
The liability of content providers for authorisation of copyright infringement in the cases of *Cooper* and *Sharman*

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Introduction

The law of secondary infringement of copyright in Australia is an ambiguous area of law. Despite amendments to the *Copyright Act 1968* (“the Act”) in 2001 to align the Act with the digital environment, two Federal Court decisions have highlighted difficulties in defining the boundaries of liability for infringement of copyright over the internet. The eagerly anticipated cases of *Universal Music Australia Pty Ltd v Cooper*¹ (“*Cooper*”) and *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd*² (“*Sharman*”) have provided little precedent value in determining what the application of secondary liability should be in alternative scenarios. Both cases are too fact-specific to provide clear guidance on the future liability of emerging technologies. It appears that ultimately, the ground breaking pace of internet technologies will render judgements of little relevance and liability will continue to be determined on a case by case basis.

Determination of secondary liability requires a consideration of section 36 (or s.101) of the Act, which provides liability for authorisation of copyright infringement. The *Copyright Amendment (Digital Agenda) Act 2000* (Digital Agenda Act) made further amendments to the law by inserting subsection 36(1A) (and s.101(1A)) and section 39B (and s.112E) into the Act. Subsection (1A) provides some general guidance of the considerations applicable to determining whether someone has authorised infringement of copyright. Section 39B of the Act provides a general exception to authorisation liability where a person provides the facilities for making the communication of copyright material.

2.1 *Universal v Cooper*

On 14 July 2005, Tamberlin J of the Federal Court in New South Wales handed down his first instance decision in *Cooper*. The major finding of this case was that Cooper and the internet service providers (ISPs) that hosted his website were liable for authorising copyright infringement by providing an online database of hyperlinks to infringing mp3 sound-recordings. The applicants in this case were a number of record companies who claimed that the copyright in their sound recordings had been infringed by the operation of Cooper’s website. The first respondent was Cooper. The second to third respondents were the ISPs, Com-Cen and E-Talk, and the fourth and fifth respondents were the director and an employee of those ISPs.

The case involved Cooper’s website <mp3s4free.net> that operated by providing hyperlinks to remote computers from which mp3 files were automatically downloaded upon users accessing the hyperlink. Cooper either placed these hyperlinks on the website himself or users could create their own hyperlink between a file and the website through the presence of a CGI-BIN gateway. Cooper arranged for his ISP to benefit from free advertising on his website in return for a waiver on domain name hosting fees. Cooper also collected additional revenue from vendors advertising on the site. All respondents were found liable for authorisation of the copyright infringements committed by the website’s users and owners of the remote computers from which infringing copyright material was being downloaded. The decision is currently under appeal.

2.2 *Universal v Sharman*

Sharman was decided on 5 September 2005 by Wilcox J after a prolonged battle between 30 record company applicants and 10 respondents consisting of Sharman, the operators of the Kazaa desktop program, and Altnet, who had co-operated with Sharman to supply legitimate music over the peer to peer file sharing program. Kazaa was a file sharing program that operated by users downloading and installing the software from the Kazaa website. Once installed, Kazaa, searched for the files that were available to be shared between each user. After a user located an appropriate file, the user could download that material directly from the hard drive of another user onto their own computer. Each user in the network operated as a node and therefore, there was no centralised operation of the Kazaa system.

Files available on Kazaa were classified into gold and blue files. Gold files were verified as legitimate and protected by digital rights management. Altnet had entered into a joint venture arrangement with Sharman to incorporate such a facility in the later versions of Kazaa. Blue files were all other files not classified as legitimate by Altnet. Although these may have been legitimate material, the judge accepted evidence that the overwhelming majority of blue files were mp3 files of copyright infringing sound recordings.³

Wilcox J did not order the termination of the Kazaa system. However he did order that Kazaa adopt non-optional key-word filtering technology that would preclude searches for blue files. This would be required in all new versions of Kazaa within two months. The issue of damages was also adjourned for a later hearing where amicus curiae submissions would be

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accepted from various civil liberties organisations.

Sharman adapted the Kazaa program in order to comply with the two month deadline by restricting access to new users with Australian ISPs and issuing warnings to existing users. Sharman argued that the court order was ambiguous and that the court order applied only in the jurisdiction of Australia. There was no obligation to amend the program as it was accessed outside of Australia. The applicants commenced contempt of court proceedings against Sharman and were given leave to argue the contempt matter before the Full Court of the Federal Court on 23 March 2006. The respondents are also currently appealing the finding of liability.

2.3 Authorisation

The primary Australian authority on the issue of authorisation is the decision of *University of New South Wales v Moorhouse*⁴ (*Moorhouse*). In this decision, photocopiers in university libraries gave students an implied invitation to infringe copyright. The precautions taken by the university to prevent infringement were insufficient to amount to a reasonable limitation to the invitation. Authorisation was to 'sanction, countenance or approve' copyright infringement.⁵ In his judgement, Gibbs J in *Moorhouse* stated that:

A person who has under his control the means by which an infringement of copyright may be committed...and who makes it available to other persons, knowing, or having reason to suspect, that it is likely to be used for the purpose of committing an infringement, and omitting to take reasonable steps to limit its use to legitimate purposes would authorise any infringement that resulted from its use.⁶

The wording of Gibbs J has subsequently been codified into legislation in subsection 36(1A), which establishes three factors to be taken into account when determining liability for authorisation:

- (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 other reasonable steps to prevent or avoid the doing of the act, including whether the person complied with any relevant industry codes of practice.

As the wording of the provision designates these factors as inclusive rather than exhaustive, both case law and statute would be relevant in determining the application of authorisation liability.⁷ The guidance in section 36(1A) is consequently not definitive on the issue of whether there is liability for authorisation. Each of these factors will be considered in the context of *Cooper* and *Sharman*.

(a) Power to prevent

The first issue for consideration is whether the respondent had sufficient power to prevent the doing of the act. *Cooper* and *Sharman* looked at the issue of power to control the act of infringement and followed varying interpretations of the notion of power. In *Cooper* Tamberlin J found that based on the evidence, Cooper had created the access code for users to add hyperlinks by employing CGI-BIN script on his website. The expert evidence of Professor Sterling declared that using this access code implied that Cooper gave permission to users to automatically add hyperlinks to his website. This gave Cooper a sufficient degree of control over files linked to his website.

Tamberlin J's determination that simply using such a gateway script places a broad degree of responsibility on the website operator to supervise the acts of their users significantly broadens the concept of authorisation liability. Other instances where CGI-BIN script is employed will be less likely to attract as much attention for copyright infringing purposes and consequently may yield differing results regarding liability. Section 39B will also negate liability where there is

a mere use of the facilities for communication. Consequently, instances where CGI-BIN script is used as an access code in which there is a lack of power by the website operator to control acts being committed on their facilities will be unlikely to lead to findings of infringement.

In *Sharman*, Wilcox J accepted considerable evidence that there had been no centralised server of the Kazaa system. There were only three points of contact between Sharman and the user – when the Kazaa program was downloaded, when the user first connected and when the program was uninstalled.⁸ Sharman had no control or power over the acts of their users and what material users downloaded through the system. However, Wilcox J looked at the fact that the Kazaa program enabled the filtering of certain files depending on their type. For instance, users could restrict searches to video files, movie files or programs. The gold file filtering also enabled searches to be categorised into legitimate files. It was on this basis that Wilcox found there was the requisite degree of power to prevent infringing acts occurring. Because the operators of Sharman networks had incorporated features into Kazaa that allowed gold files to be distinguished from blue files, Wilcox J determined that this gave them the power to prevent blue files being incorporated into searches.⁹ Although Sharman exercised no control over the facilities, the blue files, which were predominantly illegitimate, should have been filtered.

(b) Nature of the relationship

The second issue for consideration of liability in section 36(1A) is the nature of the relationship. In *Cooper*, Tamberlin J considered the nature of hyperlinks in general. He referred to the United States case *Universal City Studios, Inc v Reimerdes*¹⁰ which dealt with the similar subject matter of a website linking users to infringing music files. As was the situation in *Cooper*, in this case the hyperlinks automatically commenced the process of downloading music files upon clicking on the hyperlink. This translated to the 'functional equivalent of transferring the music files to the

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users themselves'.¹¹ As the design of the website enabled direct downloading through hyperlinks, Cooper 'knowingly permitted or approved' the copyright infringement by users of his website and also by the operators of the remote websites.

In *Sharman*, Wilcox J conceded that there was no ongoing relationship between the user and Sharman beyond provision of the software. However, the promotion of the 'Kazaa Revolution' movement¹² by Sharman was intended to appeal to users on the basis that users were mobilised to adopt peer to peer technology and use it to share information. Although no statements specifically endorsed infringing copyright, Wilcox J implied that the youth market could interpret the 'Kazaa Revolution' as making it seem 'cool' to infringe copyright. Given that a large proportion of material passing through file sharing networks was infringing, Wilcox J interpreted this movement as an encouragement to defy record companies and engage in copyright infringement.¹³

(c) Reasonable steps taken

Subsection 39(1A)(c) lists as a factor for consideration whether reasonable steps were taken to prevent infringement.¹⁴ What constitutes 'reasonable steps taken to prevent infringement' obviously bears a relation to the degree of control a person has to prevent infringement. In *Cooper* a disclaimer on the website warning users that some links were to infringing files and absolving himself of liability was not a sufficient step taken to prevent infringement. Instead, the disclaimer acted more like an acknowledgement that links could be to infringing material. Reasonable steps in the situation of *Cooper* would have been the removal of hyperlinks that linked to infringing sites. As Cooper made no steps to prevent infringing material being linked on his site or to ascertain the legality of the mp3s, liability for authorisation was found.

In *Sharman* despite warnings on the website and an end user licence agreement (EULA) in which users agreed not to share infringing files, these actions were not seen as

sufficient to prevent the trade of infringing copyright material. Wilcox J noted that no one could have really believed that the EULA was a sufficient measure to prevent the infringement of copyright.¹⁵ The EULA did nothing to deter users trading in copyright material. Wilcox J noted that reasonable steps that could be taken in this case would be the filtering of blue files so that trade was restricted to gold files. Wilcox indicated that Sharman could have performed this filtering system however they were deterred from it because it was the availability of blue files on the system that attracted users. The attractiveness of the Kazaa system was sustained due to users wishing to use Kazaa to access infringing files. Wilcox J noted that regardless of the terms of the EULA or disclaimer, both methods would have been ineffective in deterring infringement due to the nature of the website to attract users participating in copyright infringement.

Consequently there is no indication of what steps would be sufficient to constitute 'reasonable steps' to prevent infringement in other scenarios. *Cooper* and *Sharman* have demonstrated that the degree of control is generally a high obligation making the reasonable steps that are expected to be taken in the online environment particularly onerous. Disparities in the interpretation of the requirements in subsection 36(1A) place varying degrees of responsibility on people operating facilities which can be used for copyright infringement.

2.4 Co-respondents

People who provide assistance to the main respondent can also be found liable. Authorisation liability was also found against the ISPs in *Cooper* due to the specific actions taken by the ISP's employees. The ISPs were responsible for hosting the website and providing the necessary connection to the internet. The ISPs had the power to prevent the doing of the infringing acts. They received the benefit of free advertising on the site and assisted Cooper with the establishment and operation of his website. Tamberlin J did not accept the ISPs' assertions that they were

unaware of the site and what activities were being conducted on the site. The site was one of the ISPs' most successful sites and the traffic generated would have been advantageous to the ISPs. The direct involvement of the ISPs in the operation of the website and their failure to take reasonable steps to prevent acts of infringement satisfied Tamberlin J's finding of authorisation liability.

Similarly the assistance given by Altnet to Sharman resulted in liability being shared between both companies. This was despite the fact that the participation of Altnet was intended to allow Kazaa to integrate legitimate file trading. Wilcox J found that the joint venture of Sharman and Altnet resulted in the financial interests and viability of each company being dependent on the other.¹⁶ Because the co-respondent, Altnet, was regarded as an integral part of the Kazaa system the result was that both entities were liable for authorisation.

This creates uncertainty about the extent of another entity's liability for authorisation and whether routine acts performed in the course of a service provider's usual services will give rise to joint liability for authorisation. Both cases produced findings of joint liability regardless of the purpose of the assistance given. There is no guidance as to what extent the assistance given will result in liability of authorisation. The exception to authorisation should produce guidance on this matter.

2.5 Exception to authorisation liability

Section 39B was originally drafted to apply to carriage service providers and carriers providing facilities for communication.¹⁷ The provision later enacted was expanded to read that:

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 a work merely because another person uses the facilities so provided to do something the right to do which is included in the copyright.

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The provision provides an exception to liability where there is a mere use of those facilities by a user that results in infringement of copyright.

Submissions to the Philips Fox review of the Digital Agenda amendments indicated there were three possible interpretations of the interaction between sections 36 and 39B:

1. section 39B would have no effect on section 36 - if authorisation was found then the activity would not fall under section 39B;
2. section 39B should be read separate to section 36 - if the activity fell under section 39B then no consideration of authorisation was necessary; or
3. section 36 should be interpreted to the extent that it intersects with section 39B - that any interpretation of section 36 would have to take place in reference to the intersection with section 39B.¹⁸

The judgements in *Cooper* and *Sharman* appeared to favour the third option. In *Cooper* the relevant factors that were brought into account in consideration of section 39B for liability of Cooper were similar to the factors relevant in determining authorisation. In *Sharman*, Wilcox J stated that consideration of section 112E meant that '[i]f the most that can be said of Sharman is that it has provided the facilities used by another person to infringe copyright' there is no authorisation.¹⁹

The issues paper released by Philips Fox on 'Carriers and CSPs' also invited comments on whether the injection of the word 'merely' in reference to the 'use' of the facilities would have differing interpretations to the 'mere provision' of the facilities.²⁰ It noted that international obligations to provide a defence to ISPs communicating the information used the word 'merely' in reference to the provision of facilities.²¹ The finalised report however noted that no detailed submissions were received on this issue.²²

Cooper was found not to be eligible for the defence under section 112E of the Act. Cooper was said to be far more involved in just providing the facility and offered encouragement to users to download material. These circumstances precluded the application of the exception. The ISPs attempted to rely on the defence in section 112E excluding authorisation liability against people providing facilities for communication infringements. Tamberlin J stated 'where a host is on notice of an irregularity and deliberately elects not to investigate the operation and turns a blind eye to such indications'²³ is beyond the operation of the defence. In this situation the ISPs did more than merely provide facilities due to the reciprocal consideration passing between Cooper and the ISPs, namely free hosting in exchange for advertising. The introduction of a notice requirement in section 39B appears to impose strong obligations on ISPs to be wary of what service they provide to customers.

In *Sharman* Wilcox J accepted that Sharman satisfied the threshold requirements of section 112E. Sharman was 'a person' who 'provided facilities' for communication. However, Wilcox J also determined that the activities relevant to the Kazaa system went beyond the mere provision of facilities and consequently the conduct of Sharman was outside the scope of section 112E. In determining this Wilcox J referred to several of the factors already covered in the consideration of authorisation and as authorisation had already been determined, the applicability of the defence seemed unlikely.

The unsuccessful use of the defence under section 112E against liability for authorisation also illustrates the limited application of this defence, particularly if the requisite degree of supervision under section 101 will be construed as broadly as in these cases. Although the wording of the judgements indicates that authorisation will be attributed to the extent that it intersects with section 112E the reasoning of both judgements against the applicability of section 112E indicates that generally the Judges' decision on authorisation

liability will have already been determined before considering the defence. Section 112E therefore appears to have limited use.

Conclusion

As the preceding discussion has demonstrated the relevance of section 39B in the consideration of authorisation appears merely perfunctory. Although consideration of sections 36 and 39B remain separate issues, the judicial consideration of these provisions show that where conduct falls within authorisation, it does not appear to be able to get the benefit of section 39B. Although section 39B was enacted to provide protection to ISPs the circumstances in which they are able to claim the benefit of the defence are limited.

Copyright owners have realised that it is impossible to catch each and every infringer for copyright. Instead they have tried to attack providers of content for secondary liability. However, relevance of litigation is quickly being superseded by technological developments. For instance, peer-to-peer technology has advanced from simple file sharing programs such as Kazaa to more advanced applications like BitTorrent, E-Donkey and DarkNet. With both cases under appeal it is unlikely that certainty in the law of authorisation liability will result soon. Content providers must continue to be wary of their potential for liability in the online environment.

¹ [2005] FCA 972

² [2005] FCA 1242

³ *Cooper*[2005] FCA 972, at para [62]

⁴ (1975) 133 CLR 1

⁵ *Falcon v Famous Players Film Co Ltd* [1926] 2 KB 474, per Lord Bankes

⁶ *Moorhouse* (1975) 133 CLR 1 at 12 per Gibbs

⁷ *Australasian Performing Right Association Ltd v Metro on George Pty Ltd* [2004] FCA 1123

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⁸ *Sharman* [2005] FCA 1242, at para [221]

⁹ *Sharman* [2005] FCA 1242, at para [411]

¹⁰ 111 F.Supp.2d 294 (SDNY) 2000

¹¹ *Cooper*[2005] FCA 972, at para [26]

¹² See: <<http://www.kazaa.com/revolution/actnow.htm>>

¹³ *Sharman* [2005] FCA 1242, at para [340]

¹⁴ Although subsection 36(1A) draws reference to compliance with an

industry code as a factor to determine liability, the absence of an applicable industry code in both Cooper and Sharman meant that no guidance was provided of the relevant industry standard.

¹⁵ *Sharman* [2005] FCA 1242, at para [331]-[340]

¹⁶ *Sharman* [2005] FCA 1242, at para [472]

¹⁷ *Copyright Amendment (Digital Agenda) Bill 1999*, sections 42 and 95

¹⁸ Australia. Philips Fox, *Report on the Copyright Amendment (Digital*

Agenda) Act 2000 and related matters (Canberra: 2004), 80

¹⁹ *Sharman* [2005] FCA 1242, at para [396]

²⁰ Australia. Philips Fox, *Digital Agenda Review – Carriers and Carriage Service Providers - Issues paper* (Canberra: 2003), 12

²¹ World Intellectual Property Organisation Copyright Treaty of 1996, see note to Article 8

²² Above n 35, Philips Fox at p 81

²³ *Cooper* [2005] FCA 972 at para [126]

Exploring the Increasing Role of Patents for Australian Business

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“Microsoft, IBM and others are applying for patents in quantity. Those who don’t understand the situation, are not. Many are happy to have software patents attacked. Why let your competitor, in on a good thing?”¹

The writer will examine the evidence of an increasing role for patents for Australian business. The paper will continue by exploring the reasons behind the increase in patent registration and the increased significance of patents for technology companies over the last decade. This paper will then examine the nature of a patent and the types of inventions which are patentable subject matter, and will conclude with some observations about future directions and strategies for the use of patents.

1. THE EVIDENCE OF AN INCREASING ROLE FOR PATENTS

This section of the paper examines the statistical evidence of an increasing

level of patent acquisition globally. The practical ramifications of the increase are examined in the balance of the paper.

Table 1 below² shows a significant growth rate in Patent Cooperation Treaty³ (“PCT”) applications filed on a global basis since the inception of PCT applications in 1978. The number of filings increased during the 1990’s by an annual average of 17%. There has been a slowing of growth since 2001.

Of the national origins of patent applications in Table 1 the European Patent Convention nations rank 1st with the USA a close second. Japan and Germany rank 3rd and 4th, with Australia 13th just behind Canada and ahead of China⁴. In 2004, 1,705 applications originated from China which had only 3 applications from 1990 to 1993. In 2005 Chinese applications had risen to 2,501. This shows the increased interest in IP in China and rapid growth in patent filing since the early 1990’s at up to

120% per annum.⁵ Rankings to 2006 show that Australia has dropped to 14th with China rising to 11th overall. China has maintained a growth rate in filings from 2002 to 2006 of 43%. The USA remains the dominant single country filing PCT applications with 45,586 applications originating from the USA in 2005. Not surprisingly the USA is a strong supporter of the established international system for IP registration and enforcement.

Turning to statistics on the filing of patents in Australia, IP Australia’s published data shows a steady increase in the number of patents entering examination phase in Australia each year. Of the patents filed in 2003/2004 only 11% were filed by Australian applicants and 43% by US applicants.⁶

Table 2 below shows the total number of standard applications entering examination phase in Australia from 1994 to 2005: