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For Ads' Sake: Making a Case Against Personal Video Recorders

Mia Garlick[1]

Abstract

[121] Three United States television networks, together with several movie studios, have reportedly commenced proceedings against SONICblue claiming that its internet-ready digital Personal Video Recorder (PVR) infringes their copyright interests. Bill Roberts of the North American Broadcasters Association acknowledges that the PVR 'represents the greatest threat — and greatest opportunity — to broadcasters' advertising revenue'. This case will offer a unique opportunity to update copyright laws for the digital age and it may crystallise the extent of legal responsibility online service providers have for the conduct of their users. A reassessment would be useful for not only the future of the television industry in an interactive world but also for all content and new technology industries generally.

Introduction

Three United States television networks, together with several movie studios, have reportedly commenced proceedings against SONICblue claiming that its internet-ready digital personal video recorder infringes their copyright interests. NBC, ABC and CBS (the networks) issued a press statement at the end of October 2001 saying that they are seeking a court order which will prevent the Replay TV4000 being released on the market.[2] A limited number of the Replay TV4000 personal video recorders were due to be shipped to orders in November 2001.[3] At the time of writing, it was not due for release [122] to retail stores.

Digital personal video recorders (PVRs) are a concern to the television industry primarily because of their ability to skip commercials when playing back recorded programs. Advertising revenue is a primary revenue source for the industry. As this article will discuss, the interesting feature of the network's action against SONICblue is that the network's copyright infringement action may not be able to be based on the very advertising which they are trying to protect.

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[1] Mia Garlick is a lawyer at Gilbert + Tobin Lawyers. The views expressed in this article are those of author and not necessarily those of Gilbert + Tobin's clients.

[2] J Kumar, 'Networks' Suit Alleges New ReplayTV Device Infringes Copyright' (1 November 2001) *Webnoize*; S Sutel, 'Networks Sue Digital Recorder Maker' (1 November 2001) *Washingtonpost.com*.

[3] <http://outlook.replaytv.com/preorder> (20 November 2001).

SONICblue claims that the Replay TV4000:

> will change the way you watch television, forever. It frees you from TV schedules, lets you find and watch the program you crave when the time is right for you and gives you unprecedented control over your television viewing experience.[4]

The Secretary-General of the North American Broadcasters Association, Bill Roberts, acknowledged SONCblue's claims when he made the following comment about the impact PVRs can have on viewing habits:

> Today most of us watch TV as it is broadcast, in real time. Our viewing experience is about to change from real time to personal time, as our relationship with television evolves from passive to interactive.[5]

Whilst PVRs may revolutionise our television viewing experience, the reported action against SONICblue has the potential to critically reassess the application of significant copyright principles to new technologies. The purpose of this article is to explore some of the key legal issues which may arise generally in any action against SONICblue and to discuss the ramifications which a decision on these issues in relation to PVRs may have for the structure of content and internet businesses.

Features of a Personal Video Recorder

Various new services, such as interactive television and HDTV, are being touted as the future of television in the 21st century. Television networks are rapidly rolling out trials of these services to gauge the popularity of these services with consumers. PVRs have the potential to overtake these services and shape the future face of television. They personalise the viewer's experience by tailoring television programming to suit individual preferences in terms of content and viewing times. They also enrich the viewing experience by removing ads.

The ReplayTV4000, for example, includes the following features:

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[4] <http://www.replaytv.com/partners_products/features.html> (20 November 2001).
[5] 'Web TV — threat or opportunity?', Media Release of the North American Broadcasters Association (April 2000).

- an automatic recorded facility which records nominated programs to the hard drive;
- up to 320 hours of storage capacity;
- instant replay which allows viewers to instantly jump back seven seconds so that they can view that part of the program, sporting event or comedy skit to again;
- ability to search for and record shows of interest, allowing the viewer to 'create a channel';
- pause a program, even when watching a program live; and
- adding extra time before or after a program recording in case the broadcaster runs the program a little before or after the scheduled time.[6]

Most of these features are also characteristic of other PVRs. The two additional features of the [123] ReplayTV4000 which distinguish it from other PVRs and possibly encroach further on the broadcasters' commercial interests are the ad-skip function and the fact that it is the first internet enabled PVR.[7]

ReplayTV4000's ad-skip function jumps over thirty seconds of a recorded program. It differs from other PVRs because it skips them completely. Other PVRs only fast forward through commercials. ReplayTV4000 viewers could potentially completely miss many advertiser messages.

The ad-skip feature will only be effective if the broadcasters keep their advertising within the 30 second timeslot. Networks can use practical measures to decrease the effectiveness of PVRs by running their actual programming slightly out of sync to scheduled programming and varying the length of advertising slots (although, as noted above, the ReplayTV4000 includes functionality designed to combat this activity).

SONICblue acknowledges the imperfect nature of the ad-skip feature in the following disclaimer included at the product information page

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[6] Above n 4.
[7] Sutel, above n 2.

> under controlled test conditions with major network daytime and prime time broadcasts, approximately 96 per cent of intraprogram commercials are eliminated. Actual results will depend on the quality of television reception and the nature of the program recorded.[8]

This suggests that the threat of PVRs to television advertising may be slightly overrated.

The second and arguably more important feature of SONICblue's ReplayTV4000 which likely attracted the networks' ire is the ability to share recorded programs, without advertising, over the internet.

Replay TV4000 gives users the opportunity to digitally record television programs, delete any ads, and then share them via the internet. With every copy being a perfect reproduction of the other ReplayTV4000, if it becomes widespread, can eliminate other revenue sources for the industry such as licensing repeats, delayed release for regional programming and video sales and rentals.

SONICblue, in whom the networks are investors, claims that the ReplayTV4000 restricts the number of copies of a program which can be shared to fifteen. Considering the number of Napster users, at its peak, reached approximately 640,000 at any one time,[9] if PVRs become as popular as the much litigated music file sharing service, this limitation may be notional at best.

The Reported Action

No copies of the complaint have been made publicly available as at the time of writing. The networks issued a joint statement to the media claiming that the device infringes copyright, deprives the means by which copyright owners are paid for their content and consequently reduces incentives to create programming and make it available to the public.[10]

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[8] Sonicblue, above n 4.
[9] 'Over 1.3 Billion Served' (3 October 2000) *Webnoize Research*.
[10] Kumar, above n 2.

Although the primary objective underlying the action is to prevent viewers from being able to easily avoid advertising, the nature of the networks' action ironically will probably be based primarily on alleging an infringement of their rights in their broadcasts and their rights in any network produced programming.

Copyright in the 'Underlying Works'

Several copyrights exist within a broadcast. To understand the copyrights involved in a broadcast, it is useful to think of layers of copyright protected material being incorporated into a broadcast, which is then itself expressly protected in Australia by copyright.

The first layer includes the script, any musical score, any dramatic performance and still visual images. [124] The next layer includes the film or television program which incorporates the elements of the first layer and the sound recording based on the musical score. This second layer would also include an advertisement produced based on a script and jingle. These two distinct layers are typically referred to as the 'underlying works'.

Television networks may own copyright in some but not all of these underlying works. Some drama or comedy programming will be produced wholly or partly with financial assistance from the television networks in exchange for sole or joint ownership rights in the program, proportionate to the level of investment. As a copyright owner of the film or television program, the networks can bring an action in relation to this content.

However, in relation to the remainder of the 'underlying works' broadcast by the networks, they will not have the right to bring an infringement action. For example, copyright in many programs broadcast each day, such as movies and some drama and comedy shows, will be owned by the producer of that programming.

More importantly, copyright in advertisements will generally be owned by the advertising company or their client. The broadcaster generally obtains a mere licence to broadcast the advertisement.

The networks will only be able to bring an action in respect of advertisements or third party produced content if the networks are express exclusive licensees. This is unlikely particularly in relation to advertisements shown on their networks.

The ReplayTV4000 allows users to record television programs. This, on its face, is an infringement of copyright in those programs. The issue then is whether this activity can be excused from infringement because it amounts of a 'fair dealing'.

In the United States, fair dealing is broader and more flexible than in Australia. Whether a use amounts to fair dealing is considered against a non-exhaustive list of factors including the extent of the use, whether the use is commercial and/or directly competitive with the copied work.[11]

One of the lead decisions in relation fair dealing in the United States is the Sony decision,[12] a case which considered the copying of films from television broadcasts using analogue video recorders. If the network's action is based on that limited number of 'underlying works' in respect of which they own rights, the Court hearing the matter will no doubt be considering the Sony decision.

The Sony Decision

In the Sony decision the movie studios brought an action against Sony for copyright infringement, alleging that Sony's video recorder allowed television viewers to infringe copyright and that Sony, as the manufacturer of the recorder, was liable for the viewer's actions.

The US Supreme Court held that 'time shifting' for personal, non-commercial home viewing did not infringe copyright. By copying programs to watch later, viewers were simply delaying when they viewed a program rather than stealing a program and depriving the movie studios of revenue. The Court suggested that video recorders may actually expand the number of people who viewed the program. Given no direct acts of infringement occurred, it was not possible for Sony to be found liable for authorising copyright infringements (itself an act of infringement).

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[11] 17 USC s 107.

However, the Court went on to say that it would not have been willing to find Sony, a mere manufacturer of the video recorder, liable for the actions of television viewers because the video recorder was capable of 'substantially non-infringing uses' such as playing videos and because Sony had no ongoing relationship with the viewers after the point of sale. Sony was not in a position to control or know about the use which viewers made of the video recorder after they left the store.

The features of the SONICblue case are remarkably similar to those of Sony decision in several respects. [125] However, it also includes new elements which arise specifically in the context of digital technologies and the internet — the possibility for perfect copies to be made and distributed on a mass scale. The deciding issue may be an analysis of the extent to which SONICblue can be held responsible for the actions of viewers.

The SONICblue case, if it proceeds, has the potentially to critically reassess the Sony decision for the digital age. This would have wide ramifications for the content and internet industries. It could impact on the level of a technology service provider's interaction with its users, which tend to increase the quality of service. The Sony decision, despite the fact that it was decided pre-digital age, has been an important precedent in many internet decisions, most notably *Napster*.

In *Napster*,[13] the courts at first instance and on appeal rejected any analogies between Napster and Sony because Napster users did not primarily engage in 'time shifting' or 'space shifting' (transferring music from, say, their home computer to their office computer). In summary, the Napster users were held to be copying music via Napster instead of purchasing music legitimately. Judge Patel at first instance held (in findings which were not overturned by the Appeals Court) that Napster differed from a VCR because it connected to a vast number of people over the internet. Rather than one low-quality analogue copy being made, from which it was difficult to make further copies, Napster facilitated mass, perfect copies. This, Patel found, went beyond any concept of non-commercial personal use. Patel also found that Napster was not

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[12] *Sony Corp v Universal City Studios Inc* 464 US 417 (1984).

[13] *A&M Records Inc v Napster* 2000 US Dist LEXIS 11862 (ND Cal, 2000); A*&M Records Inc v Napster* 2001 US App LEXIS 5446 (9th Cir, 2001).

capable of substantial non-infringing uses, otherwise Napster would not be before the Court arguing that the removal of copyright protected music from its system would put it out of business.

Any judicial consideration of ReplayTV4000 will bring these issues into sharp relief. On the one hand, ReplayTV4000 allows perfect digital copies of programs which can be transmitted over the internet. On the other hand, ReplayTV4000 restricts the number of times that program can be shared to fifteen. The networks will need to show that ReplayTV4000 is more similar to the Napster system than an analogue video recorder.

If the networks successfully show that users of ReplayTV4000 are infringing copyright by copying programs, the next key issue is the extent of SONICblue’s ongoing relationship with viewers. The networks will need to demonstrate that SONICblue is responsible for the infringing activity of users of the ReplayTV4000.

In Napster’s case, Napster was found to have an ongoing relationship with its users. The Napster system updated, recorded and shared with other users the lists of infringing music files in a users’ computer. This took Napster squarely outside of a ‘Sony defence’.

SONICblue has a daily relationship with users of the ReplayTV4000 to update programming guides to the PVR. PVRs typically dial into the PVR provider’s network to access the schedules but do not interact with the content stored on the harddrive.[14] This is different to Napster. SONICblue may be more comparable with Sony in not having an ongoing relationship and thereby not materially contributing to their infringing activity.

In Australia, the fair dealing exceptions to copyright infringement are much more limited.[15] As a consequence, copying by individual viewers of television programs via

[14] See eg, A Johnson, ‘Hacking Digital Video Recorders: Potential Liability for DVR Hackers and Service Providers’ [2001] *Duke Law and Technology Review* 29.
[15] Fair dealing under the Australian *Copyright Act 1968* is permitted only for limited purposes such as research and study (ss 40,103C), reporting the news (ss 42,103B), review and criticism (ss 41,103A) and judicial proceedings or professional advice (ss 43,104).

a ReplayTV4000 will likely be held to infringe copyright. However, it is unlikely that Australian courts would find that SONICblue's relationship is such as to render SONICblue liable for the actions of individual users.

[126] Australian courts, including the High Court, have cited the Sony decision favourably and Australian copyright principles, suggest that it is unlikely that an Australian court would find that SONICblue would be considered to have known about and had the power to prevent individual acts of infringement using ReplayTV4000.[16] This would likely excuse SONICblue, under Australian copyright law, from liability from the infringing actions of its users.

The Nature of Broadcast Copyright

As noted above, there are several layers of copyright interests in a broadcast. The third and final layer is copyright in the actual broadcast itself. In Australia, broadcasts are protected as a copyright interest in their own right.[17] However, in the United States broadcasts are not recognised as capable of copyright protection in their own right.[18] This arguably is because of their intangible nature and the constitutional requirement that copyright protection attaches only to 'writings'. However, it is standard practice for broadcasters to simultaneously record their transmission which may entitle it to copyright protection as a separate copyright protected, audiovisual work in its own right.[19]

Television networks will own any copyright in the broadcast. This potentially gives the networks a stronger level of protection than relying on rights in underlying programming, which may be produced and owned by third party production houses. It also potentially offers them the ability to protect the core of their concerns, namely the advertisements made as part of their broadcasts.

Broadcasts are a strange beast for copyright purposes because of their transient nature, as the state of the United States copyright law indicates. Copyright typically attaches

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[16] See *Australian Tape Manufacturers Association Limited & Ors v The Commonwealth of Australia* (1993) 176 CLR 480, 498 (Mason CJ, Brennan, Deane and Gaudron JJ).
[17] *Copyright Act 1968* (Cth) s 89.
[18] See 17 USC 102.
[19] Nimmer & Nimmer, *Nimmer on Copyright*, 1.08[C][2].

to the material form. Broadcasting involves the transmission of signals which are momentarily viewed and then disappear, unless recorded. Consequently, broadcast copyright is only infringed by unauthorised reproductions of the 'broadcast'. However, the issue is what constitutes that momentary 'broadcast'.

It is interesting to note that a recent decision in Australia was the first to consider broadcast copyright in Australia. Known as the 'Panel case',[20] the Federal Court in that case was required to assess whether the use by Network Ten of excerpts from Channel Nine's broadcasts as part of Network Ten's program *The Panel* infringed Channel Nine's broadcast copyright. Conti J found that Network Ten had not taken a sufficiently substantial part of Channel Nine's broadcast to be infringing. The appeal to this decision was handed down on 22 May 2002, and reversed this finding.

The Panel is a 'chat' program which included elements of current affairs, news and comedy. It was described by Conti J as a 'current affairs program that seeks to be entertaining and unscripted'.[21] As part of this program format, *The Panel* frequently uses excerpts from programming on other television networks, including Channel 9, for the purpose of comedy and other commentary.

The threshold issue in the case was whether Network Ten had taken a 'substantial part of Channel Nine's broadcast for inclusion in the Panel program. Copyright infringement only arises when a substantial part of copyright protected material has been taken.[22]

To assess the substantiality or otherwise of the excerpts used by Network Ten, Conti J had to identify the exact meaning of 'broadcast' for copyright purposes.

At first instance, Network Ten submitted that advertisements should be held to be part of television [127] programs because advertising is the 'lifeblood' of commercial television broadcasting.[23] Conti J rejected this submission. His Honour considered

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[20] *TCN Channel Nine Pty Limited v Network Ten Limited* [2001] FCA 108 (at first instance); [2002] FAFC 146 (appeal decision).
[21] Ibid at its n 2.
[22] *Copyright Act 1968* s 14.
[23] Panel case (at first instance), above n 20, 41(iii).

that 'advertisements should be treated as discrete television broadcasts'.[24] Conti J's conclusion is unfortunate given Network Ten's submission seems to address the core issue of the networks' concern underlying their action against SONICblue, namely the protection of advertising as a vital revenue source for the television industry.

At first instance, Conti J found that broadcast copyright is a program identifiable by the existence of a common theme. His Honour found that advertisements, by reason of their different theme, circumstances of discrete production and complex intellectual property rights ownership structure 'with at least some normally being vested in the advertiser' warranted the exclusion of advertisements from the definition of broadcast copyright. Network promotions were also excluded by his Honour.[25]

This conclusion seems to conflict the overall purpose of broadcast copyright, being to protect 'the technical considerations associated with the infrastructure of production'.[26] His Honour's findings seems to conflate broadcast copyright with copyright in the underlying program, and only the program, being broadcast.

The problems inherent in this definition of broadcast copyright are thrown into relief where the actual program has not been produced by a broadcaster, as was the case in relation to some excerpts in the Panel case, such as those taken from the 72nd Academy Awards (which would most likely have been produced by a foreign broadcaster and licensed to Channel 9). Programs produced by third parties are similar to two of the characteristics noted by Conti J in relation to advertisements. They are produced in circumstances of discrete production and have complex intellectual property rights' structures attached, with ownership normally vested in the third party producer.

The decision appears to infuse broadcast copyright with the rights in the underlying work. This ignores the not insignificant activities of the broadcaster in resourcing and then segmenting the program to include advertisements and network promotions, to present the program as a broadcast.

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[24] Ibid.
[25] Ibid 43.
[26] Ibid 44.

On appeal, Hely J, with whom Finkelstein and Sundberg JJ agreed, recognised the need to distinguish cinematograph films and broadcasts for copyright purposes. Whereas a cinematograph film constitutes a series of images, his Honour held that the interest protected by broadcast copyright is the actual visual image and the accompanying sounds. Consequently, it is an infringement of broadcast copyright to reproduce any of the images included within the broadcast 'whether or not the subject matter of the re-broadcast is characterised as a programme, a segment of a programme, an advertisement, a station break or a station logo, or as a substantial part of any of those things.'[27]

On appeal, Finkelstein J acknowledged that the US courts take a different approach when defining what constitutes a broadcast for copyright purposes — an approach more akin to that taken by Conti J at first instance. In *National Football League v McBee & Brunos Inc*,[28] the 8th Circuit Court of Appeal said of a broadcast of a football game that 'the football game between the Cardinals and another team is what the television viewers take delight in and not the inserted commercials'.

In this 1986 decision, the plaintiffs had prepared a 'clean feed' of footage of the game and commentary. They then prepared and distributed to affiliates a 'dirty feed' which included commercials and station breaks. It was this dirty feed which the plaintiffs had registered for copyright protection (a requirement to bring an action under US copyright law) and in respect of which they alleged infringement. The defendants intercepted the 'clean feed' and were nevertheless found to have infringed copyright because [128] it was the content of the broadcast which attracted viewers. The advertisements and the station breaks were dismissed for the purpose of assessing whether there had been an infringement in respect of the dirty feed.

It is interesting to see a similar treatment by the courts in the US of advertisements when considering infringement of broadcast copyright. In commenting on this decision, Nimmer questions the reliance by the courts on subjective judgement.[29] As a

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[27] Panel case (appeal decision), above n 20, 85.
[28] 792 F 2d 726 (8th Cir, 1986).
[29] Nimmer & Nimmer, above n 19, 2.03 [B] 2.

matter of principle, copyright should attach to a work regardless of its lack of artistic or other merit[30] and arguably regardless of its popularity with viewers.

The nature of the protection for advertisements included as part of television broadcasts may be an important issue in the reported action against SONICblue, at least commercially, if not legally. Although the networks can rely on infringements of their own produced programs by recording through ReplayTV4000, their main concern is the exclusion of advertisements. This issue will become paramount if PVR technology develops to the extent to allow viewers to skip advertisements as programs are broadcast.

Conclusion

It is fair to say that there are several obstacles to the success of the networks' action of a preliminary injunction against SONICblue for copyright infringement. In addition to the substantive legal issues discussed above, as a procedural matter, to obtain an injunction, the networks will need to demonstrate irreparable harm if the injunction is not granted. With the techwreck, the take-up of PVRs has fallen far short of hyped-predictions made during the boom. In the United States an estimated 750,000 units have been shipped.[31] This fact, combined with the fact that SONICblue are initially offering only a limited number of ReplayTV4000, and the limit on the number of programs which can be swapped online, may make it difficult for the networks to reach the threshold for the grant of an injunction.

Bill Roberts of the North American Broadcasters Association acknowledged that the PVR 'represents the greatest threat — and greatest opportunity — to broadcasters' advertising revenue'.[32] The ReplayTV4000, for example, includes a 'Targeted Advertising Solution'[33] which facilitates customer profiling and enables customised advertising, most likely at higher premiums. PVRs do not necessarily represent a fateful threat to the commercial viability of the television industry. PVRs may

[30] *University of London Press Ltd v University Tutorial Press Ltd* [1916] 2 Ch 601, 608.
[31] Sutel, above n 2.
[32] 'Television and the Internet: Threat or Opportunity?', Media Release of the North American Broadcasters Association (July/August 2000).
[33] <http://www.replaytv.com/b2b/ads.htm> (20 November 2001).

actually enhance it. This is arguably reflected in the fact that the networks are investors in SONICblue.

If the case proceeds, the most significant impact of the decision will no doubt be the reconsideration of the Sony decision against a factual situation which is different from the analogue world only to the extent that video recorders have gone digital and may facilitate file sharing. It offers a unique opportunity to update of copyright laws for the digital age to date. This may crystallise the extent of legal responsibility online service providers have for the conduct of their users. This reassessment would be useful for not only the future of the television industry in an interactive world but also for all content and new technology industries generally.