

SUBMISSION TO THE COPYRIGHT REVIEW GROUP

BY

THE IRISH RECORDED MUSIC ASSOCIATION

Submission to The Copyright Review Group

Appendix 1

Enforcement against File Sharing: The Graduated Response.

Alternative Solutions (private law contracts) (including the problem of data privacy)

Appendix 2

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This submission is being presented by the Irish Recorded Music Association (IRMA). IRMA represents the interest of Irish record companies. IRMA welcomes this review cautiously.

The overriding statement that **“There is a perception in certain industries that national copyright legislation does not cater well for the digital environment and actually creates barriers to innovation and the development of new business models”** is the reason for the caution. This would seem to indicate that the premise of the review is that there is something wrong with copyright protection as it stands and that in order for technological innovators to flourish, the rights of creators of original content must necessarily be diluted. IRMA takes the view that if there is indeed something wrong with copyright, it is that due to innovations in technology copyright is failing to ensure that creators are paid and that this review might consider whether accordingly the rights of technical innovators must necessarily be diluted.

It is the case that high quality content is a significant factor in attracting consumers to new technologies and platforms. It is also the case that many advances in technology have had the effect of depriving creators of appropriate remuneration for their work. It should not be the case that one must necessarily suffer in order that the other might succeed. The relationship between the creative industries and the innovators of technology should be mutually beneficial. Accordingly what is required and what IRMA hopes that this Copyright Review is in fact trying to achieve, is the striking of a balance that will allow both creators and innovators to thrive.

In the following pages IRMA will answer each of the four questions posed by the Review Group and set out its recommendations at the end.

Question 1: Examine the present national copyright legislation and identify any areas that are perceived to create barriers to innovation

The Recorded Music Industry

Record companies or record labels discover, invest in, market and distribute music. They look for talented artists and musicians and when they find them they provide the structure, know how and investment to allow them to develop their music and to grow as artists. The financial investment in artists include artists' advances (lump sums provided to artists so that they can focus on their music career) and the payment of recording costs which are intended to allow the artist to produce the highest quality recorded music. The record company then creates demand for that music by marketing the artist and their recordings.

Investing in new talent and developing new music require a significant upfront investment and it is a highly risky investment. One in ten of all new acts break even. The elusive hit record pays for the ones that do not.

The way in which music is sold and marketed to the public has changed. Singles and popular (pop) music which have heretofore been the backbone of the record industry's income are predominantly sold to people between the ages of 10 and 25. This age group - unlike the generation before them who appreciated the physicality of owning a CD and who invested in sound systems to ensure that they obtained the best sound quality - are completely computer literate and are happy to, and indeed expect to, obtain their music via downloads to their computers and mobile phones and to listen to them via their portable players (i.e. iPods and mp3 players) and phones.

Record companies have responded by distributing music digitally and in new and innovative ways. Sound recordings can be streamed in that they can be listened to for free but not downloaded with rights holders receiving revenue from advertising. Premium streaming services exist where the listener gets the option of listening without advertising for a fee. Subscription Services allow subscribers for a monthly fee to listen to unlimited advertisement-free music and download a certain number of tracks. Mobile services exist where a certain amount of streaming and downloading are bundled into the price of the handset.

The mass availability of unauthorised, unpaid-for music, made available via the Internet, through illegal file sharing, has done untold damage to the development of this legitimate digital music business. The digital revolution for content has been characterised by enormous growth in Internet platforms that use music and other copyrighted content and a decline in the revenues of many creative industries including and in particular the recorded music industry, due to widespread illegal downloading.

In the past record sales could support long term livelihoods and careers and generate economic activity and jobs in other sectors. A significant decline in sales, primarily due to Internet piracy has diminished the ability of record companies to fund new artists and invest in careers. If there is no reasonable prospect of obtaining a return, then investment activity will cease or significantly decline and with it the investment in Irish talent and musical creativity.

Creativity and innovation

There is a strong connection between music and technology. ISPs and search engines have benefited from the demand for music, using the availability of music both legal and illegal as an attraction in the marketing of broadband or search facilities. In the Internet sphere because of the appeal of music to consumers and its small file sizes many innovative technology businesses have already developed platforms using music directly or indirectly as a major part of their service to the user e.g. YouTube

The combination of technology and high quality content benefits consumers, content creators and technology industries. However this only works if everyone benefits. Presently content creators with little or no protection for their works online lack the *financial* incentive to create. Appropriate intellectual property protection needs to be put in place so that growth in the technology sector can feed back sufficient returns into creative businesses to incentivise continuing investment into the creation of compelling content which in turn drives the use of technology services.

Internet Piracy

The single greatest factor damaging the digital market for recorded music is the scale of unauthorized sharing of music. Uploading, where someone makes digital files stored on a computer available to other users over the Internet, is the method by which computer users **distribute** copyright material without permission. Downloading, where an individual copies or transfers digital files (made available by uploading) from another computer to their own computer is the method by which computer users **obtain** copyright material for free.

The methods used to unlawfully acquire copyrighted content such as music and film have greatly evolved and diversified. Currently they can be divided into two categories – peer-to-peer and non peer-to-peer.

Non Peer-to-Peer

In this instance the material be it sound recordings or other copyright content is held on a website or server where it is made available for download. The following is just a selection of the methods:-

- Aggregators and mp3 search engines – these publish links to tracks or albums hosted elsewhere on the Internet to give users a single place to search for content.
- Forums and Blogs - these are community-based websites that allow members to link to content for others to download, often with a common theme or interest
- Hosting sites (also known as Cyberlockers) are online vaults or lockers for storing content, which typically host large numbers of unlicensed copyright files. Links to enable others to download these files are then made available on forums, blogs, and mp3 search engines
- Newsgroups allow users to post messages (similar to emails) with audio attachments to a server where they can be easily downloaded by other users
- Unlicensed pay sites are websites that resemble legitimate retailers listing albums and tracks for download at a very low price. This creates confusion for the consumer as the sites often claim to be fully licensed and state that remuneration is going to the artist when they are paying no royalties to copyright owners

Peer-to-Peer

Much of the unauthorised copying and dissemination of copyrighted sound recordings over the Internet is done using peer-to-peer file copying services. There is no central server or computer hosting the service. There are presently several peer-to-peer file sharing services and networks such as "Gnutella", "Gnutella 2", "eDonkey", "DirectConnect", "BitTorrent" "Open FT", "Soulseek" "Ares", "Vuse" and "Shareza". All such services enable individuals to make available sound recordings that they have copied onto their computers to others who are using the same or compatible software over the Internet. These peer-to-peer services may be in use by millions of people at any given time.

Downloading from non peer-to-peer sites and participating in a peer-to-peer network is easy, and not only for the computer literate. Most networks are set up so that anyone with a computer, access to the Internet and a little know-how will be able access music for free and search engines provide links to easy-to-follow guidelines for the neophyte. It is undoubtedly the case that for very many young people they have never known a time when they actually had to pay for music.

Internet piracy hurts everyone: creators and innovators alike

The losses that the Irish Music Industry has suffered from Internet Piracy have been well publicised. In the High Court case that the Irish recorded music industry took against the Internet Service Provider UPC Communications (the UPC Case) Judge Peter Charleton found that ***"Between 2005 and 2009 the recording companies experienced a reduction of 40% in the Irish market for the legal sale of recorded music. This is equivalent to €64 million in sales"*** and went on to say that ***"some 675,000 people are likely to be engaged in some form of illegal downloading from time to time"*** and that ***"at least €20m in lost sales are being caused to the Irish market by illegal downloads on an annual basis"***

But of course record companies are not the only participants in the music business that have suffered. When music is downloaded illegally composers who have licensed their compositions to the record companies and derive their income from royalties do not get paid. Performers and artists

who make their living performing the compositions are not paid. The Artists Charter, the brainchild of Gavin Bonar, Barrister at Law and husband to Sharon Corr of The Corrs (reproduced here with his consent), reads as follows:-

The Rights of Artists

We the undersigned, writers, artists and musicians, along with our fans and those millions of people worldwide who work in or are otherwise supported by the creative industries say as follows:-

1. *We have the right to earn a living from our work.*
2. *We reiterate that basic human right to work enshrined in Article 23 (1) of the UN Declaration on Human Rights, and by virtue of Article 23(3) of that declaration to 'just and favourable remuneration' for our artistic endeavours.*
3. *We seek to make technology a friend and not an enemy of our creativity.*
4. *We ask to be allowed to make a living, whether through performing, writing or recording music, derived from the power of our ideas and the commercial use of our talents.*
5. *We say it is a fact that the protection of our creative output depends substantially on copyright law, and we urgently call on all governments to assist us in the legal protection of our collective artistic output from piracy and other unauthorised infringement.*
6. *It is self-evident that any commercial enterprise requires revenue flows to not only survive, but thrive, innovate and take calculated risks.*
7. *We say that the Internet service provider industry must accept its share of responsibility for the rampant abuse of copyright online. Easy unauthorised access to our material goes unchecked every day across the world and infringers do not seek our consent when sharing our works.*
8. *Our creative industries are facing unsustainable revenue losses due to weak or unenforced copyright laws. This means one thing and one thing only: millions of jobs lost and young talent ignored.*
9. *While our industry has collapsed to annual revenues of less than US\$20 billion, the ISP industry has more than doubled its revenues in the last five years to US\$250 billion -- due in large part to infringement of our artistic works.*
10. *We demand our indisputable right to copyright protection be no longer ignored. 'Free' should not come at such a terrible cost.*

*Stand with us to ensure the creative industries survive.
<http://www.ipetitions.com/petition/artistscharter/>*

Gavin Bonnar

In the UPC case Mr. Justice Charleton also said

"I am satisfied that the business of the recording companies is being devastated by Internet piracy. This not only undermines their business but ruins the ability of a generation of creative people in Ireland, and elsewhere, to establish a viable living. It is destructive of an important native industry".

Retailers participating in the legitimate music distribution chain are similarly hit resulting in the well publicised financial difficulties of such companies such as Golden Discs and Extravision.

In truth, however, music is only the first of the creative industries to suffer. Illegal filesharing also permits the sharing of movies, audio books and games and significant damage has already been done to those industries. The Google Book Settlement whereby authors' books were digitized by Google (in many cases without their prior consent) has an additional side effect. These digital files are now available for sharing and are being shared on file sharing networks. Like the recorded music industry, Google is now also competing with "free". It remains to be seen how many users will actually pay Google for access to books which are freely if illegally available online. The authors of the digitized books to whom Google has pledged to pay royalties out of each legitimate sale will not be paid but neither will Google. So the absence of effective enforcement of copyright online damages not just creators but also the innovators.

IRMA's answer to question 1 is that the absence of effective enforcement of copyright law to prevent illegal file sharing on the Internet is a barrier to innovation AND this damages both creator and innovator.

Question 2: Identify solutions for removing those barriers and make recommendations as to how these solutions might be implemented through changes to national legislation

A solution to Peer-to-Peer Internet Piracy developed by IRMA and eircom

The details of the solution are set out in a presentation made at the ALAI study days on the 1st of July 2011 entitled "*Enforcement against File Sharing: The Graduated Response. Alternative Solutions (private law contracts)(including the problem of data privacy)*" and a copy is attached at

Appendix 1. As will be seen from the presentation early indications are that Irish Graduated Response works as a solution to peer-to-peer Internet piracy.

Graduated Response in France

In France Graduated Response was set up via legislation under the Haute Autorite Pour Diffusion des Oeuvres et la Protection des Droits sur Internet. This authority known as HADOPI enforces and monitors Graduated Response in France. A survey undertaken in May of this year for HADOPI found that 50% of Internet users questioned thought that HADOPI is a good thing and of those who had received a warning 72% said that they had reduced or completely stopped their illegal usage following this warning. The full survey is available at <http://www.hadopi.fr/>. HADOPI also has an educational function and has initiated a multi prong, cross media campaign to promote HADOPI in a positive light and to encourage legal Internet usage of copyright material. The campaign is called PUR for "*promotion des usages responsables*" and further details can be found at <http://www.pur.fr/ressources>.

Injunctions, Incentives and Education

The key to enforcement of copyright on the Internet is the co-operation of ISPs. For years the music industry has waited in the hope that the commercial interest of ISPs (e.g. desire to sell music online / desire to save their bandwidth for paying customers) would eventually align itself with the interest of copyright industries in protecting their copyright. This has not come to pass. If there is no legal imperative upon ISPs to stop their networks being used for illegality then for the most part they will not do it and those that do will be at a competitive disadvantage. This is why injunctions are important and why the Government's recent proposal to amend the Copyright and Related Rights Act 2000 by way of Statutory Instrument which will allow rightsholders to apply for injunctions against intermediaries is so necessary.

Injunctions whilst vital are not on their own enough. ISP networks are endlessly complicated and finely balanced and Internet piracy is a quickly evolving and mutating phenomenon. IRMA's experience is that ISPs say that the battle against Internet piracy is an "arms race" and one that

cannot be won. They say that it is futile to regulate and in one respect that is true, if an ISP decides that the regulation is futile then they can make it so. What is required is for the ISP to co-operate, to work with the content industries to find solutions and this will only truly work if ISPs are incentivised. ISPs already use the lure of access to the product of the content industries to "sell" their networks. There is no reason why ISPs could not go into partnership with the content industries so that both can make money. The ISP is the conduit for the delivery of digital content and is best placed to sell and at the same time protect intellectual property. As long as an ISP can stand back and say that whilst they do not condone illegality on their networks that it is not their problem, as long as an ISP can sell itself as a defender of privacy and free speech whilst urging customers to use their broadband for downloading music and film, but doing nothing to ensure that any of this downloaded content is legal, there will be ISPs who will seize the advantage. Without injunctions any incentive that the content industries might offer to ISPs to participate in the distribution of their product in partnership is irrelevant when compared to the advantage to be gained by increasing the customer base by allowing the illegal use of their network. So whilst injunctions will not be fully effective without incentive, incentive is worthless without injunctions.

The third and extremely important requirement is education. Positive educational initiatives are important, see for instance the music industry's "Music Matters" campaign at <http://www.whymusicmatters.org> or the HADOPI educational campaign referred to above, but this on its own is not enough because a generation has grown up quite prepared to pay for water in a bottle but believing that music is and should be free. Unless there is a likelihood of getting caught while uploading / downloading, it might as well be legal to take music for free because otherwise law abiding people do not see a reason to pay for music when they believe that all others are getting it for free. With Graduated Response there is a significant chance that an uploader will be detected and that in itself is an excellent re-education. The vast majority of Irish people are law abiding but it is human nature to ignore laws that are not enforced. The wearing of seat belts in cars is a case in point. This law was generally ignored until a Garda campaign made people realize that they would be detected if they chose to ignore it. In Irish Graduated Response the first communications are all educational in nature. Customers of eircom are educated to the fact that sharing copyright material without the consent of the owner is illegal, they are instructed as to how they should secure their Internet connection from abuse by others and also how to check their

computers to ensure that they are not hosting programmes that facilitate Internet piracy, without their knowledge.

IRMA's answer to question 2 is that Irish Courts must be in a position to grant injunctions against Internet intermediaries whose services are used to infringe copyright and who refuse, when requested, to do anything about it. This combined with education and appropriate incentives to ISPs will act as an incentive both to creativity and innovation.

Question 3: Examine the US style fair use doctrine to see if it would be appropriate in an Irish / EU context

The premise of the question is that the pace of change in technology is such that the law needs to be more flexible or fluid or plastic to deal with it and accordingly the American "fair use" doctrine is appropriate. In the opinion of IRMA flexibility, fluidity, or plasticity (whatever you want to call it) in law is not appropriate. Uncertainty in law only benefits those with deep pockets for litigation. Flexibility and fluidity create huge grey areas and make work for lawyers.

Creative works can be used to advance, enhance and support innovation and appropriate laws need to exist to govern the relationships of copyright holders with the innovators so that they can enter into mutually beneficial legal arrangements with each other, but certainty is crucial. IRMA does not think that the US "fair use" doctrine could be appropriate in the context of the legal relationship that might arise between the global giants, the Googles, the Facebooks, the Internet Service Providers on the one hand and composers, artists, writers, musicians, record companies and book publishers on the other hand. The economic strength and accordingly bargaining power is unequal. In the event that the law is uncertain then the benefit of that uncertainty will go to those who are better able to afford risky litigation.

Irish copyright law enshrined in the Copyright and Related Rights Act 2000 contains specific detailed exceptions for fair dealing under Sections 50, 51 and 52. In order to enjoy the benefits of a fair dealing exemption, the use must be for one of the following specified uses: research or private study; criticism or review; or reporting current events. In the case of the latter two, there must be

sufficient acknowledgement. In addition the use must be “for a purpose and to an extent which will not unreasonably prejudice the interests of the owner of the copyright”. If a use is not a fair dealing or covered by a specific exemption set out in Chapter 6 of the Copyright and Related Rights Act 2000 then the creator is entitled to remuneration. Similar provisions exist in the UK’s Copyright Designs and Patents Act 1988. The very clear and unambiguous language used in the law of both countries has provided certainty and because of this there has been negligible litigation in this area in either country. The opposite is the case in the US.

The issue of fair use was also raised in the Hargreaves Review of the UK copyright system phrased as follows:- *“Is there evidence from other national frameworks to suggest how the UK and EU copyright systems could better support innovation? e.g comparisons with the USA’s system (including fair use) along with other jurisdictions in Asia and Europe”*. The British Phonographic Industry (BPI), the UK equivalent of IRMA, commissioned an expert opinion by the leading international copyright professor Graeme Austin, Professor of Law at Victoria University of Wellington (NZ) and Melbourne University (Australia) to better understand the relative strengths and weaknesses of the UK and US Copyright systems in promoting innovation and growth. The opinion is attached at Appendix 2. Professor Austin has kindly agreed to make this paper available to this copyright review on the basis that it is understood that it was not prepared in the context of the Irish submission, because he does not have a detailed knowledge of Irish Law. Despite this the opinion is extremely useful since both Irish and UK laws contain specific, detailed and similar exceptions for fair dealing flowing from the Copyright Directive and the Berne Convention. Professor Austin examines in detail the US system of fair use and reviews US case law and concludes that that fair use is a very poor regulatory tool. In his view fair use has introduced a significant degree of uncertainty into US law and it is often impossible to predict the outcomes of cases in which the fair use issue arises and this is costly risky and wasteful.

IRMA’s answer to question 3 is that the US “fair use” doctrine is not appropriate in Ireland

Question 4: If it transpires that national copyright legislation requires to be amended but cannot be amended (bearing in mind that Irish copyright legislation is bound by the European Communities Directives on Copyright and Related Rights and other international obligations) make

recommendations for changes to the EU Directives that will eliminate the barriers to innovation and optimise the balance between protecting creativity and promoting and facilitating innovation.

IRMA does not think that any change is required to EU Directives. What is required is for EU Directives to be correctly transposed into Irish law and to this end it is imperative that the draft Statutory Instrument dealing with injunctions against intermediaries and correctly transposing Article 8.3 of the Copyright Directive into Irish Law should be signed into law as soon as possible.

In all other respects changes if appropriate should be undertaken under the auspices of the 2001 EU Copyright Directive in the light of the three step test set out in the Berne Convention where any exception to copyright must satisfy three conditions. The exceptions must be special cases, that do not conflict with a normal exploitation of the work, and that do not unreasonably prejudice the legitimate interests of the rights holder.

Recommendations

1. The draft Statutory Instrument dealing with injunctions against intermediaries and correctly transposing Article 8.3 of the Copyright Directive into Irish Law should be signed into law as soon as possible.
2. The doctrine of Fair Use should not be adopted in Ireland and any changes to the principles of fair dealing or the introduction of specific exemptions into Irish law should only be undertaken under the auspices of the EU Copyright Directive and the Berne Convention three step test.

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Appendix 1

Enforcement against File Sharing: The Graduated Response

Alternative Solutions (private law contracts) (Including the problem of data privacy)

I am the solicitor that took legal action on behalf of the Irish recorded music industry (IRMA) against Irish Internet Service Providers (ISPs) whose networks were being used to infringe copyright.

We started in early 2007 trying to get ISPs to cooperate and assist us in terminating that illegality. They said that nothing could be done; that even if something could be done it would be prohibitively expensive. They said that nothing should be done and that even if something were done it would not work.

I am here today to tell you that it could be, and was done, that it is nothing like as expensive as was feared and that it looks as if it does indeed work.

The solution evolved following legal action taken by IRMA against eircom, Ireland's largest ISP. It came about when it was believed that injunctions were available in Irish Law against ISPs who were not themselves responsible for copyright infringement on their networks but who were the only ones in a position to do anything about it. It was developed following the settlement of that litigation with an ISP that was committed to finding a solution and making it work. It has received the support of the Irish judiciary every step of the way.

Before looking at what does work, let's have a look at **what does not work**

Education

IRMA started by trying to educate Irish music consumers that downloading and sharing sound recordings without consent is illegal, and that contrary to popular belief sharing music illegally is not a victimless crime.

For more than a year in 2003/2004, IRMA ran this education campaign. On its own education was

entirely ineffective because:

- a generation has grown up believing that music is free;
- there is no sanction for internet piracy and as long as there is no sanction it might as well be legal to take music for free because otherwise law abiding people cannot see a reason for them to pay when they believe that all others are getting it for free;
- "sharing" on the internet is not regarded as stealing simply because it is unlikely that the infringer will be caught and all the education in the world will not change that if there is no likelihood of being caught or no penalty if you are caught.

Litigation against uploaders

IRMA then decided to take individual infringers to Court. Three rounds of legal actions were commenced in 2005, 2006 and 2007. Before litigation can start, the uploaders had to be identified and the process for achieving this is cumbersome and expensive. Firstly, evidence of infringement is gathered by forensic internet companies participating in Peer-to-Peer networks. When they download music from a particular uploader they also download the IP address of that uploader. This number with the date and time of the download will allow an ISP to identify the subscriber to the internet service. Application is then made to Court for an Order – known as a Norwich Pharmacal Order - directing the ISP to disclose the names and addresses of those caught uploading sound recordings. The Irish Commercial Court gave every assistance to process these applications quickly and efficiently, but even with the Commercial Court's streamlined procedures the applications were extremely time consuming and labour intensive. The first application to the Court was for 17 names and addresses, the second for 49, and the third for 23. In the first application there were five document boxes of files with each box containing four or five lever arch folders for the Judge to read. In the second, there were ten document boxes and in the third a record 15. Despite this, Mr. Justice Kelly, the President of the Commercial Court dealt with each application within days of receiving the papers and delivered judgment in each case immediately.

To maximise the deterrent effect and to continue the education process, each application to Court was accompanied by significant attempts to ensure that the greatest possible publicity was obtained. Press conferences were held and newspaper, television and radio interviews were

conducted. Internationally, announcements of disclosure applications in numerous countries were co-ordinated to ensure that the world's media all carried the story to ensure the widest possible coverage.

In the first Norwich Pharmacal case the largest single uploader had 3078 music files and across all of them there was an average of 628 music files being shared. In the second case the highest single user had 4759 music files and together the users were sharing an average of 1055 music files. In the third case the highest single user had 37,511 music files and together the users were sharing an average of 8,400 music files.

Legal costs were significant. The music industry had to pay the legal costs of the ISPs. The first case involved two defendant internet providers, the second three and the third six. The first case was precedent-making so the plaintiff and two defendants all instructed senior and junior counsel. On the second occasion there were three defendants all instructing solicitors and junior counsel but no senior counsel, accordingly the costs reduced slightly. On the third occasion all six defendants instructed separate solicitors and junior counsel. IRMA has paid approximately €700,000 in respect of the various costs associated with these actions. A total of €80,000 was received from settlements with uploaders.

Reports from internet investigators showed a decline in Peer-to-Peer usage around the times of the announcements of disclosure applications and the consequent press coverage. However, in each instance the pattern reverted to type within a short period thereafter. Indeed, the average number of recordings being made available by users climbed dramatically over the course of the three applications.

It was clear that despite the time and effort of all concerned, particularly the Court, and the considerable expense, the position was getting worse. As a practical matter, the deterrent effect that can be achieved through the number of cases that it is possible to take, given the very considerable expense and difficulty, is not sufficient to deter people using Peer-to-Peer services. Two High Court judges have commented upon this process, with Judge Kelly saying it is “**useless**” and Judge Peter Charleton saying it is “**futile**”.

Judge Kelly in the pre-trial motions in the case that IRMA later took against eircom ("the eircom case") said: "*these measures (i.e. Norwich Pharmacal Orders and then issuing proceedings) proved useless as they had to pursue individuals with, presumably, little assets and as, as a logistic matter, they could only identify finite numbers of infringers while meanwhile the infringing activity was going on wholesale.*"

Judge Charleton said, in the case that IRMA took against UPC Communications Limited ("the UPC case"): "*The evidence establishes, however that this process is burdensome and, ultimately, futile as a potential solution to the problem of internet piracy*".

ISP Co-operation - Filtering

It had become abundantly clear that there was no resolution possible without ISP co-operation. On the 29th June 2007 IRMA wrote to the then Minister informing him of the music industry's problems with Peer-to-Peer file sharing and asking for assistance in getting ISPs to work with IRMA. At the same time IRMA wrote to seven of the largest ISPs in Ireland at the time.

During the next few months IRMA tried to get a general meeting of ISPs together. IRMA received no assistance from the Minister. There was no desire among ISPs to attend any meeting at that time, and whilst no ISP actually refused it was impossible to find a date that suited everyone and impossible to agree upon the parameters of the meeting. It was clear that even if a meeting could be arranged there was no likelihood of getting agreement on anything.

About that time a Belgian court had instructed a Belgian ISP to deploy filtering technology on their systems to effectively remove Peer-to-Peer traffic. The Court had investigated six different filtering software providers and concluded that a company called Audible Magic could provide a perfect solution. IRMA asked eircom as the largest ISP in Ireland to trial the Audible Magic technology. eircom refused to do so.

The eircom Case

Irish Law did not exactly mirror the provisions of the EU Copyright and E-Commerce Directives which provided that an ISP could be forced by injunction to take action even though they themselves were innocent of any wrongdoing. Irish Law provided that injunctions are only available in the event that the ISP is itself responsible for the wrongdoing. If however notice is given and ignored then the ISP becomes jointly liable and therefore subject to an injunction...or so we thought at the time!

Section 37 of the Copyright and Related Rights Act 2000 ("the Act") gives the owner of copyright the exclusive right to make the work available to the public.

Section 40(1) of the Act provides that the making available to the public of a work shall be construed as including "*the making available of copies of works through the Internet*"

Section 40(3) of the Act goes on to deal with the position of ISPs:-

"the provision of facilities for enabling the making available to the public of copies of a work shall not of itself constitute an act of making available to the public of copies of the work."

However, the Act then provides an exception to this exclusion from liability in section 40(4):-

"where a person who provides facilities referred to in [section 40(3)] is notified by the owner of the copyright in the work concerned that those facilities are being used to infringe the copyright in that work and that person fails to remove that infringing material as soon as practicable thereafter that person shall also be liable for the infringement."

IRMA issued proceedings claiming, pursuant to S(40)(4) of the Act, that eircom was notified that its facilities were being used to infringe copyright and that it had failed to remove that infringing

material as soon as practicable and accordingly that it was therefore also liable for the infringement. IRMA did not specify the precise manner in which eircom should remove the infringing material but did suggest that filtering and using Audible Magic software or something similar was an appropriate way to do so.

The pre-trial preparations involved meetings between technical experts employed by both parties, giving opportunities to discuss the advantages and disadvantages of various solutions proposed by IRMA and the genuine technical concerns of eircom. The fact that the technical experts on both sides had significant respect for each other proved to be incredibly important in facilitating genuine exchanges at that time.

In any event the matter went to Court in January 2009 and after eight days in the High Court where issues of filtering, blocking, encryption and obfuscation, non-infringing uses of Peer-to-Peer technology and arms races were teased out in testimony, eircom suggested that a form of graduated response might be a solution. Ultimately, the case was settled on the basis that the problem of Peer-to-Peer would be dealt with by Graduated Response and the problem of other forms of internet piracy would be dealt with by blocking injunctions.

I have no doubt but that the primary driver for eircom's offer of settlement was their belief that they might be the subject of an injunction forcing them to put filtering equipment on their network. I think that they genuinely believed that this would not be effective long-term and would jeopardize the integrity of their network but I also have no doubt but that eircom had been convinced that the wholesale theft of the product of the music industry's work was morally wrong and also accepted that ISPs were in fact the only ones in a position to do something about it.

It took eight weeks for a technical protocol to be agreed. This required both technical teams to work together to determine and agree upon a structure, lawyers on both sides to ensure that all applicable laws were complied with and serious commitment from the principals who drove it along to completion. Once the protocol was agreed both eircom and the plaintiffs built IT systems to manage the flow of infringement notices to eircom and to maintain the database of infringement notices with all associated evidence of infringement. These systems have been designed for the

most cost-effective operation of graduated response by both parties. The development of the systems was conducted in a way that minimised overheads while respecting fully the confidentiality of the business of all parties.

In particular great care was taken to ensure that the procedures that were developed respected the privacy and confidentiality of eircom's customers and that no information is exchanged that could in any way risk the disclosure of the customers identity.

Data Protection Issues

Both IRMA and eircom advised the Data Protection Commissioner of what was in train. The Chairman, Director General and Head of Legal Affairs of IRMA with their senior counsel met with the Deputy Data Commissioner in Portarlington on the 6th of August 2009 to ensure that all legal issues were dealt with. Notes were taken of all issues that he saw as affecting the operation of the settlement and this informed the final protocol document but at this stage there was no indication that the Data Protection Commissioner would object in any way.

The program was ready to go live when, on 22nd of October 2009, the Data Protection Commissioner indicated that he had problems and neither party but most particularly eircom were happy to proceed whilst a grey area existed *vis a vis* data protection. IRMA entered into a dialogue with the Deputy Data Protection Commissioner which culminated in the matter being brought back before the Court to determine whether there were in fact any data protection obstacles to Graduated Response. Procedurally this was done by re-entering the original action against eircom on the 22nd of December 2009 to ask the Court to adjudicate upon the Data Protection Commissioner's concerns.

The Data Protection Commissioner was notified and wrote a letter setting out his concerns. He refused to participate in the case itself unless his costs were paid by either or both of IRMA or eircom.

When the matter came before the Commercial Court on the 18th of January 2010, Mr. Justice Kelly remarked *“the question that arises is whether it would be a matter of Hamlet without the prince for the matter to be heard without the presence of the Data Protection Commissioner”*. His conclusion was as follows: *“the Court cannot direct that the matter be tried upon the basis of an undertaking from the parties to pay the costs of the Data Protection Commissioner. If the Court concludes that the Settlement Agreement is not in accordance with law then so be it, and the parties will have to deal with that conclusion. If the Court concludes that the Settlement Agreement is in accordance with law then the Court will have given its “nihil obstat”, if not its “imprimatur”, to the implementation of the Settlement Agreement. As a matter of practicality the Data Protection Commissioner would be bound by the terms of that judgment having regard to the fact that a lower Court cannot overturn the decision of a higher Court. The parties have not sought that the Data Protection Commissioner be joined and the Commissioner cannot be joined unless he so desires but the Court is not entitled to make an order joining the Commissioner on the basis of an indemnity or an assurance regarding costs.*

Accordingly I will direct that there be a trial of the issue of whether the settlement is contrary to the law without formal pleadings. I direct that the specific issues are as identified in the second and third pages (1,2,3 a & b) of the letter from the Data Protection Commissioner's solicitors 15 January 2010, being:

- 1. Do data comprising of IP addresses, in the hands of [IRMA] or its agent(s), and taking account of the purpose for which they are collected and their intended provision to Eircom, constitute “personal data” for the purposes of the Data Protection Acts, 1988-2003, thereby requiring that the collection of such IP addresses by [IRMA] or its agents must comply with the specific requirements of each of sections 2, 2A, 2B, 2C and 2D of the Data Protection Act, 1988, as amended?*
- 2. Having regard to Section 2A(1) of the Data Protection Act, 1988, as amended, and assuming for current purposes that the processing by eircom of “personal data” in the context of the third of the three steps envisaged by the graduated response*

scheme proposed under the terms of settlement (i.e. the termination of an internet user's subscription) is "necessary for the purposes of the legitimate interests pursued by [eircom]", does such processing represent "unwarranted [processing] by reason of prejudice to the fundamental rights and freedoms or legitimate interests of the data subject"?

3. *Having regard to Sections 2A(1) and 2B(1) of the Data Protection Act, 1988, as amended, is it open to [IRMA] and / or eircom to implement the graduated response process set out in the terms of settlement including, in particular, the termination of an internet user's subscription under step 3 of that process, in circumstances where:*

a) *In doing so they would be engaged in the processing of personal data and / or sensitive personal data (in so far as the data can be considered to relate to the commission of a criminal offence), including the provision of such data from one private entity to another private entity; and,*

b) *The termination of an internet user's subscription by eircom would be predicated on the internet user in question having committed an offence (i.e. the uploading of copyright-protected material to a third party by means of a Peer-to-Peer application) but without any such offence having been the subject of investigation by any authorised body; and, further, without any determination having been made by a Court of competent jurisdiction, following the conduct of a fair and impartial hearing, to the effect that an offence had in fact been committed.*

The case was eventually heard by Mr. Justice Charleton who gave Judgment on the 16th of April 2010. He answered both issues one and two in the negative and the composite issue three in the positive.

The judgment confirmed that none of the Data Protection Commissioners concerns were valid and that the Graduated Response as operated by eircom and IRMA complied with data protection legislation and was a proportionate response to the scourge of illegal filesharing.

The following are extracts from the Judgment of Mr. Justice Charleton:-

"It is legitimate for eircom to have a corporate policy whereby the facilities that it hires out to the people of Ireland are used for lawful purposes only. Having that policy, they are entitled to pursue it by means of conditions in contract that incorporate an enforcement modality. The protocol is merely a complex means to that end. I find it impossible to imagine that such interference is unwarranted because there is some fundamental right or freedom or legitimate interest in the data subject whereby in contrast to those who engage in other forms of unlawful copyright theft which may leave them more readily subject to the law, the internet is used for the violation. There cannot be a right to infringe the constitutional rights of others absent some argument as to a genuine and compelling competing right. In some instances, the purpose for which a right is asserted undermines its character as a right. There could not be, for instance, a constitutional right to privacy that extended to the organization of a violent crime over the internet or by telephone. There is nothing disproportionate and it is therefore not unwarranted, about cutting off internet access because of three infringements of copyright. The exceptions in the protocol to which I have already referred in detail provide for upholding relevant rights to medical care, to livelihood and to business use in appropriate circumstances. The protocol, at the relevant stage, is not inhumane or arbitrary. Rather there is a right to make representations and these will I am assured and believe be listened to if sensible and credible."

On the 11th of October 2010 when he gave judgment in the UPC Case, despite concluding that he could not give an injunction because EU Law had not been correctly transposed into Irish Law, Mr. Justice Charleton confirmed that Graduated Response is legal – it was just that he could not enforce it on any party. He confirmed that his Data Protection Judgment in the eircom case was correct: eircom could continue to operate Graduated Response but he could not make it do so. eircom has continued to support the music industry and continues to operate Graduated Response despite the fact that it is placed at a significant commercial disadvantage by doing so.

Graduated Response

Presently the operation of Graduated Response involves the following processes and procedures. Since the Data Protection Judgment, by agreement a further level has been included whereby infringers are first suspended for seven days and it is only if a further notification is received after the suspension is lifted that are they disconnected:

IRMA is responsible for detecting infringement by a customer of eircom. This is done by scan service providers who join publicly-available Peer-to-Peer networks that are sharing copyright material. While participating in the Peer-to-Peer network, the scanner collects the evidence of infringement and sends it to IRMA who stores it. It is then used to generate a notification of infringement to eircom and retained for future reference until no longer required.

The notification contains the following information at a minimum:

- i. Copyright holder details (name, address)
- ii. Why notification being sent (breach of copyright)
- iii. Copyright work that is being infringed
- iv. IP address of the eircom customer
- v. Timestamp investigation started
- vi. Timestamp completed
- vii. Peer-to-Peer software used (or protocol used, e.g. BitTorrent, Gnutella, eDonkey etc).
- viii. Digital fingerprint (hash) of the copyright material detected.

The notification is sent in a standardised XML format, so that the data can be extended in the future without affecting any software already developed.

The notifications are sent to eircom through an automated file transfer process. Eircom has internal systems to accept these notices and process them according to the Graduated Response protocol. IRMA is responsible for the quality of the information in the notices and eircom is responsible for ensuring that the notifications received from IRMA are processed fairly and consistently. A process for handling errors and exceptions is included in the protocol.

Four levels of infringement arise: level 1, first warning; level 2, second warning; level 3, suspension of account for 7 days; level 4, service termination.

Level 1: the account holder's infringement status is set to level 1 when eircom receives a first notice that refers to this account. The account holder will be notified by eircom that their IP address has been detected engaging in alleged copyright infringement. The main purpose of the first warning is educational and provides the opportunity to a customer to stop further infringement. The account holder remains on level 1 for 12 months unless moved to level 2.

Level 2: an account holder is moved to level 2 when eircom receives a second notice that applies to the same account holder. eircom will notify the account holder that their IP address has again been detected engaging in alleged copyright infringement. The educational message is repeated and the account holder is warned that they risk suspension if their account is detected infringing again.

Level 3: an account holder is moved to level 3 when eircom receives a further notice applying to the same customer after the second warning has been issued. The customer's service is suspended for 7 days.

Level 4: an account holder is moved to level 4 when eircom receives a notice applying to the same customer after the 7 day suspension has been lifted. The customer will be sent a notice informing them that their service will be terminated within 14 days.

eircom is responsible for communicating with their customers at each stage in the Graduated Response process. eircom provides as much information as possible to the account holder through its online billing portal. eircom also requires the account holder to acknowledge through an online process that the infringement notices have been received and understood.

The underlying technical process for automating the supply of notices and their correct processing by eircom requires that a level of technical exchange takes place between eircom's notice process systems and those of IRMA. The notices that are provided to eircom contain no personal or identifying information on the individuals doing the infringing Peer-to-Peer file transfer and no information directly or indirectly disclosing such information is provided by eircom to IRMA.

Feedback from eircom systems is confined to alerts to errors in the data, required for proper functioning of automated systems and to periodic statistical reports agreed between IRMA and eircom.

I am now going to go back to where I started and the advice received from the ISPs: nothing could be done, even if something could be done it would be prohibitively expensive; nothing should be done and even if something were done it would not work

Nothing could be done

Graduated Response is a complete answer to the technical objections raised by the ISPs. It is a targeted process that discriminates between infringing and non-infringing use of Peer-to-Peer. It is not open to evasion by using encryption or obfuscation of the traffic on the connection. It does not depend on technology that uses additional network devices to filter or block suspect traffic on the network. Graduated Response as a process operates external to the running of the ISP's network. It interfaces with the ISP's customer management systems rather than the network infrastructure itself. Put simply it is a process that informs the ISP of breaches of its Customer Acceptable Usage Policy, enabling the ISP to take effective steps to enforce that policy.

So operating Graduated Response does not pose a technical problem. That is not entirely true. It does not pose a technical problem if, and only if, an ISP wants to co-operate. ISP networks are endlessly complicated and finely balanced. If an ISP does not wish to co-operate then there will be technical problems – insurmountable ones.

What is required is for the ISP to co-operate, to work with the content industries to find solutions and this will only truly be successful if ISPs are incentivized. ISPs already use the lure of access to the product of the content industries to "sell" their networks. There is no reason why ISPs could not go into partnership with the content industries so that both can make money. The ISP is the conduit for the delivery of digital content and is best placed to sell and at the same time protect intellectual property. As long as an ISP can stand back and say that whilst they do not condone illegality on their networks that it is not their problem, as long as an ISP can sell itself as a defender of privacy and free speech whilst urging customers to use their broadband services for downloading music and film, but doing nothing to ensure that this downloaded content is legal, there will be ISPs who will seize the advantage. Without injunctions any incentive that the content industries might offer to ISPs to participate in the distribution of their product in partnership is irrelevant when compared to the advantage to be gained by increasing their customer base by allowing the illegal use of their network.

Once ISPs decide to co-operate, solutions will be found for technical problems as and when they arise.

It would be prohibitively expensive.

Here co-operation is the key. The Graduated Response technical systems designed in co-operation by IRMA and eircom were built at reasonable cost using wherever possible already existing resources and open source software. When in the UPC case the defendant came into court claiming that the cost would be prohibitive Judge Charleton listened to the UPC evidence and the evidence of the engineer who, acting on IRMA's behalf, had been pivotal in designing and implementing the IRMA / eircom system and said.

"were UPC, or any other company, to be willing to pursue internet theft by discouraging it through detection and the interruption of transmission, that would clearly be possible. The evidence establishes this with abundant clarity. UPC have presented evidence that their cooperation with a three strikes and then cut off solution, or a diversion solution, or an

interruption solution, would be costly and disproportionately difficult. I can accept none of that evidence. It suffices to say that were these solutions to present as economically attractive, UPC would pursue them. In the dispute between [IRMA] and eircom, which was settled as previously indicated, a pilot project is underway over three months, with a view to determining the final modalities of the solution. This, the evidence establishes, will not cause excessive expense and will, I am convinced by the evidence put before the Court by Mr. Michael Walsh, be possible and practicable. Further, none of the other solutions would be disproportionately expensive in time or expense. None of the contradicting evidence from UPC establishes in any way that I can accept that any such solution would be disproportionately expensive or burdensome. On the contrary, the basic systems of customer interaction are already in place. The excuses given are empty"

Nothing should be done

The reasons the ISPs gave were: because the internet is too important; because there is a fundamental right to be connected to the internet; and finally because it is just not fair.

I shall start with **the internet is too important**. They claimed that regulation or indeed any interference with the internet might jeopardize its development. I don't deny that the internet is important, as a communications network, an access to information, a driver of economic activity, a forum for innovation, the list is endless. The original developers of the internet certainly believed that total freedom was possible on the internet. This might have been reasonable when computers were the size of small rooms and existed mostly in universities and government offices, less so when billions of people world wide use the internet.

When the music industry made its first Norwich Pharmacal application Mr. Justice Kelly remarked *"this is not petty theft, this is grand theft, taking place from the privacy of one's own bedroom"*.

Mr. Justice Charleton in his Data Protection Judgment said that the internet "... *has not rewritten the legal rules of each nation through which it passes. It is not an amorphous extraterrestrial body with an entitlement to norms that run counter to the fundamental principles of human rights. Since*

the early days of the internet, and increasingly as time has gone on, copyright material has been placed on the World Wide Web by those with no entitlement to share it. There, it is downloaded by those who would normally have expected to pay for it. Among younger people, so much has the habit grown of downloading copyright material from the internet that a claim of entitlement seems to have arisen to have what is not theirs for free".

The second reason that nothing should be done say the ISPs is **because there is a fundamental right to connection to the internet**. Interestingly none of the ISPs we spoke to thought that there should be a fundamental right to connection to the internet if the user did not pay for the privilege.

In his Data Protection Judgment Mr. Justice Charleton said:-

"..[Disconnection from the internet].. is a serious sanction. Some would argue that it is an imposition on human freedom. There is no freedom, however, to break the law. Further, while it is convenient to have internet access at home, most people in Ireland have only to walk down to their local town centre to gain access for around €1.50 an hour."

But of course even if an individual is disconnected from eircom there are many other Irish ISPs they can subscribe to and no suggestion whatsoever that ISPs either could or should exchange information on those disconnected.

Even if there is a fundamental right to connection to the internet there are other competing fundamental and human rights. Here I quote again from the Data Protection Judgment:-

"There is a fundamental right to copyright in Irish Law. This has existed as part of Irish Legal tradition since the time of Saint Colmcille, he is often quoted in connection with the aphorism: le gach bo a bunin agus le gach leabhar a choip (to each cow its calf and to each book its copy). I regard the right to be identified with and to reasonably exploit one's own original creative endeavour as a human right."

So it is a question of balancing those rights and Mr. Justice Charleton in the UPC Judgment said:-

"The evidence analysed in the course of this judgment also establishes that detection, warning and discontinuance are, each of them, proportionate to the vast scale of the problem established in evidence."

Last but by no means least the ISPs all said that it should not be done **because it is unfair**. It is not fair that they should be asked to be involved at all and it would be especially unfair on one ISP to be forced to take action when others do not.

Mr. Justice Charleton in the Data Protection Judgment said *"It is completely within the legitimate standing of eircom to act, and to be seen to act, as a body which upholds the law and the constitution. That is what the court expects of both individuals and companies."*

So yes I do agree that it is unfair. It is unfair that presently in the absence of injunctions there is no level playing pitch. eircom stands alone in upholding the Law and the Constitution in this area.

And finally they said that even if it were tried that it would not work. Well they got that wrong!

The full Graduated Response programme started in August 2010. Notification levels were critical. IRMA's goal was to address the issue of illegal filesharing of copyright music via Peer-to-Peer on the eircom network in the most cost effective way for both parties. eircom bears the cost of communications with its customers and IRMA bears the cost of detections. It had always been envisaged that the process of Graduated Response would quickly reduce the instance of sharing.

Mr. Justice Peter Charleton had suggested that it might work in a manner akin to a chemotherapy that would reduce the size of the tumor. He said in the UPC Judgment *"there is a strong probability that a graduated response would yield a majority level of desistance from the practice of illegal downloading on a first warning."*

Since IRMA pays for every individual detection and eircom has to have staff to issue communications and to deal with queries, in working together both parties could ensure that neither

side wasted money. Accordingly IRMA agreed to ramp up the number of notifications slowly to allow eircom to streamline its processes internally. IRMA did not pay for any unheeded detections and eircom did not hire any staff that might subsequently become unnecessary when the programme of Graduated Response started to work.

In the UPC case evidence had been given by Charles Benjamin who is the Network and Systems Administrator for the Department of Housing and Residence Education at the University of Florida. The Digital Millennium Copyright Act and the Higher Education Act in the United States had required Universities to control illegal file sharing on their networks and his university used a form of Graduated Response to do so. Accordingly when a student is first detected sharing or downloading copyright material with a Peer-to-Peer program they are sent an email warning them of the violation and are directed to a web page. The web page contains their unique case number, the violation level, and the type of Peer-to-Peer protocol that was detected and a description of the universities acceptable usage policies. The student must click "I will comply" before the restriction is lifted. On the first occasion the student is restricted only to on-campus usage for 30 minutes. If there is a second violation the student is restricted to on-campus usage for five days and if there is a third violation the student is directed to appear before the Housing Judicial office. Mr. Benjamin's evidence was that the system is remarkably effective. There are very few repeat offenders with less than 2% proceeding to level three.

The IRMA / eircom experience is strikingly similar. As of the 12th of May 2011 less than 11% proceeded to level 2, less than 1% proceeded to level 3 and less than 0.2% proceeded to level 4. It is early days yet and the numbers of notifications will be further ramped up but it does appear clear that Graduated Response leads to a steep decline in Peer-to-Peer usage.

At the end of last year eircom received calls from a number of customers saying that a mistake must have been made because they had received letters but they were not sharing music. eircom discovered that its systems had not correctly taken account of the daylight savings clock change. So some notices had gone to the wrong customers. Of these, most had no record of prior infringement and were placed at level 1 and two only were placed at level two.

In response the customers' infringement status was rolled back to the correct level and each customer was sent a letter of apology with a credit of €50 as a goodwill gesture. Whilst there were a number of calls received in the week directly after letters were sent out, a majority of customers were satisfied with the rebate and only one complaint was received.

Accordingly again Mr Justice Charleton's words are prophetic:

"The protocol, at the relevant stage, is not inhumane or arbitrary. Rather there is a right to make representations and these will I am assured and believe be listened to if sensible and credible."

There has been a significant drop in usage of Peer-to-Peer in Ireland. Overall it fell by 21% since the eircom notices started going out. The measuring process has however been complicated by the fact that in October 2010 the top Peer-to-Peer service used in Ireland at the time, LimeWire, was shut down by a Court in the United States. There is no doubt but that this is one factor influencing the downward trend in Peer-to-Peer usage – however in other countries the shutting down of LimeWire was met with a significant increase in another filesharing protocol – BitTorrent. In Australia BitTorrent use rose by 48%, in Italy by 39%, in Brazil by 37% and in Finland by 32%. In Ireland the switch to BitTorrent was 15%, significantly below average. The only other country where there has been a comparably low move to BitTorrent following the shutdown of LimeWire was in France where it was 13% and of course they are also operating Graduated Response.

As I have said before it is early days yet but early indications are extremely positive.

Thank you for listening.

Helen Sheehy BCL LLM
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SUBMISSION TO THE COPYRIGHT REVIEW GROUP

BY

THE IRISH RECORDED MUSIC ASSOCIATION

Appendix 2

Paper prepared for the BPI by *Graeme Austin*, Professor of Law, Victoria University of Wellington (NZ) & Professorial Fellow, Melbourne University Law School (Australia); *JSD, LLM, (Columbia University); BA(Hons), LLB, LLM (Victoria University of Wellington)*.

24 February 2011

Executive Summary:

1. In its recent call for evidence, the *Review of Intellectual Property and Growth* asks whether the substantive laws of different national frameworks could better support innovation. Question 1 specifically refers to the US “fair use” defence:

Is there evidence from other national frameworks to suggest how the UK (and EU) copyright systems could better support innovation? e.g. comparisons with the USA’s system (including “fair use”) along with other jurisdictions in Asia and Europe.

2. Identifying any causal connection between fair use and economic growth—in isolation from other relevant factors, such as levels of education, labour productivity, presence of innovation hubs, etc.—is likely to prove impossible. These factors vary considerably from country to country. This paper therefore makes no empirical claims about the impact of fair use on economic development. Instead, drawing on knowledge of the operation of fair use in the United States, this paper responds to the *Review*’s call for evidence by examining whether fair use is an appropriate or useful regulatory tool in a modern economy.

3. Based on an examination of the application of the fair use defence in the US context, the paper concludes that fair use is a very poor regulatory tool. The US fair use principle sweeps with too broad a brush. Issues relating to technological development are too varied, nuanced and complex to be resolved satisfactorily through the litigation process, delegating to courts critically important issues of economic regulation to be resolved through application of an unfettered discretionary standard. Due to the inherent problems with the fair use defence, a better approach is likely to involve developing specifically-tailored defences and exceptions to the rights of copyright owners as needs arise, accompanied by a careful assessment of the relevant costs and benefits, and of the interests of all affected parties.

4. Section 2 of the paper briefly outlines the historical development of fair use in the United States. In US law, fair use continues to operate as “equitable rule of reason”—providing judges with a largely open-ended discretion to temper the property rights of copyright owners as the facts of individual cases require. This background is helpful in understanding the scope and purpose of fair use in the United States system. The US Supreme Court has emphasised that the principal purpose of fair use is to further the aim of copyright law to encourage the production of new works of authorship. However, fair use has occasionally been applied in cases involving new technologies, such as video recorders, software

platforms, and, quite recently, search engines. This section identifies doctrinal difficulties with these cases, and suggests that it should not be assumed that UK courts would follow them, even if a fair use principle were introduced into UK law. This section also critically evaluates claims that fair use is constitutionally required.

5. Section 3 identifies a number of reasons why fair use is not a good regulatory tool. Fair use has introduced a significant degree of uncertainty into US law. In the United States, there is a large consensus that it is often impossible to predict the outcomes of cases in which fair use is an issue. Neither firms that seek to rely on the defence nor copyright owners are assisted by this kind of uncertainty. In addition, in some contexts, fair use does not go far enough to encourage technological development. For example, current UK legislative provisions allowing decompilation of computer programs for the purposes of interoperability are more generous than the accommodation that has been achieved under US fair use defence.

6. A related problem is that in the United States, fair use has created a system of “economic regulation by litigation.” Key issues of economic policy are relegated to courts, to be decided according to a vague and highly discretionary standard. Litigation is costly, risky, and wasteful of firms’ resources. From a systemic perspective, recourse to litigation as a regulatory tool has many other significant disadvantages. Fair use litigation pitches two parties against each other, with limited opportunity for assessing the wider context of the dispute—or the effects of the outcome of the case on other parties. In addition, because litigation produces “winners and losers”, and the remedies available to courts are limited, the US fair use approach significantly reduces opportunities for more considered analysis of alternative solutions to policy problems.

7. Section 4 briefly discusses the recent experience in Australia, where the government recently decided against introducing a US-style fair use defence to copyright infringement. The Australian context illustrates why it would be wrong to conclude that the international trend is necessarily in the direction of adoption of fair use. Rejecting the US-style fair use approach, the Australian government chose instead to continue with the process of carefully tailoring specific defences and exceptions, as economic, technological, and social conditions require.

Biographical Note:

I currently hold joint appointments as a Professor of Law at Victoria University of Wellington, New Zealand, and at Melbourne University in Australia (beginning June 2011). Previously, I was the J Byron McCormick Professor of Law at the University of Arizona, USA, where I taught and researched in the areas of copyright, trademarks, and international intellectual property between 2001-2010. Prior to my University of Arizona appointment, I was a senior solicitor at the national law firm of Chapman Tripp in Auckland, New Zealand.

I hold a doctorate in laws (JSD) and the LLM from Columbia University in New York, USA, where I was awarded the Burton Fellowship in Intellectual Property. I also hold a BA(Hons), LLB, and LLM from Victoria University of Wellington (NZ). I am an elected member of the American Law Institute (ALI) and was appointed to

its panel of advisors on its Project on Intellectual Property, Principles Governing Jurisdiction, Choice of Law, and Judgments in Transnational Disputes (2008). I serve on the editorial board of the Journal of the Copyright Society (USA).

My writings on copyright and other aspects of intellectual property law have been published in the Law Quarterly Review, New York University's Annual Survey of American Law, the Canadian Journal of Law and Jurisprudence, and the International Review of Intellectual Property and Competition Law. I am co-author of a widely adopted textbook on International Intellectual Property. My most recent book, *Human Rights and Intellectual Property: Mapping the Global Interface* (co-authored with Prof Larry Helfer, (Duke)) was published by Cambridge University Press early in 2011. My scholarship has been cited with approval by the US Supreme Court.

I have made presentations and delivered lectures on intellectual property at the World Intellectual Property Organization, the Intellectual Property Research Institute of Australia, the Colegio Público de Abogados de la Capital Federal (Buenos Aires), Columbia University Law School, New York University Law School and Oxford University (St Peter's). In 2010, I was invited by Cambridge University to deliver the 5th Annual Hercel Smith Lecture on International Intellectual Property. In 2010, I was a visiting professor of law at WuHan University School of Law (China).

While the attached paper was commissioned by the BPI (British Recorded Music Industry) Limited, positions it advances are consistent with those I have developed elsewhere. See, e.g., *Four Questions About the Australian Approach to Fair Dealing Defenses to Copyright Infringement*, 57 J Copyright Soc 611 (2010).

1. Introduction

Claims that fair use contributes positively to levels of innovation are likely to prove unsustainable when examined in the wider economic and social contexts within which innovative activity occurs. Many cultural, economic, social, and legal factors affect levels of innovation, including: domestic infrastructure supporting innovation finance;¹ levels of education;² labour productivity;³ the current state of “entrepreneurial culture” and the presence of innovation hubs;⁴ levels of direct or indirect public-sector support of innovation, including military funding;⁵ taxation; the cooperative character of the research culture;⁶ and obligations imposed on researchers to provide for a “public stake” in research outcomes.⁷ These factors vary significantly from country to country. Sound innovation policy must engage with all of these issues, taking account of the overall public interest, and the interests of all affected stakeholders.

Accurately identifying any causative connection between fair use and economic growth—without consideration of other relevant factors—is likely to prove impossible. Because of this causation issue, this paper avoids general empirical claims about the effects of fair use on economic development. Instead, drawing on knowledge of the operation of fair use in the United States, this paper responds to the *Review*'s call for evidence by examining whether fair use is an appropriate or useful regulatory tool in a modern economy.

This paper concludes that fair use is not a good regulatory tool. Sound development of innovation policy requires careful assessments of the relevant costs and benefits of regulatory measures, and of the interests of all affected parties—following a considered analysis of the need for exceptions or defences in the light of *specific* economic, technological, and social policy issues. Fair use does not deliver this.

Section 2 provides a brief overview of the history and application of fair use in US law. Fair use has developed into an open-ended, unfettered discretionary standard that delegates to courts significant power over key sections of the economy. As this section explains, this is not how fair use began. Fair use was introduced as an equitable rule of reason to be applied on a case-by-case basis to help fulfil the principal purpose of copyright: to encourage the production of new

¹United Nations Economic Commission for Europe, *Financing Innovation Development: Comparative Review of the Experiences of UNECE Countries in Early-Stage Financing* (2007) [“Financing Development”].

²Jérôme Vandenbussche, Philippe Aghion, Costas Meghir, *Growth, Distance to Frontier and Composition of Human Capital*, 11 J Econ Growth 97 (2006).

³ARTHUR BLAKEMORE & BERTHOLD HERRENDORF, *ECONOMIC GROWTH: THE IMPORTANCE OF EDUCATION AND TECHNOLOGICAL DEVELOPMENT* 7 (2009).

⁴UNECE, *Financing Development* (2007).

⁵Wesley M Cohen, Richard R. Nelson & John P. Walsh, *Links and Impacts: The Influence of Public Research on Industrial R&D*, 48 Mgmt Sci 1 (2002).

⁶John P Walsh, Ashish Arora & Wesley M. Cohen, *Working Through the Patent Problem*, 299 Science 1021 (2003).

⁷Peter Lee, *Toward a Distributive Commons in Patent Law*, 2009 Wisc L Rev 917.

works of authorship. More recently, however, it has also been applied to new technologies, such as video tape recorders and search engines.

Problems with fair use are considered in detail in Section 3: "Fair Use as a Regulatory Tool." The disadvantages of fair use include its uncertainty; its failure to distinguish between different activities of high tech firms; and more general problems with regulating by litigation, including costs, and the inability of the litigation process to generate creative or nuanced policy solutions. Fair use can also operate unfairly and capriciously. A related problem is that fair use litigation is sometimes unable to produce policy outcomes that are as good as those that can be achieved by specifically-tailored legislation. One example, which is discussed more fully below, is the defence for time-shifting of television programmes. Legislative solutions can sometimes better tailor the defence to contemporary viewing habits and technologies; in contrast, and consistent with the case-by-case approach to fair use, fair use litigation will clarify the position only in respect of the viewing habits and technology that existed at the time of the litigation.

Section 4 provides considers the position in Australia, where the government recently rejected importing the US-style fair use defence into Australian law.

2. The History and Development of Fair Use in the United States: A Brief Overview

This section provides a brief overview of the history and development of fair use in US law. This background may be useful in the context of the current review to help achieve a clear appreciation of the operation of fair use principle in the US legal system.

2.1 Historical Development of Fair Use

The history of fair use does not support the claim that fair use is an appropriate tool for furthering broad socio-economic policies, such as technological development. In the United States, fair use began as an "equitable rule of reason", a kind of "safety valve" to be applied in individual cases. It might apply, for instance, to the use of short extracts for the purposes of scholarship or criticism. Recourse to equitable principles to temper property rights is very familiar to English lawyers.⁸ Like other equitable principles, fair use was meant to apply on a case-by-case basis. In the US, fair use helps judges ensure that overreaching plaintiffs do not thwart copyright's aims. As one court put it, application of fair use principles "permits courts to avoid rigid application of the copyright statute when, on occasion, it would stifle the very creativity that law is designed to foster."⁹

Fair use can also help to address market failure issues: courts can apply it where the transaction costs associated with securing a licence are greater than the

⁸See generally GARY WATT, TRUSTS AND EQUITY (3d ed., 2008) 13-14: "The function of equity is to restrain or restrict the exercise of legal rights and powers in particular cases, whenever it would be unconscionable for them to be exercised to the full." Recourse to equitable principles, to do justice as the *individual facts* of cases might require from time to time, remains an important part of UK and Commonwealth copyright law. See *Lucasfilm Ltd v. Ainsworth* [2009] EWCA Civ 1328.

⁹*Iowa State Univ Research Found, Inc. v. Am Broad Cos*, 621 F 2d 57, 60 (2d Cir 1980).

value of the use.¹⁰ Its application in this context should not be regarded as static: where, for instance, information technology reduces the costs of negotiating licences, the need to invoke fair use as a mechanism for addressing market failure issues should also diminish.

Drawing on English case law, Justice Story established the modern US foundations of fair use in the 1841 decision in *Folsom v. Marsh*.¹¹ Story J reasoned that, to decide whether the rights of copyright owners should give way in specific instances, courts:

must often...look to the nature and objects of the selections made, the quantity and value of the materials used, and the degree in which the use may prejudice the sale, or diminish the profits, or supersede the objects, of the original work.¹²

When fair use was codified in the Copyright Act of 1976,¹³ the US Congress neither defined fair use nor articulated a test for fairness.¹⁴ Instead, the US legislation sets forth a non-exclusive list of uses that might be fair, including: criticism, comment, teaching, scholarship, news reporting and research.¹⁵ These uses are merely illustrative. Under US law, any use of a copyright-protected work can potentially be regarded as "fair."

To determine whether a use is fair US courts must consider a number of statutory factors. These are set forth in section 107 of the Copyright Act. This list draws on Story J's original formulation. The factors are:

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.

¹⁰Wendy J Gordon, *Fair Use as Market Failure: A Structural and Economic Analysis of the Betamax Case and its Predecessors*, 82 Colum L Rev 1600 (1982).

¹¹9 F Cas 342 (CCD Mass 1841) (No 4901). *Folsom v. Marsh* was a decision of the Circuit Court of the District of Massachusetts decided when Story J was on circuit there. Ironically, while the case is hailed as limiting copyright protection through the introduction of a fair use principle, Story J's approach to copyright infringement, in particular his focus on whether the defendant's use economically injures the copyright owner's work, actually represented a significant expansion of the protection that copyright afforded an author's work. See generally R. Anthony Reese, *The Story of Folsom v. Marsh: Distinguishing Between Infringing and Legitimate Uses*, in INTELLECTUAL PROPERTY STORIES 259 (JANE C. GINSBURG & ROCHELLE DREYFUSS eds, 2006).

¹²9 F Cas 342 (CCD Mass 1841) (No 4901).

¹³17 USC §107.

¹⁴The same approach was earlier adopted in the United Kingdom. The 1911 Imperial Copyright Act, which introduced the concept of "fair dealing" into UK and the UK colonies and dominions, did not include an overarching definition of "fairness". See Copyright Act 1911 (UK).

¹⁵17 USC §107. See HR Rep No 94-1476, at 65 (1976).

The factors are only guides. The legislative history indicates that, consistent with its origins as an equitable rule of reason, courts were meant to decide each case “on its own facts”.¹⁶

The leading Supreme Court case on fair use is *Campbell v. Acuff-Rose Music, Inc.*¹⁷ In *Campbell* the Supreme Court reaffirmed the open-ended character of the discretion that is delegated to courts in fair use cases. Consistent with the legislative framework, the Supreme Court instructed lower courts to consider all factors. No one factor is to dominate in the analysis. Because of its open-ended character, fair use has been criticised for introducing significant uncertainty into the law. One court described it as “the most troublesome in the whole law of copyright.”¹⁸ (Problems caused by the uncertainty of the fair use standard are discussed in more detail in Section 3, below.)

Though the US and UK approaches share a common origin, the United Kingdom did not codify the equitable principle in the same way. The UK Copyright Act of 1911 introduced a statutory “fair dealing” principle. Unlike in the United States, where courts can decide that any kind of use does not infringe copyright, UK law specifies the kinds of uses that can be regarded as fair dealing.¹⁹ The latter approach was adopted by (or directly applied to) Britain’s colonies and dominions.²⁰ Overlaying the UK law is article 5 of the EC Copyright Directive.²¹ It lists a number of mandatory exceptions that the United Kingdom must enact into its laws. Article 5 also includes a list of permissible exceptions that EC member states may choose to include in their laws. All exceptions are subject to the “three-step” test, which specifies that exceptions “only be applied in certain special cases which do not conflict with a normal exploitation of the work or other subject-matter and do not unreasonably prejudice the legitimate interests of the rightholder.”²²

It is often argued that the three-step test makes EC law insufficiently flexible.²³ But it should be remembered that US law, including fair use, is also subject to the three-step test. The US is party to a significant number of international agreements that require US-law exceptions to comply with the three-step test. These include: the Berne Convention, the TRIPS Agreement, and the 1996 WIPO Internet Treaties. In recent years, this text has also been included in bi-lateral free trade agreements entered into by the United States. The US exceptions and defences to copyright therefore operate within the same international law framework and parameters as the defences and exceptions that exist in other nations’ laws. Moreover, the inclusion of the three-step test in bilateral trade agreements indicates that US policymakers do not appear to be concerned about

¹⁶HR Rep No 94-1476, at 65 (1976).

¹⁷*Campbell v. Acuff-Rose Music, Inc.*, 510 US 569 (1994).

¹⁸*Dellar v. Samuel Goldwyn, Inc.*, 104 F 2d 661, 662 (2d Cir 1939).

¹⁹See LADDIE, PRESCOTT & VITTORIA, *THE MODERN LAW OF COPYRIGHT AND DESIGNS* 748-49 (3d ed. 2000).

²⁰ROBERT BURREL & ALLISON COLEMAN, *COPYRIGHT EXCEPTIONS: THE DIGITAL IMPACT* 249 (2005).

²¹Directive 2001/29/EC of the European Parliament and of the Council of May 22, 2001.

²²EC Copyright Directive, art 5(5).

²³Martin Senftleben, *Bridging the Differences between Copyright's Legal Traditions – the Emerging EC Fair Use Doctrine*, 57 J Copyright Soc USA 521 (2010).

any claimed inflexibility of the three-step test. In its international trade relationships, the US has been a leading advocate for *adopting* the three-step test.

Both the UK and US law have extensive lists of other kinds of defences to copyright infringement.²⁴ Accordingly, it is not generally useful to contrast “fair use” and “fair dealing”.²⁵ A proper comparison between US and UK law requires evaluation of the whole suite of defences and exceptions. As will be discussed in more detail below, in certain contexts, such as decompilation of computer programs, some of the specifically-tailored exceptions in the UK legislation are more generous—and provide greater support to new market entrants—than the fair use defence.

2.2 Fair Use Supports the General Copyright Policy of Encouraging the Production of New Works of Authorship

The US Supreme Court’s fullest recent analysis of the scope of fair use is in its 1994 decision, *Campbell v. Acuff-Rose Music, Inc.*²⁶ The Court reinforced the connection between fair use and the general copyright policy of encouraging the production of new works of authorship. Its analysis does not provide much broader support for the use of the defence to encourage other kinds of economic activity. As will be discussed later, some lower courts have not hewed to the Supreme Court’s guidance. Given the uncertainty of the standard, this kind of deviation from the principles set forth in *Campbell* is to be expected. It does not, however, assist with either the ordered development of the law, or with providing the business sector with the legal certainty it requires.

The defendants in *Campbell* were a rap music group that had released a commercially successful album that included a song that parodied the plaintiff’s copyright-protected song.²⁷ The group released the song without securing a licence from the copyright owner.²⁸ When sued for copyright infringement, the defendants claimed that the parody version of the song was a fair use. While the Supreme Court recognised that parodies might be a special case, it did not finally hold that the defendant’s use was fair use. It remanded the case, requiring the parties to bring more evidence on the impact of the defendant’s use on the copyright owner’s market for derivative versions of its song (non-parody rap versions of the original).

Three aspects of the case are particularly important for understanding how fair use operates in US law. First, the defendant’s version of the song was *itself* a new work of authorship. The Supreme Court “underscore[d] the importance of

²⁴ See LADDIE, PRESCOTT & VITTORIA, *THE MODERN LAW OF COPYRIGHT AND DESIGNS* (3d ed. 2000) (listing 42 specific defences in UK law).

²⁵ See Graeme W Austin, *Four Questions about the Australian Approach to Fair Dealing Defenses to Copyright Infringement*, 57 J Copyright Soc USA 611 (2010).

²⁶ 510 US 569 (1994).

²⁷ As the District Court noted, the words of the defendant’s song copied the original’s first line, but then, “quickly degenerat[e] into a play on words, substituting predictable lyrics with shocking ones ... [that] derisively demonstrat[e] how bland and banal the [original] song seems to them.” 754 F Supp 1150, at 1155.

²⁸ The defendant’s request for a licence was refused. Following the Supreme Court’s decision to remand the case to develop more evidence about the harm to the copyright owner’s derivative work market, the parties settled.

ensuring that the parody is in fact an independent creative work.”²⁹ While fair use has sometimes been invoked to further values such as “expressive diversity”, it is important to note that the Supreme Court neither suggested nor implied that all transformative uses of copyright are fair uses; nor did it suggest that there was a presumption in favour of a finding of fair use for transformative uses. The transformative character of the use was only one relevant factor, to be taken into account on sliding scale: “The more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use.”³⁰

Secondly, the Court's analysis recognised that the copyright owner generally has the right to licence the work in derivative markets (or, in UK terminology, the market for “adaptations” of the underlying copyright work). The rights of the copyright owner were understood presumptively to extend to derivative works. As is noted above, the Court remanded the case to give the parties the opportunity to develop more evidence on the effect on the market for (non-parody) rap derivatives of the original song—illustrating that the copyright owner of the original song was entitled to the market for adaptations. “Derivative” and “transformative” uses are thus different concepts, with different implications for the fair use analysis. The right to make derivative works remains squarely within the copyright owner's bundle of rights. Indeed, section 106(2) the Copyright Act 1976 stipulates that “the owner of copyright ... has the exclusive rights to do and to authorize ... prepar[ing] derivative works based upon the copyrighted work.”³¹ With its stipulation that the case could not be decided without more evidence of the effects on the derivative work market, the Court tacitly acknowledged the importance to copyright's incentive structure of income derived from derivative works.

Thirdly, the case involved a special kind of transformative work: parody. United States courts have recognised that parodies might require a more permissive treatment than other kinds of transformative works of authorship. This is because parodies sometimes require taking more of an original work than would ordinarily be permissible: greater taking may be needed so that the parodist can conjure up the original in the mind of the audience. In addition, there may be significant friction in this segment of the derivative work market: many copyright owners will be reluctant to licence derivative works that lampoon the original.

2.3 Fair Use Applied to Other Kinds of Activities

United States courts have occasionally recognised a role for fair use in cases that have not involved the creation of new works of authorship. These include cases involving video tape recorders, video game consoles, and, more recently, Internet search engines.

2.3.1 Video Tape Recorders

The leading example is *Sony Corporation of America v. Universal City Studios, Inc.*,³² a decision from 1984 (pre-dating *Campbell* by ten years). The court held that taping of free-to-air broadcasts for the purposes of time shifting could be a fair use. Accordingly, the manufacturers of the tape recorders were not

²⁹ 510 US at 599.

³⁰ 510 US at 569.

³¹ 17 USC § 106(2) (emphasis added).

³² *Sony Corporation of America v. Universal City Studios, Inc.*, 464 US 417 (1984).

secondarily liable for copyright infringement. This case was a fairly rare instance of a finding in favour of fair use where no new work of authorship was created.

Sony was a majority decision (5:4). The majority judgment characterised the taping of free-to-air programmes as “productive”. One example of “productive” uses to which the majority referred was the taping of television programmes by elected officials.³³

2.3.2 *Decompilation of Software for the Purposes of Interoperability*

In *Sony Computer Enterprises v. Connectix Corp.*,³⁴ the Ninth Circuit held that it was a fair use to reverse engineer an operating system for a video game console that was designed to be used to display video games on a television monitor. The defendant created a new computer program that enabled video games to be played on a computer screen. The reverse engineering process required reproduction of the plaintiff’s software, and was a necessary step in order to make the defendant’s software compatible with the plaintiff’s games. Unlike in *Campbell*, the defendant in *Connectix* did not engage in a transformative use of the plaintiff’s work. But it did create a new copyright-protected work: the software that supported the new computer display platform.³⁵ Also, the copying by the defendant was “intermediate”; and the defendant was technologically required to copy the plaintiff’s work in order to create and market an entirely new software product.

Under US law, which lacks a specific defence for decompilation of computer programs, reproduction of computer programmes for the purposes of creating interoperable products would be infringing if not excused by fair use. The court held for the defendant. As is discussed below, in section 50B of the UK Copyright, Designs, and Patents Act 1988, UK firms have been provided with a more carefully calibrated defence for firms engaged in the activity of decompiling computer programs for the purposes of interoperability.

2.3.3 *Search Engines*

A recent case applying fair use to search engines is the 2007 decision of the Federal Court of Appeals for the Ninth Circuit, *Perfect 10, Inc. v. Amazon.com, Inc.*³⁶ The plaintiff owned the copyright in photographic images. It brought copyright infringement proceedings against the firm responsible for a search engine that copied and stored images in its search database and displayed thumbnails of these infringing images in response to search queries. The plaintiff’s business model (it ran an “adult” website) depended partly on charging for access to its webpages on which its original photographs were displayed. Its business was undermined because other websites copied and displayed its

³³ While the *Campbell* decision did not explicitly overturn *Sony*, its emphasis on the “transformative” nature of the defendant’s use (that is, use that leads to the creation of new works of authorship) perhaps raises issues about the relevance to the fair use analysis of “productive” uses that do not result in the creation of new works of authorship.

³⁴ 203 F 3d 596 (9th Cir 2000).

³⁵ Computer software is categorised as a work of authorship under both domestic law (see *Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240 (3d Cir 1983), and at international law. See TRIPs Agreement, art 10.

³⁶ *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F 3d 701 (9th Cir 2007).

proprietary photographs without permission.³⁷ Clicking on the thumbnail images that were produced by the search engine would direct webbrowsers to the sites where the infringing images were displayed. It was alleged that some of these sites were “partners” in a secondary advertising business involving the display of advertisements (for a fee). The copyright owner also alleged that the search engine interfered with its licensing arrangements with another firm that marketed thumbnail images of Perfect 10’s photographs for use on cellphone displays. The copyright owner argued that cell phone users might choose to download the images from the search engine’s display, rather than from its licensee.

Overturing the lower court,³⁸ the Ninth Circuit held that the copying the images and their display as thumbnails was a fair use of the copyright-protected photographs. In the Court’s view, the defendants’ use was “significantly transformative” because the defendant’s search engine provides for an “entirely new use”³⁹ of the copyright owners’ works. The court of appeals regarded the copying by the search engine as *more* transformative than the defendant’s activity in *Campbell*. It said: “a search engine provides an entirely new use for the original work, while a parody typically has the same entertainment purpose as the original work.”⁴⁰ The “considerable public benefit”,⁴¹ of providing a search engine service appeared to influence the court’s characterisation of the defendant’s use as “significantly transformative”. Its overall conclusion was that the defendant’s use was “fair” notwithstanding the commercial character of its activities.⁴²

In key respects, *Perfect 10* departs from the principles set forth by the Supreme Court in *Campbell*. Running a search engine business is quite different from creating new works of authorship. In this sense, the decision departs from *Campbell*’s understanding of transformative uses and its emphasis on the production of new creative works of authorship. The problem is not with the conclusion that the existence of commercial search engines is in the public interest—few would disagree with that. However, the Court was, in effect, engaging in a policy determination as to which sectors of the economy should contribute to the cost of developing the search engine business: in this instance, copyright owners. It did so without engaging in a full cost/benefit analysis.

In the context of the present *Review*, these doctrinal difficulties are probably less important than the more challenging issues that are raised by recourse to fair use as a tool for regulating key sectors of the economy. These are discussed in detail in Section 3.

2.4 The Claim that Fair Use is Constitutionally Required

³⁷ As was noted in other litigation brought by the same plaintiff its business was further undermined by commercial intermediaries that charged access to websites on which the images were displayed. *Perfect 10, Inc., v. CCBill LLC*, 488 F.3d 1102 (9th Cir 2007), *cert denied* 552 US 1062 (2007).

³⁸ *Perfect 10 v. Google, Inc.*, 416 F Supp 2d 828 (CD Cal 2006).

³⁹ 487 F 3d 701, at 722, 723.

⁴⁰ 487 F 3d 701, at 722, 721.

⁴¹ See 487 F 3d 701, at 722.

⁴² “We conclude that the significantly transformative nature of Google’s search engine, particularly in light of its public benefit, outweighs Google’s superseding and commercial uses of the thumbnails in this case.” 487 F 3d 701, at 723.

It is occasionally suggested that fair use is required by the First Amendment to the US federal Constitution.⁴³ The First Amendment prohibits Congress from making any law “abridging the freedom of speech”. Similar protections of expression and information are now found in most international human rights instruments and many domestic constitutions. In the UK context, a particularly important statement of this freedom is in article 10 of the European Convention on Human Rights and Freedoms. An especially venerable statement on freedom of expression is in article 19 of the Universal Declaration of Human Rights (UDHR).⁴⁴ Accordingly, if fair use is constitutionally required in the United States, it might be argued that fair use is also required in other jurisdictions in which legal protections for expression and information are recognised.

On closer analysis, the argument that freedom of expression dictates adoption of a US-style fair use standard is not sustainable. First, and most obviously, the vast majority of copyright systems lack a broad fair use defence—yet many of these legal systems *also* recognise protections for freedom of expression. Some of these nations, including the United Kingdom, provided the initial votes in the United Nations in favour of adoption of the UNHR. The United Kingdom has also signed and ratified the 1966 International Covenant on Civil and Political Rights,⁴⁵ which also includes protections for speech.⁴⁶ It would be an extraordinary claim that every nation that recognises freedom of expression has been acting inconsistently with its international obligations by not adopting a US-style fair use defence.

Moreover, even within US law, the claim that fair use is required by the US constitution is susceptible to misunderstanding. As the Court of Appeals for the Second Circuit has noted, “the Supreme Court has never said that fair use is constitutionally required.”⁴⁷ There are, however, some statements by Justice Ginsburg in the 2003 case of *Eldred v. Ashcroft*⁴⁸ that come close to implying that the First Amendment requires adoption of a fair use standard. For example, Justice Ginsburg described “fair use” and the “idea/expression dichotomy” as “built-in free speech safeguards.”⁴⁹

These statements need to be understood in their context. In *Eldred*, the Court *also* said that the copyright system itself protects expressive freedoms. The Court explained that copyright is the “engine of free expression;”⁵⁰ “by establishing a marketable right to the use of one’s expression, copyright supplies the economic incentive to create and disseminate ideas.”⁵¹ The Supreme Court specifically

⁴³ See Marshall Leaffer, *Life After Eldred: The Supreme Court and the Future of Copyright*, 30 Wm Mitchell L Rev 1597, 1605-06 (2004) (examining these claims).

⁴⁴ “Everyone has the right to the freedom of opinion and expression; this right includes freedom to hold opinions without interference and to seek, receive and impart information and ideas through any media and regardless of frontiers.” Universal Declaration of Human Rights, GA Res 217A(III), at 71, UN GAOR, 3d Sess, 1st plen mtg, UN Doc A/810 (Dec 12, 1948).

⁴⁵ See http://treaties.un.org/Pages/ViewDetails.aspx?src=TREATY&mtdsg_no=IV-4&chapter=4&lang=en#6.

⁴⁶ GA Res 2200A(XXI), at 52, UN GAOR Supp No 16, UN Doc A/6316 (1966), art 19.

⁴⁷ *Universal City Studios, Inc. v. Corley*, 273 F 3d 429, 458 (2d Cir 2001).

⁴⁸ *Eldred v. Ashcroft*, 537 US 186, 221 (2003).

⁴⁹ 537 US 186, 221 (2003).

⁵⁰ *Eldred v. Ashcroft*, 537 US at 219, citing *Harper & Row v. The Nation*, 471 US 539, 558 (1985).

⁵¹ *Harper & Row v. The Nation*, 471 US at 558.

endorsed the view that “copyright law celebrates the profit motive, recognising that the incentive to profit from the exploitation of copyrights will redound to the public benefit by resulting in the proliferation of knowledge.”⁵² In this context, Justice Ginsburg also referred to a number of other more specific defences that were introduced into US law at the same time as the legislation that was being challenged in the case.⁵³ Ginsburg J did not, therefore, view fair use in isolation. She appeared to view it in the context of the many other defences and exceptions that exist in the US statute. This may be an especially important point in the UK context: As is noted above, UK copyright law has a long tradition of adopting specific defences and exceptions to copyright owners’ rights.⁵⁴

The better view is that the US fair use defence, viewed in the context of US law as a whole, is only one of many available approaches to accommodating both expressive freedoms and copyright. As is suggested by cases such as *Ashdown v. Telegraph Group Ltd*,⁵⁵ in which arguments based on article 10 of the European Convention were advanced, English courts are perfectly adept at accommodating expressive freedoms in the context of UK copyright law—without a broad, US-style fair use defence. In this context, it is also useful to note that protections for authors are also required as a matter of international law,⁵⁶ including international human rights laws.⁵⁷

3. Fair Use as a Regulatory Tool

As *Perfect 10, Inc. v. Amazon.com, Inc.*⁵⁸ illustrates, fair use can operate as regulatory tool—with profound effects on the economy. One commentator has noted, “with its ruling that a ... search engine’s display of thumbnails is a fair use, the Ninth Circuit here has given the green light to a basic Internet activity.”⁵⁹ In reality, *Perfect 10* affects the position of the owners of *all* copyright-protected works that that might be copied in the course of running a search engine. This raises the question: Is fair use a good regulatory tool? There are many reasons to think that it is not.

⁵² *Eldred v. Ashcroft*, 537 US at 212, n 18 (citing *American Geophysical Union v. Texaco Inc.*, 802 F Supp 1, 27 (SDNY 1992), *aff’d* 60 F 3d 913 (2d Cir 1994)).

⁵³ See 17 USC § 108(h), which allows libraries and similar institutions to reproduce and distribute copies of certain published works for scholarly purposes during the last 20 years of any copyright term, if the work is not already being exploited commercially and further copies are unavailable at a reasonable price; and § 110(5)(B) which concerns the ability of small businesses to play music from licensed radio, television, and similar facilities.

⁵⁴ See LADDIE, PRESCOTT & VITTORIA, *THE MODERN LAW OF COPYRIGHT AND DESIGNS* (3d ed 2000) (listing 42 specific copyright defences).

⁵⁵ [2001] EWCA (Civ) 1142 (Eng).

⁵⁶ Copyright protections are required by numerous international agreements, including the TRIPs Agreement and the Berne Convention.

⁵⁷ Article 15(1)(c) of the International Covenant on Economic Social and Cultural Rights requires member states to protect the “right of everyone to benefit from the protection of the moral and material interests resulting from any scientific, literary or artistic production” of which he or she is the “author.” For a detailed elaboration of this right, and its connection with other rights, including the right to participate in cultural life, see *General Comment No 17* issued by the *Committee on Economic, Social, and Cultural Rights on Article 15(1)(c)*. UN Doc E/C.12/2005 (Nov 21, 2005).

⁵⁸ *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F 3d 701 (9th Cir 2007).

⁵⁹ Jonathan Band, *Google and Fair Use*, *J of Business & Technology Law* (forthcoming 2011).

The issue here is not, for example, whether search engines or other new technologies are to be encouraged. The critical question is whether fair use litigation offers an appropriate forum for evaluating the issues and interests at stake. The fair use defence raises problems with uncertainty and questions about the role of the judiciary in regulating the economy. Recently, legal commentators have raised questions about whether fair use achieves its purpose, and have suggested that fair use does not deliver firms and individuals sufficient latitude for innovative activity.⁶⁰ Rather than encouraging new innovation, the uncertainty of the fair use principle might impose significant barriers to market entry.⁶¹ In many respects, the US fair use approach falls short on its apparent promises.

3.1 Fair Use is an Inherently Uncertain Standard

Business growth is helped by legal certainty.⁶² Fair use does not provide it. United States judges have acknowledged the uncertainty of the fair use standard. One court described it as “the most troublesome in the whole law of copyright”.⁶³ Another characterised fair use as “so flexible as virtually to defy definition.”⁶⁴

Uncertainty and vagueness are inherent characteristics of fair use.⁶⁵ From its introduction into US law in 1841, fair use was *meant* to be a discretionary standard, to be applied on a case-by-case basis. The Report of the House of Representatives accompanying passage of the Copyright Act 1976 said:

Although the courts have considered and rule upon the fair use doctrine over and over again, no real definition of the concept has ever emerged. Indeed, since the doctrine is an equitable rule of reason, no generally applicable definition is possible, and each case raising the question must be decided on its own facts.⁶⁶

Quite deliberately, the statutory language provides “very little guidance for predicting whether a particular use will be deemed fair.”⁶⁷ One US law professor has observed that the “facial emptiness of the statutory language means that ... it is entirely useless analytically, except to the extent that it structures the collection of evidence.”⁶⁸ Another leading scholar has commented that the idea that the statutory test determines the outcome of fair use cases is “largely a fairy tale.”⁶⁹ Problems caused by the vagueness of the statutory test are exacerbated because, as Judge Leval, a leading US authority on intellectual property, has

⁶⁰ See, e.g., Gideon Parchomovsky & Philip J Weisner, *Beyond Fair Use*, 96 Cornell L Rev 91 (2010).

⁶¹ Gideon Parchomovsky & Kevin A. Goldman, *Fair Use Harbors*, 93 Va L Rev 1483, 1497-98 (2007).

⁶² See, e.g., United Nations Economic Commission for Europe, *Financing Innovative Development for Europe: Comparative Review of UNECE Countries in Early Stage Financing* (2007) (characterising uncertainty as an impediment to securing finance).

⁶³ *Dellar v. Samuel Goldwyn, Inc.*, 104 F.2d 661, 662 (2d Cir 1939).

⁶⁴ *Time, Inc. v. Bernard Geis Assocs*, 293 F Supp 130, 144 (SDNY 1968).

⁶⁵ William F. Patry & Shira Perlmutter, *Fair Use Misconstrued: Profit, Presumptions, and Parody*, 11 Cardozo Arts & Ent. LJ 667, 667-68 (1993).

⁶⁶ HR Rep No 94-1476, 94th Cong., 2d Sess 65-66 (1976).

⁶⁷ Michael W. Carroll, *Fixing Fair Use*, 85 N.C. L Rev 1087, 1106 (2007).

⁶⁸ Michael J Madison, *A Pattern-Oriented Approach to Fair Use*, 45 Wm. & Mary L Rev 1525, 1564 (2004).

⁶⁹ David Nimmer, “*Fairest of them All*” and Other Fairy Tales of Fair Use, 66 Law and Comtemp. Probs 263, 282 (2003).

noted, US judges themselves “do not share a consensus on the meaning of fair use.”⁷⁰

In some contexts, the open-ended character of the fair use standard might bring advantages of flexibility. But there are also significant costs. Drawing on economic literature that links vague standards to over-deterrence, some US commentators reason that the vagueness of fair use “prevent[s] actors from precisely determining the optimal level of investment.”⁷¹ Commercial development is not assisted by structural impediments to careful risk/benefit analyses.

Moreover, in some sectors of the creative economy, fair use does not provide firms seeking to use others’ copyright-protected content with the protections they want. Despite the presence of fair use on the US statute books, many firms are compelled to buy “errors and omissions” insurance or negotiate licences. Even with a fair use defence, it can be difficult to secure a movie distributor without this kind of insurance.⁷² Fair use itself provides insufficient protection.

Secondly, the uncertainty of fair use invites strategic brinkmanship. The lack of clarity about the scope of fair use invites some copyright owners to overreach—suggesting, for example, that licences need to be negotiated for uses of short quotations, where such uses are likely to be protected by fair use.⁷³ On the other hand, the lack of judicial guidance encourages exorbitant claims about the kind of activities that fair use excuses.

Thirdly, because judges have substantially divergent views on how fair use should be applied, the risks and costs of litigation can be significant. If they can afford it, losing parties have an incentive to pursue appeals. This is not due to the conventional incentive for pursuing an appeal—anticipating that appellate courts might develop the legal principles in an advantageous way. Instead, it is because judges themselves differ as to the application of the fair use defence—despite the guidance provided by the Supreme Court in cases such as *Campbell*. Moreover, lower courts’ fair use decisions are usually reviewed *de novo*. As a result, appellate courts are seldom deferential to the conclusions reached by first-instance courts.

Perfect 10, Inc. v. Amazon.com, Inc.,⁷⁴ where the court of appeals overturned the district court’s conclusions that copying for the purposes of running a search engine was not fair use, was not at all unique. All of the leading US fair use cases are characterised by divergent conclusions on fair use:

Sony v. Universal City Studios, Inc., 464 US 417 (1984):
Supreme Court: 5 judges in favour of fair use/4 judges against fair use
Court of Appeals: 3 judges against fair use
District Court: 1 judge in favour of fair use.

⁷⁰Pierre N. Leval, *Toward a Fair Use Standard*, 103 Harv. L Rev 1105, 1106 (1990).

⁷¹Gideon Parchomovsky & Kevin A. Goldman, *Fair Use Harbors*, 93 Va L Rev 1483, 1498 (2007).

⁷² Alan E. Garfield, *Calibrating Copyright Statutory Damages to Promote Speech*, 38 Fla. St. U. L Rev 1, 5-6 (2010).

⁷³ Kate O’Neill, *Against Dicta: A Legal Method for Rescuing Fair Use from the Right of First Publication*, 89 Cal L Rev 369, 401-402 (2001).

⁷⁴*Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F 3d 701 (9th Cir 2007).

Harper & Row Publishers, Inc. v. Nation Enterprises, 471 US 539 (1985):
Supreme Court: 6 judges against fair use/3 judges in favour of fair use
Court of Appeals: 2 judges in favour of fair use/1 judge against fair use
District Court: 1 judge against fair use

Campbell v. Acuff-Rose Music, Inc. 510 US 569 (1994):
Supreme Court: 9 judges generally in favour of fair use – but no final decision (case remanded for further evidence)
Court of Appeals: 2 judges against fair use/1 judge in favour of fair use
District Court: 1 judge in favour of fair use

This divergence in judicial approaches provides another set of incentives to pursue appeals, if parties can afford to do so. The opportunity costs associated with litigation are, of course, significant. A system that encourages appeals—without achieving any greater certainty for the commercial sector—is of dubious utility.

Recent research, based on very sophisticated empirical analysis of cases decided during a 25-year period, indicates that there might be some discernible patterns in the application of the fair use defence by US courts.⁷⁵ These patterns have not, however, been discernible to the vast majority of US legal commentators; and, as the comment by Judge Leval attests, judges themselves have difficulty in recognising any consistent patterns. If such patterns as do exist are not readily apparent to leading copyright scholars or to judges, firms and their legal advisors are also unlikely to see them. Business development is unlikely to be assisted by a legal principle that requires extensive empirical research even to understand.

3.2 Fair Use Does Not Differentiate between Technologies or between the Business Practices of Market Participants

A related problem is that fair use does not discriminate between technologies—nor does it sufficiently distinguish between different business practices of both users and licensors of content.

Few would dispute the general proposition that search engines are enormously useful and that their activities should be encouraged. But fair use would not necessarily discriminate appropriately between the different activities of high technology firms. In file sharing cases, for example, sometimes involving significant volumes of unlicensed music files, defendants have argued that their actions are excused by the fair use defence.⁷⁶ While, in the file sharing context, the fair use arguments have not prevailed, copyright owners have been put to significant expense of responding to them.⁷⁷ If fair use were introduced into UK law, copyright owners might be required to litigate these very same issues. It should not be assumed that UK cases would be decided the same way. This would

⁷⁵Barton Beebe, *An Empirical Study of the U.S. Copyright Fair Use Opinions 1978-2005*, 156 U Pa L Rev 549 (2008).

⁷⁶See e.g., *BMG Music v. Gonzalez* 430 F 3d 888 (2005); *A & M Records, Inc. v. Napster, Inc.*, 239 F 3d 1004, 1014-19 (9th Cir 2001); *UMG Recordings, Inc. v. MP3.com, Inc.*, 92 F Supp 2d 349 (SDNY 2000).

⁷⁷See *Sony BMG Music Entertainment v. Tenenbaum*, 672 F Supp 2d 217 (DMass 2009)(allowing limited discovery on fair use issue in case involving use of file sharing software).

create significant risks for the copyright industries. For all concerned, litigating these kinds of cases would also be a wasteful expenditure of resources.

Even in the search engine context, fair use might inhibit the development of innovative technological solutions that might better balance the interests of different market participants. For instance, some firms might develop search algorithms that did not cause sites on which illegal content is stored to be ranked at (or near) the top search results. Application of fair use to *all* search engines could reduce incentives to develop search technologies in this way.

There is also a risk that wholesale application of fair use would not sufficiently distinguish between different content owners' licensing practices. Copyright owners should be encouraged to develop efficient licensing practices and accompanying technologies, including digital rights management. Some content providers have developed business models and technologies that have achieved greater efficiency in licensing; others have not. Application of fair use "across the board" would send the wrong signals. If an unfettered fair use defence were introduced, there might also be less incentive for high technology firms to work together with the copyright industries. If other firms were able to assert that their activities are shielded by fair use, it would likely be more difficult to internalise the costs of negotiating licensing arrangements..

3.3 Problems with "Economic Regulation by Litigation"

Following *Perfect 10*, it is now assumed that copying for the purposes of running a search engine, at least on a very large scale, does not infringe copyright. Successful litigants are likely to favour such results. But these kinds of outcomes raise a broader systemic question about the utility of the fair use standard: is it always useful to delegate such difficult and profound policy questions to the judiciary?

For many reasons, this kind of "economic regulation by litigation" might not be ideal. In the platform technology context, for example, fair use litigation is unlikely to provide an appropriate context for analysis of some of the difficult policy problems that arise in this area. The core controversy is familiar. Technology entrepreneurs assert that copyright claims, especially secondary liability claims, inhibit technological innovation. On the other side, content providers claim that these technologies are economically viable only because they facilitate access to and distribution of the unlicensed content that is disseminated through these new distribution platforms. The claim here is that technology entrepreneurs have forced copyright owners to contribute to their "start-up capital".⁷⁸ Litigation, including fair use litigation, typically exposes these and other kinds of *conflicts* between the parties. The litigation process pays insufficient regard to the symbiotic relationship between technology entrepreneurs and copyright industries.

⁷⁸ See Jane C. Ginsburg, *Separating the Sony Sheep from the Grokster Goats: Reckoning the Future Business Plans of Copyright-Dependent Technology Entrepreneurs*, 50 Ariz L Rev 577, 50 (2008). Professor Ginsburg cites the following passage from the transcript of the oral argument in the US Supreme Court's decision in *Grokster v. MGM*, 545 US 913:

JUSTICE KENNEDY: - [...] what you want to do is to say that unlawfully expropriated property can be used by the owner of the instrumentality as part of the startup capital for his product[...]. [J]ust from an economic standpoint and a legal standpoint, that sounds wrong to me.

Transcript of Oral Argument at 43-44, (No 04-480), 2005 WL 832356.

Platform technologies offer new opportunities for dissemination and marketing of new content. At the same time, many platform technologies *depend* on the existence of a vibrant and growing array of content. In the long term, damaging the economic incentives for the creation of new content risks damaging the market for new and innovative platform technologies.

There are many other reasons why litigation is not a good vehicle for engaging with these kinds of difficult questions of economic policy. First, litigation typically involves a dispute between a small number of parties. While appellate courts can, and do, address the wider policy issues at stake, they do so through the lens of specific dispute. As the OECD has said, good regulation requires assessment of the broader issues for society as a whole.⁷⁹ Litigation does not adequately address the basic concern that “all interested parties [have] the opportunity to present their views.”⁸⁰ Nor does it offer a sufficient opportunity to evaluate all the relevant policy concerns in a disinterested manner. The issues before the court will invariably be defined by the parties in the context of the specific dispute, and will not necessarily be defined in a way that takes account of the broader interests at stake. Litigants will be unlikely to draw attention to negative impacts on other parties—unless doing so positively supports their claims.

Perfect 10 exemplifies many of these problems. The case pitched copyright owners against search engines, but it did so in a case involving an adult website on one side and one of the world’s largest Internet businesses on the other. The equities might have been different in a case involving other kinds of copyright-protected material, but, as the commentator quoted above notes, the case gave “green light” to search engines in a manner that affects all copyright owners. Wider policy concerns might be raised in amicus briefs, but the practice of filing such briefs is not as well developed in UK domestic litigation as it is in the United States.

Secondly, the data available to judges are, for the most part, determined by the parties themselves. This not only has the potential to limit the scope of the factual evidence on which important policy issues might be based. In addition, there is a risk that the factual record will be out-of-date by the time of the court’s decision.⁸¹

Thirdly, litigation produces winners and losers. Fair use cases often produce “all or nothing” results. This can inhibit thorough assessment of alternative—perhaps more creative or nuanced—policy solutions. *Sony v. Universal Studios* provides an illustration. After the decision was handed down, and time-shifting was held to be lawful, it became politically untenable to adopt any alternative policy solution, such as hardware levies. The win/lose outcome of the case precluded rigorous policy consideration of solutions that might have compensated copyright owners while also enabling the new technology to be developed and marketed.

⁷⁹*Cf* OECD Reference Checklist for *Regulatory Decision Making*, which stipulates: “To the extent that distributive and equity values are affected by government intervention, regulators should make transparent the distribution of regulatory costs and benefits across social groups.” http://www.oecd.org/LongAbstract/0,3425,en_2649_34141_35220215_1_1_1_1,00.html

⁸⁰*Id.*

⁸¹*See, e.g., Sony v. Universal Studios* 464 US 417 (1984).

Fourthly, litigation is expensive and risky. Problems of access to justice arise when difficult policy questions are delegated to the judiciary. Fair use is sometimes criticised as creating an imbalance between the risks of being sued and the social benefits created by a defendant's use. As two leading commentators put the point: individuals using copyrighted materials "cannot capture the full benefit of the use but stand to bear the full cost if sued."⁸² But fair use litigation can generate other kinds of asymmetries, especially in cases involving parties with different levels of resources. When a small-scale copyright owner is pitched against a large, well-financed high tech firm that asserts that its use of the former's works is excused by the fair use defence, costs can be a significant barrier to initiating proceedings. This may be particularly problematic in the United Kingdom, where the prevailing party is generally awarded with costs. A successful case will likely benefit all similarly situated copyright owners. But a small-scale copyright owner cannot internalise all these potentially significant positive externalities of winning a case against such a defendant. But many will bear all the risk—this may be particularly problematic for firms that are not part of a larger industry group.

3.4 Fair Use Sometimes Does Not Provide Sufficient Protection, and Can Operate Unfairly and Capriciously

Despite the advantages that are sometimes claimed to accompany the fair use standard, fair use does not necessarily provide the right kind of encouragement for business activity. Problems with the uncertainty of the standard and more general problems associated with regulating through litigation are discussed above. But a number of US scholars have urged that fair use does not go far enough to support certain kinds of business activity.⁸³ In addition, fair use can operate unfairly and capriciously.

An example of the first problem is the application of the defence in the context of the decompilation of computer programs for the purposes of interoperability. In the United States, firms engaged in developing interoperable products (software or hardware) must rely on fair use to provide the key support for their business models. Antitrust principles might also occasionally be relevant. In a number of other countries, however, including the United Kingdom, there is a specific defence that protects such activity. Because in the US context, the defence resulted from litigation,⁸⁴ there was no opportunity to examine the broader policy context.

One result of this is that it remains unclear whether US copyright owners can condition access or use of software on agreement to contractual terms prohibiting decompilation for the purposes of accessing interface data—including for the purpose of developing and marketing interoperable products. In the United Kingdom, section 50B of the Copyright, Designs and Patents Act 1988 delineates the circumstances in which decompilation for the purposes of achieving interoperability is permitted. It also voids such overreaching contractual terms: "Where an act is permitted under this section, it is irrelevant whether or not there exists any term or condition in an agreement which purports to prohibit or restrict

⁸² Gideon Parchomovsky & Kevin A. Goldman, *Fair Use Harbors*, 93 Va L Rev 1483, 1498 (2007).

⁸³ Gideon Parchomovsky & Philip J Weisner, *Beyond Fair Use*, 96 Cornell L Rev 91 (2010).

⁸⁴ The leading case is *Sega Enterprises, Ltd. v. Accolade, Inc.*, 977 F.2d 1510 (9th Cir 1992).

the act.”⁸⁵ This kind of result would be almost impossible to achieve through fair use litigation; it would depend on the issue of contractual prohibition being squarely raised by the dispute between the relevant parties. In the meantime, in the United States, the decision to leave this issue to a case-by-case discretionary standard, there remains considerable uncertainty about an issue of critical importance to the high tech sector, especially new market entrants.

The capricious character of fair use becomes apparent once it is understood how fair use operates along with other parts of the US copyright system. For example, the Digital Millennium Copyright Act of 1998⁸⁶ introduced a number of prohibitions against circumventing technological protection measures (TPMs) that control access to copyright-protected works.⁸⁷ There are similar prohibitions against circumventing TPMs that prevent acts such as reproduction and distribution. The fair use defence does not apply to circumvention of TPMs that control access. Instead, the Congress adopted a closed list of specific defences, and also delegated to the Librarian of Congress a rule-making power to develop specifically-tailored exceptions as new issues arise.⁸⁸ Creators and the copyright owners of especially popular content are likely to have their material copied by third parties and made available on websites that are unprotected by TPMs. Assuming that the operation of a search engine *is* a fair use, search engine firms can make this content more easily locatable and accessible for download (with no compensation to the copyright owners). However, fair use would not be relevant to less popular content that is available *only* on sites protected by TPMs (because third parties would be less likely to copy and make available less popular content on non-TPM-protected websites). In the current state of US law, the interplay between the DMCA and fair use to search engines risks inverting copyright's incentives by giving least protection to the most popular content.

Such results are partly a consequence of delegating key regulatory functions to courts. If a court decides that a particular use is a fair use, that is usually the end of the matter. Courts are not required to consider whether the outcome of a case is fair to other economic actors—or risks generating distorting economic effects for the copyright system as a whole.

4. Alternatives to Fair Use: the Australian Experience

Whenever copyright reform is considered, some stakeholder groups and government agencies inevitably point to the US fair use defence. Given the importance of the US economy, that is inevitable. Fair use has, for example, recently been adopted in the new Israeli Copyright Act⁸⁹—accompanied by a stipulation that the Ministry of Justice can step in and clarify the application of the defence.

⁸⁵ Copyright, Designs and Patents Act 1988 (UK), ss 50B(4), 296. Cf. Article 6 of the Council Directive 91/250/EEC of 14 May 1991 on the legal protection of computer programs (as amended).

⁸⁶ Pub. L No 105-304, 112 Stat. 2860 (1998), codified in various sections of 17 USC §101 *et seq.*

⁸⁷ 17 USC §1201 *et seq.*

⁸⁸ 17 USC §1201(a)(C).

⁸⁹ Copyright Act, 2199 LS.I. 34 (2007) (Isr.), translation available at http://www.wipo.int/clea/en/text_pdf.jsp?lang=EN&id=5016.

It would be wrong, however, to conclude that the trend is all one way. In recent years, the Australian Parliament was also urged to introduce a US-style fair use defence. It decided against doing so. The proposal was discussed favourably at the highest government levels,⁹⁰ and was the subject of a number of governmental inquiries and reports,⁹¹ and public submissions.⁹² The proposal to introduce a fair use defence also received the support of a number of commentators.⁹³ This proposal was partly a response to the perception that the 2004 Australia-US Free Trade Agreement required copyright owners' rights to be strengthened under Australian law.⁹⁴ It was thought that the United States could not object to an expansion of the Australian defences and exceptions that mirrored the US provisions.

However, in the middle of the last decade (around 2006), the Australian government decided against importing US-style fair use defence into Australian law. First, it was recognised that despite having much in common, the legal cultures in Australia and the United States are also quite different. The fair use standard does not operate in isolation: affecting its application are factors such as the litigiousness of the culture; costs of litigation, and who bears them; whether litigation can be funded on a contingency basis; and the potential for input from different stakeholder groups.

Secondly, a number of concerns focused on the perceived connection between fair use and the First Amendment. While Australia is party to a number of international agreements that guarantee freedom of expression, Australian law does not offer anything like the vast body of US case law on the First Amendment. It was recognised that, in Australia, some of the background legal concepts against which fair use should be understood are not as well developed.

Thirdly, Australia does not have the same high volume of cases exploring the contours of the fair use defence. As is discussed above, even in the United States, fair use is persistently criticised for introducing significant uncertainty into US law. That problem would be exacerbated in Australia, which does not have the same volume of litigation.

⁹⁰ Philip Ruddock, Attorney-General of Australia, *Government Examines Fair Use of Copyright Material* (Press Release, 5 May 2005).

⁹¹ Attorney-General's Department, *Australia, Fair Use and Other Copyright Exceptions: An Examination of Fair Use, Fair Dealing and Other Exceptions in the Digital Age: Issues Paper* (2005); COPYRIGHT LAW REVIEW COMMITTEE, PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA, SIMPLIFICATION OF THE COPYRIGHT ACT: PART 1- EXCEPTIONS TO THE EXCLUSIVE RIGHTS OF COPYRIGHT OWNERS (1998).

⁹² See Kim Weatherall, *Of Copyright Bureaucracies and Incoherence: Stepping Back From Australia's Recent Copyright Reforms*, 31 *Melb U L Rev* 967 (2007), noting that The Attorney-General's Department received 161 submissions in the Fair Use Review: see Attorney-General's Department, <http://www.ag.gov.au/www/agd/agd.nsf/Page/Publications_Copyright-ReviewofFairUseException-May2005>.

⁹³ See Melissa deZwart, *Seriously Entertaining: The Panel and the Future of Fair Dealing*, 8 *Media & Arts L Rev* 1 (2003).

⁹⁴ Some Australian commentators have suggested that the actual increase in the scope of Australian copyright law required by the Australian-US FTA was relatively minor: see Robert Burrell and Kim Weatherall, *Exporting Controversy? Reactions to the Copyright Provisions of the US—Australia Free Trade Agreement: Lessons for US Trade Policy* (Working Paper No 07-13, T C Beirne School of Law, The University of Queensland, 2007), cited in Weatherall, 31 *Melb U L Rev* 967 (2007).

As in the United Kingdom, the Australian government has shown itself to be quite adept at introducing considerable flexibility into the copyright regime. The Australian Copyright Act includes a long list of exceptions. Following the decision not to import the US approach, the Australian government added to the list. In Australian law, the defences and exceptions now include a large number of private copying exceptions;⁹⁵ defences relevant to interoperability;⁹⁶ other defences applicable to computer programs;⁹⁷ defences relevant to certain public performances;⁹⁸ defences applicable to use of copyright works in education settings;⁹⁹ and time shifting defences.¹⁰⁰ In addition, the Australian Copyright Act includes fair dealing defences for several purposes, including research or study;¹⁰¹ criticism or review;¹⁰² and the reporting of news.¹⁰³ There are also defences that are relevant to the Australian parallel importation regime.¹⁰⁴ Most recently, the Australian government decided, following its rejection of the US-style fair use defence, to introduce a new fair dealing defence for the purposes of parody and satire.¹⁰⁵ These defences do not remove all uncertainty from Australian copyright law. But they can put participants in the Australian economy on a surer footing than similarly situated firms in the United States. Australian firms do not have to litigate to determine whether decompiling a computer program is a fair use, for example.¹⁰⁶

The Australian experience also indicates why it can be an overstatement to claim that fair use always delivers greatest flexibility. The Australian defence for time shifting illustrates the point. In the United States, the law governing time shifting is the fair use defence, as interpreted by *Sony v. Universal Studios*, a Supreme Court case that is now over 25 years old.¹⁰⁷ That case was decided when the habits of television viewers were quite different from those of today. In 2006, the Australian Parliament introduced new legislation in this area; it introduced specific provision for time shifting that also applies to cable broadcast.¹⁰⁸ The Australian statutes goes further than the US case law, which has so far established only that fair use applies to taping free-to-air broadcasts for the purposes of time shifting.

The Australian government's decision to reject a US-style fair use defence should be an important consideration in the context of the UK government's *Review of Intellectual Property and Growth*. Australia is a nation that is jealous of its economic success—which has continued despite the global financial crisis. It is

⁹⁵ Copyright Act 1968 (Cth.) ss 43C; 43J; 109A; 110AA; 111(1).

⁹⁶ Copyright Act 1968 (Cth.) s 47D.

⁹⁷ Copyright Act 1968 (Cth.) ss 47B-47F.

⁹⁸ Copyright Act 1968 (Cth.) s 45.

⁹⁹ See, e.g., Copyright Act 1968 (Cth.) s 200AB.

¹⁰⁰ Copyright Act 1968 (Cth.) s 111.

¹⁰¹ Copyright Act 1968 (Cth.) ss 40(1); 103C.

¹⁰² Copyright Act 1968 (Cth.) s 41; 103A.

¹⁰³ Copyright Act 1968 (Cth.) s 42; 103B.

¹⁰⁴ Copyright Act 1968 (Cth.) s 44C.

¹⁰⁵ Copyright Act 1968 (Cth.) s 41A; 103AA.

¹⁰⁶ Cf. *Sega Enterprises, Ltd. v. Accolade, Inc.*, 977 F.2d 1510 (9th Cir 1992).

¹⁰⁷ *Sony v. Universal City Studios, Inc.*, 464 US 417 (1984).

¹⁰⁸ Copyright Act 1968 (Cth.), s 111; Broadcasting Services Act 1992 (Cth.), s 6 (definition of "broadcasting service").

one of the leading economic players in the Asia-Pacific region. As noted in the Introduction to this paper, there are good reasons to be sceptical about claims as to causal connections between fair use and technological development. Even so, it is noteworthy that Australia has decided to continue with the process of carefully developing exceptions to copyright as economic, technological, and social circumstances dictate—following an evaluation of the adoption of fair use at the highest government levels. Australia’s recent decision should give advocates of introducing fair use into UK law some considerable pause.

5. Conclusion

The *Review* asks an important question: how can the copyright system better support innovation?

Adoption of the fair use defence could introduce some useful flexibility into UK copyright law. But for the reasons discussed in this paper, there would be also significant disadvantages to this approach.

The history and prevailing understanding of the purpose and scope of fair use in the United States copyright system do not support the claim that fair use is particularly well adapted to supporting technological development. From its beginnings, the purpose of fair use was understood to be furthering the copyright policy of encouraging new works of authorship—not technological development more generally.

Fair use has introduced considerable uncertainty into US copyright law. US commentators largely agree that it is almost impossible to predict the outcome of many cases in which fair use is raised as a defence. Moreover, because fair use is a generally applicable defence—potentially applying to all unlicensed uses of copyright-protected works—it does not sufficiently differentiate between the kinds of activities of both high technology firms and copyright industries that should be encouraged in a dynamic economy, and those that should not.

For key sectors of the US economy, fair use has created a system in the United States of “economic regulation by litigation.” Problems with this approach include: difficulties with assessing the wider economic, social or technological implications of litigation outcomes, particularly the potential impacts on non-party stakeholders; the limited data available to courts; the costs of litigation, especially for parties in a weak financial position. Litigation is also very often a “win/lose” proposition. It can inhibit the development of more creative solutions to difficult policy problems.

Finally, the *Review* panel might find it useful to consider the Australian government’s recent decision not to follow the United States and import a US-style fair use defence into Australian copyright law. The Australian government made this decision after careful consideration of this option at the highest levels and after considerable public input. Australia has decided to continue the process of developing specifically-tailored defences and exceptions, as new technological issues arise, accompanied by a careful assessment of the relevant costs and benefits, and of the interests of all affected parties.