A & M Records (and others) v Napster
Time for Napster to Face the Legal Music?

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Napster's internet system for sharing music files could be likened to an "all-you-can-eat-Smorgasbord": there is an endless selection of dishes and the more one eats, the more one wants to eat. Napster users are given a taste of luxury; they can download their favourite "meals" from the internet and dine free of charge – all without leaving their homes. However, after recent litigation in the United States, the feast may well be over (or the menu severely restricted) for Napster's estimated 65 million worldwide users. The case is viewed as a landmark decision on copyright in cyberspace, and is seen as defining how music and later books and movies will be distributed online.

This article endeavours to explain the developments in the Napster legal drama. First, it will commence with a discussion of the relevant facts and subsequent response by the music industry. Then it will analyse the decision of the US Court of Appeals for the Ninth Circuit which led to the rewriting of the initial injunction by the District Court of California. It is important to realise that the decision of the Court of Appeal was in relation to a preliminary injunction, and did not constitute a trial of the issues. Further, the article will briefly discuss current Australian digital copyright law and how the Napster case might have been decided if it were heard in this country. Finally, it will discuss whether the terms of the revised injunction have been followed by the respective parties at the time of writing.

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The Facts

The System
Napster is a US Company which provides a "file swapping" system across the internet for collectors of MP3 music files. MP3's are compressed digital representations of musical recordings. Napster does not make, store or copy these MP3 files onto their own equipment. Instead, the files are only located on the hard disk drives of Napster users. Napster's role is to provide a directory service that contains an index of all the MP3 files that current Napster users wish to share, and permit one user to access another user's hard disk drive directly. For example, Anna, who wants to obtain an MP3 file for U2's song "Beautiful Day", connects to Napster's Song Server. When Anna connects to the Napster server, she automatically provides her online address and a list of songs to share with other users. She then "tells" the Napster Server that she wants to download "Beautiful Day" and the Napster Server in turn searches the other online users to see who is willing to share this song. Then, Anna is given a choice of users, such as William, who wish to share this particular song. The Napster service then allows Anna to "contact" William and access William's hard disk drive to download the file containing "Beautiful Day". At any given time, this process was being undertaken by over 7,000 Napster users, swapping over 1.5 million files.

The Response
As could be expected, the music industry was not pleased with this arrangement, as they felt such free internet music was depriving them of ordinary CD sales. On 6 December 1999, over 17 music record companies filed a complaint against Napster for contributory and vicarious copyright infringement, violation of the Californian Civil Code and unfair competition. Initially, these plaintiff music companies sought preliminary injunctions restraining Napster's activities in relation to copyrighted music. Under US law, preliminary injunctive relief is available to a party who demonstrates either –

- a combination of probable success on the merits and the possibility of irreparable harm or
- that serious questions are raised and the balance of hardship tips in its favour.[1]

On 26 July 2000, Chief Judge of the United States District Court for the Northern District of California, Marilyn Hall Patel, granted the music companies' motion and issued a preliminary injunction preventing Napster from engaging in, or facilitating others to engage in "copying or

[1] *Napster* (Court of Appeal at 13, affirming *Prudential Real Estate Affiliates, Inc v PPR Realty, Inc*, 204 F. 3d 867, 874 (9th Cir 2000))

duplicating all copyrighted songs and musical compositions of which the plaintiffs (music industry) hold copyright".

The Reprieve
While this preliminary injunction was to have taken effect from 28 July 2000, Napster succeeded in obtaining a last minute reprieve. The US Court of Appeals for the Ninth Circuit stayed the injunction pending argument and decision in relation to an appeal from the District Court's order. In their decision delivered on 12 February 2001, their Honours affirmed in part and reversed in part the District Court's preliminary injunction. Upholding the District Court's injunction, the Court found that the plaintiff record companies had substantially and primarily prevailed on appeal.[2] The plaintiffs had raised serious questions regarding whether Napster was a "vicarious" and / or "contributory" copyright infringer and consequently was legally responsible for its users sharing of copyrighted music. The Court of Appeal also noted that the plaintiffs had sufficiently demonstrated that they were suffering harm from Napster-related copyright infringement. However, all was not lost for Napster – the Court considered the preliminary injunction "too broad" and remanded the District Court to make modifications to reflect a "looser" view of Napster's liability for contributory and vicarious copyright infringement. The main reasons for the Appeal Court's decision and subsequent modification of the initial injunction will now be considered.

The Decision

Proof of Direct Copyright Infringement
To succeed in a prima facie case of direct infringement, under US law, the plaintiff music companies had to satisfy two requirements –

- they must show ownership of the allegedly infringed material and
- they must demonstrate that the alleged infringers violated at least one exclusive right granted to copyright holders by appropriate legislation.[3]

Without underlying direct infringement, there cannot be any later arguments for contributory or vicarious infringement (see discussion below). In support, the plaintiffs argued that Napster users are engaged in "the wholesale reproduction and distribution of copyrighted works, all constituting direct infringement".[4] The District Court agreed with the plaintiffs' claim and Napster did not further challenge the finding that their

[2] *Napster* (Court of Appeal) at 1
[3] 17 USC § 501(9)

users directly infringed the copyright of the plaintiffs.[5]

Defences to Copyright Infringement
On appeal, Napster alleged an affirmative defence to the charge that Napster users directly infringed the plaintiffs' copyrighted musical and sound recordings. Napster contended that its users do not directly infringe the plaintiffs' copyrights because the users are engaged in "fair use" of the material.

General Fair Use
US legislation specifies a list of factors to guide the Court in relation to "fair use" determination.[6] These factors are –

- the purpose and character of the use
- the nature of the copyrighted work
- the amount and substantiality of the portion used in relation to the work as a whole
- the effect of the use upon the potential market for the work or the value of the work.

Both the District Court and Appeal Court concluded that Napster users are not fair users of the copyrighted material. These Courts' overall reasoning will now be addressed.

Purpose and Character of the Use

This requirement focuses on whether the new work merely replaces the object of the original creation or instead adds a further purpose or different character.[7] Both courts agreed that downloading MP3 files does not transform the copyrighted work. The "purpose and character" factor also requires that the Court determine whether the allegedly infringing use is either commercial or non-commercial.[8] A commercial use weighs against a finding of fair use, but it is not conclusive of the issue. Again, both Courts found that Napster users engaged in commercial use of the copyrighted materials. According to the District Court, this was largely because a host user sending a file cannot be said to engage in a personal use when distributing that file to anonymous requester and Naspster users get for free something they would ordinarily have to buy.[9]

4 *Napster* (Court of Appeal) at 19
5 *Napster* (Court of Appeal) at 19
6 17 USC §107
7 *Napster* (Court of Appeal) at 19
8 *Campbell v Acciff-Rose Music, Inc* 569, 579, 127L. Ed. 2d 500 114S.Ct. 1164 (1994) at 584-85 (*Campbell)*
9 *Napster* (District Court) 114 F Supp 2d at 913

Nature of the use
Creative works are closer to the core of intended copyright protection than are more fact-based works.[10] The District Court concluded that the plaintiffs' "copyrighted musical compositions and sound recordings are creative in nature ... which cuts against a finding of fair use under [this] factor".[11] The Appeal Court supported this finding.

The Portion used
While wholesale copying does not preclude fair use per se, copying an entire work militates against a finding of fair use.[12] The District Court determined that Napster users engaged in "wholesale copying" of copyrighted work because file transfer necessarily "involves copying the entirety of the copyrighted work".[13] The Appeals Court accepted this conclusion but also acknowledged that under certain circumstances, a Court will find that a use is fair even if the entire protected work has been copied.[14]

Effect of the use on the market
When properly applied, fair use is limited to copying by others which does not materially impair the marketability of the work which is copied.[15] To resolve this point, the District Court consulted several reports submitted by the respective parties. The plaintiffs advanced a report by Dr Deborah Jay, who conducted a survey using a random sample of college and university students to identify their reasons for using Napster and the impact Napster had on their music purchases. The music companies also offered a study conducted by Michael Fine, which found that online file sharing had resulted in a loss of album sales within college markets. The plaintiff's expert Dr David Teece also studied several of these issues including whether the music companies had suffered or were likely to suffer harm in their existing and planned business due to Napster use. As for Napster's experts, Napster submitted a report by Dr Peter Fader, in which he concluded that Napster is beneficial to the music industry because MP3 music file-sharing stimulates more audio CD sales than it displaces.

The District Court cited both the Jay and Fine Reports to support its conclusion that Napster use harms the market for the plaintiffs' copyrighted musical compositions and sound recordings by reducing CD sales among college students. The Teece report was also cited to illustrate the harm Napster use caused in raising barriers to the plaintiffs' entry into

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[10] *Campbell* 510 US at 586
[11] *Napster* (District Court) 114F Supp 2d at 913
[12] *Worldwide Church of God v Philadelphia Church of God* 227 F.3d 1110, 1118 (9th Circuit 2000)
[13] *Napster* (District Court) 114F Supp. 2d at 913
[14] *Napster* (Court of Appeal) at 23
[15] *Harper & Row Publishers, Inc v Nation Enters.* 471 US 539, 566-7, 85L. Ed 2d 588, 1055. Ct. 2218 (1985)

the digital music market.[16] The District Court chose not to rely on Fader's findings in relation to the issues because the generality of the report rendered it "of dubious reliability and value". The Appeal Court concluded that the District Court's decision to rely on various reports for specific purposes shows "a proper exercise of discretion in addition to a correct application of the fair use doctrine".[17] Since Napster was unable to demonstrate any basis for disturbing the District Court's conclusions, the Appeal Court determined that sound findings were made in relation to Napster's "deleterious effect" on the present and future digital music market.

Specific Fair Uses

In addition to general "fair use", Napster identified three specific instances of alleged fair uses by their users.

- sampling
- space shifting
- permissive distribution of recordings by both new and established artists

Each type of alleged fair use will now be considered.

Sampling

Napster contended that its users download MP3 files to "sample" the music in order to decide whether to purchase the recording.[18] In support, they asserted that using Napster to sample music is akin to visiting a free listening station in a record store or listening to song samples on a retail website. Such arguments were rejected by the District Court because Napster users can keep the music they download. Whether or not users elect to purchase the CD, they still retain a full, free and permanent copy of the particular song. In contrast, free promotional downloads are highly regulated by the music company plaintiffs and these companies collect royalties for song samples available on retail internet sites. Currently, free downloads provided by the record companies consist of thirty-to-sixty second samples or are full songs programmed to "time out", that is only exist on the downloader's computer for a short time.[19] The global scale of Napster usage and the fact that users avoid paying for songs that would not be free otherwise, militates against a determination that sampling by Napster users constitutes personal or home use in the traditional sense. The District Court also found that Napster user's "sampling" has a real likelihood of adversely affecting the plaintiffs' entry into the digital music

[16] *Napster* (District Court) 114 F.Supp. 2d at 910
[17] *Napster* (Court of Appeal) at 27
[18] *Napster* (Court of Appeal) at 28
[19] *Napster* (District Court) 114 F. Supp 2d at 913-914

market and would not constitute fair use even if it enhanced CD sales.[20] The Court of Appeal agreed; they found no error in the District Court's conclusion that the music company plaintiffs were likely to prevail in establishing that this "sampling" does not constitute a fair use.[21]

Space Shifting

Space shifting occurs when a user downloads MP3 music files in order to listen to music they already own on audio CD – for instance transfer of songs already purchased songs from a home computer to a work computer.[22] Napster, relying on the decisions of *Sony v Universal City Studio*[23] and *RIAA v Diamond Multimedia*[24], argued that space shifting of musical compositions and sound recordings is a fair use.

Both the District Court and Court of Appeal declined to accept this interpretation of the previous two cases.[25] Both Sony (involving the sale of blank VHS cassettes) and Diamond (involving the sale of portable MP3 players) were distinguishable on the facts because the methods of "shifting" in these cases did not simultaneously involve distribution of the copyrighted material to the general public; the shifting of copyrighted material exposed the material only to the original user. However, when a user lists a copy of the music they already own on the Napster system in order to access the music from another location, the song becomes instantly available to millions of other individuals, not merely the original CD owner. Whilst in certain circumstances, such shifting might be "legitimate" these uses seem too insignificant to weigh heavily in the context of massive copying. Accordingly Napster's arguments on this "fair use" failed in both Courts.

Permissive Reproduction of Independent or Established Artists

Napster claimed that it engages in the authorised promotion of independent artists. The District Court rejected this argument for two reasons. First, the New Artist Program may not represent a substantial or commercially significant aspect of Napster; evidence suggests that the defendant initially promoted the availability of songs by "major stars" as opposed to "page after page of unknown artists".[26] Second, evidence suggests that the New Artist Program was just an afterthought, not a major aspect of the Napster business plan; it appears that Napster developed this strategy after the commencement of the current litigation.[27] Whilst copying of new artists' work is not an infringement, the District Court considered

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[20] *Napster* (District Court) 114 F. Supp 2d at 914
[21] *Napster* (Court of Appeal) at 32
[22] *Napster* (District Court) 114 F. Supp 2d at 913
[23] *Sony* 464 US 417, 449-50, 78 L. Ed. 2d 574, 104 S. Ct. 774 (1984)
[24] *Diamond* 180 F. 3d 1072, 1079 (9th Cir. 1999)
[25] *Napster* (Court of Appeal) at 33
[26] *Napster* (District Court) 114 F. Supp 2d at 918
[27] *Napster* (District Court) 114 F. Supp 2d at 918

this use too insignificant in amount to be a substantial non-infringement. Neither party challenged this finding on appeal.

Contributory Copyright Infringement

Traditionally, under US Law, to be held liable as a contributory infringer, one must "with knowledge of the infringing activity, induce, cause or materially contribute to the infringing conduct of another".[28] The District Court determined that the music company plaintiffs in all likelihood would establish Napster's liability as a contributory infringer. The Court of Appeal found that the District Court did not err in this conclusion; Napster by its conduct, knowingly encouraged and assisted the infringement of the plaintiffs' copyrights.[29]

Knowledge

Contributory liability requires that the secondary infringer "know or have reason to know" of direct infringement.[30] The District Court found that Napster had both actual and constructive knowledge that its users exchanged copyrighted music. That Court also decided that the law does not require knowledge of "specific acts of infringement" and consequently rejected Napster's argument that since the company cannot distinguish between infringing and non-infringing files, that it does not "know" of the direct infringement.[31] The Court of Appeal found that Napster possessed sufficient knowledge that specific infringing material is available using its system, that it could deny access to the system by suppliers of the infringing material and that it failed to remove the material. However, this Court, in contrast to the District Court, was not prepared to impute the requisite knowledge (for instance actual knowledge) to Napster merely because peer-to-peer file sharing technology may be used to infringe the music companies' copyrights. Their Honours felt compelled to distinguish between the architecture of the Napster system and Napster's conduct in relation to the operational capacity of the system. The mere existence of the Napster system, absent of any actual knowledge and Napster's demonstrated failure to remove the offending material was insufficient to impose contributory liability.[32]

Material Contribution

Under the facts established by the District Court, Napster materially contributed to the infringing activity; that Court concluded that "without the support services the defendant provides, Napster users could not find

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[28] *Gershwin Publishing Corp v Columbia Artists Management Inc* 443 F.2d 1159, 1162 (2d Cir. 1971)

[29] *Napster* (Court of Appeal) at 35

[30] *Cable/Home Communication Corp. Network Products, Inc* 902 F.2d 829, 845 & 846 (11th Cir 1990)

[31] *Napster* (District Court) 114 F. Supp 2d at 917

[32] *Napster* (Court of Appeal) at 39

and download the music they want with the ease of which the defendants boast".[33] The Court of Appeal also agreed that Napster provides "the site and facilities" to contribute materially to direct copyright infringement.[34]

In summary, the Court of Appeal affirmed the District Court's conclusion that the music company plaintiffs had demonstrated a likelihood of success on the merits of the contributory copyright infringement claim. The difference of opinion between the two Courts in relation to the "knowledge" aspect will affect the scope of the injunction.

Vicarious Copyright Infringement

In US copyright law, vicarious liability applies to cases where a defendant "has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities".[35]

Supervision

The District Court found that Napster has the "right and ability to supervise" its users' conduct.[36] The Court of Appeal agreed in part with this view.[37]

The ability to block infringers' access to certain areas for any reason whatsoever is evidence of the "right and ability to supervise".[38] Here, the plaintiffs demonstrated that Napster retains the right to control access to its system by an express reservation of rights policy for its website.[39] The Court of Appeal found that the lower Court had correctly determined that Napster had the right and ability to police its system and failed to exercise that right to prevent the exchange of copyrighted material. However, their Honours felt, that the District Court failed to recognise the limit of Napster's ability to "control and patrol". That is to say, the architecture of Napster's current system impedes Napster's reserved "right and ability" to police; evidence established that the Napster system does not "read" the content of indexed files, apart from checking that they are in the proper MP3 format. The Court of Appeal recognised that Napster has the ability to police activities on its service by use of "file names", however, Court also conceded that files are user-named and consequently may not exactly match with copyrighted material (for instance, misspelling the name of the artist or song).[40]

Financial Benefit

The District Court concluded that the plaintiffs had demonstrated that

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[33] *Napster* (District Court) 114F. Supp. 2d at 919-20
[34] *Napster* (Court of Appeal) at 34
[35] *Gershwin Publishing Corp* at 1162
[36] *Napster* (District Court) 114F. Supp. 2d at 920-21
[37] *Napster* (Court of Appeal) at 46
[38] *Fonovisa, Inc v Cherry Auction, Inc* 76F. 3d 259, 264 (9th Cir. 1996) at 262
[39] *Napster* (Court of Appeal) at 47
[40] *Napster* (Court of Appeal) at 48-49

they were likely to succeed in establishing that Napster has a direct financial interest in the infringing activity.[41] The Court of Appeal expressly agreed with this conclusion.[42] Financial benefit exists where the availability of the infringing material "acts as a draw" for customers.[43] Evidence overwhelmingly supports the finding that Napster's future revenue is directly dependent upon "increases in userbase" (for instance in establishing its own subscription service). Therefore, Napster financially benefits from the availability of copyright protected works on its system.

On these two elements, supervision and financial benefit, the Court of Appeal accepted the District Court's view that the plaintiffs have established a likelihood of success on the merits of the vicarious infringement claim. Napster's failure to police the system and potential financial benefits from the availability of infringing material on its system, leads to the finding of vicarious liability. The difference of opinion between the two Courts in the ability of Napster to supervise the system, will affect the terms of the injunction (to be discussed below).

Defences to an Injunction

Napster tried numerous defences to avoid the imposition of a preliminary injunction restraining their activities. These included the First Amendment (free speech), *Statutory Defences (Audio Home Recording Act* 1992, *Digital Millennium Copyright Act* 2000), waiver, implied licence, unfair competition, no irreparable harm to the music companies and undue hardship to Napster. All these arguments were rejected by the District Court. The Court of Appeals also rejected Napster's defences of the First Amendment, waiver, implied licence and unfair competition. However, this Court did not consider either of Napster's arguments in relation to no irreparable harm to the music companies and undue hardship to Napster. Since these grounds did not figure prominently in the decision, they will not be considered further.

The Revised Injunction

The Court of Appeal concluded that the District Court correctly recognised that a preliminary injunction against Napster's participation in copyright infringement "is not only warranted but required".[44] Their Honours, however, believed that the scope of the injunction needed modification in light of their opinion in relation to "knowledge" and "supervision". Their Honours decided that the initial preliminary injunction was "overboard" because Napster bore the entire burden of ensuring that no "copying, downloading, uploading, transmitting or distributing" of the music company plaintiffs' works occurred on the Napster system.[45]

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41 *Napster* (District Court) 114F. Supp. 2d at 921-22
42 *Napster* (Court of Appeal) at 45
43 *Fonovisa*, 76F. 3d at 263-64
44 *Napster* (Court of Appeal) at 60
45 *Napster* (Court of Appeal) at 60

Instead, the Court of Appeal shifted the burden to the plaintiffs to supply Napster with notice of copyrighted works and the files containing these works on the Napster system, before Napster has the obligation to refuse access to the infringing material. Napster, however, also has the burden of policing the system within the confines of its structure. Again, the Court of Appeal recognised that difficulties may arise because files are user named and currently Napster does not currently have access to its users' MP3 files.[46]

After receiving factual representations by both parties on 2 March 2001, the District Court released its revised injunction on 5 March 2001. The Court noted that the Court of Appeals "placed the burden on the plaintiffs to provide notice to Napster" and imposed on Napster the burden "of policing the system within the limits of the system". However, according to the District Court, it would be difficult for the music company plaintiffs to identify all infringing files on the Napster system. This difficulty did not relieve Napster of its duty. Rather, Judge Patel anticipated that it would be easier for Napster to search files available on its system at any particular time against lists of copyrighted recordings provided by the plaintiffs. The results of such a search would give Napster "reasonable knowledge of specific infringing files" as required by the Court of Appeals.[47]

Within three days of receipt of reasonable knowledge of specific infringing files containing copyrighted sound recordings, Napster must prevent such files from being included in the Napster Index and must affirmatively search file names available to all users and prevent the downloading, uploading, transmitting or distributing of the noticed copyrighted works.[48]

The music company plaintiffs may provide Napster prior to release, the artist's name and title of the recording, based on a review of that artist's previous works that suggests a substantial likelihood of future infringement on the Napster system. Napster must then block the transmission of these works prior to their release. To do otherwise, according to Judge Patel, would allow Napster users a "free ride" for the period of time it would take the plaintiffs to identify a specific infringing file and Napster to screen the work.[49] Within five working days of the date of the injunction and within five working days of service by the plaintiffs of the required lists of copyrighted material, Napster must also provide both the plaintiffs and the Court a Report of Compliance identifying the measures it has taken to comply with the injunction.[50]

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[46] *Napster* (Court of Appeal) at 60
[47] *Napster* (Revised Injunction) at [3]
[48] *Napster* (Revised Injunction) at [6]
[49] *Napster* (Revised Injunction) at [7]
[50] *Napster* (Revised Injunction) at [8]

Did the Courts reach the right decision?

It is submitted that the courts ultimately reached the right decision in this case – Napster's conduct was worthy of an injunction restraining its activities. Clearly Napster users had directly infringed the plaintiffs' copyrighted musical and sound recordings. Although Napster alleged several defences to this infringement, they were correctly rejected by the courts. There clearly can be no general fair use when Napster users blatantly copy large numbers of entire creative musical works for free. Similarly, although Napster alleged the specific fair uses of sampling, space shifting and permissive distribution by artists, instances of this conduct are the exceptions to normal Napster use. Most users do not use Napster for these three reasons, but because they are more likely to find the current songs that they are looking for and are able to download them at a reasonably quick speed (usually under 20 minutes depending on the particular user's modem).

As for contributory copyright infringement, both courts correctly found that Napster contributed materially to the Napster users direct infringement by providing the "site facilities". If there was no Napster service, there would not be the Napster users to cause the large scale infringement of copyright. There was a difference of opinion between the Courts in relation to Napster's knowledge of the direct infringement. With respect, it is submitted that the District Court's finding of knowledge is preferred. At the very least, during the high point of Napster usage (ie pre-file blocking) the Napster administration must have known that users were infringing copyright. After all, Napster initially promoted the availability of songs by the "major stars", without any licence from the copyright holders. It is difficult to see any connection between Napster's knowledge and its failure to remove copyrighted material from the service. Surely, Napster's failure to block copyrighted material would indicate prima facie knowledge of the users' direct infringement. In any event, issues of removal should be used in mitigating damages for infringement, not in determining whether the knowledge existed in the first place. The difference of opinion on "knowledge" correctly only affected the terms of the injunction, not the District Court's correct overall finding of contributory infringement.

Both Courts correctly found Napster liable for vicarious copyright infringement. Napster clearly had a direct financial interest in the infringing activity, since it was proposing to establish a subscription service. Again, there were different views between the two Courts on the issue of supervision. It is submitted that the Court of Appeal decision is to be preferred. Napster does retain the right to control access to its system, however, short of turning the entire system off, Napster does not have any real ability to police the system. This is because song file names are user-named and consequently may not correspond with copyrighted material. For instance, All Saints' "Lady Marmalade" may found under

"All Saint" "Lady Marmolaid". Further, the Napster system is designed only to check that they are in correct MP3 format, not whether they contain copyrighted material. Again this difference of judicial opinion affected the injunction, not the original finding of vicarious infringement.

The revised injunction formulated by Judge Patel reflects the finding of the Court of Appeal. With infinite possible variations to either title or artist, it would have been unfair for Napster to bear the entire burden of identifying and blocking copyrighted works on the system. It does seem reasonable for the music companies to provide the file names to be blocked (as they might have a preferred order – new releases to be blocked before older songs). Even then, the problem of user file names remains. How many music executives would have considered the above spelling of "marmalade"? Clearly none, because despite Napster's blocking efforts, the filename remains available on the service.

The Australian Position

Australian copyright law is governed by the *Copyright Act* 1968 (Cth) (the Act). In 2000, this Act was amended by the *Copyright Amendment (Digital Agenda) Act* 2000 (Cth) in order to overcome uncertainty in relation to protection of copyright over the internet. These amendments came into effect in March 2001.

In Australia, copyright protection is given to the form in which an idea is expressed, not to the information itself. As such, the Act divides the type of protection into two classes.

- works: literary, dramatic, musical and artistic
- subject matter other than works: sound recordings, films, broadcasts and published editions

If the Napster scenario were to occur in Australia, the music companies could obtain copyright protection for the songs as "sound recordings". Section 10(1) of the Copyright Act defines a "sound recording" as the aggregate of sounds embodied in a record. The section further defines "record" to be a disc, tape, paper (presumably for a piano roll) or other device in which the sounds are embodied. These broad definitions can potentially support sound recordings on any medium, including vinyl disks, reel to reel tape, audio- cassette, CD or DAT.

The music companies would not prima facie be able to obtain copyright protection for the recordings as "musical works" as the companies are not the actual authors of the particular songs, nor is it usual for companies to purchase the copyright in the actual musical works from the authors.

Direct Infringement

Once copyright protection is established, the copyright owner is granted several exclusive rights in relation to their work. Under s85(1) of the Act the exclusive rights in relation to sound recordings are:

- to make a copy of the sound recording;
- to cause the recording to be heard in public;
- to communicate the recording to the public
- to enter into a commercial rental arrangement in respect of the recording

In the circumstances of the Napster case, two of these rights, to reproduce the work (first) and to communicate the work to the public (third), are the most significant.

Section 21 of the Act (Reproduction of works) was amended by the Copyright Amendment (Digital Agenda) Act to cover situations of digital reproduction. The new section 21(1A) states that:

> "a work is taken to have been reproduced if it is converted into or from a digital or other electronic machine-readable form, and any article embodying the work in such a form is taken to be a reproduction of the work".

On this provision, clearly Napster users have reproduced copyrighted material. Under s101(1), copyright in a sound recording is infringed by a person who, not being the owner of the copyright, and without licence of the owner in the copyright, does in Australia, or authorises the doing in Australia of, any act which is an exclusive right of the copyright holder (such as reproduction). Consequently, in sharing copyrighted songs, Napster users would be infringing the music companies' copyright.

Do Napster users communicate a recording to the public? "Communicate" under the definition in s10(1) refers to "making something available online". When Napster users connect to the system, their song libraries potentially become available to other users who are connected to the system at that time. In doing so, prima facie, Napster users are making copyrighted songs available online. It would be possible for users to store their songs in folders which they do not share with other users, and therefore not be specifically communicating their songs to other users. However, such a practice would appear to be an exception to normal Napster use (by the sheer volume of songs available at any one time) and consequently would not affect the general assertion that prima facie Napster users make material available online.

One potential issue could be the length of time required for such "availability". Napster users only make their songs available for the time that they are actually connected to the Napster system; their music is not of a permanent nature such as an internet website. Another potential issue is

whether users actually make their songs available if other users are not aware that the user is online or of the content of their song library. This issue may be solved on the authority of *Francis Day Hunter v Feldman*.[51] In that case, six copies of sheet music left outside a shop (which no one bought), was held to be sufficient publication because people had the option of purchasing it. Applying that to digital music, it may be sufficient that a user makes their songs available to share with others; it is irrelevant that other users choose to download the music or that they were even aware that the song was available in the first place.

Similarly, do Napster users constitute "the public"? It could be alleged that Napster users are a specific group, that is those who have computer access and adequate computer knowledge to use the Napster system, and therefore not the public. Conversely, it could be contended that Napster users represent a wide spectrum of the community (from students to qualified professionals), are in nearly every country in the world and their sheer numbers (an estimated 65 million users worldwide) mean that Napster users cannot be anything else but the public. Indeed in the Napster decision in both the District Court and the Court of Appeals denied Napster's claim of fair use due to space shifting for the very reason that such a use involved simultaneous distribution of copyrighted material to the general public. Despite potential assertions to the contrary, overall it would appear highly likely that under Australian legislation Napster users "communicate a recording to the public" and therefore Napster users would again be infringing the music companies' copyright.

Australia, like the United States, has a "fair dealing" defence to an allegation of copyright infringement. The fair dealing requirement under the Australian Act, however, differs markedly from the US notion of fair use. Instead of a general notion of fair use (the American position), fair dealing under the *Copyright Act* is limited to specific purposes; for sound recordings, fair dealing for research or study (s103C), for criticism or review (s103A) and for reporting news (s103B). The term "fair dealing" cannot be precisely defined; it is a question of degree to be determined upon the facts of the individual case. It is highly likely that none of these Australian exceptions of fair dealing would be applicable to the purposes of the Napster users.

Authorisation

Did Napster authorise copyright infringement by its users (as per s101(1) mentioned above)? The *Copyright Amendment (Digital Agenda) Act* inserted s101(1A) to clarify the matters to be considered in determining whether or not a person has authorised copyright infringement. These include:

[51] *Francis, Day Hunter v Feldman* [1914] 2 Ch 728

- extent (if any) of the "authoriser's" power to prevent the doing of the act concerned
- the nature of any relationship existing between the "authoriser" and actual "infringer"
- whether the "authoriser" took any reasonable steps to prevent or avoid the doing of the act which infringed the copyright.

It is highly likely that Napster had authorised copyright infringement by its users. Napster clearly had the option of "turning the service off". However, they did not do so, presumably to preserve future possible financial gains in establishing a large user base. Similarly, Napster initially did not take any reasonable steps to prevent copyright infringement. Indeed evidence suggests that Napster encouraged infringement by strongly promoting the availability of songs by "major stars".

Authorisation and ISP's

Would an ISP (Internet Service Provider) be liable for authorising copyright infringement by allowing subscribers to download from internet sites such as Napster, which contain copyrighted material? The new s39B of the Act (communication by use of certain facilities) directly contemplates such a situation. The section provides that providers of facilities for making, or facilitating the making of a communication are not taken to have authorised any infringement of copyright in a work merely because another person uses such facilities to infringe copyright owners' exclusive rights.

Had the Napster case arisen under Australian copyright law, the new *Copyright Amendment (Digital Agenda) Act* provisions undoubtedly would have strengthened the position of the music companies. Napster users would be liable for direct copyright infringement and Napster itself would have a strong possibility of being liable as authorising this copyright infringement. The new digital amendments also contain provisions in relation to ISP's. ISP's will not be liable merely because they provide facilities which allow others to infringe copyright. Consequently, Napster would not be able to reduce its liability by claiming that ISP's also authorise the copyright infringement.

The Aftermath

Less than a week after the District Court announced the revised injunction, the plaintiffs began sending lists of songs to Napster to be blocked from the system. Since then, Napster appears to be making attempts to

remove the copyrighted works. However, their efforts have been hampered by several factors.

First, there have been allegations by each side that the other has failed to comply with the terms of the injunction. Napster claimed that many of the plaintiffs' song lists contained only the song name, not the possible file names as the injunction required them to do. In Napster's Compliance Report, they stated "where a file name is connected to the work in the notice, Napster will exclude them. Where no file name is connected to the work, Napster will not". In response, the music companies allege that they are complying with the injunction and that Napster is just trying to buy time.

Second, there is the ingenuity of Napster users themselves. In the week since Napster began blocking files, many Napster users have been evading Napster's copyright-protecting filter by using "Pig Latin". "Pig Latin" involves the deliberate misspelling of names to avoid filtering. For instance Fuel's "Bittersweet" would be entered by the Napster user as "uelF", "ittersweetB". Other internet sites such as Aimster and Napcameback have even included "Pig Latin" programs on their website encouraging Napster users to disguise their music (although Aimster later removed its program on 13 March 2001 at the request of Napster). This contributed to Napster bringing in "a hired gun", Gracenote, a technology company specialising in music file recognition, to help outwit Napster users who attempt to avoid the Court restrictions.

Will Napster survive? Only future Court decisions will tell. It is important to realise that the decision of the Court of Appeal was in relation to a preliminary injunction, and did not constitute a trial of the issues. At the trial issues will be examined in more detail, particularly the applicability of the US *Digital Millennium Copyright Act* 2000 (which was deliberately not explored fully in the decision of the two Courts). In the meantime, Napster users continue to try to swap copyrighted songs. It seems despite the barriers, they cannot resist one final free "feed".