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THE GHOST OF MOORHOUSE

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ABSTRACT

[113] Has the *Digital Agenda Act* provided certainty for internet service providers in Australia in relation to their liability for the online content of their customers or has it just revivified the ghost of a redundant case? This article examines the extent of the liability of ISPs under the *Digital Agenda Act* for the authorisation of infringements of copyright in relation to infringing material transmitted on the internet by their customers. It is submitted that the new legislation does not provide the legislative certainty for ISPs which the Explanatory Memorandum promises and that the policy considerations underlying the amendments to the authorisation provisions in the *Digital Agenda Act* are flawed.

Introduction

The Revised Explanatory Memorandum (Explanatory Memorandum) to the *Copyright Amendment (Digital Agenda) Act 2000* (*Digital Agenda Act*)[2] states that the legislation:

> forms the Government's main initiative in addressing the challenges for copyright posed by rapid developments in communications technologies. The reforms implemented in the Bill are an important part of establishing a legal framework to encourage online activity and the growth of the information economy.

The Explanatory Memorandum also states that one of the key purposes of the legislation is to provide greater certainty about the responsibilities of carriers and ISPs to copyright owners and the steps they need to take to avoid infringing copyright.[3] It says that the amendments are intended to provide a degree of legislative certainty about liability for 'authorising' infringements of copyright.[4]

This article examines the extent of the liability of ISPs under the *Digital Agenda Act* for the authorisation of infringements of copyright in relation to infringing material

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[1] Watson Mangioni Lawyers.

[2] The *Digital Agenda Act* came into effect on 4 March 2001.

[3] Revised Explanatory Memorandum in 'Outline'.

transmitted on the internet by their customers. It is submitted that the new legislation does not provide [114] the legislative certainty for ISPs which the Explanatory Memorandum promises and that the policy considerations underlying the amendments to the authorisation provisions in the *Digital Agenda Act* are flawed.

The Napster case

The most famous copyright infringement case in history is still being played out in the United States. In December 1999, the Recording Industry Association of America (RIAA) commenced an action against a website operator called Napster alleging contributory and vicarious copyright infringement. Napster's web site enables users to swap and download MP3 music files. The RIAA represents most of the big record companies in the USA who collectively own the rights to the sound recordings in CDs being swapped and downloaded by Napster users. The owners of the musical works in each of the songs on the CDs have also collectively joined the RIAA's action.

The substance of the action against Napster is that it has authorised copyright infringements. It is being alleged not that Napster itself is directly infringing copyright in the sound recordings and musical works, but that it is authorising others to do so. In July 2000, Napster made a strike-out application on the grounds that it was an internet service provider within the terms of the *Digital Millennium Copyright Act 1999* (DMCA) and therefore came within the special exemption provisions of the DMCA which are known as the 'safe harbour' provisions. This submission was peremptorily dismissed by the Court on the grounds that Napster is doing far more than simply providing an internet service.

Legal Position in Australia

Under Australian law, copyright may be infringed either by:

(1) doing an act comprised in the copyright ('primary infringement'); or

(2) authorising the doing of an act comprised in the copyright ('authorisation').[5]

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[4] Revised Explanatory Memorandum, para 56.

[5] Section 36 of the Act provides that the copyright in a literary, dramatic, musical or artistic work 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 authorises the doing in Australia of, any act comprised in the copyright. A similar provision applies to subject matter other than works.

The acts comprised in the copyright are set out in the *Copyright Act 1968* (Cth) (the Act). To take the example of sound recordings, the acts comprised in the copyright of a sound recording include making a copy of the sound recording, causing the recording to be heard in public, communicating the recording to the public and entering into a commercial rental arrangement in respect of the recording.[6] The acts comprised in the copyright of a musical work include reproducing the work in a material form, publishing the work, performing the work in public, communicating the work to the public and making an adaptation of the work.[7]

Primary Infringement

It is unclear whether, prior to the *Digital Agenda Act*, any of the processes involved in online communications would involve the copying or reproduction of a sound recording or musical work. There is no definition of reproduction or copying in the Act, but it is possible that the practice of proxy caching[8] may involve a reproduction of copyright material, although the requirements for substantiality and material form may not be met.

However, prior to 4 March 2001, the liability of ISPs for primary infringement of the diffusion and [115] broadcasting rights (now the communication right), as opposed to the copying or reproduction right, was potentially quite broad. In the decision of *Australasian Performing Right Association Limited v Telstra Corporation Limited*,[9] the High Court held that Telstra was liable for infringement of the diffusion right owned by APRA in relation to music that was played while telephone callers were put on hold. The case was primarily concerned with the meaning of the diffusion right in s 26 of the Act. The Court held that the person liable for the transmission of material to subscribers to a diffusion service is the person operating the service, even though the copyright material was not provided by the operator and even though the transmission of the copyright material was incidental to the operator's principal service.

[6] *Copyright Act 1968* s 85.
[7] *Copyright Act 1968* s 31.
[8] Proxy caches (or proxy servers) are used by ISPs to allow users to access data more rapidly than if the data were to be retrieved from where it is stored. Rather than retrieving information from its source for each user, it is faster to make a local copy and provide access to this, updating the original only when necessary.
[9] (1997) 38 IPR 294.

In light of the *Telstra* case, although the point has not been specifically argued before a court, it is possible that an ISP who transmitted unauthorised copyright material on the internet before the *Digital Agenda Act* came into force would be primarily liable for the infringement of copyright caused by that transmission.

Authorisation

The leading decision on the meaning of the term 'authorising' is that of the High Court of Australia in the case of *University of New South Wales v Moorhouse*.[10] In that case, the High Court held that the word should be given a broad interpretation.

In the *Moorhouse* case, the University of New South Wales (UNSW) had placed a number of photocopying machines in its library for the use of students. A copy of an anthology of short stories by Frank Moorhouse was copied and was used as the subject of a test case on authorisation. The High Court held that the conduct of UNSW in placing photocopying machines in its library for the use of students without any copyright warning notices or supervision constituted an invitation to students to infringe copyright. The Court found that such an invitation amounted to authorisation of any infringements of copyright committed, or which were likely to be committed, as a result of that invitation.

The High Court stated that:

> [A]uthorisation is wider than authority. It has, in relation to a similar use in previous copyright legislation, been given the meaning, taken from the Oxford Dictionary, of 'sanction, approve, countenance'. It is a wide meaning which in cases of permission or invitation is apt to apply both where an express permission or invitation is extended to do the act comprised in the copyright and where such a permission or invitation may be implied. Where a general permission or invitation may be implied it is clearly unnecessary that the authorising party have knowledge that a particular act comprised in the copyright will be done.
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> The acts and omissions of the alleged authorising party must be looked at in the circumstances in which the act comprised in the copyright is done. The circumstances

[10] (1975) 133 CLR 1.

> will include the likelihood that such an act will be done, the Court may infer an authorisation or permission from acts which fall short of being direct and positive; indifference, exhibited by acts of commission or omission, may reach a degree from which authorisation or permission may be inferred.[11]

In response to the *Moorhouse* decision, s 39A of the Act was introduced to provide protection in relation to photocopiers installed in libraries or archives provided that a copyright notice is prominently displayed. The *Digital Agenda Act* extends that protection to computers installed in libraries or archives.[12]

[116] The *Moorhouse* decision was based on a line of authorities which inferred authorisation in circumstances where the defendant had facilitated the means by which copyright infringement could take place and, having a measure of control over the infringer, failed to take any action to prevent the infringement from taking place. For example, ABC Radio was found to have authorised infringement of copyright in circumstances where it failed to take any action to prevent listeners, who were licensed to play music on their radios in private, from playing their radios in public places and thereby illegally performing musical works in public.[13] The cases have tended to emphasise that the mere provision of facilities is not enough to constitute authorisation, there must be some connection or element of control as between the infringer and the authoriser.[14] Recent cases have specifically affirmed the principles established in the *Moorhouse* case.[15]

The Amendments

In relation to the liability of ISPs for the infringement of copyright material on the internet, the *Digital Agenda Act* adopts the approach of imposing liability on ISPs when they:

(a) are responsible for determining the content of the communication;[16] or

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[11] Ibid 20–1 (Jacobs J).
[12] *Copyright Act 1968* s 39A.
[13] *Mellor v Australian Broadcasting Commission* (1924) All ER 224.
[14] *RCA Corporation v John Fairfax & Sons Limited* (1981) 38 ALR 345, 354.
[15] *Tolmark Homes Pty Ltd v Paul* [1999] FCA 1355.
[16] Section 22(6) provides that: 'For the purposes of this Act, a communication other than a broadcast is taken to have been made by the person responsible for determining the content of the communication.'

(b) authorise an infringement of copyright[17] in a capacity other than that of merely providing the facilities for the communication of copyright material.[18]

Sections 22(6) and 43A deal with primary infringement and ss 36(1A)[19] and 39B deal with authorisation.

Section 22(6)

The *Digital Agenda Act* introduces a new section to deal specifically with the ramifications for ISPs of the Telstra case. Section 22(6) provides that a 'communication' is taken to have been made by the person responsible for determining the content of the communication.[20] ISPs will only be subject to primary liability under the new amendments to the Act for anything communicated on the internet if they are responsible for determining the content of the communication. The courts will have to define what is meant by 'determining' the content, but the term would seem to ensure full protection to an ISP in the ordinary course of its business.

However, s 22(6) does not apply to communications which are broadcasts. 'Broadcast' has been redefined in the *Digital Agenda Act* to mean a communication to the public delivered by a broadcasting service within the meaning of the *Broadcasting Services Act 1992*.[21] ISPs will, therefore, not be afforded [117] protection under s 22(6) to the extent that they provide a service that broadcasts television programs or radio programs for the purposes of the *Broadcasting Services Act*.

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[17] The *Digital Agenda Act* introduces a new s 36(1A) which specifies an inclusive list of matters that must be taken into consideration in relation to the authorisation of a copyright infringement under *Copyright Act 1968* s 36(1).

[18] *Copyright Act 1968* s 39B.

[19] Ibid, s 101(1A) refers to subject matter other than works

[20] Section 22(6) of the *Digital Agenda Act* states that: 'For the purposes of this Act, a communication other than a broadcast is taken to have been made by the person responsible for determining the content of the communication'.

[21] 'Broadcasting Service' is defined to mean 'a service that delivers television programs or radio programs to persons having equipment appropriate for receiving that service, whether the delivery uses the radiofrequency spectrum, cable, optical fibre, satellite or any other means or a combination of those means, but does not include:

(a) a service (including a teletext service) that provides no more than data, or no more than text (with or without associated still images); or

(b) a service that makes programs available on demand on a point-to-point basis, including a dial-up service; or

(c) a service, or a class of services, that the Minister determines, by notice in the Gazette , not to fall within this definition'.

Section 43A

Section 43A(1) of the *Digital Agenda Act* deals with issues such as proxy caching. It provides that the copyright in a work is not infringed by making a temporary reproduction of the work as part of the technical process of making or receiving a communication.[22]

Sections 36(1A) and 101(1A)

Sections 36(1A) and 101(1A) of the *Digital Agenda Act* provide that, in determining whether authorisation of breach of copyright has taken place, regard must be had to certain key factors:

(a) the extent, if any, of the persons power to prevent the doing of the act;
(b) the nature of any relationship between the person and the infringer; and
(c) whether the person took any reasonable steps to prevent or avoid the infringement.[23]

The Explanatory Memorandum states that the inclusion of these factors in the Act will essentially codify the principles in relation to authorisation that currently exist at common law, in particular, the principles established by the decision of the High Court in the *Moorhouse* case. The wording of ss 36(1A) and 101(1A) clearly implements this intent.

Sections 39B and 112E

Section 39B provides 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

[22] Section 43A(1) provides: 'The copyright in a work, or an adaptation of a work, is not infringed by making a temporary reproduction of the work or adaptation as part of the technical process of making or receiving a communication.'

[23] Section 36(1A) provides: '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'.

> 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.[24]

The Explanatory Memorandum states that new s 39B has the effect of expressly limiting the authorisation liability of persons who provide facilities for the making of, or facilitating the making of, communications. It states that the section provides that such persons are not taken to have authorised the infringement of copyright in a work merely because another person has used the facilities to engage in copyright infringement.[25]

This provision is also clearly intended to counter the implications of the decision of the High Court in the Telstra case. It will have the effect of excluding ISPs from liability for the content of material provided by their customers in most situations. It must be asked, however, what the legislators intended by inserting the words 'to do something the right to do which is included in the copyright'. Those words must mean that the protection is not afforded to a carrier or carriage service provider if the person using [118] their facilities is doing so to communicate material which is in breach of copyright. So when does an ISP lose the protection of s 39B and s 112E?

Liability for Authorisation under the Digital Agenda Act

It must be concluded that the legislators of the *Digital Agenda Act* see a critical difference between the factual circumstances which existed in the Telstra case and those which existed in the *Moorhouse* case. The difference, presumably, relates to the level of control which the service provider or facilitator is able to exert over their customers. Although the High Court rightly concluded that the copyright owners represented by APRA should be compensated for the use of their music, it is clear that the practical implications for Telstra are unacceptable to the extent that it means that Telstra has to monitor every telephone call. Such a task is undeniably impossible.

ISPs are in exactly the same situation as Telstra. They can't possibly monitor every communication. It is probably fair to say that the High Court in the Telstra case did

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[24] Section 112E applies in exactly the same way to an audio visual item.
[25] Revised Explanatory Memorandum, para 60.

not give due emphasis to the practical implications of their decision. The decision was more concerned with the strict interpretation of the *Copyright Act*. In the *Moorhouse* case, though, the High Court focused to a greater extent on the practical implications. At the heart of the reasoning of the High Court's decision in the *Moorhouse* case was the conclusion that it was not unreasonable to impose on UNSW an obligation to monitor the activities of its students given its degree of control over them.

The position of ISPs can be distinguished from that of Telstra and could be said to be analogous with that of the University of New South Wales in at least one particular situation. The situation in which an ISP provides access to a web site like Napster.[26] This proposition is based on the assumption that it is technically possible and simple for an ISP to block access by its customers to individual web sites. Given that assumption, it is arguable that the ISP could satisfy the criteria for liability established in the *Moorhouse* case and that nothing in the wording of s 39B of the *Digital Agenda Act* would operate to change that conclusion. The protection afforded to ISPs under s 39B is circumscribed by the phrase '… *merely because another person uses the facilities*'. The phrase implies that liability for authorisation will apply to ISPs if there is something more than the mere fact of 'use' of the facilities, such as a failure to control the use of the facilities in circumstances where infringement of copyright is likely to take place. In other words, s 39B is consistent with the intention of the Act to codify the principles established in the *Moorhouse* case.

Considering each of the key factors in s 36(1A) as they might apply to the Napster situation:

(a) the ISP has the technical ability to prevent the act by blocking access and terminating the user's account;

(b) the ISP has a direct contractual relationship with the infringer and therefore the legal ability to do prevent the infringement ; and

(c) it is likely that the ISP would not have taken any reasonable steps to prevent or avoid the infringement (that is, by issuing warnings about web sites like Napster).

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[26] The copyright implications of a Napster transaction could be regarded as common knowledge.

Finally, s 36(1A)(c) also provides that regard should be had to the relevant industry code of practice which, in this example, would principally be the Internet Industry Association Code of Practice [27] (IIA Code). The IIA Code is concerned with 'Prohibited Content' as it is defined in the *Broadcasting Services Act* 1992 (as amended). The *Broadcasting Services Amendment (Online Services) Act 1999* amends the *Broadcasting Services Act 1992* to incorporate the regulation of online services. It establishes a complaints [119] regime under which the Australian Broadcasting Authority will investigate complaints from the public about 'prohibited content' or 'potentially prohibited content.' [28] However, this regime is not directed to content which is in breach of copyright.

It is difficult to see, therefore, how the wording of ss 36(1A) and 39B provides any definite comfort for ISPs in Australia in relation to the authorisation of infringements.

The approach taken in the *Digital Agenda Act* may be contrasted with the position in the USA, where the DMCA specifically states that online service providers will not be liable for infringement of copyright for storing, linking, transmitting, routing or caching infringing material.[29] This limitation on liability in the DMCA is expressed to be subject to the obligation of an ISP to expeditiously remove or block access to any infringing materials once it is made aware of such materials by the receipt of a formal notice in a prescribed form sent by the owner of rights in those copyrighted materials.

The Explanatory Memorandum states that it is the intention of the Digital Agenda Act that an ISP should not be liable in circumstances where they are not responsible for the content of online transmissions. In light of this intention, it is not clear why s 39B does not specifically say this in similar terms to the DMCA. In accordance with the position in the USA, it should only be in circumstances where an ISP has been notified that a particular user is engaging in conduct which constitutes a breach of

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[27] The Internet Industry Association code for industry self regulation in areas of internet content pursuant to the requirements of the *Broadcasting Services Act 1992* as amended which came into force on 1 January 2000. [Editor's note: see now the IIA Content Codes of Practice (Version 7.2), which was registered by the Australian Broadcasting Authority in May 2002 — <www.iia.net.au/contentcode.html>.]
[28] Internet content hosted within Australia is prohibited content if the content has been classified 'RC' (Refused Classification) or 'X' by the Classification Board.
[29] DMCA s 512.

copyright that any possible liability should attach, if at all. This could have been simply stated in relation to authorisation by ISPs in the Digital Agenda Act.

The fact that the position of ISPs has not been spelt out could leave ISPs vulnerable to the type of liability established in the *Moorhouse* case, because there are no clear grounds on which to distinguish the position of UNSW in the *Moorhouse* case and an ISP in the Napster situation. In fact, the principles established in the *Moorhouse* case may apply even more emphatically to an ISP. An ISP has the technological ability to find out exactly what its customers are doing in a way which UNSW could not. Furthermore, an ISP has a much closer contractual relationship with its customers than a university does with its students, with the ability to terminate access immediately. It could well be determined by a court, therefore, that the criteria for authorisation established in the *Moorhouse* case applies to an ISP in the Napster situation.

Conclusion

Until a court declares that the position of an ISP is fundamentally different to that of UNSW in the *Moorhouse* case, or ss 36(1A) and 39B are amended to exclude ISPs entirely from liability for authorisation of copyright infringement, ISPs will need to take some action to protect themselves against derivative liabilities, at least in circumstances where they are aware of the existence of suspect websites. This would apply particularly to websites like Napster in respect of which there is a 'likelihood' of infringement. The same P2P software utilised by Napster is now being used in new search engines, which will not be restricted to music.[30]

When the Australian Recording Industry Association (ARIA) or the Australasian Performing Right Association (APRA) sues a Napster-like website in Australia, they could join as a party to the proceedings the relevant ISP on the grounds of authorisation (particularly if the website is not turning a profit and could therefore be an unsatisfactory defendant). No real guidance is provided by the *Digital Agenda Act* as to when or what action should be taken by ISPs to avoid liability as the Explanatory Memorandum [120] promised. Until the copyright issues have been

[30] Pointera is a sharing engine which debuted in mid-2000. It lets users share files through a standard Web browser. Pointera plans to market the search engine as a way to augment existing searches

resolved, ISPs operating in Australia would be well advised to notify all their customers of the risk of infringement or to block all access to Napster-like websites, without waiting for any notification of infringement from any of the relevant copyright owners.

If ISPs do not take some action to deal with the ramifications of s 36(1A)(c) in circumstances where there is a 'likelihood' of infringement by their customers, some messengers could be shot.

predominantly in a business environment. Gnutella is also producing a new search engine based on file-swapping software.