

## Courting Kazaa – Judicial Approaches Towards P2P Networks in the US and Australia

### VI. Conclusion

Google's Book Search project has been hit by lawsuits in the United States because rights holders feared the infringement of their exclusive rights, and undoubtedly Google and others would face similar lawsuits here in Europe if it were to start digitising content from libraries in a similar manner. It is unfortunate that the harmonised rules of the Copyright Directive have created a rigid system of copyright exceptions for the whole of Europe that do not allow for the flexibility needed to accommodate for new technologies and products such as those developed by Google, Yahoo! and Microsoft (the two latter via the OCA initiative).

The benefits of moving books and other similar content online and therefore within everybody's reach cannot be doubted, however. The new book search products, as well as the Commission's digital libraries initiative,

promise to bring a whole new dimension to the way we currently access information, and thus, provided that rights holders' interests are not harmed in the process, the introduction of such products should not be hindered by restrictive copyright rules not designed for such purposes. However, the rules as they are set out in the Copyright Directive (and implemented in national laws), bar the way to digital library and book search projects in Europe. Steps need to be taken to open it, but consideration should be given to the viability of the different options proposed. Two possible, though not necessarily only, solutions, would be the encouraging of the adoption of digital rights management solutions to allay the fears of many rights holders, and introducing a new copyright exception in the EC, namely a European Fair Use exception. The latter solution would undoubtedly not be easy, and would have rather far reaching implications to copyright law in general.

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## Courting Kazaa – Judicial Approaches Towards P2P Networks in the US and Australia

*As with the litigation involving its predecessor Napster, cases involving the Australian based P2P service Kazaa and its US licensees Grokster and Morpheus required from the courts to balance the legitimate interests of the computer industry and the public in new and advanced technologies on the one hand and of so-called "content providers" of the media and entertainment industry on the other hand. The article examines, how US and Australian courts have approached this task and, in spite of differences in the legal frameworks of the two countries, have reached similar conclusions.*

### I. Introduction

#### 1. Copyright in the Information Society

Since the advent of the computer industry and of digital technology, copyright lawyers have been struggling with the consequences of the new technology for a wide variety of works. During the 1990s, these consequences came to be addressed at the national and international level through new legislation and international agreements. The WTO-TRIPS Agreement of 1994 required national governments to protect computer programs as literary works within the Berne Convention, to protect compilations of data under certain circumstances and to provide rental rights for owners of copyright in computer programs, cinematographic works and phonograms.<sup>1</sup> Two subsequent treaties negotiated under the auspices of the World Intellectual Property Organisation (WIPO) addressed the so-called 'digital agenda'. The WIPO Copyright Treaty of 1996 included, among other things, a new 'communication right', which referred to the exclusive rights of the copyright owner to make works available to members of the public in such a way that they may access the work from a place and time individually chosen by them. The WIPO Performances and Phonogram Treaty contains a similar right of 'making available' specifically for performers and phonogram producers.<sup>2</sup>

Around the same time as these international treaties were concluded, the digital agenda was also pursued at the national level. The US 'National Information Infrastructure' was set up in 1994 and produced a White Paper in 1995<sup>3</sup> and in 1998, the US Digital Millennium Copyright Act (DMCA) was enacted.<sup>4</sup> The EC issued a number of copyright related directives during the 1990s, culminating in the Information Society Directive of 2001.<sup>5</sup> In Australia, the Copyright Convergence Group issued its report in 1994 and many of its recommendations were implemented in the Copyright Amendment (Digital Agenda) Act 2000, which entered into force in 2001.<sup>6</sup>

#### 2. Balancing the Interests of Technology Suppliers and Content Providers

With the new communication right thus firmly entrenched at the national and international level, the attention shifted to various new forms of infringement and to the liability of various actors for copyright infringing acts. In this context, a line of cases involving so called peer-to-peer (P2P) file sharing services assumed particular importance. The sharing of music files between individ-

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1 L. Bently/B. Sherman, Intellectual Property Law, 2<sup>nd</sup> ed., Oxford: Oxford University Press 2004, pp. 40–41.

2 See Art. 8 WCT and Arts. 7–10 WPPT and L. Bently/B. Sherman, Intellectual Property Law, 2<sup>nd</sup> ed., Oxford: Oxford University Press 2004, pp. 41–42.

3 J. McKeough/A. Stewart/P. Griffith, Intellectual Property in Australia, 3<sup>rd</sup> ed., Sydney: LexisNexis Butterworths 2004, p. 137.

4 G. Davies, Copyright and the Public Interest, 2<sup>nd</sup> ed., London: Sweet & Maxwell 2002, pp. 94–99.

5 L. Bently/B. Sherman, Intellectual Property Law, 2<sup>nd</sup> ed., Oxford: Oxford University Press 2004, pp. 51–52.

6 J. McKeough/A. Stewart/P. Griffith, Intellectual Property in Australia, 3<sup>rd</sup> ed., Sydney: LexisNexis Butterworths 2004, p. 137.



## Courting Kazaa – Judicial Approaches Towards P2P Networks in the US and Australia

uals using networked computers has alarmed the music industry in particular. In a two-pronged approach, they have started suing individual users of P2P technology as well as the technology providers.<sup>7</sup> In particular in the Anglo-American jurisdictions, they rekindled a debate about the liability for copyright infringement of providers and suppliers of enabling technology. Ultimately, in this area, the courts have to undertake a delicate balancing act by trying to protect copyright holders, but without discouraging the further development of useful technologies, even if these technologies can also be used for infringing purposes. In the US, the standards for this exercise had been set in the decision of *Sony Corp of America v. Universal Studios, Inc.*<sup>8</sup> concerning the Beta-max video recorder. The court imported the so-called “staple article of commerce” doctrine from US patent law in finding that the manufacturer or supplier of a technological product “capable of substantial non-infringing uses”, even with constructive knowledge of the infringement, would not be liable for copyright infringement.<sup>9</sup> In Australia, the seminal case concerning ‘authorisation’ of copyright infringements is *University of New South Wales v. Moorhouse*.<sup>10</sup> Liability of the university in this case was based on the insufficient supervision of a photocopier on its premises, which had been used for the making of copyright infringing copies.<sup>11</sup> Different from the US, however, statutory definitions of ‘authorisation without licence’ for the original works of Part III and for the “subject-matter other than works” (including sound recordings) of Part IV of the Australian Copyright Act of 1968 have been introduced by the Copyright (Digital Agenda) Amendment Act of 2000.<sup>12</sup> The remainder of this paper will analyse how the courts

have approached this difficult balancing act between the computer industry and the so-called “content providers” of the media and entertainment industry in the US and in Australia.

## II. P2P Litigation in the US

### 1. First Generation of P2P Services

The first of the P2P services, ‘Napster’ was famously shut down after the US 9<sup>th</sup> Circuit Court confirmed a preliminary injunction of the District Court for the Northern District of California that *prima facie* the service had contributed to copyright infringement. The court cited the 1971 case of *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*<sup>13</sup> for the traditional contributory copyright infringement doctrine that “one, who with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held as a ‘contributory infringer’.”<sup>14</sup> With Napster’s material contribution to the infringement not in doubt, the Ninth Circuit found further that Napster had actual knowledge of the infringing activities because it had received actual notice about them from record companies, it had the ability to block access to its system by the suppliers of the infringing material and it had failed to remove the material from its system.<sup>15</sup> Napster’s attempt to counter the claim of contributory infringement by pointing to the decision in *Sony Corp of America v. Universal City Studios, Inc.* failed. The Ninth Circuit Court made it plain that it did not want to “impute the requisite level of knowledge to Napster merely because peer-to-peer file sharing technology may be used to infringe plaintiffs’ copyright and that the District Court had placed undue weight on the proportion of current infringing use as compared to current and future non-infringing use.”<sup>16</sup> However, it distinguished *Napster* from *Sony* mainly on two grounds: while the users in *Sony* were engaging in fair use (“time shifting” referring to the recording of a television program for later viewing), *Napster* failed to establish that the file sharing by its millions of users came under the fair use defence.<sup>17</sup> In addition, the *Sony* case was found to be of only limited assistance to *Napster* because of the file sharing services’ actual knowledge of the direct infringements of its users.<sup>18</sup> Apart from contributory liability, US law allows the injured copyright holder further to base the claim on vicarious liability of the defendant. This applies where the defendant has the right and ability to supervise the infringing activities and a direct financial interest in them.<sup>19</sup> In this regard, the Ninth Circuit found that “Napster’s failure to police the system’s ‘premises’, combined with a showing that Napster financially benefits from the continuing availability of infringing files on its system, leads to the imposition of vicarious liability.”<sup>20</sup> Napster had “both the ability to use its search function to identify infringing musical recordings and the right to bar participation of users who engage in the transmission of infringing files”.<sup>21</sup> Thus, Napster’s central indexing server that enabled it to supervise the activities of its users and its actual knowledge of the infringing activities became its downfall.

### 2. Second Generation of P2P Services

Because of this central server, Napster was not a “pure” P2P service. Predictably, in view of the outcome in this

7 A.M. Witt, “Burned in the USA: Should the Music Industry Utilize its American Strategy of Suing Users to Combat Online Piracy in Europe?”, 11 Colum. J. Eur. L. 375 at 379–382. Observers have pointed out that the former approach was increasingly adopted in the US following the unsuccessful litigation against Grokster at first instance and at the appeal stage, J.M. Moye, “How Sony Survived: Peer-to-Peer Software, Grokster, and Contributory Copyright Liability in the Twenty-First Century”, 84 N.C.L. Rev. 646 at 672.

8 464 US 417.

9 J.C. Ginsburg/S. Ricketson, “Inducers and authorisers: A comparison of the US Supreme Court’s *Grokster* decision and the Australian Federal Court’s *Kazaa* ruling”, (2006) 11 Media and Arts Law Review, p. 3; P. Ganley, “Surviving Grokster: Innovation and the Future of Peer-to-Peer”, E.I.P.R. 2006, 28(1), p. 15.

10 (1975) 133 CLR 1.

11 See J.C. Ginsburg/S. Ricketson, “Inducers and authorisers: A comparison of the US Supreme Court’s *Grokster* decision and the Australian Federal Court’s *Kazaa* ruling”, (2006) 11 Media and Arts Law Review, p. 11–13; R. Giblin-Chen/M. Davison, “Kazaa goes the way of Grokster? Authorisation of copyright infringement via peer-to-peer networks in Australia”, (2006) 17 AIPJ 53.

12 See s. 36(1A) and s. 101(1A) of the Copyright Act. See further J.C. Ginsburg/S. Ricketson, “Inducers and authorisers: A comparison of the US Supreme Court’s *Grokster* decision and the Australian Federal Court’s *Kazaa* ruling”, (2006) 11 Media and Arts Law Review, pp. 13–14.

13 443 F.2d 1159, 1162 (2d Cir. 1971).

14 *A&M Record Inc v. Napster Inc.* 239 F.3d 1004 (9<sup>th</sup> Cir 2001), at 1019.

15 *Ibid.*, at 1022. See also D.G. Post, “His Napster’s Voice”, in A. Thierer and C.W. Crews Jr. (eds.), *Copyrights – The Future of Intellectual Property in the Information Age*, Washington, D.C.: Cato Institute 2002, pp. 11–12.

16 *Ibid.*, at 1020–1021.

17 *Ibid.*, at 1014–1015 and 1018–1019.

18 *Ibid.*, at 1020.

19 *Ibid.* at 1022. See further M. Jackson/M. Shelly, “Black Hats and White Hats: Authorisation of Copyright Infringement in Australia and the United States”, 14 Int’l J.L. & Info Tech 28 at 33 citing *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9<sup>th</sup> Cir. 1996).

20 239 F.3d, at 1024.

21 *Ibid.*, at 1027.



## Courting Kazaa – Judicial Approaches Towards P2P Networks in the US and Australia

case, the next generation of P2P services attempted to place the file sharing of their users beyond their control by eliminating the necessity of a central server.<sup>22</sup> Kazaa and its US licensees Grokster and Morpheus used a decentralised network of nodes and regional supernodes to further improve and speed up the file sharing process and to allow for direct sharing of files between users, to which they merely provided the enabling software.<sup>23</sup>

### a) District Court's Approach

Metro-Goldwyn-Mayer and other companies representing the motion pictures and music recording industries took action in 2003 against Grokster, Ltd. and its affiliate StreamCast Networks, Inc. in the US District Court of California.<sup>24</sup> Citing *Sony* and finding that the technology was capable of substantial non-infringing uses, the District Court endorsed the heightened knowledge standard used by the Ninth Circuit in *Napster* and required that the defendants have "(1) specific knowledge of infringement at a time at which they contribute to the infringement, and (2) fail to act upon that information."<sup>25</sup> The court did not immediately answer the question about the knowledge standard, but decided against contributory liability, because the decentralised nature of the Grokster operation made it impossible to argue that there was material contribution by the defendants to the infringing activity.<sup>26</sup> For similar reasons, a claim to establish vicarious liability failed as well.<sup>27</sup> The conclusion shows that the court came to its decision not without regrets, stating that it was "not blind to the possibility that Defendants may have intentionally structured their businesses to avoid secondary liability for copyright infringement, while benefiting financially from the illicit draw of their wares." The court found it impossible, however, to "expand existing copyright law beyond its well-drawn boundaries" and relied as justification on a well-known deference to legislative reform from the *Sony* case:

"The judiciary's reluctance to expand the protections afforded by the copyright without explicit legislative guidance is a recurring theme ... Sound policy, as well as history, supports our consistent deference to Congress when major technological innovations alter the market for copyright materials. Congress has the constitutional authority and the institutional ability to accommodate fully the raised permutations of competing interests that are inevitably implicated by such new technology. In a case like this, in which Congress has not plainly marked our course, we must be circumspect in constructing the scope of rights created by a legislative enactment which never calculated such a calculus of interests."<sup>28</sup>

### b) Appeal Court Approaches

On appeal, the decision was confirmed by the Ninth Circuit.<sup>29</sup> In commenting on the *Sony* standard, the court rejected the copyright owners argument placing the emphasis on the extent of the infringement and evidence that the vast majority of the software use is for copyright infringement. According to the Ninth Circuit, this argument "misapprehends the *Sony* standard as construed in *Napster I*, which emphasized that in order for limitations imposed by *Sony* to apply, a product need only be capable of substantial noninfringing uses."<sup>30</sup>

### aa) 7<sup>th</sup> Circuit: Magnitude of Infringing Use and Wilful Blindness as Knowledge

In an interesting footnote, the court then commented on the decision of the Seventh Circuit in *Re: Aimster Copyright Litigation*.<sup>31</sup> In this case, the Seventh Circuit had interpreted *Sony* in a way that was more conducive to the interests of the copyright owners. The court shifted the analysis away from knowledge towards the extent of the infringement: "What is true is that when a supplier is offering a product or service that has noninfringing as well as infringing uses, some estimate of the respective magnitudes of these uses is necessary for a finding of contributory infringement."<sup>32</sup> Judge Richard Posner, who wrote the opinion, also rejected an attempt by Aimster, to rely on the lack of actual knowledge of the infringing activities. Instead he found that "wilful blindness is knowledge in copyright law (where indeed it may be enough that the defendant should have known of the direct infringement)."<sup>33</sup> He then provided an interesting comparison with the criminal law of aiding and abetting:

"A retailer of slinky dresses is not guilty of aiding and abetting prostitution even if he knows that some of his customers are prostitutes – he may even know which ones are ... The extent to which his activities and those of similar sellers actually promote prostitution is likely to be slight relative to the social costs of imposing a risk of prosecution on him. But the owner of a massage parlor who employs women who are capable of giving massages, but in fact as he knows sell only sex and never massage to their customers, is an aider and abettor of prostitution."

And returning to the issue of infringing and non-infringing uses in copyright, he continued:

"To the recording industry, a single known infringing use brands the facilitator as a contributory infringer. To the Aimsters of this world, a single noninfringing use provides complete immunity from liability. Neither is correct."

### bb) 9<sup>th</sup> Circuit: Broader Reading of *Sony*-*Betamax*

The Ninth Circuit Court in the Grokster appeal disagreed: "... Aimster is premised specifically on a funda-

22 J.C. Ginsburg/S. Ricketson, "Inducers and authorisers: A comparison of the US Supreme Court's *Grokster* decision and the Australian Federal Court's *Kazaa* ruling", (2006) 11 Media and Arts Law Review, p. 4.

23 For detailed discussions of this technology and the similar technology in the Australian Kazaa case, see the decisions at first instance in *Grokster*, 259 F.Supp.2d 1029 at 1039–1041 and in *Kazaa*, *Universal Music Australia Pty Ltd v. Sharman License Holdings Ltd* [2005] FCA 1242 (5 September 2005), pp. 33–45. See also R. Giblin-Chen/M. Davison, "Kazaa goes the way of Grokster? Authorisation of copyright infringement via peer-to-peer networks in Australia", (2006) 17 AIPJ 53, pp. 56–58.

24 259 F.Supp.2d 1029. This case was originally consolidated with a further action taken by professional songwriters and music publishers against Kazaa BV (under its original name of Consumer Empowerment BV), but Kazaa BV failed to defend this action after it sold its operations to Sharman Networks, which later became the defendant in the Australian P2P litigation.

25 *Ibid.*, at 1036.

26 *Ibid.*, at 1038–1043.

27 *Ibid.*, at 1043–1046.

28 *Ibid.*, at 1046.

29 380 F.3d 1154.

30 *Ibid.*, at 1162.

31 334 F.3d 643.

32 *Ibid.*, at 649.

33 *Ibid.*, at 650.



## Courting Kazaa – Judicial Approaches Towards P2P Networks in the US and Australia

mental disagreement with Napster I's reading of Sony-Betamax. We are not free to reject our own Circuit's binding precedent... Even if we were free to do so, we do not read Sony-Betamax's holding as narrowly as does the Seventh Circuit.<sup>34</sup> Thus, finding that the Grokster technology was capable of substantial non-infringing uses, the court confirmed the District Court's finding based on lack of specific knowledge of the infringement, lack of material contribution and lack of arguments to impose vicarious liability. As the District Court, the Ninth Circuit concluded that the correct balance between new technology and copyright principles was a matter for Congress and not for the courts. Different from the District Court, however, the Ninth Circuit was less apologetic about the outcome:

"The Copyright Owners urge a re-examination of the law in light of what they believe to be proper public policy, expanding exponentially the reach of the doctrines of contributory and vicarious copyright infringement. Not only would such a renovation conflict with binding precedent, it would be unwise. Doubtless, taking that step would satisfy the Copyright Owners' immediate economic aims. However, it would also alter general copyright law in profound ways with unknown ultimate consequences outside the present context."<sup>35</sup>

Besides, new technologies were always disruptive to old markets, but history had shown that time and market forces often provided equilibrium in balancing interests.<sup>36</sup>

### c) The Sony Doctrine and its Interpretations at Appeal Court Level

Thus, while the Ninth Circuit provided an interpretation of the Sony Doctrine that stressed the word "capable" in "capable of substantial noninfringing uses", the Seventh Circuit focused on the requirement that such uses be "substantial". The first interpretation is broader and facilitates the imposition of the restrictive Sony standard on copyright owners, which works ultimately in favour of the technology sector. The second, narrower interpretation is less exculpatory for new technologies, thus favouring the copyright owners. Equally, on the aspect of knowledge, the Ninth Circuit required "reasonable knowledge of specific infringing activities" while "wilful blindness" is all that the Seventh Circuit required.<sup>37</sup> The outcome of the Grokster appeal was disappointing from the viewpoint of the recording industry. While the case was appealed further to the US Supreme Court and with the ultimate outcome in the US in the balance, the recording industry simultaneously pursued different strategies such as suing individual P2P users for direct infringement, litigating in other countries with similar services such as Australia and taking action against

other potential contributors such as companies that provided financial support for a contributing and vicarious infringer.<sup>38</sup>

### d) U.S. Supreme Court's Approach

In *Sony*, the US Supreme Court had imported the "staple article of commerce" from patent law to limit copyright liability. In its appeal decision in *Grokster*, the court borrowed again from patent law by enunciating its inducement doctrine: "... one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties."<sup>39</sup> Apart from having found statutory expression in US patent law, however, the inducement doctrine is also a return to earlier principles applied in copyright law.<sup>40</sup> While the Supreme Court upheld the Sony doctrine, the Ninth Circuit reading was found to be erroneous. Sony merely barred secondary liability based on presuming or imputing intent to cause infringement solely from the design or distribution of a product, capable of substantial lawful use, which the distributor knows is in fact used for infringement. However, the Ninth Circuit read Sony to mean that whenever a product is capable of substantial lawful use, the producer can never be held contributorily liable for third parties' infringing use of it, even when an actual purpose to cause infringing use is shown by evidence independent of design and distribution, unless there is specific knowledge of infringement at a time of the contribution to the infringement and failure to act upon that information.<sup>41</sup> This reading was clearly too broad and it was held that nothing in Sony required courts to ignore evidence of intent, if there is such evidence. Sony was never meant to foreclose rules of fault-based liability derived from the common law.<sup>42</sup>

There was ample evidence to come to the conclusion that Grokster had actively induced infringement of copyright. The court concentrated on three features of this evidence.

- ▷ *First*, when the demise of Napster was imminent, Grokster had taken steps to capture the Napster network of users and to become the next Napster. This is why the name Grokster was chosen and this is why StreamCast initially operated with OpenNap, software specifically designed to "leverage Napster's 50 million user base."<sup>43</sup> There were also attempts by Grokster to divert queries for Napster onto its own website. Overall, the court concluded that "Grokster and StreamCast's efforts to supply services to former Napster users, deprived of a mechanism to copy and distribute what were overwhelmingly infringing files, indicate a principal, if not exclusive intent on the part of each to bring about infringement."<sup>44</sup>
- ▷ *Second*, there was no evidence that the Grokster defendants had attempted to develop filtering tools or other mechanisms to diminish the infringing activity using their software. In fact, they had rejected offers by another company to help monitor infringement.<sup>45</sup>
- ▷ *Third*, the company's business plan relied on the selling of advertising space and on high-volume use related to infringing activities.

<sup>34</sup> 380 F.3d 1154, at 1162, fn. 9.

<sup>35</sup> *Ibid.*, at 1166.

<sup>36</sup> *Ibid.*, at 1167.

<sup>37</sup> J.M. Moye, "How Sony Survived: Peer-to-Peer Software, Grokster, and Contributory Copyright Liability in the Twenty-First Century", 84 N.C.L. Rev 646, pp. 670–671.

<sup>38</sup> *Ibid.*, p. 672, fn. 173.

<sup>39</sup> 125 S. Ct. 2764, at 2780.

<sup>40</sup> R. Giblin-Chen, "Rewinding Sony: An Inducement Theory of Secondary Liability", E.I.P.R. 2005, 27(11), 428–436, at 431.

<sup>41</sup> 125 S. Ct. at 2778.

<sup>42</sup> *Ibid.*, at 2779.

<sup>43</sup> *Ibid.*, at 2773.

<sup>44</sup> *Ibid.*, at 2781.

<sup>45</sup> *Ibid.*, at 2773 and 2781.



## Courting Kazaa – Judicial Approaches Towards P2P Networks in the US and Australia

As the court pointedly remarked: “While there is doubtless some demand for free Shakespeare, the evidence shows that substantive volume is a function of free access to copyrighted work.”<sup>46</sup> Important for future cases seeking to rely on the guidance provided by *Grokster*, the court declared that the latter two features of evidence seen in isolation were not sufficient to justify an inference of unlawful intent, but they had to be viewed in the context of the entire record and by taking into account other evidence of intent.<sup>47</sup> This has meanwhile led to some speculation, how different combinations of evidence might play out in future cases<sup>48</sup> and how active a producer/distributor of technology needs to be to avoid secondary liability.<sup>49</sup>

The US Supreme Court refused to be drawn into a discussion about the future interpretation of the *Sony* standard. The decision itself was unanimous based on the inducement doctrine, but Justices *Ginsburg* and *Breyer* (each joined by two other judges) filed concurring opinions, which offered different interpretations of *Sony*, thus the divide about the issue continues, even within the ranks of the Supreme Court.

### III. P2P litigation in Australia

The recording industry took action against the companies operating the Kazaa system in Australia at a time of considerable frustration about the *Grokster* litigation following the decisions at District Court and Court of Appeal level (see II.2.c] above). In early 2004, 30 sound recording companies led by Universal Music Australia Pty Ltd took action in the Australian Federal Court against Sharman License Holdings and its associated companies as well as their directors and technicians. The applicants based their claims *inter alia* on infringement of copyright by communication and authorisation of infringement, on joint tortfeasorship, on the Trade Practices Act 1974 (Cth) and the Fair Trading Act 1987 (NSW) as well as on the tort of conspiracy.

#### 1. Available Evidence

Substantial evidence was secured at an early stage of the proceedings by means of *Anton Piller* orders and pre-trial discovery and the taking of evidence continued until December 2004. However, in spite of all the evidence and a very detailed discussion of the technical features of the Kazaa system, the court remained somewhat unsure about the existence of a central server, because of a joint venture agreement between Sharman and affiliate Altnet that allowed Altnet to provide licensed and authorised material on response to search requests via a function called TopSearch. TopSearch, the court found, was a central server, in the relevant sense, but only in respect of so-called ‘gold files’ (files displaying a gold icon for licensed and authorised material). As for ‘blue files’, which according to the evidence consisted largely of copyright infringing material the court concluded that although there was reason “to suspect that there is, indeed, a Kazaa server that is capable of doing the same thing in relation to blue files”, the court was not prepared to make such a finding.<sup>50</sup> Equally, the court remained unsure that a source code studied by expert witnesses was identical to that actually used by Sharman.<sup>51</sup>

#### 2. Federal Court’s Approach

The court dismissed the claims based on the Trade Practices Act, conspiracy and infringement by communication and concentrated on the “more realistic” claim<sup>52</sup> that the respondents authorised users to infringe the applicants copyright in their sound recordings. The Australian Copyright Act provides definitions of the exclusive rights of copyright owners and of infringements in Part III of the legislation for original literary, dramatic, musical and artistic works and in Part IV for subject-matter other than works, including sound recordings. S. 101(1) states that copyright in Part IV matter is infringed by a person who, not being the owner of the copyright and without the licence of the owner of the copyright, does in Australia, or authorizes the doing in Australia, of any act comprised in the copyright. Further guidance in deciding on the issues of authorisation is provided by s. 101(1A), which was introduced by the Copyright (Digital Agenda) Amendment Act 2000. Accordingly, the following must be taken into account in deciding the question of 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.

#### a) Pre-Existing Case Law

In line with cases such as *University of New South Wales v. Moorhouse*,<sup>53</sup> authorisation was ‘held to have its dictionary meaning of “sanction, approve, countenance.”’ Nevertheless, one issue that arose in the case was the relationship of s. 101(1A) to pre-existing case law. In comparison to US law, case law in both Australia and the UK has put less emphasis on the element of knowledge and instead has focused on the control exercised by the authorising party. The court reviewed the decision in *Adelaide Corporation v. Australasian Performing Right Association Limited* (1928) 40 CLR, later invoked in the *Moorhouse* decision, where it was held that “a person cannot be said to authorize an infringement of copyright unless he has some power to prevent it.” The same decision was also cited for the further principles that express or formal permission or sanction, or active conduct indicating approval, is not essential to constitute an authorization and that the word “authorize” connotes a mental element and it could not be inferred that a person had, by mere inactivity, authorized something to be done

46 *Ibid.*, at 2774 and 2782.

47 *Ibid.*, p. 2781, fn. 12 and p. 2782, fn. 13.

48 See R. Giblin-Chen, “Rewinding Sony: An Inducement Theory of Secondary Liability”, E.I.P.R. 2005, 27(11), pp. 434–435; J. C. Ginsburg/S. Ricketson, “Inducers and authorisers: A comparison of the US Supreme Court’s *Grokster* decision and the Australian Federal Court’s *Kazaa* ruling”, (2006) 11 Media and Arts Law Review, pp. 7–8.

49 R. Giblin-Chen, “Rewinding Sony: An Inducement Theory of Secondary Liability”, E.I.P.R. 2005, 27(11), p. 433.

50 *Universal Music Australia Pty Ltd v. Sharman License Holdings Ltd* [2005] FCA 1242, para. 235.

51 *Ibid.*, para. 224.

52 See the court’s own summary of the decision.

53 (1975) 133 CLR 1.



## Courting Kazaa – Judicial Approaches Towards P2P Networks in the US and Australia

if he neither knew nor had reason to suspect that the act might be done.<sup>54</sup> Later decisions stressing the element of control and discussed by the Federal Court apart from *Moorhouse* included *Australian Tape Manufacturers Association Ltd v. Commonwealth of Australia*,<sup>55</sup> *Australasian Performing Rights Association Ltd v. Metro on George Pty Ltd*<sup>56</sup> and *CBS Songs Ltd v. Armstrad Consumer Electronics PLC*.<sup>57</sup> Of these, the *Armstrad* decision comes closest to the US *Sony* standard by requiring that “inducement, incitement or persuasion to infringe must be by a defendant to an individual infringer and must identifiably procure a particular infringement in order to make the defendant liable as a joint infringer.”<sup>58</sup>

### b) Effect of Introduced Statutory Law

Arguably, the wording used in s. 101(1A) of the Copyright Act (“... the extent [if any] of the person’s power ...”) indicates that a person may be liable for authorising infringement even in the absence of control and it thereby widens the net to catch the authoriser.<sup>59</sup> Not surprisingly, the applicants argued that the statutory provision superseded the previous case law,<sup>60</sup> whereas counsel for Sharman insisted on the continuing relevance of the previous case law and maintained that s. 101(1A) was “an inclusive, not exhaustive, list.”<sup>61</sup> Considering these arguments and the continuing relevance of the case law, Justice *Wilcox* held:

“I accept that the intention behind the addition of s. 101(1A) to the Act was to elucidate, rather than to vary, the pre-existing law about authorisation. I further accept ... the continuing applicability of the *Moorhouse* test. A claim of authorisation can be made good only where it is shown that the person has sanctioned, approved or countenanced the infringement. It is not essential there be direct evidence of the person’s attitude; as Gibbs J said in *Moorhouse*, inactivity or indifference, exhibited by acts of commission or omission, may reach such a degree as to support an inference or authorisation.”<sup>62</sup>

As for an attempt by Sharman to rely on the safe harbour provision of s. 112E Copyright Act that the provision of facilities is not enough to constitute authorisation, Justice *Wilcox* found that the provision applied to Sharman and that it was intended by Parliament to ‘protect the messenger’, although only to the extent indicated by the Act. However, on his findings, Sharman is and was more

than a messenger.<sup>63</sup>

### c) Liability for Authorisation of Copyright Infringement

Justice *Wilcox* summarised his findings of liability for authorisation of copyright infringement of six of the ten respondents as follows:

“At all material times, it has been in Sharman’s financial interest for there to be ever-increasing file-sharing, involving an ever greater number of people. Sharman always knew users were likely to share files that were subject to copyright...”<sup>64</sup>

“In the present case, the applicants are able to point to evidence of positive acts by Sharman that would have had the effect of encouraging copyright infringement. These acts include:

- (i) Sharman’s website promotion of KMD as a file-sharing facility ...
- (ii) Sharman’s exhortations to users to use this facility and share their files ...
- (iii) Sharman’s promotion of the ‘Join the Revolution’ movement, which is based on file-sharing, especially of music, and which scorns the attitude of record and movie companies in relation to their copyright works ...”<sup>65</sup>

And on the effectiveness of Kazaa’s warnings to its users not to infringe copyright and similar provisions in the End User Licence Agreement (EULA):

“It is difficult to believe those directing the affairs of Sharman, or any other of the respondents, ever thought these measures would be effective to prevent, or even substantially curtail, copyright file-sharing. It would have been obvious to them that, were those measures to prove effective, they would greatly reduce Kazaa’s attractiveness to users and, therefore, its advertising potential.”

On being presented with a report that concluded that Kazaa was predominantly used for unauthorised file sharing of copyrighted material, “those directing the affairs of Sharman (and Altnet) could not have done otherwise than appreciate that, notwithstanding what was on the website, copyright infringement was rife. Despite this, Sharman took no steps to include a filtering mechanism in its software, even in software intended to be provided to new users. There is no credible evidence that filtering was ever discussed.”<sup>66</sup>

Such filtering mechanisms for infringing material, the court had earlier concluded, would not be 100 % effective, but would still go far to protect copyright owners. As a consequence, the Federal Court restrained the respondents from further authorising Kazaa users to infringe the applicants’ copyrights, but allowed the system to be modified by implementing two alternative solutions for filtering. In recognising the general usefulness of the technology, Justice *Wilcox* said that there should be an opportunity for the respondents to modify the Kazaa system, so as to protect the applicants’ copyright interests, but without intruding on others’ freedom of speech and communication. The evidence about various filtering methods had indicated how this might be done.<sup>67</sup> The decision is currently on appeal to the Full Bench of the Federal Court.

<sup>54</sup> *Ibid.*, para. 367.

<sup>55</sup> (1993) 176 CLR 480.

<sup>56</sup> (2004) 61 IPR 575.

<sup>57</sup> [1988] 1 AC 1013.

<sup>58</sup> Cited in *Universal Music Australia Pty Ltd v. Sharman License Holdings Ltd* [2005] FCA 1242, para. 377.

<sup>59</sup> In contrast to this, the Explanatory Memorandum to the Digital Agenda Bill explained that the new statutory provisions on authorisation essentially codified principles developed in the earlier cases and were meant to provide legislative certainty about liability for authorisation, see J.C. Ginsburg/S. Ricketson, “Inducers and authorisers: A comparison of the US Supreme Court’s *Grokster* decision and the Australian Federal Court’s *Kazaa* ruling”, (2006) 11 Media and Arts Law Review, pp. 13–14.

<sup>60</sup> *Universal Music Australia Pty Ltd v. Sharman License Holdings Ltd* [2005] FCA 1242, para. 360.

<sup>61</sup> *Ibid.*, para. 372.

<sup>62</sup> *Ibid.*, para. 402.

<sup>63</sup> *Ibid.*, para. 418.

<sup>64</sup> *Ibid.*, para. 404.

<sup>65</sup> *Ibid.*, para. 405.

<sup>66</sup> *Ibid.*, para. 407.

<sup>67</sup> *Ibid.*, para. 520.



## Search Engine Display of Thumbnails No Fair Use

### IV. Conclusion

Despite the absence of an equivalent to the *Sony* doctrine in Australia and significant differences between the legal frameworks for their orders as well as factual differences that prompted Justice Wilcox to disregard the parallel running *Grokster* proceedings as “of little assistance to me”,<sup>68</sup> there are many similarities in the reasoning of the US Supreme Court ruling in *Grokster* and the Australian Federal Court decision in the *Kazaa* case. In both cases, the principal reasons for the decision are advertising and active encouragement of the infringements, insufficient evidence of filtering and business plans that rely on advertising income and high-volume usage of copyright infringing material. *Ginsburg* and *Ricketson* believe that the absence of the *Sony* standard may make things easier for copyright owners in Australia.<sup>69</sup> The *Kazaa* decision

is currently on appeal. The recording industry representatives have indicated that they intend to claim damages if they are successful at the appeal stage. This may well lead to new controversies given the huge differences in estimating the effects of P2P networks on the sales record of the industry. Only time will tell how effective these decisions really are and the capacity of *Kazaa* style operations to get around newly imposed legal restrictions cannot be underestimated. For the moment, however, it appears as if the recording industry and associated copyright owners have won a few major battles.

68 *Ibid.*, para. 29–30.

69 J.C. Ginsburg/S. Ricketson, “Inducers and authorisers: A comparison of the US Supreme Court’s *Grokster* decision and the Australian Federal Court’s *Kazaa* ruling”, (2006) 11 Media and Arts Law Review, p. 23.



## Case Law

### Use of Search Engine Display of Thumbnails in the US

17 U.S.C. § 107

Editor’s Headnotes

1. There is no likelihood of proving that Google’s framing of and in-line linking to infringing (full-size) copies of copyrighted images constitutes a public display or distribution rendering Google liable for direct infringement.

2. In contrast, there is a likelihood of proving that Google’s creation and public display of thumbnails directly infringes copyrighted material without falling under the fair use exception.

3. Because third-party websites at which direct infringement is taking place appear entirely independent of Google Image Search, it is

a) neither likely that Google’s AdSense program will be found to materially contribute to such direct infringement (contributory infringement)

b) nor likely that Google has right and ability to control such infringing activity (vicarious infringement).

District Court Central District of California, decision of 17 February 2006 by A. Howard Matz, Judge

*Perfect 10 v. Google, Inc., et al.* [Case No. CV 04-9484 AHM (SHx)]

#### Facts

The principal two-part issue in this case arises out of the increasingly recurring conflict between intellectual property rights on the one hand and the dazzling capacity of internet technology to assemble, organize, store, access, and display intellectual property “content” on the other hand. That issue, in a nutshell, is: does a search engine infringe copyrighted images when it displays them on an “image search” function in the form of “thumbnails”

but not infringe when, through in-line linking, it displays copyrighted images served by another website?

Plaintiff Perfect 10, Inc. (“P 10”) filed separate suits against Google, Inc. and against Amazon.com, Inc. and its subsidiary, A9.com, Inc.<sup>1</sup> (collectively, “Amazon”), alleging copyright and trademark infringement and various related claims. The suits were consolidated. P 10 moves now for a preliminary injunction against both Defendants, solely on the basis of its copyright claims. P 10 seeks to prevent Defendants’ image search engines from displaying “thumbnail” copies of P 10’s copyrighted images and also from linking to third-party websites which host and serve infringing full-size images. (...)

#### Analysis

P 10 asserts that Google is both directly and secondarily liable for copyright infringement. P 10 alleges that Google’s image search engine directly infringes by copying, distributing, and displaying thumbnails and full-size images of P 10’s copyrighted photographs. P 10 alleges that Google is secondarily liable for the actions of third-party websites that host infringing images and unauthorized perfect10.com username/password combinations to which Google’s search engine links, as well for the actions of individuals who are led by Google Image Search to infringing images and subsequently download infringing copies themselves.

Google raises several defenses. First, in response to P 10’s direct infringement claims, it argues that (1) many of its actions do not infringe upon any of the exclusive rights granted to the owner of a copyright, and (2) to the extent that its actions do implicate those rights, such use is fair under 17 U.S.C. § 107. Second, in response to P 10’s secondary liability claims, Google contends that (1) it has not contributorily or vicariously infringed; (2) it is immune from contributory liability under *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984) [hereinafter “*Sony*”]; and (3) it qualifies for protection under the various safe harbor provisions of the DMCA, 17 U.S.C. § 512(a)–(d).

1 A9.com is Amazon.com’s search website.