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Federal Court hands down decision in the Kazaa case

The Federal Court has delivered its much anticipated judgment in the Kazaa case, which considered a range of complex technical and legal issues under the *Copyright Act 1968*. Senior Associate Raani Costelloe reports.

Background

In *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* [2005] FCA 1242, handed down on 5 September 2005, Justice Wilcox found that the operators of the Kazaa peer-to-peer file-sharing system authorised the infringing acts of users of the Kazaa software in relation to copyright in sound recordings. Kazaa's operators have been given two months to modify the system to exclude copyright-protected recordings from appearing in searches made on the new version of Kazaa software and place pressure on existing Kazaa users to upgrade to the modified version.

The case considered a range of complex technical and legal issues under the *Copyright Act 1968* (the **Act**), including provisions of the Act that were introduced by the 'Digital Agenda' amendments that came into force in 2001.

Copyright infringement: authorisation

A large number of owners and licensees of sound recordings claimed that 10 respondents **infringed copyright by authorising** the copyright infringing conduct of users of the Kazaa system, which allowed users of Kazaa to make available infringing copies of sound recordings to other Kazaa users for copying through the system.

Six of those respondents were found liable for authorising the following infringing conduct of users of the Kazaa software and system:

- the unauthorised copying of sound recordings in Australia; and
- the unauthorised communication of sound recordings to the public within and outside Australia. (*Communicate* means to make available online or electronically transmit copyright material).

The court was required to take into account the following factors:

- the extent of the Kazaa operators' power to prevent the doing of the infringing acts;
- the nature of any relationship existing between the Kazaa operators and the Kazaa users who infringed copyright; and
- whether the Kazaa operators took any other reasonable steps to prevent or avoid the infringing acts of the users of the Kazaa system: section 101(1A) of the Act.

Justice Wilcox confirmed the continuing applicability of the test for whether a person has authorised copyright infringement established by the High Court of Australia in *UNSW v Moorhouse* (1975), being that a person must have *sanctioned, approved or countenanced* the primary infringing conduct.

Sharman Networks Ltd, LEF Interactive Pty Ltd, Nicola Hemming, Altnet Inc., Brilliant Digital Entertainment Inc and Kevin Bermeister were each found to have authorised the infringing conduct of Kazaa users and entered into a common design with each other to carry out, procure or direct the authorisation of copyright infringement. Justice Wilcox found that:

- they were aware of the widespread infringement of copyright in sound recordings occurring on the Kazaa system that they operated;
- they had the power to prevent, or at least substantially reduce, the incidence of infringing file-sharing because technical measures such as key-word filtering were available to the respondents and they chose not to implement such measures. This was evidenced by the existence of two separate search systems, one of which returned results for non-infringing files (the Altnet 'gold files', as opposed to the non-controlled 'blue files') and the ability to filter files with adult and offensive terms in their descriptors;

- their financial interests were in maximising copyright-infringing file-sharing on the system because they made their money from selling advertising on the Kazaa system;
- their warnings and end-user licence agreements were ineffective in preventing copyright infringement; and
- the Kazaa system and associated materials included active exhortations (encouragement) to Kazaa users to increase their file-sharing activity. Two submissions to the review. Both submissions supported the retention of the current s46 exemption, in order for effective underwriting and efficient pricing to continue in the Australian insurance market. IFSA noted that there is a lack of substantial actuarial and statistical data within the Australian context. Therefore, it is appropriate for the second part of the exemption to remain, so that where there is no sufficient actuarial or statistical data, the exemption can still apply where the discrimination 'is reasonable having regard to any other relevant factors'.

Orders

Along with his finding that the six respondents authorised the infringement of copyright by Kazaa users, Justice Wilcox declared and ordered that:

- the respondents threaten to infringe the copyright of the record companies in other recordings that were not the subject of the case;
- the respondents be restrained from authorising Kazaa users to do in Australia any of the infringing acts in relation to sound recordings controlled by the applicant record companies;
- the continuation of the Kazaa system shall not be regarded as a contravention of the preceding order if the respondents **modify** the Kazaa system under a filtering protocol to be agreed between the parties that will exclude infringing copies of recordings (by title, artist name, etc) from appearing in search results, along with placing maximum pressure on users of the existing Kazaa versions to upgrade to the modified version. Justice Wilcox believed that there needs to be an opportunity for the relevant respondents to modify the Kazaa system in a targeted way, so as to protect the record companies' copyright interests (as far as possible) but without unnecessarily intruding on others' **freedom of speech and communication** (eg the sharing of non-infringing material);



- the infringing respondents pay 90 per cent of costs incurred by the record companies; and
- the record companies' claim for damages will be determined at a later date.

Consideration of 'Digital Agenda' provisions of the Act

Along with the recently decided Federal Court case of *Universal Music Australia Pty Limited v Cooper* [2005] FCA 972, the Kazaa decision has made some important statements as to the interpretation of 'Digital Agenda' provisions in the Act, which came into force in 2001, namely:

- **provision of facilities:** s112E of the Act (and the equivalent s39B), which provides that a person (including a carrier or a carriage service provider) who provides *facilities* for the making, or facilitating the making of, a communication is not taken to have authorised infringement of copyright in an audio-visual item merely because another person uses the facilities so provided to do something, the right of which is included in the copyright. Justice Wilcox found that facilities are not limited to physical facilities such as Internet servers, cables and transmission facilities and would include non-physical facilities such as file-sharing applications like the Kazaa system. However, on the facts of the case, the operators of the Kazaa system could not benefit from s112E; and
- **communication to the public:** Justice Wilcox confirmed that providers of file-sharing systems who do not themselves make available copyright material over the Internet are not liable for the primary communication of that material to the public, which in no way limits their potential liability for authorising the communication of copyright material to the public. This is because s22(6) of the Act provides that a communication other than a broadcast is taken to have been *made by the person responsible for determining the content of the communication*.

Other claims

The record companies were unsuccessful in their claims that the 10 respondents:

- directly infringed copyright in their sound recordings;

- breached the *Trade Practices Act 1974* and similar state legislation relating to misleading and deceptive conduct, including a claim that they falsely represented that a significant portion of the files made available through the Kazaa system are non-infringing; and
- were liable for the tort of conspiracy.

Appeal

The six respondents have indicated that they will appeal the decision.

Justice Wilcox stated that, given his orders do not provide final relief in the proceeding, leave to appeal would be necessary. He indicated that he would be disposed to grant leave to appeal, on application for that purpose, subject to two conditions: first, that the applicant for leave undertakes to prosecute the appeal diligently and with a view to obtaining a hearing in the February 2006 Full Federal Court sittings; and, second, the parties discuss, and endeavour to agree, the terms of the protocol for modification of the Kazaa system.

Significance of the case

This is the first Australian case to consider the legality of peer-to-peer file-sharing systems and copyright infringement by operators of those systems for authorising the infringing conduct of users of those systems. Recent cases relating to authorisation infringement over the Internet (eg *Universal Music Australia Pty Limited v Cooper*) relate to less technically sophisticated means of making available and distributing copyright material.

The case does not provide a general test for authorisation liability in respect of manufacturers, suppliers or operators of services or products that enable people to infringe copyright. This will be determined on the specific facts of the case.

However, it suggests that ineffective warnings, the failure to take steps to prevent or reduce infringement where the operator has an element of control, the active encouragement of infringement and a financial interest in infringement will all be factors that are likely to lead to a finding that a person authorised the infringing conduct of users of the service or product.



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