

- matter).
- 15 Phillips Fox, *Digital Agenda Review and Recommendations* (2004), 79.
- 16 Explanatory Memo to the *US Free Trade Implementation Bill 2004* (Cth) (EM), 6; Revised EM para 57.
- 17 Above note 15, 80.
- 18 Above note 8.
- 19 Heidi Pearlman Salow, "Liability Immunity for Internet Service Providers--How Is It Working?" (2000) 6.1 *J. TECH. L. & POL'Y* 1, 25. Available online at <http://grove.ufl.edu/~techlaw/vol6/issue1/p earlman.html>25, viewed 31 January 2005.
- 20 IA: Schedule 9, Part 11, item 191.
- 21 Section 116AA(2) provides that the Regime does not limit the operation of the provisions in the Copyright Act that deal with determining liability for copyright infringement. The explanatory memorandum explains that while actions taken by a CSP in relation to the conditions set out under the Regime may have some relevance to whether or not copyright infringement has occurred, the Regime does not affect the interpretation of the provisions in the Copyright Act in relation to the determination of liability or the applicability of exceptions. Also, a CSP's failure to qualify for a "safe harbour" does not render them automatically liable for copyright infringement – a copyright owner must still establish that a CSP has infringed copyright under the Copyright Act: EM at 99.
- 22 For the purposes of determining what is a directly attributable financial benefit, section 116AH(3) provides that a court may have regard, in addition to other matters it thinks relevant, to: (a) CSP industry practice (including charging based on activity level); and (b) whether the financial benefit was greater than the benefit that would usually result from charging in accordance with accepted industry practice. Commentators have suggested that this test may dissuade CSPs from considering innovative business models and pricing practices and is an "anathema to a competitive market": *Bills Digest*, Parliamentary Library, Parliament of Australia, no 71, 6 December 2004.
- 23 A CSP does not have the onus of proving its lack of awareness. The EM to the *Copyright Legislation Amendment Bill* explains at page 6 that this is because CSPs in most cases would be "unable to tender evidence to support a proposition that it did not know of, or was not aware of, the infringing activity. It is a matter for the copyright owner to establish, on the balance of probabilities, that the CSP had the required state of knowledge before it was required to act expeditiously to remove or disable access. Once this knowledge is established, the onus reverts to the CSP who must establish that it acted expeditiously to take down the relevant material."
- 24 Section 116AG.
- 25 Section 116AI.
- 26 Section 116AJ.
- 27 EM para 235.
- 28 The CLAA inserts a new condition 2A into table items 4 and 5 of section 116AH(1).
- 29 The Copyright Legislation Amendment Act 2004: A stealth attack on CSPs, [www.findlaw.com.au/article/13016.htm](http://www.findlaw.com.au/article/13016.htm), viewed 31 January 2005.
- 30 Electronic Frontiers Australia, *Submission 282*, 12 to Senate Select Senate Committee on AUSFTA, *Final Report*: [www.aph.gov.au/Senate/committee/freetrade\\_cttc/submissions/sub282.pdf](http://www.aph.gov.au/Senate/committee/freetrade_cttc/submissions/sub282.pdf), viewed 31 January 2005.
- 31 Note however, that the issue of "good faith immunity" may be dealt with in the forthcoming regulations – section 116AJ(1) states that regulations may provide for civil immunity for such acts. In addition, section 116AJ(3) provides that regulations may prescribe offences in relation to conduct by persons issuing notices. Such provisions, if implemented, could create a disincentive to the sending of vexatious notices.
- 32 Above note 15, 83.
- 33 Kimberley Weatherall, *Submission 294*, 17 to Senate Select Committee on AUSFTA, *Final Report*, 70.
- 34 See *Desktop Marketing Systems v Telstra Corporation* (2002) 55 IPR 1 – cf higher US standard: *Feist Publications Inc v Rural Telephone Service* 499 US 340 (1991).
- 35 Daniel Cahoy, *New Legislation Regarding On-Line Service Provider Liability for Copyright Infringement: A Solution in Search of a Problem?* 38 *IDEA* 335, 354.
- 36 The interrelationship of sections 36(1A) and s 39B may soon be clarified as it is the subject of current proceedings before the Federal Court see above note 9.
- 37 *Transcript of Evidence*, 8 June 2004, p 13 (Speck, Music Industry Piracy Investigations).
- 38 *Ibid.*
- 39 Above note 15, 84.
- 40 Although this may soon change depending on the outcome of current Federal Court proceedings: see above note 9.
- 41 Above note 35.

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## The liability of ISPs and other providers of hardware and software facilities for copyright infringement

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*Society of Composers, Authors and Music Publishers of Canada v Canadian Association of Internet Providers and ors* 2004 SCC 45 (Supreme Court of Canada, McLachlin CJ, Iacobucci, Major, Bastarache, Binnie, Arbour, LeBel, Deschamps and Fish JJ, 30 June 2004)

The highest Court of Appeal in Canada, the Supreme Court, recently handed down judgment in this matter, which examined the fundamentals of

the new right of "communication" in Canadian copyright law, and the statutory defences provided by the copyright law. It is a decision which provides insights into the equivalent provisions of the Australian *Copyright Act 1968* (Cth), in particular the meaning of sections 22(6), 36(1A) and 39B, introduced by the *Copyright Amendment (Digital Agenda) Act 2000* (Cth) and, by contrast, the new provisions which are proposed to augment and amend the existing

Australian law set out in the *US Free Trade Agreement Implementation Act 2004*.<sup>1</sup>

### Background

These proceedings originated in the Canadian Copyright Board, (**Copyright Board**) the equivalent of the Australian Copyright Tribunal, with an application by the Canadian Society of Composers, Authors and Music Publishers of Canada (**SOCAN**, which has a function somewhat the

same as APRA in Australia) seeking payment of a statutory royalty (**Tariff 22**) by Canadian providers of internet infrastructure. The basis of the application was that the providers were responsible, in part, for the communication, or authorized the communication, of music over the internet to Canadian internet users.

The appeal raised questions regarding who should compensate copyright owners whose works are unquestionably being transmitted across the internet.

The internet infrastructure providers, the appellants in the Supreme Court, relied upon section 2.4(1)(b) in the definition of "telecommunication" in the Canadian *Copyright Act*, RSC 1985 c. C-42 (**Canadian Act**), which provides:

- (b) *a person whose only act in respect of the communication of a work or other subject-matter to the public consists of providing the means of telecommunication necessary for another person to so communicate the work or other subject-matter does not communicate that work or other subject-matter to the public;* [emphasis added]

Further, they rightly observed that it is not just music which is transmitted across the internet, but a vast amount of other material, the passage and content over which they have little, or no, control.

It is to be noted that the claim of SOCAN was not concerned at all with whether the person downloading music was doing so from a "legitimate" music provider, such as Apple's *iTunes* website in the United States, which is licensed by the copyright owners in the United States, or from an illegitimate source. SOCAN's position was that those who provided the means of communication should contribute to the remuneration of the music copyright owners, on the basis that a proportion of the traffic passing over their facilities was music of some kind.

The Copyright Board found that it could only consider granting a royalty if the relevant copyright act,

communication, occurred within Canada, and that this could only be so if the provider of the music content downloaded over the internet, or rather the "host" from which it was downloaded, was located within Canada (unless, perhaps, the content provider had "the intention to communicate [the content] specifically to recipients in Canada").<sup>2</sup> The Copyright Board further found that the ordinary activities of internet infrastructure providers could not be regarded as "communication" within the meaning of the Canadian Act, unless they did something more than act "as a mere conduit" of copyright material.

On appeal, the Federal Court of Appeal took a slightly different view. It decided that the Copyright Act had a broader reach, and could apply to any act which had a "real and substantial connection with Canada". A broader range of activities could be infringements under the Act than just communication from a host server within Canada, and a broader range of sources could give rise to a liability on the part of internet service providers (ISPs) who "enabled" such communications to Canadian end-users. The Court agreed with the findings of the Copyright Board regarding the nature of the ordinary activities of internet infrastructure providers, but found that such providers often improve upon the communication between host and end-user, for example by "caching" frequently visited sites. Even if for purely technical reasons, this constituted sufficient additional intervention, to make the internet service providers liable to SOCAN under *Tariff 22*, because it was optional and not "necessary".

### **Decision of the Supreme Court**

The Supreme Court did not entirely agree with the decision of the Federal Court of Appeal. The majority (LeBel J dissenting) agreed with the Court below regarding the scope of the conduct which might amount to copyright infringement in Canada, the *situs* of the host server being merely one possible factor among many which might give rise to sufficient connection with Canada to amount to

a "communication" caught by the Canadian Act. However, the Supreme Court disagreed upon the scope which should be given to the exception in section 2.4(1)(b). The Supreme Court found that the word "necessary" in the exception should be read broadly, so as to encompass any reasonably useful and proper means to achieve the benefits of enhanced economy and efficiency. As a consequence, even the creation and use of caches to improve the speed and efficiency of responses would be regarded as within the exception regarding "necessary means", so long as the ISP is not directing its activities to specific content.<sup>3</sup>

### **Communication**

Binnie J, delivering the majority judgment, recognised that SOCAN was in a difficult position, it not being an "attractive prospect" for SOCAN to attempt to recover royalties from foreign suppliers of music content over the internet.<sup>4</sup> However, his Honour observed that the purpose of section 2.4(1)(b) was to strike a reasonable balance between the competing interests of encouraging copyright owners to create content and of intermediaries providing telecommunications infrastructure. In this case Parliament had decided, in order to avoid "unnecessary layering" of copyright liability, that those engaged in the "wholesale" stage of the communication activity should not be caught up as well as those providing the content communicated.<sup>5</sup>

*I conclude that the Copyright Act, as a matter of legislative policy established by parliament, does not impose liability for infringement on intermediaries who supply software and hardware to facilitate use of the Internet. The attributes of such a "conduit" ... include lack of actual knowledge of the infringing contents, and the impracticality (both technical and economic) of monitoring the vast amount of material moving through the Internet, which is prodigious."*

However, his Honour noted that an ISP may well engage in other activities which target or promote the acquisition by its customers of particular data, such as providing

specific links to sources of on-line music, and this activity may well be outside the protection afforded by section 2.4(1)(b).

### Authorization

Given that the providers of music content over the internet to Canadians, from host servers inside or outside Canada, may be infringing by communication, would the ISPs be liable for “authorization”, on the basis that they provide the means of communication? There was no doubt that the ISPs knew that music was being communicated across their systems, and the availability of such music is a powerful inducement for end users and content providers to sign up with internet access providers.<sup>6</sup> It was here that the fact that a good deal of material other than music is also transacted over the internet operated on the judgment of the Supreme Court:

*The operation of the Internet is obviously a good deal more complicated than the operation of a photocopier, but it is true here, as it was in the CCH case,<sup>7</sup> that when massive amounts of non-copyrighted material are accessible to the end user, it is not possible to impute to the Internet Service Provider, based solely on the provision of Internet facilities, an authority to download copyrighted material as opposed to non-copyrighted material.<sup>8</sup>*

His Honour added, however, that where the activities of the ISP cease to be content neutral, such as when it has notice that a content provider has posted infringing material on its system and fails to take remedial action, it may then have a liability for authorization.<sup>9</sup> However:

*The knowledge that someone might be using neutral technology to violate copyright (as with the photocopier in the CCH case) is not necessarily sufficient to constitute authorization, which requires a demonstration that the defendant did “[g]ive approval to; sanction, permit; favour encourage” (CCH, para 38) the infringing conduct. ... A more effective remedy to address this potential issue would be the enactment by parliament of a*

*statutory “notice and take down” procedure as has been done in the European Community and the United States.<sup>10</sup>*

### “Communication” under the Australian Copyright Act

The *Copyright Amendment (Digital Agenda) Act 2000 (Digital Agenda Act)* introduced to the Australian *Copyright Act 1968 (Copyright Act)* the current right of “communication to the public” which comprises both of the rights of broadcasting and distribution by cable, and extends to dissemination of copyright material on the internet. The Copyright Act now defines “communicate” to mean:

*... make available online or electronically transmit (whether over a path, or a combination of paths, provided by a material substance or otherwise) a work or other subject matter.<sup>11</sup>*

Clearly, like the activities of a conventional broadcaster or a provider of a cable diffusion service, the activities of the providers of internet infrastructure fall within this fairly broad definition of the word “communicate”.

To overcome this problem, and achieve the same balance of competing interests which section 2.4(1)(b) of the Canadian Act sought, the Australian legislation takes a different path. Sections 22(5) and (6) provide instead:

- (5) *For the purposes of this Act, a broadcast is taken to have been made by the person who provided the broadcasting service by which the broadcast was delivered.<sup>12</sup>*
- (6) *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.*

Hence the issue of whether a person has engaged in “communication to the public” is to be determined by the altogether unexplained notion of “determination of the content”. What could it mean? It seems that the legislation has chosen to replace one

uncertainty with another. Section 22(6) may make the new right of communication to the public exceptionally narrow – potentially a narrower right than under the legislation prior to the amendment. It is not clear why a person who acquires material for redistribution, who knows of the content but who does not determine content (because the supply of the content has been contracted out to the supplier of it), should not be infringing the copyright in the content. For example, a hotel operator who acquires in-room videos from a provider of this service, or an ISP who commissions the provision of text, pictorial, video or sound recording content, perhaps from an overseas supplier may well not be “determining the content of the communication” before it is communicated. However they would have been liable before the new law was introduced and these are examples of the sort of conduct which Binnie J in the Canadian Supreme Court would have regarded as being outside the scope of section 2.4(1)(b) of the Canadian Act. It is not clear what degree of intervention an ISP or other network communications provider must have before it may be understood to be “determining the content”. Would caching amount to sufficient intervention, even if by some automated process?

By contrast, under the new section 22(5), a communication to the public by way of a “broadcast” is “taken to have been made by the person who provided the broadcasting service by which the broadcast was delivered”. A person who makes a broadcast is therefore under a much stricter obligation than other communication service providers. This, quite properly, places a fairly large onus on a broadcasting service to screen all material before it goes to air. One may wonder why the same burden is not placed upon ISPs to screen their material which is provided by third parties, other than from customers which they cannot control.

### “Authorization” and sections 36(1A) and 39B of the Australian Copyright Act

The Digital Agenda Act also introduced sections 36(1A) and 39B in respect of works (and equivalent

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provisions in sections 101(1A) and 112E in respect of other subject matter), which deal with authorization. Section 36(1A) provides:

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

(a) the extent (if any) of the person's power to prevent the doing of the act concerned;

(b) the nature of any relationship existing between the person and the person who did the act concerned;

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

And section 39B provides:

*A person (including a carrier or carriage service provider) who provides facilities for making, or facilitating the making of, a communication is not taken to have authorised any infringement*

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

Both these provisions address the issues which arose before the Canadian Supreme Court, but it is to be noted that they deal only with the authorization issue, and not with the issue of communication itself (as section 2.4(1)(b) of the Canadian Act does). Hence the defence of merely providing "facilities" goes only to authorization, and not to the underlying act of communication to the public. This suggests that the mere provision of facilities does amount to communication, otherwise, sections 36(1a) and 39B would be otiose. On

Item	Activity	Conditions
1	All categories	<ol style="list-style-type: none"> <li>The carriage service provider must adopt and reasonably implement a policy that provides for termination, in appropriate circumstances, of the accounts of repeat infringers.</li> <li>If there is a relevant industry code in force – the carriage service provider must comply with the relevant provisions of that code relating to accommodating and not interfering with standard technical measures used to protect and identify copyright material.</li> </ol>
2	Category A	<ol style="list-style-type: none"> <li>Any transmission of copyright material in carrying out this activity must be initiated by or at the direction of a person other than the carriage service provider.</li> <li>The carriage service provider must not make substantive modifications to copyright material transmitted. This does not apply to modifications made as part of a technical process.</li> </ol>
3	Category B	<ol style="list-style-type: none"> <li>If the copyright material that is cached is subject to conditions on user access at the originating site, the carriage service provider must ensure that access to a significant part of the cached copyright material is permitted only to users who have met those conditions.</li> <li>If there is a relevant industry code in force – the carriage service provider must comply with the relevant provisions of that code relating to:               <ol style="list-style-type: none"> <li>updating the cached copyright material; and</li> <li>not interfering with technology used at the originating site to obtain information about the use of the copyright material.</li> </ol> </li> <li>The service provider must expeditiously remove or disable access to cached copyright material upon notification in the prescribed form that the material has been removed or access to it has been disabled at the originating site.</li> <li>The carriage service provider must not make substantive modifications to the cached copyright material as it is transmitted to subsequent users. This does not apply to modifications made as part of a technical process.</li> </ol>
4	Category C	<ol style="list-style-type: none"> <li>The carriage service provider must not receive a financial benefit that is directly attributable to the infringing activity if the carriage service provider has the right and ability to control the activity. A financial benefit is to be regarded as directly attributable to the infringing activity only if the carriage service provider knew or ought reasonably to have known that an infringement of copyright was involved.</li> <li>The carriage service provider must expeditiously remove or disable access to copyright material residing on its system or network upon receipt of a notice in the prescribed form that the material has been found to be infringing by a court.</li> <li>The carriage service provider must comply with the prescribed procedure in relation to removing or disabling access to copyright material residing on its system or network.</li> </ol>
5	Category D	<ol style="list-style-type: none"> <li>The carriage service provider must not receive a financial benefit that is directly attributable to the infringing activity if the carriage service provider has the right and ability to control the activity. A financial benefit is to be regarded as directly attributable to the infringing activity only if the carriage service provider knew or ought reasonably to have known that an infringement of copyright was involved.</li> <li>The carriage service provider must expeditiously remove or disable access to a reference residing on its system or network upon receipt of a notice in the prescribed form that the copyright material to which it refers has been found to be infringing by a court.</li> <li>The carriage service provider must comply with the prescribed procedure in relation to removing or disabling a reference residing on its system or network.</li> </ol>

the other hand, if a person “determines the content” of a communication, how can that person take advantage of section 36(1A)?

Section 39B also relies upon an expression, “facilities”, in respect of which no legislative assistance or explanation is provided. Because it is clearly intended to extend beyond a mere provider of a communications network (by reason of the words “including a carrier or carriage service provider” in parentheses), it must refer to the provision of other facilities (by a person who “determines the content” of the relevant communication). In this way it might extend, using the words of Binnie J quoted above, to “intermediaries who supply software and hardware to facilitate use of the Internet”, that is, those who provide products, not merely those who provide communications facilities.

**Further amendments under the US Australia Free Trade Agreement**

The US Australia Free Trade Agreement (FTA) requires Australia to implement further amendments to the Copyright Act to provide a much more detailed hierarchy of conditional limitations on ISPs’ liability. The limitations on liability set out in the FTA require that a court should not be able to give monetary relief against an ISP, and that the court’s ability to compel or restrain certain ISP actions, such as terminating accounts or disabling access to infringing copyright material, is to be restricted.

Pursuant to the *US Free Trade Implementation Act 2004 (Cth)*, if the FTA is ratified, Part 11 of Schedule 9 (item 191) of the Act will introduce a new Division 2AA of Part V of the Copyright Act, which applies equally to all “carriage service providers” (as defined in the *Telecommunications Act 1997 (Cth)*), not just ISPs. This sets out four “categories” of relevant activity:

*Category A activity: by providing facilities or services for transmitting, routing or providing connections for copyright material, or the intermediate and transient storage of such material in the*

*course of transmission, routing or provision of connections;*

*Category B activity: caching of copyright material through an automatic process (“caching” is defined as “the reproduction of copyright material on a system or network controlled or operated by or for a carriage service provider in response to an action by a user to facilitate efficient access to that material by that user or other users”);*

*Category C activity: storing, at the direction of a user, copyright material on a system or network controlled or operated by or for a carriage service provider; and*

*Category D activity: referring users to an online location using information location tools or technology.*

Each of these types of activity is subject to different conditions to establish limits on carriage service providers’ liability, which are set out in a large table which will be included in the new section 116AH.

These are subject to a proviso in subsection (2) that:

*nothing in the conditions is to be taken to require a carriage service provider to monitor its service or to seek facts to indicate infringing activity except to the extent required by a standard technical measure mentioned in condition 2 in table item 1 in the table in subsection (1).*

The conditions that must be satisfied for carriage service providers to enjoy limited liability become more stringent for each category from Category A to Category D. This reflects that the carriage service provider has greater access to and control over the copyright material communicated or which the carriage service provider assists to communicate.

However, the carriage service provider will be presumed to have complied with these conditions if it can point to evidence suggesting its compliance. In addition, carriage service providers will not be required to monitor or investigate their systems and networks

for copyright infringement, apart from as required by relevant industry codes.<sup>13</sup>

One is compelled to ask how these specific provisions with respect to carriage service providers are meant to co-exist with the existing provisions of section 22, 36, 39B, 101 and 112E, to which no change has been made. The retention of these provisions unaltered serves to reinforce the view that these provisions must have a broader meaning than may otherwise have been thought. Some guidance in this regard may be given by the Federal Court of Australia in the proceedings which are currently before it in respect of the Shaman Networks “Kazaa” facilities, and those parties which provide fileswapping software which can be used for “peer to peer” copying of files from the computers of one internet user to the other.

1 Part 11 of Schedule 9 (item 191).  
2 (para 139).  
3 It is interesting to note that neither the Copyright Board nor the Supreme Court had to decide whether this conduct would amount to the making of a copy, and hence an infringement of another of the copyright owner’s exclusive rights, as SOCAN did not sue on, presumably because it did not own (in the same way that APRA does not own), such right.  
4 (para 81).  
5 (paras 90 and 114).  
6 (para 121, quoting Evans JA of the Federal Court of Appeal).  
7 *CCH Canadian Ltd v Law Society of Upper Canada*, [2004] 1 SCR 339, 2004 SCC 13; cf *University of New South Wales v Moorhouse and Angus & Robertson (Publishers) Pty Ltd*, (1975) 133 CLR 1; 6 ALR 193; [1976] RPC 151  
8 (para 123)  
9 (par 124)  
10 (par 127)  
11 Section 10, Copyright Act.  
12 Section 10 defines “broadcast” as “a communication to the public delivered by a broadcasting service within the meaning of the *Broadcasting Services Act 1992*”. This essentially means radio and television, but does not include the provision of data (such as teletext), nor point-to-point provision of programs, such as video on demand, as well as any other services which the Minister declares not to be broadcasting services (section 6(1) *Broadcasting Services Act 1992*)  
13 Proposed section 116AJ