The uncertainties, baby: Hidden perils of Australia's authorisation law

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As digital copying and online distribution become increasingly prevalent, the issue of when a technology provider can be held liable for its users' infringements grows commensurately more important. In Australia, such liability is imposed through the tort of authorisation, which provides that a defendant will be liable if it "sanctioned, approved or countenanced" a third party infringement. Despite its significance however, some of the principal elements of the doctrine remain unclear. After tracing the origins and development of authorisation in Australia, this article explores the main uncertainties that plague the law today. With reference to the BitTorrent file-sharing software, the article then explicitly highlights the ways in which those uncertainties may affect the provider of a useful technology that has both non-infringing and infringing uses. The underlying theme of the article is that, by failing to unequivocally dismiss the increasingly expansionist arguments that are being raised in this context, courts are inadvertently promulgating a de facto expansion of the Australian authorisation law. It concludes by arguing that, unless courts start concertedly addressing the law's uncertainties and ambiguities, the law will continue to have a more dampening effect on technological innovation in Australia than courts or the legislature ever intended.

1. INTRODUCTION

Ever since advances in digital copying and distribution made it easy enough and cheap enough to do so, the world's internet users have been feasting on a cornucopia of infringing content. In less than a decade this liberal sampling of books, games, movies, television shows and knitting patterns has resulted in untold billions of copyright violations. Traditionally, the main means of copyright enforcement has been to sue the infringer directly. But as the Recording Industry Association of America has discovered over the last few years, suing internet infringers one by one is not only slow, inefficient and expensive, but a potential public relations disaster to boot.[1] As a result, lawsuits against individual infringers have recently dried up, and content owners everywhere have been looking for alternative ways to stem the tide of infringement.[2] This recently manifested in the form of a number of deep-pocketed content owners suing Australian ISP, iiNet, for "authorising" infringements committed by subscribers to its internet service.

Authorisation is a distinct tort that was introduced into Australian copyright legislation almost 100 years ago. As technologies evolved to make facilitation of large scale copyright infringement an everyday reality, authorisation has been asked to play an increasingly large role in shaping the future of the internet and digital communication in Australia. Although Australian courts have already interpreted authorisation much more expansively than their UK and Canadian counterparts, [FN deleted]the litigation against iiNet appears to be an attempt to expand the boundaries of authorisation

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[1] Sooman D, "RIAA tries to sue dead grandmother", *TechSpot*, http://www.techspot.com/story16925.html (7 February 2005), viewed 2 March 2009.

[2] Anderson N, "No more lawsuits: ISPs to work with RIAA, cut off P2P users", *Ars Technica*, http://www.arstechnica.com/tech-policy/news/2008/12/no-more-lawsuits-isps-to-work-with-riaa-cut-off-p2p-users.ars (19 December 2008), viewed 2 March 2009.

even further, far beyond what the Australian Parliament ever intended.[3] If successful, the implications will be staggering. Indeed, as Warwick Rothnie has observed, "it is not too much of a stretch to claim that the future of the internet is at stake here".[4] Despite its importance however, the authorisation doctrine is in a shocking state. Eminent commentators have variously described it is "unclear",[5] "hard to reconcile",[6] "enshrouded" in confusion,[7] "incoherent" and "unnecessarily complex and uncertain".[8] This tangle is partly explained by the longstanding reluctance of Australian courts to dictate bright line rules in this area. As Herring CJ famously remarked in *Winstone v Wurlitzer Ltd* [1946] VLR 338 at 345:

> any attempt to prescribe beforehand ready-made tests for determining on which side of the line a particular case will fall, would seem doomed to failure. In the end the matter must in each case depend on a careful examination of all the relevant facts.

Perfectly reasonable in theory, in practice this approach has resulted in the unacceptable situation where, despite being part of Australian law for almost 100 years, the very elements of the tort remain unclear.

The uncertainties that surround the doctrine create a severe and under-recognised danger for Australian technology innovators, one that is potentially of greater threat to the immediate future of technology regulation in this country than the action against iiNet is ever likely to be. After all, that litigation is in the public domain, subject of countless news reports and blog posts and mulled over in internet chat rooms and at office water coolers. It will eventually be resolved, and that resolution will bring some kind of closure to the issue of ISP liability that will likely reach some broadly acceptable balance between the interests of content owners and ISPs. However, if other recent authorisation decisions are anything to go by, the iiNet decision is likely to leave the doctrine's bigger questions and uncertainties unanswered. In that likely omission lies the heart of the much larger and far more insidious risk to technology innovators in Australia. As matters now stand, it is virtually impossible to decipher and apply what ought to be some of the doctrine's most fundamental principles. Furthermore, various highly expansionist interpretations of the law have sprung from recent decisions, including the once radical possibility that a technology provider could be liable for authorisation if its product or service is used for infringement, even in the absence of any ability to prevent that infringement at the time it occurs.

It has long been recognised that bright line or certain rules promote innovation,[9] while legal uncertainty has dampening effects.[10] As Lawrence Lessig has asked, "[w]hy buy a lawsuit when you can buy a new innovation that doesn't get a lawsuit?"[11] Due to the uncertainties and controversies that dog the modern authorisation law, it is very difficult for Australian innovators to determine in advance whether they are in fact buying a lawsuit. For many, not being sure will be sufficient to deter them

[3] See eg, Brennan D and Weatherall K, "Topic of Interest: ISPs and the authorisation of their customers' copyright exploitations" (2009) 20 AIPJ 6 at 12 (Weatherall).

[4] Rothnie W, "The Internet Wars (copyright campaign) come to ISPs down under" *IP Wars*, http://www.ipwars.com/2008/11/25/the-internet-wars-copyright-campaign-come-to-isps-down-under (25 November 2008), viewed 2 March 2009.

[5] Weatherall K, "Justice Wilcox is a brave judge: Some initial comments on the Kazaa judgment", *Weatherall's Law*, http://www.weatherall.blogspot.com/2005_09_01_weatherall_archive.html#112592939140783823 (5 September 2005), viewed 24 May 2007.

[6] Laddie H et al, *The Modern Law of Copyright and Designs* (3rd ed, Butterworths, London, 2000) 1772 at 39.14.

[7] Stuckey JE, "Liability for Authorizing Infringement of Copyright" (1984) 7 UNSWLJ 77 at 78.

[8] Lindsay D, "Internet intermediary liability: a comparative analysis in the context of the Digital Agenda reforms" (2006) 1&2 *Copyright Reporter* 70 at 77.

[9] See eg, Weatherall, n 5.

[10] See eg, *MGM Studios Inc v Grokster Ltd* 545 US 913; 125 S Ct 2764 at 2793 (2005) (Breyer J refused to endorse a broader interpretation of the Sony doctrine on the basis that "[t]he additional risk and uncertainty would mean a consequent additional chill of technological development").

[11] Hof R, "Larry Lessig: Grokster Decision Will Chill Innovation" *BusinessWeek Online: The Tech Beat*, http://www.businessweek.com/the_thread/techbeat/archives/2005/06/larry_lessig_gr.html (28 June 2005), viewed 6 February 2007.

from market entry, or convince them to design their product in a way that errs on the side of caution. In this way the doctrine's uncertainties disproportionately favour existing market entrants, providing savvy content owners with unprecedented opportunities to discourage the kind of technological innovation most likely to damage their traditional business models. This article argues that, by not providing clear guidance as to what the law currently means, and by failing to unequivocally dismiss the increasingly expansionist arguments that are being raised in this context, courts are inadvertently promulgating a de facto expansion of the Australian authorisation law.

This idea is explored over the next four parts. Part 2 begins with an overview of the tort of authorisation, explaining its origins, tracing the early jurisprudence that sought to define its scope and content, and outlining the relevant statutory framework. Part 3 shines a spotlight on the uncertainties and controversies that plague the doctrine today, tracing the ways in which unclear and inconsistent authorities have created a situation in which claims that would once have been considered wildly expansionist have become accepted as at least arguable views. Part 4 illuminates the effect of these uncertainties by postulating as to how the existing authorisation law might apply to the creator of the BitTorrent file-sharing technology. Part 5 considers the effects of these uncertainties, and concludes by arguing that, unless courts start concertedly addressing the law's uncertainties and ambiguities, these will continue to have a more detrimental effect on Australian technology innovators than the deciding courts ever intended.

2. ORIGINS OF THE DOCTRINE

From "causing" to "authorising"

The doctrine of authorisation is generally recognised as having been introduced via the *Copyright Act 1911* (UK), which was imported virtually wholesale into Australian law by operation of its *Copyright Act 1912* (Cth).[12] That legislation provided that copyright owners' exclusive rights included the rights to do such things as reproduce, perform and convert works, and "to authorise" the doing of any such acts (s 1(2)).

Although well established now, it took some time for authorisation to be recognised as a tort in its own right. Prior to 1911, UK copyright legislation had proscribed "'caus[ing]' a work to be performed or printed".[13] Controversially, this had been read very narrowly to mean that no liability attached for "causing" an infringement unless it was actually directly committed by the defendant or its servants or agents.[14] Thus, in *Karno v Pathé Frères Ltd* (1909) 100 LT 260, filmmakers escaped liability despite making a film that was an "exact representation" of one of the plaintiff's music hall sketches and selling copies to music hall proprietors knowing that the copies would be publicly exhibited, simply because they were not the servants or agents of those proprietors (at 243-244). With "[t]he immediate legislative purpose" of "extend[ing] the scope of liability beyond the employment context", the 1911 Act deleted the words "cause to" in favour of "authorise".[15]

For a significant time, however, courts considered that "authorise" simply equated to "cause". That is, years after copyright owners gained the right to authorise the doing of any of their other exclusive rights, judges were still describing the words "to authorise" as "superfluous",[16]

[12] An authorisation right was introduced into Australian law for the first time almost seven years prior, via the *Copyright Act 1905* (Cth), however, that legislation was repealed by the 1912 Act before any judicial application. See *WEA International Inc v Hanimex Corp Ltd* (1987) 17 FCR 274 at 282.

[13] *WEA International Inc v Hanimex Corp Ltd* (1987) 17 FCR 274 at 287 (citing Copinger WA, *The law of copyright in works of literature, art, architecture, photography, music and the drama* (5th ed, Stevens and Haynes, London, 1915) p 136); see also *Dramatic Copyright Act 1833* (UK), Pt 2.

[14] See eg, *Russell v Briant* (1849) 8 CB 836, 137 ER 737 at 848; *Karno v Pathé Frères Ltd* (1909) 100 LT 260 at 243-244.

[15] Stuckey, n 7 at 80-81 (internal note omitted). See also Garnett K, Davies G and Harbottle G, *Copinger and Skone James on Copyright* (15th ed, Sweet & Maxwell, London, 2005) p 449.

[16] *Performing Right Society Ltd v Ciryl Theatrical Syndicate Ltd* [1924] 1 KB 1 at 12.

"tautological",[17] and "add[ing] nothing to the definition".[18] This began to change with *Evans v E Hulton & Co Ltd* (1924) 40 TLR 489 at 492; [1924] WN 130, where Lord Tomlin rejected the argument that an authorisation was limited to directions to a servant or agent to commit an infringing act. Shortly thereafter it was acknowledged that the notion of "cause" in the 1833 Act had been "deliberately dropped" as a result of the limitation read into it by decisions like *Karno*.[19] And a few years later it was finally accepted that authorisation was not mere "surplusage" but in fact constituted an additional, "separate and distinct" right in addition to a copyright owner's other rights.[20]

Statutory right

For a century, the authorisation right has been retained in Australian law in similar terms. Today it features in the *Copyright Act 1968* (Cth) (the Act), which distinguishes between "works" (including literary, dramatic, artistic and musical works) and other subject matter (including sound recordings, cinematograph films, broadcasts and published editions of works), with that categorisation determining which exclusive rights are granted to the content's owner.

Section 13(1) provides that a reference in the Act to an act comprised in the copyright in a work (or other subject matter) is a reference to any act that the owner of the copyright has the exclusive right to do. Section 13(2) then provides that the exclusive right to do an act in relation to a work (or any other subject matter) includes the exclusive right to "authorise" a person to do that act in relation to that subject matter. Sections 36(1) and 101(1) provide, with regard to works and other subject matter respectively, that copyright "is infringed by a person who, not being the owner of the copyright, and without the licence of the owner of the copyright, does in Australia, or authorizes the doing in Australia of, any act comprised in the copyright". Thus, the authorisation of the doing of any act comprised in the copyright, save by the owner or licensee, itself constitutes an infringement of copyright.[21]

The characterisation of authorisation as one of a copyright owner's exclusive rights once created debate as to whether authorisation liability could accrue in the absence of any underlying direct infringement. Thus, in cases such as *Fenning Film Service v Wolverhampton, Walsall & District Cinemas Ltd* [1914] 3 KB 1171, the relevant consideration was whether an infringement had been authorised, irrespective of whether that authorised act ever actually took place. However, it is now settled law that that no authorisation liability will attach in the absence of primary infringement.[22]

Safe harbours

Several safe harbours may be relevant in the authorisation context. While a comprehensive treatment of those harbours is outside the scope of this article, a brief overview of their scope and application is necessary to facilitate an understanding of their significance to the BitTorrent case study in Part 4.[23]

Statutory harbours

Two main statutory safe harbours may protect a defendant from liability for authorising a third party's infringement. The first is found within ss 39B and 112E of the Act. Section 39B relevantly provides:

[17] *Falcon v Famous Players Film Co* [1926] 2 KB 474 at 496.

[18] *Performing Right Society Ltd v Ciryl Theatrical Syndicate Ltd* [1924] 1 KB 1 at 12.

[19] See *Falcon v Famous Players Film Co* [1926] 2 KB 474 at 491.

[20] *WEA International Inc v Hanimex Corp Ltd* (1987) 17 FCR 274 at 284 (citing *Ash v Hutchinson and Co (Publishers) Ltd* [1936] Ch 489).

[21] Ginsburg JC and Ricketson S, "Inducers and Authorisers: A Comparison of the US Supreme Court's Grokster Decision and the Australian Federal Court's KaZaa Ruling" (2006) 11(1) Media and Arts Rev 1 at 10.

[22] See eg *Performing Right Society v Mitchell & Booker (Palais de Danse); Moorhouse v University of New South Wales* (1974) 23 FLR 112 at 126; *RCA Corp v John Fairfax & Sons Ltd* [1981] 1 NSWLR 251 at 257; Docker L, "The ghost of Moorhouse" (2002) 7 *Media & Arts Law Review* 113 at 114; Giblin R and Davison M, "Kazaa goes the way of Grokster? Authorisation of copyright infringement via peer-to-peer networks in Australia" (2006) 17 AIPJ 53 at 59.

[23] For a more comprehensive overview, see Lindsay, n 8 at 78-81. For an extensive and painstaking analysis of the Div 2AA safe harbour provisions, see Lindsay's treatment in Lahore J and Rothnie WA, *Copyright and Designs* (Butterworths) at [42,500]-[42,590].

> A person … 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.

Section 112E provides a safe harbour in similar terms regarding copyright in audio-visual items.

Since these provisions only protect technology providers from liability arising from their "mere" provision of communications facilities, the protection has been dismissively described as a "fig leaf".[24] Indeed, it has been suggested that since "the provision of communications facilities is not, itself, sufficient to amount to authorisation liability" the provisions "have no operative effect whatsoever".[25] It is difficult to envisage a situation where a provider will "merely" provide the facilities; there will almost always be something more. As a result, these safe harbour provisions have very little utility. This can be illustrated by two of the most recent authorisation cases to have considered the application of the provision,[26] each of which are discussed in more detail below. In each of those cases the defendant service provider was eligible for protection under the provision, but lost any benefit to be gained from it because they did more than "merely" provide the facilities for communication.[27] The limited nature of this safe harbour means that any conduct that occurs in addition to the "mere" provision of facilities for making or facilitating communications, such as inducing or inciting users to use it for the purposes of infringement, is capable of supporting a finding of authorisation. As a result, the "protection" appears to be largely illusory.

The second main statutory safe harbour is contained in Div 2AA of the Act, which was introduced by the *US Free Trade Implementation Act 2004* (Cth). Under this regime, "carriage service providers" may take advantage of the safe harbour provided where they act as mere conduits, automatically cache material, host user-selected content, or provide online information location tools.[28] The definition of "Carriage Service Provider" is highly complex, being linked to the definition of that term contained in the *Telecommunications Act 1997* (Cth). In its current form, such organisations as telecommunications companies and ISPs appear to be carriage service providers. As BitTorrent Inc does not fall within the definition of "carriage service provider", it is unnecessary to consider this regime further for the purposes of this article.

Common law harbours

The US law contains a highly important common law safe harbour referred to as the staple article of commerce doctrine or the "*Sony* protection". That harbour was created in *Sony Corp of America v Universal City Studios* 464 US 417 (1984), which considered whether Sony was liable for copyright infringements committed by users of its Betamax videotape recorders. The common law protection was created by the Supreme Court's holding that the sale of a staple article of commerce does not constitute contributory infringement if that product is "capable of substantial noninfringing uses" (at 442). The continuing validity of this protection was recently again upheld by the US Supreme Court.[29] In Australia however, no such protection exists.[30] Thus, under Australian law, whether or not a product is capable of substantial non-infringing uses has no formal relevance to whether or not authorisation liability accrues.

What does it actually mean to "authorise" an infringement?

Given the need to demonstrate primary infringement, the assessment of authorisation liability involves a two-step analysis. The first step is to demonstrate that a third party has infringed any of the

[24] Minahan S, "Sharman and Cooper: tearing at the fabric of s 112E?" (2005) 8(8) *Internet Law Bulletin* 108 at 109.

[25] Lindsay, n 8 at 77.

[26] *Cooper v Universal Music Australia Pty Ltd* (2006) 156 FCR 380; 71 IPR 1; *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* (2005) 65 IPR 289.

[27] See *Cooper v Universal Music Australia Pty Ltd* (2006) 156 FCR 380; 71 IPR 1 at 12; *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* (2005) 65 IPR 289 at 387.

[28] *Copyright Act 1968* (Cth), Div 2AA.

[29] See *MGM Studios Inc v Grokster Ltd* 545 US 913; 125 S Ct 2764 (2005).

[30] Ginsburg and Ricketson, n 21 at 17; Weatherall, n 5.

copyright owner's exclusive rights (other than the authorisation right). The second is to prove that the infringement was "authorised" by the defendant in circumstances where he or she was not licensed by the owner to do so. But what does it actually mean to "authorise" an infringement? The meaning of the word "authorisation" in this context has long been mired in controversy and confusion.

That confusion originally stems from one of the earliest authorisation cases, *Falcon v Famous Players Film Co* [1926] 2 KB 474, which was concerned with whether defendant film companies had infringed the plaintiff's exclusive right to perform a particular work by authorising a cinema owner to exhibit a motion picture adaptation of that work (at 474). Two separate judgments agreed that such conduct amounted to authorisation. However, they disagreed as to what authorisation actually meant.

In the narrower approach, Atkin LJ held (at 499):

> to "authorize" means to grant or purport to grant to a third person the right to do the act complained of, whether the intention is that the grantee shall do the act on his own account, or only on account of the grantor.

In the broader, Bankes LJ held that authorisation occurs where a defendant "sanctions, approves or countenances" a third party's infringement (at 491). This definition encompasses situations where there has been a grant or purported grant to do the act complained of, but is sufficiently wide to capture all manner of other scenarios as well. The original source of this definition was the *Oxford English Dictionary*, which defined authorisation as, among other things, giving "formal approval" to, sanctioning, or countenancing (at 486).

The Australian High Court adopted the Bankes LJ definition of "sanctions, approves or countenances" in *Adelaide Corp v Australasian Performing Right Association* (1928) 40 CLR 481. Rather than clarifying the position, this actually perpetuated and multiplied the confusion relating to the meaning of authorisation in this context. One reason why adoption of that definition was so problematic in that case was because it was not an authorisation case at all. Instead, the complaint was that that the concert hall operator had unlawfully "permitted" a third party's copyright infringement, which at the time was prohibited under s 8 of the *Copyright Act 1912* (Cth). Despite the fact that authorisation and permission actually constituted two separate doctrines, the High Court in *Adelaide Corp* treated them interchangeably.[31]

Interpreting Moorhouse

The *Adelaide Corp* foray aside, the High Court did not consider authorisation until the crucial case of *University of New South Wales v Moorhouse* (1975) 133 CLR 1, which is the source of many of the principles that underpin the modern doctrine today. It is also arguably the source of most of its controversies and deficiencies. Gelski, soon after the judgment was handed down, suggested that it had introduced "considerable uncertainty" into the law,[32] Birchall, after extensive analysis, concluded that much of the court's reasoning in the case was "flawed",[33] and Lindsay has argued persuasively that "[t]he problems with the Australian approach to authorisation liability" begin with this decision.[34]

Frank Moorhouse was the author of a book of stories entitled, *The Americans, Baby*, a copy of which was held in a library of the University of New South Wales. That library also contained a room with a number of photocopying machines that could be used by any patron in exchange for a fee (at 8). The university took no effective measures to prevent infringement. Although the photocopying room contained a supervisor's office, the evidence showed that there was little or no monitoring of compliance with the Act. Library guides contained some advice as to what might constitute copyright

[31] See *University of New South Wales v Moorhouse* (1975) 133 CLR 1 at 12.

[32] Gelski RA, "Authorising Breaches of Copyright" (1976) 4 *Business Law Review* 192 at 195.

[33] Birchall S, "A doctrine under pressure: The need for rationalisation of the doctrine of authorisation of infringement of copyright in Australia" (2004) 15 AIPJ 227 at 236-239.

[34] Lindsay, n 8 at 75.

infringement, but these were found to range from "inadequate" to "deceptive", and while there were some warning signs on the photocopying machines, the content of those warnings was irrelevant to the activities that the plaintiffs complained of.[35]

Some publishers grew concerned that students were using the photocopying machines for the purposes of committing widespread copyright infringement. As part of a test case for determining the liability of libraries for such infringement, a past student of the university, a Mr Brennan, made two copies of one of the stories in Moorhouse's book. Moorhouse and his publisher sued the university for copyright infringement. While a number of causes of action were initially pursued, "[t]he only basis of liability seriously pressed against the university was that it authorized such breaches of copyright".[36] At first instance it had been held that the university was not liable for authorising the infringement that was subject of the complaint. This was mainly because of evidentiary difficulties with the plaintiffs' case. Mr Brennan, the individual who had actually copied the story, was unavailable to give evidence or be cross-examined, and there was no evidence that he had considered or been influenced by the university-provided library guides or signs. In the circumstances, the court concluded that "his particular breach of copyright has not been shown to have been authorized by the university". However, it nonetheless granted a general declaration that the university had authorised breaches of copyright.[37]

The defendants appealed the declaration to the High Court. The plaintiffs cross-appealed, arguing that the trial judge should have found that the specific infringement complained of had been authorised by the defendants. The High Court granted both appeals. It held that the declaration had been "wrongly made" at first instance since the plaintiffs had been unable to demonstrate any infringement (at 9). But it then went on to hold that direct infringement by Mr Brennan was made out and that the university was liable for authorising that infringement. Both opinions agreed (at 12, 20-21) that to authorise means to "sanction, approve or countenance", formally adopting the definition that was preferred by Bankes LJ in *Falcon*, and by the previous High Court in *Adelaide Corp*. However, they arrived at their conclusion as to liability via rather different reasoning.

Moorhouse majority opinion: Jacobs J; McTiernan ACJ agreeing

The majority opinion was delivered by Jacobs J, with whom McTiernan ACJ agreed. The broader of the two approaches, it held that a defendant would be liable for authorisation if they extended an unlimited, unqualified invitation to commit an infringement (at 21):

> [Authorisation has] a wide meaning which in cases of permission or invitation is apt to apply both where an express permission or invitation is extended to do the act comprised in the copyright and where such a permission or invitation may be implied. Where a general permission or invitation may be implied it is clearly unnecessary that the authorizing party have knowledge that a particular act comprised in the copyright will be done.
>
> The acts and omissions of the alleged authorizing party must be looked at in the circumstances in which the act comprised in the copyright is done.

Jacobs J considered that the university, though not expressly authorising Mr Brennan's infringement, had impliedly given library users an unlimited and unqualified invitation to use the photocopying facilities as they saw fit (at 21). Thus, when Mr Brennan went to the library and made the copies of parts of the Moorhouse book, "he went there and used the library book or books and the library copying machine in terms of the invitation apparently extended to him" (at 23). He considered it irrelevant whether or not Mr Brennan had actually been influenced by the inadequate or misleading notices and library guides, and concluded that the university had authorised Mr Brennan's infringement. Jacobs J considered that, where there is a general permission or invitation to perform infringing acts it is of "little importance" whether the defendant knew of the infringing acts because such "knowledge or lack of it would not change the terms of the invitation extended by the supply of

[35] *Moorhouse v University of New South Wales* (1974) 23 FLR 112 at 115-118.

[36] *Moorhouse v University of New South Wales* (1974) 23 FLR 112 at 120.

[37] *Moorhouse v University of New South Wales* (1974) 23 FLR 112 at 125-128.

books and machines" (at 22). However, he noted (at 22):

> Knowledge could become important if the invitation were qualified in such a way as to make it clear that the invitation did not extend to the doing of acts comprised in copyright and if nevertheless it were known that the qualification to the invitation was being ignored and yet the [defendant] allowed that state of things to continue. Then it might be found as a fact that the [defendant] authorized the continued state of things, the continued use of its machines to do acts comprised in authors' copyrights, and thus to infringe those copyrights.

This reasoning suggests that even limited, qualified invitations to infringe may sometimes be sufficient to support authorisation liability as long as the defendant knows the qualification is not preventing infringement. As discussed below, this contrasts with the suggestion of Gibbs J that the taking of reasonable steps would constitute an effectual countermand of the authorisation.[38]

Moorhouse minority opinion: Gibbs J

In his minority opinion, Gibbs J made no reference to the concept of "invitation". Instead, he held (at 13):

> a person who has under his control the means by which an infringement of copyright may be committed – such as a photocopying machine – and who makes it available to other persons, knowing, or having reason to suspect, that it is likely to be used for the purpose of committing an infringement, and omitting to take reasonable steps to limit its use to legitimate purposes, would authorize any infringement that resulted from its use.

On the facts, Gibbs J held that the test was satisfied. The first element was self-evident, as the university clearly had "the power to control both the use of the books and the use of the machines" (at 14). The requisite knowledge also existed. Gibbs J made it clear that specific knowledge that a particular infringement will occur is unnecessary. It was sufficient that the university had "made available … the books in its library … and provided in the library the machines by which copies of those books could be made", knowing that library users might make infringing copies from any of those books (at 13). Since the first two elements were made out, the university would be liable for authorisation under Gibbs J's test unless it had taken reasonable steps to limit the photocopiers' use to legitimate purposes. The steps that it had taken, including the provision of warning signs, were outlined above. Gibbs J found that they were neither reasonable nor effective precautions against infringement. Accordingly, he held that "when Mr Brennan used the means provided by the University to make an infringing copy he was authorized by the University to do what he did" (at 17).

Moorhouse legacy: A partial codification

Despite introducing a new level of uncertainty and breadth into the Australian law,[39] *Moorhouse* has had a lasting statutory legacy. While authorisation has always been a statutory right, its content has traditionally been determined solely by the common law. This still remains the case under UK and Canadian law. In Australia, however, that situation changed in 2000 via an amendment that purported to partially codify the existing authorisation law.[40] As a result, the Act now specifies three factors that courts must take into account in determining whether a defendant has unlawfully authorised infringement:[41]

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

[38] See Phillips J, "Authorising Copyright Infringements" (1980) 2 *Journal of Business Law* 109 at 114.

[39] One of the uncertainties introduced by *Moorhouse*, as to the scope of liability of libraries who supplied copying technologies, was quickly remedied when the legislature passed special measures to shield them: *Copyright Act 1968* (Cth), s 39A.

[40] See *Copyright Amendment (Digital Agenda) Act (2000)* which amended *Copyright Act 1968* (Cth).

[41] *Copyright Act 1968* (Cth), s 36(1A) (copyright in works), s 101(1A) (copyright in subject matter other than works).

As the list is not exhaustive, other factors may also be taken into account in determining liability.[42]

The Explanatory Memorandum to the introducing Act explains that "[t]he inclusion of these factors in the Act essentially codifies the principles in relation to authorisation that currently exist at common law", particularly those enunciated in *Moorhouse*, and the stated intention of incorporating the amendment was "to provide a degree of legislative certainty about liability for authorising infringements".[43] As the following section will demonstrate however, it has signally failed to do so.

3. PERSISTENT CONTROVERSIES

Despite the tremendous and growing significance of the authorisation doctrine, efforts to apply it post-*Moorhouse* have resulted in confusion, uncertainty and a considerable degree of internal inconsistency.This section focuses on four of the most significant uncertainties that currently plague the doctrine:

A. What does it actually mean to "sanction, approve or countenance" third party infringement?
B. Can authorisation be made out in the absence of any power to prevent the infringement?
C. Can indirect powers to prevent infringement constitute "reasonable steps" to prevent infringement?
D. Need there be some temporal connection between the "power to prevent the doing of the act" and the third party infringement?

It is no coincidence that three of these four controversies relate directly or indirectly to the issue of control over infringement. Issues relating to control are at the forefront of efforts to expand the authorisation law. To understand why, it is helpful to understand the historical context. When P2P (peer-to-peer) file-sharing technologies first emerged in the late 1990s, the US law consisted of two separate secondary liability doctrines: contributory and vicarious liability. Each of those common law doctrines required that, in order to be liable for third party infringement, the defendant must have the ability to do something to prevent it at the time it took place.[44] As soon as they realised this, P2P providers began coding their software to try and eliminate such control, and a decade's worth of litigation in the US demonstrated their impressive ability to do so.[45]

Eventually, in at least one US circuit or jurisdiction, coding software in a way that eliminated control over third party infringement was acting as a kind of "get out of jail free" card for its provider, regardless of how much infringement they facilitated or encouraged.[46] In order to address this undesirable situation, the US Supreme Court was obliged to create a third theory of secondary infringement, inducement liability, which could be made out in the absence of control.[47] This background gives some context to why these controversies have been raised in Australia, and helps explain why it is so important that they be swiftly and thoughtfully addressed. If control is indeed a requisite element of the authorisation doctrine under Australian law, this creates a loophole that is likely to incentivise future software providers to similarly attempt to code their way out of liability.

For example, ISPs like iiNet might seek to design their systems to eliminate any ability to identify the users who are tagged as infringers, perhaps ostensibly citing privacy concerns.[48] If control is not a fixed element of authorisation, or if the tort requires a defendant to go to great lengths to exercise it,

[42] See, eg *Cooper v Universal Music Australia Pty Ltd* (2006) 156 FCR 380; 71 IPR 1 at 5 (Branson J), 28 (Kenny J).

[43] *Copyright Amendment (Digital Agenda) Bill 1999* (Cth), Explanatory Memorandum at 54.

[44] See generally *MGM Studios Inc v Grokster Ltd* 380 F 3d 1154 (9th Cir 2004); however, control is not an element of the third US secondary liability doctrine, inducement liability, which was introduced later in response to the advent of P2P file-sharing technologies.

[45] See generally Giblin R, *The Code/Law Collision: Secondary liability for P2P copyright infringement in the US and Australia* (PhD thesis, Monash University, 2008).

[46] See *MGM Studios Inc v Grokster Ltd* 380 F 3d 1154 (9th Cir 2004).

[47] See *MGM Studios Inc v Grokster Ltd* 545 US 913; 125 S Ct 2764 (2005).

[48] See Brennan and Weatherall, n 3 at 7 (Brennan).

or if that control need not exist at the same time as their ability to prevent the infringement, it becomes much easier for content owners to prevail in any enforcement action.

A. What does it mean to "sanction, approve or countenance" infringement?

In *Moorhouse*, the High Court approvingly cited the broader interpretation of Bankes LJ in *Falcon* that to authorise third party infringement means to "sanction, approve or countenance" it. If these words are given their ordinary English meaning, it is clear that the definition of authorisation is very wide indeed. In *CBS Inc v Ames Records & Tapes Ltd* [1982] Ch 91 at 109, Whitford J observed:

> "Countenance" … is a word of wide meaning. It may mean sanction, encourage, support or condone. If Parliament had intended to give copyright owners the sole right to give countenance to infringing acts, then no doubt they would have said so in plain terms.

Laddie, Prescott and Vitoria have also criticised the "sanctions, approves or countenances" formulation, describing it as "vague, overly broad, and uncertain".[49] Lawton LJ expressly disapproved of the *Moorhouse* definition, holding[50] that the concept of granting or purporting to grant a third person the right to do the act complained of came "much nearer" to his understanding of the meaning of authorisation than the "sanctions, approves or countenances" definition of Bankes LJ in *Falcon* and the High Court in *Moorhouse*. Notably, the High Court in *Moorhouse* widened this already extremely broad formulation even further by approving the reasoning in *Adelaide Corp*, in which case the High Court had equated "authorising" with "permitting".[51] Subsequent judicial acceptance of that equation by the *Moorhouse* court and others means that *Adelaide Corp* has become good authority in the authorisation context.[52] As a result, authorisation in Australian law not only encompasses situations where a defendant has "sanctioned, approved or countenanced" an infringement, but also where they have "permitted" it.[53]

This expansive formulation does very little to narrow down the categories of conduct which may give rise to authorisation liability, thus adding to uncertainty as to when authorisation may be made out. The definitions that equivalent jurisdictions have ascribed to their iterations of authorisation liability provide litigants with considerably more guidance. For example, the UK law has long favoured the narrower meaning given to authorisation in *Falcon*, that "to authorise" means to "grant to a third person the right to do the act complained of, whether the intention is that the grantee shall do the act on his own account, or only on account of the grantor".[54] Under this approach some degree of "express or formal permission or active conduct indicating approval" must be present before liability will be made out.[55] Like the Australian law, the Canadian law also defines authorisation as "sanctioning, approving or countenancing".[56] However, it has read that definition considerably more narrowly than its Australian counterpart. In *CCH Canadian Ltd v Law Society of Upper Canada* [2004] 1 SCR 339 at [41], the Canadian Supreme Court expressly rejected the approach of the

[49] Laddie H, Prescott P and Vitoria M, *The Modern Law of Copyright and Designs* (2nd ed, Butterworths, London, 1995) 911-912.

[50] *CBS Songs Ltd v Amstrad Consumer Electronics plc* [1988] Ch 61 (CA).

[51] *University of New South Wales v Moorhouse* (1975) 133 CLR 1 at 12.

[52] *University of New South Wales v Moorhouse* (1975) 133 CLR 1 at 12 (Gibbs J), 20-21 (Jacobs J); *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* (2005) 65 IPR 289 at 377; Ginsburg and Ricketson, n 21 at 12-13; Ricketson and Creswell, *The law of intellectual property: Copyright, designs & confidential information* (LBC Information Services, Sydney) at [9.585].

[53] See, eg *Australasian Performing Right Association Ltd v Metro on George Pty Ltd* (2004) 61 IPR 575 at [23]; *Australasian Performing Right Association Ltd v Jain* (1990) 26 FCR 53 at 57.

[54] *CBS Songs Ltd v Amstrad Consumer Electronics plc* [1988] Ch 61 at 66.

[55] See, eg *CBS Songs Ltd v Amstrad Consumer Electronics plc* [1988] AC 1013 at 1053, 1054 (citing *Falcon v Famous Players Film Co* [1926] 2 KB 474 at 499); *Amstrad Consumer Electronics plc v British Phonographic Industry Ltd* [1986] FSR 159 at 207; Lindsay, n 8 at 75.

[56] See, eg *Underwriters' Survey Bureau Ltd v Massie & Renwick Ltd* [1938] Ex CR 103 at 122 (affirmed on this point by Supreme Court, Canada [1940] SCR 218). For a comparison of the Australian and Canadian liability regimes, see Lindsay, n 8 at 76-77.

Australian High Court in *Moorhouse* on the basis that it "shifts the balance in copyright too far in favour of the owner's rights and unnecessarily interferes with the proper use of copyrighted works for the good of society as a whole".

The prima facie breadth of the Australian formulation means that it will almost inevitably be arguable that any provider of a technology that facilitates infringement has "sanctioned, approved or countenanced" that infringement. Obviously, courts will not always reach such a conclusion after considering all the relevant factors. However, combined with the lack of guidance as to whether and when it is appropriate to read down this expansive meaning, this definition adds to the uncertainty as to the proper scope and content of the authorisation law in Australia.

B. Can authorisation be made out in the absence of any power to prevent the infringement?

Unlike the contributory and vicarious infringement doctrines in US law, which have fixed elements akin to hoops that must be jumped through in order for liability to accrue, the authorisation doctrine is holistic. All relevant circumstances – including each of the factors identified in the Act – need to be taken into account and carefully weighed and balanced against one another before a conclusion is finally reached. For a long time, however, the case law suggested that there was in fact one compulsory element of the tort, which required that the defendant have the power to prevent the third party infringement.

This requirement was clearly set out in *Moorhouse*, where Gibbs J stated that "[a] person cannot be said to authorize an infringement of copyright unless he has some power to prevent it".[57] This proposition has since been cited approvingly in a number of key Australian authorities on authorisation.[58] It is also consistent with observations made by the Australian High Court on the most recent occasion it considered authorisation. *Australian Tape Manufacturers Association Ltd v Commonwealth* (1993) 176 CLR 480 concerned the constitutional validity of a levy on blank cassette tapes, and the question of authorisation was relevant to whether or not any consideration had been given in return for payment of the levy. The four-judge majority held (at 497):

> The sale of a blank tape does not constitute an authorization by the vendor to infringe copyright. That is principally because the vendor has no control over the ultimate use of the blank tape.

It then held (at 498) that:

> manufacture and sale of articles such as blank tapes or video recorders, which have lawful uses, do not constitute authorization of infringement of copyright, even if the manufacturer or vendor knows that there is a likelihood that the articles will be used for an infringing purpose such as home taping of sound recordings, so long as the manufacturer or vendor has no control over the purchaser's use of the article.

Clearly then, the High Court in *Tape Manufacturers*, like Gibbs J in *Moorhouse*, considered that control over the third party infringement was an essential element of authorisation.

Despite the seeming clarity of this position, the existence of this one seemingly compulsory element has become as uncertain as the rest of the doctrine. The controversy stems from the first codified factor, which requires courts to take into account "[t]he extent (if any) of the person's power to prevent the doing of the act concerned".[59] The words "(if any)" in the legislation clearly suggest that authorisation can be made out even in the absence of any power to prevent the infringement.[60]

[57] *University of New South Wales v Moorhouse* (1975) 133 CLR 1 at 12 (citing *Adelaide Corp v Australasian Performing Right Association Ltd* (1928) 40 CLR 481 at 497-498, 503).

[58] See, eg *Nationwide News Pty Ltd v Copyright Agency Ltd* (1996) 65 FCR 399 at 423; *Australasian Performing Right Association Ltd v Jain* (1990) 26 FCR 53 at 57; *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* (2005) 65 IPR 289 at 377; *Universal Music Australia Pty Ltd v Cooper* (2005) 150 FCR 1 at [79]; 65 IPR 409; *Australasian Performing Right Association Ltd v Metro on George Pty Ltd* (2004) 61 IPR 575 at [23].

[59] *Copyright Act 1968* (Cth), ss 36(1A)(a), 101(1A)(a).

[60] Ginsburg and Ricketson, n 21 at 14.

This seems inconsistent with the Explanatory Memorandum's stated intention that the introduction of the statutory factors would simply codify the common law.[61] However, this suggestion seems clearly inconsistent with pre-codification authorities.

The source of the statutory suggestion that control is not a necessary element is unclear, but it does not appear to have originated with the Explanatory Memorandum itself. The Memorandum actually states that one of the key factors in determining whether or not there has been authorisation is "the *level* of control that a person has to prevent the infringement with reference to the nature of the acts complained of".[62] This presupposes that control is a necessary element of authorisation, and simply invites examination of its degree. It is more likely that the ambiguity originated with the discussion paper on which the digital agenda reforms were largely based. In reciting a number of "General principles from case law on 'authorisation'", the Discussion Paper, *Copyright Reform and the Digital Agenda*, observes:

> it is *unlikely* that a party will be liable for authorising an act of copyright infringement if that party did not have the power to prevent infringement; the level of control that a party must exercise in order for there to be authorisation is determined on the facts of the case including the nature of the acts complained of and the relationship between the alleged infringer and the actual infringer.[63]

This statement, for which no authority is cited, strongly resembles the eventual legislation.

Since giving effect to the common law would seemingly require ignoring the words "(if any)" altogether, there is considerable uncertainty as to whether or not control is a compulsory element of authorisation in Australia. Post-codification courts have struggled to respond to the statutory suggestion that authorisation can be made out even in the absence of any power to prevent infringement. Three main decisions have canvassed the issue to date.[64]

Australasian Performing Right Association Ltd v Metro on George Pty Ltd (2004) 61 IPR 575 was concerned with whether the owner of a music venue was liable for the infringing performances of those who hired those premises. The hire contract provided that Metro had to be supplied with the current description of the event, and that it was responsible for providing ticketing services (at [13]). There was also a warranty that the hirer would ensure that all performances would comply with the Act and the licence requirements of APRA (at [15]). The contract expressly stated that Metro did not "authorise or permit any particular performance whether containing copyright material or otherwise" (at [13]).

Metro denied liability on the basis that it had "no control over the promoters and that they did not permit or countenance the infringing performances" (at [8]). After considering the statutory framework, the court confirmed its view that control is a compulsory element of authorisation (at [18]):

> Control is necessary to constitute authorisation to infringe copyright; mere facilitation of the infringing conduct is insufficient, as is knowledge that there is a likelihood that there will be infringing use.[65]

Having made this finding, the court went on to conclude that Metro did have the requisite control (at [73]):

> Metro was in control of the premises. Metro advertised the performances. It operated the box office, provided refreshments and provided and operated the electricity necessary for the performances to take place. The Metro contract formed the basis of the hiring of the premises. This may not have amounted to control over the content of the performances but, in my view, it gave a measure of control over the

[61] *Copyright Amendment (Digital Agenda) Bill 1999* (Cth), Explanatory Memorandum at 35.

[62] *Copyright Amendment (Digital Agenda) Bill 1999* (Cth), Explanatory Memorandum at 10 (emphasis added).

[63] *Copyright Reform and the Digital Agenda*, Discussion Paper, (July 1997) at 4.79 (emphasis added), http://www.ag.gov.au/www/agd/agd.nsf/Page/Publications_CopyrightReformandtheDigitalAgenda-July1997, viewed 30 October 2009.

[64] *Australasian Performing Right Association Ltd v Metro on George Pty Ltd* (2004) 61 IPR 575; *Universal Music Australia Pty Ltd v Cooper* (2005) 150 FCR 1; 65 IPR 409 (*Cooper v Universal Music Australia Pty Ltd* (2006) 156 FCR 380; 71 IPR 1); *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* (2005) 65 IPR 289.

[65] Citing *Australian Tape Manufacturers Association Ltd v Commonwealth* (1993) 176 CLR 480 at 497-498.

> use of the premises in circumstances where Metro knew or had grounds to believe that unlicensed performances were to take place or were in fact taking place at Metro on George.

Accordingly, the defendant was held liable for authorising infringement.

The court's finding with regard to the necessity of control seems consistent with the pre-codification case law. Problematically however, it fails to give any effect to the words, "(if any)". Although this judgment does not expressly consider whether some lesser "connection" would be sufficient in place of control, the unambiguous terms in which it stated that control is necessary seemed to preclude such an interpretation.

The next significant case to consider the issue was *Universal Music Australia Pty Ltd v Cooper* (2005) 150 FCR 1; 65 IPR 409. That case involved the liability of a website owner for, among other things, authorising the copyright infringements of its website's visitors and the owners of independent websites that hosted infringing files.

The defendant Cooper was responsible for the creation of a website that contained a number of hyperlinks to MP3 music files. Some of the links went directly to infringing files. This meant that as soon as users clicked on them a dialogue box would ask them whether they wished to play or save a copy of a particular song. Others were less direct – instead of linking users to a particular song, they diverted them to different sites from which music could be downloaded either by directly clicking the links contained there, or by following those links to still other sites. Cooper's website had been set up in such a way as to allow third parties to automatically add new links to the page without Cooper himself having to take any action. Visitors to Cooper's site clicked these links and then downloaded infringing copies of music from the linked sites.

The plaintiffs argued that the partial codification broadened the concept of authorisation because it "contemplates that even a person with no power to 'prevent' the doing of the act may nevertheless authorise infringement" (at [83]); precisely the kind of expansionary argument that was discussed in the introduction to this article. The trial court avoided expressly responding to this argument, finding instead that Cooper indeed had the requisite control (at [85]):

> [He] could have prevented the infringements by removing the hyperlinks from his website or by structuring the website in such a way that the operators of the remote websites from which MP3 files were downloaded could not automatically add hyperlinks to the website without [his] supervision or control.

By knowingly permitting or approving this use of his website, and by designing it and organising it to achieve that result, Cooper was held to have authorised the resulting copyright infringements (at [85]). The remaining defendants, including the companies that hosted Cooper's website and the specific employee who set it up and maintained it, were also found to have had control over, and thus be liable for, the third party infringements (at [121], [130]). Except with regard to the ISP's employee, those findings were upheld on appeal.[66] Unfortunately, the Full Court chose not to give any guidance as to whether or not authorisation liability could be made out in the absence of any power to prevent infringement. Instead, in two separate opinions, the Full Court also emphasised the ways in which the liable defendants did in fact have some power to prevent the third-party infringement.[67]

An application for leave to appeal the decision to the High Court was denied.[68] The Full Court's refusal to decide the expansionary argument of the plaintiffs in this case one way or the other was highly problematic, particularly in light of the lower court in *Metro on George* having so emphatically

[66] The employee, Mr Takoushis, was held not to have authorised the third party infringements because he had no "personal power to prevent the doing of the acts of copyright infringement", had no "relevant relationship" with the users of the Cooper site or "the operators of the remote websites from which sound recordings were communicated" and had no "reasonable step open to be taken by [him] personally to prevent or avoid the doing" of the infringement: *Cooper v Universal Music Australia Pty Ltd* (2006) 156 FCR 380 at [70]-[71]; 71 IPR 1 at 13-14, 35.

[67] *Cooper v Universal Music Australia Pty Ltd* (2006) 156 FCR 380; 71 IPR 1 at 7-10, 13 (Branson J); 32, 33 (Kenny J). For a useful analysis and critique of the Cooper appeal decision, see Weatherall K, "Cooper: How linking in Australia can land you in hot legal water", *Weatherall's Law*, http://www.weatherall.blogspot.com (18 December 2006), viewed 24 May 2007.

[68] See *E-Talk Communications Pty Ltd v Universal Music Pty Ltd; Cooper v Universal Music Pty Ltd* [2007] HCATrans 313 (15 June 2007).

rejected it. While the Full Court undoubtedly adopted this strategy with the best possible intentions, its failure to address this point, or provide any guidance or limitations on the matter, further perpetuated the notion that a defendant could be held liable for authorisation even in the absence of any control over the third party infringement.

The third and final major case to consider this argument to date is *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* (2005) 65 IPR 289, which involved the liability of a number of respondents including Sharman Networks, the Australian-based "operator" of the Kazaa P2P file-sharing software. In finding that Sharman had authorised the infringements of Kazaa's users, the court was influenced by the fact that (at [404]):

> it has been in Sharman's financial interest for there to be ever-increasing file-sharing, involving an ever-greater number of people. Sharman always knew users were likely to share files that were subject to copyright.

In May 2003, an independent report had made it clear that most Kazaa users were using it to download unauthorised copies of music, and that any move away from this model would be likely to lose users (at [149]-[154]). Any loss of users would of course have a negative effect on revenue. The court was also influenced by several positive acts committed by Sharman that encouraged copyright infringement, including its online promotion of Kazaa as a file-sharing facility, its "exhortations" to users to use Kazaa and share their files (at [68]-[81], and (at [405]):

> Sharman's promotion of the "Join the Revolution" movement, which is based on file-sharing, especially of music, and which scorns the attitude of record and movie companies in relation to their copyright works.

Given that Sharman knew that Kazaa users were actually using Kazaa to infringe, its participation in these acts were considered to be particularly damning (at [406]).

The respondents argued that, in accordance with the pre-codification case law, there could be no finding of authorisation unless Sharman was able to "control" the behaviour of Kazaa users (at [414]). Like the Full Court in *Cooper*, Wilcox J sidestepped this issue by refusing to make any finding as to whether or not this was a correct statement of the law. Like the courts that decided *Cooper*, Wilcox J achieved this by finding that Sharman was (at [414]):

> in a position, through keyword filtering or gold file flood filtering, to prevent or restrict users' access to identified copyright works; in that sense, Sharman could control users' copyright infringing activities.

The implications of this finding with regard to the proposed keyword filtering and gold file flood filtering measures are discussed in greater detail below. However, even though this finding meant that the control issue was officially off the table, Wilcox J nonetheless went on to cryptically note (at [414]):

> There may be room for debate as to whether it is desirable to continue to use the word "control" in this context, having regard to the content of the new subs (1A) of s 101.

Of course, if it is not "desirable" to continue to use the word "control" in this context, that clearly suggests that s 101(1A)(a) has indeed altered and expanded the common law meaning of "authorisation".[69]

There is obviously a clear inconsistency between the pre-codification case law and the existing legislation. However, despite the controversy being raised in each of the three most significant post-codification authorisation cases, the issue has still not been definitively resolved. Only the Federal Court in *Metro on George* ventured to make any broader statements about the content of the law. The impression left by that decision however, has been more than cancelled out by the express refusal of the Federal Court in two subsequent cases, and by the Full Court in *Cooper*, to decide the matter. This repeated refusal enhances the impression that in some circumstances defendants may be liable for authorisation without having any control over the third party infringement.

It may well be that the reason for the unwillingness of courts to give any definitive guidance on the issue is because the nature of control has changed over time. As noted above, the P2P experience

[69] Giblin and Davison, n 22 at 68.

has taught us that some facilitators of large scale infringement have an ability to eliminate control over third party infringement in a way that was undreamed of when *Moorhouse* and *Tape Manufacturers* were decided. It's entirely understandable that courts are hesitant to expressly uphold earlier authorities that did not have the benefit of this lesson. Even if this is the case, however, the current situation is untenable. By failing to give any guidance on this issue at all, courts are inadvertently perpetuating the kind of uncertainty that, as explained in the introduction to this piece, impacts far more adversely on the technical innovators and new competitors seeking to enter the market than on the powerful interests who are already there. In some cases, this can have the same effect as the law being much more onerous against the former interests than was ever intended.

C. Can indirect powers to prevent infringement constitute "reasonable steps" to prevent infringement?

If it is assumed that some kind of power to prevent the third party infringement is necessary to a finding of authorisation liability, the next uncertainty concerns the lengths to which defendants are obliged to go to exercise that power. Can indirect powers to prevent infringement constitute "reasonable steps" to prevent infringement?

Whether or not a defendant took "any reasonable steps to prevent or avoid" the infringement is one of the factors that courts are required to take into account in order to determine whether they are liable for authorisation.[70] This factor can be traced from *Moorhouse*, where Gibbs J held that a person who has the means of infringement under their control and knows or has reason to know it is likely to be used for infringement will be liable for authorisation unless they fail to take reasonable steps to limit its use.[71] Ricketson and Creswell note that this factor "implies that the failure to take any such steps – or indeed any steps at all – would weigh against the defendant".[72] On the other hand, if reasonable steps have been taken, that may be sufficient to prevent a finding of authorisation being made at all.[73]

The use of the word "reasonable" suggests that a cost-benefit analysis needs to take place before any failure to act to prevent infringement will weigh against a defendant. As Ricketson and Creswell explain:

> the qualifier "reasonable" could imply that the courts should not count it against the defendant if steps could have been taken that would have been effective to avoid the infringement but which would have imposed a heavy economic burden on the defendant.[74]

Thus, it will count against a defendant if it was relatively easy to eliminate or limit the eventual infringement and they nonetheless failed to do so. What is "reasonable" in one situation may not be in another. Additionally, steps that would otherwise be reasonable can also be negated by other conduct. For example, in *Metro on George* the reasonable step of requiring hirers to contractually warrant that they would comply with the Act became ineffective when Metro failed to enforce it, "particularly once it had knowledge that infringements were taking place".[75]

The real controversy arising from this point concerns the lengths to which potential defendants must go in order to be accepted as having taken "reasonable steps" to prevent infringement. The most important question, and one that Australian innovators would dearly love to have answered, is whether courts will consider any ability they may have had at the design stage to create a product or service that was less facilitative of the eventual third party infringement than the one they actually created. Taking this kind of backward-looking approach to the "reasonable steps" requirement would be a de

[70] See *Copyright Act 1968* (Cth), ss 36(1A) (copyright in works), 101(1A) (copyright in subject matter other than works).

[71] *University of New South Wales v Moorhouse* (1975) 133 CLR 1 at 13.

[72] Ricketson and Creswell, n 52 at [9.590] 187.

[73] See, eg Ginsburg and Ricketson, n 21 at 13.

[74] See eg, Ricketson and Creswell, n 52 at [9.590] 187.

[75] Lahore and Rothnie, n 23 at [34,490] (citing *Australasian Performing Right Association Ltd v Metro on George Pty Ltd* (2004) 61 IPR 575 at [56]-[62]).

facto way of imposing a pre-emptive obligation to design a product to minimise possible infringing use. This is highly problematic given that it may not be clear at the design stage how much infringement the product or service would be put to, or the degree to which that would eventually resolve to non-infringing use. Despite the fundamental nature of this issue, the existing authorities provide no clear answer addressing whether such a pre-emptive obligation exists.

The modern-day uncertainty on this point can be traced back to an earlier distinction between direct and indirect powers to prevent infringement, starting with *Adelaide Corp*. The rental agreement at the crux of that case contained two clauses which suggested that the defendant had a degree of control over the infringing tenant. The first empowered the defendant to "cancel the letting and direct the return of the rent and deposit" at a pro rata rate for any reason should the Town Clerk "in the exercise of his judgment see fit". The second allowed the defendant to require the supply of a detailed program of the entertainments to take place in the hall during the hire period, and, should it decide it was objectionable or not suited to the venue, to stop the exhibition or any part of it.[76] After the defendant had leased the premises to the tenant on these terms, but prior to the infringing performances, the Australasian Performing Right Association informed the defendant of its belief that an infringing performance was going to take place in its venue. The question before the court was whether the defendant was liable for permitting the performance to go ahead regardless.

A two-judge minority considered that the wide powers bestowed on the defendant under the contract granted the requisite power to prevent the lessor from committing at least some of the infringements complained of. The defendant was liable because "[h]aving the power to prevent the threatened infringement, it abstained from doing so".[77] However, the three-judge majority disagreed. The only way the defendant could have prevented the performance was by ending the lease. Since this was merely an indirect power to control the infringement, the majority held that it did not constitute the requisite "power to prevent".[78] Higgins J was scathing in his rejection of the argument:

> That is to say, that, as the Corporation has no power to prevent directly the singing of the song, it should smash the lease, refunding money paid for all future performances of every kind, and thus prevent all singing of any sort … It is not a step which would in itself prevent the infringement of the copyright, but a step which would do much more: it would put an end of the lease. The owner of a house has power to destroy it; if his house be used without his permission for the sale of intoxicants, is he to be expected to burn it down as a reasonable step?[79]

The majority opinion recognised that it is almost always possible to think of some way in which a defendant could potentially have exercised some control to prevent an infringement. Under its reasoning however, if that power is an indirect one, and its exercise would do more than simply prevent the infringement, then it won't constitute a reasonable step to prevent infringement.

More recently, UK and US courts have come to similar conclusions in cases involving copying technologies. *CBS Songs Ltd v Amstrad Consumer Electronics plc* [1988] 1 AC 1013 considered whether Amstrad was liable for authorising the copyright infringements of its customers under UK law. Amstrad had developed and sold devices that allowed one cassette tape to be reproduced onto another at twice the normal playback speed,[80] and advertised them in terms that were "likely to encourage home copying of favourite tapes".[81] Nonetheless, the House of Lords held that it had no liability for authorising such eventual infringements. As mentioned above, the UK law favours the narrow definition of Atkin LJ in *Falcon*, that "to authorise" means to "grant to a third person the right to do the act complained of, whether the intention is that the grantee shall do the act on his own

[76] *Adelaide Corp v Australasian Performing Right Association Ltd* (1928) 40 CLR 481 at 483-484.

[77] See *Adelaide Corp v Australasian Performing Right Association Ltd* (1928) 40 CLR 481 at 488.

[78] See Lahore and Rothnie, n 23 at [34,482] (citing *Adelaide Corp v Australasian Performing Right Association Ltd* (1928) 40 CLR 481 at 497-498, 500 (Higgins J), 503, 505 (Gavan Duffy and Starke JJ)).

[79] *Adelaide Corp v Australasian Performing Right Association Ltd* (1928) 40 CLR 481 at 499.

[80] *Amstrad Consumer Electronics plc v British Phonographic Industry Ltd* [1986] FSR 159 at 162.

[81] *CBS Songs Ltd v Amstrad Consumer Electronics plc* [1988] Ch 61 at 66.

account, or only on account of the grantor".[82] The House of Lords held that Amstrad did not satisfy the authorisation test because, even though it conferred on the purchaser the *power* to copy, it did not grant or purport to grant the *right* to copy.[83]

In *Sony*, Sony similarly avoided liability for infringements committed with the help of its Betamax videotape recorders; the US Supreme Court held that the sale of a staple article of commerce does not constitute contributory infringement if that product is "capable of substantial noninfringing uses".[84] In each of these landmark cases, the defendants manufactured products that facilitated large scale infringement. In each case, design changes were available that could have reduced or eliminated infringement – eg, by slowing down recording speeds or even eliminating recording functionality altogether. Indeed, in *Sony* there was evidence suggesting that a jamming device was available that would block infringing uses while enabling those that did not – all for "less than fifteen dollars a machine".[85] However, each court declined to hold the defendants liable for failing to design their products in ways that would have reduced the amount of end user infringement, or even to require those manufacturers to later alter their products after the fact to make them less facilitative of infringement. In each case, it seemed that the imposition of any pre-emptive design obligation or requirement that the offending product be altered would involve the exercise of an unacceptably indirect or unreasonable power to prevent infringement.

In Australia, however, the *Sharman* court recently suggested that the failure to exercise an indirect power to prevent infringement amounted to a failure to take reasonable steps to prevent infringement. As outlined above, Sharman's Kazaa file-sharing software had been very carefully and deliberately engineered to eliminate any control over third-party infringers.[86] The defendants had done everything they could think of to ensure that they had no "power to prevent" infringement at the time it took place. The main reason for this strategy was to ensure that the technology's providers could not be held liable under the existing US secondary liability law, and indeed identical software successfully avoided liability under those formulations.[87] However, Wilcox J found that Sharman had both control over and a "power to prevent" its users' infringements, in the form of power to change the software in order "to prevent or restrict users' access to identified copyright works".[88] After suggesting that Sharman could exercise that power in at least two ways, through gold file flood filtering, or through keyword filtering, Wilcox J suggested that its failure to do so was indicative of a failure to take "reasonable steps" to prevent infringement.

The "gold file flood filtering" option took advantage of the fact that Kazaa only allowed for 200 search results to be returned in response to any query.[89] These results could comprise either "blue" files (often infringing files provided by other users) "gold" files (legitimately licensed files provided by the TopSearch software that belonged to one of Sharman's commercial partners) or both.[90] Under this option, a list would be compiled of copyrighted works and artists. Each time a search request was received that matched an item on that list, the TopSearch component of the Kazaa system would provide 200 results that might include licensed copies of the work or simply warnings against infringement. This would "flood" the search results with gold file responses, leaving no space for any

[82] *CBS Songs Ltd v Amstrad Consumer Electronics plc* [1988] AC 1013 at 1054.

[83] *CBS Songs Ltd v Amstrad Consumer Electronics plc* [1988] AC 1013 at 1054.

[84] *Sony Corp of America v Universal City Studios* 464 US 417 at 442 (1984).

[85] Lardner J, *Fast forward: Hollywood, the Japanese, and the onslaught of the VCR* (Norton, New York, 1987) p 119.

[86] See, eg Ginsburg and Ricketson, n 21 at 4; Giblin and Davison, n 22 at 71. For a detailed discussion of the way in which this software was created, the external factors that motivated its design, and the way in which it operated, see Giblin, n 45 at 135-138, 143-146.

[87] See *MGM Studios Inc v Grokster Ltd* 380 F 3d 1154 (9th Cir 2004). The defendants in that case were eventually held liable under a new formulation of liability created expressly to capture their behaviour: *MGM Studios Inc v Grokster Ltd* 545 US 913; 125 S Ct 2764 (2005).

[88] *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* (2005) 65 IPR 289 at 387.

[89] *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* (2005) 65 IPR 289 at 364-365.

[90] *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* (2005) 65 IPR 289 at 324-326.

unauthorised "blue" files to show up in the search results. The second option was for mandatory keyword filtering to be introduced. At the time of the litigation, the Kazaa software already contained two discretionary filters, which users could utilise to block executable files and adult content.[91] Wilcox J proposed that the software be redesigned to incorporate a new compulsory filter that would block the transfer of copyrighted material. Copyright owners would be required to work with the respondents to compile a list of song titles and artist names.[92] The infringing respondents would then be obliged to change the software so that no search results that matched entries on that list would be returned to the requesting user. An unavoidable side effect of each of these filtering methods would be false negatives and false positives, each of which would have the potential to compromise the legitimate distribution of music by Kazaa's users.[93]

Each of these possible "powers to prevent" infringement would have required the respondent to actively alter its product to reduce or eliminate the third party infringement, and they would have done so at the cost of some collateral damage to current and future legitimate usages of the software. In these circumstances, the suggestion of Wilcox J that the failure to implement such actions before trial might have amounted to a failure to take any "reasonable steps" is a troubling departure from existing authority. It is analogous to taking the failure of consumer electronics manufacturers to design or redesign their products to eliminate recording or fast forward functionality into account in determining whether or not they were liable for their users' infringement. As outlined above, this is something the highest courts in the US and UK expressly refused to do, in cases that have been referred to with approval by our own High Court.[94]

However, it should also be recollected that there have been significant technological changes since those cases were decided that may distinguish *Sony* and *Amstrad* from *Sharman*. In particular, Sharman was shown to have the technical ability to code its software in a way that would either force earlier users to upgrade to a new, filtered version, or make the old version practically impossible to use.[95] This is something that was simply not possible with reference to the physical world technologies at issue in those earlier cases, and Wilcox J may have implicitly recognised that difference in finding that Sharman's failure to re-design its software was relevant to its eventual liability. Notably however, the providers of earlier physical technologies like the VCR had the ability to at least change their products with regard to future users, and yet courts still refused to require them to do so. It is also important to once again remember that this suggestion by the Federal Court was part of a whole matrix of circumstances, which, when looked at in their entirety, showed that Sharman had acted with a deliberate and wilful intention to extract as much profit from as much infringement as possible. So damning were the circumstances that its failure to take steps to design its product differently probably had no impact on the outcome of that particular case. But while it may have been insignificant on those facts, the suggestion that Sharman's failure to redesign its software (or design it differently in the first place) may have constituted a failure to take "reasonable steps" to prevent infringement could easily have a considerable chilling effect on future technology developers.

Previously, it had appeared that defendants were not obliged to take any indirect steps to prevent infringement. This was one of the few issues on which the Australian authorisation law seemed more or less clear. However, the *Sharman* analysis turned that certainty on its head by suggesting that the mere retrospective availability of such steps at the design stage could be relevant to eventual liability for third party infringement. Confronted with that finding, it would not be surprising if Australian innovators were to alter designs of technologies or services that might be potentially used for infringement, or even to cease development altogether – potentially at the loss of significant new business models or distribution techniques. If it is going to be relevant that a defendant did not design their technology in a particular way, other issues must also be taken into account: whether it was clear

[91] *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* (2005) 65 IPR 289 at 352.

[92] *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* (2005) 65 IPR 289 at 360.

[93] Giblin and Davison, n 22 at 62-63.

[94] Giblin and Davison, n 22 at 74.

[95] See discussion in *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* (2005) 65 IPR 289 at 362-364.

at the design stage how much infringement the product or service would be put to, whether non-infringing uses were increasing relative to infringing ones, whether the proposed design change would make it less useful for non-infringing distribution and so on. Simply suggesting that this is a relevant factor without addressing the multitude of issues that it inevitably raises is a highly unsatisfactory state of affairs.

D. Need there be a temporal connection between the "power to prevent the doing of the act" and the third party infringement?

The final controversy that will be addressed here concerns whether or not there needs to be any temporal connection between a defendant's "power to prevent" the doing of an act and the eventual third-party infringement. At the crux of this uncertainty is the argument that a power to prevent the doing of the infringing act exists at the time of deciding whether or not to provide the means of infringement in the first place. Ginsburg and Ricketson have pointed out that the third of the codified factors, "with its reference to 'reasonable steps' seems to underline the point that a defendant will not escape liability if it was *previously* in a position to prevent the infringements and failed to take such steps".[96]

For example, a manufacturer of DVD recording technology has a power to prevent that technology from being used for any infringement whatsoever by either eliminating the recording feature, or simply by never distributing it for sale. Under this argument, the fact that it later deprives itself of the ability to do anything to prevent third party infringement will not necessarily be sufficient to absolve it of liability. In contrast, US secondary liability laws tend to impose strict temporal links between control and infringement, with contributory liability's knowledge and material contribution elements and vicarious liability's supervision element each requiring that the defendant have the ability to do something to prevent the infringement at the time it takes place.[97]

This idea that a power to prevent the doing of the infringing act may not have to exist at the time of the third-party infringement was echoed in some obiter comments of Branson J for the Full Court in *Cooper*. After dismissing the suggestion "that unless Mr Cooper had power, at the time of the making of an infringing copy of a sound recording, to prevent that copy being made, he had no power to prevent within the meaning of s 101(10)(a)",[98] Branson J made a number of comments about the nature of control in Australian authorisation law:

> [In *Moorhouse*] both Jacobs and Gibbs JJ concentrated on the behaviour of the University in making the photocopier available for use in the library rather than on the issue of the University's capacity to control the use of the photocopier once it had been made available to library users. The observation of Gibbs J that a person cannot be said to authorise an infringement unless he or she has some power to prevent it must be understood in this context. That is, the relevant power which the University had to prevent the copyright infringement must be understood to have been, or at least to have included, the power not to allow a coin-operated photocopier in the library.[99]

This analysis clearly suggests that the requisite power to prevent the infringement may have been made out in *Moorhouse* because the university at some time had the power to choose not to provide photocopying facilities, but provided them nonetheless. This can be contrasted with previous observations of the author, in conjunction with Mark Davison, that *ongoing* control over the use of the item (including after the item has been sold or distributed if appropriate) seems to have been the essence of the court's views in *Moorhouse*, with the defendant's continuing control over the library photocopiers being a critical consideration in the finding of authorisation against it.[100] Branson J went on to hold that:

[96] Ginsburg and Ricketson, n 21 at 14 (emphasis added).

[97] See generally *MGM Studios Inc v Grokster Ltd* 380 F 3d 1154 (9th Cir 2004).

[98] *Cooper v Universal Music Australia Pty Ltd* (2006) 156 FCR 380 at [32]; 71 IPR 1 at 8.

[99] *Cooper v Universal Music Australia Pty Ltd* (2006) 156 FCR 380 at [36]; 71 IPR 1 at 9.

[100] Giblin and Davison, n 22 at 68.

> a person's power to prevent the doing of an act comprised in a copyright includes the person's power not to facilitate the doing of that act by, for example, making available to the public a technical capacity calculated to lead to the doing of that act.[101]

This reasoning suggests that Cooper had the requisite "power to prevent" because he could have coded his website differently, or, more radically, because he could have chosen not to make it available in the first place.[102]

Sharman did not address this controversy directly. However, by finding that Sharman had a power to prevent its users infringements by changing its software to make it more difficult for them to access infringing materials, the court gave further judicial support to the idea that authorisation can be made out in the absence of any temporal connection between the "power to prevent infringement" and the third party infringement. As Ginsburg and Ricketson note:

> After KaZaa … an entrepreneur who deliberately foregoes control that it could have exercised had it designed its service differently may well be found to have authorised the ensuing infringements in violation of Australian law.[103]

In other words, liability can still be made out even in the absence of a temporal disconnect between the power to prevent and the eventual infringement.

In both *Cooper* and *Sharman*, the nature of the technology at issue was distinguishable from that in previous cases. As already mentioned, software is far more flexible than physical world technologies like VCRs and tape decks. Cooper could have easily and cheaply changed the way his website was coded at any time to prevent third parties from uploading links to infringing content, and he could have done so in a way that would have affected existing users as much as new users. Sharman's software had been strategically and carefully coded to eliminate any power to prevent third-party infringement. The nature of their technologies in each case meant that each defendant could do something to limit the infringement of third parties after it became apparent.

Nonetheless, the suggestion that liability may be made out in the absence of a temporal connection between infringement and control is troubling. If it were to become generally accepted that there need not necessarily be any temporal proximity between the requisite power to prevent and the third-party infringement, it would become a simple matter for content owners to prove that defendants had a power to prevent infringement. That is because all providers of goods or services must at some point have had the power to prevent subsequent infringement by choosing to design their product or service in a manner less facilitative of infringement.

Such an interpretation would render moot the entire debate about whether or not any power to prevent is required to make out authorisation. Since courts would still be required to balance that power to prevent with the other relevant circumstances, including whether or not it would have been a "reasonable step" to design the product or service in a different way, it could be that such an interpretation would have little impact on the outcomes of cases that go through the litigation process. However, the very existence of the argument, combined with existing judicial and academic support, would seem to give content owners a powerful weapon against nascent technology providers.

There is little doubt that Australian providers of disruptive technologies are going to receive contact from content industry representatives at very early stages of development, warning them of potential liability if they do not design their product or service to minimise any chance of infringement, pointing to their current "power to prevent" infringement and indicating that any refusal to do so could amount to a failure to take "reasonable steps" to prevent infringement. In light of the existing indications from courts that this kind of consideration is relevant to liability, this threat could well be enough to convince the potential defendant to amend their technology, or even to abandon it altogether. As such, it will act as a de facto expansion of the Australian copyright law even without any Australian court going to far as to hold a defendant liable on these grounds alone, and gives existing market entrants an unprecedented power to interfere with newcomers.

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[101] *Cooper v Universal Music Australia Pty Ltd* (2006) 156 FCR 380 at [41]; 71 IPR 1 at 10.

[102] See eg, Weatherall, n 67.

[103] Ginsburg and Ricketson, n 21 at 23.

4. CASE STUDY: BITTORRENT

The previous section illustrated the tremendous flexibility and resultant uncertainty of the existing Australian law. This section now seeks to highlight the potential real life consequences of those uncertainties through a hypothetical application of the law to the BitTorrent P2P file-sharing technology.[104]

BitTorrent creator Bram Cohen was reportedly motivated by the difficulties faced by the jam band community after finding its existing methods of transferring music files "very painful to watch".[105] The resulting technology proved ideal for enabling legitimate, non-infringing transfers of jam band recordings,[106] as well as other content like computer games and software.[107] Since its release in 2002, however, it has also become the tool of choice for unauthorised distribution of movies, software, and television shows.[108] BitTorrent traffic has been estimated to comprise between 35% and 67.5% of all global internet traffic,[109] and while it is difficult to accurately gauge the proportion of overall usage that is infringing, there can be no doubt that it is substantial.

Unlike those behind the technologies at issue in *Sharman*, *Cooper* and *Grokster*, BitTorrent's creator "seems interested only in noninfringing uses, and has said all the right things about infringement – so consistently that one can only conclude he is sincere".[110] Despite the tremendously disruptive nature of the BitTorrent file-sharing technology, neither Cohen nor BitTorrent Inc has ever been sued for their users' infringements under US law, suggesting that content interests have been advised that they have little prospect of success.[111]

What is BitTorrent?

In order to understand how the Australian law may apply to the creator of this technology, it is necessary to understand something about how it operates. It is very different from the P2P file-sharing methods that have been litigated so far. To distribute files via the BitTorrent process, individuals must utilise a piece of software that implements the BitTorrent protocol, ie, the set of instructions that defines how it works. BitTorrent Inc provides its own implementation of the protocol, but it is far from the only source of BitTorrent file-sharing software.

When Cohen released the inaugural BitTorrent client, he made its underlying source code widely available and provided a general licence allowing third parties to further develop and distribute the

[104] The author has previously published a paper in the *Santa Clara Computer & High Technology Law Journal* which considered the likely application of the US secondary liability law to BitTorrent. Some background and technical explanation of BitTorrent contained in this article has been drawn from that piece, with the kind permission of its editor. The original paper was published as Giblin R, "A Bit Liable? A Guide to Navigating the US Secondary Liability Patchwork" (2008) 25(1) Santa Clara Computer & High Tech LJ 7 (http://www.papers.ssrn.com/sol3/papers.cfm?abstract_id=1121166).

[105] Lee E, "Founder of BitTorrent unlocks the secrets of online file sharing", *San Francisco Chronicle*, 6 August 2006, http://www.sfgate.com/cgi-bin/article.cgi?file=/c/a/2006/08/06/BUG6OKAUQ71.DTL&type=printable, viewed 13 May 2009.

[106] Schultz MF, "Fear and Norms and Rock & Roll: What Jambands Can Teach Us About Persuading People to Obey Copyright Law" (2006) 21 Berkeley Tech LJ 651 at 687.

[107] For example, Blizzard Entertainment uses an application based upon the BitTorrent protocol to distribute its extremely popular World of WarCraft software: see "Frequently Asked Questions: BitTorrent Distribution" *Blizzard Entertainment*, http://www.blizzard.co.uk/wow/faq/bittorrent.shtml, viewed 27 September 2008. Ubuntu freely distributes its linux-based operating system via BitTorrent: see "Get Ubuntu: Complete download options" *Ubuntu*, http://www.ubuntu.com/getubuntu/downloadmirrors, viewed 13 May 2009.

[108] This is best illustrated by browsing some popular Torrent sites: see eg, http://www.eztv.it; http://www.newtorrents.info; http://www.thepiratebay.org.

[109] "In Praise of P2P" *The Economist*, http://www.economist.com/displayStory.cfm?Story_id=3422905 (subscription, 2 December 2004), viewed 13 May 2009; Cohen B, "Mark Cuban says BitTorrent is doomed, DOOMED!" *Livejournal*, http://www.bramcohen.livejournal.com/35949.html (31 January 2007), viewed 8 February 2007; Bangeman E, *P2P responsible for as much as 90 percent of all "Net traffic"*, http://www.arstechnica.com/news.ars/post/20070903-p2p-responsible-for-as-much-as-90-percent-of-all-net-traffic.html (3 September 2007), viewed 13 May 2009.

[110] Felten E, "BitTorrent: The Next Main Event", *Freedom to Tinker*, http://www.freedom-to-tinker.com/?p=859 (28 June 2005), viewed 13 May 2008.

[111] For a comprehensive analysis of how the US secondary liability law may apply to BitTorrent Inc, see Giblin, n 104 at 15-48.

software.[112] The protocol documentation, specifying the requirements necessary to create a compatible client, was also made available online.[113] As a result, any person with the requisite programming skill can write their own BitTorrent implementation, and thousands of individuals and organisations have already taken the opportunity to do so.[114] In these circumstances it is necessary to distinguish BitTorrent clients in the broader sense from the specific client provided by BitTorrent Inc, which is the subject of this analysis. This article refers to them as "BitTorrent clients" and "the BitTorrent software," respectively.

The BitTorrent distribution process begins when an individual uses a BitTorrent client to divide the file they wish to distribute into a number of much smaller pieces, and to create a corresponding "torrent" file.[115] Torrents are tiny files that contain metadata about the computer file, including the number of pieces into which it was divided, the order in which they should be pieced back together, and the internet location of the tracker for that particular torrent.[116] Trackers maintain information about the users distributing the file, which they use to facilitate communications between users. They act as a "rendezvous point" for those involved in distributing the file associated with a particular torrent.[117] Unlike previous P2P file-sharing technologies, such as Napster, Gnutella and Kazaa, which created vast single networks via which any kind of content could be distributed, BitTorrent facilitates the creation of a different network for each file, each centred around a particular torrent.[118]

Unlike previous P2P technologies, BitTorrent client software has traditionally contained no integrated search functionality to assist users in locating the desired content. Instead, individuals find the torrents associated with the content they wish to download by searching via search engines or specialised indexing on hosting sites.[119] BitTorrent Inc itself provides one such torrent search engine, which is located on its website.[120] Launched in May 2005, the facility "crawls" the World Wide Web for torrent files and provides users with search responses from the resulting index.[121] However,

[112] "BitTorrent Open Source License", *BitTorrent*, http://www.bittorrent.com/bittorrent-open-source-license, viewed 31 October 2007.

[113] See "For Developers", *BitTorrent.org*, http://www.bittorrent.org/protocol.html (2006), viewed 24 November 2006; "BitTorrent Protocol Specification v1.0", *Theory.org*, http://www.wiki.theory.org/BitTorrentSpecification (13 September 2006), viewed 20 September 2006.

[114] An up-to-date list of the main BitTorrent clients currently available is maintained at "BitTorrent client", *Wikipedia*, http://www.en.wikipedia.org/wiki/BitTorrent_client (21 October 2007), viewed 13 May 2009. See also "Software Map: BitTorrent project results", *Source Forge*, http://www.sourceforge.net/softwaremap/trove_list.php?form_cat=622, viewed 6 September 2008. BitTorrent Inc has subsequently purchased some of the independent clients based on its technology, most notably including the popular uTorrent: see Ou G, "BitTorrent buys uTorrent, reaction mixed" *ZDnet*, http://www.blogs.zdnet.com/Ou/?p=389 (7 December 2006), viewed 9 July 2007. BitTorrent Inc then released an updated version of uTorrent as its official client. While all versions of its software released until July 2007 were open source, the uTorrent-based client is closed source. This does not prevent continued development by alternative providers since the source code of all previous iterations and the protocol itself remain fully documented and "publicly accessible without the need for a license". Paul R, "BitTorrent's closed protocol: fact or fiction? (updated)" *Ars Technica*, http://www.arstechnica.com/news.ars/post/20070810-will-bittorrent-protocol-documentation-be-publicly-available-bittorrent-inc-president-says-no-company-web-site-says-yes.html (10 August 2007), viewed 23 October 2007.

[115] See eg, *BitTorrent Protocol Specification v1.0*, n 113.

[116] Pouwelse J et al, "A Measurement Study of the BitTorrent Peer-to-Peer File-Sharing System" (2004) *Technical Report PDS-2004-007*, Delft University of Technology, The Netherlands, April 2004, http://www.citeseer.ist.psu.edu/rd/0%2C661986%2C1%2C0.25%2CDownload/http%3AqSqqSqwww.isa.its.tudelft.nlqSq%7EpouwelseqSqbittorrent_measurements.pdf, viewed 20 September 2006.

[117] Izal M et al, "Dissecting BitTorrent: Five Months in a Torrent's Lifetime" (April 2004), *Proc Passive & Active Measurement 2004*, http://www.eurecom.fr/~btroup/BPublished/bittorrent.pdf, viewed 20 September 2006.

[118] Borland J, "BitTorrent file-swapping networks face crisis", *CNet News.com*, http://www.news.com.com/BitTorrent+file-swapping+networks+face+crisis/2100-1025_3-5498326.html (20 December 2004), viewed 13 May 2009.

[119] Pouwelse et al, n 116 at 1.

[120] See http://www.bittorrent.com/btusers.

[121] Poulsen K, "Next for BitTorrent: Search", *Wired News*, http://www.wired.com/news/business/0,67596-0.html (23 May 2006), viewed 13 May 2009.

BitTorrent Inc's search engine is far from the only source for finding torrent files online.[122] Numerous other torrent search engines and indexes are freely available, although they regularly disappear as the result of actual or threatened legal action.[123] Torrents can even be located via a Google search by adding "filetype:torrent" to any search term. While BitTorrent Inc's search engine sometimes linked to infringing content when first released,[124] the company has since worked to create filters that pre-emptively block access to infringing results, and now claims that its search engine "will not surface links for unlicensed content".[125]

Once a torrent file is downloaded, BitTorrent clients allow users to share pieces of the associated computer file with others in a "tit-for-tat" fashion until they have assembled the complete file, and once a user has obtained a piece of the file from one source, it begins uploading it to other users while simultaneously downloading additional pieces.[126] By spreading the distribution of the file across all users, rather than concentrating it on the few that have the entire copy, popular content can be distributed very widely, very fast.[127] While this makes the technology attractive to infringing users, it is not at all protective of their anonymity; it is a simple process to identify the IP addresses of all users downloading from a particular torrent at a particular time.[128]

Would BitTorrent Inc be liable under Australian law?

As mentioned above, on the publicly available facts it appears unlikely that BitTorrent Inc would be secondarily liable for infringements committed by BitTorrent users under US law. However, its potential liability is much less clear cut under the Australian law. The following analysis considers whether third-party infringement was authorised by BitTorrent Inc in circumstances where it was not licensed by the copyright owner to do so, with an emphasis on the expansionary arguments that content owner plaintiffs might be expected to raise.

Authorisation will be made out if BitTorrent Inc sanctioned, approved or countenanced third-party infringement. In considering whether this is so, the entirety of BitTorrent Inc's conduct will be relevant, including its making available the protocol, release of the software and provision of the search engine. The analysis begins by considering this conduct in light of each of the three compulsory statutory factors, and then goes on to weigh up other relevant considerations.

Extent (if any) of BitTorrent Inc's power to prevent the infringement

Of the three codified factors, this is by far the most controversial. As was discussed above, there are a number of different ways in which this element may be interpreted.

At the time that third-party infringement actually occurs via the BitTorrent software, BitTorrent Inc clearly has no power to prevent it. As with the technologies at issue in *Grokster* and *Sharman*, this is a direct result of the way its software is coded. Once individuals download the BitTorrent software, they can use it to create a potentially limitless number of peer networks without any further

[122] Felten E, "BitTorrent Search" *Freedom to Tinker*, http://www.freedom-to-tinker.com/?p=824 (26 May 2005), viewed 13 May 2009.

[123] See eg, "File-Swap Site Folds for Good" *Wired News*, http://www.wired.com/news/digiwood/0,1412,66099,00.html (20 December 2004), viewed 24 February 2007 (reporting the closure of hosting site Suprnova.org); "IsoHunt Takes Down BitTorrent Trackers in the US", *TorrentFreak*, http://www.torrentfreak.com/mpaa-takes-down-isohunt-podtropolis-torrentbox-070925 (25 September 2007), viewed 23 October 2007 (reporting on the IsoHunt torrent tracker and host's decision to deny access to US visitors as the result of a lawsuit instituted by the MPAA).

[124] Poulsen, n 121.

[125] "P-to-P goes Hollywood", *InfoWorld*, http://www.infoworld.com/article/07/01/01/01NMmain_1.html (1 January 2007), viewed 13 May 2009.

[126] Cohen B, *Incentives Build Robustness in BitTorrent*, http://www.bittorrent.org/bittorrentecon.pdf (22 May 2003), viewed 13 May 2009.

[127] Cohen, n 126.

[128] Schiesel S, "File Sharing's New Face", *New York Times*, http://wwww.tech2.nytimes.com/mem/technology/techreview.html?res=9805E2DE133AF931A25751C0A9629C8B63 (12 February 2004), viewed 13 May 2009 (quoting Cohen as saying that using BitTorrent for infringement "is patently stupid because it's not anonymous, and it can't be made anonymous because it's fundamentally antithetical to the architecture".).

intervention from its original provider. Indeed, since the BitTorrent software facilitates the creation of independent, ephemeral networks, and because the desired content is located independently of the software itself, BitTorrent Inc is more isolated from its users than its predecessors in *Sharman* and *Grokster*. Unlike the technologies at issue in those earlier cases however, BitTorrent's design actually helps promote efficient file distribution. It was not merely designed that way to avoid its developer having control over third-party infringement.

Under the traditional approach, BitTorrent Inc's lack of control would likely have been sufficient to prevent it from being found to have authorised any third party infringement. That is because the pre-codification case law long suggested that power to prevent third party infringement was the single compulsory element of the tort. Today, however, the matter is unlikely to end there. Due to the uncertainty that has arisen as to the proper interpretation of this point, the original meaning given to the notion of control may be re-interpreted or diverted from in a number of different ways.

First, it may be argued that BitTorrent Inc did have the power to prevent its users' infringements through its ability to redesign its software to make it more difficult to use it to commit infringement. This is consistent with the reasoning in *Sharman*, where the court held that the respondent was:

> in a position, through keyword filtering or gold file flood filtering, to prevent or restrict users' access to identified copyright works; in that sense, Sharman could control users' copyright infringing activities.[129]

As matters now stand, the BitTorrent technology lacks any way of distinguishing infringing from non-infringing files. A plaintiff may argue that this situation could be altered. One way of so doing is closely analogous to the filtering solution put forward by Wilcox J in *Sharman*. Every unique file is capable of being distinguished from every other through the use of an algorithm that generates a unique identifier or "fingerprint". The content industry could collaborate and provide resources to maintain a central database in which the "fingerprints" of infringing torrent files would be routinely added. This would be analogous to the requirement imposed upon them in *Sharman* to help compile a list of infringing works and artists.[130] BitTorrent Inc could then modify its software to require it to check each torrent file that is opened in the client against the unique file identifiers in the central database, and to refuse to allow a connection to the swarm in circumstances where the file the user is attempting to download appears to be infringing. A plaintiff could argue that, consistent with the *Sharman* court's reasoning, this hypothetical ability to redesign the software in such a way would give BitTorrent Inc a significant degree of power to prevent their users' infringements.

Secondly, and in the alternative, a plaintiff may argue that the fact that BitTorrent Inc once had the power to prevent subsequent infringements – at the time the BitTorrent technology was developed or any time before the technology was released – is a relevant consideration in determining its authorisation liability. This argument diverts attention from the fact that it has no current power to prevent infringement, and focuses it on the ability it once had to design the software differently. At the design stage, Cohen would have had considerable scope to prevent or at least limit the subsequent third-party infringement that subsequently eventuated. Such an argument could closely follow Branson J's reasoning in the Full Court in *Cooper*:

> I … reject the contention that unless Mr Cooper had power, at the time of the doing of each relevant act comprised in a copyright subsisting by virtue of the Act, to prevent its being done, he had no relevant power within the meaning of s 101(1A)(a). I conclude that, within the meaning of the paragraph, a person's power to prevent the doing of an act comprised in a copyright includes the person's power not to facilitate the doing of that act by, for example, making available to the public a technical capacity calculated to lead to the doing of that act. The evidence leads to the inexorable inference that it was the deliberate choice of Mr Cooper to establish and maintain his website in a form which did not give him

[129] *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* (2005) 65 IPR 289 at 387.

[130] *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* (2005) 65 IPR 289 at 360.

> the power immediately to prevent, or immediately to restrict, internet users from using links on his website to access remote websites for the purpose of copying sound recordings in which copyright subsisted.[131]

Although made with regard to a website and not a P2P file-sharing technology, these holdings are nonetheless apposite to the current analysis. The BitTorrent software was clearly made available to the public with the intention that it be used to distribute files. Since it was released in a post-Napster, post-Kazaa world, its creator must have known that global hordes of users were seeking ways to easily download infringing content. It was a deliberate choice to code the software in such a way as to be unable to prevent the resulting (and inevitable) third-party infringement. Combining the fact that the software operates most effectively when distributing the most popular files with its lack of features to limit such distribution to the legitimate market, it may be argued that the public was provided with "a technical capacity calculated to lead to the doing of that act".

In these circumstances, the fact that BitTorrent Inc had no power to prevent each third-party infringement at the time they occurred, does not mean it altogether lacked the relevant power. Instead, according to Branson J's reasoning, BitTorrent Inc had the power to prevent the third-party infringement altogether by choosing not to provide the technology in the first place. Alternatively, it could have coded the software in a way that made it much more difficult for those third-party infringements to occur, eg, by adopting anti-infringement measures. The availability of such measures may be demonstrated by contrasting BitTorrent with FurthurNet, a technology released a year before it and with the same aim: to facilitate the sharing of jam band music.

In order to minimise infringement, FurthurNet contained strict filtering protocols that limited distribution to the recordings of musicians who agreed to permit distribution.[132] The FurthurNet organisation claims that "[t]his allows the Furthur Network to maintain the status quo of a 100% legit network of legally traded live music, while allowing easy future expandability".[133] The fact that such technology was released to a similar market at an earlier time may add weight to BitTorrent Inc's failure to implement any similar measures. As a result of these arguments, a court may find that:

(a) BitTorrent Inc once had a significant power to prevent infringement of third parties via its software that it deliberately chose not to exercise when it had the opportunity to do so; and
(b) that one-time power to prevent the third party infringement is relevant in determining whether BitTorrent Inc authorised that infringement.

If the above two arguments fail, a plaintiff may finally argue that the wording of the Act is such that authorisation could be made out even if BitTorrent Inc did not actually have the power to prevent third-party infringement.[134]

Relationship between BitTorrent Inc and third-party infringers

The second statutory element would require a court to consider the relationship between BitTorrent Inc and the third-party infringers. Depending on the circumstances, any number of different factors may be relevant to this flexible element. While this element can play a significant role in determining whether liability exists, authorisation can be made out even where there is only a "remote" relationship.[135]

BitTorrent Inc appears to have no direct ongoing relationship with its infringing users. The way the software is coded means that, once it has been downloaded, it is not necessary to have any contact with its provider in order to download content. This can be contrasted with the relationship Sharman had with its users, which involved an ongoing link, albeit a rather tenuous one, by virtue of Sharman's continued streaming of advertising material to each Kazaa client.

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[131] *Cooper v Universal Music Australia Pty Ltd* (2006) 156 FCR 380 at [41]; 71 IPR 1 at 10.

[132] Schultz, n 106 at 686.

[133] "FurthurNet Software Features", *FurthurNet*, http://www.furthurnet.org/about/features.html, viewed 8 February 2007.

[134] Ginsburg and Ricketson, n 21 at 14; see also Austin GW, "Importing *Kazaa* – Exporting *Grokster*" (2006) 22 *Santa Clara Computer & High Technology Journal* 577 at 582.

[135] *Cooper v Universal Music Australia Pty Ltd* (2006) 156 FCR 380; 71 IPR 1 at 13.

Indirectly, however, the relationship between BitTorrent Inc and its infringing users involves a significant financial element. During the time that Bram Cohen was developing BitTorrent, he had no income and was reportedly living off credit cards.[136] However, BitTorrent Inc subsequently leveraged Cohen's status as inventor of BitTorrent into the creation of a legitimate global distribution network,[137] and millions of dollars in venture capital.[138] Had the technology been solely or even primarily used for non-infringing purposes, it is unlikely that either benefit could have ever been secured. The fact that BitTorrent Inc's website is advertising-supported is also potentially significant. The more infringement the BitTorrent technology facilitates, the better known it becomes, the more users visit BitTorrent Inc's website, and the more advertising revenue is raised. This is analogous to the situation in *Cooper*, where the appeals court explained:

> Mr Cooper's benefits from advertising and sponsorship may be assumed to have been related to the actual or expected exposure of the website to internet users. As a consequence Mr Cooper had a commercial interest in attracting users to his website for the purpose of copying digital music files.[139]

Similarly, just as it was "in Sharman's financial interest for there to be ever-increasing file sharing, involving an ever-greater number of people",[140] so too it arguably is for BitTorrent Inc. On this point, however, a distinction of degree must be made. Cooper's and Sharman's business models were almost entirely reliant on infringement. Additionally, Sharman did not merely obtain revenue from visitors to its website, but also by forcing prominent advertising onto users of the application itself. This difference is highlighted by the different business models. Website advertising seems incidental to BitTorrent Inc's core business of providing legitimate content and search services, while Cooper and Sharman were "sustained" by such revenue.[141] Since the BitTorrent software does not contain built-in advertising, any loss of users caused by reduced utility for infringement would have a much lesser effect on revenue than it would on Sharman.[142] However, while the evidence relating to the financial relationship between BitTorrent Inc and its users may be viewed by a court as being more compelling than the evidence presented against Sharman and Cooper, it would be nonetheless pertinent to the overall infringement matrix.

In *Sharman*, the respondent's provision of the facilities for infringement to its users was one of the factors that led to the finding of authorisation liability. That is because, while s 112E prevents such provision of facilities alone from constituting authorisation, the court considered it to be nonetheless relevant to the nature of the relationship between Sharman and its infringing users. The court held that "[i]f Sharman had not provided to users the facilities necessary for file-sharing, there would be no Kazaa file-sharing at all".[143] Similar reasoning would suggest that, if BitTorrent Inc had not created the BitTorrent client software, and/or released the source-code and protocol that enabled others to create their own versions, BitTorrent file sharing simply would not exist. Under the *Sharman* court's logic this would be relevant to BitTorrent Inc's authorisation liability.

Overall, the relationship between BitTorrent Inc and its infringing users has some significant features. BitTorrent Inc benefits financially from the use of its technology for infringement, and it provided users with the facilities necessary to commit that infringement. Indeed, because of its

[136] See Roth D, "Torrential Reign" (2005) *Fortune*, http://www.fortune.com (subscription only), viewed 30 June 2006.

[137] See eg, Bowes P, "Warner to start movie downloads", *BBC News*, http://www.news.bbc.co.uk/1/hi/business/4753435.stm (9 May 2006), viewed 13 May 2009; Mugrabi S, "BitTorrent Hooks Big Studios", *Red Herring*, http://www.redherring.com/Article.aspx?a=19936&hed=BitTorrent+Hooks+Big+Studios (29 November 2006), vierwed 13 May 2009.

[138] Sandoval G, "BitTorrent receives $20 million in financing", *CNet News.com*, http://www.news.com.com/2061-10802_3-6139882.html (30 November 2006), viewed 13 May 2009; Graham J, "BitTorrent gets $8.75M from venture-capital firm", *USA TODAY*, http://www.usatoday.com/tech/products/services/2005-09-26-bittorrent-capital_x.htm (26 September 2005), viewed 13 May 2009.

[139] *Cooper v Universal Music Australia Pty Ltd* (2006) 156 FCR 380 [48]; 71 IPR 1 at 11.

[140] *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* (2005) 65 IPR 289 at 385.

[141] *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* (2005) 65 IPR 289 at 338.

[142] *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* (2005) 65 IPR 289 at 329-330.

[143] *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* (2005) 65 IPR 289 at 385.

decision to make that technology available to open source development, it was the origin of those facilities even for those users who use an independent BitTorrent client. The relationship appears to be considerably less damning than the one that existed between Sharman and its users. However, as authorisation liability can be made out even where the relationship is remote, that distinction may be of little assistance to BitTorrent Inc.

Reasonable steps to prevent or avoid the infringement

The final factor that a court would be required to consider under the Act is whether BitTorrent Inc took any reasonable steps to prevent or avoid the third-party infringement. Ricketson and Creswell have suggested that "the failure to take any such steps – or indeed any steps at all – would weigh against the defendant".[144] They further suggest that, since the requirement is qualified by the word "reasonable":

> courts should not count it against the defendant if steps could have been taken that would have been effective to avoid the infringement but which would have imposed a heavy economic burden on the defendant.[145]

BitTorrent Inc would be likely to point to two aspects of its behaviour as evidence of such steps. The first and most significant is its promotion of BitTorrent as a mechanism for downloading legitimate content. In this regard it has gone far beyond the lip-service paid by its predecessors and actually secured distribution deals with major content providers.[146] Additionally, BitTorrent Inc and Cohen himself, have consistently promoted the use of the technology for non-infringing uses, and said "all the right things".[147] The second aspect concerns BitTorrent's actual design. BitTorrent Inc is coded in a manner that makes it relatively easy for content owners to identify specific direct infringers, since it ensures the internet locations of those connected to infringing swarms are readily ascertainable. BitTorrent Inc may argue that it took steps to enable transparency and accountability. Overall the steps taken by BitTorrent Inc contrast favourably with those taken by Sharman, which only published a small print notice on its website stating that it did not "condone activities and actions that breach the rights of copyright owners" and inserted a clause in its End User Licence Agreement stating that Kazaa was not to be used for copyright infringement.[148]

Although BitTorrent Inc certainly appears to have done more to prevent or reduce infringement than Sharman, content owners would inevitably argue that, in light of the massive amount of BitTorrent-facilitated infringement, the steps taken were nonetheless insufficient. They may argue that a reasonable step in those circumstances would be to re-design the software to make it more difficult to use for infringement. If this were to be done by, eg, implementing filtering technology akin to that outlined above) infringement could arguably be reduced while preserving the technology's utility for non-infringing use. If this could be achieved without the imposition of a disproportionate financial burden on the defendant, an Australian court may well find that BitTorrent Inc's failure to do so is relevant in determining whether it's liable for authorising the third party infringement.

Other factors

The main non-codified factors that would appear to be most relevant to this authorisation analysis are BitTorrent Inc's knowledge and the fact that it unleashed the source code for the technology.

In determining BitTorrent Inc's knowledge, it seems relevant that the software was created after Napster and Kazaa had already demonstrated the tremendous global demand for file-sharing technologies that enabled users to freely obtain copyrighted content. Similarly, the longstanding anti-infringement emphasis of etree, the very community for which BitTorrent was created, clearly

[144] Ricketson and Creswell, n 52 at [9.590] 187.

[145] Ricketson and Creswell, n 52 at [9.590] 187.

[146] See Bowes, n 137; Mugrabi, n 137.

[147] Felten, n 110.

[148] *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* (2005) 65 IPR 289 at 316-317, 386.

indicated the danger of infringement actually taking place.[149] In these circumstances it is strongly arguable that by making available a distribution technology optimised for the distribution of large, popular files, BitTorrent Inc had issued a general invitation to users to commit infringements. At the very least, it had reason to suspect that it would be used for infringement. Accordingly, knowledge would likely be made out.

One final consideration that may be relevant under Australian law is the fact that BitTorrent's source code was made generally available to the public. While it is difficult to predict what weight (if any) this would have to an authorisation analysis, a court may find that, in light of the Kazaa and Napster experiences, BitTorrent Inc had deliberately chosen to make the code available in order to eliminate any possibility of centralised control over the technology and therefore avoid liability. Depending on the motive the court ascribes to this decision, this may make it more likely that it sanctioned, approved or countenanced the resulting infringement. However, in light of the compelling rationales for creating open source software,[150] and in the absence of any smoking gun suggesting that the source was released for any nefarious purpose, it seems unlikely that this argument would carry much weight.

Safe harbours

Since BitTorrent Inc provides facilities for making, or facilitating the making of, communications, it attracts the protection of the s 112E statutory safe harbour. This means that it will not be taken to have authorised any infringement of copyright in an audio-visual item "merely" because its facilities are used by a third party in the infringement of copyright. As outlined above, however, s 112E seems to offer the shelterer only the leakiest of umbrellas. If the plaintiffs can demonstrate that BitTorrent Inc did any tiny thing in addition to providing the facility, the entire benefit of the protection is stripped away. Thus, while BitTorrent Inc would not be liable merely for providing the BitTorrent software, it may potentially be liable for providing the BitTorrent software together with instructions about how to use it, or for also providing the torrent online search facility, or perhaps even if one of its support staff mentioned that it could be used for infringement. At any trial there would inevitably be evidence of some factor that demonstrated that BitTorrent Inc did more than "merely" provide a communications facility. Accordingly, this safe harbour is unlikely to provide BitTorrent Inc with any real protection against a finding of authorisation liability.

Conclusions as to BitTorrent Inc's liability under Australian law

Given the uncertainties already identified as plaguing the Australian authorisation law, it was inevitable that the answer to the question of whether BitTorrent Inc might be liable would always be "maybe". However, the above analysis provides some insight as to how some of the relevant factors might look if considered by an Australian court. It demonstrates that it would certainly be open to an Australian court to find that it was liable for authorising third-party infringements.

A plaintiff would be able to demonstrate that BitTorrent Inc knew about the tremendous global demand for distribution technologies that would allow uesers to quickly and cheaply obtain unlicensed copyrighted material. It must have been obvious that the content both most desirable and most difficult to copy included large files such as unlicensed films and television broadcasts. In these circumstances, it nonetheless created and distributed a new P2P distribution technology that was optimised for the largest and most popular files. It had no control over its users at the time they committed copyright infringements, but it did have the power to prevent or reduce the eventual infringements by designing the software in a less infringement-friendly manner, for example through the use of filtering technology.

However, its underlying code contained no effective deterrents to infringement whatsoever. Indeed, the plaintiffs would argue that none of the steps BitTorrent Inc took were reasonable in light of

[149] Crow M, "Introduction" *etree*, http://www.etree.org/whoarewe.html (6 June 2002), viewed 12 July 2007. See also Schultz, n 106 (esp III "A case study in voluntary compliance").

[150] See eg, Feller J, Fitzgerald B and Raymond ES, *Understanding Open Source Software Development* (Addison-Wesley Professional, 2001).

the staggering amount of infringement its technology did, and continues to, facilitate. Not only that, but instead of quarantining the technology to a single entity while its legality was ascertained, BitTorrent Inc let the technology off its leash by releasing the source code. It then used the resulting infringement to leverage itself into a position to obtain and financially benefit from significant venture financing and a global content distribution deal.[151] On this evidence, even in the absence of any "smoking gun" that so often appears during discovery, it would certainly be open to an Australian court to hold that the defendants sanctioned, approved or countenanced the third-party infringement.

5. Conclusions: State of the doctrine

The fact that BitTorrent Inc has never been sued for its users' infringements under US law, despite the disruptive nature of its technology and the enormous amount of infringement that it has facilitated, strongly suggests that the content industry has been advised that it has no prospects of success in any secondary liability action against it.[152] In Australia however, the above analysis shows that it is at least arguable that BitTorrent Inc could be held liable for authorising third party infringements under Australian law. If BitTorrent Inc might be held liable for providing a technology that is widely put to non-infringing usage, has a seemingly legitimate business model, and is responsible for introducing considerable new efficiencies into digital distribution processes, potential providers of many other innovative products and services are likely to think very carefully about developing them here.

Authorisation liability is and always has been a question of degree, which is why Australian courts have had a longstanding reluctance to lay down any hard and fast rules regarding the kinds of situations that would constitute authorisation. The resulting flexibility of the Australian law has enabled it to respond to new technologies and scenarios as they arise without the need for legislative intervention or the creation of new common law secondary liability doctrines. While this has given courts broad scope in dealing with innovative tortfeasors, it also means that it is very difficult to accurately predict in advance the outcome of any application of the law. Such is the flexibility in authorisation's definitions and authorities that courts are likely to be able to justify any outcome they choose on almost any given fact scenario. The inevitable result of this approach is a reduction in both investment and innovation. As Weatherall explains, "[b]right line rules are good for investment in innovation. We don't have that here".[153]

It is understandable that courts have been, and continue to be, hesitant about making big decisions about the principles on which authorisation is based. After all, without knowing which new technologies are around the next corner, there is always a risk of inadvertently making the law too narrow or too broad. But courts have been paralysed by this fear for so long that they have inadvertently fallen into a default position of perpetuating existing uncertainties, without necessarily recognising that this is having the effect of expanding the law by default. Certainty is particularly important in this area of law, which has a long history of influential market incumbent content owners using the intellectual property law to seek to block disruptive technologies.[154]

It is in the interests of existing market participants that the law governing potential new technologies and business models be as uncertain as possible. As matters now stand, the flexibility and uncertainty of the existing law mean that technology innovators are almost always going to be faced with a real risk of litigation if they create a new product or service that seriously disrupts the market of current content owners or distribution model. This provides an unwelcoming environment for technological innovation, which both disproportionately assists content interests to protect lucrative traditional business models and discourages potentially useful technologies from ever being developed. There are certain inescapable difficulties in measuring the amount of innovation that did not occur as a result of legal uncertainty. However, it has been persuasively demonstrated that even

[151] See Bowes, n 137; Mugrabi, n 137.

[152] However, cf Giblin, n 104 at 15-48, which notes the availability of various interpretations of US secondary liability doctrines under which, if adopted, BitTorrent Inc and providers of similar technologies could potentially be liable.

[153] Weatherall, n 5.

[154] Von Lohmann F, "Fair Use as Innovation Policy" (2008) 23 *Berkeley Technology Law Journal* 829 at 850-851.

weak claims of intellectual property infringement can often cause defendants to surrender their rights – often before any lawsuit is even formally issued – when the alternative could mean an expensive court battle.[155]

The uncertainties present in Australian law are such as to make claims of infringement plausible in a wide variety of situations. At its broadest, the Australian law may potentially allow authorisation liability to be imposed on the providers of technologies if they choose to design them in such a way that does not minimise future infringement, even if they have no control over such infringement at the time it occurs and no knowledge of the third-party infringement. In some cases, particularly where a technology is at an early stage of development or where unsophisticated backers are involved, the mere raising of this kind of overly-expansionary argument could be sufficient to discourage development of potentially useful technologies.

But even those more developed and better resourced projects risk being derailed when faced with the sheer number of unresolved pitfalls in the authorisation law. Those behind such projects may recognise that courts are never going to expand the authorisation law to the extent that content interests demand, but they would also realise that it could take a favourable result on just one of those longstanding uncertainties to put paid to their technology. Even if content interests end up being wholly unsuccessful on all counts, the prospect of being mired in uncertain litigation for potentially years while those unresolved issues are teased out is an unpalatable prospect for any business. iiNet's very public plight is a constant reminder to technology providers that the threat of litigation is a real one.

It is well known that after being saved in the *Sony* decision, VCR technology went on to drastically expand the market for television and video content. A generation later, DVD did the same thing on an even larger scale. Though still nascent, new distribution technologies like P2P file-sharing software are already demonstrating the potential to provide similar value. BitTorrent Inc has secured distribution deals with a number of high profile media companies to distribute their content,[156] and the technology has been adopted by a number of other organisations to legitimately distribute things like computer operating systems and games.[157] It is changing the way content is distributed online. And even the much-maligned Kazaa has benefited mankind to a surprising extent: its programmers later utilised its P2P architecture to create the internet telephony program Skype, which revolutionised global telecommunications by making local and international telephone calls available at a fraction of the previous cost.[158] Yet despite the obvious value provided by technological innovation, the uncertainties inherent in the current law disproportionately promotes the status quo.

The need for reform is clear. Authorisation's uncertain and expansive boundaries have not yet proved hugely problematic in terms of outcomes, since recent high profile authorisation cases such as *Cooper* and *Sharman* have involved the kind of blatantly bad acting defendants that courts will make all efforts to hold liable under any secondary liability formulation. As the law is read more expansively, however, content owners will inevitably see opportunities to apply it to less culpable defendants in ways that were never intended by courts or the legislature. Indeed, the iiNet litigation suggests that such opportunities are already being seized upon. It is in such borderline cases that Australia's expansive, amorphous and internally inconsistent secondary liability doctrine will prove most dangerous. It is time and past for a principled approach to secondary liability in Australian law. The hard questions identified in this article need to be resolved to ensure the efficient and predictable application of the authorisation law, and to neutralise the default advantage that the current uncertainties provide to content owners and existing market entrants.

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[155] Heins M and Beckles T, "Will Fair Use Survive? Free Expression in the Age of Copyright Control", *Brennan Center for Justice at NYU School of Law*, http://www.fepproject.org/policyreports/WillFairUseSurvive.pdf (16 November 2005) at 4, viewed 11 May 2009.

[156] See Bowes, n 137; Mugrabi, n 137.

[157] See n 107.

[158] See *In Praise of P2P*, n 109.