacy was also evident in the *Audio Home Record Act 1992* which amended §1008 of the US Copyright Act:

No action may be brought under this title alleging infringement of copyright based on the manufacture, importation, or distribution of a digital audio recording device, a digital audio recording medium, an analog recording device, or an analog recording medium, or based on the non-commercial use by a consumer of such a device or medium for making digital musical recordings or analog musical recordings.⁸⁹

The AHRA set up a statutory levy scheme to protect the interests of both the technology developers and the copyright owners.

In those cases that most resembled *Sony v Universal*, the peer-to-peer copyright cases, *Napster*, *Re Aimster* and *Grokster*,⁹⁰ the *Sony* rule was challenged but preserved. These cases demonstrated that *Sony* does not provide a complete defence for technology developers. In many of these cases the quantum of infringing and non-infringing uses was a relevant consideration with respect to the issue of potential substantial non-infringing uses. This was a crucial difference from *Sony* where substantial non-infringing uses existed. Ginsburg and Ricketson have also noted that the technology in *Sony* “presented the court with an all-or-nothing challenge.”⁹¹ However in *Napster* the system could be amended without deny non-infringing users access to the technology.⁹²

In *Napster* the Ninth Circuit affirmed *Sony* but denied its protection to the defendant. *Napster's* particular facts differ from *Sony* in that the infringing materials were transferred from user to user over a peer-to-peer file-sharing system that Napster controlled. Napster provided the support required for the indexing and searching of the infringing MP3 files. Unlike in *Sony*, Napster could prevent infringing actions, but it chose not to. Napster argued that non-infringing files were available on its system.

⁸⁵ For Australia see *Copyright Amendment Act 2006 (Cth)*. For the United States see *RIAA v Diamond, UMG Recordings, Inc v MP3.com, Inc* 92 F.Supp 2d 349 (SDNY 2000). Although in UMG, the actions of the website provider MP3.com were not held to be fair use.

⁸⁶ See further, *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146 (9th Cir. 2007). See also *Kelly v. Arriba Soft Corp.*, 336 F.3d 811 (9th Cir. 2003).

⁸⁷ *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146 (9th Cir. 2007).

⁸⁸ *Sega Enterprises Ltd v Accolade Inc*, 977 F.2d 1510 (9th Cir. 1992).

⁸⁹ 17 United States Code 1008.

⁹⁰ *Metro-Goldwyn-Mayer Studios, Inc. v Grokster, Ltd*, 545 U.S. 913 (2005).

⁹¹ J Ginsburg, S Ricketson, ‘Inducers and Authorisers,’ (2006) 11, *Media & Arts Law Review* 1, at 4.

⁹² *Ibid.*

Napster claimed that space-shifting was fair use akin to time-shifting in *Sony*.⁹³ Similarly, Napster claimed that the *Sony* rule effectively shielded it from contributory liability.⁹⁴ The Ninth Circuit disagreed with Napster's time-shifting argument. The Ninth Circuit pointed out that unlike in *Sony*, Napster's system meant that space-shifting took place together with online distribution to the public.⁹⁵ The Ninth Circuit held that while non-infringing uses were relevant under *Sony*, the fact that Napster had actual knowledge of infringement, and that it could have been stopped without destroying the entire system, gave rise to liability.⁹⁶

The *Napster* decision has mixed blessings for advocates of the *Sony* rule. On the one hand the *Napster* Court clearly deferred to *Sony* and affirmed the value of the rule.⁹⁷ The Ninth Circuit was critical of the District Court for failing to take into account the potential non-infringing uses of the Napster technology.⁹⁸ But it was clear that where a product enables the vendor to have an ongoing relationship with the consumer, as was the case in Napster, the requisite level of knowledge for contributory knowledge could more easily be satisfied than was the case in *Sony* where only constructive knowledge existed. This showed that on the other hand *Sony* could quite easily be confined to its particular facts thereby reducing its efficacy for technology developers.⁹⁹

The defendants in *Arista Records v USENET.com* have more recently run a similar argument to that arose in *Napster*.¹⁰⁰ In *Arista Records* the defendants claimed that *Sony* shielded them from contributory liability on the basis of possible non-infringing uses.¹⁰¹ The District Court held that the crucial difference was that there was an ongoing relationship between USENET.com and its users unlike in *Sony*. In the opinion of Judge Baer of the District Court this rendered the potential non-infringing uses immaterial.¹⁰² This again illustrates the potential for *Sony* to be confined to its

⁹³ See note 25 above, at 1019.

⁹⁴ *Ibid*, 1020.

⁹⁵ *Ibid*, 1019.

⁹⁶ *Ibid*, 1020.

⁹⁷ *Ibid*.

⁹⁸ *Ibid*, at 1020-1021. Judge Beezer stated, "We are bound to follow *Sony*, and will not impute the requisite level of knowledge to Napster merely because peer-to-peer file sharing technology may be used to infringe plaintiffs' copyrights". See also, 464 U.S. at 436 (rejecting argument that merely supplying the "means to accomplish an infringing activity" leads to imposition of liability). We depart from the reasoning of the district court that Napster failed to demonstrate that its system is capable of commercially significant non-infringing uses. See *Napster*, 114 F. Supp. 2d at 916, 917-18. The district court improperly confined the use analysis to current uses, ignoring the system's capabilities.

⁹⁹ J Litman, see note 48 above. Also, P Samuelson, see note 16 above.

¹⁰⁰ *Arista Records LLC v. USENET.com*, 633 F. Supp. 2d 124 (2009).

¹⁰¹ *Ibid*, 155.

¹⁰² *Ibid*, 156. Judge Baer stated, "To be sure, there is no dispute that Defendants' service can be used for reasons other than reproduction and distribution of infringing music content. However, Defendants' argument rides roughshod over a critical part of the Supreme Court's reasoning in *Sony*. To wit, the Court noted that Sony's last meaningful contact with the product or the purchaser was at the point of purchase, after which it had no 'ongoing relationship' with the product or its end-user... ('The only contact between Sony and the users of the Betamax...occurred at the moment of sale... [Sony had no] direct involvement with the allegedly infringing activity or direct contact with purchasers of Betamax

facts. However, the District Court in *Arista Records* appears to have repeated the mistake of the District Court in *Napster* in failing to give due weight to the potential non-infringing uses.¹⁰³

In *Re Aimster* the defendant also tried to rely on *Sony* to evade a finding of contributory knowledge. Aimster argued that to avoid liability all it had to show was that its product was capable of non-infringing uses.¹⁰⁴ In *Re Aimster* the peer-to-peer file sharing system was very similar to that in *Napster*. The software was available for download free of charge, Aimster hosted the website and assisted in the searches and provided other support, though it did not copy files itself. Judge Posner of the Seventh Circuit rejected Aimster's argument. Judge Posner stated:

We also do not buy Aimster's argument that since the Supreme Court distinguished, in the long passage from the *Sony* opinion that we quoted earlier, between actual and potential non-infringing uses, all Aimster has to show in order to escape liability for contributory infringement is that its file-sharing system could be used in non-infringing ways, which obviously it could be. Were that the law, the seller of a product or service used solely to facilitate copyright infringement, though it was capable in principle of non-infringing uses, would be immune from liability for contributory infringement. That would be an extreme result, and one not envisaged by the *Sony* majority.¹⁰⁵

The crucial issue that seems to emerge in *Re Aimster* is that in order to qualify for the vital last part of the *Sony* rule, being capable of substantial non-infringing uses, the defendant must actually demonstrate that this is possible. The Supreme Court in *Sony* did state that the disputed device "need merely be capable of substantial non-infringing uses".¹⁰⁶ However, it appears clear that this must be proved and not merely asserted.

The developers of peer-to-peer technology paid attention to the *Napster* and *Re Aimster* decisions and designed their system architecture accordingly. Where control had been a significant problem in *Napster*, the designers of the Kazaa technology, variations of which were at issue in the *Grokster* and *Sharman*¹⁰⁷ cases, were careful to put control beyond their grasp. This strategy was successful in frustrating the then existing bases of secondary liability for copyright infringement in the United States

who recorded copyrighted works off-the-air.'). In this case, there is no dispute that Defendants maintain an ongoing relationship with their users; thus, Defendants' service is quite unlike *Sony*, where the defendants had no contact with the product or user once the device was released into the stream of commerce. As such, I find that the non-infringing uses for Defendants' service are immaterial, as *Sony's* insulation from contributory liability is inapplicable in this case."

¹⁰³ This is unlikely to be of any real consequence in the *Arista* dispute as the injunction is aimed at removing the infringing material from the system.

¹⁰⁴ See note 21 above, at 651.

¹⁰⁵ *Ibid.*

¹⁰⁶ See note 6 above, at 442.

¹⁰⁷ See note 9 above. *Sharman* is discussed below in Part II.

when *Grokster* was litigated before the District Court¹⁰⁸ and the Ninth Circuit.¹⁰⁹ The absence of control, particularly the right and ability to supervise usage, was sufficient to protect Grokster from liability in the Ninth Circuit.¹¹⁰

The Ninth Circuit affirmed the District Court's view that the *Sony* rule exempted Grokster from copyright liability.¹¹¹ Drawing on the Ninth Circuit's decision in *Napster*, Judge Thomas held that the Court had applied *Sony* so as to prevent a finding of constructive knowledge if the product was capable of substantial non-infringing uses.¹¹² Judge Thomas further opined that if substantial non-infringing uses were shown then the copyright owner would need to demonstrate that the defendant had "reasonable knowledge of specific infringing files."¹¹³ Judge Thomas read *Sony* quite closely to the terms of the holding and was satisfied that the product need only be *capable* of substantial non-infringing uses.¹¹⁴

Judge Thomas noted that the Ninth Circuit diverged from the Seventh Circuit's decision in *Re Aimster* on this point.¹¹⁵ Judge Thomas characterised the disagreement between the Circuits as "fundamental" but noted that *Re Aimster* was factually different to Grokster, and as such of little help in the Ninth Circuit to the copyright owners, because in the former case no substantial non-infringing uses existed whereas in the latter case they did.¹¹⁶

The Ninth Circuit's application of *Sony*, notwithstanding the blurring of the knowledge element of contributory liability and the *Sony* safe harbour,¹¹⁷ may well be correct. However, the Ninth Circuit ignored Grokster's incitement and encouragement of copyright infringement. Moreover, the Ninth Circuit failed to engage with the clearly relevant issue of the quantum of infringing and non-infringing uses. In Grokster 90% of the uses of the system and technology were for infringement, whereas only 10% were non-infringing. In a footnote Judge Thomas asserted that the 10% "would indicate a minimum of hundreds of thousands of legitimate file exchanges."¹¹⁸ However, as Ginsburg and Ricketson have noted, "that the other 90% would be even more extensive seems not to have troubled the court."¹¹⁹

¹⁰⁸ *Metro-Goldwyn-Mayer Studios, Inc. v Grokster, Ltd*, 259 F. Supp. 2d 1029 (C.D. Cal. 2003).

¹⁰⁹ *Metro-Goldwyn-Mayer Studios, Inc. v Grokster, Ltd*, 380 F.3d 1154 (9th Cir. 2004).

¹¹⁰ *Ibid*, 1164-1166.

¹¹¹ *Ibid*, 1161-1162.

¹¹² *Ibid*, 1160.

¹¹³ *Ibid*, 1161.

¹¹⁴ *Ibid*, 1162.

¹¹⁵ *Ibid*, at footnote 9. P Goldstein has also criticised the Ninth Circuit's approach to *Sony* in *Napster*. See P Goldstein, *Goldstein on Copyright*, 3rd ed (New York: Aspen Publishers, 2005) §8.1.2.

¹¹⁶ *Ibid*.

¹¹⁷ P Goldstein, see note 115 above. Also, cited in P Samuelson, see note 16 above, at 123, footnote 178.

¹¹⁸ See note 108 above, at 1162, footnote 10.

¹¹⁹ J Ginsburg and S Ricketson, see note 91 above, at 5.

The Supreme Court reversed the Ninth Circuit's ruling and held Grokster liable for inducing copyright infringement.¹²⁰ The Supreme Court held that *Sony* does not apply where the defendant has engaged in the active inducement of infringement.¹²¹ Even where a device was capable of substantial non-infringing uses this would be displaced by active inducement.¹²² The Supreme Court preserved the *Sony* rule stating that mere knowledge of infringing potential, ordinary acts of distribution and customer support, would not subject the technology developer to liability.¹²³ The Supreme Court's ruling, whilst narrowing the very expansive view that the Ninth Circuit offered in Grokster, keeps *Sony* in place whilst clarifying that it does not override the other theories of secondary liability.¹²⁴ This means that where a product is capable of both infringing and non-infringing uses, and the designers and marketers do nothing out of the ordinary to promote infringement, unlike in *Grokster*,¹²⁵ the *Sony* safe harbour would likely preclude liability.

This was the issue that arose as the only point of dispute between the two concurring opinions in *Grokster*. In a separate opinion Justice Ginsburg advanced a stricter view on the *Sony* standard.¹²⁶ Ginsburg J was of the view that even where a new product was capable of non-infringing uses liability might still apply if the uses were not substantial or where there was no potential for substantial non-infringing uses to develop.¹²⁷ Rehnquist CJ and Kennedy J joined Ginsburg J in her view. The stricter standard advanced by Ginsburg J is likely to be favoured by the entertainment industry.¹²⁸ Indeed, it seems worthwhile to note, that had Streamcast and Grokster not engaged in active inducement of copyright liability, Ginsburg J's view would have been the sole basis upon which the defendants would have faced liability.

Justice Breyer, joined by Stevens and O'Connor JJ, took issue with Ginsburg J's stricter test. Justice Breyer was concerned that the stricter test for the *Sony* defence would result in greater risk and uncertainty for developers of new technologies.¹²⁹ In

¹²⁰ See note 90 above, at 933. See also T Wu, "The Copyright Paradox" (2005) *Supreme Court Review*, 229-231. See also, A Yen, "Third-Party Liability After Grokster" (2007) 16 *Information & Communication Technology Law* 233-272.

¹²¹ *Ibid*, 933-934. The Supreme Court stated, "The Ninth Circuit has read *Sony*'s limitation to mean that whenever a product is capable of substantial lawful use, the producer can never be held contributory liable for third parties' infringing use of it; it read the rule as being this broad, even when an actual purpose to cause infringing use is shown by evidence independent of design and distribution of the product...This view of *Sony*, however, was error, converting the case from one about liability resting on imputed intent to one about liability on any theory."

¹²² *Ibid*, 37.

¹²³ *Ibid*.

¹²⁴ *Ibid*.

¹²⁵ In *Grokster* infringing uses were advertised and encouraged. The availability of infringing files was advertised. Users were exhorted to "join the revolution" against copyright owners.

¹²⁶ See note 89 above, at 948.

¹²⁷ *Ibid*.

¹²⁸ Samuelson has argued that the entertainment industry wanted the *Sony* rule over-turned. See further, P Samuelson, "Three Reactions to *MGM v Grokster*" (2006) 13 *Michigan Telecommunications and Technology Law Review* 177-196.

¹²⁹ See note 90 above, at 959-960.

their view the strict test for *Sony* would have a chilling effect on technological development.¹³⁰ Justice Breyer was of the view that though the non-infringing uses of *Grokster* and *Streamcast* were minimal, at about 9% of their total usage, this would be sufficient for the *Sony* defence to apply.¹³¹

The contrasting views between Breyer and Ginsburg JJ, indicates where the real tension lies for new technologies and copyright infringement.¹³² Whilst the *Grokster* decision laid a clear platform for the liability of most peer-to-peer operators, it also created, through the two concurrences, a unique deadlock over *Sony*.¹³³ There is much to commend Breyer J's view of *Sony*. The interpretation of *Sony* advocated by Breyer J is very favourable for new technologies. Moreover, with *Grokster* having created some uncertainty for the future of technology development the view put forward by Breyer J still leaves developers with some room to move. Menell has suggested that the effects of indirect copyright liability on technology development are quite complex, and require an analysis of "social balances, market mechanisms, and roles for mediating institutions."¹³⁴ However, Lessig has suggested that the *Grokster* decision may in fact chill innovation.¹³⁵

Under Breyer J's view the provider of a new technology could easily evade liability for copyright infringement where they could show minimal non-infringing uses, and where they refrain from actively inducing infringement. The alternative, which is Ginsburg's view, would effectively discourage innovators from developing any type of risky technology.¹³⁶ The difficulty with this view may arise where new peer-to-peer operators emerge, and take advantage of an established peer-to-peer infringement culture through minimal advertising of their services and without any active inducement of copyright infringement.¹³⁷

¹³⁰ *Ibid.*

¹³¹ *Ibid.*, 952.

¹³² For a discussion of the conflict between the two concurring opinions see P Samuelson, see note 128 above. Also, J Ginsburg and S Ricketson, see note 91 above.

¹³³ R Giblin-Chen, "On Sony, Streamcast, and Smoking Guns" (2007) 29(6) *European Intellectual Property Review* 215-226. See also, R Giblin, "A Bit Liable? A Guide to Navigating the U.S. Secondary Liability Patchwork" (2008) 25 *Santa Clara Computer & High Technology Law Journal* 7-49.

¹³⁴ P Menell, "Indirect Copyright Liability and Technological Innovation" (2009) 32 *Columbia Journal of Law and Arts* 375-399. Menell is critical of what he terms the "Chilled Innovation" conjecture surrounding *Grokster* and other peer-to-peer cases.

¹³⁵ R Hof, "Ten Years of Chilled Innovation", *Business Week* 29 June 2005. Lessig's comments were made in response to an interview with *Business Week*.

¹³⁶ J Breyer, see note 90 above, at 959-960. He noted that the price of a wrong guess by an innovator in relation to copyright infringement could be large statutory damages. As Breyer noted in the United States these are around \$750 to \$30,000 per infringed work. See also M Fagin, F Pasquale and K Weatherall, "Beyond Napster: Using Antitrust Law to Advance and Enhance Online Music Distribution" (2002) 8 *Boston University Journal of Science and Technology Law* 451-573. According to Fagin, "innovation in the technologies of distribution will decline markedly if potential new innovators are chilled by a threat of legal action".

¹³⁷ However, there may be dangers in such an approach. See S Hogberg, "The Search for Intent-Based Doctrines of Secondary Liability in Copyright Law" (2006) 106, *Columbia Law Review* 909-958.

Despite the seeming deadlock within the US Supreme Court, the *Sony* rule has value for Australia. In Australia the High Court in *Tape Manufacturers* and against in *Stevens v Sony* has demonstrated a high degree of regard for the *Sony* rule. Whilst its efficacy in protecting technology developers may well depend on the peculiar set of circumstances at play it does serve as a symbol of a jurisdiction's predisposition to preserving legitimate technology development. Effectively *Sony* is not a pure safe harbour; it is instead a potential free space in the absence of guilty conduct. This reflects the need to balance the interests of various stakeholders. In *Stevens v Sony*, Kirby J stated:

Because a legitimate basis for the taping of television programmes for viewing at more convenient times (“time-shifting”) was found by the Supreme Court to be fair and not an infringing use, the claim of infringement against Sony was rejected. This interpretation of the United States law reflected the bias inherent in the legal systems of the common law in favour of protecting the rights of copyright owners in a context that also protects other legal interests belonging to other persons. As Breyer J has recently pointed out, in a concurring opinion, the rule in the Sony Betamax decision was strongly protective of new technology. It foreshadowed the dramatic evolution of the product's market. It respected the limitations facing judges where matters of complex and novel technology are concerned. And it avoided the introduction of a “chill of technological development” in the name of responding to alleged copyright infringement.¹³⁸

It is difficult to suggest what the true value of the *Sony* rule may be. It is certainly clear that having the *Sony* rule has not prevented copyright owners from threatening new technologies with litigation.¹³⁹ But, because copyright is so essential to the US economy so too is the *Sony* rule in creating the type of legal infrastructure and entrepreneurial culture that supports that economy. The value of the *Sony* rule is hard to assess in raw economic terms.¹⁴⁰ But logically, any rule that encourages innovation and risk will support a dynamic economy. The value of the *Sony* rule is that it steps out of the narrow and often dualistic confines of copyright law, where issues are often devolved to a user-owner dichotomy, and it places copyright law in a somewhat broader societal context. That is, societies and economies need change and renewal. New technologies and the innovators behind them need the legal space within which to operate. From that standpoint the *Sony* rule offers a lot to a country that is seeking to develop an innovation economy.

¹³⁸ See note 43 above, at 258.

¹³⁹ J Litman, see note 48 above. Litman cites the examples of companies such as RecordTV.com and Scour.com as attracting litigation and eventually folding to suggest that *Sony*'s value may be symbolic rather than practical.

¹⁴⁰ Evaluating the success of the rule by examining the case law may be too simplistic. *Sony*'s real value may lie in the cases that do not come before the courts and the lawsuits that are never filed.

2. An Innovation Exception?

There are a number of matters that need to be addressed before an innovation exception can be inserted into Australia's Copyright Act. Firstly, there is the question of the form that the rule would take. Secondly, there is the issue of the impact that any new exception would have on Australia's copyright regime. Thirdly, there is the question of how such an exception would interact with existing rules on authorisation liability. Lastly, there is the question of compliance with the three step test.

In terms of the form of the rule it would no doubt need to be a statutory rule.¹⁴¹ Such a rule would also require a redrafting of the authorisation liability provisions in sections 36(1A) and 101(1A) of the Copyright Act. As the Copyright Act contains other authorisation liability schemes, such as the internet service provider scheme, some amendment might also be required in these areas.

In effect importing *Sony* into Australia's copyright statute requires rethinking the existing rules and a reordering of their existing relationships. But it is clear from the discussion of *Sony* in Part I, even in relation to the peer-to-peer cases, that the standard established by the Supreme Court in that case continue to be a relevant concern in the present era. Whilst the waters may have been muddled somewhat by the clear bad faith element present in *Napster*, *Aimster* and *Grokster*, there are still technology developers who are acting in good faith.¹⁴² The danger is that the over-strength of secondary liability laws will chill innovation and target the good faith innovators along with the bad faith ones.¹⁴³

2.1. Creating Policy Space?

There are two issues that arise in relation to the question of creating the policy space required for an innovation exception. The first is winding back the property-centric notion of copyright rights.¹⁴⁴ The second is creating a scheme that does not allow "bad faith" innovators to evade liability.

The criticism advanced above of the Australian Government's approach to copyright law reform and exceptions is that it has tended to be overly conservative. In part Australia is a minor player in a larger world trade order, where the rules on trade law, as they relate to intellectual property have largely shifted in favour of the owners.¹⁴⁵

¹⁴¹ I will resist the temptation to draft such a rule myself. Nonetheless, I would suggest that it adhere as closely to the *Sony* rule as possible.

¹⁴² *Napster's* attempt to profit from the sharing of copyright protected music was clearly an example of bad faith conduct. That *Aimster* and *Grokster* designed their own names so as to signal to consumers their similarities to *Napster*, and that *Grokster* and *Streamcast* deliberate structured their technology and affairs to evade liability are also indicative of bad faith.

¹⁴³ To paraphrase Jane Ginsburg it would mean that the "Grokster goats" would be herded in with the "Sony sheep", which is an altogether undesirable result. See J Ginsburg, "Separating the Sony Sheep From the Grokster Goats: Reckoning the Future Business Plans of Copyright-Dependent Technology Entrepreneurs" (2008) 50 *Arizona Law Review* 577-609.

¹⁴⁴ H Travis, "Pirates of the Information Infrastructure: Blackstonian Copyright and the First Amendment" (2000) 15 *Berkeley Technology Law Journal* 777-865.

¹⁴⁵ P Drahos and J Braithwaite, *Information Feudalism: Who Controls the Knowledge Economy?* (London: Earthscan, 2002).

Having made a deal with one of the nations who was a prime mover in the change in international intellectual property laws it was predictable that Australia's laws would also tilt in that direction. What is lacking is the policy space to support an innovation exception. This can be said to arise from several sources such as the proliferation of the three step test which restricts exceptions, the timidity of legislators, the conception of copyright as property and bad faith acts by some innovators.

The question of the three step test will be addressed below. The question of the willingness of Australian lawmakers to engage in copyright law reform depends greatly on whether they value innovation. The evidence suggests that the Rudd Government does value innovation but it is imperative that it moves to safeguard the legal infrastructure required for innovation to take place.¹⁴⁶ Rethinking copyright law, less as property and more as a "limited federal grant" is also crucial. Netanel, writing in the context of free speech and copyright law, has stated:

The primary, immediate cause for copyright's untoward chilling of speech is that copyright has come increasingly to resemble and be thought of as a full-fledged property right rather than as a limited federal grant designed to further a particular public purpose. As traditionally conceived, copyright law strikes a careful balance. To encourage authors to create and disseminate original expression, it accords them a bundle of exclusive rights in their works...But to promote public education and creative exchange, it both sharply circumscribes the scope of those exclusive rights and invites audiences...to freely use existing works in every conceivable manner that falls outside of the copyright owner's domain.¹⁴⁷

The Blackstonian view of copyright challenges the notion of balance.¹⁴⁸ Netanel is correct in noting that copyright has been used to chill free speech. The Ed Felten case¹⁴⁹ and the Dimitri Sklyarov¹⁵⁰ incident are all instances of copyright law being used to limit and curtail speech. In much the same way, technology development, a type of speech act itself, has been curtailed at times. If the view of the Seventh Circuit in *Re Aimster* triumphs, then both the courts and copyright law will effectively be able to intrude on the actual process of technology development, as it relates to system design, before infringement has occurred. Surely this is undesirable. It is also

¹⁴⁶ The Rudd Government has created the Department of Innovation, Industry, Science and Research. The Department has engaged in public consultation on the topic of innovation leading to the release of a national innovation policy. See further, Department of Innovation, Industry, Science and Research "Powering Ideas: an innovation agenda for the 21st century" (200) available at: <http://www.innovation.gov.au/innovationreview/Pages/home.aspx> (accessed 27 Jan 10).

¹⁴⁷ N Netanel, see note 28 above, at 6.

¹⁴⁸ N Netanel, see note 3 above.

¹⁴⁹ Secure Digital Music Initiative threatened Ed Felten, a professor at Princeton University, with a lawsuit for exposing flaws in their technology protection measures. Felten sought to publicise his research and SDMI threatened to sue under the *Digital Millennium Copyright Act 1998*. The adverse publicity led SDMI to withdraw their claim.

¹⁵⁰ Dimitri Sklyarov was a Russian programmer who visited the United States where he was arrested under the provisions of the DMCA. He was released in exchange for agreeing to testify against his former employers.

undesirable, having regard to the democratic concerns that attach to remix and its technologies, to elide over the legitimate interests of the broader public in favour of private property interests. It can be said, that the push towards a Blackstonian view of copyright is at odds with the historical basis for copyright law and the greater political-constitutional structure within which that law exists.¹⁵¹

The Blackstonian view of copyright has also had draconian results where copyright infringement is concerned. Whilst, it cannot be denied that downloading copyright protected files via a peer-to-peer file-sharing system is copyright infringement, the level of penalty imposed is almost too high. In a recent decision in the US the District Court in *Sony BMG Music Entertainment v Tenenbaum*¹⁵² stated:

As this Court has previously noted, it is very, very concerned that there is a deep potential for injustice in the Copyright Act as it is currently written. It urges, no implores, Congress to amend the statute to reflect the realities of file sharing. There is something wrong with a law that routinely threatens teenagers and students with astronomical penalties for an activity whose implications they may not have fully understood. The injury to the copyright holder may be real, and even substantial, but, under the statute, the record companies do not even have to prove actual damage. “Repeatedly, as new developments have occurred in this country, it has been Congress that has fashioned the new rules that new technology made necessary.”...It is a responsibility that Congress should not take lightly in the face of this litigation and the thousands of suits like it.¹⁵³

But creating policy space does not mean ignoring the latent dangers that attend the subject area. The *Napster*, *Aimster* and *Grokster* cases aptly showed that some developers of technology will set out, mainly in bad faith, to profit from the works of others. A copyright law that fails to account for bad faith acts would be deficient. The *Sony* safe harbour is a type of equitable protection, it is aimed at fairness and justice, but it cannot be applied so as to subvert the traditional maxim of equity where the innovator lacks clean hands.¹⁵⁴ As discussed above, it is imperative to put a *Sony* type safeguard in place whilst retaining appropriate laws to catch bad faith innovators. The alternative, the current arrangements, which are overly strong, are discussed below.

2.2. Authorisation Liability

One simple observation might be enough to suggest that Australia’s laws on secondary liability for copyright infringement are overly strong. In contrast to the United States, which took three court cases, three levels of the Federal courts and

¹⁵¹ See note 39 above.

¹⁵² *Sony BMG Music Entertainment v Tenenbaum* 2009 U.S. Dist. LEXIS 112845.

¹⁵³ *Ibid*, 58-59.

¹⁵⁴ The traditional maxim being that he who comes to equity must come to equity with clean hands.

eleven judges¹⁵⁵ to reach a clear verdict, it took Australia only one trial and one judge to find the same technology and much the same respondents liable for authorisation infringement.¹⁵⁶ This might suggest that the wording of ss 36(1A) and 101(1A) is almost tilted towards a finding of liability.

Sections 36(1A) and 101(1A) were inserted into the Copyright Act as part of the 2000 Digital Agenda amendments. Sections 36(1A) and 101(1A) provide:

(1A) In determining, for the purposes of subsection (1), whether or not a person has authorised the doing in Australia of any act comprised in the copyright in a work, without the licence of the owner of the copyright, the matters that must be taken into account include the following:

- (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.¹⁵⁷

The factors listed in both sections 36(1A) and 101(1A) need only to be taken into account. The statute does not require that the factors are elements, each of which need be satisfied in order to sustain a finding of liability. The factors listed in both sections 36(1A) and 101(1A) are more to provide guidance and there is sufficient scope for the common law to operate.

Prior to the 2000 amendment the general rule was that a defendant cannot authorise an infringing act unless they have the power or ability to prevent the infringing act.¹⁵⁸ Prior to the amendments the question of authorisation was determined by the common law. The comments of Gibbs J in *University of New South Wales v Moorehouse* are also illustrative of the Australian approach to the issue of authorisation and the key element of control. Gibbs J stated:

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 photocopy machine, and who makes it available for 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

¹⁵⁵ This amalgamates the judges of the District Court, Ninth Circuit and the Supreme Court. If Judge Wilson of the District Court who delivered the remand opinion is counted the number of judges involved in the *Grokster* cases reaches 12.

¹⁵⁶ Though it should be noted that *Universal v Sharman* took place at around the same time as the Supreme Court's decision in *Grokster*. Though Wilcox J of the Australian Federal Court would have been bound only by the *Copyright Act 1968 (Cth)*.

¹⁵⁷ Both sections 36(1A) and 101(1A) contain the same provisions though they operate in different parts of the Copyright Act.

¹⁵⁸ *City of Adelaide v Australasian Performing Right Association Ltd* (1928) 40 CLR 481 at 504.

reasonable steps to limit its use to reasonable purposes, would authorise any infringement that resulted from its use.¹⁵⁹

In the *University of New South Wales v Moorehouse* it was held that “inactivity” or “indifference” as constituted by acts or omission on the part of a defendant may be sufficient to be authorisation.¹⁶⁰

But physical proximity was an issue in *Butterworths*. This idea of control would obviously come under stress in the digital era. In *Nationwide News Pty Ltd v Copyright Agency Limited*¹⁶¹ Sackville J, with whom Jenkinson and Burchett JJ concurred, stated: “Nonetheless a person does not authorise an infringement merely because he or she knows that another person might infringe the copyright and takes no steps to prevent the infringement.”¹⁶²

Similarly, in *Australasian Performing Right Association Ltd v Metro on George Pty Ltd*¹⁶³ Bennett J stated:

Control is necessary to constitute authorisation to infringe copyright; mere facilitation of the infringing conduct is insufficient, as is knowledge that there is likelihood that there will be infringing use.¹⁶⁴

However, the amendments in sections 36(1A) and 101(1A) appear to have greatly expanded the concept of authorisation. It is notable that subsection (a) refers to “the extent (*if any*) of the person's power to prevent the doing of the act concerned.” Moreover, this is just one factor to be taken into account in determining liability. This suggests that the statutory conception of authorisation, though intended as a partial codification of the common law,¹⁶⁵ has resulted in an expansion of the concept.¹⁶⁶ In effect this means that the authorisation provisions are titled towards a finding of liability.¹⁶⁷

Traditionally, cases where authorisation has been at dispute invariably turned on a factual basis, there was no ready-made formula for determining liability.¹⁶⁸ Accordingly, the requisite degree of control would vary according to the facts in each

¹⁵⁹ (1975) 133 CLR, 1 at 13

¹⁶⁰ *Ibid*, 12.

¹⁶¹ (1996) FCR 399.

¹⁶² *Ibid*, 422. See also *Roadshow Films Pty Ltd v iiNet Limited (No 3)*, [2010] FCA 24 (February 2010).

¹⁶³ (2004) 61 IPR 575.

¹⁶⁴ *Ibid*, 18.

¹⁶⁵ Revised Explanatory Memorandum for the Copyright Amendment (Digital Agenda) Act 2000.

¹⁶⁶ See R Giblin-Chen and M Davidson, “Kazaa goes the way of Grokster? Authorisation of copyright infringement via peer-to-peer networks in Australia” (2006) 17 *Australian Intellectual Property Journal* 53-76.

¹⁶⁷ See G Austin, “Importing Kazaa – Exporting Grokster” (2006) 22 *Santa Clara Computer and High Technology Law Journal* 577-619. Austin, at 582 writes, “the factors appear to provide for a default finding of authorization in situations in which the authorizing defendant cannot control the end user”.

¹⁶⁸ *Winstone v Wurlitzer Automatic Phonograph Co of Australia Pty Ltd* [1946] VLR 338.

case.¹⁶⁹ But the more expansive concept of authorisation that exists in the Copyright Act means that there is no certainty for innovators where their products may affect copyright interests. This suggests that the current laws will have a chilling effect on technology.

After the 2000 Amendments, but prior to the *Sharman* case Lahore prophetically noted:

Where defendants have put it beyond their power to prevent the infringement, for instance by selling or giving away the means by which such an act can be committed, it will be less likely that this will amount to authorization, unless further acts by way of encouragement or incitement can be shown.¹⁷⁰

At issue in *Sharman* was whether the defendant has authorised the infringing conduct. Justice Wilcox found Sharman Networks and the other respondents liable for authorising copyright infringement under section 101(1A) of the Copyright Act.

Justice Wilcox made three significant factual findings that helped shape his ruling on authorisation liability. Firstly, though the Kazaa website had warnings against copyright infringement, and an end user licence agreement in which the user had to agree to not infringe copyright, it was obvious to the respondents that these measures were ineffective.¹⁷¹ Secondly, the respondents could have implemented technological controls to reduce copyright infringement but had failed to do so. Significantly, Wilcox J found that the respondents failed to implement such controls because it was not in their financial interest.¹⁷² That is, the respondents would have earned little advertising revenue from Kazaa if it was not being used for copyright infringement. Thirdly, the respondents placed material on the Kazaa website, which though not expressly advocating copyright infringement, was likely “to encourage visitors to this it is ‘cool’ to defy the record companies by ignoring copyright constraints.”¹⁷³

The decision in *Sharman* was no doubt correctly decided. So too was the case of *Cooper*, where the defendant put up hyperlinks to copyright protected music. In *Cooper* the defendant ran a website called MP3s4free.net and encouraged infringement. In *Cooper* the applicants contended that the 2000 Amendments had “strengthened and broadened the concept of infringement by authorization”.¹⁷⁴ Notably, Tamberlin J did not disagree with this contention.

The risk now is that the bad faith defendants in *Sharman* and *Cooper* distract attention from the implications of the expanded concept of authorisation. Designing a technology with the specific intent to trade on other peoples copyright and structuring

¹⁶⁹ *Cooper v Universal Music Australia Pty Ltd* (2006) 71 IPR 1, at 142.

¹⁷⁰ *Ibid.*

¹⁷¹ See note 9 above.

¹⁷² *Ibid.*

¹⁷³ *Ibid.*

¹⁷⁴ *Ibid.*

business affairs to further this end are examples of bad faith.¹⁷⁵ But a technology developer who wishes to explore new technologies, and who does so with no overt agenda to infringe, is acting in good faith. This type of innovation is useful for society. The real danger of the overly strong authorisation provisions is that they may attach liability to such an innovator, where that innovator is aware that some copyright infringement might occur, but where they still bring the product to market.

The Australian Copyright Act does contain a bare safeguard that has some slight resemblance to the *Sony* rule. Section 112E provides of sorts. Section 112E states:

A person (including a carrier or carriage service provider) who provides facilities for making, or facilitating the making of, a communication is not taken to have authorised any infringement of copyright in an audio-visual item merely because another person uses the facilities so provided to do something the right to do which is included in the copyright.

However, the essential precondition to section 112E is that the person providing the facilities must not have done anything other than “merely” making the facilities available. This most likely precludes any person who has marketed a device, provided information on its capabilities or done anything else from the protection of section 112E. It would appear that the provision was drafted with internet service providers in mind. Though it was considered in *Sharman* it has yet to be considered in a case where blatant authorisation was not at play. As such, the actual utility of section 112E remains very much unknown, and its bare terms suggest that it will be of little value where an innovator brings to market a product that is capable of infringing and non-infringing uses, with the knowledge that infringement might occur.

2.3. The Three Step Test

No advocacy for any copyright exception can be complete without briefly acknowledging at least the realities of the three step test. The three step test provides that exceptions to copyright owners’ rights be limited to certain special cases, which do not conflict with the normal exploitation of the work, and which do not unreasonably prejudice the legitimate interests of the author. Even during the 2005 Fair Use Inquiry, when a majority of stakeholders clearly favoured a fair use option, the Australian Government decided against the uncertainties of fair use. To be fair to the then Howard Government, there is much commentary that has questioned whether the fair use test is three step test compliant.¹⁷⁶ As such the conservative nature of Australia’s law-makers may have been justified.

¹⁷⁵ The term good faith is a controversial term in Australian contract law. Whilst I am reticent to use terms like good faith and bad faith there seems no better way of characterising the actions of *Grokster*, *Napster*, *Aimster*, *Sharman* and *Cooper* other than to suggest that they were done in bad faith. In contrast an innovator who designs a product with no overt agenda to foster infringement can be said to be acting in good faith.

¹⁷⁶ See for example R Okediji, “Towards an International Fair Use Doctrine” (2000) 39 *Columbia Journal of Transnational Law* 75-175. The three step test in Article 9(2) of the Berne Convention for the Protection of Literary and Artistic Works provides that exceptions to the rights of copyright owners are allowed only in “certain special cases, provided that such reproduction does not conflict with a

But the *Sony* rule is much clearer and more likely to comply with the strictures of the three step test. The *Sony* rule provides that where a product or technology is capable of substantial non-infringing uses no liability for copyright infringement shall be imposed. Were the *Sony* rule to ever be drafted into Australia's Copyright Act it could no doubt be characterised as an exception to the rights of owners. But given the clear public policy nature of the exception it could arguably satisfy the strictures of the three step test.¹⁷⁷ Moreover, the exception is specific enough to satisfy the three step test, and the inter-relationship of the *Sony* rule with other heads of secondary liability demonstrates that there is no unreasonably prejudice to the interests of copyright owners.

3. Conclusion

Innovation is clearly essential for economic growth, cultural development and personal autonomy. Moreover, it is impossible to predict what technologies will emerge and how they will develop over time. Certainly, the *Sony* court could not have anticipated the Internet and the digital era. But they crafted a rule that was forward looking and supportive of technology. In doing so, they helped create a socio-economic culture supportive of innovation. Regrettably, the relationship between innovation and copyright law in Australia is uncertain and perhaps overly restrictive. After the Australia-United States Free Trade Agreement Australia now has a copyright regime that can broadly be described as a lock up and lock out scheme. This is a copyright regime dominated by the Blackstonian view of property. It lacks the sense of balance found in Justice Stevens' opinion in *Sony*. Furthermore, whilst the Australian Government has paid lip service to innovation, the Australian Copyright Act, which provides the essential legal infrastructure for innovation, now privileges the rights of owners over the interests of the public to a dangerous extent. The particular neglect of a specific exception for technology innovation is an undesirable oversight, as is the expansion of authorisation liability. If there is to be some coherence in Australia thinking with regards to innovation and copyright policy it is crucial that such an exception be created.

normal exploitation of the work and does not unreasonably prejudice the legitimate interests of the author".

¹⁷⁷ Recently there has been some academic commentary that has questioned whether the three step test is as restrictive as it appears. See for example, B Hugenholtz and R Okediji (2008) "Conceiving An International Instrument On Limitations And Exceptions To Copyright: Final Report" (2008) available at http://www.ivir.nl/publications/hughenoltz/limitations_exceptions_copyright.pdf (accessed 27 Jan 10), cited in G Greenleaf "Unlocking IP to stimulate Australian innovation: An Issues Paper" (2008) Available at: <http://law.bepress.com/unswwps/flrps08/art44> (accessed 27 Jan 10).