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## Service Provider Liability: Australian High Court Gives the World a First-Should the United States Follow Suit?

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# Service Provider Liability: Australian High Court Gives the World a First—Should the United States Follow Suit?

## I. Introduction

On August 14, 1997, the High Court of Australia handed down a decision that is unique among copyright cases throughout the world. In *Telstra Corp. v. Australasian Performing Right Association*, Telstra, a telecommunications service provider, was sued by the Australasian Performing Right Association (hereinafter “APRA”) for infringing musical copyrights owned by APRA and its clients.<sup>1</sup> The High Court held that Telstra was liable for copyright infringement when Telstra allowed its business customers to place their callers on hold to the sounds of unlicensed music.<sup>2</sup> This was the first time that the highest court of a nation has held a service provider liable for copyright infringement simply because the offending material was disseminated over its network.<sup>3</sup>

Until recently, Telstra was the only provider of telephone services in Australia, and it remains the largest such company.<sup>4</sup> Telstra, formerly known as Telecom, has an exclusive license to build and maintain the telecommunications network for Australia.<sup>5</sup>

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1. *Telstra Corporation Limited v. Australasian Performing Right Association Limited*, 146 A.L.R. 649 (1997). Note: Page numbers for the Telstra cases were not available in LEXIS. Author’s pagination for the High Court case, 146 A.L.R. 649 (1997), begins with page 1; author’s pagination for the full court (appellate-level) case, 131 A.L.R. 141 (1995), begins with page 205. Page number references to the 1993 federal court case are those indicated in the printout of the case itself, beginning with page number 368.

2. *Id.* at 75.

3. Christie Eliezer, *Australian Music Fee Ruling Has Global Scope*, BILLBOARD, September 6, 1997, at 10.

4. *Telstra’s Annual Net Profit Has Slumped*. AAP NEWSFEED, August 29, 1997, available in LEXIS, AUST Library, ALLNWS File. Telstra’s annual profit for the year which ended June 30, 1997, was down 30% to \$1.9 billion (Aus) compared to \$2.3 billion earned in the previous year. *Id.*

5. In both the appellate case and the trial level case, the courts referred to Telstra by its former name, Telecom. *Australasian Performing Right Association Ltd. v. Telstra Corporation Ltd.* 131 A.L.R. 141, 208 (1995); *Australasian*

Telstra is owned by the government, but at the time of the High Court decision it was in the process of being partially privatized in a public stock offering of one-third of the company.<sup>6</sup> The company remains the dominant player in telecommunications in Australia, providing most of the infrastructure and much of the service for telephone, mobile communications, cable, broadband service and related services.<sup>7</sup>

The Australasian Performing Right Association is the primary performing rights society in Australia, collecting royalties and licensing fees on behalf of its 20,000 members who have assigned it various distribution and performance rights in their musical works.<sup>8</sup> APRA does not merely represent Australian musicians, but upholds the interests of composers and performer worldwide. In fact, the infringement in this case includes songs that are obviously not Australian in origin, such as "Let It Be," by the Beatles.<sup>9</sup> APRA has been aggressive in enforcing the rights of its members, and enjoys a reputation for being somewhat litigious.<sup>10</sup> APRA's functional equivalents in the United States are the American Society of Composers, Authors, and Publishers ("ASCAP") and Broadcast Music, Inc. ("BMI").

As a result of the High Court decision, in March of 1998, Telstra reached an agreement with APRA for the unpaid royalty payments due to APRA's songwriters, composers and copyright owners.<sup>11</sup> The figure originally discussed, according to APRA CEO Brett Cottle, was estimated to be a "few million dollars," although the final sum was undisclosed.<sup>12</sup> In a related suit, APRA took action against online service provider OzEmail for infringement of copyrighted music transmitted by OzEmail over the

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Performing Right Association Ltd. v. Telstra Corporation Ltd. 118 A.L.R. 684, 370 (1993). The telecommunications license is cited in APRA v. Telstra 131 A.L.R. at 205.

6. *Telstra's Annual Net Profit Has Slumped*, *supra* note 4.

7. APRA v. Telstra 146 A.L.R. at 40. *See also Telstra leads the interactive race*, Telstra Corp. Press release (April 26, 1996) <<http://www.telstra.com.au/search/index.html>>.

8. Eliezer, *supra* note 3, at 10.

9. APRA v. Telstra, 118 A.L.R. at 370.

10. Patricia Loughlan, *Music on Hold: The Case of Copyright and the Telephone*, Telstra Corporation Ltd. v. Australasian Performing Right Association Ltd., 18 SYDNEY L. REV. 342, 342 (1996).

11. *Telstra Reaches Agreement on Payment for Hold Music*, AAP NEWSFEED, March 19, 1998, available in LEXIS, AUST Library, ALLNWS file.

12. Eliezer, *supra* note 3, at 10; *see also Telstra Reaches Agreement*, *supra* note 11 (stating, "Commercial-in-confidence arrangements preclude the disclosure of the amount").

Internet.<sup>13</sup> While APRA and OzEmail recently settled out of court for an undisclosed sum, APRA is also negotiating with other Internet service providers, particularly music-based sites, for licenses and royalties.<sup>14</sup>

This comment will focus on the implications of the *Telstra* decision for Australian copyright law, and on the relationship of this decision to the debate now under way in the United States over the issue of service provider liability for copyright infringement. Section II will provide general background on the status of copyright law in Australia prior to this decision and the cases which led to the current state of the law. Section III will analyze the legal trends in Australia, focusing on the *Telstra* case and its rationale, and will point to issues not resolved by the *Telstra* case that may have an impact on future decisions in Australia and elsewhere. Section IV will look at the background caselaw and trends in the United States, concentrating on the congressional debate over the issues of service provider liability and implementation of the World Intellectual Property Organization (hereinafter "WIPO") treaties. Finally, section V will conclude with an analysis of the pros and cons of the two trends, and will discuss the *Telstra* decision and U.S. decisions as they relate to Australian and United States legislative solutions to the issue of service provider liability.

## II. Background

### A. Copyright Protection—Origins

Prior to the invention of the printing press, Western society had little need to protect the fruits of authorship from unauthorized reproduction. Monks laboriously hand-copied books (primarily Bibles), a method which precluded literary piracy on any meaningful level, as it might take a year or more to copy a text or treatise by hand.<sup>15</sup> But, with the advent of Gutenberg's printing press over 500 years ago, it became economically possible to produce multiple copies of works, a situation which both dramatically

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13. *APRA, OzEmail Settle Court Case*, AAP NEWSFEED, June 9, 1998, available in LEXIS, AUST Library, ALLNWS file.

14. *Id.* OzEmail did not admit liability in the settlement, and APRA pledged to refrain from further proceedings against OzEmail or other service providers that joined in the settlement. *Id.*

15. Sherri L. Burr, *The Piracy Gap: Protecting Intellectual Property in an Era of Artistic Creativity and Technological Change*, 33 WILLAMETTE L. REV. 245-46 (1997).

increased the availability of knowledge and enabled authors to make a living from the sale of their creations.<sup>16</sup>

Even after the introduction of the printing press to England in 1476, English authors still had to wait over 200 years to control the dissemination of their works.<sup>17</sup> Instead of authors being in control, the Stationers' Company, by virtue of a 160-year monopoly granted by the Crown, maintained control over all printed works, ensuring that no politically seditious nor religiously heretical works would leave the press.<sup>18</sup> When the monopoly ended in 1694, the Stationers' Company petitioned Parliament for property rights to be granted to the authors, believing that they could continue to maintain their control over published works in this fashion.<sup>19</sup> In 1709, Parliament granted those rights to authors in the world's first copyright act—the Statute of Anne.<sup>20</sup> Significantly, the Statute of Anne was intended to encourage learning by granting to authors the exclusive right to copy their work.<sup>21</sup> Eighty years later it served as a model for copyright protection in the fledgling United States of America.<sup>22</sup>

Modern copyright law has expanded to protect a much wider range of intellectual property than books alone. Under the laws of the United States, protection is afforded to the creators of literary, musical, and dramatic works, pantomimes and choreography, graphic works, motion pictures and audiovisual works, sound recordings, and architectural works.<sup>23</sup> Australian copyright law protects similar categories, grouped under the headings of original works (including literary, dramatic, musical, and artistic works), and the subject matter headings of sound recordings, cinematograph films, television and sound broadcasts, and published editions.<sup>24</sup>

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16. *Id.* at 246.

17. Brian A. Carlson, Comment, *Balancing the Digital Scales of Copyright Law*, 50 SMU L. REV. 825, 828 (1997).

18. *Id.* at 828.

19. *Id.*

20. Statute of Anne, 8 Anne, ch. 19 (1709); Burr, *supra* note 15, at 246 n.6.

21. Burr, *supra* note 15, at 246-47.

22. *Id.* at 247.

23. 17 U.S.C.A. §§ 101-1101 (West, 1996). Specifically, section 102 of the Copyright Act lists the subject matter that is afforded protection.

24. Copyright Act 1968, §§ 32, 85-88.

*B. Service Provider Liability in Australia Prior to the Telstra Decision*

Prior to the *Telstra* decision, Australian rulings on the question of service provider liability were sparse and case specific. The *Telstra* decision, unlike its predecessors, focused primarily on interpreting the Copyright Act 1968.<sup>25</sup> Those portions of the Copyright Act 1968 (hereinafter "the Act") that are pertinent to this inquiry include protection of a copyright owner's exclusive right to broadcast literary, musical, and dramatic works through traditional wireless means ("broadcast right"),<sup>26</sup> and the right to cause the work to be transmitted to subscribers to a diffusion service using cable technology ("diffusion right").<sup>27</sup> The Act itself is modeled on the Copyright Act 1956 of the United Kingdom, and the Australian legislators apparently followed the direction of the UK version, particularly when drafting the language pertaining to a diffusion right.<sup>28</sup>

Until the *Telstra* case, Australian copyright cases dealing with broadcast or diffusion rights centered on questions such as whether a public performance took place when music in an instructional video was played for a group of bank employees.<sup>29</sup> Other cases which focused on service providers did not address the issue raised by *Telstra*. For example, in one decision that, like *Telstra*, involved both wireless and cable broadcasting of copyrighted material, the court held that the rebroadcast of free-to-air programs by a cable television provider was not an infringement of the free-to-air broadcaster's copyright.<sup>30</sup> In a second case, the court held that a university library authorized a third party's copyright infringement

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25. The normal usage in Australia is to refer to statutes as "the Copyright Act 1968," not as "the Copyright Act of 1968."

26. Copyright Act 1968, § 31(1)(a)(iv).

27. Loughlan, *supra* note 10, at 345-46; *see also* Copyright Act 1968, §§ 26, 31(1)(a)(v). For example, a cable television company is a diffusion service.

28. Loughlan, *supra* note 10, at 346; *see also* Copyright Act 1968 § 31(1)(a)(v).

29. Australasian Performing Right Association Ltd. v. Commonwealth Bank of Australia 111 A.L.R. 671 (1992).

30. Amalgamated Television Services v. Foxtel Digital Cable Television 32 I.P.R. 323, 338 (1995) (author's pagination, *see also* note 1). Free-to-air broadcasts are simply those that are transmitted to anyone with a receiving apparatus, such as those transmitted by radio stations and network television. *Id.* In *Amalgamated Television*, the court held that the rebroadcast of free-to-air programming to subscribers who were unable to receive commercial channels or who received them poorly was merely an additional service to such subscribers. *Id.*

when it provided self-service photocopy machines without monitoring the use of the machines for potential infringement.<sup>31</sup>

Thus, the question of service provider liability is a new one in Australia. Of necessity, courts turn to decades-old copyright statutes and sparse case law to find the answers to modern problems created by communications technology, including music on hold. Other telecommunications applications might potentially be implicated, including faxes, answering machines, personal computers, teleconferencing, and the Internet. Twenty-five years ago, none of this technology was available.<sup>32</sup> Now we find the High Court of Australia holding a telephone company liable for copyright infringement that occurs over its network of wires, cables, and wireless transmission facilities.<sup>33</sup> In the Northern Hemisphere we find the United States Congress deep in debate over whether Prodigy or Netcom should be held liable for the infringement of copyright taking place on their Internet subscribers' bulletin boards.<sup>34</sup> The two notions, both driven by technology, and both hampered by out-of-date statutes, are closely related.

1. *The 1993 Trial Decision—APRA v. Telstra.*—The *Telstra* decision was a test case where the parties collaborated in bringing the litigation so as to bring about a legal ruling where none had previously existed.<sup>35</sup> Factual situations were purposely designed to test the consequences of each scenario under the copyright law.<sup>36</sup> These situations centered around the fact that Telstra Corporation, without paying a license fee or obtaining permission, provided music to telephone callers who were placed on hold.

Three distinct scenarios were employed as tests: 1) music on hold was played by a business directly to its caller, using Telstra's general transmission system; 2) music was played by Telstra directly to a person calling one of Telstra's service centers; and, 3) music was played by Telstra to persons who called one of Telstra's CustomNet (music on hold service) subscribers.<sup>37</sup> Each of the three scenarios could occur in two ways: either by a caller utilizing

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31. *University of New South Wales v. Moorhouse* 6 A.L.R. 193, 206 (1975) (author's pagination, *see also* note 1).

32. BILL GATES, *THE ROAD AHEAD* 44-45 (rev.ed. 1996).

33. *Telstra v. APRA*, 146 A.L.R. at 2.

34. Bob Dart, *High-Tech World Split on Internet Copyright Issue*, COX NEWS SERVICE, September 10, 1997, *available in* LEXIS, NEWS Library, CURNWS File.

35. Loughlan, *supra* note 10, at 342.

36. *APRA v. Telstra*, 118 A.L.R. at 370.

37. *Id.*

a regular telephone, or by a caller using a wireless mobile telephone.<sup>38</sup> In each instance, a device such as a radio, CD player, or tape player provided the actual music, and in each instance the music played over Telstra's system was protected by a copyright owned by APRA.<sup>39</sup>

APRA sought both declaratory and injunctive relief, and in particular sought to restrain [Telstra] from performing or authorizing the performance of the subject works in public, broadcasting them, transmitting them to any subscriber to a telecommunications service provided by [Telstra], and from authorizing or permitting any person to connect to the telecommunications network any equipment capable of transmitting the works to subscribers of [Telstra].<sup>40</sup>

The rights which APRA claimed were breached by Telstra are enumerated in section 31(1) of the Copyright Act 1968, which provides, in part: "copyright . . . is the exclusive right: (a) in the case of a literary, dramatic, or musical work, to do all or any of the following acts: . . . (iii) to perform a work in public; (iv) to broadcast the work; (v) to cause the work to be transmitted to subscribers to a diffusion service . . . ." <sup>41</sup> APRA contended that Telstra violated APRA's exclusive rights described in subparagraphs (iii) and (v) when it transmitted music played either by third parties or by itself, and violated APRA's right described in subparagraph (iv) when it transmitted music on hold to mobile telephones.<sup>42</sup>

At the trial level, the Federal Court, General Division, Gummow, J., decided that Telstra could *not* be held liable for copyright infringement when callers were placed on hold using unlicensed music.<sup>43</sup> In coming to his decision that Telstra was not liable for infringement, Judge Gummow painstakingly analyzed not only the pertinent sections of the Copyright Act 1968, but the electronic technology used in making telephone calls.<sup>44</sup> The extensive analysis of electromagnetic current, modulation and amplification enabled Judge Gummow to conclude that "[w]hat is important for present purposes is that the electromagnetic current

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38. *Id.*

39. *Id.*

40. *Id.*

41. APRA v. Telstra, 118 A.L.R. at 372.

42. *Id.*

43. *Id.* at 368-69.

44. *Id.* at 370-72.



carrying music never passes to the premises of the subscriber, and a person operating a telephone at the subscriber's premises will never hear the music on hold. Instead, the current carrying the music moves directly from the [Telstra] exchange to the caller."<sup>45</sup> The notion of a "subscriber" is crucial, as shall be seen below.

The primary right in question is the right "to cause the work to be transmitted to subscribers to a diffusion service" granted by section 31(1)(a)(v) of the Copyright Act 1968.<sup>46</sup> However, any interpretation of section 31(1)(a)(v) is partly dependent on how the court reads section 26 of the Act, which amplifies the meaning of "diffusion service."<sup>47</sup> The court used section 26 to interpret section 31, and analyzed the meaning of "service" in an effort to identify "subscribers to the service."<sup>48</sup> Telstra was recognized as "the person operating" the service within the meaning of section 26(4), and was, therefore, deemed to be the person who caused the work to be transmitted under section 26(2).<sup>49</sup>

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45. *Id.* at 371-72.

46. *APRA v. Telstra*, 118 A.L.R. at 372.

47. *Id.* at 372-73. Section 26 states:

(1) A reference in this Act to the transmission of a work or other subject-matter to subscribers to a diffusion service shall be read as a reference to the transmission of the work or other subject-matter in the course of a service of distributing broadcast or other matter (whether provided by the person operating the service or by other persons) over wires, or over other paths provided by a material substance, to the premises of subscribers to the service.

(2) For purposes of this Act, where a work or other subject-matter is so transmitted:

(a) the person operating the service shall be deemed to be the person causing the work or other subject-matter to be so transmitted; and

(b) no person other than the person operating the service shall be deemed to be causing the work or other subject-matter to be so transmitted, whether or not he provides any facilities for the transmission.

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(4) A reference in this section to a person operating a service of distributing broadcast or other matter shall be read as a reference to the person who, in the agreements with subscribers to the service, undertakes to provide them with the service, whether he is the person who transmits the broadcast or other matter or not.

(5) Where a service of distributing matter over wires or over other paths provided by a material substance is only incidental to, or part of, a service of transmitting telegraphic or telephonic communications, a subscriber to the last-mentioned service shall be taken, for the purposes of this section, to be a subscriber to the first-mentioned service.

Copyright Act 1968, § 26.

48. *APRA v. Telstra*, 118 A.L.R. at 373.

49. *Id.* at 374.

Judge Gummow held that the diffusion service was not intended to be seen as part of the basic telephone service.<sup>50</sup> His reasoning was that “subscribers” to a diffusion service meant only those telephone users (such as businesses) who actively subscribed to a music on hold service or provided such a service themselves for their callers.<sup>51</sup> The callers themselves, in Judge Gummow’s opinion, were not subscribers within the meaning of section 31(1)(a)(v) of the Act.<sup>52</sup> Because section 26(1) of the Act requires that any diffusion service be routed to the premises of a subscriber, and the music on hold was routed only to callers, the court held that there was no transmission to subscribers of a diffusion service, and therefore, no infringement.<sup>53</sup>

A second cause of action brought by APRA was that Telstra performed the copyrighted works “in public” by transmitting music-on-hold through wires or by wireless means to callers’ telephones.<sup>54</sup> According to section 27(3) of the Act, “the causing of . . . sounds to be heard . . . shall be deemed to be effected by the operation of the receiving apparatus.”<sup>55</sup> Therefore, it is not the transmission of sound to an apparatus like a telephone that causes the sound to be performed in public (“to be heard”), but it is the operation of the receiving apparatus itself. Judge Gummow interpreted this to mean that the person controlling the receiving apparatus, in this case a telephone, was responsible for any public performance under section 27(3), and therefore, Telstra’s transmission did not constitute a public performance.<sup>56</sup>

The final cause of action brought by APRA was that Telstra violated APRA’s exclusive right to broadcast the music in question under section 31(1)(a)(iv) of the Act when Telstra transmitted music on hold to users of mobile telephones.<sup>57</sup> While the fact that Telstra transmitted music on hold was not disputed, this cause of action also involved the question of whether a “public performance” had taken place.<sup>58</sup> Weighing many of the same factors

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50. *Id.*

51. *Id.* at 375.

52. *Id.* at 376.

53. *APRA v. Telstra*, 118 A.L.R. at 376.

54. *Id.*

55. *Id.* (quoting the Copyright Act 1968, §27(3)).

56. *Id.* at 377.

57. *Id.* Another section of the Act that is used to interpret section 31(1)(a)(iv) is section 10(1) which defines “broadcast” to mean to transmit by wireless telegraphy to the public. *Id.* at 378.

58. *APRA v. Telstra*, 118 A.L.R. at 377-382. (discussing the Copyright Act 1968 (including the 1986 amendments), *APRA v. Commonwealth Bank*, 111

already considered, Judge Gummow concluded that the private nature of a mobile telephone transmission was antithetical to the notion of a broadcast to the public, and that such a transmission by Telstra was, therefore, not a violation of section 31(1)(a)(iv) of the Act.<sup>59</sup>

Judge Gummow thus concluded that none of the acts done by Telstra amounted to a statutory breach of APRA's copyright, and that APRA was not entitled to declaratory or injunctive relief.<sup>60</sup> The judge dismissed the suit and awarded costs to Telstra.<sup>61</sup>

2. *The 1995 Appellate Court Decision.*—APRA appealed the decision to the appellate court, known as the full court. In a split decision, the court allowed the appeal concerning both the infringement of APRA's diffusion right and the right to broadcast to the public over mobile telephones, but denied the appeal insofar as it involved the infringement of APRA's right to re-transmit a radio broadcast.<sup>62</sup> In coming to the decision, the full court analyzed the statutory provisions in much the same way that Judge Gummow did at the trial level.<sup>63</sup> The result, however, was quite different.

Chief Judge Black, like Judge Gummow, looked to section 26 to define the right to transmit works to subscribers of a diffusion service.<sup>64</sup> Judge Black's view was that the outcome of this portion of the appeal hinged on section 26(5), which he interpreted to mean that an incidental service (diffusion service) could be considered a separate service for purposes of section 26.<sup>65</sup> Judge Black stated that section 26(5) defined who the subscribers to the incidental service are: "a subscriber to the telephone service is to be taken, for the purposes of s26 . . . to be a subscriber to the distribution service."<sup>66</sup> He reasoned that since section 26(5) does not require an actual subscription to the "incidental" service of music on hold, there is no statutory impediment to categorizing a

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A.L.R. 671, other Australian cases, and the United States Copyright Act, 17 U.S.C. § 101 (1976)).

59. *Id.* at 382.

60. *Id.*

61. *Id.*

62. *Australasian Performing Right Association Ltd. v. Telstra Corp. Ltd.* 131 A.L.R. 141 (1995).

63. *Id.* at 206.

64. *Id.* at 208.

65. *Id.* at 210. The incidental service to which Judge Black refers is the music on hold service.

66. *Id.* at 211.

telephone subscriber as a subscriber to the incidental service, too.<sup>67</sup> This conclusion, of course, is directly contrary to Judge Gummow's holding at the trial level.

Judge Black also analyzed section 26(4), where an agreement between subscribers and the provider of the diffusion service is assumed by the statute.<sup>68</sup> The appellate court's reasoning, however, may be incomplete regarding the relationship between service provider and subscriber. Judge Black stated:

The subscriber to the telephone service is taken to be a subscriber to the incidental service or services of distributing matter [music on hold], the deemed subscription to the service of distributing matter carries with it the implication that there is an obligation to provide the service subscribed to, and that obligation is taken to be imposed upon the person who in fact agrees to provide the telegraph or telephone service of which the other service is part, or only incidental.<sup>69</sup>

Under this rationale, the notion of a subscriber is nothing more than a legal fiction. A subscriber to the basic telephone service, according to Judge Black, has a right to the provision of the subscribed service.<sup>70</sup> In the Telstra situation, however, the subscriber has no say whether music on hold is provided, and has no recourse if the service is not provided. This lack of recourse renders meaningless the right of the subscriber and moots the implied obligation Judge Black would impose on the service provider. A bona fide subscriber would have some recourse against the service provider if the service failed.

Like Judge Black, Judge Burchett agreed that under section 26(5) the subscribers to basic telephone service should also be considered subscribers to the service of providing music on hold.<sup>71</sup> Judge Burchett stated:

[E]very subscriber whose telephone is used to make a call with greater satisfaction . . . than would have been possible before [Telstra] started to provide this service. The fact that these customers have not separately and specifically sought this particular service when they subscribed is irrelevant; the

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67. *APRA v. Telstra*, 131 A.L.R. at 211.

68. *Id.* at 212.

69. *Id.*

70. *Id.*

71. *Id.*

legislature must have contemplated that situation when it enacted subss (3) and especially (5).<sup>72</sup>

Judge Burchett also analyzed the provision of music on hold by means of playing a radio broadcast, concluding that under section 199(4) of the Act, a person who plays a radio broadcast in such a manner might be liable for infringement.<sup>73</sup> Telstra, in its reply to APRA's initial allegations, argued that where one of its customers played a radio to callers placed on hold, Telstra did not receive the broadcast, and therefore could not have transmitted the infringing material.<sup>74</sup> In response to this logic, the judge pointed to section 26(2), which he said made it "sufficient that the customer's equipment effected 'a re-transmission' which was received by [Telstra's] own equipment."<sup>75</sup>

Judge Burchett went on to the final question of whether transmission of music on hold to a mobile telephone constituted a transmission "to the public" under section 31(1)(a)(iv) as defined by section 10.<sup>76</sup> He asked if this is "a transmission to the public, notwithstanding that only one caller may in fact be listening."<sup>77</sup> The judge further cited legislative history which affirmed "the government's intention that 'broadcast,' in this context, should cover transmissions to the copyright owner's public, whether the 'general' public or part of the public."<sup>78</sup>

In analyzing the facts of *Telstra* using the notion of the "copyright owner's public," Judge Burchett relied on *Ernest Turner Electrical Instruments Ltd. v. Performing Right Society*,<sup>79</sup> a 1943 case which asked, "Is the audience one which the owner of the

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72. APRA v. Telstra, 131 A.L.R. at 238.

73. *Id.* at 240-41. Section 199(4) of the Copyright Act 1968 states:

A person who, by the reception of an authorized television broadcast or sound broadcast, causes a literary, dramatic or musical work or an adaptation of such a work . . . to be transmitted to subscribers to a diffusion service shall be treated, in any proceedings for infringement of the copyright . . . as if he had been the holder of a license granted by the owner of that copyright to cause the work . . . to be transmitted by him to subscribers to that service by the reception of the broadcast.

*Id.* at 240.

74. *Id.* at 241.

75. *Id.*

76. *Id.* at 242.

77. APRA v. Telstra, 131 A.L.R. at 242.

78. *Id.* Judge Burchett quoted the second reading speech of Australia's Attorney General, made during the amendment process in 1986. *Id.*

79. 1 Ch 167, 175-76 (1943).

copyright could fairly consider a part of his public?"<sup>80</sup> Judge Burchett concluded that "[p]erformance 'in public' means performance to the public of the owner of the copyright, and 'public' includes a portion of the public, however small."<sup>81</sup> Thus, Judge Burchett concluded that music on hold transmitted to a mobile telephone is a transmission to the public, and therefore, is a broadcast within the meaning of section 31(1)(a)(iv) of the Act.<sup>82</sup>

Judge Sheppard agreed with Judges Burchett and Black that playing music on hold to a mobile telephone is a transmission to the public and is an infringement of the broadcast right.<sup>83</sup> On the issue of diffusion rights, however, Judge Sheppard came to a different conclusion than his colleagues. He analyzed section 26 of the Act to find what constitutes an exclusive right (conferred by section 31(1)(a)(v)) to cause a work to be transmitted to subscribers to a diffusion service.<sup>84</sup>

In Judge Sheppard's opinion, these two provisions of the Act were not intended to address facts like *Telstra's*, but were intended for situations such as pay-per-view, where subscribers are provided with a facility for listening to music or watching video over material paths coming to their premises.<sup>85</sup> Judge Sheppard, like Judge Gummow, read the statutory language for its plain meaning, concluding that Telstra's operation of a telephone service was not a diffusion service, and that telephone callers did not turn into diffusion service subscribers simply by virtue of having listened to music on hold.<sup>86</sup>

In agreeing with Judges Burchett and Black that the broadcast right had been infringed, Judge Sheppard explained that he believed that the nature of the use of the protected material, not the privacy of the mobile phone call, was determinative of the question.<sup>87</sup> Thus, he concluded that the appeal should be allowed for the broadcast right, but should be dismissed insofar as it concerned the diffusion right.<sup>88</sup> The decision of the full court was to allow the appeal on the two grounds of infringement of the

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80. *APRA v. Telstra*, 131 A.L.R. at 244 (quoting *Ernest Turner Electrical Instruments Ltd. v. Performing Right Society Ltd.*, (1943) 1 Ch 167 at 172-74).

81. *Id.* at 245.

82. *Id.* at 247.

83. *Id.* at 233-34.

84. *Id.* at 218.

85. *APRA v. Telstra*, 131 A.L.R. at 218.

86. *Id.* at 219.

87. *Id.* at 233.

88. *Id.* at 233-234.

diffusion right and infringement of the right to broadcast to the public, but to deny the appeal insofar as it involved infringement by transmission of an authorized radio broadcast.<sup>89</sup>

### III. The High Court's Decision in *APRA v. Telstra*

The High Court's decision comes into being from these two test cases, where Judge Gummow, of the federal court, rejected all of APRA's contentions of copyright infringement, and where APRA's appeal to the full court resulted in a unanimous decision that Telstra had broadcast the protected works to the public, and a split decision holding that Telstra had caused the works to be transmitted to subscribers to a diffusion service.<sup>90</sup> Telstra then appealed the full court's decision to the High Court.

The High Court, per curiam, held that in each situation where Telstra participated in providing music on hold to callers using mobile telephones, Telstra operated a diffusion service which broadcast the music "to the public" within the meaning of section 31(1)(a)(iv) of the Act.<sup>91</sup> The Court reasoned that in a commercial setting where people are willing to pay to have this service provided to callers, the expectation is that the copyright owner is entitled to reimbursement, even if not directly from the callers themselves.<sup>92</sup> The court, in a divided opinion, then held that when Telstra participated in providing music on hold to callers using conventional telephones, it also operated a diffusion service and transmitted music to subscribers to that diffusion service within the meaning of section 31(1)(a)(v) of the Act.<sup>93</sup>

#### A. *Provision of Music on Hold by Means of a Diffusion Service.*

Of great importance in this holding is a statement contained in the opinion of Justices Dawson and Gaudron, where the Justices state:

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89. *Id.* at 206-207. Black & Burchett, JJ allowed the appeal (Sheppard, J dissenting) on the charge of playing music on hold from a recording. Black & Burchett, JJ (Sheppard, J concurring) dismissed the appeal relating to music on hold played from an authorized radio broadcast, and the court, per curiam, allowed the appeal regarding mobile telephones.

90. *Telstra v. APRA*, 146 A.L.R. at 5.

91. *Id.* at 2. Opinion by Dawson and Gaudron, JJ (Toohey and McHugh, JJ concurring).

92. *Id.* at 3.

93. *Id.* Opinion by Dawson, Gaudron & Kirby, JJ (Toohey & McHugh, JJ contra).

[U]nder 26(1), both in the case of broadcast matter and other matter, the matter need not be provided by the operator of the diffusion service. That is important because music on hold comes from both sound recordings and radio broadcasts. In either case *it is irrelevant that Telstra has not itself provided or selected the music* [emphasis added].<sup>94</sup>

The Justices went on to say that the mere transmission of a copyright-protected work from one telephone user to another (for example, by whistling a tune), is not a “service,” under section 26(1).<sup>95</sup> A service requires a system for the distribution of matter where the distribution is a “spreading abroad or dispersal of the thing being distributed.”<sup>96</sup> As to whether Telstra provided a diffusion service, the Justices then stated, “We are therefore satisfied that the transmission of the works occurred in the course of ‘a service of distributing broadcast or other matter’, namely, the systematic provision of music on hold. It is this which constitutes the diffusion service referred to in section 31(1)(a)(v).”<sup>97</sup>

The Court also stated that such a definition of a diffusion service has certain consequences when it comes to determining who the subscribers to the diffusion service are, as required by section 31(1)(a)(v).<sup>98</sup> A diffusion service as described above is not an apt description of the telephone service provided by Telstra.<sup>99</sup> The Court differentiated the provision of basic telephone service from the provision of the diffusion service, stating that the evident intent of section 26(5) was to create subscribers to the diffusion service by means of the incidental contact between the diffusion and telephone services, even though such subscribers would not otherwise exist.<sup>100</sup>

Thus, the Court held that music on hold was transmitted to the premises of subscribers, and it was transmitted to those premises by Telstra, even without agreements for provision of that specific

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94. *Id.* at 8. Justices Dawson and Gaudron go on to say that under section 26(1) there must still be a diffusion service, and that the aspect of that service which is contested is the distribution of music on hold. *Id.*

95. *Telstra v. APRA*, 146 A.L.R. at 9.

96. *Id.*

97. *Id.*

98. *Id.*

99. *Id.*

100. *Telstra v. APRA*, 146 A.L.R. at 10. The Court also points out that this ruling expands the operation of section 26(1) and consequently, extends the application of section 31(1)(a)(v), requiring the two sections to be read together. *Id.*



service.<sup>101</sup> Therefore, in each situation where Telstra “participated in the provision of music on hold to callers using conventional telephones,” it operated a diffusion service and transmitted works via that service to subscribers within the meaning of section 31(1)(a)(v) of the Act.<sup>102</sup>

Justice Toohey agreed with the reasoning behind the full court’s holding that Telstra operated a diffusion service.<sup>103</sup> However, he disagreed with the holding of the High Court majority that telephone customers are automatically subscribers to the diffusion service, finding the dissenting opinion of Judge Sheppard of the full court persuasive instead.<sup>104</sup> In explaining why he held that callers are not subscribers to music on hold, Justice Toohey quoted Judge Sheppard: “They are strangers to it. They do not solicit it and they do not subscribe to it. Their purpose in telephoning the number is to deal with the organisation, [Telstra] or otherwise, with which they have business.”<sup>105</sup>

Justice Toohey went on to analyze section 26(4), which he read as emphasizing the agreements with subscribers to provide them with the physical transmission of copyright material to the subscriber’s premises.<sup>106</sup> The Justice stated that Telstra’s appeal on the diffusion service issue should be allowed, and that Judge Gummow’s judgment should be restored.<sup>107</sup>

Like Justice Toohey, Justice McHugh was of the opinion that Telstra’s appeal on the diffusion question should be allowed, because no subscriber to a diffusion service had been properly identified.<sup>108</sup> In Justice McHugh’s view, it is a statutory fiction to deem a telephone subscriber to be a subscriber to a diffusion service. This fiction should not be extended by implication to make the provider of telephone services into one who by implied agreement provides the subscriber with the service of distributing copyrighted matter.<sup>109</sup> The views of these two Justices did not

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101. *Id.* at 11.

102. *Id.*

103. *Id.* at 17.

104. *Id.*

105. *Telstra v. APRA*, 146 A.L.R. at 18. (quoting Sheppard, J, in 131 ALR at 152).

106. *Id.* at 19.

107. *Id.*

108. *Id.* at 35.

109. *Id.*

prevail, however, and Telstra's appeal on the diffusion right issue was denied.<sup>110</sup>

*B. The Provision of Music on Hold to Cellular Telephones*

The High Court came to greater agreement on the issue of whether Telstra's transmission of music on hold to callers using cellular telephones was "to the public" under section 31(1)(a)(iv) of the Act.<sup>111</sup> The Court, per curiam, held that in each instance where Telstra played music on hold in this fashion, it had broadcast the unauthorized works "to the public" and had infringed the copyright of APRA.<sup>112</sup> Both Justices Toohey and McHugh, who dissented on the diffusion right question, were in agreement with the remainder of the Court on this question.<sup>113</sup>

The High Court affirmed the full court's analysis of the meaning of "to the public," stating that the distinction between public and private is not the issue, but rather the issue is the nature of the copyright owner's public and whether that public can include callers who receive music on hold.<sup>114</sup> The High Court dismissed the appeal on this issue, concluding that Telstra had broadcast to the public when it transmitted music on hold to mobile telephone callers, thereby infringing APRA's right to broadcast to the public under section 31(1)(a)(iv).<sup>115</sup>

*C. What is the Underlying Rationale of APRA v. Telstra?*

The approaches of the two litigants regarding the music on hold issue were explained in Justice Kirby's rather lengthy opinion.<sup>116</sup>

*1. Telstra's Approach to the Copyright Liability Issues.*—Telstra argued that the full court erred when it found Telstra, a general telecommunications carrier, liable for copyright infringement when it transmitted music on hold.<sup>117</sup> In Telstra's opinion, the fact that it did not control the content of the music on hold transmissions (often even in the case of its CustomNet service)

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110. Telstra v. APRA, 146 A.L.R. at 3.

111. *Id.* at 2-3. Opinion by Dawson and Gaudron, JJ (Toohey and McHugh, JJ concurring).

112. *Id.* at 16.

113. *Id.*

114. *Id.*

115. Telstra v. APRA, 146 A.L.R. at 16.

116. *Id.* at 49-50.

117. *Id.* at 49.

was a crucial factor.<sup>118</sup> Telstra further argued that the Copyright Act 1968 did not intend to make the provider of a general telecommunications service strictly liable for the copyright infringement of its customers when the provider had no knowledge of the infringement and no opportunity to prevent its occurrence.<sup>119</sup>

Telstra's second major argument was that the full court erred in deeming telephone customers to be subscribers to the diffusion service when, in reality, the customers who were placed on hold did not seek out the particular music played, or even music on hold generally, but sought only to communicate with another person for personal or business reasons.<sup>120</sup> In Telstra's opinion, the missing element in the relationship between the subscriber and the service provider was agreement between the two, an element which also distinguished the present facts from the cases relied upon by the full court in making its decision.<sup>121</sup>

2. *APRA's Approach to the Copyright Infringement Issue.*—APRA based its case on the notion that the diffusion and broadcast rights of the Copyright Act 1968 were part of a right of "public communication" which had its origins in the Berne Convention.<sup>122</sup> APRA urged the Court to utilize the Berne Convention, along with the legislative history of the Copyright Act 1968, as a guide to construing the statutory language.<sup>123</sup> The Court accepted APRA's suggested model, bypassing the narrow construction favored by Telstra in favor of a broad reading of the statutory language.<sup>124</sup>

3. *General Considerations Relating to the Majority Opinion.*—According to Justice Kirby, the statutory language was not

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118. *Id.* Telstra's CustomNet service supplies business customers with a music on hold service from a central location on Telstra premises. *Id.* at 37-38. When the caller is placed on hold, the service plays music from Telstra's equipment, not that of the customer. *Id.*

119. *Id.*

120. Telstra v. APRA, 146 A.L.R. at 49-50.

121. *Id.* at 50.

122. Berne Convention for the Protection of Literary and Artistic Works, 1886, Art. 11(1)(ii) and Art. 11bis (1). The term "Berne Convention" includes not only the text of the initial convention in 1886, but also the several revisions over the past century, including the revisions of 1896 (Paris), 1908 (Berlin), 1928, 1948 (Brussels), 1967 (Stockholm), and 1971 (Paris). The Berne Convention is available in U.S. sources as P.L. 100-568, 102 Stat. 2853 (1988).

123. Telstra v. APRA, 146 A.L.R. at 50.

124. *Id.* at 50-51.

absolutely clear, thus, requiring the High Court to ascertain the intent of Parliament as expressed in the Act.<sup>125</sup> Even if that intent was ambiguous, said the Justice, policy considerations could be utilized as an important means of achieving a resolution.<sup>126</sup> The Justice stated:

The law of copyright is concerned with balancing the public interest in economic and cultural development against the interests of individuals in securing a fair and equitable return for their intellectual efforts. The potential liability of a telecommunications carrier for infringement of copyright, promoted through its network, is a matter of considerable public importance.<sup>127</sup>

Justice Kirby, who agreed with Judge Sheppard of the full court on this point, noted that such considerations point to the need for a legislative solution.<sup>128</sup> He stated that “in this area, where the interests are large, and the rights are ultimately derived from the language of an international treaty of national as well as global importance, judicial restraint is called for where an Act is obscure or arguably inapplicable.”<sup>129</sup>

However, the Justice pointed out that international treaties notwithstanding, the facts of this case involve “the construction of an Act of the Australian Parliament,” and thus, will require the court to find Parliament’s purposes expressed in the statutory language.<sup>130</sup> When more than one construction is available, he stated, the Court should adopt that construction which best suits the purposes of Parliament.<sup>131</sup>

Like the full court, Justice Kirby recognized that the construction of the term “subscriber” as defined in section 26(5) was determinative of the appeal with respect to the diffusion right.<sup>132</sup> Justice Kirby highlighted the problem when he inadvertently referred to business customers, not callers, as “subscribers” to the

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125. *Id.* at 51.

126. *Id.*

127. *Id.* Justice Kirby further noted that the financial costs of this decision to telecommunications carriers (and thus, to the public, who will bear those costs), is considerable, and will possibly increase with time as technologies become more integrated and the boundaries blur between carriers and content providers. *Id.*

128. *Telstra v. APRA*, 146 A.L.R. at 51.

129. *Id.*

130. *Id.* at 52.

131. *Id.*

132. *Id.* at 55.

music on hold service.<sup>133</sup> This is not the way the term was construed by the full court<sup>134</sup> or by the rest of the High Court.<sup>135</sup> On the other hand, this is the natural and logical way to conceptualize the parties in this matter—that the “subscriber” is the person who has entered into an agreement for the service subscribed to. However, it was necessary for a different, somewhat strained construction of “subscriber” to be made in order for Telstra to be held liable, because by the plain meaning of the term, Telstra did not transmit music to subscribers, but to the subscriber’s callers. The subscribers never heard the music, because it never went to their premises.<sup>136</sup>

This momentary lapse notwithstanding, Justice Kirby agreed with the full court majority on the diffusion right issue. He reasoned that the meaning of the Act required that section 26(5) be viewed within the context of section 26 as a whole, and that section 26(5) should define the term “subscriber” for the entire section.<sup>137</sup> The Justice persuasively stated the international policy reasons for his agreement:

The Act was enacted in terms which permitted Australia to subscribe to the [Berne] Convention . . . . It is well established doctrine in this country that, in cases of ambiguity, courts will favour a construction of an Australian statute which accords with the international obligations of Australia under a treaty which it has ratified, over an interpretation which is inconsistent with the obligation.”<sup>138</sup>

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133. *Telstra v. APRA*, 146 A.L.R. at 55. Justice Kirby states:

The difficulty here is obvious. It is the caller, and not the *subscriber* to the music on hold service, who receives the music. [emphasis added]. For technical reasons, the music never reaches the premises of the person who is providing the music on hold. By definition that person is busy, occasioning the need to ‘hold’.

*Id.* It is interesting that after both the full court and the High Court have struggled to deal with the legal fiction of defining a “subscriber” under the language of section 26(5), Justice Kirby should so engagingly bring the issue back to reality with this plain language gaffe. At this point in his opinion, Justice Kirby obviously conceives of callers and subscribers as different persons, notwithstanding the definitional gymnastics performed by both appellate courts.

134. *APRA v. Telstra*, 131 A.L.R. at 212.

135. *Telstra v. APRA*, 146 A.L.R. at 3. Agreeing with the full court’s position on the construction of section 26(5), the High Court held that a subscriber to the telephone service was also a subscriber to the diffusion service. *Id.*

136. *Id.* at 55.

137. *Id.* at 57.

138. *Id.* at 58. Justice Kirby goes on at some length concerning the purposes of the Berne Convention, and in particular, the 1948 Brussels revision, as well as the history of the incorporation of the Copyright Act 1956 (UK) into Australian

The Justice went on to state that section 26(5), which deemed subscribers to telephone service also to be subscribers to a diffusion service, eliminated the need for an agreement between Telstra and subscribers, because under section 26(5) the music on hold is incidental to the telephone service.<sup>139</sup> This rationale allowed the provision of music on hold to fall within the scope of the protections of the Act.<sup>140</sup>

As Justice Kirby stated the problem: "If the 'subscribers to the service' referred to in s26(4) of the Act were subscribers to the service of music on hold, then no 'agreements' with such subscribers to provide such a service to them are identifiable. Music on hold would fall outside the terms of the Act."<sup>141</sup> He then went on to state that the solution to this "problem" is simply to deem a regular telephone subscriber also to be a music on hold subscriber, which is a construction allowable under the language of the Act.<sup>142</sup> Ignoring the fact that the actual "subscribers" were Telstra's business customers (the ones who actually had a written agreement and paid the money to have the music service supplied for their telephone number), the Court artfully re-defined the term "subscriber."

Justice Kirby agreed with the comments of Judge Black of the full court in construing section 26 and defining what constitutes a "service."<sup>143</sup> Justice Kirby noted that: "the service, whether provided directly by the trader itself or by a third party, is provided for the benefit of the trader's customers. It is the perceived benefit to the customers that makes the provision of the service of benefit to the trader."<sup>144</sup> This logic is necessary for the court to be able to rationalize its holding that subscribers to one service are also subscribers to a second, unsought service.

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law in 1959. His point is that, because the UK law was enacted while taking into account the 1948 Brussels revisions, and because Australian law (in particular sections 31(1)(a)(v) and 26 of the Copyright Act 1968) was adopted from the UK/Berne Convention model, the Court should favor APRA's argument that the Act 1968 should receive broad construction. *Id.* at 58-62. "[I]n cases of ambiguity, courts will favor a construction . . . which accords with . . . a treaty which [Australia] has ratified." *Id.* at 58.

139. *Id.* at 63.

140. *Telstra v. APRA*, 146 A.L.R. at 63.

141. *Id.*

142. *Id.*

143. *Id.* at 53-54.

144. *Id.*

4. *Was This Decision Designed to Prompt Parliament Into Action?*—In the final paragraph of his opinion, Justice Kirby addressed the implications of the decision:

It has been suggested that the foregoing conclusions could have significant consequences for other information technologies—including facsimile services, video conferencing and data transmission. In particular, it has been argued that telecommunications carriers and perhaps even internet service providers could potentially become liable as a result of internet users' downloading works which are protected by copyright. Clearly, such issues go beyond the scope of this appeal. They were not developed in the arguments of the parties. However, the parliament may need to consider these questions—and others arising—and to formulate a legislative response to them. They cannot be solved, but have not been overlooked, by me.<sup>145</sup>

Telstra Corporation and other commentators believed that the High Court decision, and the decisions leading up to it, would push Parliament into considering revisions of the Copyright Act 1968. In an August 14, 1997 press release, Telstra's headline stated, "High Court decision underlines need for Copyright Act reform."<sup>146</sup> The press release pointed out that the decision may have an impact on copyright-protected transmissions beyond music on hold, for example, over the Internet and by video conferencing.<sup>147</sup> Telstra also approved of a recent initiative between the Commonwealth Attorney-General and the Minister for Communications, which identified the need for reform of the copyright laws in order that they should keep current with the rapid technological changes, particularly in on-line communications.<sup>148</sup> Other commentators predicted that the Australian government would move ahead on changes to the Copyright Act 1968 in such areas as new technology and the convergence of telecommunications, computing,

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145. *Telstra v. APRA*, 146 A.L.R. at 74.

146. Peter Hansen, *High Court decision underlines need for Copyright Act reform*, (Telstra Corp. press release, August 14, 1997), <<http://www.telstra.com.au/search/index.html>>.

147. *Id.*

148. *Id.*

and entertainment.<sup>149</sup> This, of course, is exactly what has happened.

According to Daryl Williams, the government's Attorney-General, the Copyright Act 1968 is to be amended, partly in order to protect Internet service providers from liability in situations where the provider does not originate the material.<sup>150</sup> The government's proposed reforms were scheduled to be available by the end of August, 1998,<sup>151</sup> but as of this writing have not yet been made public.<sup>152</sup> The reforms are anticipated to address the concerns of copyright owners, users, and service providers, while continuing to promote creativity and access to materials.<sup>153</sup> In these respects, the Australian Parliament is in much the same position as the United States Congress in its attempts to deal with copyright issues in an information technology age.

#### IV. Analysis of the Trend in the United States

The United States grapples with the same issues of service provider liability and out-of-date copyright laws that plague Australia. Unlike Australia, however, no case involving these issues has come before the Supreme Court of the United States. Service and content providers realize that their respective industries could be hamstrung unless some accommodation can be reached to meet both the need for protection of intellectual property and the need for relative freedom on the Internet.

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149. Eliezer, *supra* note 3; see also Loughlan, *supra* note 10, at 342; and Peter Leonard, *Content Providers and the Copyright Trap—Synapses*, SYDNEY MORNING HERALD, June 6, 1995, at 37, available in LEXIS, TXTLNE Library, TXTANZ File.

150. Steve Pennells, *Copyright Aid Planned for Net Industry*, THE WEST AUSTRALIAN, June 13, 1998, at 40, available in LEXIS, AUST Library, ALLNWS File.

151. *Business to Wait for Internet Copyright Reform*, AAP NEWSFEED, June 11, 1998, available in LEXIS, AUST Library, ALLNWS File.

152. As of October 15, 1998, the government's proposals were not available in any of the online sources checked by the author.

153. *Business to Wait for Internet Copyright Reform*, *supra* note 151. Mr. Williams expressed the hope that the reforms would "lead to greater certainty about copyright rights and liability on the Internet in Australia" while protecting content providers and allowing access by users. *Id.*



### A. *The State of Copyright Law in the United States*

Like Australia, the basic copyright protections offered in the United States are constitutionally based.<sup>154</sup> The Copyright Act, first passed in 1790, has been amended in an attempt to keep up with new technology and concerns.<sup>155</sup> The current statute is similar to Australia's in the categories of works that receive protection, and in the overall protections afforded. However, the Copyright Act does not address the issue of service provider liability for third party infringement, relying instead on the common law to provide for vicarious liability and contributory liability for such infringement.<sup>156</sup>

The Copyright Act is a strict liability law, and does not address whether a service provider can be liable for acts of copyright infringement by its customers.<sup>157</sup> Although there is no statutory provision for a person's liability for the copyright infringement of others, neither is such liability precluded by the statute.<sup>158</sup> Both contributory infringement and vicarious liability for copyright infringement are possible under the common law, the standards for which were set down by the Supreme Court in *Sony Corp. v. Universal City Studios, Inc.*<sup>159</sup> Although no service provider has yet been found liable for direct infringement, bulletin board service operators who were aware of the infringing material being posted to their bulletin boards have been held directly liable.<sup>160</sup> Appro-

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154. U.S. CONST. art. I, § 8, cl.8, states that Congress shall have the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;" see also *supra* text accompanying note 22 (stating that this part of the Constitution was modeled on the Statute of Anne).

155. Burr, *supra* note 15, at 247.

156. *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).

157. William J. Cook, *Be Wary of Internet Casting Shadows on Copyright Holders*, CHICAGO LAWYER, April 1996, at 60., available in Westlaw, ALLNEWS database, 4/96 CHIL 60; see also 17 U.S.C. § 501(a) (1994).

158. *Religious Technology Center v. Netcom On-line Communication Services, Inc.*, 907 F. Supp. 1361, 1373-76 (N.D. Cal. 1995). Generally, *Netcom* holds that in order for liability to be imputed to a service provider, the service provider must know or should have known of the infringing activity. *Id.* at 1373-74.

159. 464 U.S. 417. Liability for contributory infringement arises when a person induces, causes, or materially contributes to another's infringing activity while knowing or having reason to know of its infringing nature. *Id.* at 435. Vicarious liability requires the right and ability to control the infringing activity and the receipt of direct financial benefit from the infringement. *RTC v. Netcom*, 907 F. Supp. at 1375-77.

160. *Hearings on H.R. 2180 and H.R. 2281 Before the Subcomm. on Courts and Intellectual Property of the House Comm. on the Judiciary*, 105th Cong.,

priately, the outcomes of the cases have imposed liability only when the parties were clearly involved in the infringing activity.<sup>161</sup>

In recent years, a handful of U.S. copyright cases have touched upon service provider liability, but none has the weight of precedent outside its own jurisdiction.<sup>162</sup> Unlike *APRA v. Testra*, these U.S. cases have dealt with the Internet rather than with telephone service and music on hold. In all but one of these cases, the service being provided was an Internet Bulletin Board Service (hereinafter "BBS"), where users can sign on to "talk" or to upload or download items of interest.

Bulletin boards are usually organized by topics of interest and are frequently run without the benefit of editorial or other control.<sup>163</sup> Generally, anyone who wishes to may sign on to a bulletin board ("USENET newsgroups") and can post ("upload") or respond to messages or copy ("download") items of interest.<sup>164</sup> It is primarily in the uploading and downloading of messages or other materials that copyright infringement occurs.

*1. Background Cases.*—In *Sega v. MAPHIA*,<sup>165</sup> users of a bulletin board who uploaded or downloaded unauthorized copies of protected Sega video games to a BBS were held to have directly violated the owner's exclusive right to distribute the work.<sup>166</sup> The BBS operator, who allowed users to infringe, but who did not

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(September 16, 1997) (testimony of Marybeth Peters, Register of Copyrights), available in LEXIS, ENTERT Library, CURNWS File.

161. *Id.*

162. The primary cases dealing with service provider liability are: *Sega Enterprises Ltd. v. MAPHIA*, 948 F. Supp. 923 (N.D. Cal. 1996); *RTC v. Netcom*, 907 F. Supp. 1361; *United States v. LaMacchia*, 871 F. Supp. 535 (D. Mass 1994); and *Playboy Enterprises Inc. v. Frena*, 839 F. Supp. 1552 (M.D. Fla. 1993).

163. GATES, *supra* note 32, at 113-14.

164. *Id.*

165. 948 F. Supp. 923.

166. *Id.* at 932-33. At issue in *Sega* was whether a BBS operator could be held liable for copyright infringement when the operator encouraged users to upload and download copyrighted video games without permission of the games' manufacturer. *Id.* The court in *Sega* distinguished between the direct infringement of MAPHIA's BBS users, who downloaded copies of Sega's video games, and the contributory infringement of the BBS operator who knew of the infringing activity and materially contributed to it, but who did not upload or download the games himself. *Id.* at 933. The court relied on *Fonovisa, Inc. v. Cherry Auction, Inc.* 76 F.3d 259, 264 (9th Cir. 1996) ("providing the site and facilities for known infringing activity is sufficient to establish contributory liability"), and *RTC v. Netcom*, 907 F. Supp. at 1382 (holding that contributory liability attaches if the defendant knows of the infringing activity and induces, causes, or materially contributes to it). *Id.*

himself directly infringe the copyright, was nonetheless held liable for contributory infringement because he knew of the infringing activity, encouraged it, and contributed to its success.<sup>167</sup>

Other cases include *United States v. LaMacchia*,<sup>168</sup> where the defendant set up a BBS to enable his correspondents to upload protected software and games, and allowed others with a password to download the protected material.<sup>169</sup> LaMacchia was accused of conspiracy to defraud under the criminal wire fraud statute which requires an intent to devise a scheme "to defraud, or for obtaining money or property by means of false or fraudulent pretenses . . . ."<sup>170</sup> The U.S. District Court for Massachusetts held that the wire fraud statute did not apply, because LaMacchia did not profit from his actions; therefore, his actions were not criminal acts under the criminal copyright statute.<sup>171</sup> While the court dismissed the case on these technical grounds, it gave a parting shot when it stated, "Criminal as well as civil penalties should probably attach to willful, multiple infringements of copyrighted software even absent a commercial motive on the part of the infringer . . . . But '[i]t is the legislature, not the Court which is to define a crime, and ordain its punishment.'"<sup>172</sup>

In *Playboy v. Frena*,<sup>173</sup> an operator of a BBS provided subscribers with high quality copies of photographic images owned by the plaintiff.<sup>174</sup> In affidavits, the defendant, Frena, stated that he had never uploaded any of Playboy's photographs, and that all 170 infringing images had been uploaded to his BBS by subscrib-

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167. *Sega v. MAPHIA*, 948 F. Supp. at 933.

168. 871 F. Supp. 535.

169. *Id.*

170. 18 U.S.C. §§ 1341, 1343 (1994). The court analyzed section 1343, the wire fraud statute (and section 1341, the mail fraud statute) as being bifurcated by the federal courts into two offenses: 1) devising a scheme to defraud, and 2) devising a scheme to obtain money. *U.S. v. LaMacchia*, 871 F. Supp. at 540-41.

171. The criminal copyright act states, in part: "Any person who infringes a copyright willfully and for purposes of commercial advantage or private financial gain shall be punished . . . ." 17 U.S.C. § 506(a) (1994).

172. *U.S. v. LaMacchia*, 871 F. Supp. at 545 (quoting *Dowling v. United States*, 473 U.S. 207, 214 (1985)). This so-called "La Macchia loophole" was closed by the No Electronic Theft Act, Pub. L. No. 105-216, 111 Stat. 2678, which was enacted December 16, 1997, largely in response to the *LaMacchia* holding. The NET Act amends various portions of Titles 17, 18, and 28 of the U.S. Code. *Id.*; see also Bill Pietrucha, *Congress Leaves a Full High Tech Plate for January*, NEWSBYTES, November 10, 1997, available in LEXIS, NEWS Library, 90DAY File.

173. 839 F. Supp. 1552.

174. *Id.*

ers.<sup>175</sup> He further said that upon being served with a summons in this matter, he had removed the photographs from the BBS and monitored the BBS to prevent additional infringing photographs from being uploaded.<sup>176</sup> Nonetheless, the court found that Frena had infringed the owner's "exclusive right to sell, give away, rent or lend any material embodiment of his work," including the right to publicly display the work.<sup>177</sup>

The U.S. District Court pointed out that there need not be an intent to infringe in order for infringement to be found, and that even an innocent infringer may be held liable, but that the infringer's innocence may be taken into account when fixing damages.<sup>178</sup> Frena, however, was not an innocent infringer on the related charge of trademark infringement, because he utilized the Playboy and Playmate trademarks in the file descriptions he provided for his customers.<sup>179</sup> In addition, he removed the Playboy trademarks from the photographs supplied by his subscribers and replaced them with his own advertisement.<sup>180</sup>

2. *The Netcom Case.*—Unfortunately for purposes of this comparison, none of these cases parallels the facts of *APRA v. Telstra*, where the telecommunications provider was liable for copyright infringement whether or not the provider directly infringed.<sup>181</sup> Each of the above-mentioned United States cases involved a BBS operator who knowingly participated in the infringement while avoiding direct infringement. However, in *Religious Technology Center v. Netcom On-Line Communication Services*,<sup>182</sup> the focus comes closer to the facts of *Telstra*, since Netcom is a provider of services in a similar, although certainly not identical position to Telstra Corporation.<sup>183</sup> Telstra, as has been mentioned, provides the primary telecommunications service for Australia, while Netcom provides access to the Internet for individual computer users all over the United States.<sup>184</sup>

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175. *Id.* at 1554.

176. *Id.*

177. *Id.* at 1556 (quoting 2 MELVILLE B. NIMMER, NIMMER ON COPYRIGHT § 8.11[A], at 8-124.1 (1993)).

178. *Playboy v. Frena*, 839 F. Supp. at 1559.

179. *Id.*

180. *Id.* at 1562.

181. *Telstra v. APRA*, 146 A.L.R. at 11.

182. 907 F. Supp. 1361.

183. *Id.*

184. Netcom is not the only large Internet access provider. Others include America Online, CompuServe, and Prodigy. *RTC v. Netcom*, 907 F. Supp. at

Like other Internet access providers, Netcom utilizes the local telephone connections provided and serviced by whichever company maintains the telecommunications system in a given area. In simple terms, this means that Netcom's customers are linked together through the regular telephone system; Netcom doesn't provide the telephone system, doesn't run the Internet, and no one pays for the Internet itself.<sup>185</sup> Netcom does pay for dedicated telecommunications lines which link it to others in the system, and then charges customers a fee to connect to the Netcom computers and to obtain access to the Internet through its system.<sup>186</sup>

In *RTC v. Netcom*, Dennis Erlich, a disenchanted former minister of the Church of Scientology, posted portions of the church's copyright protected works to a Usenet newsgroup where criticism of the church was displayed.<sup>187</sup> Erlich gained access to the newsgroup site through his subscription to a BBS run by Thomas Klemsrud, who in turn accessed the Internet through Netcom On-Line Communications, Inc.<sup>188</sup> The church, through its Religious Technology Center (hereinafter "RTC"), failed in its attempt to stop Erlich from posting "near verbatim . . . substantial" portions of the protected works, and subsequently contacted both Klemsrud and Netcom, requesting that Erlich be kept off the Internet.<sup>189</sup> In response, Klemsrud requested proof of copyright ownership from RTC, and after being denied such proof, he refused to accede to RTC's demands.<sup>190</sup> Netcom also refused RTC's demands.<sup>191</sup> As a consequence, in its subsequent suit against Erlich, RTC also named Klemsrud and Netcom in its claims of copyright infringement.<sup>192</sup>

There was no question that Erlich copied the protected works when posting them to the BBS, and that the Netcom system automatically made temporary copies for the purely mechanical purpose of transmitting Erlich's posting to and from the Internet.<sup>193</sup> Netcom argued that since it took no affirmative action to copy the protected works, only Erlich should be liable for any

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1368.

185. *Id.* at 1365 n.2.

186. *Id.*

187. *Id.* at 1365.

188. *Id.* at 1366.

189. *RTC v. Netcom*, 907 F. Supp. at 1366.

190. *Id.*

191. *Id.*

192. *Id.*

193. *Id.* at 1368.

direct infringement, not Netcom.<sup>194</sup> The court stated that Netcom's act of creating a system which allowed copies to automatically be made was "not unlike that of the owner of a copying machine who lets the public make copies with it. Although some of the people using the machine may directly infringe copyrights, courts analyze the machine owner's liability under the rubric of contributory infringement, not direct infringement."<sup>195</sup> Netcom compared its actions to those of a common carrier that "merely acts as a passive conduit for information."<sup>196</sup>

The District Court for the Northern District of California agreed that a mere passive retransmission of all posted messages is akin to the situation of a telephone company that might unknowingly carry infringing material by fax or from an audio recording on an answering machine.<sup>197</sup> The court held that if only the "wires and conduits" were provided, such passive transmission of material could be exempt from liability.<sup>198</sup> However, the court was not convinced that Netcom was entirely passive, as Netcom did more than provide mere "wires and conduits," and was not obligated to carry all traffic that came its way.<sup>199</sup>

After analyzing *Playboy* and *Sega*, the court framed its rather narrow holding around the reasoning that, because there was an actual direct infringer, it did not make sense to adopt a rule which created additional liability for direct infringement on the part of parties who do nothing more than set up a means of access to the Internet.<sup>200</sup> In dicta, the court stated that it "does not find workable a theory of infringement that would hold the entire Internet liable for activities that cannot reasonably be deterred."<sup>201</sup> After extensive further analysis of contributory and vicarious liability issues, the court held that Netcom was not liable for either direct or vicarious infringement, but that a genuine issue

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194. *RTC v. Netcom*, 907 F. Supp. at 1368.

195. *Id.* at 1369; *see also* *UNSW v. Moorhouse*, 6 A.L.R. at 206 (author's pagination) (giving the similar Australian view on this issue).

196. *RTC v. Netcom*, 907 F. Supp. at 1369 n.12.

197. *Id.* Note the similarity to the *Telstra* case, although *Telstra Corp.* was not always a mere passive carrier.

198. *Id.*

199. *Id.* The court raises an interesting question here, with particular implications if the question is asked also in Australia. For example, if *Telstra*, as a common carrier, is required by the terms of its license to carry all telephone traffic that comes its way, can it logically be held liable if some of that traffic happens to infringe someone's copyright?

200. *Id.* at 1372.

201. *R.T.C. v. Netcom*, 907 F. Supp. at 1372.

of material fact was raised as to whether Netcom knew or should have known that Erlich was infringing RTC's copyright.<sup>202</sup>

After the district court denied Netcom's motion for summary judgment and remanded the case for trial on the question of contributory liability, RTC and Netcom settled the suit out of court.<sup>203</sup> This, of course, left open the question of whether an Internet service provider could be held liable for contributory liability for copyright infringement if the provider knew or should have known of the directly infringing activity of one of its subscribers.

### *B. The Debate in the United States Congress*

For an Internet or telecommunications service provider with millions of customers, the mere conduct of the core business could theoretically result in the imposition of contributory or vicarious liability on the company for infringing activity by any or all of its customers. This scenario, while seemingly far-fetched, is possible under current U.S. law, and it has now actually happened in Australia.<sup>204</sup> This potentially unlimited liability for infringement by others is the engine that has been driving one side of the debate in the United States Congress over service provider liability and revision of copyright legislation.<sup>205</sup> The impact of such liability on an industry which now reaches nearly one in every four people in

202. *Id.* at 1381. This alleged knowledge resulted from Netcom's receipt of demand from RTC requesting that Erlich be barred from the system, *id.* at 1366, an allegation that implicated whether Netcom participated in the infringement and was thus entitled to a fair use defense. *Id.* at 1381.

203. Keith Stephens & John P. Sumner, *Catch 22: Internet Service Providers' Liability for Copyright Infringement Over the Internet*, COMPUTER. LAW., May 1997, at 1, 3.

204. *Telstra v. APRA*, 146 A.L.R. at 75

205. See Peters testimony, *supra* note 160. After much debate and disagreement during consideration of the administration's National Information Infrastructure Implementation Bill in 1996, the Patent and Trademark Office was requested to attempt a resolution to the online service provider liability issue, but postponed the effort when Congress adjourned. *Id.* The 1997 debate, and Rep. Coble's introduction of H.R. 2180 grew out of the prior year's actions. *Hearings on H.R. 2180 and H.R. 2281 Before the Subcomm. on Courts and Intellectual Property of the House Comm. on the Judiciary*, 105th Cong. (1997) (statement of Bruce A. Lehman, Asst. Secy. of Commerce and Comm'r of Patents and Trademarks), available in LEXIS, ENTERT Library, CURNWS File. Much of the impetus to achieve a resolution to this problem has come from Rep. Bob Goodlatte (R-Va.), who convened a committee to devise a solution, but whose efforts ultimately failed due to disagreement among the committee members. *Id.*; see also *Copyright Liability Negotiations Continue*, INTERNET WK., Mar. 11, 1996, available in 1996 WL 7055533.

the United States and Canada, and which doubled in size in the past eighteen months, is potentially enormous.<sup>206</sup>

On the other side of the debate is the copyright owner, perhaps a songwriter, whose latest hit can be both very popular and far less profitable if just one customer uploads the recording to a bulletin board and makes the work available at no cost to millions of Internet users. This scenario is real. It is occurring now, and it poses a real threat to intellectual productivity and creativity.<sup>207</sup> The situation, viewed on a national scale, becomes an economic problem with an impact that cannot be ignored. United States copyright industries are roughly equivalent in workforce to the automobile industry; are growing at twice the rate of the U.S. economy; represent over \$250 billion of Gross Domestic Product; and generate \$50 billion in foreign sales and exports, which are exceeded only by the automobile and agricultural sectors of our economy.<sup>208</sup> International piracy of copyrighted works costs these industries \$18-20 billion annually.<sup>209</sup>

1. *The WIPO and Online Service Provider Liability.*—The United States, having joined the Berne Convention for the

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206. *Hearing on The Copyright Infringement Liability of Online and Internet Service Providers Before the Senate Comm. on the Judiciary*, 105th Cong. (1997) (statement of Sen. Orrin G. Hatch, Chairman of the Comm.), available in 1997 WL 14150393; see also William J. Cook, *supra* note 157 (stating that in 1995, the big three service providers, AOL, CompuServe, and Prodigy had combined revenues of more than \$1 billion).

207. For example, unauthorized recordings of songs by Mariah Carey, the Rolling Stones, the Police, and Sheryl Crow were available on the Internet to be downloaded. One pirate music site, "Jon's Take But Don't Tell Page," received over 36,000 "hits" in a three-month period. *Copyright on the Internet—Promise & Perils: Hearings on H.R. 2180 and 2281 Before the Senate Comm. on the Judiciary*, 105th Cong. (1997) (testimony of Cary H. Sherman, Sr. Exec. V.P. & Gen. Counsel, Recording Indus. Ass'n of Am.), available in LEXIS, LEGIS Library, CNGTST File.

208. The statistics are combined from: *Hearings on H.R. 2180 and H.R. 2281 Before the Subcomm. on Courts and Intellectual Property of the House Comm. on the Judiciary*, 105th Cong. (1997) (statement of Allee Willis, Songwriter, on behalf of Broadcast Music, Inc.), available in 1997 WL 14150780; and *Hearings on WIPO Copyright Treaties Implementation Act and the Online Copyright Liability Limitation Before the Subcomm. on Courts and Intellectual Property of the House Comm. on the Judiciary*, 105th Cong. (1997) (testimony of Jack Valenti, Pres. and CEO, Motion Picture Ass'n of Am.), available in LEXIS, LEGIS Library, CNGTST File.

209. Hatch statement, *supra* note 206. Senator Hatch's estimate of the copyright industry's contribution to gross domestic product is \$400 billion, considerably higher than the figure offered by Jack Valenti, *supra* note 208.



Protection of Literary and Artistic Works in 1989,<sup>210</sup> became a major player in the World Intellectual Property Organization ("WIPO") treaty talks in Geneva during 1996.<sup>211</sup> The WIPO negotiations were designed to update the Berne Convention, with particular attention paid to protecting performers and producers of sound recordings.<sup>212</sup>

One of the hoped-for results of the WIPO negotiations was to bring the world into rough parity in terms of intellectual property laws and enforcement.<sup>213</sup> If adopted, the treaties could mean that the United States copyright industry would have greater leverage than ever before in effectively protecting its products in the global marketplace.<sup>214</sup> However, in order for American industries to enjoy these benefits, the Geneva treaties must be ratified by a large number of countries, including the United States.<sup>215</sup> Commentators have urged Congress to pass the WIPO implementation legislation expeditiously so that the United States may be seen to be seriously supportive of the treaty provisions, but this passage did not happen during the first session of the 105th Congress.<sup>216</sup>

One reason for the failure to pass the legislation during the first session was that the bill was used in the House of Representatives during the first session as leverage in the debate over service

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210. See Pub. L. No. 100-568, 102 Stat. 2853 (1988) (adopting the Berne Convention).

211. Meeka Jun & Stephen D. Rosenboro, *The WIPO Treaties: The International Battle Over Copyright Cyberturf*, ENT. & SPORTS LAW., Fall 1997, at 8. The World Intellectual Property Organization is composed of 160 member nations, and was formed by the United Nations in 1989 to oversee the Berne Convention, which is the principal international treaty concerning copyright protection. *Id.*

212. Lehman statement, *supra* note 205.

213. *Hearings on H.R. 2180 and 2281, Before the Subcomm. on Courts and Intellectual Property of the House Comm. on the Judiciary*, 105th Cong. (1997) (statement of Hilary B. Rosen, Pres. and CEO, Recording Indus. Ass'n of Am.), available in LEXIS, ENTERT Library, CURNWS File. Rosen points out that while the treaty provisions do not mandate an American level of protection in other nations, they do enable the United States and other intellectual property producing nations to enforce rights more effectively in a digital environment. *Id.*

214. *Id.*

215. *Id.*; see also Ellen Messmer, *Congress to Debate 'Net Copyright Legislation*, NETWORK WORLD, Sept. 22, 1997, available in LEXIS, ENTERT Library, CURNWS File (stating that a minimum of 30 nations must ratify the WIPO treaties for them to take effect).

216. See Rosen statement, *supra* note 213; see also Lehman statement, *supra*, note 205 (outlining the ratification process, which includes advice and consent by the Senate, which received the Treaties from President Clinton on July 28, 1997). The House and the Senate failed to pass the initial implementing legislation (H.R. 2281, introduced by Rep. Coble, and S. 1121, introduced by Sen. Hatch) during the first session of the 105th Congress. See Pietrucha, *supra* note 172.

provider liability. Online service providers believed that the vague wording of the WIPO treaties left the providers open to liability for failure to monitor Internet transmissions for copyright violations, and asked Congress to add an exemption from liability to the implementing legislation.<sup>217</sup> Senator John Ashcroft (R., Mo.) proposed legislation (S. 1146) that addressed both the service provider concerns and the WIPO implementing legislation.<sup>218</sup> The Ashcroft bill clarified liability for those who merely pass information through the Internet without controlling content, and provided for rapid removal of infringing material upon notice from the copyright owner.<sup>219</sup>

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217. *Hatch Seeks Agreement on Online Copyright Liability*, TELECOMM. REP. INT'L, Sept. 8, 1997, available in 1997 WL 10454345.

218. *Id.* The bill was entitled the Digital Copyright Clarification and Technology Education Act of 1997. See also Bill Pietrucha, *Ashcroft Seeks Copyright Upgrade for Internet*, NEWSBYTES, Sept. 5, 1997, available in LEXIS, NEWS Library, CURNWS File. A number of the groups testifying during the Senate and House hearings in September of 1997 expressed support for the Ashcroft bill, among them the Computer and Communications Industry Association (see Black testimony *infra* note 237), the US Telephone Association (see Neel testimony, *infra* note 233), the Digital Future Coalition, and the American Committee for Interoperable Systems (see Pietrucha article, *supra* this note). Content providers, in general, do not seem to support any revision of copyright laws that exempts service providers from liability.

219. Pietrucha, *supra* note 218; see also S.1146 text, which would add section 512 to Title 17 U.S.C., stating in part:

Sec. 512. Liability relating to material on the Internet and on-line

(a) Material Being Transmitted Through an Electronic Communications System or Network

(1) Network Services With Respect to the Transmission of Electronic Communications

—A person shall not be liable for direct, vicarious or contributory infringement of copyright arising out of providing electronic communications network services or facilities with respect to a copyright infringement by a user. A person shall be considered to provide 'network services and facilities' when such person transmits, routes or provides connections for material on behalf of a user over an electronic communications system or network controlled or operated by or for the person, including intermediate and transient storage, the processing of information, and the provision of facilities therefor, if—

(A) the provision of services is for the purpose of managing, controlling or operating a communications system or network, supplying local access, local exchange, telephone toll, trunk line, private line, or backbone services, including network components or functions necessary to the transmission of material contained in electronic communications carried over those services; or

(B) the transmission of material over the system or network on behalf of a user does not involve the generation or material alteration of content by the person.

Representative Howard Coble (R., N.C.) introduced H.R. 2180, the On-Line Copyright Liability Limitation Act, on July 17, 1997, in an attempt to address the concerns of the service provider industry.<sup>220</sup> H.R. 2180, however, met with sharp resistance from the content provider community, which felt that its passage would not only exempt Internet service providers from liability for infringement, but would emasculate the content providers' ability to seek and achieve redress for electronic copyright infringement.<sup>221</sup>

Service providers, however, generally favored the provisions contained in H.R. 2180, and put pressure on the House to pass the measure if Congress wanted their support for the passage of H.R. 2281, the WIPO Copyright Treaties Act.<sup>222</sup> Rep. Coble, who chairs the House Judiciary Committee's Subcommittee on Courts and Intellectual Property, and who introduced H.R. 2281 as well as H.R. 2180, held hearings on both bills simultaneously, permitting content and service providers to address both the liability issue and WIPO implementation at the same time.<sup>223</sup> The resulting turmoil from two powerful factions wrestling over proposed legislation effectively killed the implementing legislation for that session.<sup>224</sup>

2. *Content Providers Argue to Preserve the Status Quo.*—In the House hearings, representatives of the content provider

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Digital Copyright Clarification and Technology Education Act of 1997, S. 1146, 105th Cong. § 102(a).

220. H.R. 2180 would have exempted a party from direct or vicarious liability for transmitting or providing access to material online, and from monetary damages under contributory infringement if six criteria are met. Those criteria are that the person seeking the exemption: 1) does not initially place the material online; 2) does not generate, select, or alter the content; 3) does not determine who the recipients are; 4) does not receive financial benefit from the infringement; 5) does not sponsor, endorse, or advertise the material; and 6) has no knowledge or awareness that the material is infringing. On-Line Copyright Liability Limitation Act of 1997, H.R. 2180, 105th Cong. § 2.

221. *House Panel to Start 2 Days of Copyright Hearings*, COMM. DAILY, Sept. 16, 1997, available in 1997 WL 13778980.

222. Bill Holland, *U.S. WIPO Bill Is Entwined With Online Liability Issue*, BILLBOARD, September 27, 1997, at 8.

223. *House Panel to Start 2 Days of Copyright Hearings*, *supra* note 221.

224. Adding to the confusion, a number of the news reports on the House hearings misquoted (reversed) the numbers of the two bills in question, and misrepresented the parties in support or in opposition to either of the bills. See, e.g. Holland, *supra* note 222, and *Equipment Manufacturers, Others Restate Opposition to WIPO Measure*, TELECOMM. REP. INT'L, Sept. 26, 1997, available in 1997 WL 10454358; see also Hilary Rosen statement, *supra* note 213 (stating that failure to implement the WIPO treaties would place "at risk some of America's most dynamic, visible, and productive industries and workers").

industries<sup>225</sup> voiced their opposition to H.R. 2180, and asked why service providers should be granted exemption from liability for infringement when the few suits that have been brought have not subjected service providers to debilitating damage awards in court.<sup>226</sup> Generally, the content providers spoke with one voice in saying "if it ain't broke, don't fix it."<sup>227</sup>

Content providers also said they needed the help of online service providers to stop what they consider to be rampant piracy and infringement in the online environment.<sup>228</sup> They argued that the service providers would not exist if it were not for the financial benefits that accrue from being able to provide content that people want to access, and that service providers have a responsibility to help protect that content.<sup>229</sup> The view of content providers was that current law, with its mixture of direct, vicarious, and contributory liability, and the possibility of both equitable and monetary relief, gives adequate protection to the content industries without unduly burdening the service providers.<sup>230</sup> Thus, the content providers wished to keep the status quo with regard to the law, and to pass the WIPO implementing legislation, which they saw as further protecting their interests abroad. They also wished to separate H.R. 2180 from the consideration of WIPO, because H.R. 2180 made changes in the Copyright Act that content providers felt were harmful to their interests.<sup>231</sup>

3. *Service Providers Argue for Change.*—On the other hand, online service providers and others involved in providing communications services and networks strongly supported H.R. 2180, a bill that they felt gave them some protection from strict liability for

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225. Organizations speaking for the content providers included the Motion Picture Association of America, the Software Publishers Assn., the American Society of Composers, Authors, and Publishers, Broadcast Music, Inc., and the Recording Industry Association of America, among others.

226. See Valenti testimony, *supra* note 208.

227. *Id.*

228. *Id.*

229. *Hearings on H.R. 2180 "On-Line Copyright Liability Limitation Act," and H.R. 2281, the "WIPO Copyright Treaties Implementation Act," Before the Subcomm. on Courts and Intellectual Property of the House Comm. on the Judiciary, 105th Cong. (1997)* (statement of John Bettis, Songwriter, on behalf of the Amer. Soc. of Composers, Authors and Publishers), available in 1997 WL 14150781.

230. *Id.*

231. See Rosen statement, *supra* note 213.

actions not of their doing and not under their control.<sup>232</sup> It is interesting that the House Subcommittee Hearings took place on September 16 and 17, 1997, just two days after the Australian High Court held a telecommunications provider liable for copyright infringement in the *Telstra* case. No mention of the Australian case was made during the hearings, presumably because the participants were unaware of it.

Roy Neel, President of the United States Telephone Association, represented the view of some service providers that the lawsuits that have been brought against their industry for infringement are simply the tip of a looming iceberg. He quoted a statement by Recording Industry Association of America Vice President, Frank Creighton: "The fight about third party liability will be resolved in future litigation."<sup>233</sup> The service providers, realizing that theirs are the "deep pockets" being targeted, are concerned about the potential for liability for acts of infringement of which they are unaware and which they are unable to monitor.<sup>234</sup>

Neel argued:

Even if ISPs could investigate every corner of the expanding online universe, ISPs would have no way of knowing whether the material they encounter is authorized by the current copyright owner or not . . . . The point is that only the content owner or his agent can ever know for sure what is an authorized use.<sup>235</sup>

The suggestion by Neel and others was for service and content providers to work together to combat piracy on the Internet, using a system where copyright owners would be responsible for identifying infringing uses of their material and for notifying the service provider of the illegal use.<sup>236</sup> The service provider, upon

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232. Organizations representing the service provider industry included the United States Telephone Association, Prodigy, Inc., the Information Industry Association, the Digital Future Coalition, the Ad-Hoc Copyright Coalition, and the Computer and Communications Industry Association.

233. *Hearings on H.R. 2180, Before the Subcomm. on Courts and Intellectual Property of the House Comm. on the Judiciary*, 105th Cong. (1997) (testimony of Roy Neel, President and CEO, U.S. Telephone Assn.), available in LEXIS, ENTERT Library, CURNWS File.

234. *Id.*

235. *Id.*

236. See Neel testimony, *supra* note 233.

such notice, would then take appropriate action to remove the site.<sup>237</sup> Essentially, this was the core of the liability portion of Sen. Ashcroft's bill, which also would have implemented the WIPO treaties.<sup>238</sup>

4. *Legislative Solutions: The Digital Millenium Copyright Act*—Although the bills have been partially renumbered and renamed, the House and Senate have taken the first session's legislation and reworked the bills. The WIPO Implementation Act (H.B. 2281) passed the House in April 1998 and was sent to the Senate.<sup>239</sup> The Senate amended the bill striking out all text after the enabling clause and inserting the text of S. 2037.<sup>240</sup> This modified bill was passed by the Senate and returned to the House for approval, but the House refused to concur with the Senate amendments.<sup>241</sup>

The modified bill, now titled the Digital Millennium Copyright Act, was sent to a Conference Committee in an attempt to find a solution palatable to both the House and the Senate.<sup>242</sup> On October 8, 1998, the House passed the Conference Report, and the Senate did likewise on October 9, 1998.<sup>243</sup> The Digital Millennium Copyright Act was signed into law by President Clinton on October 28, 1998.<sup>244</sup>

The bill addresses the issues of fair use regarding institutional copying,<sup>245</sup> clarifies the rules regarding technological protection measures,<sup>246</sup> ensures that privacy issues will be addressed on the Internet,<sup>247</sup> and addresses a number of other issues not relevant to this comment. Most importantly, the bill implements the WIPO treaties and attempts to clarify the liability of on-line service providers.<sup>248</sup>

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237. See *id.*; see also *Hearings on H.R. 2180 and H.R. 2281 Before the Subcomm. on Courts and Intellectual Property of the House Comm. on the Judiciary*, 105th Cong. (1997) (statement of Edward J. Black, President, on behalf of the Computer and Comm. Indus. Assn.), available in 1997 WL 14150842.

238. Pietrucha, *supra* note 218.

239. H.R. 2281, 105th Cong. (1997).

240. S. 2037, 105th Cong. (1998).

241. H.R. 2281, *supra* note 239.

242. *Id.*

243. 144 CONG. REC. S11887-01 at S11889 (1998); and 144 CONG. REC. H10572-17 at H10621 (1998); see also United States Bill Tracking, 1997 US H.B. 2281 (SN), available in Westlaw US-BILLTRK Database.

244. See United States Bill Tracking, *supra* note 243.

245. 144 CONG. REC. at S11887.

246. *Id.* at S11887-11888.

247. *Id.* at S11888.

248. *Id.* at S11889.

As regards service provider liability, Title II, section 202 of the Digital Millennium Copyright Act would eliminate liability for simply providing the network over which the offending transmissions were made, or for mechanically making the copies necessary to transmit material over that network.<sup>249</sup> Procedures are specified for notification of claimed infringement,<sup>250</sup> although such notification does not generally impute knowledge of infringing activity to the service provider.<sup>251</sup> Service providers must have knowledge of the infringing activity to be held directly liable.<sup>252</sup>

In general, the provisions of the Act seem to favor the service provider industry over the content providers, inasmuch as the bill eliminates monetary damages against qualifying service providers<sup>253</sup> and only allows injunctive relief in the form of restricting the offender's access to the system, whether the offender is an individual or a foreign online site.<sup>254</sup> If the service provider expeditiously removes offending material, there is no liability.<sup>255</sup> Further, there are no provisions requiring service providers to monitor or otherwise control content on their networks, a notion which was hotly contested by both sides in testimony before the House and Senate judiciary committees in 1997.<sup>256</sup>

The immediate problem is whether these amendments to the copyright laws will suffice to bring those laws into the information age. Keeping in mind that the law of copyright originated in response to technology, and that subsequent revisions to copyright laws have largely been driven by changes in technology, it is only natural to revise these laws when faced with technological changes of the magnitude that have marked the last quarter of this century. However, if we accept the proposition that the copyright law has been outdated in its application to current technologies, we are then faced with the problem that these technologies are changing at a rate inconceivable even a few years ago.<sup>257</sup> Will these 1998 revisions to the copyright law still have any relevance in 2008?

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249. 144 CONG. REC. H10048-01, H10053.

250. *Id.* at H10054.

251. *Id.*

252. *Id.*

253. *Id.* at H10053.

254. 144 CONG. REC. at H10055.

255. *Id.* at 10054.

256. *See generally supra* notes 217-238 and accompanying text.

257. Gates, *supra* note 32 at 36-37.

## V. Conclusion

The Australian High Court brought the service provider liability issue in that nation to the front burner. By holding the nation's largest telecommunications carrier liable for both direct and contributory copyright infringement, the Court placed the liability issue squarely in the lap of Parliament as a public policy issue. The Australian Parliament could not let the decision stand, for to impute liability to the nation's major telecommunications provider for any act of infringement utilizing its network could bring communications to an impasse. A close look at the High Court decision to see just how far the court was able to stretch the statutory language of the Copyright Act 1968 will probably be helpful to Parliament in drafting revisions to the law.

How Parliament decides to deal with the revisions could well have a major impact on Australia's role as a player in the developing global intellectual property marketplace. Australia, like the United States, is a member of the Berne Convention.<sup>258</sup> In the negotiations among WIPO participants in Geneva, Switzerland, in December of 1996, it was unanimously agreed that service providers would not be held liable for copyright infringement solely on the basis of providing the facilities used by others to infringe.<sup>259</sup> Yet, such liability is precisely what the High Court imposed upon Telstra Corp. when it stated that it was irrelevant whether Telstra provided or selected the music on hold.<sup>260</sup> One of the scenarios where Telstra was found liable was where a third party played unlicensed music on hold to its callers without Telstra's participation, but over the communications system provided by Telstra.<sup>261</sup>

Further, in this age of global communications, all nations, the United States and Australia included, must examine and re-examine the effect of their laws on transnational infringement. For example, when a caller from Adelaide dials a number in Pennsylvania and is put on hold to the sound of unlicensed music, is Telstra liable for the infringing activity? In the northern hemisphere, is Bell Atlantic liable? The answers are not clear, but the implica-

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258. See note 138 *supra*, and accompanying text.

259. *Hearings on H.R. 2180 and H.R. 2281 Before the Subcomm. on Courts and Intellectual Property of the House Comm. on the Judiciary*, 105th Cong. (1997) (testimony of Robert L. Oakley, Georgetown Univ. Law Center).

260. *Telstra v. APRA*, 148 A.L.R. at 8.

261. *APRA v. Telstra*, 118 A.L.R. at 370.



tions for both communications carriers become somewhat problematic, because the same scenario could occur by e-mail, fax, or teleconferencing with virtually the same result.

The *Telstra* decision exemplifies the service provider industry's nightmare scenario, although the industry in the United States has not yet recognized the implications of this particular case.<sup>262</sup> In the modern global environment, the decisions of another nation's judicial or legislative bodies in determining the direction of policy toward intellectual property rights cannot be ignored with impunity by industries in this country. Because 70% of the world's Internet traffic starts and stops in the United States, any decision that bears on liability for infringement of copyright should be required reading for both service and content providers.<sup>263</sup>

In the copyright arena, however, there is a significant disparity between national laws and their enforcement—a disparity which has resulted in a number of nations becoming pirate dens.<sup>264</sup> In order to level the playing field, national laws must be brought into parity and enforcement must become a priority. The WIPO Treaties have the potential to bring some degree of uniformity into the international arena. While protecting the interests of the intellectual property producing nations, the WIPO treaties will also help boost the fledgling intellectual property industries in nations such as Russia, China, and Italy, where piracy, not creativity, is currently the norm.<sup>265</sup>

The opportunity exists, in Australia and the United States, to bring the copyright statutes into the electronic age while setting an example that the rest of the world will want to emulate. In both nations, the legislatures are updating the copyright statutes, but whether these updates will be effective can only be measured after implementation. Will these revisions be enough to lead the way into an equitable, digital Twenty-First Century? Time will tell, but the time and the technology will change quickly.

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262. Neel testimony, *supra* note 233, and accompanying text.

263. Willis statement, *supra* note 208.

264. Valenti testimony, *supra* note 208.

265. *Id.*