STATUTORY LIMITATION OF LIABILITY OF INTERNET SERVICE PROVIDERS IN DECENTRALIZED PEER TO PEER FILE SHARING

by

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SUMMARY

A study is done on the protection of sound recordings in the decentralized peer-to-peer (DP2P) file sharing in the United States, the United Kingdom and South Africa. This study reveals that because sound recordings have unique features different from other copyright works, the illegal sharing of sound recordings can ordinarily be *filtered*, *identified*, and *detected* by the Internet service providers (ISPs) before granting access to users and without infringing the users' right to privacy. However, the ISPs have failed in this regard, hence, they are strictly held liable under the contributory, vicarious and inducing infringements notwithstanding the statutory law which prohibits ISPs from *monitoring*, and *intercepting* their networks. In fact and law, the terms *filtering*, *identifying* and *detecting* on the one hand and *monitoring* and *intercepting* on the other hand are different in relation to sound recordings and as such ISPs are not prohibited from *filtering*, *identifying* and *detecting* illegal sound recordings on their networks, thus, ISPs are not protected under the limitation law as it is generally believed. However, several recommendations are made for reform, *inter alia*: a review of the limitation law to include the terms *filtering*, *identifying* and *detecting* in pursuance of the terms *monitoring*, and *intercepting*, if the intention of the legislators was meant to include the latter terms; protection of access right in digital sound recordings, protection of the neighbouring rights of ISPs in the digital world, imposing levies on all recording equipment, the insurability of sound recordings and ISPs' signals, and bandwidth.

KEY WORDS: Access, communication, decentralized peer to peer (DP2P) file sharing, distribution, infringement, Internet service providers (ISPs), limitation of liability, network, reproduction, software application, sound recordings and users.

DEDICATION

To God almighty, the creator, the author and the finisher of our faith who gave me the mental and physical strengths to sail to the shore in the long boat of voyage of discovery;

To T Karem, for the invaluable illumination and revelation in the science of information and communication technology which inspired my interest in the legal aspects of this challenging area and ultimately, intellectual property law;

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To the law firm of "akinlawon & ajomo" for consolidating my desire to learn and practice the secrets of law;

To my family members who have become the history of my life for giving their full support during the jetsam, and eventually, the flotsam.

Quote

“The heresies of the farthest future in the Internet technology world have become the realities of today, while the mirages of the nearest future would transform into the realities at dawn”.

DECLARATION

I declare that **Statutory Limitation of Liability of Internet Service Providers for Decentralized Peer to Peer File Sharing** is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

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List of abbreviations

AHRA	Audio Home Recording Act
AIRCO	Association of Independent Record Companies of South Africa
AP2P	Absolute peer to peer
AM	Amplified modulation
ART Act	Artists' Rights and Theft Prevention Act
CA	Certification Authority
CD	Compact disk
CD – ROM	Compact disc- Read only memory
CDPA	Copyright, Design and Patent Act
CIPRO	Companies and Intellectual Property Registration Office
CP2P	Centralized peer to peer
CWUSA	Creative Workers Union of South Africa
DMCA	Digital Millennium Copyright Act
DP2P	Decentralized peer to peer
ECD	Electronic Commerce Directive
ECHR	European Convention on Human Rights
ECJ	European Court of Justice
ECR	Electronic Commerce Regulation
ECTA	Electronic Communication and Transaction Act
EU	European Union
EUCD	European Union Copyright Directive
FM	Frequency modulation
FTP	File transfer protocol
GATT	General Agreement on Trade and Tariff
HP2P	Hybrid peer to peer
HTTP	Hypertext transfer protocol
IAP	Internet access provider

IOCA	Interception of Communication Act
IP	Intellectual property
IP	Internet protocol
IRB	Industry Representative Bodies
ISP	Internet service provider
ISPA	Internet service provider association
ITSP	Internet telephony service provider
LAN	Local area network
NET Act	No Electronic Theft Act
MP3	Moving picture experts group or MPEG3
OSP	Online service provider
P2P	Peer to peer
RAM	Random Access Memory
ROM	Read Access Memory
RIAA	Recording Industry Association of America
RICA	Regulation of Interception of Communication and Provision of Communication-related Information Act
RIPA	Regulation of Investigatory Powers Act
RiSA	Recording Industry of South Africa
SCMS	Serial copy management system
SAMPRA	South African Music Performance Rights Association
SAMRO	Southern African Music Rights Organization
SARRAL	South African Recording Rights Association Limited
SMF	Signed media format
SMTP	Simple mail transfer protocol
TCP	Transmission control protocol
TPM	Technical protection measure
TRIPS	Trade Related Aspects of Intellectual Property Rights
TSP	Telecommunication service provider
UCC	Universal Copyright Convention
UCG	User generated content

UNESCO	United Nations Educational Scientific and Cultural Organization
VCR	Video cassette recorder
VTR	Video Tape Recorder
WAN	Wide area network
WASPA	Wireless application service provider association
WCT	WIPO Copyright Treaty
WPPT	WIPO Performances and Phonograms Treaty

CHAPTER 1

INTRODUCTION

Technological change has been and is an issue in copyright law. Intellectual property law arose in part as a response to the technological challenges that the printing press posed.[1] Computer software has similarly challenged copyright law, particularly in peer-to-peer (P2P) file-sharing, a software application developed by Shaun Fanning which has the capacity for commercially significant copyright-infringing (as well as non-infringing) uses.

Of all the classes of works eligible for copyright protection, sound recordings are perhaps the most threatened and infringed by technological developments. The ordinary meaning of the concept of "sound recording" was aptly described by the Advisory Committee on the Copyright Act in the report on "Needle Time" and "Blank Tape Levy" as follows: "A sound recording(embodied in a record, CD or tape) is usually the product of many talents: a) the musical work of the composer; b) the literal work of the poet or lyricist; c) the performance of the artist; and d) the arrangements made for its making by its producer, but a sound recording need not contain music or, if it does, it may not have words."[2]

The second-generation P2P network – decentralized peer-to-peer (DP2P) network is a major concern to rights-holders. A DP2P network allows software applications to be freely distributed by software distributors thus enabling end users to participate in the sharing of files otherwise than through a centralized or dedicated index and a content server. ISPs give users access to the Internet generally without taking routine technical precautions[3] such as filtering,[4] identification[5] or detection.[6] Legislative provisions

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[1] Leaffer *Understanding Copyright Law* at 4.

[2] Advisory Committee on the Copyright Report on "Needle Time" and "Blank Tape Levy" 5 November 1993.

[3] These precautions are done through a frequency identification process, message digest, and track record or history, see paragraph 2.7 of this study.

[4] Filtering is purely technical and automatic. ISPs can use their search function to identify infringing sound recordings and police their own network. Filtering is generally a process that screens network traffic for certain characteristics such as *source addresses*, *destination addresses*, or *protocols* and determines whether to forward or discard that traffic on the basis of established criteria. For example, one of the filtering models, *CopySense* Appliance, seeks to identify protected sound-recording content in P2P flows. Another filtering model is *Gold-file flood* filtering which enables ISPs to curtail but probably not to prevent completely – the sharing of copyright files which are infringing. See *A & M Records, Inc v Napster, Inc* 239 F.3d 1004 (9th Cir. 2001) at 1027 (herein after referred to as *A & M Records, Inc v*

prohibit ISPs from monitoring[7] and intercepting[8] works on their network. Failure to take these technical precautions results in uncontrollable infringements and consequently economic loss to copyright owner.[9] It is posited in this study that, though arguably, sound recordings can be filtered, identified or detected on DP2P network without monitoring or intercepting same on the network based on the features of sound recordings in contrast with other copyrighted works.

The strides which technology has made in developing new methods and media for fixing and reproducing recorded sounds and delivering them to the user have made it very difficult for statutes, precedents, common law and even law-makers around the world to keep up and to provide adequate protection to rights-holders.[10] At the domestic level, various countries have inadequately responded to online distribution by enacting laws protecting both rights-holders and ISPs, in particular, under the concept of the safe-harbour rule, limiting the liability of ISPs.

Napster, Inc 1 case); US Court of Appeal case- *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* 380 F.3d 1154 (9th Cir.2004) at 1166 (herein after referred to as *Metro-Goldwyn-Mayer Studio, Inc v Grokster Ltd* 11 case); Newton *Newton's Telecom Dictionary* at 390; Rosenberg "Controlling access to the Internet: The role of filtering" at 35–37; Dixon "Liability of users and third parties for copyright infringements on the Internet" at 38–39; Ginsburg "Copyright control v compensation: The prospects for exclusive rights after *Grokster* and *Kazaa*" at 117 and 119; Austin "Global networks and domestic laws: Some private international law issues arising from Australian and US liability theories" at 129 and 144. In *SABAM v SA Tiscali (Scarlet)* No. 04/8975/A at 4, the court found that filtering could recognize 90 per cent of the illegal sound recordings exchanged on the Internet and could be scaled up to deal with Scarlet's large volume of Internet traffic. Several courts have endorsed filtering devices (see, for example, *A & M Records, Inc v Napster, Inc* II case supra at 1027 and *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* at 59.

[5] To identify is to establish the identification of, pinpoint, place, recognize or prove the identity of a person or thing, see *Roget's II The New Thesaurus* at 499, Garner (ed.) *Black's Law Dictionary* at 748, *The Collins Concise Dictionary of the English Language* at 558.

[6] To detect is to perceive, especially barely or fleetingly or spot, see *Roget's II The New Thesaurus* at 264 and *Rogets II The New Dictionary* (Expanded Ed) at 271.

[7] To monitor means to check, follow, record, watch, survey, observe, scan, oversee, supervise, keep an eye on, keep track of, see Collins *Thesaurus A-Z Discovery* at 461. Furthermore, in my opinion, the term "monitoring" includes the activities of examining, decrypting, viewing, unveiling, opening up, using a 'microscopic' or 'telescopic' device to see a content.

[8] To intercept means to catch, take, stop, check, block, arrest, seize, cut-off, interrupt, head-off, deflect, obstruct, block the progress of and force to change direction, see Collins *Thesaurus A- Z Discovery* at 385 and *Rogets II The New Dictionary* (Expanded Ed) at 554.

[9] Pistorius "Copyright in the information age: The catch-22 of digital technology" at 2.

[10] See Dean "Sound recordings in South Africa: The Cinderella of the copyright family" at 913; Lehman "Intellectual property and the national and global information infrastructure" at 80; Von Seidel (ed.) *Intellectual Property – The John & Kernick Guide* at 73 and 85.

However, these laws have been interpreted and applied differently. The liability for indirect infringement in the offline world is applied to the online world with difficulty. For instance, in the US, commentators – including the courts – have posited that actual knowledge of the infringement should apply in cases of contributory infringement. However, this position applies in the offline world[11] as opposed to the digital world. In the latter case, it is argued that an ISP has constructive knowledge of the infringement in accordance with P2P technology. Secondly, with reference to requirements regarding the duty of ISPs to control infringing acts on their network, the general view is that because of the large number of users it is impracticable for ISPs to detect the activities of users on users' networks.[12] However, this general statement does not apply to sound recordings because the distribution of sound recordings on an ISP's network can be detected by ISPs routinely. Thirdly, while rights-holders rely on inducement theory, courts are divided on the applicability of this theory.[13]

Adding to the concern are conflicting views on the legality of P2P file-sharing. For example, whereas in Canada and France P2P file-sharing is legal,[14] in Sweden, after members of parliament intensely debated its legality, the law making file sharing illegal was enacted[15] and in the US, the recent ruling by Judge Kimba Wood in Manhattan federal court halts one of the world's biggest services for letting consumers share music, movies and TV shows for free over the Internet. Prior to this, two high courts debated the legality of uploading and downloading in the context of file sharing.[16] In contrast, there has been no such debate in South Africa.

In the light of the foregoing, I examine the rights in sound recordings. I then investigate the role ISPs play in indirect infringement of sound recordings in DP2P file-sharing and examine the extent to which such ISPs may be held liable in terms of theories

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[11] See *Sony Corporation of America et al. v Universal City Studios* at 774.

[12] See Mee and Watters "Detecting and tracing copyright infringements in P2P networks" at 6.

[13] For instance, in the US Court of Appeal, the court decided not to recognize the theory and subsumed it into vicarious liability in *Metro-Goldwyn-Mayer Studio, Inc v Grokster Ltd* 11 case (at 1166) while at the US Supreme Court case in *Metro-Goldwyn – Mayer Studios Inc. v Grokster Ltd* III case at 2768- 2769, 2774, 2777, 2779-2780 and 2782(herein after referred to as *Metro-Goldwyn-Mayer Studio, Inc v Grokster Ltd* 1I1 case), the court deliberated more on this theory.

[14] A Canadian federal court in 2004 gave a ruling legalizing P2P file-sharing, making a comparison between P2P technology and photocopying. The French parliament voted in favour of P2P file-sharing on 22 December 2005. See Hayward "*Grokster* unplugged: It's time to legalize P2P file sharing" at 3.

[15] See Jones "Swedish politicians strike blows at copyright lobby". The law illegalizing file sharing was enacted on April 1, 2009, see Yonah "Police Raids File Sharers in Sweden" at 1.

[16] See Jewell "Courts disagree on legality of uploading" and Sunuvmann "US court shuts down Limewire" at 1.

of indirect infringement liability and the extent to which the "safe harbour" law limits their liability. I examine these issues with reference to the relevant law in the United States, the United Kingdom and South Africa.

Chapter 2 examines the Internet as a distribution channel and describes the general concept of file-sharing with particular reference to DP2P networks. It also distinguishes between, on the one hand, filtering, identification and detection and, on the other hand, monitoring and interception of sound recordings.

Chapter 3 focuses on the protection of sound recordings but also examines the copyright protection of musical and literary works under international treaties and agreements. The rights of reproduction, distribution and communication to the public in the treaties are examined in relation to the online world. The chapter concludes by examining the role of ISPs in the limitation of liability under international treaties.

Chapter 4 examines the principles of copyright law in relation to DP2P networks in the US. Firstly, it examines the rights of reproduction, distribution and communication to the public as set out in the 1976 Copyright Act and the extent to which the courts in the US have interpreted these rights under the international treaties. Secondly, it investigates the concept of DP2P file-sharing in the seminal cases in the three types of infringement, namely: contributory, vicarious and inducing types. The chapter ends with an examination of the much-talked-about Digital Millennium Copyright Act (DMCA) in terms of the "safe harbour" clause which prohibits ISPs from monitoring their networks.

Chapter 5 examines the rights of reproduction, distribution and communication to the public in the United Kingdom, as set out in the Copyright, Design and Patent Act of 1988 (CDPA), and how they are implemented according to the international treaties and European Directives. It also investigates the liability of ISPs for the three types of indirect infringement, namely: contributory, vicarious and inducing types in DP2P networks with reference to the Communications Act as amended by the Digital Economy Act (DECA). The chapter concludes with an examination of the limitation of ISPs' liability in the Electronic Commerce (EC Directive) Regulations 2002 which implement article 12 of the EC Directive on E-Commerce.

Chapter 6 explores the rights of reproduction, distribution and communication to the public of sound recordings as set out in the South African Copyright Act 98 of 1978. It further examines the liability of ISPs in DP2P networks in South African copyright law and the law of delict under the three types of infringement, namely: contributory, vicarious and inducing types. Finally, Chapter 6 investigates the limitation of liability of ISPs in DP2P file-sharing in terms of the Electronic Communication and Transaction Act 25 of 2002 (ECTA) and the Regulation of Interception of Communications and Provision of Communication-related Information Act 70 of 2002 (RICA).

Chapter 7 generally restates the liability of ISPs in DP2P file-sharing of sound recordings in accordance with delictual principles which serve as the basis of copyright infringement.

Chapter 8 concludes this study by summarising the findings and finally making recommendations for law reform.

CHAPTER 2

INTERNET TECHNOLOGY

2.1 Introduction

This chapter examines the nature, features and operation of the Internet, the services provided by ISPs and the role played by other participants (such as software designers or developers, software distributors and seeders). These role players all impact on the operation of ISPs on the Internet. Open and closed networks are also investigated. With reference to closed networks, the four types of P2P networks are examined with emphasis on DP2P file-sharing and the role ISPs play in the network. Furthermore, the technical ability of ISPs to filter, identify, detect and consequently block illegal transmission of sound recordings will be investigated and contrasted with monitoring and intercepting. This contrast forms the gravamen of this study.

2.2 Nature, features and overview of the Internet

According to Yen[1] the Internet is one of the twentieth century's most important innovations. The Internet, also called the Information Super Highway or Global Information Infrastructure,[2] is an interconnected or global network of computer networks using the same protocol.[3] Hopkins[4] notes that "The Internet is a cooperative networking effort that spans the globe. It is a network of millions of computers around the world that communicate with each other using the same telecommunication links (satellites, broadcast towers and cables) that carry telephone conversations and television programmes".[5]

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[1] Yen "Internet service provider liability for subscriber copyright infringement, enterprise liability, and the First Amendment" at 1.

[2] The Internet originated in the US in 1969 when the US Department of Defence established the Advanced Research Projects Agency Network (ARPANET) with the aim of dispatching orders to all ballistic missile bases. The network started operation in 1972. See Lehman "Intellectual property and the national and global information infrastructure" at 76; Hance *Business and Law on the Internet* at 39–40; Pistorius "Formation of Internet contracts: An analysis of the contractual and security issues" at 282; Gringras *The Laws of the Internet* at 2. See also Downing et al. *Dictionary of Computer and Internet Terms* at 243.

[3] A protocol is a language format that enables computers to communicate. A LAN is a local area network which is a collection of interconnected group of computers geographically close to each other. A WAN is a collection of interconnected networks covering a relatively large geographical region. See Gringras *The Laws of the Internet* at 2–3; Hopkins *The Nonprofits' Guide to Internet Communications Law* at 3; Delta and Matsuura *Law of the Internet* at 1 - 4.

[4] Hopkins *The Nonprofits' Guide to Internet Communications Law* at 3.

[5] The decentralized nature of the Internet as a network of networks means that it functions without a centralized gatekeeper in charge of storage of data or better still**,** there are many gatekeepers rather than one almighty gatekeeper overseeing/administering the whole of the Internet. Globalization of the Internet

The Internet comprises both a transport network transferring data (in the form of voice, video, data and images) all over the world and a network of computers which enables users to access, retrieve, process and store all manner of information.[6] In short, the Internet is user-centred, interactive and participatory.[7] Each computer[8] connected to the Internet has a unique numerical address or Internet Protocol (IP) address.[9] The Internet operates in such a way that information can be readily accessed or sent by any computer based on the information stored on one of the computers which can be connected to other computers anywhere in the world.[10]

Several forms of communication are available on the Internet, including electronic mail (e-mail), Telnet, FTP (File Transfer Protocol), gophers, mailing lists, discussion groups such as newsgroups and social networking sites such as Face book and Twitter.

2.3 Internet operation in terms of the OSI model

Data communication is the transfer of information from one computer to another. In order for communication to take place, several aspects of the communication processes are standardized.[11] The Open System Interconnection (OSI) model[12] is helpful for understanding and developing computer-to-computer communications. It defines the seven layers at which decisions are to be made, namely: physical,[13] data link,[14] network,[15] transport,[16] session,[17]

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makes possible immediate access to information around the world and the abundance of information on the Internet benefits an unlimited number of speakers. The affordability of the Internet permits the mass dispatch of e-mails to hundreds of thousands of individuals at relatively little cost, in addition to free communication via web pages. The Internet's interactive nature allows one-to-one, one-to-many and many-to-one communication. See Grossman et al. "Square pegs and round holes: Applying campaign finance law to the Internet/Risks to free expression and democratic values".

6 Newton *Newton's Telecom Dictionary* at 490.

7 Hopkins *The Nonprofits' Guide to Internet Communications Law* at 3.

8 Gringras *The Laws of the Internet* at 3.

9 The IP address is the numeric address of a machine, in the format used on the Internet (see Downing et al. *Dictionary of Computer and Internet Terms* at 247). It is a unique number akin to a telephone number, used by machines (usually computers) to refer to each other when information is sent through the Internet using the Internet protocol. It allows the machine passing the information onwards on behalf of the sender to know where to send it next and for the machine receiving the information to know that it is the intended destination. See *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* (with corrigendum dated 22 September 2005) [2005] FCA 1242 at 37 and 109.

10 Gringras *The Laws of the Internet* at 2.

11 See Downing et al. *Dictionary of Computer and Internet Terms* at 120–121.

12 See ISO/IEC 7498-1:1994, "Information technology – Open systems interconnection – Basic reference model: The basic model" at 49.

13 See ISO/IEC 7498-1:1994, "Information technology – Open systems interconnection – Basic reference model: The basic model", at 49; Newton *Newton's Telecom Dictionary* at 785; Reed *Internet Law: Text and Materials* at 27; Downing et al. *Dictionary of Computer and Internet Terms* at 120–121; Lee and Davidson *Intellectual Property for the Internet* at 21.

presentation[18] and application.[19] Each layer has its own set of functions and interacts with the layer directly above and below it. The functions of each layer take place simultaneously as one comprehensive operation without users' noticing at which layer the operation is taking place. This does not mean, however, that the functions in the OSI model are indivisible.[20] It is however submitted that the operations outlined in the OSI model require special skill, labour and expertise from the ISPs.

2.4 Main players on the Internet

2.4.1 Introduction

To identify the main players on the Internet, Koelman and Hugenholtz[21] describe the chain of activities on the Internet thus:

> "[An] Internet transaction involves a chain of intermediate service providers. Having acquired an account with a *hosting service provider*, an *information provider* will upload web pages onto the host's server-which is best thought of as a very large hard disk accessible from the network. Upon storage on the server, the uploaded documents become instantly available to everyone with a connection to the Internet. Access to the Internet, in turn is provided by an *access provider*.

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14 See ISO/IEC 7498-1:1994, "Information technology – Open systems interconnection – Basic reference model" at 46; Downing et al. *Dictionary of Computer and Internet Terms* at 120–121; Dean *Network+ Guide to Networks* at 38.

15 See ISO/IEC 7498-1:1994, "Information technology – Open systems interconnection – Basic reference model", at 41; Downing et al. *Dictionary of Computer and Internet Terms* at 120–121; Dean *Network+ Guide to Networks* at 40.

16 The transport layer may be considered the most important layer in the OSI model because without it data cannot be verified or interpreted by their recipients. It is the most important layer in this study as it is primarily responsible for ensuring that data are transferred from one point to another which may or may not be in the same network segment. At the transport layer, data are divided into smaller pieces to each of which a sequence number is assigned. This enables the data to be reassembled in the correct order by the receiving nodes. This process is called sequencing. In a network, the transport layer arranges data in the correct sequence. See ISO/IEC 7498-1:1994, "Information technology – Open systems interconnection – Basic reference model", at 37; Downing et al. *Dictionary of Computer and Internet Terms* at 120–121; Dean *Network+ Guide to Networks* at 4.

17 The session layer is responsible for establishing and monitoring communication between two nodes. Dean notes that in this sense a session layer acts as a judge in a debate competition, Dean *Network+ Guide to Networks* at 41–42; See ISO/IEC 7498-1:1994, "Information technology – Open systems interconnection – Basic reference model" at 35; Downing et al. *Dictionary of Computer and Internet Terms* at 12.

18 See ISO/IEC 7498-1:1994, "Information technology – Open systems interconnection – Basic reference model" at 33; Downing et al. *Dictionary of Computer and Internet Terms* at 120–121. Dean *Network + Guide to Networks* at 42.

19 See ISO/IEC 7498-1:1994, "Information technology – Open systems interconnection – Basic reference model" at 32. The application layer enables software applications to use network services; Dean *Network+ Guide to Networks* at 43; Downing et al. *Dictionary of Computer and Internet Terms* at 121.

20 Personal communication between the author and T R Karem on 15 December 2007 and March 28-30,2011with T R Karem, a researcher at the Wireless Mesh Network Unit of the Meraka Institute, an appendage of the Council for Scientific and Industrial Research, and is now an MSS Core Network Integrator at Ericsson in South Africa.

21 Koelman & Hugenholtz "Online service provider liability for copyright infringement" at 1–2.

> On the way from host to access provider to end user, the transported documents pass through the infrastructure of a *network provider*, who apart from providing the physical facilities to transport a signal will also transmit and route it to the designated recipient. It is not uncommon that a single (legal) entity provides a complete range of these services."

The content in the network passes from the host to the access provider and ultimately to the subscriber or user through the infrastructure of a network provider who in addition to providing the physical facilities to transport the signal, will transmit and route the content to the designated client.[22] The network provider is the superior gatekeeper that possesses controls or provides the core facilities through which the access provider operates.

Notwithstanding the confusion regarding the underlying role played by these intermediaries, their core technical functions are the provision of core network services, access to the network and hosting services.[23] These may or may not be performed by a single entity.[24] Generally these services will be offered or functions performed by content providers, navigation providers, administrators, transaction facilitators, infrastructure and network providers and access providers (ISPs or OSPs).[25] Sometimes these intermediaries play conflicting roles on the Internet.[26]

2.4.2 Internet service providers

In the early 1990s a distinction was made between Internet access providers (IAPs) and Internet service providers (ISPs). However, the convergence of technologies in digital markets has blurred this distinction.[27] ISPs can also be referred to as online service providers (OSPs).[28]

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22 See Koelman "Online intermediary liability" at 8; See also Sieber "Responsibility of Internet providers: Comparative analysis of a basic question of information law" at 235 and Newton *Newton's Telecom Dictionary* at 706.

23 Ibid.

24 See Koelman "Online intermediary liability" at 7-8. In any of these functions, the question of ISP liability will inevitably occur, particularly when there is an allegation of infringement (see Sterling *World Copyright Law* at 536). Illegal P2P file-sharing has expanded the number of service providers of the core functions of the Internet to include software developers, designers, distributors, trackers, locators and users.

25 Reed *Internet Law* at 27; Dratler *Cyberlaw: Intellectual Property in the Digital Millennium* at 6-44; Gringras *The Laws of the Internet* at 9; Smith *Internet Law and* Regulation, 2nd ed. at 8, 10 and 11.

26 Smith *Internet Law and Regulation*, 2nd ed. at 10.

27 Elkin-Koren "Making technology visible: Liability of Internet service providers in peer-to-peer traffic" at 15.

28 OSPs include Microsoft, Network, CompuServe and America Online. Other companies provide services other than mere connection to the Internet through their servers; they ensure the provision of materials and services on their server, see Gringras *The Laws of the Internet* at 3 and 4.

In the telecommunications world, ISPs are also known as telecommunication service providers (TSPs) or Internet telephony service provider (ITSPs).[29]

ISPs provide domestic and commercial users with access to the Internet. They obviously play a vital role in Internet transactions. The services provided by ISPs go beyond allocating e-mail addresses and granting access to the network.

2.5 File-sharing

2.5.1 Introduction

File-sharing is the making available of files from one's own computer for copying and transmission to other users over the Internet and receipt of files made available this way.[30] File-sharing thus involves uploading as well as downloading. File-sharing generally takes place in the social networks which allow a group of users to generally transact with one another. Third parties have developed services and technologies to connect users to networks to enable them to carry out file-sharing activities in their peer-to-peer networks.[31]

The basic principles underlying the concept of file-sharing are not new. File-sharing can entail copyright works distribution. File-sharing does not entail an infringing act unless works protected by copyright are shared without authorization.[32]

2.5.2 Open or centralized networks

File-sharing may take place in an open or centralized network. The open network is the traditional Internet operation which allows users to source and obtain both "index and content resources" from a central server through ISPs.[33] Schollmeier[34] describes the open network as "a distributed network which consists of one higher performance system, the

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[29] Newton *Newton's Telecom Dictionary* at 494. Because *service provider* is a general term which is also applicable in the telecommunications world, I refer to Internet service provider (ISP) throughout.

[30] Dixon "Liability of users and third parties for copyright infringements on the Internet: Overview of international developments" at 14.

[31] Ibid at 14–15.

[32] Congressional Research Service (CRS) "CRS- Statutory Damage Awards in Peer-to-Peer File Sharing Cases Involving Copyrighted Sound Recordings: Recent Legal Developments"

[33] See Flint et al. *A User's Guide to Copyright* at 472. Albert et al. *Intellectual Property Law in Cyberspace* at18. According to Friederich and Pokorny "Peer to peer networking and filesharing" at 6, open network is a "discovery, look-up and content server" network. By this they mean that the server provides the names of the peers that are connected and a list or index of the contents and all resources stored in the central server. It should be noted that Friederich and Pokorny's definition is an illustration of peer-to-peer file-sharing, but that the features they describe are more reminiscent of an open network.

[34] See Schollmeier "A definition of peer-to-peer networking for the classification of peer-to-peer architectures and applications" at 2.

server and several mostly lower performance systems, namely the clients. The server is the central registering unit as well as the only provider of content and services. A client only requests content or the execution of services without sharing any of its own resources".[35]

2.5.3 Peer-to-peer file-sharing or closed networks

File-sharing may also take place in peer-to-peer networks, which are decentralized or closed networks. The court in *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* II case [36] said that peer-to-peer file-sharing differs from typical Internet use. In peer-to-peer file-sharing a search query is sent to other computers on the network and forwarded to other individual users connected to the network. The process continues until a computer with the right file is located, to which the original requester is then directly connected for the transfer of the file.[37] In peer-to-peer connections numerous independent devices interact as contemporaries.[38]

Peer-to-peer network architecture allows users of any given peer network to share files with the use of the software application created in June 1991.[39] Only users who are members of a given network can make use of the networks. Prior to P2P file-sharing, distribution in an intranet was limited to small communication groups which allowed distribution of information within their local area network managed by a local administrator.

Intranets are widely used as network equivalents of the Internet. Since the invention of P2P file-sharing, intranet service no longer experience the limitation of resources or networks subject to terms or protocols. The local administrator must ordinarily seek consent from the ISP[40] to connect to the ISP's network and hence to other intranets and networks on the Internet that also wish to connect beyond their local networks.

As mentioned earlier,[41] there are four types of P2P file-sharing: centralized,[42] decentralized,[43] hybrid[44] and absolute. This study focuses on decentralized P2P file-sharing.

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[35] Ibid.
[36] *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* II case supra at 1158.
[37] Flint et al. *A User's Guide to Copyright* at 476.
[38] Daly "Life after *Grokster*: Analysis of US and European approaches to file sharing"; Flint et al. *A User's Guide to Copyright* at 472.
[39] See Hayward "*Grokster* unplugged: It's time to legalize P2P file sharing" at 1.
[40] A protocol is a set of rules that guides communication.
[41] See para. 2.1 of this study.
[42] See Flint et al *A User's Guide to Copyright* at 473- 475.
[43] Ibid at 476.
[44] See Flint et al. *A User's Guide to Copyright* at 476 for the first three types of P2P mentioned.

2.5.3.1 Centralized peer-to-peer (CP2P) file-sharing

When a user runs P2P software on his or her client machine a connection is made to a central index server and the client machine is identified by a unique nickname on the server.[45] A user's computer automatically sends a list of its shared content and information (for instance, sound recordings) and its exact location on the network (i.e. the computer's IP address) to the index server. Other users may use the P2P software to search for a copy of a particular sound recording, for example.[46] A search request initiated by a user is sent to the index server by the central server which searches or goes through a list of all users currently on the network with the correct sound recording. As soon as a search is concluded and the correct sound recording is found by the central index server in an offering user's computer, this is indicated to the requesting user. The requesting user may then request directly from the offering user for the transfer of the sound recording to his or her computer.[47]

It is important to note that no infringing content (in this example, a sound recording) is ever stored on the central server run by the operator of the P2P network. The CP2P network was popularized by file sharing systems like Napster which was widely used for sharing, locating and downloading digital sound recordings the vast majority of which were unauthorized copies of copyright works.[48]

2.5.3.2 Decentralized peer-to-peer (DP2P) file-sharing

DP2P file-sharing is referred to as the second-generation peer-to-peer file-sharing[49] which is the concept behind DP2P networks**.** Gnutella is an example of a DP2P system. The US District Court in *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd II* case[50] examined the concept. DP2P file-sharing is based on open-source software, meaning that the source code is either in the public domain or subject to copyright and distributed under an open-source licence that allows modification of the software, subject to some restrictions.[51]

In DP2P networks every machine acts as a client (requesting data), a server (offering data) or a servent (i.e. as both client and server) at different times. As part of a peer-to-peer

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[45] See *A & M Records Inc v Napster Inc* II case supra at 1027; *Metro-Goldwyn-Mayer Studio Inc v Grokster Ltd* II case supra at 1159; Flint et al. *A User's Guide to Copyright* at 473.
[46] Flint et al. *A User's Guide to Copyright* at 473.
[47] Ibid at 473–474.
[48] Ibid.
[49] Sigurdsson et al. "Potentials and challenges of peer-to-peer based content distribution" at 348- 365.
[50] See *Metro-Goldwyn-Mayer Studio Inc v Grokster Ltd* II case *supra* at 1159.
[51] Ibid.

network, a user is able to share both contents and resources through the connections between machines, without a central server.[52] One of the disadvantages of DP2P networks is that the number of peers may not be extensive because of the lack of a central server. In addition, direct communication between peers is a security risk to users since there is no central server to take care of the security risks or threats between peers and because peers may not be able to assume the professional role of an ISP who is charged with such responsibility, thus users are exposed to risks.[53]

DP2P network exhibits the following features.

(a) Decentralized peer (user) index

A "peer index" serves an important function namely to find peers on the network.[54] A user provides a list of other peers in a decentralized network. Peers talk to one another directly, and there is no restraint in communication.[55]

(b) Decentralized file index

DP2P network employs decentralized "file index" servers, also known as querying servers.[56] The server provides the list of files available for sharing. In DP2P network, the roles of peers change. A peer who is requesting material is called the client, but would be called the host or server when content is requested from him or her.[57]

(c) Decentralized sharing content

A user is able to share the content and computer resources of others by virtue of direct connections between the computers, without having to source the content from a central or dedicated file server. In a DP2P network, every peer (computer) has equal status as both client and server of the network whereby a peer sends a query to another peer. When the latter peer has the content being requested, it is sent across the network to the client by the host who is the decentralized user. The peer that is being queried is the one that opens up the connection between the two peers.[58]

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[52] Flint et al. *A User's Guide to Copyright* at 472.
[53] Ibid.
[54] Friederich and Pokorny "Peer to peer networking and file-sharing" at 9.
[55] See *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd II* case supra at 1158–1159; Friederich and Pokorny "Peer to peer networking and file-sharing" at 7.
[56] Friederich and Pokorny "Peer to peer networking and file-sharing" at 9.
[57] Ibid; Sterling *World Copyright Law* at 536.
[58] Friederich and Pokorny "Peer to peer networking and file-sharing" at 11 and Flint et al. *A User's Guide to Copyright* at 476.

(d) Scalability and elasticity

DP2P networks are scalable and elastic. Networks are able to expand and accommodate new entrants with new and diverse contents. Peers have their resources distributed in different servers.[59]

2.5.3.3 Hybrid peer-to-peer (HP2P) file-sharing

The third type of P2P file-sharing is hybrid P2P, the third-generation P2P which is still evolving.[60] HP2P networks are based on both centralized and decentralized networks.[61] HP2P networks are versatile in that they borrow a number of dedicated users' own client computers to retain indexes of contents which are called supernodes.[62] These nodes provide access to other computers on the network which allow each client machine to forward a list of its shared files to its local supernodes, along with any of the user's search requests.[63]

After the supernodes provide access to other computers, the supernodes forward the request to other supernodes. When a successful match is found, the requesting computer connects directly to the computer with the desired content and begins to transfer the requested file.[64]

2.5.3.4 Absolute peer-to-peer (AP2P) file-sharing

AP2P file-sharing is a futuristic innovation which is a transformation of or improvement on Bluetooth technology. Bluetooth was specifically designed for connecting headsets to cellular phones and printers or mice to computers and operates over a short distance (in a radius of less than 100 metres) in the 2, 4 GHz band. It is very similar to Wi-Fi, and all the devices connected to the Bluetooth share the bandwidth.[65] ISPs are not involved in the transportation or sharing of files between or among Bluetooth users. Thus AP2P technology is capable of bypassing the Internet and other wired networks.

A recent development, Netsukuku, an *ad hoc* software application built around an address system designed to handle large numbers of nodes while requiring minimal CPU

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[59] Ramaswamy et al. "A distributed Approach to Node Clustering in Decentralized Peer-to-peer Networks" at 1-2, 5, 12 and 28.
[60] See Sigurdsson et al. "Potentials and challenges of peer-to-peer based content distribution" at 348- 365.
[61] Flint et al. *A User's Guide to Copyright* at 476.
[62] Ibid.; *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* II case supra at 1159.
[63] Flint et al. *A User's Guide to Copyright* at 476.
[64] Ibid.
[65] See Thornton et al. *Telecommunication Law in South Africa* at 58; Geer *Pocket Internet* at 46.

and memory resources, does just that. It could be used to build a worldwide distributed, anonymous, user-controlled, self-configuring, censorship-resistant network fully independent of the Internet which does not need any central server or routers to direct traffic.[66] In Netsukuku, a user is required to install an antenna within a range of other local nodes and run the software on their network to link peers on the network. Netsukuku is elastic in nature. Where a node is not covered within the coverage area of other Wi-Fi signals, a device called a "virtual tunnel" would intervene over the normal Internet connection and supply the missing link.[67]

2.6 Identity of other participants in DP2P file-sharing

DP2P file-sharing has led to the emergence of new role-players, other than users[68] and ISPs, such as designers, developers and distributors of software. Software designers and developers write and develop programs capable of being used on the Internet for the distribution, uploading and downloading of files and software distributors are involved in the facilitation of file-sharing via DP2P technology.[69] In addition, seeders participate in the sharing of sound recordings via DP2P file-sharing. A seeder is a person who either starts the process of distribution by uploading a complete file or is an initial provider of an infringing copy.[70]

2.7 Technical ability of ISPs to filter, identify or detect the communication of sound recordings without monitoring or intercepting communications in DP2P networks

2.7.1 Introduction

Although the concepts of monitoring and intercepting, on the one hand and filtering, identifying and detecting, on the other hand are generally misunderstood as meaning the same there is a remarkable distinction between them. In this chapter I explain why and how sound recordings can be filtered,[71] identified[72] and detected[73] in DP2P networks and the role

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66 See Hasslberger "Netsukuku's fractal address system for P2P cloud" at 1–2.

67 Ibid.

68 Users are now able via DP2P file-sharing to provide services and content on the Internet.

69 Protocol developers develop software and are not involved in overseeing infringement as ISPs would do (see Vincent "Secondary liability for copyright infringement in the BitTorrent platform: Placing the blame where it belongs" at 6).

70 See Adcock and Redfearn "Made for sharing?" at 18.

71 Filtering is purely technical and automatic; ISPs can use their search function to identify infringing sound recordings and police their own network. Filtering is generally a process that screens network traffic for certain characteristics such as source addresses, destination addresses, or protocols and determines whether to forward or discard that traffic on the basis of established criteria. For example, one of the filtering

ISPs play in technically identifying sounding recordings. In this respect ISPs can block illegal transactions in sound recordings in DP2P networks and take other measures.

However, it is important to define blocking.[74] Doing so will assist in the examination of issues in this study particularly whether or not an ISP has the power to block users who infringe copyright without infringing on the users' rights to access to information. To block is to preclude access to potentially infringing files listed in the servers' search index. ISPs have the right to bar users from accessing the servers or prevent users from engaging in the transmission of infringing sound recordings.[75] ISPs are able to block infringers' access to a particular environment or website for any reason[76] which must be within the limits of best practice as determined by law. Blocking has been endorsed, encouraged, and approved by the courts,[77] albeit with some opposition from human-rights groups.[78] Like filtering, blocking does not entail identification of users.[79] Blocking is a consequential act of filtering, identifying and detecting to infringing acts.

It is submitted that the activities of filtering, identifying and detecting are activities that are inherent in, and incidental to the routine operation of the Internet. They require

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models, CopySense Appliance, seeks to identify protected sound-recording content in P2P flows. Another filtering model is gold-file flood filtering which enables ISPs to curtail– but probably not to prevent completely – the sharing of copyright files which are infringing. It is technically possible to flood search results page with gold files as an effective means of inhibiting the downloading of unauthorized blue files. This may include blank pages or "Don't steal copyright" messages, see Bowrey - Law & Internet Cultures at 1; *A & M Records Inc v Napster Inc* II case supra at 1027; *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* II case supra at 1166; Newton *Newton's Telecom Dictionary* at 390; Rosenberg "Controlling access to the Internet: The role of filtering" at 35–37; Dixon "Liability of users and third parties for copyright infringements on the Internet" at 38–39; Ginsburg "Copyright control v compensation: The prospects for exclusive rights after *Grokster* and *Kazaa*" at 117 and 119; Austin "Global networks and domestic laws: Some private international law issues arising from Australian and US liability theories" at 129 and 144. In *SABAM v SA Tiscali (Scarlet)* No. 04/8975/A at 4 the court found that filtering could recognize 90 per cent of the illegal sound recordings exchanged on the Internet and could be scaled up to deal with Scarlet's large volume of Internet traffic. Several courts have endorsed filtering devices (see, for example, *A & M Records, Inc v Napster, Inc* I case supra at 1027 and *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* [2005] FCA 1242 (5 September 2005) at 59).

[72] To identify is to prove the identity of a person or thing, see Garner at 748.See Garner (ed.) *Black's Law Dictionary* at 748; Hanks et al. *The Collins Concise Dictionary of the English Language* at 558.

[74] See *SABAM v SA Tiscali (Scarlet)* No. 04/8975/A at 4, 5 and 7. In the English interpreted version of this case, the independent judicial experts identified eleven solutions technically pertinent in the short term for filtering P2P in which seven were applicable to Scarlet's network, see page 30 of the expert report.

[75] See *A & M Records Inc v Napster Inc* I case supra at 1027; *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* II case supra at 1166.

[76] See *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* II case supra at 1165.

[77] See *IFPI Danmark v Tele2 A/S* case no. F1-15124/2006 (25 October 2006); *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* (with corrigendum dated 22 September 2005) [2005] FCA 1242 at 59.

[78] See Reichman et al. "A reverse notice and takedown regime to enable public interest uses of technically protected copyrighted works" at 279.

[79] See *SABAM v SA Tiscali (Scarlet)* No. 04/8975/A at 9.

minimal efforts to perform. In contrast, monitoring or intercepting requires broader and greater tasks or efforts to accomplish. In the latter activity, a comprehensive function is performed which includes the former. Essentially, the former is independent of the latter while the latter is dependent on the former. In other words, the former is a primary function performed by an ISP on the network while the latter is a secondary function of an ISP.

The following submissions will further show whether or not there is inherent and exclusive technical ability to filter, identify, and detect sound recordings on P2P network without monitoring, or intercepting the network, if the latter activity is not intended, and if there is such ability, whether the former activities can be carried out routinely by an ISP without monitoring, and intercepting the communication on the network. These submissions illustrate the distinctions between the two concepts in relation to sound recordings.

2.7.2 Identifying sound recordings through message digests

According to Mee and Watters,[80] there is a technical rebuttal to the legal perception that P2P file-sharing is not detectable. They focus on the detection of the specific act of transferring a file and on identifying the parties involved through a message digest which is a device that identifies a work. The result of detection and identification can be used in court.[81]

The process used in a message digest is that the DP2P networks transmit files by opening a transmission control protocol (TCP) connection between two peers and passing the whole or part of the file according to the P2P protocol being used. The TCP breaks down the long data sequences into identifiable packets at the point of transmission. The packets are reassembled into a file after transmission. In this process, a message digest allows the detection of a specific file reproduction in an easily computed manner by describing a known work and its owner in a database from the fact that every file in the network has a unique identifier. Each P2P network uses its own digest algorithm which is expressed mathematically.[82] An extract of the message digest is put into effect from the packet which can be checked against a database of known copyright works.[83]

[80] Mee and Watters "Detecting and tracing copyright infringements in P2P networks" at 1.
[81] Ibid.
[82] Ibid. at 3.
[83] Ibid. at 4.

Mee and Watters conclude that in a P2P network sharers are disguisable while the files are not.[84] Sound recordings are identifiable at a glance through the outband signal channel whereas further steps are required to identify a user, subject to protection of the right to privacy.[85]

2.7.3 Frequency identification of sound recordings through the outband signal channel

Technically, an ISP can, through the outband signal channel,[86] identify a sound recording on its network by its frequency, and statistics. There are two components of the outband signal channel, namely: the signal and message channels.

Firstly, before a work passes through a message channel, it is identified, and measured by a signal channel. A signal channel is an advance traffic check which provides the details of a work through frequency analyser, frequency spectrum or synthesizer. This process reveals the statistics (i.e. components, particulars of the sender, the type of message or work, the intended receiver, size of the message, description or components) of the work (but not the content of the work). In explaining frequency in this context, every electronic work has a frequency which distinguishes it from other works based on the statistics of the work.[87]

Secondly, once the statistics of a work are determined by the synthesizer, the message channel directs a work to the appropriate channel and such work passes through a dedicated outband signal channel which makes it impossible for works that are not in the frequency category to pass through.[88]

Sound recordings consisting of music are different from voice recorded messages in that the former content comprises of unique identifier different from the latter content. In addition, the files that contain music sound recordings are much larger than recordings that contain no music. An ISP can easily identify a sound recording on her network by such statistics.

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[84] Ibid.
[85] See paras 2.7.3 and 2.7.4 below.
[86] An outband signal channel is a device that enables each piece of categorized work to pass through one channel of transportation in the OSI model, while an inboard channel allows all kinds of information to pass through one channel of transportation in the OSI model, Karem op cit.
[87] Veeraraghavan and Wang "A Comparison of In-Band and Out-of-Band Transport Options for Signals" at 1-7; Karem op cit.
[88] Ibid.

Because of the distinguishing frequency of sound recordings, there would not be any need for interception nor monitoring.

2.7.4 The ISP's complete technical knowledge to detect a breach of protocol by users

In DP2P networks sound recordings are shared among the peers through an unconventional procedure on the network.[89] The conventional procedure is that when one searches for a sound recording, one does so through an ISP. When a user requests transmission of a sound recording from a peer; the track record, origin or history of the sound recording shows that a user did not obtain the file from an ISP. This transaction shows a breach of protocol which can be detected by an ISP without monitoring or intercepting the communication.[90] Thus, during transmission, an ISP would have complete knowledge of the breach of protocol by the user involving the sound recording particularly where the network of the ISP shows that a file with particular description or detail is transmitted frequently.

2.8 Conclusion

It is obvious that the role of ISPs in the functioning of the Internet cannot be overemphasized. However, the role of new players such as software designers, distributors, seeders and users is controversially becoming more prominent, especially in DP2P applications and because of the various risks they pose to ISPs and rights-holders alike.

Notwithstanding these risks, it is certain that more technological developments will emerge in future, such as AP2P file-sharing, which will pose even greater risks for stakeholders.

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[89] The sound recording goes through the host's ISP despite the fact that the ISP knows that the file comes directly from a peer in its network. It then goes through the network of the client's ISP to the client's computer at the other end. Each file transported has a track record or history starting from the first transaction to the current transaction. This fact implies that the recipient's ISP also knows (by means of the track record) that the transported file comes from a peer and not from another ISP.

[90] Breach of protocol in a DP2P network is sufficient to identify the illegality of such digital or electronic music recording which can easily be detected by the ISPs on the network. According to Dean *Network+ Guide to Networks* at 44, in his description of the OSI model, the data-link layer adds to the file a header incorporating *inter alia* the source addresses and the code of the sound recording showing the ISP that the file does not come from another ISP but from a user. A source address from a source other than an ISP is a strong indication that the communication protocol has been breached. Further, the IP address of a user is different from that of the ISP. This indicates to an ISP that a sound recording does not come from another ISP but from a peer or seeder on a DP2P network who is not authorized to transfer files in that manner.

This study will examine whether the role and liability of ISPs in DP2P software applications should change due to the fact that sound recordings have unique technical characteristics

CHAPTER 3

INTERNATIONAL PROTECTION OF SOUND RECORDINGS

3.1 Introduction

Protection of copyright is based on a need to strike a balance between rights owners and the public interest, ultimately founded on the four "philosophies" of copyright law which can be traced to the Statute of Anne of 1710. They are the natural law, a return on labour and skill, an incentive to create and the advancement of the society.[1]

The skill and labour of a producer (of sound recordings) is as fundamental to the enjoyment of literary and musical works as the motivation and efforts of the authors of these primary works. Traditionally, however, the rights enjoyed by the owners of copyright in sound recordings have generally been subordinate to the copyright rights enjoyed by primary rights-holders.[2]

Copyright is divided into two categories of rights: moral and economic rights.[3] Moral rights consist of the right to claim authorship and to object to the derogatory treatment of the copyright work.[4] Economic rights, also referred to as exploitation rights in sound recordings, consist mainly of the right to (1) make, directly or indirectly, a record embodying the sound recording, (2) let or offer or expose for hire by way of trade, directly or indirectly, a reproduction of the sound recording and (3) communicate the sound recording to the public.[5]

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[1] See Pistorius "Copyright in the Information Age: The catch-22 of digital technology".

[2] Bently and Sherman *Intellectual Property Law* at 291; Poddar "Digital performances rights in sound recordings: Meeting the challenges of technology".

[3] Sterling *Intellectual Property Rights in Sound Recordings, Films and Video* at 268.

[4] Ibid. Moral rights in literary, musical or artistic works, in cinematograph films or computer programs are protected in section 20 of the South African Copyright Act. In the UK moral rights are available in respect of literary, dramatic, musical or artistic works and films and works stemming from the foregoing works by virtue of the "paternity right" in sections 77(1), 80 and 84 of the UK Copyright Design and Patents Act 1988. In the US, section 106A the US Copyright Act protects the moral rights in works of visual art. In Germany, moral rights in an author's work are protected by sections 11–14 of that country's Copyright Act 1995. See Adeney *The Moral Rights of Authors and Performers: An International Comparative Analysis* at 1-3 and Sterling *Intellectual Property Rights in Sound Recordings, Films and Video* at 269 for more information on the categorization of moral and exploitative rights of the author.

[5] See generally section 9(*a*), (*b*) and (*e*) of the South African Copyright Act of 1978, section 114 of the US Copyright Act of 1976, section 16(1)(*a*)–(*e*) of the UK Copyright Design and Patents Act 1988. See also Bently and Sherman *Intellectual Property Law* at 131; Kemper "The concepts of 'public' and 'private' in the digital environment" at 196.

In examining the liability of ISPs in DP2P file-sharing of sound recordings – which has not been decided in any case law[6] – it is important to lay the basic foundation upon which the objectives in this study can be achieved. This entails a range of things from defining the object of protection to examining international treaties and agreements concerning the reproduction, distribution and communication rights related to sound recordings.

3.2 The object of protection

In each sound recording,[7] there may be three copyrightable works: a sound recording, a musical work and a literary work.[8] The focus of this dissertation is on sound recordings, which may stand on their own as separate works.[9] Copyright law grants the copyright owner of a sound recording a bundle of rights in accordance with the general rights granted in the treaties and agreements: the right to reproduce, to distribute and to communicate work to the public. Although member countries enact these rights in their domestic copyright law, the scope of rights and their interpretation has not been uniform, particularly with reference to words and phrases such as a "copy", "communication to the public" and "making available" to mention a few.

3.3 Sound recordings

In furtherance of the general definition of a sound recording provided earlier,[10] generally, a sound recording is "any fixation or storage of sounds, or data signals representing sounds, capable of being reproduced, but does not include a sound-track associated with a cinematograph film".[11] Sound recordings can be fixed in several media: vinyl discs, magnetic tapes, perforated rolls, compact discs (CDs), or electronic formats such as MP3s, MPAs and WAVs.[12]

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[6] It is noted that the role played by Grokster was that of a software distributor, which is different from the role of an ISP.

[7] See chapter 1 of this study on the definition of sound recordings in this study.

[8] See Poddar "Digital performances rights in sound recordings".

[9] For example, a recording of the Flying Scotsman building up steam is a sound recording, but it is not a recording of an original work from a musical or literal work. See Bainbridge *Intellectual Property* at 53.

[10] See chapter 1 for the definition of sound recording as adopted in this study.

[11] See s 1 of the South African Copyright Act of 1978; Sound recordings and musical and literary works are similarly and generally defined or described in the various domestic copyright laws. A soundtrack can be recorded music accompanying and synchronized to the images of a motion picture, television program or video game; a commercially released soundtrack album of music as featured in the soundtrack of a film or TV show, see Wikipedia titled "Soundtrack".

[12] Idris *Intellectual Property: A Power Tool for Economic Growth* at 194.

A soundtrack of a cinematograph film is protected as part of the film with which it is associated. However, a voice recorded message, other than the soundtrack to the film, is capable of being protected as a sound recording in its own right. When a sound is embodied in both a voice recorded message and a soundtrack, two distinct copyright rights arise, one relating to the sound recording and the other to a cinematographic film.[13]

A sound recording is a derivative work,[14] which is separate from and independent of the underlying works and it is protected by copyright. In essence, copyright infringement of a sound recording does not only imply infringement of copyright in the recording itself as the underlying work may also be infringed.

It should be emphasized that the sounds recorded in a sound recording are not limited to musical works.[15] Recordings of non-musical sounds are protected as sound recordings. For instance, a recording of a recitation of a passage from a book or poem falls within the meaning of a sound recording.[16]

According to the common-law tradition any work that requires copyright protection must be in material form.[17]

3.4 Holders of copyright rights in sound recordings

Four major categories of rights-holders can be identified: firstly, composers,[18] song writers,[19] lyricists[20] and authors,[21] all of whom are creators of the primary copyright works;

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[13] Bainbridge *Intellectual Property* at 53.

[14] See Ricketson and Ginsburg *International Copyright and Neighbouring Rights: The Berne Convention and Beyond* at 473.

[15] Musical works are not defined in any of the international treaties or agreements**.** The term refers to works consisting of musical notation, excluding words, or action intended to be sung, spoken or performed with the music, see section 1(xxxi) of South Africa Copyright Act. This definition is similarly and generally provided or described in the various domestic copyright law. A musical work may consist of a relatively small number of notes and chords sufficient to be protected by copyright requires that musical works be in a tangible form evidencing creativity in melody and harmony (see Idris *Intellectual Property: A Power Tool for Economic Growth* at 194).

[16] Bainbridge *Intellectual Property* at 54.

[17] It is noteworthy that literary works are also not defined by any of the international treaties or agreements. However, article 2 of the Berne Convention describes modes or forms of literary expression such as books, pamphlets, lectures, addresses, sermons and other works of the same nature. Garner (ed.) *Black's Law Dictionary* at 944 defines a literary work as "a work, other than an audio-visual work, that is expressed in words, numbers, or other symbols regardless of the medium that embodies it". "Literary works may include the words of a song which express the writer's personal feelings and thoughts intended for singing, especially to the accompaniment of the lyre". See also *Collins English Dictionary and Thesaurus* (1995) at 684. Bainbridge *Intellectual Property* at 53

[18] Wallis "Copyright and the composer" at 104; Theberge "Technology, creative practice and copyright" at 141.

[19] Muller *The Music Business: A Legal Perspective: Music and Live Performances* at 27.

secondly, the singers, dancers, performers[22] and other persons who deliver, declaim, interpret or otherwise perform the literary[23] or musical work; thirdly, publishers of formerly unpublished works,[24] producers of phonograms,[25] personal managers,[26] broadcasters and cable casters; and, fourthly, "new" rights-holders including electronic agents such as ISPs and mobile-telephone service providers who own the transmission (entrepreneurial) right in their networks which is equivalent to the broadcaster's right. It is arguable that this last category also includes Internet users and mobile-telephone users who are amateur producers of sound recordings through user-generated content (UGC) devices and who are ordinarily grouped under the first, second or third category.[27]

In summary, rights-holders are those who have contributed to the creation of the copyright work,[28] ranging from the person who makes the musical composition to the performers, record companies, ISPs and broadcasters.[29]

3.5 International protection of sound recordings prior to the digital era

3.5.1 The Berne Convention

The International Union for the Protection of Literary and Artistic Works (the Berne Union), which is administered by WIPO, was first established pursuant to the Berne Convention for the Protection of Literary and Artistic Works[30] agreed to in 1886 in Berne, Switzerland. The Convention came into effect on 5 December 1887 and has been revised five times and supplemented with two additions. The last amendment was in 1979.[31]

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[20] Theberge "Technology, creative practice and copyright" at 141.
[21] Ibid.
[22] Ibid. at 140.
[23] See section 1 of the South African Performers' Protection Act 11 of 1967 and article 2 of the WPPT.
[24] Muller *The Music Business* at 27.
[25] Ibid. at 102. See also Wallis "Copyright and the composer" at 106.
[26] Muller *The Music Business* at xi.
[27] Although users may now be seen as producers, this right is limited to works produced by them. For instance, a user does not enjoy the right to distribute the works of third parties on the Internet (via decentralized peer-to-peer file-sharing) or by mobile phone (point-to-point file-sharing).
[28] Sterling *Intellectual Property Rights in Sound Recordings, Films and Video* at 6.
[29] Ibid. at 266.
[30] Berne Convention for the Protection of Literary and Artistic Works 1886, Paris Act of July 24, 1971 as amended Berne Convention for the Protection of Literary and Artistic Works, September 9, 1886, as revised at Stockholm on July 14, 1967, 828 U.N.T.S. 222 as amended on September 28, 1979 or Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, as revised at Paris on July 24, 1971 and amended in 1979, S. Treaty Doc. No. 99-27 (1986) [The 1979 amended version does not appear in U.N.T.S. or I.L.M.]
[31] See Stewart *International Copyright and Neighbouring Rights* at 101, para. 4;Leaffer *International Treaties on Intellectual Property* at 357.

3.5.1.1 The right to reproduce musical and literary works

The right of reproduction forms the basis of other economic rights and it is the most comprehensive economic right in all copyright works. The reproduction right is the general right of first distribution impliedly covered by the Berne Convention. Article 9(1) of the Convention stipulates that authors shall have the exclusive right to authorize the reproduction of their works in any manner or form subject to the exception permitted by fair use.[32] It is arguable that the Berne Convention requires member states to interpret "any manner or form" as including transient digital fixation.[33]

Although article 9 of the Berne Convention does not define reproduction, it is submitted that its expression of the right of reproduction is comprehensive, dynamic, innovative and futuristic and caters for digital reproduction.[34] Reproduction is premised on a recording which is the fixation onto a material form. It is the performance of the work which is being fixed and not the work itself.[35]

3.5.1.2 The right to distribute musical and literary works

The right of distribution is one of the rights authors enjoy as soon as their work is created. The term "distribution right" is used differently in the digital era in that it conveys a more specific meaning relating to the protection copyright owners' interests in the online transmission of copyright works, particularly in P2P file-sharing.

The right to distribute is "a copyrights-holder's exclusive right to sell, lease or otherwise transfer copies of the protected work to the public".[36] Generally, the forms of distribution are sale, transfer of ownership, lease, lending, rental or hire, importation, offering for sale, exhibition,[37] barter and donation.[38]

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[32] See articles 9(2) and 10 of Berne Convention. See also Reinbothe and Von Lewinski *The WIPO Treaties 1996: The WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty: Commentary and Legal Analysis* at 80.

[33] See Ginsburg "Recent developments in US copyright law – Part II, Caselaw: Exclusive rights on the ebb?" at 34.

[34] Article 9(1) of Berne Convention states that "Authors of literary and artistic works protected by this Convention shall have the exclusive right of authorizing the reproduction of these works, *in any manner or form*" (emphasis added).

[35] This is provided in article 13. See also Stewart *International Copyright and Neighbouring Rights* at 110, para.5.24.

[36] Garner (ed.) *Black's Law Dictionary* at 488. See also Sterling *Intellectual Property Rights in Sound Recording, Films and Video* at 101.

[37] Copeling *Copyright Law in South Africa* op. cit. at 140.

[38] See Reinbothe and Von Lewinski *The WIPO Treaties 1996* at 86 on the right of distribution generally.

The distribution right has long been a subject of debate as to whether a rights-holder has a right to control the production of his or her work, especially from the perspective of author's rights.[39] For clarity, Sterling[40] distinguishes between a restrictive and a general distribution right as follows: a restrictive distribution right is a right to control distribution of copies or duplicates that have been made without the necessary consent, while a general distribution right is a right to control distribution of copies or duplicates regardless of whether they have been made with the consent of the rights-holder. It seems that this right seeks to protect copyright in any circumstances, including DP2P file-sharing. For this reason, it supplements legislation that has not been amended to deal with modern technology. This position is supported by Sterling. In his commentary he notes that a distribution right refers to a *general* distribution right.[41]

Although article 2 of the Berne Convention protects literary works, the Convention does provide for a general exclusive distribution right.[42] Article 2 states that the expression "literary and artistic works" includes:

> "every production in the literary, scientific and artistic domain, whatever may be the mode or form of its expression, such as books, pamphlets, and other writings; lectures, addresses, sermons and other works of the same nature; dramatic or dramatic-musical works, choreographic works and entertainments in dumb show; musical compositions with or without words; cinematographic works to which are assimilated works expressed by a process analogous to cinematography; works of drawing, painting, architecture, sculpture, engraving and lithography; photographic works to which are assimilated works expressed by a process analogous to photography; works of applied art; illustrations, maps, plans, sketches and three-dimensional works relative to geography, topography, architecture or science".

However, article 14 of the Berne Convention provides for a distribution right in respect of cinematographic adaptations only.[43] Article 14(1) (i) of the Convention states that authors of literary or artistic works shall have the exclusive right of authorising "the cinematographic adaptation and reproduction of these works, and the distribution of the works thus adapted or reproduced".

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[39] Ibid.
[40] Sterling *Intellectual Property Rights in Sound Recording, Films and Video* at 102.
[41] Ibid.
[42] See Reinbothe and Von Lewinski *The WIPO Treaties 1996* at 84.
[43] Ibid.

3.5.1.3 The right to communicate musical and literary works

Articles 11*ter* and 11(1) (ii) of the Convention provide for the right of communication to the public of literary and musical works. Article 11*ter*(1) (ii) states that authors of literary works enjoy the exclusive right of authorizing "any communication to the public of the recitation of their works", while article 11(1) (ii) grants authors of "dramatic, dramatico-musical and musical works" the exclusive right of authorizing "any communication to the public of the performance of their works". However, this right is narrow in scope in contrast with the provisions in the Internet treaties. The right in the Berne Convention covers only analogue forms of communication.

3.5.2 The Rome Convention

The International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations (the Rome Convention)[44] came into effect on 18 May 1964. The rights protected in the Convention are *droits voisins* or related rights.[45]

3.5.2.1 The right to reproduce sound recordings

The right of reproduction of sound recordings is protected by article 10 of the Rome Convention:

> "Producers of phonograms shall enjoy the right to authorize or prohibit the direct or indirect reproduction of their phonograms".

This provision is identical to article 14(2) of the later TRIPs Agreement.[46] Although article 10 of the Rome Convention does not mention an exclusive right to reproduce sound recordings, such a right is implied by the use of the phrase "to authorize or prohibit".[47]

3.5.2.2 The right to communicate sound recordings

Article 12 of the Rome Convention provides that:

> "If a phonogram published for commercial purposes, or a reproduction of such phonogram, is used directly for broadcasting or for any communication to the public, a single equitable remuneration shall be paid by the user to the

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44 International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organization of 1961 (Rome Convention)

45 Leaffer *International Treaties on Intellectual Property* at 426.

46 The Agreement on Trade-Related Aspects of Intellectual Property Rights of 1994. See Gervais *The TRIPS Agreement: Drafting History and Analysis* at 98.

47 Reinbothe and Von Lewinski *The WIPO Treaties 1996* at 346–347.

> performers, or to the producers of the phonograms, or to both. Domestic law may, in the absence of agreement between these parties, lay down the conditions as to the sharing of this remuneration".

Although producers of sound recordings are thus granted an *indirect* right of communication, they are not granted a right to distribute sound recordings.

Article 22 of the Rome Convention provides that member states have:

> "the right to enter into special agreements among themselves in so far as such agreements grant to performers, producers of phonograms or broadcasting organizations more extensive rights than those granted by [the] Convention or contain other provisions not contrary to [the] Convention".

3.5.3 The Geneva Phonograms Convention

Because of the inadequacies of the Rome Convention, WIPO adopted another treaty solely to cater for those *lacunae*. The Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of their Phonograms (the Geneva Phonograms Convention)[48] was thus adopted and declared open for members' signature on 29 October 1971.

The Geneva Phonograms Convention was implemented to address the increasing record and tape piracy permitted by the new technologies for reproduction. Although the Rome Convention already covered the same subject, many member states did not extend copyright protection to the related rights.[49]

Article 2 of the Geneva Phonograms Convention prohibits unauthorized reproduction and distribution of sound recordings by providing that:

> "Each Contracting State shall protect producers of phonograms who are nationals of other Contracting States against the making of duplicates without the consent of the producer and against the importation of such duplicates, provided that any such making or importation is for the purpose of distribution to the public, and against the distribution of such duplicates to the public".

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[48] Convention for the Protection of Producers of Phonograms Agonist Unauthorized Copyright of their Phonograms 1971

[49] For instance, the US refused to adopt the Rome Convention. See Leaffer *International Treaties on Intellectual Property* at 451.

Protection of the distribution right appears to cover only tangible objects in view of the reference to "importation". In the digital era, however, tangible objects have been extended to cover digital copies of sound recordings made available online.[50]

The rights of reproduction and distribution set out in article 2 of the Geneva Phonograms Convention are not exclusive rights.

3.5.4 The Universal Copyright Convention

Even though the Berne Convention was operational as the basis of international copyright law, some major countries had not assent to it, most notably the United States, the former Soviet Union and China. The Universal Copyright Convention[51] (the UCC) came into effect on 6 September 1952 as an alternative to the Berne Convention to enable parties to participate in an international agreement. The UCC was revised in Paris in 1971 as a result of the demands made by developing countries. Such countries are allowed to obtain compulsory licences, on certain conditions, to translate copyright works for teaching, scholarship and research purposes.[52]

Article XVII of the UCC and its Appendix Declaration contain a "Berne Safeguard Clause" which prevents signatories to the Berne Convention from renouncing that Convention and relying on the provisions of the UCC in their copyright relations with other members of the Berne Convention. However, the Berne Safeguard Clause was suspended for developing countries, which allowed them to withdraw from the Berne Convention and to adopt the UCC.[53]

In terms of article 1 of the UCC, it provides that:

> "Each Contracting State undertakes to provide for the adequate and effective protection of the rights of authors and other copyright proprietors in literary, scientific and artistic works, including writings, musical, dramatic and cinematographic works, and paintings, engravings and sculpture".[54]

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[50] See the discussion at para. 3.6.3.2 below. See also Bowker *Copyright: Its History and its Law* at 259; Garner (ed.) *Black's Law Dictionary* at 991 and 1468; Ginsburg "Recent developments in US copyright law – Part II, Caselaw: Exclusive rights on the ebb?" at 6 and 18–19; Wong "The exclusive right of 'distribution', 'communication to the public' and 'making available' under the WIPO Copyright Treaty: Lessons for other jurisdictions from the Hong Kong *BitTorrent* case" at 8; Reinbothe and Von Lewinski *The WIPO Treaties 1996* at 86 and 354.

[51] The UCC is administered by the United Nations Educational Scientific and Cultural Organization (UNESCO). Universal Copyright Convention, Geneva 1952 as revised at Paris 1971.

[52] See Leaffer *International Treaties on Intellectual Property* at 397.

[53] See article V*bis* of UCC; Leaffer *International Treaties on Intellectual Property* at 398.

[54] See also Leaffer *International Treaties on Intellectual Property* at 410.

3.5.4.1 The right to reproduce sound recordings

The right of reproduction is stated thus in article IV*bis*(1):

> "The rights referred to in Article I shall include the basic rights ensuring the author's economic interests, including the exclusive right to authorize reproduction by any means, public performance and broadcasting. The provisions of this Article shall extend to works protected under this Convention either in their original form or in any form recognizably derived from the original".

The phrase "by any means" is similar to the phrase "in any manner or form" in article 9(1) the Berne Convention. Both phrases are wide enough to cover online reproduction and distribution of copyright works.

3.5.4.2 The right to distribute sound recordings

The UCC does not provide explicitly for a distribution right. Article V(1) of the UCC, which provides for "the exclusive right of the author to make, publish and authorize the making and publication of translations of works protected under [the] Convention",[55] would ordinarily apply to sound recordings but does not because of the definition of "publication" in article VI. Article VI defines "publication" as:

> "the reproduction in tangible form and the general distribution to the public of copies of a work from which it can be read or otherwise visually perceived".

The focus on reading and visual "perception" makes it crystal clear that sound recordings are excluded. Although musical notes can be read they do not constitute a sound recording.

3.5.4.3 The right to communicate sound recordings

Article IV*bis* of the UCC sets out authors' right to authorize public performance of a work. It thus provides indirectly for their right to communicate the works to the public. Public

[55] A sound recording can arguably be translated, which could bring the recording of such a translation within the ambit of article V of the UCC. In Nigeria, among other West African countries, traditional drummers create sounds with locally made drums called "talking drums". A listener versed in these instruments understands the sounds created by the drummer and can easily translate the messages the performers are conveying. The drummer uses the drum alone to sing praises of celebrants and invitees at parties or social gatherings, in expectation of monetary reward for his or her skill and labour. For a better performance, the sounds from the talking drums may be translated by the performer to ensure that the target person or audience is praised or influenced enough to part with his or her money. Sometimes an aggrieved drummer who has not received donations or rewards from the gathering "talks with the drum" to express his or her dissatisfaction or even to abuse the people in question. In such circumstances, no performer translates the uncomplimentary remarks to the ordinary listener or audience!

performance has been interpreted in a member country as transmission to the public by means of any device or process, regardless of whether the members of the public are capable of receiving the performance or display in the same place or in separate places and at the same time or at different times.[56]

3.6 International protection of sound recordings in the digital era

Today, virtually all sound recordings are created and stored digitally rather than in analogue form. This fact obviously facilitates the digital distribution of sound recordings, particularly on the Internet. Container files are distributed through the Internet and can be stored on computers.[57]

The online liability of ISPs will be examined in relation to the rights of reproduction, distribution and communication of sound recordings in terms of the Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPs Agreement), the WIPO Copyright Treaty (WCT) and the WIPO Performances and Phonograms Treaty (WPPT).

3.6.1 Digitization

Digitization is the conversion of analogue works to a binary format represented by zeros and ones which are recorded, stored, transmitted and read by a machine. Different methods may be used to digitize works, but they all have the same result: the creation of a binary code that enables the work to be played back thus reproducing the original analogue data. Digitization enables all tangible works to be recorded in digital format, no matter how complicated they may be.[58]

The features of digital works are (a) ease of copying or capturing of data; (b) ease of distribution or transmission; (c) ease of manipulating or editing; (d) ease of storage; (e) ease of searching or linking data; (f) difficulty in determining exclusive rights of authors in view of the new types of work which cannot be easily categorized in terms of the categories traditional works are categorised in.[59]

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[56] See section 106(4) and (5) of the US Copyright Act; Ginsburg "Recent developments in US copyright law" at 25–32.
[57] See Hugill "Internet music: An introduction".
[58] Conroy *A Comparative Study of Technological Protection Measures in Copyright Law* at 6.
[59] Dreier "Unresolved copyright issues in the digital and network environment" 36.

3.6.2 Agreement on Trade-Related Aspects of Intellectual Property

The TRIPs Agreement[60] makes provision for the protection of both original and derivative works, unlike the WCT and WPPT which protect original and derivative works respectively. The TRIPs Agreement does not address the challenges created by the new technologies.[61]

3.6.2.1 The right to reproduce sound recordings

Article 14(2) of the TRIPs Agreement sets out the right of producers of sound recordings to "authorize or prohibit the direct or indirect reproduction" of their recordings. To the extent that the article specifies only producers of sound recordings, this right can be said to be exclusively theirs.[62]

3.6.2.2 The right to distribute sound recordings

The TRIPs Agreement does not define *distribution*; consequently it cannot be said to provide for a general, explicit right of distribution.[63]

3.6.3 The WIPO Copyright Treaty and WIPO Performances and Phonograms Treaty

The scope of copyright protection has been broadened in response to new means of reproducing sound recordings.[64] Although celebrated rights-holders of sound recordings believe that the risk of easy and widespread piracy explains the growing rights of copyrights-holders in the digital era, Internet broadcasting and podcasting pose new questions about the effectiveness of copyright law.[65]

Both Internet treaties will be examined together because of the similarity of their description of the rights of reproduction, distribution and communication.

3.6.3.1 The right of reproduction

The agreed statement concerning article 1(4) of the WCT states that:

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[60] Agreement on Trade-Related Aspects of Intellectual Property Rights, Annex 1C of the Marrakesh Agreement Establishing the World Trade Organization (15 April 1994)
[61] Reinbothe and Von Lewinski *The WIPO Treaties 1996* at 3.
[62] Ibid. at 347. The corresponding right in literary and musical works is set out in article 9(1) of the Berne Convention. Unlike article 9 of the Convention, however, article 14(2) of the TRIPs Agreement does not contain the phrase "in any manner or form".
[63] Reinbothe and Von Lewinski *The WIPO Treaties 1996* at 84 and 320.
[64] See Frith and Marshall "Making sense of copyright" at 6; Henderson "Copyright and performers' rights: The Copyright Act" at 116.
[65] See Poddar "Digital performances rights in sound recordings".

> "The reproduction right, as set out in Article 9 of the Berne Convention, and the exceptions permitted thereunder, fully apply in the digital environment, in particular to the use of works in digital form. It is understood that the storage of a protected work in digital form in an electronic medium constitutes a reproduction within the meaning of Article 9 of the Berne Convention".[66]

Similarly, article 11 of the WPPT protects the exclusive right of producers of sound recordings to authorize "the direct or indirect reproduction" of their recordings "in any manner or form".[67] In terms of the agreed statement concerning article 11 this right applies fully "in the digital environment, in particular to the use of performances and phonograms in digital form". The statement goes on to say that "the storage of a protected performance or phonogram in digital form in an electronic medium constitutes a reproduction" within the meaning of article 11. The right of reproduction is an exclusive one in both the WCT and WPPT.

Although the WPPT is not founded on the Rome Convention in the same way as that in which the WCT is based on the Berne Convention,[68] it corresponds to article 10 of Rome Convention and article 14(2) of the TRIPs Agreement.[69]

The Rome Convention, UCC and the TRIPs Agreement give the right of reproduction comprehensive protection to the extent that it is made exclusive.[70] However, article 10 of the Rome Convention and article 14(2) of the TRIPs Agreement do not extend protection of the right to cover sound recordings "in any manner or form". Article 11 of the WPPT does. Therefore the making of temporary copies, invisible copies and storing of the work are acts of reproduction.[71]

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[66] The statement goes on to say that the storage of a protected work in digital form in an electronic medium constitutes a reproduction within the meaning of article 9 of the Berne Convention.

[67] This corresponds to article 9(1) of the Berne Convention. See Fiscor *The Law of Copyright and the Internet* at 631, para. 11.02.

[68] Hence the rationale for explicitly stating and placing this right first among economic rights relating to sound recordings in Chapter III of the WPPT. See Reinbothe and Von Lewinski *The WIPO Treaties 1996* at 346.

[69] Fiscor *The Law of Copyright and the Internet* at 631, para. 11.01.

[70] Ibid. See paras 3.5.2.1, 3.5.4.2 and 3.6.2.1. above, on the Rome Convention, UCC and TRIPs Agreement respectively.

[71] See Reinbothe and Von Lewinski *The WIPO Treaties 1996* at 347–348; Ginsburg "Recent developments in US copyright law" at 5–7 and 34–35; Kemper "The concepts of 'public' and 'private' in the digital environment" at 197–199.

3.6.3.2 The right of distribution

i. Introduction

The WCT and the WPPT make provision for the explicit general right of distribution.[72] Article 12(1) of the WPPT states that "Producers of phonograms shall enjoy the exclusive right of authorizing the making available to the public of the original and copies of their phonograms through sale or other transfer of ownership". In terms of the agreed statement concerning article 12 of the WPPT "the expressions 'copies' and 'original and copies,' being subject to the right of distribution …, refer exclusively to fixed copies that can be put into circulation as tangible objects".

The distribution right is described in similar language in article 6 of the WCT.[73] Article 6(1) states that:

> "Authors of literary and artistic works shall enjoy the exclusive right of authorizing the making available to the public of the original and copies of their works through sale or other transfer of ownership".

This article updates the right of distribution in the Berne Convention. The agreed statement concerning article 6 of the WCT states that the expression "copies" refers;

> "exclusively to fixed copies that can be put into circulation as tangible objects".

A question arises regarding the scope of the distribution right. Article 9 of the Berne Convention protects the right of reproduction in "any manner or form". Although this right covers first publication or distribution, individual member states have discretion to implement a distribution right that extends beyond the initial act of publication of a copyrighted work, thus covering subsequent publications and distributions. In certain countries which practise some form of exhaustion right, this right does not cover the resale or distribution of a particular copy that has already been put into circulation.[74]

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[72] See article 12 of the WPPT and article 6 of the WCT. See also Reinbothe and Von Lewinski *The WIPO Treaties 1996* at 81, para.3, and at 84, para. 8; Fiscor *The Law of Copyright and the Internet* at 626, para. 8.01.

[73] Article 6 of the WCT contrasts with the broader definition proposed in Garner (ed.) *Black's Law Dictionary* at 488. Garner's definition does not contain the phrase 'making available', although it does includes the term 'lease' which is not applicable to works transferred digitally. See Wong "The exclusive right of 'distribution', 'communication to the public' and 'making available' under the WIPO Copyright Treaty" at 4.

[74] Wong "The exclusive right of 'distribution', 'communication to the public' and 'making available' under the WIPO Copyright Treaty" at 7. See also Fiscor *The Law of Copyright and the Internet* at 486, para. 6.04.

ii. Definition of terms in distribution right

a. Original and copies

Generally, the distribution right is attached inextricably to the belief that a tangible copy is the object of distribution that is issued or published. The right applies to the acts of distributing, issuing and publishing that take place in terms of a sale or other transaction that results in the transfer of ownership of the copy. The connection between the act of distributing and the existence of a tangible copy of a work to be distributed is established by the agreed statement concerning article 12 of the WPPT and that concerning article 6 of the WCT, both of which expressly state that in relation to the right of distribution the terms "copies" and "original and copies" refer "exclusively to fixed copies that can be put into 'circulation' as tangible objects". The intention of these statements is to limit copies to physical objects only.[75]

In law fixation occurs when the embodiment of the work in a copy allows a sound recording to be perceived either directly or through the aid of a device or to be further communicated for a period which is longer than transitory.[76]

b. Making available

The phrase "making available to the public", which describes the act of distribution,[77] originated in the discussions of the Committee of Experts and in the Basic Proposal for the WCT. It describes in more precise terms the rather general term "distribution".[78] Making available to the public covers only the putting into circulation of tangible objects either as originals or copies, as set out in the agreed statements in the WCT and WPPT – although parties are allowed to some extent to use the term in a flexible manner with regard to the implementation of the right of distribution.[79]

In the US, however, the term "making available" has been interpreted not to mean distribution because it is a "mere offer to distribute" or "[mere invitation to] potential recipients to create those copies in their computers" which does not create any intent to transfer ownership, unlike distribution and publication both of which have the intent to

[75] Reinbothe and Von Lewinski *The WIPO Treaties 1996* at 86 and 354.
[76] Ginsburg "Recent developments in US copyright law" at 6. In *Cartoon Network v CSC Holdings* 536 F.3d 121 (2d Cir. 2008) the court held that reproductions made in a computer's "buffer" and lasting 1,2 seconds were insufficiently "fixed" to be copies.
[77] Reinbothe and Von Lewinski *The WIPO Treaties 1996* at 353.
[78] Ibid. at 85 and 354.
[79] Ibid. at 85 and 108.

distribute. This approach followed the earlier interpretation of distribution in a non-digital context as requiring actual dissemination.[80] In some jurisdictions distribution is equated with publication.[81]

On the other hand it has been argued that there is no reason to limit distribution to transactions in which a material object exists throughout, but rather that the definition of distribution should be extended to include transactions in which a material object is created elsewhere than at its finishing point and which does not require divestiture of physical ownership by the transferor. In other words, the newly created right held by the transferee is important and fundamental. The multiplication of ownership should be emphasised and not whether the material object changes hands.[82]

If this interpretation is followed, the distinction between article 12 of the WPPT and article 6 of the WCT on the one hand and article 14 of the WPPT[83] and article 8 of the WCT[84] on the other would be blurred, and confusing, and would prohibit a user from obtaining a digital copy of a sound recording on the Internet notwithstanding the fact that certain features in the articles differ.[85]

Article 14 of the WPPT states that "Producers of phonograms shall enjoy the exclusive right of authorizing the making available to the public of their phonograms, by wire or wireless means, in such a way that members of the public may access them from a place and at a time individually chosen by them" while article 8 of the WCT states that:

> "Without prejudice to the provisions of Articles 11(1)(ii), 11*bis*(1)(i) and (ii), 11*ter*(1)(ii), 14(1)(ii) and 14*bis*(1) of the Berne Convention, authors of

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[80] See Ginsburg "Recent developments in US copyright law" at 20–25 and *Capitol Records v Thomas* 2008 US Dis. LEXIS 84155 (D. Minn. 2008).

[81] For instance, Ginsburg notes that in the US the courts have interpreted distribution as meaning publication. Whereas these two terms may be similar, they are not synonymous; while publication amounts at all times to distribution, distribution need not always be publication -see Ginsburg "Recent developments in US copyright law" at 22.

[82] Any action by a user that falls outside permission with respect to a copy of the work infringes the author's rights. Placing a work on the Internet is an automatic reproduction and distribution of copies to the public. See Bowker *Copyright: Its History and its Law* at 259; Garner (ed.) *Black's Law Dictionary* at 991 and 1468; Ginsburg "Recent developments in US copyright law" at 6, 18–19; Wong "The exclusive right of 'distribution', 'communication to the public' and 'making available' under the WIPO Copyright Treaty" at 8.

[83] Article 14 concerns the right of making "phonograms" available to the public.

[84] Article 8 concerns the right of communication to the public.

[85] For instance, article 12 of the WPPT and article 6 of the WCT refer to the sale or other transfer of ownership, while article 14 of the WPPT and article 8 of the WCT refer to "access" to phonograms. Secondly, while article 14 of the WPPT and article 8 of the WCT refer to "wire[d] or wireless means" of making the works available, article 12 of the WPPT and article 6 of the WCT do not refer to media but rather to "sale and or other transfer of ownership".

> literary and artistic works shall enjoy the exclusive right of authorizing any communication to the public of their works, by wire or wireless means, including the making available to the public of their works in such a way that members of the public may access these works from a place and at time individually chosen by them."

It is submitted that this blurring of the rights of distribution and communication was not intended by the drafters of the treaties. Fortunately, reading the articles with the relevant agreed statements, in which the drafters express their clear and unambiguous intent, should help avoid any confusion in this regard.

c. Public

Since the WPPT does not define "public", each member country is expected to interpret it according to its own legal traditions and concepts.[86] It is expected that their use of the term will reflect the intent of the WPPT's drafters, bearing in mind the terms used in the article to indicate that "public" refers to direct physical contact between users and not to the online-world meaning of the concept "public".

d. Sale or other transfer of ownership

Finally, "through sale or other transfer of ownership" excludes the term "lease" which is included in Garner's[87] definition of "distribution". The phrase further confirms that only permanent and absolute acts are covered by the right of distribution in the digital world, including donation and barter[88] as opposed to lending, leasing, rental and hiring.

3.6.3.3 The right of communication

There are two main distinctions between article 14 of the WPPT and article 8 of the WCT. First, the title of article 14 of the WPPT refers to the "Right of making available of phonograms" in contrast with that of article 8 of the WCT, "Right of communication to the public". Secondly, article 8 of the WCT contains the clause "including making available", whereas article 14 of the WPPT does not contain a similar provision. Article 14 of the WPPT provides for the right of "making available" of phonograms "by wire or wireless

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[86] See Reinbothe and Von Lewinski *The WIPO Treaties 1996* at 86 and 354.
[87] See Garner (ed.) *Black's Law Dictionary* at 488.
[88] Reinbothe and Von Lewinski *The WIPO Treaties 1996* at 86.

means", while in article 8 of the WCT "making available" is only one of the means of communicating to the public.[89]

"Making available" to the public includes offering users access to sound recordings and it extends to the whole transmission process if one actually takes place. Thus, in accordance with article 14 of the WPPT, "making available" applies to situations in which a server on which electronic files are stored, or offered for access, or made available for distribution is established that may be accessed individually by members of the public and at their convenience with regard to time and place.[90] Further, uploading file names to the search index or for other copying purposes or uploading copyright works infringes copyright.[91] However, "making available" does not cover the actions of a user who after accessing a sound recording transmits it by loudspeaker to an audience; such broadcasting constitutes public performance.[92]

Notwithstanding the fact that the right of making available is limited to remote transmission, it does not mean that the right is limited to a local area.[93] The mere provision of cables or other transmission facilities for the purpose of "making available" does not amount to actual making available. In other words, the facilities for transmission must be in working order.[94]

Article 14 of the WPPT contemplates non-simultaneous transmission and receipt or an on-demand situation[95] in which, for example, a sound recording is made available in such a way that members of the public may access it by "wire or wireless means" from a place and at a time individually chosen by them. However, this excludes the making available by way of offering, at specified times, and predetermined programmes for reception by the general public whether through the broadcasting of radio programmes by traditional means or

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[89] Wong "The exclusive right of 'distribution', 'communication to the public' and 'making available' under the WIPO Copyright Treaty" at 6.

[90] Reinbothe and Von Lewinski *The WIPO Treaties 1996* at 369; Kemper "The concepts of 'public' and 'private' in the digital environment" at 199; Fiscor *The Law of Copyright and the Internet* at 494, para. 8.02, and at 496, para. 8.05.

[91] Akester "A practical guide to digital copyright law" at 43. This position is confirmed in *A & M Records, Inc v Napster Inc* at 1019 in which the court said that when a user lists on Napster's systems a copy of a sound recording of music he or she already owns in order to access the music from another location, the songs listed become available to millions of other individuals.

[92] Reinbothe and Von Lewinski *The WIPO Treaties 1996* at 370.

[93] Ibid.

[94] Ibid. See also Fiscor *The Law of Copyright and the Internet* at 503, para. 8.15, and 509, para. 8.24.

[95] Reinbothe and Von Lewinski *The WIPO Treaties 1996* at 370; Wong "The exclusive right of 'distribution', 'communication to the public' and 'making available' under the WIPO Copyright Treaty" at 5; Fiscor *The Law of Copyright and the Internet* at 496, para. 8.06.

through digital networks (that is, webcasting – original cable programme distribution over the Web). Also excluded are simulcasting (simultaneous and unchanged retransmission of traditional broadcast programmes over digital networks), "real audio" or Internet radio, pay radio, pay-per-listen services, multi-channel services and near-on-demand services, all of which broadcast sound recordings.[96] Reinbothe and Von Lewinski argue that these means of distribution or making available are excluded from the right set out in article 14 because, in each of them, a user relies on programming and cannot choose the time at which he or she accesses a particular sound recording.[97]

Article 14 of the WPPT is concerned with the transactions between a copyrights-holder and the public online which constitute the transmission of the work.[98] This includes interactive and online communications rather than a transaction involving transfer of a physical object.[99] Thus, the WPPT seems to make a clear distinction between, on the one hand, the public distribution of tangible copies of a copyright work in terms of article 12 and its agreed statement and, on the other, public access to the copyright work itself through some form of transmission, whether wired or wireless, digital or analogue, interactive or otherwise, in terms of article 14.[100]

Essentially, the distinction between articles 12 and 14 of the WPPT is that article 12 concerns copy-related rights – such as those of reproduction and distribution – which cover acts by which copies of works are made publicly available for what has been termed "deferred"[101] uses whereas article 14 concerns non-copy-related rights – such as those of public performance, broadcasting and other transmissions – in situations in which the public uses or accesses copyright works.[102] This distinction should put to rest the misinterpretation of the terms "copy" and "making available" examined in paragraph 3.6.3.2 above. Further, the fact that the phrase "sale or other transfer of ownership" has not been included in article 14 of the WPPT and article 8 of the WCT (but has been included in article 12 of the WPPT and article 6 of the WCT) clearly indicates that sound recordings are "copied" and "made

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96 See Reinbothe and Von Lewinski *The WIPO Treaties 1996* at 370–371.
97 Ibid. at 371.
98 See Wong "The exclusive right of 'distribution', 'communication to the public' and 'making available' under the WIPO Copyright Treaty" at 9.
99 Fiscor *The Law of Copyright and the Internet* at 499, para. 8.09.
100 Wong "The exclusive right of 'distribution', 'communication to the public' and 'making available' under the WIPO Copyright Treaty" at 10.
101 Ibid.; Fiscor *The Law of Copyright and the Internet* at 498, para. 8.08.
102 Ibid.

available" online when they are uploaded which does not need any change of hands before a third party becomes the owner of a copy of the work.[103]

The term "public" also appears in article 14 of the WPPT and article 8 of the WCT but the term is not defined in these treaties. The conventional meaning of "public" is that it comprises of third parties that are not part of a close family circle or caucus, and closest social acquaintances and affiliations.[104] However, because of the nature of P2P file-sharing, once a work is placed or made available online in a P2P file-sharing environment it is made available and circulated to the public, notwithstanding the fact that it is a closed network. It is submitted that the term "public" in relation to DP2P networks means any person other than the owner or licensee of a sound recording although Kemper argues that the concepts of "public" and "private" can be maintained in the digital world.[105]

3.6.3.4 The right to remuneration for communication to the public

The right to remuneration under article 15 of the WPPT is among the economically most important rights of performance and phonograms producers.[106] Article 15(1) of the WPPT protects "the right to a single equitable remuneration for the direct or indirect use of phonograms published for commercial purposes for broadcasting or for any communication to the public". This right draws on the provisions of article 12 of the Rome Convention which states that:

> "If a phonogram published for commercial purposes, or a reproduction of such phonogram, is used directly for broadcasting or for any communication to the public, a single equitable remuneration shall be paid by the user to the performers, or to the producers of the phonograms, or to both".

However, article 15 of the WPPT has been constructed more strongly than article 12 of the Rome Convention.[107] The first agreed statement concerning article 15 states that the article is not "a complete resolution of the level of rights of broadcasting and communication to the

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[103] Ginsburg "Recent developments in US copyright law" at 6 and 18–19; Wong "The exclusive right of 'distribution', 'communication to the public' and 'making available' under the WIPO Copyright Treaty" at 8.

[104] For instance, a work stored on a server accessible only by family members of the person who saved the file there is not available or circulated to the public. See Reinbothe and Von Lewinski *The WIPO Treaties 1996* at 111. On the terms "public" and "private" see Kemper "The concepts of 'public' and 'private' in the digital environment" at 195, 197, 199 and 202; Fiscor *The Law of Copyright and the Internet* at 507, para. 8.22.

[105] See Kemper "The concepts of 'public' and 'private' in the digital environment" at 203.

[106] See Reinbothe and Von Lewinski *The WIPO Treaties 1996* at 379 at para 10.

[107] Ibid.

public that should be enjoyed by performers and phonogram producers in the digital age". The agreed statement relates to the nature of the remuneration right as a minimum standard and to the qualification of the relevant sound recordings as "published for commercial purposes".[108]

However, domestic law may make provision for the for the exclusive right for rights-holders in respect of any kind of use for broadcasting and communication to the public or only for specified kinds thereof provided the exclusive right gives more or greater protection to the author.[109]

In terms of article 15(2), contracting parties to the WPPT are at liberty to "establish" in their national law that "the single equitable remuneration shall be claimed from the user by the performer or by producer" of a sound recording" and, in the absence of an agreement between the producer and performer, may enact national legislation to set the terms according to which producers and performers share the single equitable remuneration. In most countries providing for this right, performers and producers share the remuneration equally. This right is usually exercised through collecting societies.[110]

A single equitable remuneration does not mean a once-off payment. Remuneration must be paid continuously (and perhaps periodically) for further uses specified under article 15 of WPPT. Further, users jointly pay only one "remuneration" per use to producers and performers together rather than paying each producer and each performer individually or separately. The word "equitable" must be defined by domestic law or by judges in the application or implementation of this right except parties agree on the amount to be regarded as equitable because it is not defined in the WPPT. This expression implies that the frequency and value of use must be taken into consideration as the main criteria.[111]

It is also within the discretion of each contracting party to declare that it will apply the provisions of article 15(1) of the WPPT "only in respect of certain uses, or that it will limit their application in some other ways, or that it will not apply these provisions at all".[112] This implies that ISPs may be excluded from paying remuneration to producers for indirect use of sound recordings for the purpose of granting users access to sound recordings, even though

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[108] Ibid. at 386.
[109] Ibid. at 380.
[110] See Reinbothe and Von Lewinski *The WIPO Treaties 1996* at 380 para 12.
[111] Ibid. at 381 para 15.
[112] Article 15(3) of the WPPT.

they derive direct financial benefit from granting such access through subscriptions paid by users.

In terms of article 15(4) of the WPPT, sound recordings "made available to the public by wire or wireless means in such a way that members of the public may access them from a place and at a time individually chosen by them shall be considered as if they had been published for commercial purposes".[113]

3.7 The role of ISPs in the limitation of liability

A major issue concerning intellectual property and Internet transactions is that of liability for copyright infringement especially online infringement of sound recordings. The role of ISPs in copyright infringement is perhaps traceable to or perceived from article 11*bis* of the Berne Convention, which was the main international provision likely to affect the liability of ISPs prior to the introduction of the 1996 WIPO treaties.[114] This article requires contracting states to grant authors of literary and artistic works the exclusive right to authorize the broadcasting of the work.[115]

In view of the fact that the Internet is a means to broadcast any kind of information (including sound recordings), this provision is relevant to the Internet. This is because the Internet has the ability to achieve rapid, widespread delivery and mass distribution which has made distribution move away from the traditional concept of broadcasting. With the growth of the Internet, ISPs may encounter potential liability for the acts of users making use of their services to access, post and download information.[116]

In 1996, WIPO adopted two Internet treaties which are WCT and WPPT. These treaties give guidelines to ISPs relating to their liability recommending that copyright liability should not apply to the person who acts as a conduit.[117]

Liability issues are very complex[118] and the extent of liability is determined under national law and on a case-by-case basis.[119] Over the years member countries to WIPO

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[113] See also Reinbothe and Von Lewinski *The WIPO Treaties 1996* at 381–382.
[114] See WIPO "Intellectual property on the Internet: A survey of issues", Part III (A).
[115] See Romero "Internet service providers' liability for online copyright infringement: The US approach" at 196.
[116] Ibid at 196-197.
[117] Ibid.
[118] Fiscor *The Law of Copyright and the Internet* at 509, para. 8.24.
[119] Reinbothe and Von Lewinski *The WIPO Treaties 1996* at 370; Romero "Internet service providers' liability for online copyright infringement" at 197.

Internet treaties have adopted domestic copyright law in compliance with the basic standards established by WIPO treaties.[120]

Since the adoption of the Internet treaties (WCT and WPPT), member countries i.e. signatories to the Internet treaties have begun to apply this basic standard. Some countries[121] have adopted rules governing ISP liability regardless of the grounds for illegality of the transmitted material that cover not only copyright infringement but also other legal aspects such as libel or obscenity. Other countries[122] have adopted copyright-specific laws.

3.8 Conclusion

Having examined the rights in sound recordings under the various international treaties and agreements, it is evident that several issues arise. First, is adoption of these treaties and agreements adequate to protect rights owners in the digital era particularly in DP2P technology? Secondly, are these rights uniformly interpreted by member countries, given that the agreed statements allow flexibility in the domestic implementation of the treaties and agreements? Thirdly, do these rights adequately protect rights-holders against DP2P technology? Fourthly, does dissemination or transmission of a work in digital form amount to public performance, an act of reproduction or distribution – or to all three? Fifthly, how do rules concerning the right to importation apply in a digital environment?[123] All of these matters will be considered in the following chapters.

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[120] Romero "Internet service providers' liability for online copyright infringement" at 197.
[121] Germany and Sweden, for example.
[122] Notably the US, through its Digital Millennium Copyright Act. Other countries include Hungary, Ireland and Singapore. See WIPO "Intellectual property on the Internet", Part III (A).
[123] See Lehman "Intellectual property and the national and global information infrastructure" at 79.

CHAPTER 4

THE UNITED STATES OF AMERICA

4.1 Introduction

The antecedent of the American copyright law is found in English law, particularly the Statute of Anne of 1710.[1] Copyright law in the United States is a compromise which balances the interests of authors and the public. Copyright protection is rooted in the American Constitution.[2] Section 8 of article I states that:

> "The Congress shall have power … To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Investors the exclusive Right to their respective Writings and Discoveries".

The US Copyright Act is entrenched in Title 17 of the United States Code. The kernel of the Act is contained in its first five chapters. The others serve a wide range of special purposes, particularly Chapter 12, "Copyright protection and management system", containing the controversial Digital Millennium Copyright Act of 1998 which was added to the Copyright Act by section 103 of the controversial DMCA.[3]

The United States is a signatory to international instruments such as the Universal Copyright Convention, the Berne Convention,[4] the Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPs Agreement)[5] and the Rome Convention.[6] The United States delayed in acceding to the Berne Convention for a long time because of the Convention's inconsistency with its Copyright Act.[7] Most of the 1976 changes to the Copyright Act were made in anticipation of the ratification of various treaties including the Berne Convention. The WIPO Copyright Treaty (WCT) and WIPO Performances and

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1 Halpern *Copyright Law: Protection of Original Expression* at 5.
2 Ibid. at 6; Mahony "United States" at 392.
3 Halpern *Copyright Law: Protection of Original Expression* at 6.
4 The US became a party to the Berne Convention in 1988 by the enactment of the Berne Convention Implementation Act on 31 October 1988, which makes provision for the US Implementation of the Paris Act of 1971. The Paris Act is the current version of the Berne Convention, which became effective in 1989; Halpern *Copyright Law: Protection of Original Expression* at 17–18.
5 Halpern *Copyright Law: Protection of Original Expression* at 17.
6 Flint et al. *A User's Guide to Copyright* 580.
7 Halpern *Copyright Law: Protection of Original Expression* at 18.

Phonograms Treaty (WPPT) have been implemented, but only in part, by the Digital Millennium Copyright Act.[8]

4.2 Rights in sound recordings

4.2.1 Right of reproduction

In terms of section 106(1) of the Copyright Act copyright owners have the exclusive right "to reproduce the copyrighted work in copies or phonorecords". Section 101 defines "copies" as "material objects, other than phonorecords, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine device".

Regarding the reproduction of copies the US government in its 1995 White Paper on the National Information Infrastructure[9] said that: "when a work is placed into a computer, whether on a disk, diskette, ROM, or other storage device or in the RAM for more than a very brief period, a copy is made. Copying is automatically proved when there is an upload to, transmission on or download from the Internet.[10]

> "Whenever a printed work is "scanned" into a digital file, a copy – the digital file itself – is made; when other works – including photographs, motion pictures, or sound recordings – are digitized, copies are made; whenever a digitized file is "uploaded" from a user's computer to a bulletin board system (BBS) or other server, a copy is made; whenever a digitized file is "downloaded" from a BBS or other server, a copy is made; when a file is transferred from one computer network user to another, multiple copies are generally made; under current technology, when an end-user's computer is employed as a "dumb" terminal to access a file resident on another computer such as a BBS or Internet host, a copy of at least the portion viewed is made in the user's computer" Without such copying into the RAM or buffer of the user's computer, no screen display would be possible."[11]

Two recent court cases in the United States explored whether a digital file embodying a work is a copy or a phonorecord of the work and whether the embodiment must be more

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[8] Ibid.

[9] See Lehman "Intellectual property and the national information infrastructure: Report of the Working Group on Intellectual Property Rights". See also Lee and Davidson *Intellectual Property for the Internet* at 133.

[10] See *Playboy Enterprises Inc v Frena* at 1556.

[11] See Intellectual Property and the National Information Infrastructure –The Report of the Working Group on Intellectual Property Rights .

than merely transitory. In *London-Sire Records v Does*[12] the plaintiff sued the defendant students for allegedly copying and distributing copyrighted sound recordings over a P2P file-sharing network. The students' defence was that the exclusive right "to distribute the work in copies or phonorecords" was limited to tangible, physical objects and therefore did not apply to the transmission of digital files. Had this argument been favourably received, "a great deal of internet commerce involving computer-to-computer electronic transfers of information" would fall outside the scope of rights-holders' distribution rights.[13] The court considered the implications of the defendants' submission alongside the intent of Congress to enable copyrights-holders to control the distribution of artists' sound recordings.[14]

The court examined the definition of "copy", "phonorecord" and "fixation", saying that the "Copyright Act thus does not use materiality in its most obvious sense to mean a tangible object with a certain heft, like a book or compact disc. Rather, it refers to materiality as a medium in which a copyrighted work can be fixed".[15] The court declared that:

> [A]ny object in which a sound recording can be fixed is a "material object". That includes the electronic files at issue here. When a user on a peer to peer network downloads a song from another user, he receives into his computer a digital sequence representing the sound recordings. That sequence is magnetically encoded on a segment of his hard disk (or likewise written on other media). With the right hardware and software, the downloader can use the magnetic sequence to reproduce the sound recordings. The electronic file – or perhaps more accurately, the appropriate segment of the hard disk – is therefore a "phonorecord" with the meaning of the statute.[16]

According to Ginsburg,[17] the court did not take into consideration the other part of the definition of fixation which might have supported the defendants' claim. That part of the definition is to the effect that a copy that is distributed must be tangible, thus excluding digital files communicated between computers.[18]

In the second case, the Second Circuit held in *Cartoon Network v CSC Holdings*[19] that reproductions made in a computer's buffer and lasting 1,2 seconds were insufficiently

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[12] *London-Sire Records v Does* at 153.
[13] Supra at 169.
[14] Supra at 170.
[15] Supra at 171.
[16] Supra.
[17] Ginsburg "Recent developments in US copyright law" at 7.
[18] See 17 USC, section 102(*a*).
[19] *Cartoon Network v CSC Holdings* at 121.

"fixed" to be copies; although the buffer embodied the works, the embodiments were too transitory.[20] Unfortunately the court did not specify the duration of embodiment that would suffice.

4.2.2 Right of distribution

The US Copyright Act expressly includes a distribution right.[21] The right of distribution of works is set out in section 106(3) which stipulates that, subject to certain limitations, the owner of copyright has the exclusive rights to "distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, leasing, or lending".

In the defendants' argument in the *London-Sire Records v Does*[22] it was contended that a narrow interpretation of the distribution right should be applied to the term "copy" to cover only the "sale or other transfer of ownership or by rental, lease or lending which are presumed to be in physical copies". The defendants argued that transferors must give up, relinquish or transfer ownership or possession of the copy distributed but in the case of digital copies the copy is retained by the transferor, which means that there is no distribution. The court refused to read the "transfer of ownership as requiring dispossession of the distributor's copy",[23] adducing two reasons for its refusal. First, distribution should now be extended to a transaction where a material object is created elsewhere at its finishing point. Secondly, the newly created ownership right held by the transferee is more important than whether the transferor gives up his or her own copy.[24] The intent of the legislature is to allow rights-holders to control the rate at and terms on which copies of phonorecords are made.[25] In conclusion, the court said that electronic file transfer fits within the definition of the distribution of phonorecords.[26]

Subsequent legislation follows the right as set out in section 106(3). In 1995, section 115 of the Copyright Act, which deals with compulsory licences for making and

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[20] *Cartoon Network v CSC Holdings* supra at 127; Ginsburg "Recent developments in US copyright law" at 9.
[21] See Wong "The exclusive rights of 'distribution', 'communication to the public' and 'making available' under the WIPO Copyright Treaty: Lessons for other jurisdictions from the Hong Kong *BitTorrent* case" at 2.
[22] *London-Sire Records v Does* supra at 173.
[23] Supra.
[24] Supra.
[25] See Ginsburg "Recent developments in US copyright law" at 19.
[26] *London-Sire Records v Does* supra at 173–174.

distributing phonograms, was amended to include "those who make phonorecords or digital phonorecord deliveries". The amendment further declares that:

> "A person may obtain a compulsory license only if his or her primary purpose in making phonorecords is to distribute them to the public for private use, including by means of a digital phonorecord delivery".

The significance of the amendment is that digital deliveries create new copies without divesting the sender's copy.[27]

The definition of digital phonorecord delivery confirms that what is most important is the constitution of the copy in the recipient's computer:

> "A 'digital phonorecord delivery' is each individual delivery of phonorecord by digital transmission of a sound recording which results in a specifically identifiable reproduction by or for any transmission recipient of a phonorecord of that sound recording".[28]

Since Congress has equated digital phonorecord delivery with distribution, transfer of ownership cannot be understood to require dispossession of the transferor's copy.[29]

The controversy concerning the phrase "making available" still rages on.[30] Proceeding from the definition of "digital phonorecord", the statutory distribution right applies when a specifically identifiable reproduction "results" in a user's destination computer, i.e. the delivery has actually been received by a user, not merely offered by the offeror.[31]

Two appellate courts namely: *BMG Music v Gonzales*[32] and *A & M Records v Napster* I case,[33] have held in passing that persons who "post" files to a sharing directory or upload file names to a directory of files available for download violate copyright owners' exclusive right of distribution. The courts' statements do not mean that distribution encompasses making available without actual transfer of digital files. In other words, digital files must actually be transferred for there to be distribution which arguably is not the case when potential recipients are only invited to create copies on their

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[27] See title 17 USC, section 115(*a*)(1), as amended by the Digital Performance Right in Sound Recordings Act 1995. See also Ginsburg "Recent developments in US copyright law" at 20.
[28] See 17 USC, section 115(*d*).
[29] Ginsburg "Recent developments in US copyright law" at 20.
[30] Ibid.
[31] Ibid.
[32] *BMG Music v Gonzales* supra at 889.
[33] *A & M Records v Napster* II case supra at 1014.

computers or when works are made available for copying.[34] In *BMG Music v Gonzales,*[35] the distributor's liability was limited to only those works users had downloaded from him and the reference to posting was a dictum in the decision. In *A & M Records v Napster Inc* II *case*,[36] Napster asserted an affirmative defence to the charge that its users directly infringed plaintiff's copyrighted musical compositions and sound recordings in two ways: rights of reproduction and distribution. On reproduction right, Napster users downloaded files containing copyrighted sound recordings while on the distribution right, Napster users uploaded file names to the search index for others to copy.

Case law which categorically limits distribution rights to acts only of "making available" online currently stems from judgments of first-level courts which are very inconsistent in claims by record or film producers against individuals allegedly engaged in high-volume file-sharing. The more extensively reasoned decisions do not find statutory authority for a making available right.[37]

There have been many default decisions accepting, without discussion, the inclusion of "making available" within the distribution right especially equating the defendant's conduct with publication or better still declaring a presumption that works made available were in fact downloaded.[38] While other decisions[39] reject the existence or approximation of a right to make available, and pointed out that the person offering digital files from his or her directory may still be pursued for contravening reproduction rights if the files were themselves illegal or unlawful downloads.

Nonetheless, the Copyright Act does not define the terms "distribute" and "distribution"; it defines a closely related term, "publication", in terms virtually identical to section 106(3)'s provision for a distribution right, but with an additional specification, namely that:

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[34] Supra.

[35] *BMG Music v Gonzales* supra at 888.

[36] *A & M Records v Napster II* case supra at 1014.

[37] See Ginsburg "Recent developments in US copyright law" at 21.

[38] Ibid. In the following cases, the courts accepted without discussion, the inclusion of "making available" within the distribution right as follows: 1) *Universal City Studios Prods. LLLP v Franklin* -downloading and posting are both infringing activities;2) *Arista Records LLC v Ibanez*-copyright infringement encompasses making available for distribution;3) *Warner Bros. Records Inc v Tait,* - as held above in no. 2; 4) *Warner Bros. Entm't v Bowers* –as held above in no 2;5) *Disney Enters. v Merchant*- as held above in no 2.

[39] For example, in *Elektra Entertainment Group Inc v Barker*, the court was not persuaded to hold in favour of a "making available right". Also in *Atlantic Recordings Corp v Brennan* at 281-282, the court rejected a motion for default judgement and queried the validity of a "making available" claim "without actual distribution of copies...there is no violation of the distribution right".

> "the offering to distribute copies or phonorecords to a group or persons for purposes of further distribution, public performance or public display constitutes publication".[40]

This phrase from 1976 might have anticipated P2P networks since a person who places a copy of a work in his or her sharing directory is offering it to a group of persons (i.e. Internet users) for further distribution (i.e. follow-on) "sharing" by other participants in the P2P network[41] The court in *Atlantic Recording Corp v Anderson*[42] therefore held that it would entertain a claim that the defendant had offered to distribute digital files for the purpose of further distribution. It also observed that other courts had characterized making available as unauthorized publication. Nevertheless, the court's equation of distribution with publication is unconvincing. Publication is a form of distribution but not synonymous with it. Publication is understood in two contexts. While all publications are distributions, not all distributions are publications.[43]

The *London-Sire Records v Does*[44] court did not distinguish a "making available" right in section 106(3), nor did it subscribe to the publication theory. Rather, the court followed the analysis of a decision construing the distribution right in the analogue world. In *Hotaling v Church of Jesus Christ of Latter-Day Saints*,[45] the rights-holders claimed that the branch libraries of the Mormon Church had made available to the public unauthorized copies of their work on microfiche. The libraries did not keep records to show whether patrons had in fact consulted the microfiches. In the church's reply, it was submitted that the rights-holders did not prove more than an offer to distribute the work; without proof that a member of the public had accepted the offer, the authors could not make out a claim of unauthorized distribution.[46]

The court realized that the impossible situation in which the Church's argument put the rights-holders effectively shifted the onus of proof. It said that a defendant who is

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[40] *Elektra Entertainment Group Inc v Barker* at 244. See also Ginsburg "Recent developments in US copyright law" at 22; Wong "The exclusive rights of 'distribution', 'communication to the public' and 'making available' under the WIPO Copyright Treaty" at 17.

[41] Ginsburg "Recent developments in US copyright law" at 22.

[42] *Atlantic Recording Corp v Anderson* at 1. The court equated publication in a shared folder accessible to numerous other persons on Kazaa with distribution, for the purposes of the plaintiff's copyright-infringement claim against the defendants. See also Ginsburg "Recent developments in US copyright law" at 18–20.

[43] See Ginsburg "Recent developments in US copyright law" at 22 and Wong "The exclusive rights of 'distribution', 'communication to the public' and 'making available' under the WIPO Copyright Treaty" at 16.

[44] *London-Sire Records v Does* supra at 168–169.

[45] *Hotaling v Church of Jesus Christ of Latter-Day Saints* at 203–204.

[46] Supra.

expected to keep records of public use but does not would unjustly profit by this omission.[47] The court further held that:

> "[i]f, as the church says, actual use by the public must be shown to establish distribution, no one can expect a copyrights-holder to prove particular instances of use by the public when the proof is impossible to produce because the infringing library has not kept records of the public use".[48]

Thus, copyrights-holders should not be prejudiced by the infringer's failure to keep records nor should the infringer be permitted to benefit from that failure.[49] If the argument of the church is followed, defendants can always prove that they did not intend distribution because no member of the public accepted the offer to make available.[50]

The *London-Sire Records v Does* court followed the *Hotaling v Church of Jesus Christ of Latter-Day Saints* case to hold that:

> "where the defendant has completed all the necessary steps for a public distribution, a reasonable fact-finder may infer that the distribution actually took place … The evidence and allegations taken together are sufficient to allow a statistically reasonable inference that at least one copyrighted work was downloadable once".[51]

In contrast, the court in *Capitol Records v Thomas*[52] rejected both the "making available" right and functional equivalents thereof. The court found no support in the protection of copyright thereof in sound recording for basing liability on a mere offer to distribute. It determined that the court in *National Car Rental System, Inc v Computer Associates International Inc*[53] had already ruled (in a non-digital context) that distribution requires actual dissemination. The court interpreted this as prohibiting the "deemed distribution" approach of the *Hotaling* case. It held that:

> The specter of impossible-to-meet evidentiary standards … is overstated. A person who makes an unauthorized copy of a phonorecord of a copyrighted work for purposes of uploading it unto a P2P network, absent a defence such as fair-use, violates the reproduction right [(17 USC

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47 Supra
48 Supra.
49 Supra.
50 Ginsburg "Recent developments in US copyright law" at 23.
51 *London-Sire Records v Does* supra at 169 and 176.
52 *Capitol Records v Thomas* at 40. See also Ginsburg "Recent developments in US copyright law" at 24 and Wong "The exclusive rights of 'distribution', 'communication to the public' and 'making available' under the WIPO Copyright Treaty" at 18.
53 See *National Car Rental System, Inc v Computer Associates International Inc.* at 434.

> section 106(1)].That person might also be held for indirect infringement to the extent that their conduct caused others to engage in unauthorized reproduction, adaptation, public distribution, public performance or public display of an author's copyrighted work.[54]

In *Re Napster Inc Copyright Litigation* (which is herein referred to as *Napster* IV case),[55] the court dismissed the copyright owners' argument that the Artists' Rights and Theft Prevention Act (the ART Act) was intended to amend section 106(3) of the Copyright Act and that the term "making available" in the ART Act pertained merely to one element of a criminal offence which still had to be proved beyond reasonable doubt.[56] Further, Judge Patel made a distinction between the *Napster* IV case and *Hotaling v Church of Jesus Christ of Latter-Day Saints* case. She ruled that Napster's listing of copyright works in its file index was distinguishable from what happened in *Hotaling v Church of Jesus Christ of Latter-Day Saints* by citing case law from other courts that required dissemination of a copy of a copyrighted work for distribution to have occurred. She concluded that to apply the precedent in *Hotaling v Church of Jesus Christ of Latter-Day Saints* that merely offering to distribute copies of a copyright work constitutes a violation of the distribution right would be contrary to case-law precedent, statutory interpretation and legislative history.[57]

In *Interscope v Duty*,[58] the court denied the defendant's motion to dismiss the suit, in which the defendant argued that no section 106(3) distribution could occur without actual public dissemination of actual copies of copyright works. Similar arguments were canvassed in *Atlantic Recording Corporation et al. v Howell* [59] in August 2008.

Most of the courts[60] have said that the distribution right does not include the right of making available because making available is not actual distribution.[61] While the language of article 6 of the WCT may seem strange to US copyright law, examining the provision in

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[54] *Capitol Records v Thomas* supra at 40.
[55] *Re Napster, Inc Copyright Litigation* (which is herein referred to as *Napster* IV case).
[56] See Wong "The exclusive rights of 'distribution', 'communication to the public' and 'making available' under the WIPO Copyright Treaty" at 15.
[57] *Napster* IV case supra at 804-805; See also Wong "The exclusive rights of 'distribution', 'communication to the public' and 'making available' under the WIPO Copyright Treaty" at 16.
[58] *Interscope v Duty* at 1. Similar decisions were reached in *Warner Bros Records Inc v Payne* at 4 and *Atlantic Recording Corporation et al. v Christopher David Brennan* at 1.It is likely that the courts tasked with deciding preliminary motions and summary-judgment issues will consider earlier case law, particularly from appellate courts, even though these previous cases do not deal with the P2P technology. See Wong "The exclusive rights of 'distribution', 'communication to the public' and 'making available' under the WIPO Copyright Treaty" at 17.
[59] *Atlantic Recording Corporation et al. v Howell* supra at 1.
[60] *Capitol Records v Thomas supra* at 41-44,; *Elektra v Barker* supra at 243.
[61] Ginsburg "Recent developments in US copyright law" at 25.

conjunction with the agreed statement relating to it and identifying the differences between the concept of copyright in the United States and the same concept in other systems will cause one to argue that article 6 of the WCT is intended to deal with the exclusive right of selling, lending, disposing of or otherwise transferring ownership of tangible copies of a work. Thus, section 106(3) of the US Copyright Act is more limited in scope than article 6 of the WCT.[62] Also, dealing in tangible objects inevitably brings to the fore the issue of the "first sale" right in US copyright law.[63]

According to Lee and Davidson[64] it is not clear whether electronic transmission constitutes or amounts to distribution, even though distribution is not defined in the Copyright Act.[65] However, section 101 provides for the definition of the term "transmit" thus:

> "To 'transmit' a performance or display is to communicate it by any device or process whereby images or sounds are received beyond the place from which they are sent".

The term "transmit" does not appear in the section dealing with the right of distribution although the court in *Playboy Enterprises Inc v Frena*,[66] has interpreted it in relation to a bulletin board. In this case, the court held that the unauthorized uploading and subsequent downloading of digitized photographs by BBS subscribers impacted on the right of distribution in an action against the BBS operator. Essentially, this judgment confirms that uploading constitutes distribution.

According to Halpern[67] digital technology presents a real problem for the definition of distribution. For example, normally a distributor does not have a copy of what is distributed as soon as it is distributed, but this is not true of online distribution. He further opines that in the digital world when a copy is distributed, the receiver simultaneously acquires both possession and ownership, whereas in the analogue world possessing, lending, leasing or hiring, and owning are discrete acts.[68]

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[62] See Wong "The exclusive rights of 'distribution', 'communication to the public' and 'making available' under the WIPO Copyright Treaty" at 9.
[63] See 17 USC section 109; Wong "The exclusive rights of 'distribution', 'communication to the public' and 'making available' under the WIPO Copyright Treaty" at 9.
[64] Lee and Davidson *Intellectual Property for the Internet* at 134.
[65] See *Agee v Paramount Communications, Inc.* 59 F.3d (2nd Cir. 1995) at 325.
[66] *Playboy Enterprises, Inc. v Frena* at 1554.
[67] Halpern *Copyright Law: Protection of Original Expression* at 188.
[68] Ibid.

Following Halpern,[69] distribution on the Internet is unique in nature, different from other modes of distribution. Once a work is uploaded, the sender – whether or not he or she owns the copy legitimately – disposes of the possessory and ownership rights regarding the copy.[70] Halpern's position complies with the requirements of online transmission with regard to sale or transfer of ownership as expressed in section 106(3) of the US Copyright Act. However, lending, leasing and hiring do not apply to online transmission.[71] Broadcast transmission of a sound recording does not amount to distribution for the purposes of section 106(3) of the US Copyright Act. In *Agee v Paramount Communications Inc*[72] the court held that merely transmitting a sound recording to the public on the airwaves does not constitute a distribution. However, while a broadcast is not in the strict sense distribution as regards broadcast programmes, the same cannot be said of convergence or broadcast transmissions on the Internet, in what is referred to as webcasting.

4.2.3 Right of communication

The right to communicate sound recordings to the public is provided for in section 106(6) of the Copyright Act, although it is not expressly stated.[73] Section 106(6) provides that in the case of sound recordings the copyright owner has the exclusive right "to *perform* the copyrighted work *publicly* by means of a *digital audio transmission*".[74] The italicized words herein call for examination in view of the fusion of the right of communication with the right of public performance. The right owners do not enjoy a full public-performance right. This is because the right of communication is generally believed not to extend to public performance since, strictly speaking, there is no performance when a sound recording is transmitted, despite the fact that performance and display rights seem fairly broad in scope.[75]

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[69] Ibid.
[70] Ibid.
[71] Ibid.
[72] *Agee v Paramount Communications Inc* supra at 325.
[73] See Wong "The exclusive rights of 'distribution', 'communication to the public' and 'making available' under the WIPO Copyright Treaty" at 2.
[74] Emphasis added.
[75] According to Wong "The exclusive rights of 'distribution', 'communication to the public' and 'making available' under the WIPO Copyright Treaty" at 13, transmission or communication to the public by way of a device or process falls within the ambit of public performance and display rights.

Public performance or display can occur in public places or by transmission, the latter being relevant to digital communication.[76] According to section 101 of the Copyright Act to perform or display a work publicly by transmission is to:

> "to transmit or otherwise communicate a performance or display of the work … to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times".

This broad definition anticipates new forms of transmission such as video on demand.[77]

In *Cartoon Network v CSC Holdings & Cable Vision*,[78] the plaintiff claimed that the statutory language of section 106(4) and (5) of the US Copyright Act covered a remote video delivery service. The court, however, having curtailed the scope of the right of reproduction in the digital environment,[79] proceeded to give a narrow construction of the public-performance right. The Cablevision remote playback system stored copies of television programmes in virtual storage boxes dedicated to individual subscribers. The cablevision system would transmit the programme when the individual subscriber chose to view it, using the copy in the subscriber's storage box as the source of the transmission. Cablevision claimed that the transmission was not to the public in that each copy was transmitted to the particular subscriber only.[80]

The court found merit in this argument. The definition of the term "public" was limited to people *capable* of receiving a particular transmission or performance; thus, the *potential* audience of a particular work was excluded.[81] Ginsburg submits that the court ruled that because Cablevision had set up the playback system so that only one person (or his or her family or circle of social acquaintances – in other words, *not* the public) would be "capable" of receiving the transmission originating from his or her storage box the performance was not public.[82]

The key phrase in the definition of what it means to perform or display a work is "to the public". The public, with respect to television transmissions, is the intended audience or in the case of a cable service the subscribers. The phrase "members of the public

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[76] Ginsburg "Recent Developments in US Copyright Law" at 25.
[77] See 1976 House Report No 94-1476 at 64–65.
[78] *Cartoon Network v CSC Holdings & Cable Vision* supra at 121.
[79] Supra at 135.
[80] Ibid.
[81] Ibid.
[82] See section 101 of the Copyright Act; See Ginsburg "Recent developments in US copyright law" at 26.

capable of receiving the performance" is not intended to restrict the meaning of "public"; its role is to make it clear that a transmission is still "to the public" even if it is received by individuals. The public in the case of a television transmission is the intended audience, or, in the case of a cable service, the subscribers.[83]

The court demonstrated its confusion between performance and transmission by declaring that "when Congress speaks of transmitting a performance to the public, it refers to the performance created by the act of transmission".[84] Section 101 of the Copyright Act, which defines the term "perform", does not refer to a performance created by the act of transmission. A transmission on its own does not perform, play or render a work; rather, it communicates a sound recording, for example, so that its performance can be perceived by the members of the public who receive the communication. It is not possible to transmit a performance "created by the act of transmission" to the public at different times, although it is possible to transmit simultaneously to recipients in different locations. If the performance does not occur publicly because of transmission is "individualized", we are dealing with conventional on-demand streaming.[85]

4.3 Infringement

In addition to section 106 of the US Copyright Act, which spells out the general protection of copyright works, section 501 specifically provides for an infringement clause by protecting the exclusive rights of copyright owners, as set out in sections 106 to 121 inclusive. A violation these rights is an infringement in terms of section 501.

4.3.1 Direct infringement

In the Internet world direct infringement of copyright in sound recordings takes place through uploading, transmission, and downloading the sound recording. These acts generally occur during online transmission.[86] Direct infringers on the Internet are the swappers who are ignorant or more generally scornful of copyright.[87] Liability for direct infringement is strict, implying that the intent or state of mind of the infringer is generally irrelevant.[88]

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[83] Ibid.
[84] *Cartoon Network v CSC Holdings & Cable Vision* supra at 136.
[85] Ginsburg "Recent developments in US copyright law" at 26.
[86] See Von Lohmann "IAAL: What peer-to-peer developers need to know about copyright law" at 112.
[87] See "*In re: Aimster Copyright Litigation*" at 645.
[88] Mahony "United States" at 407.

According to Mahony[89] to prove direct infringement of the right to distribute a sound recording the copyright owner must prove the following elements: a) he owns a valid copyright in the disputed work; b) the defendant copied the protected work. Copying on the Internet is qualitatively and quantitatively substantial.[90]

4.3.2 Indirect infringement

Another name for indirect infringement is secondary infringement. The US Copyright Act does not expressly regulate indirect infringement, although it makes provision for it in section 501, nor does it expressly render anyone liable for such infringements.[91]

The doctrines of secondary infringement emerged from common-law principles[92] and are well established in case law.[93] The case law is described in *Playboy Enterprises, Inc. v Frena*.[94]

According to Mee and Watters[95] indirect infringement takes place when one party helps another to engage in infringement which includes the carriage of an unauthorized reproduction over a computer network. Akester[96] regards it as secondary infringement when someone intentionally or negligently contributes to or participates in the infringing act by sanctioning, helping or encouraging a direct infringer to carry out the infringing act.

ISPs reproduce, distribute and communicate copyright works to the public in that every download by an Internet user causes the ISPs' computers to copy the works in order to forward them to the subscriber.[97] In *Playboy Enterprises, Inc v Frena*,[98] the court held that the ISP was liable because it had provided the means by which copies could be distributed to the public. The court referred to the US Copyright Act's strict-liability standard in finding the defendant operator liable for direct infringement because it had supplied a

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89 Ibid.
90 Mahony "United States" at 407; Landau "Digital downloads, copy code, and US copyright law" at 9**;** *Playboy Enterprises Inc v Frena* supra at 1556.
91 See *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* III case supra at 2767.
92 See Clark "Sharing out online liability: Sharing files, sharing risks and targeting ISPs" at 204 and 209.
93 See *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* III case supra at 2767–2768; Koelman "Online intermediary liability" at 18.
94 *Playboy Enterprises Inc v Frena* supra at 1556.
95 Mee and Watters "Detecting and tracing copyright infringements in P2P networks" at 1.
96 Akester "A practical guide to digital copyright law" at 37.
97 See Clark "Sharing out online liability: Sharing files, sharing risks and targeting ISPs" at 204; Bryan "Internet service provider liability for copyright infringement of subscribers: A comparison of the American and Australian efforts to combat the uncertainty". See also Romero "Internet service providers' liability for online copyright infringement: The US approach" at 200.
98 *Playboy Enterprises Inc v Frena* supra at 1554.

product – a Bulletin Board System – containing unauthorized copies of the copyright work.[99]

The approach of the court in *Playboy Enterprises, Inc v Frena*[100] was rejected in subsequent cases, however, one of which was *Religious Technology Center v Netcom On-line Communication Services Inc*.[101] In that case the court held that when the infringing subscriber is clearly directly liable for the same act of infringement, it does not make any sense to adopt a rule that could lead to the liability of countless parties whose role in the infringement is nothing more than setting up and operating a system that is necessary for the functioning of the Internet.

In *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* III *case*,[102] the US Supreme Court held that:

> "Indirect infringement occurs when a device is distributed with the object of promoting its use to infringe copyright, as shown by clear expression of the intent or by other affirmative steps taken to encourage infringement, going beyond mere distribution with knowledge of third-party action of infringement regardless of the device's lawful uses".

The court limited the meaning of indirect infringement to the distributor, on the basis of the role played by distributors. However, the phrase "...showing clear expression or other affirmative steps taken to foster infringement" demonstrates the level of action or omission required from a third party before he or she can be held liable for the act. Thus, the decision of the court in this case identifies the activities of other role-players in copyright infringement.[103]

Hence, the categories of persons involved in infringing activities in relation to transmission by intermediaries will be useful in defining modern-day indirect infringement. According to Sterling[104] these categories include:

> "The person who transmits representative signals to the server site, or makes such signals available for transmission to an accessor, the person or persons providing transmission facilities between the person transmitting to the server site and the hosting provider, the

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[99] Supra.
[100] Supra.
[101] *Religious Technology Center v Netcom On-line Communication Services Inc* at 1361.
[102] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* III case supra at 2764, 2767 and 2770.
[103] Supra.
[104] Sterling *World Copyright Law* at 532.

> site operator, and the person or persons providing transmission facilities between the server site and the access. Persons who provide links or other access facilities may also be involved in infringing activities".

It is evident that indirect infringement occurs when an ISP engages in or facilitates copyright infringement by granting access to or providing network or other facilities to users who unlawfully upload, copy, transmit, distribute, download or otherwise infringe copyright.[105]

4.4 Contributory infringement by ISPs

Contributory infringement occurs when one party intentionally induces or encourages another to commit an act of direct infringement.[106] In some respects it is not unlike "aiding and abetting" in that "One who, with knowledge of the infringing activity, induces, causes, or materially contributes to the infringing conduct of another, may be held liable as a contributory infringer".[107]

It is argued that an ISP is liable for indirect infringement because it was aware or should have been aware of copyright infringement by a third party and the ISP was instrumental in contributing to the violation of the law.[108]

The undisputed element of direct infringement is not difficult to prove in the digital world.[109] Also, direct financial gain is not required as proof of contributory infringement.[110] For contributory infringement to occur two other requirements must be met: knowledge of the infringement and material contribution to it.[111]

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[105] See *A & M Records Inc v Napster* I case at 927. See also Akester "A practical guide to digital copyright law" at 42.

[106] Von Lohmann "IAAL: What peer-to-peer developers need to know about copyright law" at 114. See also *Gershwin Pub. Corp. v Columbia Artists Management, Inc* at 1162.

[107] *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* III case supra at 2767. See also Dixon "Liability of users and third parties for copyright infringement on the Internet: Overview of international developments" at 15.

[108] Baumer et al. "Napster, Gnutella, Kazaa and beyond: Can the music industry win the battle against file-sharing networks? A comparative legal approach to decentralized file-sharing networks (peer-to-peer) in the USA, England and Germany" at 135.

[109] *Metro-Goldwyn-Mayer Studios Inc v Grokster* II case supra at 1160.

[110] Supra at 1164.

[111] Ginsburg "Copyright control v compensation: The prospects for exclusive rights after *Grokster* and *Kazaa*" at 112.

4.4.1 The ISP's knowledge of the infringement

The Ninth Circuit Court of Appeal ruled in *Fonovisa Inc v Cherry Auction Inc*[112] that providing the site and facilities for known infringing activity is sufficient to establish contributory infringement.[113]

In *Hotaling v Church of Jesus Christ of Latter-Day Saints*[114] the court shifted the onus of proving whether there was an actual infringement and held that the defendant should have kept a record that would have allowed it to defeat the rights-holders' claim. This is because the court expected the defendant to have kept record of the public use of the plaintiff' work. A copyrights-holder should not be prejudiced by the defendant failure to keep records. The court must have shifted the onus of proof in this regard because the Internet is not controlled by rights-holders. Shifting the onus may be permissible in cases of civil infringement of copyright but not in cases of criminal infringement of copyright.

In determining knowledge, it is presumed that statistics about activities on the Internet are available in ISPs' systems which "time stamp"[115] every transaction; thus the time of each transaction is recorded. In *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* III case,[116] a statistician was commissioned to conduct a systematic search of the Grokster and Streamcast networks since they themselves did not know when particular files were copied. The study showed that ninety per cent of the files available for downloading on the system were copyright works.[117]

It is important that the right-owner prove sufficient knowledge on the part of the ISP to establish liability.[118] Sometimes the rights-holder faces the burden of proving that copies were made or proving which specific copies were made or proving how many copies were made when a sound recording is obtained from an illegal website or from an unauthorized seeder or user. The difficulty is that rights-holders cannot go to the illegal website themselves to verify how many sound recordings have been downloaded from it. Fortunately, rights-holders can easily prove knowledge of infringement on the part of ISPs when a sound recording has been illegally obtained from an authorized website in which a

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[112] *Fonovisa Inc v Cherry Auction Inc* at 264.
[113] Supra.
[114] *Hotaling v Church of Jesus Christ of Latter-Day Saints* supra at 203–204.
[115] See para. 2.7 of this study.
[116] *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* III case supra at 2764.
[117] Supra at 2772. This search was different from the survey carried out in the *Sony Corp of America v Universal City Studios* case supra at 774.
[118] *A & M Records Inc v Napster Inc* II case supra at 1021.

counter is installed which counts the number of transactions made. Operators of such websites can easily provide records of the transactions made.

The level or extent and the time when ISPs become aware of distribution in DP2P file-sharing will be examined As regards the level of knowledge, it must be proved that the defendant either knew[119] or had reason to believe that the activities at issue were wrongful. Essentially, liability lies in the ISP's having actual or constructive knowledge.[120] According to Daly there is no clear-cut distinction between constructive and actual knowledge;[121] what distinction there is, is based on the use of the phrase "reasonable knowledge of specific infringing files" and actual-knowledge which can also be applied to constructive knowledge. Actual knowledge requires that an infringer must have actual knowledge of specific instances of infringement.[122]

4.4.1.1 Distinction in the features of technology in the *Sony* and *Grokster* cases in determining knowledge

Knowledge of contributory copyright infringement is guided by the principles established in case law. In the *Sony Corporation of America et al. v Universal City Studios*[123] it was held that the sale or distribution of video tape recorders (VTR) was not enough to render the indirect infringer, i.e. the manufacturers of home video tape recorders liable for contributory copyright infringement even if the manufacturers knew that the machines were being used to commit infringement.

The court drew on the "staple article of commerce" doctrine from patent law. This doctrine stipulates that a defendant in a contributory-infringement claim succeeds in his or her defence if he or she proves that the product in question is "capable of substantial or commercially significant non-infringing uses".[124] The court found that because Sony Betamax videotape recorders were capable of commercially significant non-infringing uses constructive knowledge of infringing activity could not be imputed from the fact

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[119] See Von Lohmann "IAAL: What peer-to-peer developers need to know about copyright law" at 114.
[120] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1160–1162. Actual knowledge is related to the word "knew" as expressed above, while constructive knowledge is related to the phrase "had reason to believe".
[121] Daly "Life after *Grokster*: Analysis of US and European approaches to file sharing" at 319.
[122] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* III case supra at 2767; See paras 2.3 and 2.7 of this study.
[123] *Sony Corporation of America et al. v Universal City Studios* supra at 774**.**
[124] Supra at 775, 777 and 780,

that Sony knew that the recorders could be put to infringing use.[125] A similar test was applied in the *Napster* cases[126] and in *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case.[127]

In determining the level of knowledge most suitable to DP2P file-sharing, the court in the *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II[128] case posed the following question:

> "if the product at issue is "not capable of substantial or commercially significant non-infringing uses", then the copyright owner need only show that the defendant had constructive knowledge of the infringement. On the other hand, if the product at issue is "capable of substantial or commercially significant non-infringing uses", then, the copyright owner must demonstrate that they had reasonable knowledge of specific infringing files and failed to act on that knowledge to prevent infringement.[129]

The test is to determine in the first place whether the product in this case – i.e. the P2P computer networking software product– possesses the same features as the videotape recorder in the *Sony* case. The answer to this test would in turn determine whether the software product is "not capable of substantial or commercially significant non-infringing uses", which is the only test of constructive knowledge proffered by the court; actual knowledge on the other hand also requires other elements to prove infringement. The distinction in the test will prove either a specific infringing activity (i.e. know)[130] or the mere fact that the system is capable of being used for infringing activity (i.e. have reason to know),[131] which will be tested in proving knowledge of infringement of copyright of sound recordings in a DP2P network.[132] Regarding level of knowledge, two conditions apply.

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[125] Supra at 778. See also *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1160.

[126] *AM Records Inc et al. v Napster Inc* II *case* supra at 1027; *AM Records Inc et al. v Napster Inc* III case supra at 1091.

[127] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1162.

[128] Supra at 1162.

[129] Supra at 1161.

[130] *AM Records Inc et al. v Napster Inc* II case supra at 1007.

[131] Supra.

[132] According to Von Lohmann "IAAL: What peer-to-peer developers need to know about copyright law" at 114, the minimum requirement for the presumption of knowledge in contributory infringement is that the infringer must have some specific information about infringing activity. He adds that the mere fact that the system is capable of being used for infringement is, without more evidence, not sufficient. This was not the opinion of the court. Von Lohmann's argument is informed by the fact that he represented StreamCast Networks, one of the defendants in the *Grokster* case. Von Lohmann's argument regarding the insufficiency of mere capacity cannot be sustained because in DP2P file-sharing the mere fact that the system is capable of being used for infringement on its own is, together with refusal to prevent infringement by ISPs, enough to prove the minimum requirement of knowledge, as will be demonstrated hereunder in the *Sony* and *Grokster* cases.

(a) Capability of substantial infringing or non-infringing use

The product in question in the *Sony* case[133] was a videotape recorder and an analogue device used in time shifting to record broadcast programmes. The decision of the court[134] may not be questioned in holding that VTR's uses are capable of substantial non-infringing uses. This is because users of the videotape recorder would otherwise have lost out on a private copy of a particular programme to which copy they might have been entitled under copyright law had they not been permitted to use their recorders to record the programme when it was broadcast.[135]

However, to apply the finding in the *Sony* case to the digital, non-broadcasting, on-demand nature of the Internet, and particularly to the unique nature of DP2P file-sharing, would be a misapplication of the doctrine of a "staple article of commerce" to the *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case.[136] In *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* III case,[137] the court stated that Groskter case differs markedly from Sony case in terms of the interpretation of the substantial non-infringing use.[138] Also, it was held in *AM Records Inc et al. v Napster Inc* II case[139] that the activities of Internet services that facilitate transmission and retention of digital audio audio files which consisted of downloading such files in order to listen to sound recordings does not amount to mere "space-shifting" for purposes of the fair use analysis.

In the words of Ginsburg, one who distributes an infringement-enabling device will not be liable for the ensuing infringements if the device is 'widely used for non-infringing purposes'.[140] If a user wants to enjoy a personal copy in any part of the world, all he or she need do is to put the file in his or her in-box on the Internet. This will ensure access to it at any time the user needs or wants it. Similarly, videotape recorders enable users to record programmes that can be accessed at any time after they have been recorded. However, using DP2P software to share sound recordings with people implies intent to use the

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133 *Sony Corporation of America et al. v Universal City Studios* supra at 774.
134 Supra at 777.
135 Supra.
136 *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1154. It would also nullify the philosophy behind the Ann and incremental theories explained in Chapter 8. Briefly, these theories advocate that every case should be determined on basis of the golden rule of interpretation and not a literal rule. Literal rule is a rule that strictly applies the law according to the word even if injustice would arise there from.
137 *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* III case supra at 2784-2785.
138 Supra.
139 *AM Records Inc et al. v Napster Inc* II case supra at 1006.
140 Ginsburg "Copyright control v compensation" at 112.

software (and the recording) for a substantially infringing purpose, which was the primary object of the product as revealed by the developer.[141]

Accordingly, articles 11, 12 and 14 of the WPPT prohibit the sharing of sound recordings online. Digital reproduction enables multiple and exact copies to be made instantly, unlike the loss of quality that result from analogue reproduction. In addition, the reproduction, distribution and communication of works in DP2P file-sharing networks are uncontrollable. In fact, the WCT and WPPT were concluded to solve the problems of online reproduction, distribution and communication.

The streaming or real-time transmission of the files from one unknown user to others would probably be an infringement. Also, swapping facilitates the exchange of files and takes the use of a file out of the personal view of the user to a public view.[142]

In the *Sony Corporation of America et al. v Universal City Studios* case,[143] the product at issue was a videotape recorder, which is not easily reproduced as a product. By contrast, the P2P computer networking software products[144] are easily and cheaply reproduced online in DP2P file-sharing without restrictions, as soon as a new peer joins the chain. Furthermore, the cost of the sale and distribution of videotape machines attracted a market price which implies that not every Tom, Dick and Harry could afford the price or would have free access to the machine, whereas software products in DP2P file-sharing are distributed freely by and to users.

The VTR product in the *Sony Corporation of America et al. v Universal City Studios* case was not inbuilt with the television; it required the use of additional equipment for the work to be reproduced, distributed and communicated to the public: the tape and the recorder itself. On the Internet, software, although it is also not inbuilt, is not external: it is integrated online as soon as it is installed or activated by its distribution. Online reproduction, distribution and communication can take place without external equipment such as CD or MP3 players. This makes reproduction easy, certainly much easier than reproduction of material on video cassettes which at a minimum requires either erasure of

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[141] Reichman et al. "A reverse notice and takedown regime to enable public interest uses of technically protected copyrighted works" at 259.
[142] Landau "Digital downloads, copy code, and US copyright law" at 12.
[143] *Sony Corporation of America et al. v Universal City Studios* supra at 774**.**
[144] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1155 and 1157.

an existing tape or the purchase of another tape for recording, in addition to a videotape recorder.

A computer uses both hardware and software, which makes it easy for reproduction, distribution and communication of data to occur. Moreover, the Internet connects these computers. By contrast, tape recorders or tape are not connected in this way. Accordingly, copyright infringement will be encountered in DP2P file-sharing to a larger extent than in tape recordings. In this way the P2P computer networking software product is capable of substantial or commercially significant infringing uses. With regard to DP2P file-sharing, it is submitted that rights-holders can *ab initio* impute to ISPs constructive knowledge of infringement on the basis of this capability.

Whereas the source of material captured by means of videotape recorders is the broadcaster that transmits the signals decoded and recorded, the content in on-demand transmission on the Internet is contributed by users on the network.[145] The P2P computer networking software product in DP2P network enables every user in the network to serve interchangeably as a mini-server and client. In effect, users engage in archiving of files.[146] This makes copyright more vulnerable to infringement by users who do not care about the protection of copyright since they have a contrary interest against the rights-holders.

In on-demand transmissions (as the name suggests) it is not necessary to make a simultaneous recording of the content,[147] thus the doctrine of **"**staple article of commerce" does not justify the defence that the P2P computer networking software product is "capable of substantial or commercially significant non-infringing uses".[148] The fact that the product is capable of being used for infringing activities is sufficient proof of constructive knowledge of such activity on the part of those who distribute or make available the product[149] and grant access to users the product to share sound recordings illegally. It should be noted that Groksters cases concern distributors and not ISPs.

In the *Sony* case, actual knowledge of infringement was deemed necessary. The court said that since videotape recorders were capable of commercially significant non-

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[145] See *AM Records Inc et al. v Napster Inc* II case supra at 1006 where the court made a distinction between the two products.
[146] Landau "Digital downloads, copy code, and US copyright law" at 11.
[147] *AM Records Inc et al. v Napster Inc* II case supra at 1006. Here, the court said that activities of Internet services that facilitate transmission and retention of digital audio files do not amount to mere space-shifting"
[148] See *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1160 for this defence.
[149] *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* III case supra at 2780.

infringing uses constructive knowledge of the infringing activity could not be imputed notwithstanding the fact that Sony knew that the recorders could generally be used for infringement.[150] In the *Grokster* cases, although the court did not make any categorical finding[151] in respect of the kind of knowledge required of an ISP in DP2P file-sharing, it is submitted that constructive knowledge of infringing acts would apply.[152] This is based on the premise that such an ISP does not store infringing files or indexes on its server but only provides the facilities for an access network; thus the ISP does not control the infringing files at server level but at transmission or access-network level. ISPs in DP2P file-sharing have the duty and ability to control access to their networks.

The court in *In re: Aimster Copyright Litigation* cautioned that a product that is capable of being used for non-infringing purposes is also capable of being put to infringing use. In *In re: Aimster Copyright Litigation* case[153] the court in re-evaluating the *Sony* case said that the provider of a service, unlike the seller of a product, has a continuing relation with its customers and therefore should be able to prevent or at least limit their infringing copyright by monitoring their use of the service. In the view of Ginsburg,[154] one might predict that "when a device facilitates infringements on a massive scale its distributor will likely be found to have intended that result"[155]

Notwithstanding the foregoing, it is submitted that the P2P computer networking software product is also capable of non-infringing use but this is on a small or minimal scale in contrast with the infringing capability.

(b) Capability of commercially significant infringing use

Concerning the second leg of the phrase, the court in *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II[156] case posed the question: "if the product in question is 'not capable of … commercially significant non-infringing uses' the rights-holder only has to prove that the indirect infringer had constructive knowledge of the infringement".[157] Given the reasons

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[150] *Sony Corporation of America et al. v Universal City Studios* supra at 777.
[151] The court's findings concerned the role of a software distributor which is not the same as that of an ISP unless the distributor carries out the functions of an ISP, as *Napster* did.
[152] It is noted that in *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1161- 1162, the court held that the software product was capable of substantial non-infringing uses while a contrary decision was held in *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* III case supra at 2778 and 2780.
[153] *In re: Aimster Copyright Litigation* at 648.
[154] Ginsburg "Copyright control v compensation" at 116.
[155] Ibid.
[156] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1161.
[157] Supra.

for the submissions earlier[158] that a P2P computer networking software product is more capable of infringing use than non-infringing use, same is equally submitted herein. Thus, the product is more capable of commercially significant infringing use than non-infringing use.

In *Sony Corporation of America et al v Universal City Studio,*[159] the court held that every commercial use of a copyrighted work is presumptively an unfair exploitation of the monopoly of privilege that belongs to the owner of the copyright while non-commercial uses are a different issue.[160] The court further said that if the intended use is for commercial gain, the likelihood may be presumed but if it is for non-commercial purpose, the likelihood must be demonstrated. It is not clear whether the court intentionally described the product as a copyrighted work instead of VTR. Nevertheless, it is presumed that the court, instead of referring to VTR as a product, referred to the copyrighted work in its decision[161] which seems to be erroneously used or better still, interchangeably used. However, notwithstanding the presumption that the court erroneously or interchangeably described the product, both subject matters shall be examined to be on the safe side.

Commercial use is described by the court in *AM Records Inc et al. v Napster Inc* II case,[162] by holding that direct economic benefit is not required to demonstrate a commercial use, rather, repeated and exploitative copying of copyrighted works, even if copies are not offered for sale may constitute commercial use.[163] Further, it was held that the uploading and downloading of digital audio files containing sound recordings -under the fair use concept- was commercial use. This is because it could save users the expense of purchasing authorized copies which could impair the market for the works by reducing sales and raising barrier to copyright owners' entry into the market for the digital downloading of sound recordings.[164]

According to the rule of commercial use laid down in *Sony Corporation of America et al. v Universal City Studio,*[165] and *AM Records Inc et al. v Napster Inc* II

[158] See para. 4.4.1.1 (a) of this study for the submissions.
[159] *Sony Corporation of America et al. v Universal City Studios* supra at 793.
[160] Supra.
[161] Supra.
[162] *AM Records Inc et al. v Napster Inc* II case supra at 1005.
[163] Supra.
[164] *AM Records Inc et al. v Napster Inc* II case supra at 1005.
[165] *Sony Corporation of America et al. v Universal City Studios* supra at 793.

case,[166] I submit that the use of DP2P software applications (or sound recordings) on a DP2P network by users is likely to be for commercial use. This is because the DP2P software application is freely and widely distributed by, and to users on the Internet with the ultimate aim of using the software to share sound recordings on DP2P networks. In the case of sound recording, it is freely and widely distributed on DP2P network amongst users with the aid of a DP2P software application. In interpreting the principle laid down in *Sony Corporation of America et al. v Universal City Studio* case with respect to the commercial use of copyrighted work,[167] it is noted that in DP2P networks, sound recordings cannot be shared without the use of DP2P software application (i.e. the product in issue), thus making DP2P software application likely to be for commercial use or gain.

Though the court in *Sony Corporation of America et al. v Universal City Studio* case held that every commercial use of copyrighted material is presumptive,[168] this study has, in the foregoing submissions, gone beyond presuming that the DP2P software application has a commercial use. It has examined the commercial use or gain in DP2P software applications (and sound recordings).[169] Essentially, the foregoing examination of DP2P software applications (which tilts in favour of rights-holders) in terms of commercial gain by users makes it difficult for users to demonstrate the non-commercial use of the distribution of DP2P software applications on a DP2P network. Equally, it is also difficult for ISPs to demonstrate the non-commercial use of sound recordings on ISPs networks with the aid of the DP2P software application (if the court actually meant to refer to copyrighted works).

In *Sony Corporation of America et al. v Universal City Studio*,[170] the court pronounced that where there is a challenge by a right holder on non-commercial use of a copyright work, it is required that a rights-holder proves either that the particular use is harmful or that if it should become widespread it would adversely affect the potential market for the copyrighted work. It is not necessary to prove actual harm nor is it necessary to establish with certainty that future harm will result.[171] In this case, most of the rights-holders claim of harm were speculative[172] or at best, minimal.[173]

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[166] *AM Records Inc et al. v Napster Inc* II case supra at 1005.
[167] *Sony Corporation of America et al. v Universal City Studios* supra at 793.
[168] Supra.
[169] Supra.
[170] Supra.
[171] Supra .
[172] Supra at 793 and 795 – 796.

In addition to the other[174] and foregoing submissions herein, free (i.e. without paying royalty to rights-holders) uploading and downloading of DP2P software applications (or sound recordings) through DP2P networks is sufficient to prove that these two subject matters save users the expense of purchasing DP2P software applications and sound recordings. Consequently, free uploading and downloading of the subject matters have impaired the market for the work by reducing sales and ultimately raising barrier to rights-holders to copyright in sound recordings. Accordingly, the free distribution of DP2P software applications and sound recordings on DP2P networks is not only widespread on the Internet (thereby affecting the potential market for sound recordings) but constitutes actual present harm and based on the preponderance of evidence of current distribution of the software application and sound recordings, future harm is likely.[175]

In *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case,[176] the court reiterated the District court's observation in *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* I case,[177] by saying that even if the software distributors closed their doors and deactivated all computers within their control, users of their products could continue sharing files with little or no interruption.[178] Further, the P2P computer networking software products in DP2P networks is capable of infringing uses whether or not the ISP takes reasonable care or steps to prevent harm.[179]

It is submitted that because the DP2P software applications in DP2P file-sharing entail meaningful likelihood of future harm and is capable of commercially significant infringing use, constructive knowledge is required. Further to this, it is safe to assume that, given their knowledge of the Internet, without which they could not operate an Internet business or function as ISPs, they know that the P2P computer networking software products are capable infringing use.[180]

The court in *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* III case[181] held that even if the absolute number of non-infringing files copied using the Grokster and

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[173] Supra at 795- 796.
[174] See also submissions in paras 2.3, 2.5.3.2, 2.7, 7.4.3, 7.4.4, 7.5 and 7.6 of this study on the risks or vulnerability of risks involving the use of Internet, DP2P networks and sound recordings generally.
[175] *Sony Corporation of America et al. v Universal City Studios* supra at 793 and 795- 796.
[176] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1163.
[177] Supra at 1041.
[178] Supra at 1163.
[179] *Sony Corporation of America et al. v Universal City Studios* supra at 775.
[180] See paras 2.3 and 2.7 of this study.
[181] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* III case at 2786.

Streamcast software was large it did not follow that the P2P computer networking software products were put to substantial non-infringing use and therefore renders the distributor immune from liability. The number of non-infringing copies may be reflective of and dwarfed by the total number of files shared.[182]

Although the court pointed out that an exact calculation of infringing use as a basis for a claim of damages is a subject of dispute it admitted that the *Grokster* case[183] was significantly different from the *Sony* case and that reliance on the latter case to rule in favour of the defendants – Streamcast and Grokster – was an error.

4.4.1.2 Constructive knowledge of infringing activity

It is important to note the concept of "rule of last opportunity" or "the last clear chance rule" which limits the availability of the defence to a claim against contributory negligence. This rule refers to the fact that an infringer had an opportunity to avoid causing harm but refused to use it.[184]

The level of knowledge is the standard of knowledge that an infringer is presumed to possess because of his or her circumstances and business activities in relation to the infringement.[185] In *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* III case,[186] the court held that "the record is replete with evidence that from the moment Grokster and Streamcast began to distribute their free software, each one clearly voiced the objective that recipients use it to download copyrighted works, and that each took active steps to encourage infringement". Similarly, in DP2P file-sharing, ISPs are presumed to have knowledge of infringement when they grant access to users.[187]

According to the court in *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case[188] there is only one criterion according to which constructive knowledge is determined: the plaintiff need show only the "capability of substantial or commercially significant infringing use". The test does not concern specific infringing files as would the test for actual knowledge, although knowledge of a specific infringing file is ultimately required in

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[182] Supra.
[183] Supra.
[184] Alheit *Issues of Civil Liability Arising from the Use of the Expert System* at 317..See also Beever *Rediscovering the Law of Negligence* at 117 and 341.
[185] Akester "A practical guide to digital copyright law" at 37.
[186] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* III case supra at 2772.
[187] See paras 2.3 and 2.7 of this study.
[188] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1161.

the proof of knowledge. In any case, courts generally expect claimants to prove the details of the infringement before any successful claim can be made. In the *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* III case,[189] the court held that a rights-holder must prove the exact calculation of the number or quantum of infringing use as a basis for damages.

In the *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case, it was held that the District Court had quite properly concluded that the software was capable of substantial and commercially significant non-infringing uses. Consequently, the court held that the *Sony* doctrine of "staple article of commerce" applied[190] in relation to the software distributor. However, it is submitted that the position of the District Court (in *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* I case) and Court of Appeal (in *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case) is not applicable to DP2P file-sharing. On appeal, in the *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* III case,[191] the court held that it was an error on the part of the lower courts to read broadly the *Sony* limitation and to give too much weight to the value of innovative technology and too little to copyrights infringed by users of their software. This is because the fact that a product is capable of substantial lawful use does not mean that the producer can never be held contributorily liable for third parties' infringing use of the product.[192]

The court's reasoning in *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* I case and *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case was a one-sided evaluation of the software product, finalised in favour of the software developer or distributor. The courts held that the software product is capable of substantial or commercially significant non-infringing uses in the *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case.[193]

The following aspects of the *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case[194] are noteworthy. The rights owners did not contradict the evidence of the software distributor that Wilco, one of the copyright owners, and thousands of other musical groups authorized *pro bono* distribution and downloading from the ISPs websites and through the networks of the ISPs.[195] The fact that this evidence was not contradicted was not enough to enable the court to imply that the other rights owners had consented to the free use of their

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[189] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* III case supra at 2782.
[190] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case at 1161–1162.
[191] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* III case at 2778.
[192] Supra.
[193] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1162.
[194] Supra at 1161
[195] Supra

works; indeed, had they all consented there would have been no plaintiff to launch the case! The P2P computer networking software product was used to share thousands of public-domain literary works made available through Project Gutenberg and the historic public-domain films released by the Prelinger Archive. Again, as large as these numbers were they were miniscule compared to the millions of literary texts and cinematograph films available in the world which are not in the public domain. The court found that some of the files shared were copyright works shared without authorization and that the copyright owners' assertion that the vast majority of files were exchanged illegally in violation of their copyright was not seriously contested by the software distributors.[196]

It is submitted that the courts' reasoning in *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* I case[197] and *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case[198] that the *Sony* case was applicable was premised on a hasty generalization, insufficient analysis, and misrepresentation of the statistics the plaintiff relied on. It is argued that the *Grokster* court foreclosed other possibilities which could promote or hinder the use of DP2P file-sharing in future. The court did not allow parties to carry out a detailed survey of the use of the P2P computer networking software product whereas the parties in *Sony* conducted surveys on the way the Sony Betamax machine was used by several hundred owners during a sample period in 1978. Although there were differences in the surveys, however, they both showed that the primary use of the machine for most owners was time-shifting.[199]

Before concluding the remarks on constructive knowledge, I shall consider an older American case relating to the kind of knowledge or liability expected in cases of indirect copyright infringement. In 1963 – long before even the *Sony* case – the court in *Shapiro Bernstein & Co et al v HL Green Company Inc & Jalen Amusement Company Inc*[200] made several pronouncements which are relevant to this study as follows:.

i. Indirect infringers are liable for infringement of phonograph record because of the close relationship between themselves and the direct infringers and the

[196] Supra at 1160.
[197] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* I case supra at 1036.
[198] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1162.
[199] See *Sony Corporation of America et al. v Universal City Studios* supra at 779.
[200] *Shapiro, Bernstein & Co et al. v HL Green Company Inc & Jalen Amusement Company Inc* supra at 304.

strong desire of the indirect infringers for the financial success of the infringing act.[201]

ii. It is not unusual to hold an indirect infringer liable even in the absence of an intention to infringe or of knowledge of the infringement.[202]

iii. Despite complaints about the harshness of the principle of strict liability in copyright law, the courts "have consistently refused to honor the defence of absence of knowledge or intention" because intellectual property would be valueless if infringers were insulated from damages.[203]

iv. Often a party "found strictly liable is in a position to police the conduct of the 'primary' infringer". Were courts to hold otherwise, indirect infringers could establish concessions and shield their own eyes "from the possibility of copyright infringement, thus creating a buffer against liability while reaping the proceeds of infringement".[204]

v. Indirect infringers are expected to make enquiries about the infringement of copyright before they can be exonerated of liability, otherwise the infringer, who has "an opportunity to guard against the infringement (by diligent inquiry), or at least the ability to guard against the infringement (by an indemnity agreement … and/or by insurance)", must suffer.[205]

vi. Indirect infringers should police carefully the conduct of their concessionaires, "thus placing responsibility where it can and should be effectively exercised".[206]

vii. "Even if a fairly constant system of surveillance is thought too burdensome, the indirect infringer is in the position to safeguard itself in a less arduous manner against liability resulting from the conduct of its concessionaires."[207]

In summary, it is submitted that the distinctions between the three *Grokster* cases and the *Sony* cases show that as regards DP2P file-sharing, copyright owners must prove constructive knowledge on the part of the ISP after having demonstrated the dual

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[201] Supra at 308.
[202] Supra.
[203] Supra.
[204] Supra at 309.
[205] Supra.
[206] Supra at 308.
[207] Supra at 309.

(infringing and non-infringing) uses of the software in question**.** In the most recent case, the court seems to suggest that constructive knowledge would be sufficient. In *London-Sire Records v Does*,[208] the court followed the *Hotaling v Church of Jesus Christ of Latter-Day Saints* decision[209] and held that "evidence and allegations taken altogether are sufficient to allow a statistically reasonable inference that at least one copyrighted work was downloaded at least once".[210]

4.4.1.3 Actual knowledge of infringing activity

Actual knowledge is direct and clear knowledge.[211] It is the opposite of constructive knowledge and does not presume any foreknowledge of infringement. Williams and Das[212] argue that to prove that a software program is used mainly for infringing purposes is difficult, thus the knowledge of infringement by ISPs must be actual. In pursuance of this, in *AM Records Inc et al. v Napster Inc* II case[213] and *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* I case,[214] the courts held that in the absence of any specific information which identifies infringing activity, a computer system operator cannot be liable for contributory infringement merely because the structure of the system allows for the exchange of copyrighted material.[215] [216] The court in *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* II case[217] said that:

> "if the product at issue *is* capable of substantial or commercially significant non-infringing uses, then the copyright owner must demonstrate that the defendant had 'reasonable' knowledge of 'specific' infringing files and failed to act on that knowledge to prevent infringement".

However in *AM Records Inc et al v Napster Inc* II case,[218] the court held that:

> "specifically, we reiterate that contributory liability may potentially be imposed only to the extent that Napster: 1) receives 'reasonable' knowledge of 'specific' infringing files with copyrighted musical compositions; 2) knows or should know that such files are available on

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[208] *London-Sire Records v Does* supra at 169 and 176.
[209] *Hotaling v Church of Jesus Christ of Latter-Day Saints* supra at 199.
[210] *London-Sire Records v Does* supra at 169 and 176.
[211] Garner (ed.) *Black's Law Dictionary* at 876.
[212] Williams and Das "Napster: Guilty of infringement" at 502.
[213] *AM Records Inc et al. v Napster Inc* II case supra at 1007.
[214] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* I case at 1036 -1037.
[215] Supra.
[216] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1164.
[217] Supra at 1161.
[218] *AM Records Inc et al. v Napster Inc* II case supra at 1027.

> the Napster system; and 3) fails to act to prevent viral distribution of the works."

The test for actual knowledge thus employs, in addition to the basic criterion regarding capability for non-infringing uses which also applies to constructive knowledge, two dependent criteria which are: "reasonable knowledge of specific infringing files" and "failure to act on that knowledge to prevent infringement". Actual knowledge on the part of ISPs is required by the phrase "specific infringing files". However, even if a rights-holder is unable to prove constructive knowledge against an ISP, the former must prove that the latter has actual knowledge of specific infringing files,[219]otherwise, no claim under contributory infringement will succeed.

The last requirement for actual knowledge is failure to act to prevent infringement. In *Shapiro Bernstein & Co et al v HL Green Company & Jalen Amusement Company Inc,*[220] the court held that the defendant was liable because it had not only refused to monitor the direct infringer but also failed to protect itself in a less-onerous manner from liability for the direct infringer's the conduct. In *In re: Aimster Copyright Litigation*,[221] the court declared that an ISP will be liable if it fails to act against copyright infringement unless it can demonstrate that reducing infringement would be disproportionately costly.[222] I submit that ISPs have not presented any cost analysis to the public or implemented control mechanisms; nor have they advanced a valid reason for their inability to prevent copyright infringement on their networks.

In relying on actual knowledge, ISPs can lay claim to the provisions of section 512(*m*) of the Copyright Act which excludes ISPs from monitoring their networks or "affirmatively seeking facts indicating infringing activity". However, in proving knowledge, if ISPs rely on actual knowledge or its limitation clause (by virtue of the protection under the limitation law) they should bear in mind that they are capable of "detecting" sound recordings in their networks without monitoring them.[223]

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[219] See para 2.7 of this study.
[220] *Shapiro, Bernstein & Co et al. v HL Green Company, Inc, & Jalen Amusement Company, Inc* supra at 309.
[221] In re: *Aimster Copyright Litigation* at 653.
[222] Supra.
[223] See para. 2.7 of this study.

4.4.1.4 The time at which knowledge of infringing activity is obtained

Having examined the level of knowledge required of ISPs under the rubrics of constructive knowledge and actual knowledge, I turn now to the criterion under which knowledge of infringing activity can be obtained by an ISP: the time knowledge of infringement of copyright by users. As it was held by the courts in *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* I case[224] and *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case,[225] the time at which such knowledge is obtained is significant.[226] Notice is relevant to establishing either type of knowledge and must therefore be served on an ISP by a rights-holder. It is also relevant because ISPs have the right and ability to stop the infringement complained of in the notice.

In *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case,[227] the court held that copyright owners are required to establish that software distributors had "specific knowledge of infringement" when they contributed to the infringement and failed to act on that information. The process of acquiring specific knowledge and not acting brings to the fore the significance of time as a determining factor. In *AM Records Inc v Napster Inc* II case,[228] the court also said that actual knowledge is obtained when a rights-holder gives the software distributor notice of infringement and information about files containing such infringed work available on the latter's system and that this notice must be given before the software distributor has "the duty to disable access to the offending content". All of this demonstrates that time of knowledge is significant in proving the type of knowledge of infringement required in proving liability.

Nevertheless, the courts in *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* I case,[229] and *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* II case,[230] held that in the case before it, notice of infringing conduct was irrelevant because Grokster did nothing to facilitate infringement (because he was a distributor) and could not have done anything to stop the alleged infringement of specific copyright content.[231] I submit that software

[224] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* I case supra at 1036.
[225] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1162.
[226] Supra.
[227] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case at 1162.
[228] *AM Records Inc et al. v Napster Inc* II case supra at 1027.
[229] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* I case at 1037.
[230] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case at 1162.
[231] Supra.

distributors, though arguably, do not need a notice because they do not have the same ability to control ISPs networks as ISPs do.[232]

Finally, whatever legal position an ISP may canvass or adopt, I submit that ISPs possess knowledge of infringement of copyright in sound recordings on DP2P networks, be it actual or constructive.[233]

4.4.2 Material contribution to the infringing activity by ISPs

Material contribution to the infringing activity is the third and last requirement for contributory infringement.[234] The ISP must have materially contributed to or induced the infringing conduct of the direct infringer.[235] An indirect infringer "contributes by personally furthering the infringement or engaging in some part of the infringing activity or by contributing facilities or a site for known infringing activity".[236] This seems to indicate strict liability. In the opinion of Von Lohmann,[237] the mere provision of the "site and facilities" to make infringement possible is not enough to make an infringer liable. It is submitted that simply providing the software or device is sufficient for contributory infringement in DP2P network.

Strict liability can also be inferred from the principle laid down in the *In re: Aimster Copyright Litigation* case.[238] In this case, it was held that the contributory infringer will be liable if "its ostrich-like refusal to discover the extent to which its system was being used to infringe copyright is merely another piece of evidence that it was a contributory infringer".[239]

When an ISP provides facilities for the transmission of sound recordings to users but is not vigilant about what happens in its network, it becomes a contributor to the infringement when uploading, transmitting or downloading occurs in its network. The cause of the infringement must be proximate in relation to the ISP,[240] however, not remote. In *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case,[241] for example, the court's

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[232] Supra.
[233] The basis of this submission is examined in the findings on DP2P networks, see para 2.7 of this study.
[234] See Von Lohmann "IAAL: What peer-to-peer developers need to know about copyright law" at 114.
[235] See *Lewis Galoob Toys Inc. v Nintendo of America Inc*. at 970; Mahony "United States" at 411.
[236] See Mahony "United States" at 411.
[237] Von Lohmann "IAAL: What peer-to-peer developers need to know about copyright law" at 114.
[238] *In re: Aimster Copyright Litigation* at 650 and 655.
[239] Supra at 655.
[240] "A proximate cause is a cause that directly produces an event and without which the event would not have occurred" Garner (ed.) *Black's Law Dictionary* at 213.
[241] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1163.

arguable finding was that because the software distributor did not provide the site and facilities for infringement its actions were too remote to constitute material contribution to the direct infringement. The court also said that the software distributor was not a true access provider because it did not have the ability to suspend user accounts.

Furthermore, in *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case,[242] there was also the failure on the part of the software distributor to alter the software located on the user's computer. It was concluded that the users of the software were the ones connecting to one another over the Internet, creating a network and providing the access.[243] It is submitted that a software distributor has the right and ability to upgrade his software on the network having realized that users were using it for infringing purposes. The upgrade can be done by developing a new version that will discourage infringement of copyright in sound recording that will prevent users from engaging in illegal sharing of sound recordings.

Although the court found that the cause of infringement was remote in the software distributor's case, the same cannot be said of the integrated or tripartite services (of centralized peer index, file index and content) rendered in the three *Napster* cases, a service that was the proximate cause of copyright infringement in that case. Therefore, it is submitted that an ISP which is a true access provider plays a fundamental role in DP2P file-sharing and if an infringement occurs on its network**,** he would be held liable. This is based on the substantial behaviour[244] of ISPs in terms of the neighbourhood principle[245] which is a sufficiently close relationship between ISPs and rights-holders in the online world. Finally, on the issue of proximate cause, which may consist in the provision of software or a device that makes infringement possible, I submit that an ISP that provides a site and the facilities for network access and infringement but does not prevent the infringement acts recklessly. In this way the ISP materially contributes to copyright infringement on its networks.

However, case law has generally intervened in favour of the technologists by widely protecting their devices.[246] In 1984, the court in the *Sony Corp of America v Universal City*

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[242] Supra.
[243] Supra.
[244] Supra.
[245] See Beever *Rediscovering the Law of Negligence* at 118 and para 7.2 of this study on the meaning of neighbourhood concept.
[246] See Von Lohmann "IAAL: What peer-to-peer developers need to know about copyright law" at 114.

Studios Inc case[247] held that the manufacturer of a device could not be held liable simply because the device was "capable of substantial non-infringing use".[248] The technology industry supports the upholding of the defence proffered in *Sony*, while copyright holders are of the view that liability should be predicated on the primary use of the device or technology. The technology industry believes that once a product is "merely capable" of substantial non-infringing use, the degree or extent of infringing or non-infringing uses it may turn out to have does not matter. Copyright holders, on the other hand, say that anyone who continues to distribute a product which is primarily used for infringement has contributorily infringed copyright.[249]

Finally, as regards contributory infringement, notwithstanding the foreclosure by the court in the *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case[250] of other possible uses of works in DP2P file-sharing, the court in "In re: *Aimster Copyright Litigation"* case[251] struck a balance between rights-holders and ISPs by recognizing infringing and non-infringing uses. It held that when a supplier makes available a product or service with both infringing and non-infringing uses some estimate of the respective magnitudes of these uses is important to making a finding of contributory infringement, and that the magnitude of the loss will be irrelevant in liability against an ISP.[252] The ISP will not be immune from liability for contributory infringement even if the product or service is used for both infringing and non-infringing purposes, since the ISP will be presumed to have had knowledge of both infringing and non-infringing use on its networks from the very beginning of its Internet operation.[253]

4.5 Vicarious infringement

Two other elements must be satisfied before an indirect infringer can be found vicariously liable. According to Mahony,[254] the allegation that ISPs exert control and enjoy financial benefit from the infringing activity are sufficient for a vicarious-infringement claim to be

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247 *Sony Corporation of America et al. v Universal City Studios* supra at 774.
248 Supra.
249 Von Lohmann "IAAL: What peer-to-peer developers need to know about copyright law" at 115.
250 *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1160–1163. See also the discussion of constructive knowledge in para. 4.4.1.2.
251 In re: *Aimster Copyright Litigation* case supra at 653.
252 Supra.
253 Supra at 651.
254 Mahony "United States" at 412.

accepted by a court.[255] In *Fonovisa Inc v Cherry Auction Inc.*,[256] the court mentioned these two elements in making a distinction between vicarious and contributory infringements. Liability for vicarious infringement is a strong incentive for ISPs to supervise the behaviour of users. According to Mahony,[257] liability would follow notwithstanding the fact that there is no employer–employee relationship between the indirect and direct defendants and that the indirect defendant does not actually know that the infringement is taking place.

4.5.1 The right and ability of ISPs to control infringing activities

The duty of ISPs to control infringing activities in their networks and systems are based on the "dance hall operator" principle[258] in terms of which the operator is entitled and deemed be able to supervise the conduct of the dancers or service users and held liable for their infringements.

Whether ISPs possess the right and ability to supervise their networks as regards DP2P file-sharing will be considered in the light of case law. US case law recognizes the relationship between an ISP and the direct infringer in terms of the formal licensing agreement between ISP and the regulatory authorities which gives the ISP the right to block infringers' access for infringement of copyright and contravention of the agreement. In *Shapiro*,[259] the court held that indirect infringers should carefully police the conduct of their concessionaires, "thus placing responsibility where it can and should be effectively exercised". This position is based on the principle of an underlying neighbourhood or sufficiently close relationship[260] on the Internet between the ISP and the user, on the one hand, and the relationship between the ISP and the rights owner, on the other. Essentially, an ISP is expected to provide a caveat for users' attention before granting access on the Internet on the need to refrain from infringing activities. Furthermore, the court in the *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case[261] held that indirect infringers

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[255] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case at 1156. See also Dixon "Liability of users and third parties for copyright infringement on the Internet: Overview of international developments" at 15.
[256] *Fonovisa Inc v Cherry Auction Inc* supra at 259.
[257] Mahony "United States" at 410–411.
[258] See *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1164.
[259] *Shapiro, Bernstein & Co et al. v HL Green Company Inc & Jalen Amusement Company Inc* supra at 308.
[260] Beever *Rediscovering the Law of Negligence* at 118.
[261] Ibid. at 1166.

have an obligation to exercise their policing powers to the fullest extent which in the second *Napster* case[262] included the implementation of new filtering mechanisms.

The agreement between an ISP and its user is an important determinant of their relationship. Although *AM Records Inc et al v Napster Inc*[263] concerned a CP2P system, it is important to compare it with the *Grokster* (which concerned a DP2P system). Napster – as both ISP and software distributor – controlled the central indices of files and users were required to register before being bound contractually. Perhaps because of the centralization of the file indices, Napster had an express policy reserving its right to block infringers' access for any reason.[264] The reservation of the right was premised on the neighbourhood principle. Thus Napster had the right to control and supervise its network.

On the other hand, in the -*Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case,[265] the court held that, although Grokster had freely distributed software that allowed users to share files, there was no evidence to show that software distributors were able to block individual users' access to the Internet. Grokster's agreement with Kazaa/Sharman did not confer on Grokster the right or ability to shut down the root nodes because of the relationship, which is different from the relationship that existed in *Napster*. Grokster was described as only having "nominal reservation of right to terminate access"[266] as a software distributor since it did not register users nor were users required to follow any login process. Therefore, the court said that there was no right or ability on the part of the software distributor to terminate users' access because the relationship was not like that between an ISP and a user. The court also held that Grokster would not have been able to undertake a mandatory upgrade of the software or make any IP-address-blocking attempts[267] because Grokster did not have access to the hardware involved in the transmissions. These ratios are contested below.

I submit that the findings of the court on these ratios above in the *Grokster* case are fallacious. Firstly, the fact that Grokster distributed the software meant that the software could have been upgraded by developing an advanced version of the software that will not match the old version in terms of operation or by creating technical protection or security

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[262] *AM Records Inc et al. v Napster Inc* III case supra at 1098.
[263] *AM Records Inc et al. v Napster Inc* II case supra at 1023.
[264] *AM Records Inc et al. v Napster Inc* II case supra at 1023; *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1165.
[265] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1154.
[266] Supra at 1165.
[267] Supra.

measures on the existing one that could prevent users from having access if users infringe copyright. This explanation impliedly means that Grokster had the right or ability to terminate users' access. Secondly, Grokster could have issued a caveat to the effect that future transactions using the old software would not be supported. Lastly, ISPs could have collaborated in granting further access only to users through the upgraded software.

ISPs own and control the facilities – the hardware[268] – even though they do not supply or distribute the software. Both hardware and software are necessary for any activity in the electronic or digital world. The close relationship between an ISP and copyright holders cannot be denied. Consequently, any adverse activity carried out by the ISP would affect the rights-holders.

Given the influential position ISPs occupy by providing access to DP2P file-sharing networks, it is submitted that a reasonably standard of care is expected of ISPs when they deal with the works of copyrights owners ,more particularly sound recordings by virtue of the fact that they have the right and ability to control and supervise what passes through their networks. Copyright rights-holders have argued that technical protection measures[269] to protect sound recordings should be installed by the ISPs. [270] By implication, according to Mee and Watters,[271] the standard of care expected of an ISP should not be less than that of strict liability.

In this regard, a *prima facie* case can be made against an ISP if it has the ability to control infringing acts and the ISP fails to implement filtering technology that can identify unauthorized files for sharing.[272] For instance, in the first *Napster* case[273] the court pointed out that the ability to terminate the subscription of a user or block access to the system constituted "control", an assessment in keeping with the "dance hall operator" principle. Thus, if it is irrebuttable that ISPs possess the expertise to provide the technical facilities in the first place, it is inconceivable that they do not also have the ability to control traffic

[268] See Strowel and Hanley "Secondary liability for copyright infringement with regard to hyperlinks" at 102.
[269] See section 512(*i*)(2) of Copyright Act on the definition of TPM.
[270] See Johnson C and Walworth D J "Protecting U.S. intellectual property rights and the challenges of digital piracy"
[271] Ibid.
[272] See Von Lohmann "IAAL: What peer-to-peer developers need to know about copyright law" at 116.
[273] *AM Records Inc et al. v Napster Inc* II case supra at 1023.

on their networks. By extension, it is submitted that ISPs have the right and ability to control infringing acts in DP2P networks.[274]

4.5.2 Direct financial benefit to the ISP of the infringing activity

In the opinion of Mahony,[275] a copyright owner must show that the indirect infringer exercises sufficient control over the direct infringer's activities and receives financial benefit from the infringement. This imposes liability on ISPs that are in a sufficiently supervisory position in relation to the direct infringer.[276] Vicarious infringement occurs when one party profits from direct infringement by others and refuses to stop or limit the infringement[277] or when an ISP had control over and derived direct pecuniary benefit from the direct infringement of a work by a third party.[278] It is premised on the same legal principle in the law of tort that holds an employer liable for the actions of its employees.[279]

In the historic case establishing the principles of DP2P file-sharing – *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* I case[280] – a defendant must have a direct financial interest in the infringing activity. Financial benefit may be shown "where infringing performances enhance the attractiveness of the venue to potential customers".[281] Further, financial benefit exists where the availability of infringing material 'acts' as a 'draw' for customers. The court concluded [282] that trading in copyrighted songs and other copyrighted works certainly draw many users to defendant's software and that individuals are attracted to defendant's software because of the ability to acquire copyrighted material free of charge.

In the *AM Records Inc et al. v Napster Inc* II case,[283] the court found that customers were drawn to the available infringing materials and to the growing user base which made both the software distributor and the ISP attractive to investors and users.[284] The ISP then

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[274] See para. 2.7 of this study.
[275] Mahony "United States" at 410.
[276] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1164.
[277] See Von Lohmann "IAAL: What peer-to-peer developers need to know about copyright law" at 115; *Shapiro, Bernstein & Co et al. v HL Green Company Inc & Jalen Amusement Company Inc* supra at 308.
[278] Baumer et al. "Napster, Gnutella, Kazaa and beyond" at 135.
[279] Von Lohmann "IAAL: What peer-to-peer developers need to know about copyright law" at 115.
[280] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* I case supra at 1043.
[281] Supra.
[282] Supra at 1034-1044.
[283] *AM Records Inc et al. v Napster Inc* II case supra at 1023.
[284] Supra ;See also Von Lohmann "IAAL: What peer-to-peer developers need to know about copyright law" at 115.

benefits directly from advertising revenue[285] and gains from the subscriptions of users who are registered with it. In view of this decisions in *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* I case[286] and *AM Records Inc et al. v Napster Inc* II case,[287] ISPs can be liable for vicarious infringement even if they lack knowledge of the infringing activity.[288]

Section 101 of US Copyright Act, as amended by the No Electronic Theft Act, defines "financial gain" as including "receipt, or expectation of receipt, of anything of value, including the receipt of other copyrighted works".

Economists believe that individuals only engage in activities that provide a positive expected return.[289] ISPs thus grant users access to systems that share sound recordings in exchange for some benefits. One such benefit is the increased bandwidth that is required by a user to share sound recordings, thus, increasing the users bandwidth use.

4.6 Inducing infringement

Inducing infringement is a new test, and head of claim used in US courts in cases of alleged copyright infringement, particularly those in which parties intentionally induced violation of copyright.[290] In the *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* III *r* case,[291] the court held that the inducement rule is a sensible one as regards copyright, saying that "one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or 'other affirmative steps taken to foster infringement', is liable for the resulting acts of infringement by third parties using the device regardless of the device's lawful uses".[292]

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285 *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1164.
286 *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* I case supra at 1043.
287 *AM Records Inc et al. v Napster Inc* II case supra at 1023.
288 See also Von Lohmann "IAAL: What peer-to-peer developers need to know about copyright law" at 115.
289 See Cooter and Ulen *Law and Economics* at 16; Thomas "Vanquishing copyright pirates and patent trills: The divergent evolution of copyright and patent laws" at 701; Landau "Digital downloads, copy code, and US copyright law" at 8.
290 See Daly "Life after *Grokster*" at 320; Dixon "Liability of users and third parties for copyright infringement on the Internet" at 15–16.
291 *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* III case supra at 2780.
292 Supra. See also *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II supra at 1166. Austin "Global networks and domestic laws: Some private international law issues arising from Australian and US liability theories" at 140 argues the viability of inducement to infringe copyright in a P2P context.

The inducement rule "premises liability on purposeful, culpable expression and conduct and does nothing to compromise legitimate commerce or discourage innovation with a lawful premise".[293]

4.6.1 Affirmative act by the ISP to facilitate infringing activity

"Mere knowledge" of infringing potential or of actual infringing use is not enough to make a defendant liable nor are "ordinary acts" incidental to product distribution, such as offering customers technical support or product updates.[294] Affirmative steps may consist of advertisements to encourage infringing uses, instructing users on how to use the infringing product,[295] offering customer support or any other step that "entices or persuades" a user to commit infringement and so on. Such steps could also include promotional strategies aimed at attracting users to one's product.[296]

From the operation of the software application in DP2P networks, it is clear that ISPs do not engage or get involved in all the specific instances or activities mentioned above, except where they expressly mention the activities as a promotional approach in terms of the ISPs' provision of access to users for file-sharing purposes because ordinarily they only provide access to the network. However, according to Von Lohmann,[297] the infringer must have made statements or "taken other active steps" to encourage infringing uses. The expression "taken other active steps" is useful in examining the liability of an ISP for the infringement of copyright. In *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* III case,[298] the court held that proving that a message had been sent out is the pre-eminent but not exclusive way of showing that active steps were taken with the purpose of bringing about the infringing acts and of showing that infringing acts took place.

As regards the liability of ISPs in DP2P networks, the active step is unlike the step taken by software distributors. The court in *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* III case held that the defendants took steps by aiming to satisfy a known source of demand for copyright infringement, i.e. the market comprising former Napster users; that neither defendants attempted to develop filtering tools or other mechanisms to diminish the

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[293] Dixon "Liability of users and third parties for copyright infringement on the Internet" at 35–36.
[294] Ibid.
[295] See *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* III case supra at 2768.
[296] Von Lohmann "IAAL: What peer-to-peer developers need to know about copyright law" at 113.
[297] Ibid.
[298] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* III case supra at 2781.

infringing activity for which their software was used and that Grokster and Streamcast made money from selling advertising space essentially on the screens of computers using their software.[299]

Networks can be designed in such a way that users' access to the network for the purpose of accessing sound recordings that do not originate from a legal website can be blocked in furtherance of ISPs' duty to "detect" infringing sound recordings[300] without infringing users' right to privacy.

In *Shapiro,*[301] the court held that an indirect infringer should police carefully the conduct of its concessionaires, "thus placing responsibility where it can and should be effectively exercised". Failure to police in this way would amount to sanctioning, approving or affirming the act or conduct of the direct infringer. The court said that an indirect infringer should endeavour to protect itself in a less difficult situation than it has found itself against liability resulting from the conduct of the direct infringer when a moderately regular system of monitoring is seen by an indirect defendant to be too difficult to achieve.[302]

The court in *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* III case[303] held that in terms of the inducement theory there must be evidence of actual infringement by recipients of the device or, as in this case, the DP2P software application, and found evidence of infringement on a gigantic scale.[304]

Finally, an ISP's turning a blind eye to the infringing acts committed on its system or networks is sufficient to prove that the ISP endorses those acts, particularly when one considers the ISP's role as gatekeeper or "dance hall operator". Unless the ISP can show that it has made reasonable efforts not to engage in any affirmative act to facilitate infringing activity on the Internet, it will be assumed to have actively and knowingly aided and abetted online direct infringement by its users.

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[299] In *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* III case supra at 2781, the court held that the defendants took steps by aiming to satisfy a known source of demand for copyright infringement, i.e. the market comprising former Napster users; that neither defendants attempted to develop filtering tools or other mechanisms to diminish the infringing activity for which their software was used and that Grokster and Streamcast (two of the defendants**)** made money from selling advertising space essentially on the screens of computers using their software.

[300] See para. 2.7 regarding the detection of sound recordings on the Internet.

[301] *Shapiro, Bernstein & Co et al. v HL Green Company Inc & Jalen Amusement Company Inc* supra at 308.

[302] Supra at 309.

[303] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* III case supra at 2782.

[304] Supra.

4.6.2 Intent to facilitate infringing activity

Courts normally allow rights owners to show infringement by means of circumstantial evidence. A rights-holder could use one or more of the following to furnish circumstantial evidence: facts pointing to how a company or specifically the infringing ISP generates income; whether the infringer could have modified the software to reduce infringing acts; whether the infringing ISP was making an effort to invite or attract users.[305] In the course of the proceedings, a claimant could take advantage of a "discovery" method[306] to search a company or individual e-mails or other documents or interview potential witnesses under oath so as to prove intent.[307]

In the *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* III case,[308] the court held that the defendants had taken steps by aiming to satisfy a known source of demand for copyright infringement, namely the market comprising former Napster users; that they had made no attempt to develop filtering tools or other mechanisms to diminish the infringing activity using their software; and that Grokster and Streamcast (amongst others) made money by selling advertising space for advertisements directed to the screens of computers employing their software. Further, part of the court's finding was that Streamcast had not only rejected a company's offer to help monitor infringement but also blocked third-party filters or the Internet protocol addresses of such infringing companies. [309] These acts prove intent.

Some ISPs have devised a means whereby downloading of a sound recording takes a longer time than and the packet downloaded is disjointedly assembled, reducing the quality of the sound recording downloaded.[310] The Recording Industry Association of America (RIAA) has announced a new strategy to curtail online copyright infringement by passing a "notice of detection" to users;[311] ISPs and the Federal Communications Commission have embraced filtering. Human-rights groups hope that arrangements between the RIAA and ISPs will not involve invasion of users' privacy through the filtering of Internet content.[312]

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[305] Von Lohmann "IAAL: What peer-to-peer developers need to know about copyright law" at 113.
[306] This is a process that compels an adversary or a witness to disclose further information in pursuance of a just decision in litigation.
[307] Von Lohmann "IAAL: What peer-to-peer developers need to know about copyright law" at 113.
[308] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* III case supra at 2781–2782.
[309] Supra at 2774. See Ginsburg "Copyright control v compensation" at 114.
[310] CBCNews "ISPs limit access to CBC download, users say" at 1.
[311] See Kravets "No ISP filtering under new RIAA copyright strategy".
[312] Ibid.

ISPs should become suspicious of users in DP2P networks when users only upload and download without requesting sound recordings from ISPs and as such the ISPs open the gate for all users which render the network an "all-comers" affair. Therefore, intent to invite and attract users would be formed if an ISP does not act prudent and reasonably in taking precautions to *filter* the infringing works from such a growing user base.[313]

Finally, as regards intent, although the court in the *Metro-Goldwyn-Mayer v Grokster Ltd* II case subsumed inducement theory in vicarious infringement it commented that:

> "the role of the software distributor is important: if the software distributor had a right and ability to control and supervise, that they proactively refused to exercise such refusal would not absolve them of liability".[314]

The court in *Shapiro Bernstein & Co. v HL Green Company Inc & Jalen Amusement Company*[315] has been able to explain the reason behind the requirement of intent. This requirement seems loose, broad, harsh and unfavourable to ISPs. In this case,[316] the court held that it is not unlawful to impose liability on an indirect infringer even in the absence of an intention to infringe or of knowledge of the infringement. The court also said that courts had consistently refused to honour the defence of lack of knowledge or intention because intellectual property would be rendered valueless were infringers indemnified against damages.[317]

Since ISPs have a right and the ability to control and supervise their networks but refuse to exercise the right their refusal does not absolve them of liability. Thus, turning a blind eye to infringement amounts to consent.[318] According to the court in *In Re: Aimster Copyright Litigation*,[319] "wilful blindness is knowledge" that is sufficient for the ISP to have known of the direct infringement. Therefore, following the ratio of the court in the *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case[320] and given the nature of DP2P technology, I submit that ISPs have the intent to facilitate infringing activity in DP2P network.

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313 See the submissions on the detection of infringing files at para. 2.7 of this study.
314 *Metro-Goldwyn-Mayer v Grokster Ltd* II case supra at 1166.
315 Supra.
316 *Shapiro, Bernstein & Co et al. v HL Green Company Inc & Jalen Amusement Company Inc* supra at 308.
317 Supra.
318 The concept of blind eye was stated in *Grokster II* case at 1166 where, as mentioned, the court subsumed it into vicarious liability.
319 *In Re: Aimster Copyright Litigation* at 650.
320 *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1166.

4.7 The Digital Millennium Copyright Act and limitation of ISP liability in DP2P file-sharing

The Digital Millennium Copyright Act (DMCA) was enacted in 1998 two years after the WIPO Internet treaties WIPO Copyright Treaty "WCT" and WIPO Producers and Performers Treaty "WPPT") were adopted in the wake of uncontrollable copyright infringements on the Internet so as to limit the liability of ISPs under the title "Limitations on liability relating to material online". **S**ection 202 of the DMCA inserts section 512 into the Copyright Act. Before the enactment of the DMCA there was no legislation in the United States designed to limit the liability of indirect infringers.

The DMCA amended US copyright law to enable the USA to ratify the WCT and WPPT.[321] The Act's limitation clauses are premised on the belief that ISPs do not have this right/ability, or even more simply that effect of the limitation clauses is to remove this right/ability. The limitation clauses seek to protect ISPs from copyright owners who produce the works for transmission by ISPs.

4.7.1 The duty of ISPs to detect unlawful activity on the Internet

Further to the arguments on the right and ability of ISPs to "detect" illegal sound recordings on their networks,[322] it is submitted that no US law exempts ISPs from the duty to filter, identify or detect sound recordings on their networks. However, the Copyright Act provides for the exemption of ISPs from the duty to monitor their networks.

In terms of section 512(*m*)(1), read with in section 512(*a*) to (*d*), of the Copyright Act – ISPs are excluded from monitoring their services or affirmatively seeking facts indicating infringing activity, except to the extent consistent with a standard technical measure[323] complying with the provisions of section 512(*i*). Section 512(*i*) concerns the conditions for eligibility for the accommodation of technology.

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[321] See Oktay and Wrenn "A look at the notice-takedown provisions of the US Digital Millennium Copyright Act one year after enactment" at 1.

[322] See para. 2.7 of this study.

[323] "Standard technical measures" are defined in section 512(*i*)(2) as "technical measures that are used by copyright owners to identify or protect copyright works" that must fulfil three requirements. First, the technical measures must "have been developed pursuant to a broad consensus of copyright owners and service providers in an open, fair, voluntary, multi-industry standards process" (section 512(*i*)(2)(A)). Secondly, they must be available "to any person on reasonable and non-discriminatory terms" (section 512(*i*)(2)(B)). Finally, they must not "impose substantial costs on service providers or substantial burdens on their systems or networks" (section 512(*i*)(2)(C)).

Further, section 512(*m*)(2) states that:

> "nothing in section 512 "shall be construed to condition the applicability of [section 512(*a*) to (*d*)] on … a service provider gaining access to, removing, or disabling access to material in cases in which such conduct is prohibited by law".

It reiterates the earlier submission that ISPs do not have a duty to monitor unlawful activity on the Internet.

4.7.2 Basic requirements for the limitation of liability of ISPs

For an ISP to take advantage of the limitation clause it must comply with section 512(*i*)(1) and 512(*i*)(2) of the US Copyright Act. Section 512(*i*)(1) sets out two conditions on which the limitation on liability applies to an ISP. First, the ISP must have "adopted and reasonably implemented", and must inform subscribers and account holders of its system or network, of "a policy that provides for the termination in appropriate circumstances of subscribers and account holders of the service provider's system or network who are repeat infringers".[324]

Secondly, the ISP must accommodate and not interfere with standard technical measures.[325] However, section 512(*a*) does not make it mandatory for ISPs to install a technical protection measure[326] instead; it makes it an offence for anyone who distributes a circumventive measure to neutralize a TPM**.** It would have been more logical to assign a duty to install a TPM by ISPs initiated by rights holders.

4.7.3 Primary conditions for limiting the liability of ISPs as mere conduits

Section 512(*a*) of the Copyright Act stipulates that:

> "A service provider shall not be liable for monetary relief, or, except as provided in [section 512(*j*)], for injunctive or other equitable relief, for infringement of copyright by reason of the [ISP's] transmitting, routing, or providing connections for, material through a system or network controlled or operated by or for the service provider, or by reason of the intermediate and transient storage of that material in the course of such transmitting, routing, or providing connections, if –

[324] Section 512(*i*)(1)(A) of the US Copyright Act.
[325] Section 512(*i*)(1)(B).
[326] These terms are used as they are written in the Copyright Act.

(1) the transmission of the material was initiated by or at the direction of a person other than the service provider;

(2) the transmission, routing, provision of connections, or storage is carried out through an automatic technical process without selection of the material by the service provider;

(3) the service provider does not select the recipients of the material except as an automatic response to the request of another person;

(4) no copy of the material made by the service provider in the course of such intermediate or transient storage is maintained on the system or network in a manner ordinarily accessible to anyone other than anticipated recipients, and no such copy is maintained on the system or network in a manner ordinarily accessible to such anticipated recipients for a longer period than is reasonably necessary for the transmission, routing, or provision of connections; and

(5) the material is transmitted through the system or network without modification of its content".

In addition, although section 512(*a*) does not stipulate this, it is implied that in terms of section 512(*l*) ISPs are at liberty to consider other defences not covered in section 512. In essence, an ISP can raise as many defences as possible in order to enjoy the immunity provided under this section.

4.7.4 Specific provision relating to the liability of non-profit educational institutions

In addition to the four limitations created in section 512(*a*) to (*d*), section 512(*e*) limits the liability of non-profit educational institutions for the infringing acts of their faculty members and graduate students, which acts might otherwise have been imputed to the institutions as employers and prevented them from benefiting from the mere-conduit, system-caching or host limitations.[327]

[327] Oktay and Wrenn "A look at the notice-takedown provisions of the US Digital Millennium Copyright Act one year after enactment" at 7.

4.7.5 Take-down notice by the rights-holder

The take-down notice is one of the most controversial innovations introduced by the DMCA. However, it is a quick and inexpensive procedure that allows rights-holders to have infringing material removed from the network.[328]

4.7.5.1 Designation of an agent

Although section 512(*c*)(2) provides for the role of a designated agent with regard to the hosting function of ISPs, there is no such provision relating to the mere-conduit function of ISPs in section 512(*a*). This was pointed out by Oktay and Wrenn[329] in their examination of the role of designated agents, although they seem to include caching and linking limitations as being covered under section 512(*c*)(2). In this regard, it is submitted that section 512(*c*)(2) is not applicable to other limitations, except that of hosting, expressly stated therein.

4.7.5.2 Notification

Copyright holders must give full details of the infringement when they make claims of copyright infringement, especially one for damages. The notification which must contain: the following gives further details on an ISP's claim:

(a) A physical or electronic signature of a person authorized to act on behalf of the copyright owner or exclusive licensee.

(b) Identification of the copyrighted work claimed to be *infringed*. If a notice refers to multiple works posted at a single location, it is sufficient to include a representative list of works infringed at the site.

(c) Identification of the material claimed to be *infringing* together with "information reasonably sufficient to permit the service provider to locate the material." For purposes of the information location tools limitation, the notification must also identify the reference or link to the material or activity claimed to be infringing and information "reasonably sufficient" to permit the service provider to locate the reference or link.

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[328] Romero "Internet service providers' liability for online copyright infringement: The US approach" at 209.

[329] "A look at the notice-takedown provisions of the US Digital Millennium Copyright Act one year after enactment" at 4.

(d) Information "reasonably sufficient" to permit the service provider to contact the complaining party. Such information may include the complaining party's address, telephone, or email address.

(e) A statement that the complaining party believes, in good faith, that the copyrighted material identified is being used in a manner that is not authorized by "the copyright owner, its agent, or the law." and

(f) A statement that the information in the notification is accurate, and under penalty of perjury, that the complaining party is authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.[330]

Although Oktay and Wrenn[331] argue that the Copyright Act merely requires substantial compliance, which implies that not all of these six requirements need be met, I submit that in the interests of justice a rights-holder is not permitted to gamble with other people's rights by alleging a claim that cannot be substantiated. If Oktay and Wrenn's argument is "correct", the essence of the statements regarding good faith and perjury would seem ineffective in the provision. Essentially, the word "substantial" must be read in conjunction with the main particulars necessary for a claim to succeed and with the overall intent of the DMCA.

4.7.5.3 "Counter notification"

Like take-down notices, a counter-notice must meet certain requirements. It must include

(a) A physical or electronic signature of the alleged infringer;

(b) Identification of the material that was removed or disabled by the service provider and the location where the material appeared before it was removed or access to it was disabled;

(c) A statement under penalty of perjury that the alleged infringer has a good faith belief that the material at issue was mistakenly removed or misidentified; and

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[330] Oktay and Wrenn "A look at the notice-takedown provisions of the US Digital Millennium Copyright Act one year after enactment" at 5.

[331] Ibid.

(d) The alleged infringer's name, address, and telephone number and a statement that the alleged infringer consents to the jurisdiction of the federal district court for the judicial district in which the address it provides is located and that it will accept service of process from the person who provided the original notification. If the alleged infringer is located outside the United States, the alleged infringer must include a statement that it consents to the jurisdiction of any U.S. federal district court in which the service provider may be found.[332]

Oktay and Wrenn[333] posit that these requirements need only be substantially met.[334]

4.7.5.4 Protection of ISPs from misrepresentation in notifications and counter-notifications

To reduce the likelihood of fraudulent notifications or counter-notifications, both complainants and alleged infringers may be subject to liability for copyright infringement if they materially misrepresent facts in their notices.[335]

4.7.5.5 Protection of ISPs when removing or disabling access to materials believed to be infringing

Pursuant to the creation in section 512(*f*) of the Copyright Act of liability arising from the material misrepresentation of facts, section 512(*g*)(1) generally exonerates ISPs from liability "to any person for any claim based on the [ISP's] good faith disabling of access to, or removal of, material or activity claimed to be infringing or based on facts or circumstances from which infringing activity is apparent, regardless of whether the material or activity is ultimately determined to be infringing".[336]

Generally, an ISP who has met the threshold requirements may be protected from being held liable for a legal claim (for instance a claim of infringement of rights to privacy) made by a user or person whose material has been removed or access disabled when the ISP acts in good faith on its own initiative (even when notification has not been submitted)

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[332] Ibid.
[333] Ibid.
[334] See also para. 4.7.4.2. of this study.
[335] See section 512(*f*)(1) and (2) of the Copyright Act. See also Oktay and Wrenn "A look at the notice-takedown provisions of the US Digital Millennium Copyright Act one year after enactment" at 6.
[336] This exemption is subject to section 512(*g*)(2). See section 512(*g*)(2) and 512(*g*)(3).

or in response to a user's or third party's complaints to remove or disable access to content believed to be infringing. This exemption is applicable to any claim made against an ISP for removing or blocking access to content, including tort or breach-of-contract claims.[337]

4.7.5.6 Subpoena to identify infringers

Section 512(*h*)(1) of the Copyright Act provides for the identification of an alleged infringer by permitting "A copyright owner or a person authorized to act on the owner's behalf [to] request the clerk of any United States district court to issue a subpoena to a service provider for identification of an alleged infringer". Each request must include a copy of the notification of infringement of copyright a proposed subpoena and a sworn affidavit stating that the rights-holder would use the information obtained by means of the subpoena only for protecting his or her rights under the Act.[338]

The procedure to be followed for the issuing of these subpoenas are set out in the Federal Rules of Civil Procedure. Subpoenas appear easy to obtain in view of the fact that there is no provision for judicial assessment of the merits of the claim in respect of which the subpoenas are sought. Once a take-down notice is issued, obtaining a subpoena is a formality.[339] When an ISP receives the subpoena, the information required must be expeditiously disclosed regardless of any other law.[340]

Some courts have expressed doubts in granting these subpoenas. The courts in *RIAA v Verizon Internet Services Inc.*[341] and *In re Charter Communications*[342] held that the DMCA's safe-harbour regime was meant to address a technological infrastructure and did not apply to P2P technology. Further, both courts concluded that P2P architecture might require a new balance of interest among right holders and a change in the law to accommodate the relevant conflicting interests among right holders, ISPs and users. The rationale of the courts suggests that the DMCA – and its safe harbour – is no longer

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337 Oktay and Wrenn "A look at the notice-takedown provisions of the US Digital Millennium Copyright Act one year after enactment" at 6.
338 Section 512(*h*)(2).
339 Romero "Internet service providers' liability for online copyright infringement: The US approach" at 211.
340 Oktay and Wrenn "A look at the notice-takedown provisions of the US Digital Millennium Copyright Act one year after enactment" at 6.
341 *RIAA v Verizon Internet Services Inc* supra at 1237–1238.
342 *In re Charter Communications* at 777.

applicable to ISPs; therefore, ISPs may encounter unlimited liability for infringing copies on P2P networks.[343]

4.7.5.7 Limited injunctive relief available against ISPs

The DMCA provides limited injunctive relief against ISPs who comply with the requirements of that Act to deny access to infringers and block infringing content in the US and abroad. Basically, a court may grant only three forms of equitable relief:[344]

1. an order restraining the ISP from "providing access to infringing material or activity residing at a particular online site on the provider's system or network"
2. an order requiring that a particular user's account be terminated so that access to the system or network is denied
3. other injunctive relief the court may deem necessary to prevent or restrain infringement of specific copyright material at a particular online location.

In contrast, a court may order an ISP whose liability is otherwise limited under the mere-conduit limitation not to provide access to the subscriber or account holder using the ISP's services to engage in infringing activity. This provision (i.e. section 512(*j*))(1)(A) of the Copyright Act) is important for copyright owners because it categorically authorizes court to compel service providers who are subject to the jurisdiction of the USA to block access to content which would be infringing under US law, even if that the content is located in a country in which it may not be regarded as infringing.[345]

In considering injunctive relief, the court must weigh the factors set out in section 512(*j*)(2):

> (A) whether such an injunction, either alone or in combination with other such injunctions issued against the same service provider under this subsection, would significantly burden either the provider or the operation of the provider's system or network;

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[343] Elkin-Koren "Making technology visible: Liability of Internet service providers in peer-to-peer traffic" at 18.

[344] Section 512(*j*)(1)(A) of the Copyright Act. See also Oktay and Wrenn "A look at the notice-takedown provisions of the US Digital Millennium Copyright Act one year after enactment" at 7.

[345] Oktay and Wrenn "A look at the notice-takedown provisions of the US Digital Millennium Copyright Act one year after enactment" at 7.

(B) the magnitude of the harm likely to be suffered by the copyright owner in the digital network environment if steps are not taken to prevent or restrain the infringement;

(C) whether implementation of such an injunction would be technically feasible and effective, and would not interfere with access to non-infringing material at other online locations; and

(D) whether other less burdensome and comparably effective means of preventing or restraining access to the infringing material are available.

4.7.5.8 Advantages of the take-down notice

There are many advantages to the Copyright Act notice and take-down procedure. Firstly, rights-holders are provided with a clear procedure, while ISPs benefit from the safe habour clause. Both parties quickly and efficiently address allegations of copyright infringement. Secondly, the procedure makes rights-holders who apply for a take-down notice or lodge a claim for copyright infringement on the basis of false information or of misrepresentation liable for such claims herein. Thirdly, the Copyright Act streamlines the procedure for obtaining a subpoena. Fourthly, service providers are encouraged to comply with take-down requests from copyright owners. This is because the procedure is codified and available for use by service providers. Fifthly, the Act clarifies the circumstances in which ISPs who merely route, cache, host or link to allegedly infringing material are not liable for copyright infringement.[346]

4.7.5.9 Disadvantages of the take-down notice

The first problem with the take-down notice relates to the authentication of the electronic signature of a rights-holder. As a result, most of the notices sent by e-mail may not actually reveal the identity of the sender, and multiple notices may be sent from the same source since e-mail accounts or e-mails may be spoofed.[347]

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[346] Ibid. at 10.
[347] Ibid. at 10–11.

Secondly, content owners may lodge sham infringing claims which, because of the presumption that claims are made in good faith, could be used to victimize users who are critical of the owners' services or products.[348]

Thirdly, the Copyright Act procedure creates some additional tasks and burdens for ISPs. Some ISPs are relatively small and cannot afford the cost of processing. Big ISPs who cannot cope with the volume of notices engage the services of full-time copyright agents, which mean additional cost. It is easier for a rights-holder to send large volumes of notices than it is for ISPs to process them.[349]

Fourthly, because counter-notices do not actually require ISPs to restore the disputed material ISPs refuse to do so. This creates an unbalanced system in which a take-down notice is given more weight than a counter-notice.[350]

4.8 Conclusion

In conclusion, three issues are addressed. Firstly, the right of reproduction was correctly interpreted as meaning that copies of phonorecords include intangible copies.[351] The courts have interpreted the rights of distribution and communication to the public differently, which is seen as a departure from the intent of the drafters of the WPPT and WCT. The courts have excluded the "making available" right from the distribution right, and use the right of distribution and the right of publication interchangeably.[352] The right of communication has been interpreted as public performance through digital audio transmission.[353] What is important is whether users and ISPs pay rights-holders a royalty for the benefits derived from transmissions on DP2P networks.

Secondly, it is now clear that because the US Supreme Court in *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* III case [354] overturned the decisions of the lower courts, decisions based on the principles laid out in *Sony*,[355] particularly with respect to actual knowledge, ISPs in DP2P technology are strictly liable on the basis of their *constructive* knowledge of infringement. Thus, ISPs become liable under the law of copyright

348 Ibid. at 14.
349 Ibid. at 11.
350 See Romero "Internet service providers' liability for online copyright infringement: The US approach" at 210.
351 See para. 4.2.1 of this study.
352 See para. 4.2.2. of this study.
353 See para. 4.2.3. of this study.
354 *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* III case supra at 2764.
355 *Sony Corporation of America et al v Universal City Studios* supra at 774.

notwithstanding the provisions of section 512 of the Copyright Act, since the duty to detect infringing sound recordings is not provided for in the Copyright Act other than in the form of a duty not to monitor. In this regard, as the courts held in *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* II case[356] and *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* III case,[357] it behoves Congress to find a legislative solution in a more holistic manner to balance the conflicting interests of rights-holders, ISPs and users in this technologically driven era.

Thirdly, notwithstanding the shortcomings and controversies surrounding the Copyright Act's implementation, the benefits of the Copyright Act outweigh the challenges. In this regard, it may seem impracticable to have a watertight legal provision in the Copyright Act in an era of instant technology as inventors wake up almost daily with new ideas; on the other hand, the new provisions have protected ISPs, allowing them to continue playing their indispensable role on the Internet.

[356] *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* II case supra at 1167.
[357] *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* III case supra at 2796.

CHAPTER 5

THE UNITED KINGDOM

5.1 Introduction

In understanding the consistencies and differences of UK law compared with other jurisdictions, one must remember that historically the source of UK law is different from other parts of the world. In part, the law in England was formulated and developed over a long time by "common law" courts.[1] Copyright protection in the United Kingdom (UK) is provided for in the Copyright, Designs and Patent Act (CDPA) of 1988, the UK's modernized copyright legislation.[2] The CDPA protects literary and musical works and sound recordings among other works.[3] It is a precedent-based system in which previous judgments are incorporated into the consideration of rights.[4] No formalities are required to protect copyright in the UK.[5]

A new piece of legislation was recently enacted to protect copyright against online infringements: the Digital Economy Act 2010 (DECA)[6] 2010 which amends the Communications Act of 2003. The various provisions of the DECA have different commencement dates. Some regulatory authorities may make prospective regulations and provide guidelines and codes. Recently, based on the provisions of DECA, the court endorsed the tracking of illegal users, blocking of illegal file-sharing sites and sending warning letters to offenders on the Internet who share sound recordings, films, books and other copyrighted materials.[7]

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[1] Inglis "United Kingdom" at 443.
[2] Cohen "United Kingdom" at 361.
[3] See section (1)(*a*) and (*b*) of the CDPA; Flint et al. *A User's Guide to Copyright* at 3.
[4] Cohen "United Kingdom" at 361.
[5] Flint et al. *A User's Guide to Copyright* at 4.
[6] See in particular Chapter 24 of the UK statutes. However, in this study, instead of referring to DECA, the Communication Act 2003will be referred to except wherein stated, for instance section 17 of DECA is not an insertion into the Communication Act of 2003, thus, it will be stated as such.
[7] On 20 April, 2011, a high court judgement by Mr Justice Kenneth Parker was delivered on piracy law in accordance with the new legislation, i.e. DECA, the spokesman for the Department of Culture, Media and Sport, said that the government will set out the next steps for the implementation of DECA. See also para 2.7 of this study on the examination of filtering of sound recordings. See also chapter 1 on the definition of sound recordings in the context of this study.

The UK is party to the Berne (Paris) and Rome Conventions, the Universal Copyright Convention (UCC), the TRIPs Agreement,[8] the WIPO Copyright Treaty (WCT) and the WIPO Performances and Phonograms Treaty (WPPT). The application of copyright law in Europe became controversial in 2006 with the national courts struggling with the challenges of the Internet, ranging from downloading, the use of search engines, technological measures used by rights rights-holders to address digital copying. Various European courts have handed down decisions on ISP's liability and obligations, particularly with regard to P2P file-sharing.[9] Most of these decisions, which have been decided at first instance, have taken into consideration their diversity and differing legal frameworks for the limitation of ISP liability. Essentially, they have not followed the recent, most far-reaching measure of copyright harmonization achieved by community legislation, namely the EUCD.[10]

In this chapter, I will go through the provisions implementing the European Union directives on copyright law in the UK, particularly those relating to the rights of reproduction, distribution and communication to the public and to the limitation of liability of ISPs. Three major EU directives affect copyright in relation to this study: the ECD,[11] the EUCD[12] and the EIPRD[13] This chapter examines the liability of ISPs for infringement of copyright in sound recordings in DP2P file-sharing under the indirect-infringement theory and concludes with an examination of the limitation of ISPs' liability in DP2P file-sharing.

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[8] The three primary international agreements are the Berne Convention, the UCC and the TRIPs Agreement. See Flint et al. *A User's Guide to Copyright* at 51–56.

[9] Cook and Rambaud "In harmony? Problems with the Copyright Information Society Directive" at 18 and 19.

[10] European Union Copyright Directive(EUCD) 2001/29/EC,Ibid. Recently, a case involving an ISP and concerning the disclosure of the identity of a direct infringer in Madrid was referred by the Commercial Court of Madrid to the European Court of Justice (ECJ). The question that arose was whether European Community law permitted member States to limit the duty of disclosure of personal data by ISPs and other operators of electronic communications networks in the context of criminal investigations, the safeguarding of public security and national defence. In *Productores de Música de España ("Promusicae") v Telefónica de España SAU ("Telefónica")* the ECJ considered the Directive on Privacy and Electronic Communications (Directive 2002/58) which protects the confidentiality of communications transmitted via public communication networks and publicly available electronic communication services which prohibit storage of such data by anyone save the user, and upon her consent (C-275/06). See Davies and Helmer "*Productores de Música de España ('Promusicae') v Telefónica de España SAU ('Telefónica')* (C-275/06)" at 307–308.

[11] E-Commerce Directive (ECD) 2000/31/EC.

[12] 2001/29/EC (EUCD).

[13] Enforcement of Intellectual Property Rights Directive.2004/48/EC (EC). The UK implemented the Electronic Commerce Directive on 21 August 2002 through the Electronic Commerce (EC Directive) Regulations 2002, SI 2002/2013, while the Digital Copyright Directive was implemented by means of Copyright and Related Rights Regulations 2003. See Stokes *Digital Copyright: Law and Practice* at 47.

5.2 Rights in the object of protection

In the 1988 CDPA, the "author" of a sound recording is the person who undertakes the recording of the audio file. This definition has been criticized in the UK.[14]

Sound recordings have been protected as such since the passing of the 1956 Copyright Act. Under the 1911 Act, they were in effect protected as musical works, although with the passing of the 1956 Act, these works became protectable as sound recordings separate and apart from musical works.[15]

There are two types of rights, namely, moral and economic. Moral rights are available in the UK by virtue of a "paternity right" granted in sections 77(1), 80 and 84 of the CDPA with respect to a literary, dramatic, musical or artistic work, film and derivative work. The nature of economic rights varies from one category of works to another.[16] However, the restricted acts as regards a sound recording are making copies of it, issuing copies of it to the public, renting or lending the sound recording or copies of it, playing it in public and communicating it to the public.[17]

In pursuance of this economic right, a rights-holder has the obligation to protect her work. Section 124A (2) of the Communication Act obliges a rights-holder to notify users via a report through an ISP (who provided the Internet access service) of the infringement of copyright. Section 124A(2) of the Communication Act is in furtherance of the provisions of section 124A(1)(a) and (b) of the Communication Act. Section 124A(1)(a) and (b) provides for the duty of an owner to protect his work online against users and agents of users against infringement of copyright. According to section 124A(2) of the Communication Act, the obligation is not automatic. The obligation can be performed only "if" an initial obligation code in force under section 124C or 124D of the Communication Act 2003 "allows" the owner to do

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[14] See Garnett, Davis and Harbottle *Copinger and Skone James on Copyright* at 205, para. 4-47.

[15] Id at 205, para. 4-48. See section 3(*i*) of the CDPA for the definition of musical works. For the description of literary works which may also be included in a sound recording, see section 1(1)(*a*) of the CDPA and article 2 of the Berne Convention. See Garner (ed.) *Black's Law Dictionary* at 944; *Collins English Dictionary and Thesaurus* at 684; Bently and Sherman *Intellectual Property Law* at 59.

[16] See Bently and Sherman *Intellectual Property Law* at 131.

[17] See sections 5A(1)(*a*), 17 and 18 of the CDPA; Flint et al. *A User's Guide to Copyright* at 368. The economic right of reproduction in literary and musical works is stated in section 17(2) of the CDPA, while the distribution right of these works is stated in section 18.

so. However, the latter provision seems equivocal and decorative in view of the non-existent code[18] and jurisprudentially this creates a vacuum.[19]

Section 124A(3)(*b*) and (*c*) of the Communication Act defines what a copyright-infringement report is. Such a report includes a description and evidence of the apparent infringement that shows the user's IP address and time at which the evidence was gathered. Since rights-holders do not always have access to ISPs' networks,[20] it is fallacious to require them to supply such information.

Finally, section 124A(4) of the Communication Act requires an ISP to make a copyright-infringement list "if" the initial obligation code requires the provider to do so. The word "if" further limits the enforcement of the rights of a rights-holder in the protection of his rights. Notwithstanding the limits in the Communication Act, at the moment, there is no such code saying so.

5.2.1 The right of reproduction

The right of reproduction is the most important and the oldest right in copyright. It is broadly defined in section 17 of the CDPA.[21] This right covers the reproduction of sound recordings in any material form including electronic means.[22] The definition of reproduction in respect of sound recordings is narrower than literary, dramatic, musical and artistic works. This is because it is an entrepreneurial work.[23] Article 2 of the EUCD provides for the right of reproduction.[24]

The growth in volume and importance of the digital storage and transfer of works via the Internet and other information carriers has had a significant impact on copyright. Works recorded in digital form cannot usually be used without being copied again for the particular

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[18] The initial obligation code should have been made along with the Communication Act with respect of fundamental issues affecting infringement of copyright even if it would be reviewed in future. The non-existence of such code is mentioned in Mr Justice Parker's judgment on April 20, 2011.

[19] See section 124C(2)(*a*) and (*b*) of the Communication Act which buttresses the fact that no such regulations exist at the moment because OFCOM would consider the approval of the code on the basis of the appropriateness or otherwise of the code. Worse still, according to section 124C(2)(*a*) of the Communication Act, any person may make a code for the purpose of regulating the "initial obligations".

[20] See paras 2.3 and 2.7 of this study.

[21] See Garnett et al. *Copinger and Skone James on Copyright* at 369, para. 7-09; Williams and Das "Napster: Guilty of infringement" at 501.

[22] Williams and Das "Napster: Guilty of infringement" at 501.

[23] Bently and Sherman *Intellectual Property Law* at 135–136.

[24] Ohly "Economic rights" at 214.

purpose. Thus, the traditional utilization of works does not require any form of licence, but digital works do.[25] Essentially, when a licence has not been obtained infringement occurs whether a copy is permanent, transient, temporary or incidental to some other use of the work.[26] Unless there is a defence, infringement certainly occurs when a reproduction of a copyright work is made on a computer screen, stored in a computer's memory or copied from disk to disk.[27] An article is an infringing copy if its making constituted an infringement of the copyright work in question.[28]

However, activities on the Internet such as framing, caching, hosting and transmission will be outright copying, including uploading and downloading onto sites.[29] The making of transient copies can constitute infringement just as the making of copies of a more permanent form.[30] Nevertheless, an innocent intermediary or end user – depending on the circumstances – may seek to invoke the protection of fair use or other defences.[31]

Notwithstanding the general provision, article 5(1) of the EUCD, which is implemented in regulation 8 of the Copyright and Related Rights Management Regulations 2003 and section 28A of the CDPA, is to the effect that copyright shall not be infringed by the making of a temporary copy which is an essential part of a process whose sole purpose is to enable lawful transmission of a work between third parties[32] and which has no "independent economic significance".[33]

Although there is no definition of "independent economic significance", its likely meaning is "the independent economic significance to the copyright holder". The exemption

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[25] Garnett et al. *Copinger and Skone James on Copyright* at 378, para. 7-20. See also Ohly "Economic rights" at 217.

[26] See Bently and Sherman *Intellectual Property Law* at 132–133.

[27] Ibid. See also Ohly "Economic rights" at 216; article 4(*a*) of the Computer Programs Directive. Article 2 of the Directive states that temporary copies such as copies made in a computer's random access memory (RAM) fall within the ambit of the reproduction right.

[28] Garnett et al. *Copinger and Skone James on Copyright* at 456, para. 8-03; Smith *Internet Law and Regulation* 3rd ed. at 29.

[29] Bently and Sherman *Intellectual Property Law* at 133.

[30] See section 17(6) of the CDPA. See also Garnett et al. *Copinger and Skone James on Copyright* at 377, para. 7-10.

[31] Smith *Internet Law and Regulation*, 3rd ed. at 29.

[32] Conradi "ISP liability – UK" at 291. See also Akester "A practical guide to digital copyright law" at 66–67; Ohly "Economic rights" at 27.

[33] Conradi "ISP liability – UK" at 291. See also Akester "A practical guide to digital copyright law" at 66-67.

will apply in the case of a temporary copy made by an ISP.[34] A rights-holder who wishes to rely on copying may sometimes argue that a remote copy was made in some way.[35]

Article 5(2)(*b*) of the EUCD provides for another exception allowing private copying of a work (by means of downloading) without the authorization of the rights-holder, as long as four conditions are met: the reproduction must be in analogue or digital media, done by a natural person, for private purposes and subject to the payment of a levy.[36] However, the UK government did not set out a private-copying exemption but amended the existing time-shifting provision that exempts the copying of a recording of a broadcast made on domestic premises for private and domestic use and solely to enable it to be viewed or listened to at a more convenient time.[37]

Despite the fact that ECJ aims at an autonomous community law interpretation of the terms of the Infosoc Directive, the court has not been privileged to pronounce on the concept of reproduction. Further, there are no criteria in community law in determining when infringement occurs at the right of reproduction.[38]

5.2.2 The right of distribution

In copyright, a rights-holder – of all types of works – has a right to issue copies of the work to the public, according to section 18 of the CDPA. This is generally referred to as a distribution right.[39] In the UK, a distribution right is referred to as a "right to issue copies to the public" or the act of first release into the market of any particular work, including the original.[40] The right to issue copies to the public is equivalent to the EUCD's distribution right in article 4 and to article 6 of the WCT[41] and article 12 of the WPPT. The distribution right is the right to control

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[34] Ibid.
[35] A copy is remotely made by causing the copy to be stored in some else's computer, which is worse in cross-border activities (Smith *Internet Law and Regulation* at 29).
[36] Akester "A practical guide to digital copyright law" at 67.
[37] Ibid. at 69. See also Stokes *Digital Copyright: Law and Practice* at 51.
[38] Ohly "Economic rights" at 217.
[39] Bently and Sherman *Intellectual Property Law* at 137.
[40] Wong" The Exclusive Rights of 'Distribution', 'Communication to the Public' & 'Making Available' Under Wipo: Lessons for other Jurisdictions from the Hong kong Bittorent Case" at 23. See also Garnett et al. *Copinger and Skone James on Copyright* at 424, para. 7-76.
[41] Wong "The Exclusive Rights of 'Distribution', 'Communication to the Public' & 'Making Available' Under Wipo: Lessons for other Jurisdictions from the Hong kong Bittorent Case" at 23 and 29. This accounts for the non-inclusion of the general distribution right in the Copyright and Related Rights Regulations 2003.

the marketing and circulation of tangible embodiments of the work. It supplements the reproduction right when the act of reproduction has occurred abroad or when the origin of the copies is known. It can be limited to certain channels of distribution. It is the only economic right in copyright that is subject to exhaustion.[42]

Article 4 of the EUCD provides for the distribution right,[43] although the right is not directly defined in the Directive.[44] It however clarifies that it applies to any form of distribution to the public by sale or otherwise.[45] Articles 3 and 4 of the EUCD draw a distinction between the sale of tangible copies and online transmission of computer programs or other files.[46]

There is a distinction between a "general" distribution right and "restricted" distribution right.[47] The former right arises from the act of controlling the distribution of copies or duplicates irrespective of whether the act was performed with the consent of the rights-holder. The latter right arises from the act of controlling the distribution of copies or duplicates only when the act was performed without the necessary authority.[48]

The use of the phrase "making available" instead of the term "distribution" shows the different approach to exclusive rights in the US and some European civil law countries.[49] Infringement by issuing of copies to the public is a new concept introduced in section 18 of the CDPA, which is a substantial departure from previous law under the publication of literary works.[50] In sound recording, the operation of distribution involves the circulation of copies or duplicates of a recording. Several debates have been canvassed on the issue of whether a rights-holder has or should have a right to control the distribution of his or her production or work.[51] According to Conradi,[52] section 18 of the CDPA is infringed if copies of a work are "issued to

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[42] Ohly "Economic rights" at 219.
[43] Wong "The Exclusive Rights of 'Distribution', 'Communication to the Public' & 'Making Available' Under Wipo: Lessons for other Jurisdictions from the Hong kong Bittorent Case" at 23.
[44] Ohly "Economic rights" at 220.
[45] Ibid.
[46] Ibid. at 223.
[47] Ibid. at 102.
[48] Ohly "Economic rights" at 220.
[49] Wong "The Exclusive Rights of 'Distribution', 'Communication to the Public' & 'Making Available' Under Wipo: Lessons for other Jurisdictions from the Hong kong Bittorent Case" at 8.
[50] Garnett et al. *Copinger and Skone James on Copyright* at 424, para. 7-76.
[51] Sterling *Intellectual Property Rights in Sound Recordings, Film and Video* at 101.
[52] Conradi "ISP liability – UK" at 290.

the public".[53] He further says that section 18 of the CDPA is strict, that is, knowledge of infringement is not required to find an infringer liable.[54]

The issuance of copies of a work to the public brings us to the scope and entitlement to the right of distribution. The question then is, in terms of the sale of a copy, should the right of distribution be limited to the first sale?[55] In terms of the distribution right, the rights-holder has the right to control the act of putting into circulation copies of a work not previously put into circulation in the European Economic Area (EEA), but not to control subsequent distribution, sale, hiring, loan or importation of those copies into the EEA.[56] Circulation involves publication and covers both tangible and intangible media and even transient forms.[57]

According to Bently and Sherman,[58] in terms of section 18 of the CDPA "the issuing of copies of a work to the public" means:

(a) the act of putting into circulation in the EEA copies not previously put into circulation in the EEA by or with the consent of the rights rights-holder; or

(b) the act of putting into circulation outside the EEA copies not previously put into circulation in the EEA or elsewhere.

In their opinion, a distribution right is accorded in respect of the issuance of each copy, including the original. In this regard, it is different from a right to make works available to the public for the first time – that is, a "publication" or "divulgation" right of the type hitherto applicable in UK law. In essence, a distribution right enables a rights-holder to put into commercial circulation tangible copies of a work not previously circulated.[59] It is less clear what constitutes the restricted act of putting copies into circulation when there is a chain of distribution. Distribution commonly starts with the producer, moves through the importer or

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[53] Ibid. See also Smith *Internet Law and Regulation*, 3rd ed. at 29.
[54] Conradi "ISP liability-UK". See also Smith *Internet Law and Regulation* 3rd ed. at 29
[55] Sterling *Intellectual Property Rights in Sound Recordings, Film and Video* at 102.
[56] Smith *Internet Law and Regulation* 3rd ed. at 29.
[57] Ibid at 30.
[58] Sterling *Intellectual Property Law* at 137; section 18 of the CDPA.
[59] Bently and Sherman *Intellectual Property Law* at 137. See section 18(4) of the CDPA; Garnett et al. *Copinger and Skone James on Copyright* at 425, para. 7-79.

wholesaler and ends with retailers who make the copies available to the public.[60] However, Internet distribution involves content providers and ISPs.

They further submit[61] that as soon as copies are put into circulation (particularly when the first circulation is done with consent) the right would thereafter not operate. They note that since the right of distribution does not include "any subsequent distribution" of the work, copyright holders cannot control resale.[62] Article 4(2) of the EUCD codifies the principle of exhaustion. Garnett et al.[63] suggest that the effects of section 18 of the CDPA are as follows:

(a) If a copy of the work has never before been put into circulation anywhere in the world, the act of putting it into circulation in the UK for the first time is a restricted act.

(b) If the copy has previously been put into circulation within the EEA by or with the consent of the copyright holder, the act of putting it into circulation in the UK is not a restricted act. In the EEA the distribution right is exhausted by the consensual first act of distribution.

(c) If the copy has previously been put into circulation in a country outside the EEA but not within the EEA, the act of putting it into circulation in the UK is a restricted act.

(d) Whether the act of putting the copy into circulation in a country other than the UK is an infringement of copyright is a matter for the law of that state, not that of the UK.[64]

Furthermore, although the word "public" does appear in section 18 of the CDPA, in Reinbothe and Von Lewinski's view,[65] the term "circulation" suggests synonymy? Going back to my earlier submission, public in the online world now means any person, other than the rights-holder or her licensee.[66] Garnett et al.[67] interpret public to mean where a sound recording is only available to subscribers to an Internet service.

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[60] Garnett et al. *Copinger and Skone James on Copyright* at 428, para. 7-80.
[61] Bently and Sherman *Intellectual Property Law* at 138.
[62] Ibid.
[63] Garnett et al. *Copinger and Skone James on Copyright* at 427, para. 7-80.
[64] Ibid.
[65] Reinbothe and Von Lewinski *The WIPO Treaties 1996: The WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty: Commentary and Legal Analysis* at 85.
[66] See generally Chapter 3 of this study.
[67] Garnett et al. *Copinger and Skone James on Copyright* at 445, para. 7-118.

As regards the use of the term "sale or other transfer of ownership" in the WCT and WPPT, Bently and Sherman[68] submit that the wording of section 18 of the CDPA is ambiguous, although the EC legislation which the section is meant to implement suggests that distribution takes place on the first sale or other transfer of rights-ownership. However, Ohly[69] submits that to distribute means to transfer rights-ownership. This submission conflates digital and non-digital works. Further, he says that an interpretation which considers mere display or permission to others to use a copy without taking it away as distribution would seriously restrict the right to use a legitimately purchased copy of a work.[70]

5.2.3 The right of communication to the public

A good component of copyright is the public performance right, more particularly the right to perform play or show the work in public.[71] In furtherance of the implementation of article 3 of the EUCD, section 20 of the CDPA (or Regulation 6 of Copyright and Related Rights Regulation 2003) now includes the new exclusive right of communication to the public. This replaces the two separate exclusive rights: broadcasting and cable-programme rights. This new right has broadly incorporated these two similar rights, which substantially reflect articles 14 and 8 of the WPPT and WCT, and includes what may loosely be called the on-demand-availability right in relation to communication on the Internet, the right of making available.[72] Subsuming the right of broadcasting, cable programming and on-demand transmission together causes the right of communication in the UK to be wider than articles 14 and 8 of the WPPT and WCT respectively.[73]

Communication to the public encompasses both the "direct" commission to persons who are present at the time and place where the recording is played (such as the playing of

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[68] Sterling *Intellectual Property Law* at 138.
[69] Ohly "Economic rights" at 221.
[70] Ibid.
[71] Ibid.at 224.
[72] Garnett et al. *Copinger and Skone James on Copyright* at 437, para. 7-98; Wong "The Exclusive Rights of 'Distribution', 'Communication to the Public' & 'Making Available' Under Wipo: Lessons for other Jurisdictions from the Hong kong Bittorent Case" at 23; Akester "A practical guide to digital copyright law" at 34–35.
[73] Wong "The Exclusive Rights of 'Distribution', 'Communication to the Public' & 'Making Available' Under Wipo: Lessons for other Jurisdictions from the Hong kong Bittorent Case" at 28.

records in a club) and indirect communication to persons who listen to the recording elsewhere.[74]

Article 3(1) of the EUCD gives effect to article 14 of the WPPT by providing for an exclusive right to authorize or prohibit any communication of a work to the public, by wired or wireless means (i.e. broadcasting generally). It also provides for an "on-demand right", the right to make a work available to the public by wired or wireless means in such a way that members of the public may access it from a place and at a time individually chosen by them.[75] Article 3(2)(*b*) of the EUCD is wider than article 14 of the WPPT in that it employs the word "including" in article 3, which word does not appear in article 14 of the WPPT. This distinguishes article 14 of the WPPT from article 8 of the WCT because the latter contains the term "including" which makes it wider than article 14 of the WPPT.

Acts under the right of communication to the public under section 20 of the CDPA are different in nature from the restricted acts of performing, or showing or playing, a work in public under section 19 of the CDPA. Section 20 covers situations in which a work is communicated to the public and the members of the public are not present at the place at which communication originates; section 19 deals with performances which take place in the presence of the audience. When a work is performed in public through broadcasting, the communication is to be regarded as originating in the loudspeaker of the television or radio set where the public is present and not in the place from which transmission of the broadcast takes place.[76]

Copyright is also infringed by a person who, without the permission of the copyright holder, transmits the copyright work by means of a telecommunications system (otherwise than communication to the public), knowing or having reason to believe that infringing copies of the work will be made by means of the reception of the transmission in the UK or elsewhere.[77] A telecommunication system is defined as meaning a system for conveying visual images, sounds or other information by electronic means. This provision will make it an infringement, for example, to fax a work knowing that infringing copies will then be made at the receiving end.

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[74] Ohly "Economic rights" at 225.
[75] Garnett et al. *Copinger and Skone James on Copyright* at 439. See also Wong "The Exclusive Rights of 'Distribution', 'Communication to the Public' & 'Making Available' Under Wipo: Lessons for other Jurisdictions from the Hong kong Bittorent Case" at 23.
[76] Garnett et al. *Copinger and Skone James on Copyright* at 440, para. 7-106.
[77] See section 24(2) of the CDPA.

In such a case, the person transmitting the work will often also have infringed copyright by copying the work before, or in the course of, transmission.[78]

Where transmission is by way of communication to the public, an act of primary infringement will of course also occur. The provision that an infringement will occur under the present section if the sender knows or has reason to believe that infringing copies will then be made "elsewhere" than in the UK appears to be designed to prevent works being electronically exported for copying overseas. The provision appears to be of limited application, however, since the definition of "infringing copy" is generally limited to copies made in the UK or imported or to be imported into the UK.[79]

The second category of communication to the public (on-demand) is the act of making available a work to the public by electronic transmission in such a way that members of the public may access it from a place and at a time individually chosen by them. The wording of this provision replicates that of articles 3.2 and 3.3 of the EUCD which are based on article 8 of the WCT and article 14 of the WPPT respectively.[80] The Infosoc expressly provides that transmission may be by wired or wireless means, encompassing both wireless transmissions and transmissions by cable, but it must be electronic,[81] although the UK law does not define electronic transmission.[82] The fundamental distinction between on-demand transmission and broadcasting is that in broadcasting the work is transmitted at a time determined by the broadcaster with a view to its simultaneous reception by the public at large, while in on-demand transmission the transmission is meant for a single recipient who initiates the transmission and chooses when and where to receive it.[83]

The question that follows is, what constitutes the act of making a work available and who is liable for the infringement of communication to the public? Both the Act and the EUCD do not contain further provisions in this regard. However, what is important here is the act of making available a work to the public by electronic means and in such a way that the public can

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[78] Garnett et al. *Copinger and Skone James on Copyright* at 464, para. 8-15.
[79] Ibid.
[80] Ibid. at 444, para. 7-114. See also Stokes *Digital Copyright: Law and Practice* at 51.
[81] Garnett et al. *Copinger and Skone James on Copyright* at 444, para. 7-114.
[82] Wong "The Exclusive Rights of 'Distribution', 'Communication to the Public' & 'Making Available' Under Wipo: Lessons for other Jurisdictions from the Hong kong Bittorent Case" at 25.
[83] Garnett et al. *Copinger and Skone James on Copyright* at 444, para. 7-114.

access it.[84] Garnett et al.[85] suggest that as soon as a work becomes available on an ISP's server, the restricted act is committed and will continue to be committed until the work is no longer available.[86] In a DP2P network, a sound recording becomes available when a peer uploads the work into her computer since the sound recordings are not stored in the ISP's server in a DP2P network.[87]

In *Poludor Ltd v Brown*,[88] the court held that the act of connecting a computer containing copies of the plaintiff's copyright works to the Internet so that the public could access the fields without the copyright holder's permission was in fact an act of copyright infringement. It did not matter whether a person knew nor had reason to believe that what he or she was doing was an infringement, because innocence or ignorance was no defence. The mere fact that the file had been made available meant that the right to communicate the work to the public had been infringed.[89] The act of making available takes place where the apparatus of making available is situated.[90] The meaning of "public" has been described under the right of distribution herein.[91] In addition, the court said that:

> "Mr Bowles had the Internet account; he admitted using the P2P software and had control over the computer, and he has never denied that he installed the software onto the computer".[92]

The exclusive and inherent control over the Internet by ISP is a confirmation of their responsibilities in accordance with the findings in this study.[93]

The EUCD and its implementation by the UK appear to reflect substantially the provisions of articles 6 and 8 of the WCT, including the distinction between the two rights stated therein.[94] Article 2, in contrast with the continental *droid d'auteur* tradition, does not distinguish between copyright and related rights.[95]

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[84] Ibid. at 444, para. 7-115.
[85] Ibid. at 444, para. 7-116.
[86] Ibid.
[87] See para. 2.6.2 of this study.
[88] *Poludor Ltd v Brown* at 1.
[89] Supra at 9.
[90] Garnett et al. *Copinger and Skone James on Copyright* at 445, para. 7-117.
[91] Ibid. at 445, para. 7-118. See also para. 5.2.2 of this study.
[92] Ibid.
[93] See para. 2.7 of this study.
[94] Wong "The Exclusive Rights of 'Distribution', 'Communication to the Public' & 'Making Available' Under Wipo: Lessons for other Jurisdictions from the Hong kong Bittorent Case" at 23
[95] See Ohly "Economic rights" at 214.

5.3 Infringement

The English copyright law protects rights-holder from both direct and indirect infringements.[96] Unauthorized file-sharing of copyright works, encompassing both uploading and downloading, may entail infringement of copyright in that the copyright work is copied and communicated to the public.[97] Not all aspects of the CDPA provide for the challenges in the digital world and the case law is still developing.[98] Although the Communication Act was amended in 2010 to cure some of the defects in the CDPA and other provisions of the law, it makes the execution of some of the provisions futuristic because the specific provisions for execution are not detailed in the Act.[99] The provisions are left for the administrators to determine. This means that it may not noticeably reduce the infringement of sound recordings.

5.3.1 Direct infringement

The primary rights granted copyright holders are set out in sections 16 to 21 of the 1988 Act. Direct infringement arises if anyone carries out any of the activities reserved for the copyright owner or authorizes someone to carry out these activities.[100] These two categories of direct infringer are identified in section 124A(1)(a) and (*b*) of the Communication Act of 2003.

Direct infringement is primary infringement, which is generally the first act of copying according to section 17 of the CDPA.[101] Direct infringement is committed when any of the restricted acts is infringed, because a rights-holder possesses the exclusive right to carry out any of the restricted acts in section 16(1) of the CDPA. Direct infringement occurs when any person, without the authority of the copyright holder, does or authorizes another to do any of the acts restricted by the CDPA according to section 16(2),[102] whereas in other countries

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[96] Cohen "United Kingdom" at 371.
[97] Akester "A practical guide to digital copyright law" at 60. See sections 17 and 20 of the CDPA.
[98] Williams and Das "Napster: Guilty of infringement" at 501.
[99] See para. 5.2 of this study for the observation on the vacuum created in the Communication Act in terms of the obligations expected of a rights-holder and an ISP. See also Clark "Judge throws out piracy law appeal from ISPs" where the spokesman for the Department of Culture, Media and Sports said that emphasis should be placed on the need for website operators and ISPs to focus on working with rights holders and government in implementing DECA.
[100] Bently and Sherman *Intellectual Property Law* at 131.
[101] Cohen "United Kingdom" at 371.
[102] Ibid. See section 16(3) of the CDPA.

authorizing an infringing act may be classified as an act of secondary infringement.[103] The infringement may occur as a whole or in part, either directly or indirectly.[104] Direct infringement is a tort of strict liability since there is no knowledge requirement.[105]

According to Williams and Das,[106] the relevant primary acts capable of being carried out on the Internet are reproduction and inclusion in a cable-programme service. Emphatically, the other acts listed in section 16 of the CDPA do not appropriately apply in the online world.[107] There is no primary liability for infringement under sections 17 and 18 of the CDPA as regards ISPs' inability to control the infringing activity. The trend in UK copyright case law confirms this. In *Sony Music Entertainment (UK) Ltd and others v Easyinternetcafé Ltd*,[108] it was reinstated that in so far as an ISP sets out a notice forbidding copyright infringement it would have a defence to the claim of authorizing another to commit a restricted act. This decision is also in consonance with the decision in *CBS Songs v Amstrad* case.[109] Thus, an ISP does not have a direct liability.

5.3.2 Indirect infringement

Sections 22 to 26 of the CDPA make provision for the protection of copyright holders against secondary infringement.[110] Indirect infringement involves those who generally deal in infringing goods or arising from the commercial exploitation of copies or of articles specifically adopted to make copies, provided the indirect infringer knew or had reason to believe that the copies were or would be infringements.[111] Essentially, the CDPA requires the element of knowledge in indirect infringement, which is not the case in direct infringement.[112] Regulation

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[103] See *CBS Songs Ltd and others v Amstrad Consumer Electronic plc and another* at 1020–1021, 1033 and 1043. See also Akester "A practical guide to digital copyright law" at 37.
[104] See section 16(3) of the CDPA; Cohen "United Kingdom" at 371.
[105] Williams and Das "Napster: Guilty of infringement" at 501.
[106] Ibid.
[107] Ibid.
[108] *Sony Music Entertainment (UK) Ltd and others v Easyinternetcafé Ltd* at 1
[109] *CBS Songs Ltd and others v Amstrad Consumer Electronic Plc and another* at 1053.
[110] See generally sections 22–26 of the CDPA. See also Bently and Sherman *Intellectual Property Law* at 131.
[111] Cohen "United Kingdom" at 375–377.
[112] See sections 23 and 24 of the CDPA; Bently and Sherman *Intellectual Property Law* at 186; Williams and Das "Napster: Guilty of infringement" at 502.

27 of the Copyright and Related Rights Regulations 2003[113] reiterates the need for copyright holders to prove this requirement against ISPs, although such knowledge must be actual.[114]

In *Unilever Plc v Gillette (UK) Ltd (Joinder),*[115] a patent case, the Court of Appeal explained that the:

> "concept of "common design" does not "call for any finding that the secondary party has explicitly mapped out a plan with the primary offender. Their tacit agreement will be sufficient. Nor is there any need for a common design to infringe. It is enough that the parties combine to secure the doing of acts which in the event prove to be infringements".

In relation to DP2P file-sharing, a common design (tacit agreement) exists between ISPs and users in so far as both parties combine to transmit sound recordings on the Internet illegally.

According to Bently and Sherman,[116] indirect infringement occurs in two ways. The first involves distributing or dealing with infringing copies immediately after they are made, according to sections 22, 23 and 27(2) of the CDPA. Section 27(2) renders an article an "infringing copy" if the making of that copy is an infringement of the copyright in the work in question.[117] The second way involves those who facilitate copying by providing the equipment or means that enable copying to occur or provide the means for making infringing copies or performances.[118] This study concerns this second way, which is provided for in section 24 of the CDPA. It states that liability occurs where a person supplies "an article that is specifically designed or adapted for making copies of the work".[119] Further, the Communication Act makes provision for online infringement of copyright and penalties for the infringement of copyright and performers' rights and secondly it makes provision for public lending right in relation to electronic publications.[120]

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[113] This regulation implements the EU Copyright Directives 2001/29/EC which modifies the CDPA. See Copyright and Related Rights Regulations, 2003.
[114] See para. 2.7 of this study on the type of knowledge required on the Internet in relation to sound recordings.
[115] *Unilever Plc v Gillette (UK) Ltd (Joinder)* at 609.
[116] Bently and Sherman *Intellectual Property Law* at 186.
[117] Ibid.
[118] Ibid. at 187.
[119] Ibid.
[120] See the explanatory note of the DECA.

According to Bently and Sherman,[121] the phrase "an article specifically designed or adapted for purposes of copying" is not sufficient for potential copying, but the article must also be specifically designed for the copying of a particular work.[122] Regarding the view of Bently and Sherman,[123] an article specifically designed or adapted for the purposes of copying is enough for potential copying of sound recordings in DP2P file-sharing and need not necessarily be specifically designed for the copying of a particular work. This is because of the unique features of sound recordings and the inherent and exclusive right and ability that ISPs have.[124]

In the *Shetland Times Ltd v Dr Jonathan Wills*[125] and *Sony Music Entertainment (UK) Ltd and others v Easyinternetcafé Ltd*[126] cases, the plaintiff claimed that the headlines made available by it on its website were part of the cable programmes within the meaning of section 7 of the CDPA. The defendant argued that the website operator did not send the information, but that it merely waited passively for the files to be accessed by users at the website. The defendant admitted that some of the files shared were copyrighted works shared without authorization.[127] The court rejected the former argument and held that the transmission of material via the Internet could be considered "a cable programming service" based on the meaning of section 7 of the CDPA.[128]

Further, section 24(2) of the CDPA, as the general requirement in indirect infringement, is expected to prove that the indirect infringer knows or has reason to believe that infringing copies of the work will be made by means of the reception of the transmission in the United Kingdom or elsewhere.[129] Section 24(2) of the CDPA states that copyright in a work is infringed by a person who without the licence of the copyright holder transmits the work by means of a telecommunication system, including a fax transmission. However, Bently and Sherman submit that section 24(2) of the CDPA does not apply to communications to the

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[121] Bently and Sherman *Intellectual Property Law* at 187.
[122] Ibid.
[123] Ibid.
[124] See paras 2.3 and 2.7 of this study.
[125] *Shetland Times Ltd v Dr Jonathan Wills* at 608.
[126] *Sony Music Entertainment (UK) Ltd and others v Easyinternetcafé Ltd* at 1
[127] *Grokster-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case at 1160.
[128] Pistorius "Copyright law and IT" at 256; Conradi "ISP liability – UK" at 291; Bainbridge *Intellectual Property* at 239–240.
[129] Bently and Sherman *Intellectual Property Law* at 187.

public.[130] Generally, the software in DP2P network is capable of both infringing and non-infringing uses. The DP2P software can be used to infringe any type of copyright work, although sound recordings are the most frequently infringed works.

5.4 Contributory infringement by an ISP

In the *CBS Songs Ltd and others v Amstrad Consumer Electronic Plc and another*,[131] the House of Lords held that joint infringement occurs where two or more persons acted in concert with one another pursuant to the "common design" namely the infringement. No common design to infringe existed between Amstrad and the purchasers of the tape recording, since Amstrad sold the machines and the purchasers decided the purpose for which the machine would be used and whether or not to break the law.[132]

According to Lord Atkin,[133] a defendant owes a duty of care in order to avoid acts or omissions to her neighbour, aimed at a reasonable foreseeable risk of injury by the defendant's actions.[134] In sections 124E(9)(*b*),[135] 124J(4)(*b*) and 124K(7)(*a*) and (*b*) of the Communication Act, reference is made to the words "act" and "omission" as criteria, yardsticks, standards, or principles for creating obligations and responsibilities among parties in copyright infringement and disputes particularly true rights-holders and ISPs who have reciprocal duties under the Communication Act.[136] For this reason, it is expected that a defendant (an ISP) would take steps immediately after starting an Internet business to ensure that it meets its obligations and avoid liability for contributory infringement of sound recordings.

5.4.1 Knowledge of contributory infringement by an ISP

The 1988 Act provides for a class of secondary infringement, the principal characteristic of which is that the defendant must have a degree of "guilty knowledge" before he can be liable. The Act does not provide that a person who authorizes an act of infringement is liable, although

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130 Ibid.
131 *CBS Songs Ltd and others v Amstrad Consumer Electronic plc and another* at 1014, 1055, 1056 and 1058.
132 Ibid.
133 *Donoghue v Stevenson* at 562.
134 Beever *Rediscovering the Law of Negligence* at 119 and 120.
135 Section 124E(9)(*b*) of the Communication Act is read in conjunction with section 124E(9)(*a*).
136 See sections 124A- 124M of the Communication Act generally.

a person may nevertheless be liable for such an act under the common law, for example as a joint tortfeasor.[137]

The onus of proving knowledge is on the plaintiff.[138] According to section 124A(1)(*a*), (2), (3)(*d*) and (4) of the Communication Act 2003, the onus of proof lies with a rights-holder whom must prepare a copyright-infringement report and send to an ISP about the user's infringement. The ISP in turn sends a notification to the user[139] detailing the contents of the notification comprising the particulars under section 124A(6), (7) and (8) of the Communication Act. Although the subtitle in section 124A of the Communication Act is "Obligation to notify subscribers of copyright infringement reports", the obligations therein invariably lie with rights-holders, especially the duty of rights-holders to send a copyright-infringement report to an ISP in section 124A(2), (3)(*d*),(4) and (5) of the Communication Act.[140]

However, further to the earlier submissions,[141] a rights-holder does not have adequate knowledge[142] to justify her claim of "apparent" knowledge of infringement in her report to the ISP. In section 124A(1)(*a*) and (3)(*a*) of the Communication Act, the phrase "if it appears" to a copyright holder that a user of an Internet service has infringed the rights-holder's copyright by means of the service[143] refers to the assessment by a rights-holder which is not sufficient enough to constitute knowledge on the part of a rights-holder. From the findings of this

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[137] The 1977 Copyright ("Whitford") Committee Cmmd. 6732, para. 749(iii) recommended that persons authorizing indirect infringement should be liable. See *CBS Songs Ltd and others v Amstrad Consumer Electronic plc and another* at 1061; Garnett et al. *Copinger and Skone James on Copyright* at 455, para. 8-01. However, in relation to a user, section 124A(1)(*b*) of the Communication Act provides that a subscriber to an Internet access will be liable for allowing another person to use the service who has infringed a copyright by means of the service.

[138] *Sillitoe v McGraw-Hill Book Co* at 545- 546 and 555; *Infabrics Ltd v Jaytex Shirt Co Ltd* at 463.

[139] See section 124A(4) and (5) of the Communication Act where the obligations of an ISP are incorporated alongside those of rights-holders.

[140] Section 124A(2) of the Communication Act states that the rights-holder may make a copyright-infringement report to the Internet service provider who provided the Internet access service if a code in force under section 124C or 124D (an "initial obligations code") allows the rights-holder to do so. Section 124A(3)(*d*) of the Communication Act sets out that a copyright report is a report that is sent to the Internet service provider within the period of 1 month beginning with the day on which the evidence was gathered. Section 124A(4) of the Communication Act provides that an Internet service provider who receives a copyright-infringement report must notify the subscriber of the report if the initial obligations code requires the provider to do so. Section 124A(5) of the Communication Act expresses that notification under subsection (4) must be sent to the subscriber within the period of 1 month beginning with the day in which the provider receives the report.

[141] See para.5.2 of this study.

[142] See paras 2.3 and 2.7 of this study.

[143] See section 124A(3)(*a*) of the Communication Act.

study,[144] the duty of a rights-holders to report "apparent" infringement in terms of section 124A(3)(*b*) and (*c*) of the Communication Act is based on the "appearance" clause. A mere suspicion or unfounded allegation against an ISP would not suffice in the circumstance.[145] In any case, being an agent provocateur does not avail a rights-holder to have "apparent" knowledge of infringement or knowledge of all infringing transactions in the network in contrast with the knowledge of ISPs.[146] The tasks expected of a rights-holder in section 124A of the Communication Act should have instead been added to the primary functions of an ISP in section 124B of the Communication Act.[147]

Reasonable reference is required in proving knowledge against a defendant. In *RCA Corporation v Custom Cleared Sales Pty Ltd,*[148] the court said that:

> "it [was] not concerned with the knowledge of a reasonable man, but. . . with reasonable inferences to be drawn from a concrete situation as disclosed in the evidence as it affects the particular person whose knowledge is in issue". The court "is entitled to infer knowledge on the part of a particular person on the assumption that such a person possesses the ordinary understanding expected of persons in his line of business, unless by his or other evidence it is convinced otherwise".[149] In inferring knowledge, a court "is entitled to approach the matter in two stages: (1) where opportunities for knowledge on the part of a particular person are proved; and (2) there is nothing to indicate that there are no obstacles to the particular person acquiring the relevant knowledge: there is some evidence from which the court can conclude that such a person has the knowledge".[150]

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144 See paras 2.3 and 2.7 of this study.
145 Ibid.
146 Ibid.
147 Ibid.
148 *RCA Corporation v Custom Cleared Sales Pty Ltd* at 579.
149 Supra. See also Sterling and Carpenter *Copyright Law in the United Kingdom* at 255, para.546.
150 *RCA Corporation v Custom Cleared Sales Pty Ltd* at 579; See also Sterling and Carpenter *Copyright Law in the United Kingdom* at 255, para. 546.

However, Sterling and Carpenter further submit that knowledge may easily be overturned by either the defendant's denial of the knowledge which the court accepts or by demonstrating that he or she is properly excused from giving evidence of his or her actual knowledge.[151]

In applying the foregoing to this study, the two requirements in *RCA Corporation v Custom Cleared Sales Pty Ltd*[152] are present in that the opportunities for knowledge of infringement exist and there is nothing on the part of ISPs to indicate obstacles to the acquisition of relevant knowledge of infringement of sound recordings in DP2P network.[153] In DP2P transactions it is extremely difficult for ISPs to deny knowledge of infringement of sound recordings and they cannot be excused from giving evidence of infringement on copyright in sound recordings.[154]

In contributory infringement, it is necessary to prove that the defendant "knew" or "had reason" to believe he or she was dealing with an article which was an infringing copy of the copyright work. Two types of states of mind identify the two types of knowledge available: actual and constructive knowledge.[155] In the Communication Act, the words "appears" and "apparent" are described therein and they generally seem to denote the words "had reason to know"[156] and "know"[157] respectively.

5.4.1.1 Actual knowledge

In the requirement for actual knowledge, an ISP must not play a passive role. In *Bunt v Tilley*,[158] the court held that "an ISP which performs no more than a passive role in facilitating postings on the Internet cannot be deemed to be a publisher at common law". It stated that "if a person 'knowingly' permits another to communicate information which is defamatory, when there would be an opportunity to prevent the publication, there would seem to be no reason in

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[151] Ibid.
[152] See also Sterling and Carpenter *Copyright Law in the United Kingdom* at 255 and 579.
[153] See paras 2.3 and 2.7 of this study.
[154] Ibid.; *RCA Corporation v Custom Cleared Sales Pty Ltd* at 579. See also Sterling and Carpenter *Copyright Law in the United Kingdom* at 255, para. 546.
[155] See Garnett et al. *Copinger and Skone James on Copyright* at 459, para. 8-08.
[156] See section 124A(3)(*a*) of the Communication Act.
[157] See section 124A(3)(*b*) and (*c*), (4), (6)(*c*) and (*d*) and (8)(*a*) of the Communication Act. In these sections, the term "apparent" infringement is used to denote the term "know".
[158] *Bunt v Tilley* at 336, 342 and 345.

principle why liability should not accrue".[159] The subject matter in question was generally a defamatory statement and not a sound recording.[160] However, in this study, an ISP does not play a passive role on the network.[161]

Actual knowledge is a question of fact and will usually be based on the evidence of the infringer's actions, what he or she knew and did. The onus on the rights-holder has been described by the court as a heavy one as it was held in the case of *Sillitoe v McGraw-Hill Book Co*.[162] Section 124A(2) of the Communication Act, for example, obliges rights-holders to make a copyright-infringement report to ISPs. This is a shift in onus with respect to providing first-hand information on the Internet despite the fact that a rights-holder does not have control over the network.[163]

Section 124A(2) of the Communication Act may place an onerous duty on a rights-holder, however, according to section 124B of the Communication Act,[164] it is presumed that an ISP must have had actual knowledge before she supplies the copyright infringement list[165] and yet, nothing is being done by ISPs to ameliorate the situation as at the time of gathering the information. This constitutes evidence of "action" by an ISP, evidence of what it knew and did.[166] In the Communication Act, it seems that where a rights-holder delivers a copyright-infringement report to an ISP, the latter initially plays a passive role (which is temporal) by virtue of the fact that she depends on the rights-holder's first or initial step to report the

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159 Supra at at 342.

160 See Kelly "ISP liability: Overview" at 4.

161 See paras 2.3 and 2.7 of this study.

162 *Sillitoe v McGraw-Hill Book Co* at 545- 546 and 555. See also Garnett et al. *Copinger and Skone James on Copyright* at 459, para. 8-09.

163 See paras 2.3 and 2.7 of this study.

164 Section 124B(1) of the Communication Act states that an Internet service provider must provide a copyright holder with a copyright infringement list for a period if (a) the rights-holder requests the list for that period and (b) an initial obligations code requires the Internet service provider to provide it. Section 124B(2) of the Communication Act specifies that a copyright infringement list is a list that (a) sets out, in relation to each relevant subscriber, which of the copyright-infringement reports made by the rights-holder to the provider relate to the subscriber but (b) does not enable any subscriber to be identified. Section 124B(3) of the Communication Act sets out that a subscriber is a relevant "subscriber" in relation to a copyright holder and an Internet service provider if copyright-infringement reports made by the rights-holder to the provider in relation to the subscriber have reached the threshold set in the initial obligations code.

165 A copyright infringement list is a list that sets out in relation to each relevant subscriber which of the copyright-infringement reports made by the rights-holder to the ISP relate to the subscriber but does not enable any subscriber to be *identified*. See section 124B(1) and (2)(*a*) and (*b*) of the Communication Act.

166 See Garnett et al. *Copinger and Skone James on Copyright* at 459, para. 8-09.

infringement before an ISP in turn prepares a copyright infringement list.[167] The passive role an ISP plays presupposes that there is a benefit of doubt given to an ISP at the initial stage. This procedure and presumption to a large extent protect ISPs from carrying out their primary obligations based on their exclusive and inherent control of their networks.[168]

When knowledge of infringement is discovered, an ISP is obliged to disclose the copyright infringement, as impliedly stated in section 124A(8)(*b*) of the Communication Act, and to disclose the identity of the user, pursuant to section 124A(8)(*c*) of the Communication Act. In *Norwich Pharmacal v Customs and Excise Commissioners,*[169] the House of Lords ruled that a person who, even innocently, gets mixed up in wrongdoing is obliged to assist the injured party by providing information about the identity of other persons, or other vital information. In terms of section 124A(8)(*c*) of the Communication Act , however, an ISP need not disclose the identity of a subscriber to a rights-holder unless a court grants the rights-holder's application for that information.[170]

Further, actual knowledge contemplates specific knowledge about the circumstances in which a specific article was made. The possibility that "an infringer's general knowledge of an article may be an infringing copy" will not be sufficient to associate him with knowledge. For instance, where he is in possession of a large number of articles, some of which he knows may infringe and some of which will not be deemed to be sufficient knowledge.[171] The expression of specific knowledge requirement on the part of an ISP can be seen in the description or use of the term "apparent infringement" as stated in section 124A(6)(*c*) and (*d*) and (8)(*a*) of the Communication Act. These provisions emphasize the point that the notification that must be sent to the user must include the description and evidence of the "apparent infringement" and a statement to the effect that the information about the "apparent infringement" may be kept by ISPs. All of these require actual knowledge of an ISP. In any case, an ISP has specific knowledge that transactions conducted on DP2P software application constitute a breach of protocol and as such are infringements.[172]

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[167] See sections 124A(2) and (4), 124B(1)(*a*) and (*b*) and (2)(*a*) of the Communication Act.
[168] See paras 2.3 and 2.7 of this study.
[169] *Norwich Pharmacal v Customs and Excise Commissioners* at 133, 175, 187 - 188, 195, 197 and 203- 204.
[170] See section 124A(8)(*c*) of the Communication Act.
[171] See Garnett et al. *Copinger and Skone James on Copyright* at 459–460 para at 8-09.
[172] See paras 2.3 and 2.7 of this study.

Under the 1956 Act, infringers were taken to have possessed actual knowledge if they knew all the relevant facts but were under a mistake of law, i.e. labouring under a misunderstanding of or misconception about the law.[173] According to Garnett et al.[174] the 1956 Act is still a good law, although the argument is now likely to be academic in view of the alternative constructive-knowledge position. The reason to suspect may turn into reason to believe if no explanation is offered. It is submitted that, although the defence of mistake or ignorance of the law[175] does not apply to Internet operations, actual knowledge may apply because of the statutory lack of a duty to monitor the network in accordance with article 15 of the ECD.[176]

5.4.1.2 Constructive knowledge

In *Sillitoe v McGraw-Hill Book Co,*[177] Judge Mervyn Davies QC held that knowledge mentioned in section 5(2) and (3) of the CDPA is knowledge of the facts. Of course, a rights rights-holder cannot make a claim with regard to the infringing activity without knowledge of the facts by the infringer being particularized by the claimant.[178] The judge in his observation in *Sillitoe* reprimanded the defendant for taking a deliberate risk in her actions which were wrong in law. At this stage, she could not claim ignorance of the infringement.[179]

Garnett et al.[180] say the following about the phrase "has reason to believe":

(a) "Reason to believe", which involves knowledge of facts from which a reasonable person[181] would arrive at the relevant belief, involves an objective test.[182]

(b) Facts from which a reasonable person might suspect the relevant conclusions are enough.[183]

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[173] Garnett et al. *Copinger and Skone James on Copyright* at 460, para 8-09.
[174] Ibid.
[175] Ibid.
[176] See para. 2.7 of this study.
[177] *Sillitoe v McGraw-Hill Book Co* at 546.
[178] Supra at 555- 556.
[179] Supra at 546; See Cornish (ed.) *Cases and Materials in Intellectual Property* at 314.
[180] Garnett et al. *Copinger and Skone James on Copyright* at 460, para. 8-10.
[181] A reasonable person is one in the position of the defendant and with his or her knowledge and experience. See *ZYX Music GmbH v King* at 578.
[182] Garnett et al. *Copinger and Skone James on Copyright* at 460, para. 8-10.
[183] Ibid.

(c) A period of time must be allowed to enable the reasonable person to evaluate the facts and convert them into a reasonable belief.[184]

Although this reasonable-person test contradicts the test in the *RCA Corp* case,[185] the three criteria in this test have the same consequences as that in the *RCA Corp* case, which is based on "reasonable inference to be drawn from a concrete situation".

If a defendant has knowledge of relevant facts giving reasons for belief, this is all that is necessary. It is no defence that the defendant did not in fact believe the copies to be infringing or that he or she believed that as a matter of law no infringement would be committed – even if this belief was based on legal advice.[186] In DP2P technology, ISPs know before transmission takes place if a sound recording is coming from a legal website or not and this establishes knowledge of the fact that the illegal transaction in sound recordings is an infringing copy and not a mere suspicion. This is in furtherance of the submissions on identification[187] and the justification behind the duty of an ISP to furnish a copyright infringement list in section 124B of the Communication Act.

It is important to identify the copyright work in question and if a copy is not supplied, it follows that at least the facilities should be offered for inspection. Nevertheless, it is not necessary for the defendant to have seen a copy of the relevant copyright work before she can be assumed to have reason to believe that an article is an infringing copy. Each case is decided on its merits.[188] Further to the submissions regarding the detection of illegal transactions in sound recordings in a DP2P network,[189] ISPs do not need any supply of the infringing copy because they already know[190] and the track history shows the records from the inception of the transaction. In addition, the track history in a network system allows ISPs to trace the origin of a transaction and enables the inspection to be done by an independent person.

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184 Ibid.
185 *RCA Corporation v Custom Cleared Sales Pty Ltd* supra at 579.
186 Garnett et al. *Copinger and Skone James on Copyright* at 460, para. 8-10.
187 See para. 2.7 of this study.
188 Garnett et al. *Copinger and Skone James on Copyright* at 460, para. 8-10.
189 See para. 2.7 of this study.
190 Ibid.

The courts have said that the infringer must be in the position to evaluate the information given to him or her.[191] All that is required from a claimant is a notice of the facts to the defendant, which the latter cannot rebut by claiming that she was without knowledge within subsection 5(2) of the CDPA.[192] In the UK, a warning letter giving details of the infringing activity is now served on the infringer. Prior to this letter, in this study, an ISP is presumed to have reason to believe that it was dealing with or facilitating the creation of an infringing copy in sound recordings,[193] on the basis of its knowledge of Internet operations, particularly DP2P file-sharing, in respect of which it is believed that ISPs have the ability to identify infringing files.[194] Although a warning letter may not be a final notice, it furnishes the details of the infringing act.

A reasonable period of time must be given to evaluate the information. A normal period is 14 days according to case law.[195] It is submitted that, although a 14-day period is sufficient for the warning letter to be issued in the UK, adequate knowledge of the general infringement is obtained when transmission of a sound recording is about to take place on the ISP's network.[196] However, in terms of section 124A(3)(*d*) of the Communication Act, a rights-holder is expected to send a copyright-infringement report to the ISP within one month from the day on which the evidence was gathered. In terms of sections 124A(4)-(5) of the Communication Act, an ISP who receives such a report must notify the user of the report, if the initial obligation code requires the provider to do so, within one month from the day on which the provider receives the report.

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191 *LA Gear v Hi-Tech Sports* at 129. See also Bently and Sherman *Intellectual Property Law* at 189.

192 Ibid. Garnett et al. *Copinger and Skone James on Copyright* at 460, para. 8-10.

193 Garnett et al. *Copinger and Skone James on Copyright* at 460, para. 8-10.
The presumption of knowledge of infringement of copyright in sound recordings by an ISP is based on the distinction between the features of the conventional operation of the Internet and the unconventional operation of the Internet in DP2P network. The latter allows users of the Internet to by-pass ISPs when searching for sound recordings but only requests for an ISP's services during transmission of the work which is the unconventional protocol on the Internet, see chapter 1 of this study on the definition of sound recordings and para 2.7 of this study on how ISPs can detect infringing sound recordings.

195 See *Sillitoe v McGraw-Hill Book Co* at 579. In *Rexnord Inc v Ancon Ltd* [1983] FSR 662, in which the defendant had to make inquiries of manufacturers abroad, nine days was insufficient time; in *Monson Ltd v Indian Imports of Rhode Island Ltd* at 21 twenty-one days was held to be sufficient. See also Bently and Sherman *Intellectual Property Law* at 189; Garnett et al. *Copinger and Skone James on Copyright* at 461, para. 8-10.

196 See para 2.7 of this study.

An infringer is not bound to accept the rights-holder's allegation, although the former cannot simply ignore them.[197] A defendant who refuses to accept the allegation is capable of becoming a person with reason to believe an infringement if she carries out no sensible inquiries and does absolutely nothing in the face of continued allegations of the copyright by the rights-holder.[198] In DP2P file-sharing, the infringement of sound recordings is reasonably believed to be known to ISPs since they have not done enough for some time to prevent infringement in the face of continued allegations by rights-holders.

Having generally submitted that an ISP had reason to believe that it was dealing with or facilitating the copyright infringement of sound recordings based on its general knowledge, a claim cannot be made by a rights-holder without the particulars of the claim. A rights-holder's case is strengthened by the fact that the defendant is supplied with a copy of or given reasonable access to the copyright work infringed.[199] Such information must be detailed and must not be a general allegation.[200] Facts that lead a reasonable person to suspect the relevant conclusion are not sufficient.[201] The supply of information of infringement is entrenched in the evidence required in the copyright-infringement report in terms of section 124A(3)(*c*) of the Communication Act. In DP2P, even though there is a suspicion of infringement by the rights rights-holder, as mentioned earlier, a claim cannot be based on general facts, but only on specific ones. Section 124A(1)(*a*), 124A (3)(*b*)and(*c*), 124A (6)(*c*)and(*d*), 124A (8)(*a*) and 124K(6)(*a*) of the Communication Act makes provision for apparent knowledge of infringement.

5.4.2 Material contribution to infringement by ISPs

There is no case law to demonstrate the material contribution made by an ISP in indirect infringement of sound recordings in a DP2P network. However, the relevant case law on this point was considered. In *Moorhouse v University of New South Wales*,[202] the court held that the notice the university had placed on each photocopy machine was not clearly worded and

[197] Garnett et al. *Copinger and Skone James on Copyright* at 461, para. 8-10.
[198] Ibid. See paras 2.3 and 2.7 of this study.
[199] *Pensher Security Doors v Sunderland City Council* at 249. See also Bently and Sherman *Intellectual Property Law* at 189.
[200] *Hutchinson Personal Communications v Hook Advertising* at 365; *Metix UK v Maughan* at 718.
[201] *ZYX Music GmbH v King* at 149. See also Bently and Sherman *Intellectual Property Law* at 189.
[202] *Moorhouse v University of New South Wales* at 151.

accurate in that it merely set out the provisions of section 29 of the 1988 Copyright Act which a lay person would not have understood. Accordingly, the court found that the notices were completely ineffective for the purpose for which they were apparently intended.[203]

Thus, ISPs should place a specific and adequate notice and agreement on their networks informing users about the implications of the illegal sharing of sound recordings. Users must then acknowledge the notice and accept the terms in the agreement included the ISPs' reserved right to deny or block access to users who attempt to distribute illegal copyright works. The issue of denying access or blocking the actual transmission of sound recordings may not arise since the ISPs would have known in advance the intention of the users by sending a signal ahead to inform the ISPs of their intention. This is because the ISPs have the right and capability to detect illegal transaction in sound recordings in the ordinary course of their operation. This is a duty of care on the part of ISPs.[204]

Material contribution to infringement can also be examined in the Communication Act. Sections 124G to 124J set out that the secretary of state may by order give directive on the "obligations of ISPs to limit Internet access:[205] impose a technical obligation on ISPs[206] and criteria for the contents of the code about obligations to limit Internet access. The technical obligation in relation to an ISP is an obligation for the provider to take a technical measure against some or all relevant users of its service for the purposes of preventing or reducing infringement of copyright on the Internet. This is stated in section 124G(2) of the Communication Act. Further, a technical measure is a measure that limits the speed or other capacity of the service provided to a subscriber,[207] prevents a subscriber from using the service to gain access to particular material or limits such uses,[208] suspends the service provided to a subscriber[209] or limits the service provided to a user in another way.[210] The duty of care by ISPs in the Communication Act is also stated in section 124A(4) and (6) of Communication Act. Section 124A(6) provides that an ISP has a duty to advise or inform the user regarding lawful

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[203] See Cornish (ed.) *Cases and Materials in Intellectual Property* at 322.
[204] See paras 2.3 and 2.7 of this study.
[205] See section 124G of the Communication Act.
[206] See sections 124H and 124I of the Communication Act.
[207] See section 124G(3)(*a*) of the Communication Act.
[208] See section 124G(3)(*b*) of the Communication Act.
[209] See section 124G(3)(*c*) of the Communication Act.
[210] See section 124G(3)(*d*) of the Communication Act.

access to copyright works,[211] about steps that a subscriber can take to avoid unauthorized use[212] and anything else that the initial obligations code requires notification to include.[213] Thus, failure of an ISP to comply with these provisions would amount to material contribution toward the infringement of sound recordings in DP2P application.

Further, in *CBS Songs v Amstrad*,[214] it was held that Amstrad in their advertisement to sell "double speed twin-deck" tape recorders did not sanction, approve or countenance an infringing use of their model. Although Amstrad conferred on the purchaser the power to copy, there was a footnote warning (in the user's manual) that some copying required permission and that Amstrad had no authority to grant that permission. In conclusion, the court held that Amstrad did not authorize the infringement because there was no material contribution by the indirect infringer.[215] Of course, acknowledging both the infringing and non-infringing uses of a product, the court held correctly in the *Amstrad* case;[216] moreover, copying in the analogue world without permission, although illegal, is however permissible due to the countable number of copies that can be made. The product in question was not within the control and supervision of Amstrad at the time of infringement. The situation in *Amstrad* is different from the role of ISPs in a DP2P network and as such, notwithstanding the fact that ISPs do not make advertisements on their networks to persuade users, they do however materially contribute to the infringement by the breach of duty to prevent illegal sound recordings from passing through their network. The granting of access by ISPs is the causal connection for the infringement of sound recordings in a DP2P network.[217]

In section 16(2) of the CDPA, a work is infringed by a person who without the licence of the copyright holder commits, or authorizes another to commit, any restricted act. According to Dixon,[218] authorization has not just been interpreted literally, that is, purporting to grant a licence to use copyright material. It has been used to cover a broader range of activities that the

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[211] See section 124A(6)(*g*) of the Communication Act.
[212] See section 124A(6)(*h*) of the Communication Act.
[213] See section 124A(6)(*i*) of the Communication Act.
[214] *CBS Songs Ltd and others v Amstrad Consumer Electronic Plc and another* at 1053. See also Cornish (ed.) *Cases and Materials in Intellectual Property* at 323.
[215] *CBS Songs Ltd and others v Amstrad Consumer Electronic Plc and another* Supra at 1053.
[216] Supra at 1048.
[217] See paras 2.3 and 2.7 of this study.
[218] Dixon "Liability of users and third parties for copyright infringement on the Internet: Overview of international developments" at 17.

third party may "sanction, approve or countenance",[219] "permit or even treat with inactivity or indifference".[220] Also in section 124G(2) of the Communication Act, ISPs have a technical obligation to either prevent or reduce infringement of copyright by means of the Internet. The failure to do so would amount to authorization or contribution to infringement.

In the *Amstrad* case,[221] it was held that to "authorize" means "to grant or purport to grant, expressly or by implication, the right to do the act complained of". Based on this definition Conradi[222] says that ISPs should ensure that any material they transmit is not condoned and that they should not authorize illegal activity on their network. He concludes by saying that since file-sharing activity constitutes a large share of an ISP's business, it is quite possible that the courts would take a less tolerant view and that ISPs should therefore adopt a prominent anti-infringement message.[223]

Regulation 17 of the Electronic Commerce Regulations (ECR) offers a defence only when a transmission or the act of giving access to a network would otherwise create a liability. Therefore, this defence does not apply to liability for authorization, which is reinforced by Recital 44 of the ECD.[224]

5.5 Vicarious infringement by an ISP

Section 124A(1)(*b*) provides for vicarious liability against a user or other persons (or both) that may be allowed to use the system.[225]

5.5.1 The right and ability to control infringing activity

There is no case law dealing with the issue at hand. However, reliance will be placed on the dictum in the relevant case below. In *RCA Corp v John Fairfax & Sons Ltd*,[226] in the Supreme

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[219] *Falcon v Famous Players Film Co*t 474.
[220] Supra at 491.
[221] *CBS Songs Ltd and others v Amstrad Consumer Electronic Plc and another* at 1054.
[222] Conradi "ISP liability – UK" at 292.
[223] Ibid.
[224] Regulation 17 is the implementation of Recital 44 of the E-Commerce Directive. Recital 44 states that a service provider who "deliberately collaborates with recipients of a service to undertake illegal acts goes beyond the activities of mere conduit".
[225] Emphasis mine.
[226] *RCA Corp v John Fairfax & Sons Ltd* at 100.

Court of New South Wales, Kearney J adopted a part in Laddie, Prescott and Vitoria *The Modern Law of Copyright* [227] by saying that:

> "a person may be said to authorize another to commit an infringement if the one has some form of *control over the other at the time of infringement or if he has no such control, is responsible for placing in the other's hands materials which by their nature are almost inevitably to be used for the purpose of an infringement*.[228]

The court found that the machine was capable of being used for lawful or unlawful purposes. Further, all recording machines and many other machines are capable of being used for unlawful purposes.[229] From the above case law, it can be argued that an ISP has exclusive and inherent control over direct infringers at the time of the infringement since ISPs are neighbours to the rights-holders who owe the latter a duty of care as submitted earlier in this study[230] and generally in section 124G to 124J of the Communication Act. Alternatively, without conceding that ISPs have no such control, they are still responsible for giving direct infringers network access which access will, given the very nature of DP2P file-sharing, almost inevitably be used for the purpose of copyright infringement.

5.5.2 Direct financial benefit an ISP gain from an infringing activity

In like manner, no case law has been recorded relating to direct financial benefit gained by ISPs. Consequently, previous case law is relied on. In *Ernest Turner Electrical Instruments Ltd v Performing Rights Society*,[231] two companies played – that is, performed – music to their employees during business hours. The Performing Rights Society challenged the companies for infringing performing rights in the works. In their defence, the companies relied on the fact that the performances were not to the public.[232] The issue that was argued not to be legitimate for consideration became the gravamen of the discussion, that is, what would be the effect of a decision that allows thousands of factories in the country employing millions of workers if the

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[227] Laddie et al *The modern Law of Copyright* at 403, para. 12.9. See also Cornish (ed.) *Cases and Materials in Intellectual Property* at 324.
[228] Emphasis mine.
[229] Cornish (ed.) *Cases and Materials in Intellectual Property* at 325.
[230] See paras 2.3 and 2.7 of this study.
[231] *Ernest Turner Electrical Instruments Ltd v Performing Rights Society* at 171–172.
[232] Supra.

performance can be carried out without infringement of copyright? The result would be that the employers of these millions of workers would be performing to the workforce without payment to the brains, skills, imagination and taste of another, while the employers derive increased or improved output.[233]

It is apparent that an entrepreneur cannot embark on a project without taking account of his or her economic benefit.[234] Likewise, performances of sound recordings to employees are regarded as a direct financial benefit by the infringing acts. Were this principle applied in the UK, a decision in favour of a rights-holder would be made to say that the activities of ISPs are meant to derive economic benefit for their business, which is precisely the causal connection for infringement by the ISPs.

On a general note, this study has revealed that the major stakeholders (i.e. rights-holders, ISPs and users) of sound recordings have pecuniary interests in the work from which conflicts arise. The Communication Act provides for the payment of contributions by one or more copyright holder, ISPs and users in the sharing of costs incurred under the copyright infringement provisions.[235] ISPs have some form of interest, stake or benefits (which may not be in cash form) for the infringement of sound recordings. These expected benefits from the motivating factor for ISPs' failing or refusing to identify illegal transactions in sound recordings.[236] Economists posit that individuals do not engage in activities that do not provide a positive expected return.[237] Thus, any form of benefit to the infringer is sufficient if it results in pure economic loss to the copyright owner.

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[233] Supra.

[234] See para. 4.5.2 of this study.

[235] See section 124M (1) and (2) of the Communication Act. Section 124M(1) states that the Secretary of State may by order specify provisions that must be included in an initial obligation code or technical obligations code about payment of contributions towards costs incurred under the copyright infringement provisions. Section 124M(2) states that any provision specified under subsection (1) must relate to payment of contributions by one or more of the following only: copyright holders, Internet service providers or, in relation to a subscriber's appeal or a further appeal by a subscriber to the First-tier Tribunal, the subscriber.

[236] See paras 2.3 and 2.7 of this study.

[237] See Cooter and Ulen *Law and Economics* at 16; Thomas "Vanquishing copyright pirates and patent trills: The divergent evolution of copyright and patent laws" at 701.

5.6 Inducing infringement by an ISP

To prove liability against ISPs under this theory, there must be an inducement. In the *Amstrad* case,[238] it was noted that "generally speaking, inducement, incitement or persuasion to infringe must be by a defendant to an individual infringer and must identifiably procure a particular infringement in order to make a defendant as a joint infringer".[239] Amstrad had not procured infringement by advertising and offering a machine for sale that could be used for both lawful and unlawful purposes. Purchasers who copied unlawfully did so because they chose to do so, not because they had been induced, incited or persuaded to do by Amstrad.[240]

In a DP2P network, because the unlawful copying of sound recordings from illegal websites and personal computers goes through the ISP's network, ISPs would be inducing, inciting, and persuading users to copy sound recordings on their network without much ado. This is because, apart from ISPs' having control over their networks, ISPs also know the actual risks inherent to the Internet.

5.6.1 Affirmative acts in infringing activity by an ISP

UK case law provides for liability stemming from the authorization of infringing copyright. Authorization includes turning a blind eye or being indifferent to copyright infringement or failing to inform persons of the implications of copyright. In *Moorhouse and Angus v University of New South Wales*,[241] the court held that the deeds – be they the act or omission – of the alleged authorizing party must be considered in the circumstances in which the deed composed in the act was done. These include the possibility that such a deed will be carried out. The court may infer authorization or consent from deeds which fall short of being direct and positive. Furthermore, authorization or consent may be inferred from indifference demonstrated by acts of commission or omission.

Although section 124E(9)(b) of the Communication Act provides for an act or omission by both ISPs and rights-holders in terms of the definition of owner-service provider dispute, section 124E(1) of the Communication Act places more obligations on ISPs than on rights-

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238 *CBS Songs Ltd and others v Amstrad Consumer Electronic Plc and another* at 1058.
239 Supra.
240 Supra.
241 *Moorhouse and Angus v University of New South Wales* at 153.

holders. This is due to the technical role of an ISP in this regard.[242] Thus, the performance of an act or the omission to perform where the contrary is expected from an ISP can be regarded as an affirmative act. For instance, an ISP who receives a copyright-infringement report from a rights-holder[243] but who does not notify the user concerned about it disobeys the provisions of the initial obligation code as stated in sections 124A (4)-(5) and 124E(1)(*a*)-(b)of the Communication Act.

Every case is treated on its own merit from the inference to be made from the conduct of the alleged infringer. In *CBS Songs Ltd v Amstrad Consumer Electronics Plc*,[244] the court held that the mere fact that Amstrad produced the equipment that facilitated the infringing activity in copyright was not sufficient to conclude that Amstrad authorized users to infringe copyright.[245] Although an ISP is not a producer of the software in DP2P file-sharing, it provides the causal connection by facilitating transmission without exercising the due care and diligence to detect the infringement of copyright, thus facilitating infringement.[246]

Lord Templeman, continuing with his pronouncement in the *CBS Songs Ltd v Amstrad Consumer Electronics Plc,*[247]case referred to *Monckton v Pathe Freres Pathephone Ltd* [248] in which the court considered the difficulties in controlling home taping and admitted that nothing could be done against the infringers in the sense of prosecuting or stopping the infringers. As discussed earlier, the features in taping are very different from digital production or exploitation.[249] Moreover, it has been revealed that an ISP has control over the infringing activity.[250] Thus, it can be argued that were Lord Templeman to apply his reasoning today he would hold ISPs liable. However, , it seems unlikely that a duty by an ISP in controlling infringing activity would be implied by the courts regarding the ISP by virtue of regulation 17

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[242] See paras 2.3 and 2.7 in this study.
[243] The detection of infringement of illegal sharing of sound recording by a rights-holder in section 124A(1) of the Communication Act and the duty to make a copyright-infringement report to an ISP under section 124A(2) of the Communication Act indicate the reciprocal duty on the part of a rights-holder.
[244] *CBS Songs Ltd v Amstrad Consumer Electronics Plc* 1014, 1053, 1054, 1055 and 1062.
[245] Supra.
[246] See the last submission herein on affirmative act in relation to Communication Act particularly the refusal or failure by an ISP to send an infringement report to a user, see also section 124A(2), (4) and (5) of the Communication Act. See also the submissions regarding sections 124A(4), (5), (6) and (7) and 124E(1) and (9) of the Communication Act .
[247] *CBS Songs Ltd v Amstrad Consumer Electronics Plc* supra at 1053.
[248] *Monckton v Pathe Freres Pathephone Ltd* at 499.
[249] See para. 4.4.1.1. of this study.
[250] See paras 2.3 and 2.7 of this study.

which limits the ISP's liability. Nonetheless, section 97A of the CDPA and a part of the regulation might allow a rights-holder to seek for her rights against an ISP via an injunction based on the ISP's actual knowledge of another person using their services to infringe copyright.[251] In pursuance of this relief, section 17 of the DECA gives the Secretary of State the power to make provision about injunctions preventing access to location on the Internet.

The Communication Act lists the following as indicating affirmative acts of infringement of sound recordings by ISPs.

(a) When an ISP does not:

(i) limit the speed or capacity of service provided to a user when required;[252]

(ii) prevent a user from using the service to gain access to a particular material or limit such use when there is an illegal transaction;[253]

(iii) suspend the service provided to a user when required;[254]

(iv) limit the service provided to a subscriber in another way.[255]

(b) When an ISP fails or refuses to send to the user the notification to the electronic or postal address held by the ISP for that user.[256]

(c) When an ISP fails or refuses to provide a copyright holder with a copyright-infringement list when requested by the holder to do so.[257]

(d) When an ISP does not keep information about users in terms of the initial obligation code.[258]

(e) When an ISP's initial obligations code discriminates unduly against rights-holders.[259]

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[251] Baumer et al. "Napster, Gnutella, Kazaa and beyond: Can the music industry win the battle against file-sharing networks? A comparative legal approach to decentralized file-sharing networks (peer-to-peer) in the USA, England and Germany" at 136.
[252] See section 124G(3)(*a*) of the Communication Act.
[253] See section 124G(3)(*b*) of the Communication Act.
[254] See section 124G(3)(*c*) of the Communication Act.
[255] See section 124G(3)(*d*) of the Communication Act.
[256] See section 124A(9) of the Communication Act.
[257] See section 124B(1)(*a*) and (*b*) of the Communication Act.
[258] See section 124E(1)(*d*) of the Communication Act.
[259] See section 124E(1)(*j*) of the Communication Act.

(f) When an ISP does not comply with the technical obligations imposed on it.[260]

(g) When an ISP fails or refuses to comply with one or more obligations to limit Internet access imposed by the secretary of state.[261]

5.6.2 Intent on the part of the infringer in the activity

The UK copyright law has not recorded a case touching on intent on the part of an infringer in online transmission. However, the general principle of intent in copyright is examined in the old law. In *Scott v Stanford*,[262] Sir W Page Wood VC says that:

> "If, in effect, the great bulk of a plaintiff's publication – a large and vital portion of his work and labour – has been appropriated and published in a form which will materially injure his copyright, mere honest intention on the part of the appropriator will not suffice, as *the court can only look at the result, and not at the intention in the minds at the time of doing the act complained of, he must be presumed to intend all that the publication of his work effects"*.[263]

Similarly in support of this principle, in *Hanfstaengl v Empire Palace*,[264] Lindley LJ says that what is necessary to be considered is the protection of authors, be it musical or literary compositions, and therefore the intention of an infringer is immaterial.[265] In UK copyright law, ISPs in DP2P file-sharing are presumed to be strictly liable since courts are not interested in their state of mind but in the result of the infringement. However, even if the court looks at an ISP's state of mind in DP2P file-sharing, it can make no finding other than that the ISP intended to induce direct infringement.[266] In relating the case law to the Communication Act, it is submitted that an ISP's failure to discharge its obligations would be indicative of its intent. Intent may be inferred if, for instance, an ISP does not:

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[260] See section 124G(1)(*a*), (*b*) and (*c*) and (2) of the Communication Act.
[261] See section 10(1)(*a*) of the Communication Act.
[262] See *Scott v Stanford* at 723.
[263] Emphasis mine.
[264] *Hanfstaengl v Empire Palace* at 128.
[265] Emphasis mine.
[266] Given the ISP's exclusive and inherent ability to control its networks. See also Mee and Watters "Detecting and tracing copyright infringements in P2P networks" at 1–6. See generally paras 2.3 and 2.7 of this study.

(a) give advice or information informing subscribers about how to obtain lawful access to copyright works;[267]

(b) give advice or information informing subscribers about steps they can take to protect an Internet access service from unauthorized use;[268] or

(c) do anything else that the initial obligations code requires the notification to include.[269]

5.7 Limitation of ISPs' liability

It is believed that for there to be limitation of liability, there is the presumption that there is primarily an establishment of liability, which implies that there is a breach of duty by the infringer. Recently, the Communication Act increased the obligations of ISPs in relation to online infringement of copyright.[270]

The UK government did not introduce any specific exceptions or limitations into the CDPA to deal with the ECD. Rather, the ECR only sets out each safe harbour from liability for damages for any pecuniary remedy or for any criminal sanction. The exclusion from liability is not just for copyright, database-right or other intellectual-property infringement. An information society service is broadly defined as "any service normally provided for remuneration, at a distance, by means of electronic equipment for the processing (including digital compression) and storage of data, and at the individual request of the recipient of the service".[271]

5.7.1 Duty of an ISP to identify unlawful activity

Article 15 of the ECD prohibits member States from imposing a general obligation on ISPs to monitor the information transmitted or stored or to seek out facts or circumstances indicating illegal activities.[272] Article 15 of the ECD has not been transposed into the ECR of 2002.[273]

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[267] See section 124A(6)(*g*) of the Communication Act.
[268] See section 124A(6)(*h*) of the Communication Act.
[269] See section 124A(6)(*i*) of the Communication Act.
[270] See sections 124A- 124M of the Communication Act.
[271] See regulation 2 of the Electronic Commerce (EC Directive) Regulations 2002; Pistorius "Copyright law and IT" at 285; Stokes *Digital Copyright: Law and Practice* at 48.
[272] Akester "A practical guide to digital copyright law" at 32; Stokes *Digital Copyright: Law and Practice* at 49.
[273] Smith *Internet Law and Regulation*, 4th ed. at 385, para. 5-052.

The European Directive on Electronic Commerce thus states that "general monitoring of millions of sites and web pages would, in practical terms, be impossible and would result in disproportionate burdens on intermediaries and higher costs of access to basic services for users".[274] Similarly, the Communication Act does not oblige ISPs to monitor.

However article 15 of the ECD does not prevent public authorities in the member States from imposing a monitoring obligation in a specific, clearly defined individual case. The reports and studies on the effectiveness of technical measures such as blocking and filtering applications"

> "appear to indicate that there is not yet any technology which could not be circumvented and provide full effectiveness in blocking or filtering illegal and harmful information whilst at the same time avoiding blocking entirely legal information resulting in violations of freedom of speech".[275]

The technical measures that may violate freedom of speech are also stipulated in section 124G(3) of the Communication Act.

The European Court of Justice (ECJ) has recently made a pronouncement on the privacy of users. In *Productores de Música de España ("Promusicae") v Telefónica de España SAU* (*"Telefónica"*),[276] the court held that article 13(1) of the Data Protection Directive 95/46 creates an exception to the general rule in the Directive on Privacy and Electronic Communications (Directive 2002/58) (Communication Directive). The general rule in the Communication Directive is that member States must safeguard the confidentiality of communications transmitted via public communications networks and publicly available electronic communication services and should prohibit the storage of such data by anyone other than the user unless consent is obtained.[277]

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[274] First Report on the application of Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market.

[275] Ibid.

[276] See Davies and Helmer "*Productores de Música de España ('Promusicae') v Telefónica de España SAU ('Telefónica')* (C-275/06)" at 307–308.

[277] Supra.

The court noted that the Communication Directive contains some exceptions to the general rule that member States may disclose confidential communication. The exceptions apply when it is necessary, appropriate and proportionate in a democratic society to do so to safeguard national security, defence, public security or the prevention, investigation, detection and prosecution of criminal offences or of unauthorized use of the electronic communication system, as mentioned in article 13(1) of Directive 95/46/EC.[278] Similarly, section 124A(8)(*c*) of the Communication Act provides for the identification of an infringing subscriber on the application of a rights-holder to court.

Article 13(1) of Directive 95/46 enables member States to enact legislative measures to restrict the general obligation, where necessary, to protect rights and freedoms of others, which include the protection of fundamental rights – such as the right to property – in this case intellectual property.[279] The ECJ concluded that the protection of property in civil proceedings was not excluded from the exceptions to the general rule set out in the Communications Directive.[280]

In addition to the Data Protection Act 1988, the UK government enacted the Interception of Communication Act 1985 (IOCA) in response to article 8 of the European Convention on Human Rights (ECHR).[281] The IOCA created the offence of unlawful interception of communication but was repealed by the Regulation of Investigatory Powers Act 2000 (RIPA) which is the primary legislation regulating the interception of communication in the UK.[282] As it was under the IOCA, it is an offence in the UK under the RIPA for anyone to intercept intentionally and without lawful authority a communication system, including private telecommunications over mobile telephones, pagers and electronic messages over the computer networks.

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[278] Supra at 307.
[279] Supra.
[280] Supra.
[281] Article 8 of ECHR states that "everyone has the right to respect for his private and family life, his home and his correspondence" and that "there shall be no interference by a public authority with the exercise of this right except such as is in accordance with the law and is necessary in a democratic society in the interests of national security, public safety or the economic well-being of the country, for the prevention of disorder or crime, for the protection of health or morals, or for the protection of the rights and freedoms of others".
[282] Wong "Regulation of interception" at 4.

In section 2 of the RIPA, a person intercepts a communication in the course of its transmission when he or she makes "some or all of the contents of the communication available, while being transmitted, to a person other than the sender or intended recipient of the communication" by modifying or interfering with the transmission system or monitoring the transmission. Communication is defined as that which is "in the process of transmission" and "being stored on the transmission system".[283]

The Anti-terrorism Crime and Security Act 2001 was enacted as part of the emergency counter-terrorism legislation aimed at ensuring that the UK government has the necessary powers to counter any threat to the UK.[284]

All of this, one way or another, prohibits monitoring or interception; however, notwithstanding the foregoing provisions, the lack of a duty to monitor or intercept does not cover the identification of illegal sound recordings, according to the findings in Chapter 2 of this study.[285] It is submitted that identification of illegal sound recordings should be included as part of the prohibited acts by ISPs to limit their liability.

5.7.2 Primary conditions for limiting the liability of an ISP acting as a mere conduit

The limitation of liability of an ISP acting as a provider of an access network is set out in regulation 17(1) of the ECR, which implements article 12 of the ECD. Regulation 17(1) states that:

> "where an information society service is provided which consists of the transmission in a communication network of information provided by a recipient of the service or the provision of access to a communication network, the service provider . . . shall not be liable for damages or for any other pecuniary remedy or for any criminal sanction as a result of that transmission where the service provider –
>
> (*a*) did not initiate the transmission;

[283] Ibid. at 5. See also section 2(7) of the RIPA.
[284] Wong "The Exclusive Rights of 'Distribution', 'Communication to the Public' & 'Making Available' Under Wipo: Lessons for other Jurisdictions from the Hong kong Bittorent Case"at16.
[285] See para. 2.7 of this study.

(*b*) did not select the receiver of the transmission; and

(*c*) did not select or modify the information contained in the transmission."

Regulation 17(2) of the ECR stipulates that:

> "The acts of transmission and of provision of access referred to in [regulation 17(1)] include the automatic, intermediate and transient storage of the information transmitted where:
>
> (a) this takes place for the sole purpose of carrying out the transmission in the communication network, and
>
> (b) the information is not stored for any period longer than is reasonably necessary for the transmission."[286]

5.7.3 Other conditions for limiting the liability of an ISP acting as a mere conduit

Since rights have reciprocal obligations to be carried out by the claimant of that right, we probe into the duty of a rights-holder in limiting liability of an ISP on the Internet. Furthermore, the ISP's duty to perform certain obligations in other conditions before the limitation occurs is examined notwithstanding the position that an ISP is not obliged to monitor information on the Internet according to article 15 of the ECD.

5.7.3.1 Take-down and notification duty by the rights-holder

The ECR does not provide for the take-down and notification that may be required by a rights-holder with respect to the mere conduit service by ISPs. Regulation 22 of the ECR provides for only a notice for the purposes of actual knowledge required by regulations 18(*b*)(v) and 19(*a*)(i) of the ECR in relation to caching and hosting respectively.

There are no rules regarding the components of actual knowledge or how it is obtained by ISPs,[287] but there is a general guide in the case law to the effect that the acquisition of knowledge may in some circumstances also affect the underlying potential liability. In *Byrne v*

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[286] This provision is similar to article 5(1) of the EUCD, the exception to the general right of reproduction.
[287] See also Smith *Internet Law and Regulation*, 4th ed., at 365, para. 5-030.

Deane,[288] it was held that a person who has the right to remove defamatory material that someone else has put up on their property, but permits it to remain displayed, then becomes a participant in the publication.[289]

Essentially, the notice referred to in regulation 22 of ECR 2002 does not apply to the general principle of "Take down and notification". Moreover, notice of actual knowledge referred to in regulation 22 of ECR 2002 does not include the role of an ISP as a mere conduit. It is submitted therefore that there is no provision for take-down and notification for the purposes of limiting the liability of ISPs in the UK.

Invariably, given the express mention of the instances of caching and hosting requiring actual knowledge in regulation 22 of ECR 2002 to the exclusion of the instance of a mere conduit, it means that the level of knowledge required in a mere conduit is, according to regulation 22 of ECR 2002, constructive knowledge.

Even though there is no provision for a take-down notice in the ECR, a warning letter is now being served by the rights-holder on infringers after the infringement has been noticed.[290] The infringer must be given a reasonable amount of time to consider the information that must be detailed in the warning letter as to the nature of the work in question.[291] However, it is important to note that there is a notification in section 124A(5) and (6) of the Communication Act which is prepared by an ISP based on the report from a copyrights-holder to an ISP under section 3(2) of the Act.

5.7.3.2 The duty of an ISP to disclose the names of infringing users

Notwithstanding the fact that an ISP does not have the duty to monitor the infringing activity on the network in article 15 of the ECD, there is an implied duty to disclose the names of infringing users once the rights-holder furnishes the particulars of the infringement and the infringer. The disclosure of a user's identity is also provided for in section 124A(8)(*c*) of the Communication Act but must be done with the approval of a court via an application.

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[288] See *Byrne v Deane* at 204.
[289] See Smith *Internet Law and Regulation*, 4th ed., at 376, para. 5-042.
[290] See Gain "Virgin–BPI alliance against file-sharers seen as not synced with UK policy".
[291] Bently and Sherman *Intellectual Property Law* at 189.

However, in the case of *Ashworth Hospital Authority v MGN Ltd* [292] citing *Norwich Pharmaceutical Co v Customs and Excise Commissioners*,[293] the House of Lords decided that an order disclosing the identity of the third party could be issued through a person who was involved in the infringing activity notwithstanding the innocence of the latter in civil or criminal damage. The court noted that there was an "overwhelming likelihood" that a specific wrongdoing had been committed by an individual whose identity was unknown to the claimants.[294] In UK law, what was demonstrated was the overwhelming likelihood or substantial probability that an infringing activity was committed by an individual whose identity is unknown to the rights rights-holder.[295]

However, in section 124A(1) to (3) of the Communication Act, a rights-holder is expected to make a copyright-infringement report to an ISP if it appears to the rights-holder that a user of an Internet access service has infringed the rights-holder's copyright by means of the service.[296] It is difficult for a rights-holder to make a copyright-infringement report without an ISP making this its primary obligation to do so. Essentially, it becomes difficult for a rights-holder who has no knowledge of infringement to make a claim of apparent knowledge of infringement.

English courts would not issue a broad order; they would rather issue a specific order targeted at the identification of users of a file-sharing network who are suspected of infringing copyright.[297] However, very recently, the ECJ has adopted a different view from the UK's position on the duty of an ISP to disclose the particulars of an infringer in a case referred to it by Spain. In *Productores de Música de España* (*"Promusicae"*) *v Telefónica de España SAU* (*"Telefónica"*)[298] the ECJ rejected the decision of the Commercial Court of Madrid that an ISP was required to disclose the identification of people allegedly infringing copyright by illegally downloading content.[299]

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[292] *Ashworth Hospital Authority v MGN Ltd* at 193.
[293] *Norwich Pharmaceutical Co v Customs and Excise Commissioners* at 133.
[294] Baumer et al. "Napster, Gnutella, Kazaa and beyond" at 134; Conradi "ISP liability – UK" at 292.
[295] Ibid..
[296] See section 124A(1), (2) and (3)(*a*)–(*c*) of the Communication Act.
[297] Ibid.
[298] See Davies and Helmer "*Productores de Música de España ('Promusicae') v Telefónica de España SAU ('Telefónica')* (C-275/06)" at 307–308.
[299] Ibid. at 307.

In other words, in civil proceedings, an ISP is not bound to disclose the identity of a direct infringer in Europe, which includes the UK, of course. More particularly, in the absence of a court order, the disclosure of the identity of a third party would be in breach of both the Data Protection Act 1998 and the privacy agreement between ISPs and users.[300]

However, in articles 17 and 18 of the ECD, member States must provide for effective resort to an out of court dispute settlement (in particular by electronic means) and must ensure that legal remedies (such as application for interim measures) are effectively available.[301]

5.7.4 Conclusion

Although English courts have not yet decided the Internet-based issues debated in the *Napster* or *Grokster* cases, it is submitted that UK judges may find reasons not to follow the home taping precedent in *CBS Songs Ltd v Amstrad*. It could be argued that ISPs have the ability to prevent the downloading, transmission and distribution of copyright material.[302] Further, the ECR is not broad enough in laying the statutory limitation in favour of ISPs, it gives ISPs little protection, in contrast with the US's DMCA and the South African Electronic Communication and Transaction Act 25 of 2002. The ECR focuses greater attention on general electronic commerce and on the protection of consumers rather than the protection of ISPs.

However, according to Smith,[303] it is easy to fall into the error of assuming that if the conditions for invoking a protection set out in the Directive are not met, then, an online intermediary is necessarily liable. This is position is not a correct one. The only consequence under the Directive is that the defence provided by the Directive is not available. It is usually necessary for a claimant to establish a cause of action against the intermediary.[304]

Faced with the uncertainty in the liability of ISPs, the Gower Review of Intellectual Property published in December 2006 was opposed to the change in the law that will impose

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[300] Conradi "ISP liability – UK" at 292–293.
[301] See Akester "A practical guide to digital copyright law" at 32.
[302] See Stokes *Digital Copyright: Law and Practice* at 134.
[303] Smith *Internet Law and Regulation*, 4th ed., at 365, para. 5-030.
[304] Ibid.

some form of liability for illegal P2P service operators, thereby promoting the development of industry protocols between ISPs and rights-holders.[305]

However, although the Communication Act has *prima facie* brought some relief to the pains of rights-holders in the online world, some of this relief is futuristic, uncertain, unreasonable, unrealistic and vague. This is because some of the provisions can only come into force on the fulfilment of certain administrative, and bureaucratic conditions by the administrators, and politicians[306] who may be done at their whims and caprices. Another noticeable defect in the Communication Act is the duty it imposes on rights-holders to make a copyright-infringement report under section 3 and submit it to the ISP; the situation should have been the reverse because ISPs have absolute control of their networks whereas rights-holders do not.[307] Although the Communication Act seems to be a solution to the problems in the digital world, it is more of a political gimmick or promise that was milled out for political reasons on the verge of the former prime minister's exit.

Finally, reference is made to the recommendation of the House of Lords Science and Technology Committee in its report on "Personal Internet Security".[308] It was suggested that it was time to "take a nibble out of blanket immunity" afforded by the "mere conduit" defence. The committee recommended that the mere conduit immunity should be removed once ISPs have detected or been notified of the fact that machines on their network are sending out spam or infected code.[309] Although this recommendation is framed in the context of spam transactions, it points out the concept of detection in relation to all works.[310]

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[305] See "Gower's Review of Intellectual Property" Recommendation 39.
[306] See generally sections 124A(2), 124B(1)(*b*), 124C(2), (3), (6), (9)(*b*) and (10), 124D, 124E(7), 124G, 124H, 124I and 124L of the Communication Act .
[307] See paras 2.3 and 2.7 of this study.
[308] HL Paper 165-1, published on 10 August, 2007.
[309] See para. 3.69 of the HL report.
[310] Clark "Sharing out online liability: Sharing files, sharing risks and targeting ISPs" at 225.

CHAPTER 6

SOUTH AFRICA

6.1 Introduction

South Africa is a signatory to various international treaties and agreements on intellectual property in general and copyright in particular, most notably the Berne Convention[1] and the TRIPs Agreement.[2] In addition, South Africa has signed, but not yet ratified, the WCT and the WPPT.[3]

The South African legal system can be described as an uncodified mixed legal system.[4] All matters relating to copyright are governed by the current Copyright Act 98 of 1978[5] and regulations made under the Act.[6] Hence, no protection of copyright exists in terms of the common law, as section 41(4) of the Copyright Act makes clear: "no copyright or right in the nature of copyright shall subsist otherwise than by virtue of this Act or of some other enactment in that behalf".[7]

Copyright law was introduced into South Africa in 1803 by the Dutch, colonisers of the Cape of Good Hope, by way of a variant of the Batavian Republic's Copyright Act of the same year.[8] This copyright law also became part of the law in three other colonies in the region: the

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[1] The Berne Convention for the Protection of Literary and Artistic Works of 1886, embodied as the Paris Act of 1971.

[2] Agreement on Trade-Related Aspects of Intellectual Property Rights, Annex 1C of the Marrakesh Agreement Establishing the World Trade Organization (15 April 1994), available at http://www.wto.org/english/tratop_e/trips_e/t_agm0_e.htm.

[3] The WIPO Copyright Treaty and WIPO Performances and Phonograms Treaty respectively. Both treaties were adopted on 20 December 1996. South Africa signed them on 12 December 1997, See Pistorius "The South Africa copyright law and language" at 1.

[4] See Du Plessis "Common law influences on the law of contract and unjustified enrichment in some legal system" 219–220; Pistorius "The South Africa copyright law and language" at 1.

[5] Related legislation includes the Performers' Protection Act 11 of 1967 and the Registration of Copyright in Cinematograph Films Act 62 of 1977.

[6] The Copyright Regulations were published under GN R2530 of 22 December 1978.

[7] See Dean *Handbook of South African Copyright Law* at 1-2A et seq. (rev. 13); Pistorius "The South Africa copyright law and language" at 1.

[8] *Wet van de Bataafsche Republiek van 3 Juni 1803*, reprinted in Schriks *Het Kopijrecht, 16de tot 19de Eeuw* at 691–694.

Orange Free State, Transvaal and Natal.[9] The Cape of Good Hope, Transvaal and Natal later adopted their own provincial Copyright Acts.[10] In 1910 the four colonies became the Union of South Africa, a self-governing dominion of the British Empire.

In 1916, the Patents, Designs, Trade Marks and Copyright Act 9 of 1916 was enacted in the Union of South Africa, repealing the previous provincial Copyright Acts. Section 143 of the 1916 Act declared – subject to certain variations[11] – the British Copyright Act of 1911 in force in the Union. In 1961 the Republic of South Africa came into existence. Soon thereafter the Copyright Act 63 of 1965 repealed the 1916 Act. The 1965 Copyright Act nonetheless bore a strong resemblance to British law due to the fact that substantial provisions of the newly introduced 1956 British Copyright Act were adopted.

The current Copyright Act was adopted in 1978 and has been amended several times. It is closely based on the provisions of the Berne Convention.[12] The Act protects literary works, musical works, artistic works, cinematograph films, sound recordings, broadcasts, programme-carrying signals, published editions, and computer programs.[13]

This chapter examines the South African copyright framework with respect to the protection of sound recordings, together with the rights of reproduction, distribution and communication to the public and the so-called needle-time right.[14] Further, indirect copyright infringement will be discussed in terms of the principles of the law of delict as they relate to DP2P file-sharing. Finally, this chapter concludes with a discussion of the limitation of liability of ISPs in DP2P networks in terms of the Electronic Communication and Transaction Act 25 of 2002 (ECTA), more particularly the Guidelines for Recognition of Industry Representative

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[9] See Dean *Handbook of South African Copyright Law* at 1-3 n. 4; Pistorius "The South Africa copyright law and language" at 1.

[10] The Copyright Act 2 of 1873 was enacted in the Cape, the Copyright Law 2 of 1887 in the Transvaal and the Copyright Act 17 of 1897 in Natal. See Pistorius "The South Africa copyright law and language".

[11] For example, section 144(*d*) of the 1916 Act contained a noteworthy additional copyright exception in favour of licensed broadcasters.

[12] Gibson *South African Mercantile and Company Law* 706; Pistorius "The South Africa copyright law and language".

[13] See section 2(1) of Copyright Act 98 of 1978.

[14] See Dean "Sound recordings in South Africa: The Cinderella of the copyright family" and Smith *Copyright Companion* at 71–73 on the risks that sound recordings are exposed to and the need to protect it.

Bodies of Information Systems Service Providers[15] (IRB Guidelines) and the Internet Service Providers Association Code (ISPA Code).[16]

6.2 Rights in sound recordings

Article 27(2) of the Universal Declaration of Human Rights provides for the protection of copyright, although it did not create enforceable obligations regarding the administration of the declaration.[17] However, this defect was cured by the International Covenant on Economic, Social and Cultural Rights of 1966 (ICESCR). This cure is reiterated in article 15 of the International Covenant.[18] The rights enshrined in the Universal Declaration, the ICESCR and the International Covenant on Civil and Political Rights are widely recognised as fundamental.[19]Although South Africa does not support the Universal Declaration, it is party to the International Covenant on Economic, Social and Cultural Rights. Dean argues that the right to intellectual property is a universally accepted fundamental right.[20]

Regarding the protection of copyright in sound recordings section 9 of the Copyright Act states that copyright in sound recordings vests the exclusive right to do or to authorize the doing of any of the following acts in the Republic:

(*a*) Making, directly or indirectly, a record embodying the sound recording;

(*b*) letting, or offering or exposing for hire by way of trade, directly or indirectly, a reproduction of the sound recording;

(*c*) broadcasting the sound recording;

(*d*) causing the sound recording to be transmitted in a diffusion service, unless that service transmits a lawful broadcast, including the sound recording, and is operated by the original broadcaster;

(*e*) communicating the sound recording to the public.

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[15] Published under Government Notice 1283 in *Government Gazette* 29474 of 14 December 2006.
[16] See section 72(*b*) of the ECTA.
[17] Dean *Handbook of South African Copyright Law* at 1-2A, para. 1.3.
[18] Ibid.
[19] Ibid. In *Ex parte Chairperson of the Constitutional Assembly: In re Certification of the Constitution of the Republic of South Africa* at 748- 750, however, the Constitutional Court held that the right to hold intellectual-property rights cannot be characterized as a trend which is universally accepted.
[20] Ibid.

The communication right in section 9(*e*) was created in recognition of article 14 of the WPPT which provides for the right of making available to the public. In terms of this right, owners of copyright in sound recordings have the right to control transmission of their works over the Internet. This right covers the right to make sound recordings available to the public in situations in which members of the public can access the recordings on demand or interactively at different places and at different times, as they choose.[21]

Among these five rights, those set out in section 9(*a*), (*b*) and (*e*) are examined.

Copyright need not be registered for it to subsist or be enforceable.[22] Although there are different provisions in relation to copyright and neighbouring rights, South African copyright law has traditionally not drawn a rigid distinction between copyright and neighbouring rights. Neighbouring rights are similarly protected like their copyright counterparts in the Copyright Act in view of the different provisions in relation to copyright ownership.[23] The protection of the rights of performers of literary and artistic works is addressed in the Performers' Protection Act 11 of 1967 South African copyright law also protects neighbouring rights against direct and indirect infringement.[24]

6.2.1 The right of reproduction

The reproduction right in sound recordings is provided for in section 9(*a*) which restricts the act of 'making, directly or indirectly, a record embodying the sound recording'. Generally reproduction, in relation to any work, includes a reproduction made from a reproduction of sound recording.[25] Reproduction can take place in any manner or form, as stated in section 6(*a*) of the Copyright Act,[26] including non-material forms[27] such as electronic reproduction. In

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[21] Pistorius "Copyright law and IT" at 266–267 distinguishes between section 9(*c*) and (*d*) on the one hand and section 9(*e*) on the other. Article 8 of the WCT makes available the right of communicating literary and artistic works while article 14 of the WPPT protects the right of making phonograms available. See also Smith *Copyright Companion* at 71–72.

[22] Note, however, that cinematograph film is subject to a voluntary system of copyright registration. See Van Wyk, Burrell and Cullabine "South Africa" at 309.

[23] Ibid. at 312.

[24] Ibid.

[25] See Visser "Applicable law in online copyright disputes: A proposal emerges" at 768; Dean *Handbook of South African Copyright Law* at 1-39, para. 8.4.1.

[26] See Pistorius "Copyright law and IT" at 263–264. According to Reinbothe and Von Lewinski *The WIPO Treaties 1996: The WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty: Commentary and Legal Analysis* at 41, the expression "in any manner or form" in article 9 reflects a wider

Pastel Software (Pty) Ltd v Pink Software (Pty) Ltd and another,[28] the electronic reproduction of an ephemeral component was recognized by the court. This decision complies with the provisions of section 2(2) of the Copyright Act which give a wide meaning to the concept of "material form" by requiring that the work "be written down, recorded, represented in digital data or signals or otherwise reduced to a material form".[29]

In the words of Copeling,[30] the concept of reproduction is capable of being used in two widely divergent senses: it could be used to mean a reproduction for the purposes of publication or for the purposes of legal proceedings or claim for an infringement of copyright. However, Visser[31] argues that it is controversial whether the term "copies" includes ephemeral reproductions in a computer's RAM (Random Access Memory), although the controversy emphasizes unauthorized reproductions as an act of copyright infringement in relation to "making copies available as publications".

A "copy", as defined in section 1(1) of the Act, means a reproduction of a work and generally covers all works. This definition has been interpreted as including digital formats whether of a permanent, temporary or transient nature. This interpretation is in keeping with section 2(2) of the Act which states that a work "represented in digital data or signals" complies with the requirement of material embodiment.[32] However, Visser's submission on the controversy over the term "copies" should be taken into consideration when the term is being

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concept of reproduction, covering "all methods of reproduction" and "all processes known or yet to be discovered".

[27] Dean *Handbook of South African Pastel Software (Pty) Ltd v Pink Software (Pty) Ltd and another* at 399. For further discussion of this case see Van der Merwe *Computers and the Law* at 86–87. See Dean *Copyright Law* at 1-39 para. 8.4.2.

[28] *Pastel Software (Pty) Ltd v Pink Software (Pty) Ltd and another* at 399. For further discussion of this case see Van der Merwe *Computers and the Law* at 86–87.

[29] See Dean *Handbook of South African Copyright Law* at 1-39, para. 8.4.2.

[30] Copyright Law in South Africa at 53.

[31] Visser "Applicable law in online copyright disputes" at 768.

[32] See Pistorius "Copyright law and IT" at 263.

interpreted.[33] Further, it has been held that making temporary or permanent electronic copies of a work amounts to copyright infringement.[34]

Given the importance of electronic communication and e-commerce, reproduction has a wider meaning. For instance, for purposes of the Copyright Act, downloading software and storing data on a computer, downloading material from the Internet, operating a computer program, displaying material on a computer screen – including material obtained from the Internet – and incorporating material in a website are all acts that create reproductions.[35]

Dean[36] argues that an ISP granting access to the Internet reproduces a work which is accessed via the ISP's server. He further states that an ISP through whose services an Internet user accesses unauthorized work on the Internet has probably unintentionally reproduced the work. According to Dean,[37] in view of the new developments that electronic communication and the Internet have brought, it is essential to adapt or extend classical copyright concepts to cater for these developments in the electronic age. He says that an analysis must be made of commonplace activities that take place on the Internet so as to determine whether they involve making unauthorized reproductions of works and thus result in the infringement of copyright.[38]

6.2.2 The right of distribution

Section 9(*b*) of the Copyright Act provides that the "letting, or offering or exposing for hire by way of trade, directly or indirectly, a reproduction" of sound recordings is one of the restricted acts. Although the term "distribution" is defined in section 1(1) of the Act, it is not defined in terms of the distribution right set out in section 9(*b*); it is defined in relation to programme-carrying signals only.

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[33] Visser "Applicable law in online copyright disputes" at 768. The basis of Visser's position is that historically the exclusion of ephemeral copies from the term "publication" has been for evidentiary reasons. It would be difficult to determine, for instance, where a work's first performance takes place. Secondly, Visser also argues that, were the term "copies" to include ephemeral reproduction, protection under the Berne Convention would be too readily available to authors outside the Berne Union and there would be no incentive for new members to join the Union.

[34] In *Pastel Software (Pty) Ltd v Pink Software (Pty) Ltd and another* at 399,. the court held that temporary and transient electronic reproduction of a work on a computer screen also constituted infringement.

[35] Dean *Handbook of South African Copyright Law* at 1-40–1-41, para. 8.4.7; Von Seidel (ed.) *Intellectual Property* at 87.

[36] Dean *Handbook of South African Copyright Law* at 1-41, para. 8.4.7.

[37] Ibid. at 1-41, para. 8.4.8.

[38] Ibid.

Although section 9 of the Copyright Act does not provide for the right of publication of sound recordings, that right is implied in the distribution right in section 9(*b*): because the distribution right is the right of first sale, it cannot be exercised without publication of a sound recording, for example, which is in consonance with section 1(5)(*b*) of the Act.[39]

Visser[40] submits that there are two elements to publication**:** (a) making copies of the work available and (b) doing so in such a way as to satisfy the reasonable demand of the public. However, the law is not settled on whether, with reference to the Internet, the location from which the author posts the work onto the website or the location where the user downloads the work should be the concrete point of reference.[41] Pistorius[42] notes that section 1(5) of the Act is clearly aimed at the issuing of tangible media such as books or disks to the public, but bearing in mind the meaning of the terms "copy". Copies of a sound recording include copies in digital format whether of permanent, temporary or transient nature, in accordance with section 2(2) of the Act. It would include work in digital format.[43]

What, then, is "making available"? According to Pistorius,[44] making available to the public reproductions of a work in digital format amounts to "making available of copies" of that work in terms of section 2(2) of the Act. Smith argues that, "making a work available on a website does not amount to publication because the website proprietor plays a passive role".[45] Pistorius[46] argues that, even if the term "copies" refers to more permanent reproductions, making a work available on a website may still constitute publication because anyone who downloads that work can make or reproduce it in a permanent format either on the computer's hard disk or in printed form. Similarly, notwithstanding his earlier position, Visser[47] argues that if one interprets the term "copies" in article 3(*f*) of the Berne Convention as connoting more permanent reproductions then making a work available on a website may constitute publication

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[39] Section 1(5)(*b*) states that the "Publication of a … sound recording is the sale, letting, hire or offer for sale or hire, of copies thereof".
[40] Visser "Applicable law in online copyright disputes" at 768.
[41] Ibid. at 768–769.
[42] Pistorius "Copyright law and IT" at 265.
[43] Ibid.
[44] Ibid.
[45] Smith *Internet Law and Regulation*, 3rd ed., at 30, para. 2-065. An ISP in DP2P file-sharing, on the other hand, takes an active, controlling and supervisory role in transferring of files on the network.
[46] Pistorius "Copyright law and IT" at 266.
[47] Visser "Applicable law in online copyright disputes" at 768.

in that the work is simultaneously published in every country of the world thus making it possible for users to download and store it in a permanent format, whether electronic or print.

The closing remarks by Pistorius[48] support my argument that making available should not be restricted. She submits that works that are first made available on the Internet qualify for copyright protection since certain works are made available by being published in digital format only. The holder of rights in such a work should not be denied his or her rights simply because the sound recording is published or distributed online as opposed to on a CD-ROM, for example.[49]

In summary, it is submitted that the right of distribution as set out in section 9(*b*) of the Copyright Act seems to interchangeably incorporate the right of publication into it in terms of the definition of publication in section 1(5) of the Act. The relationship between these two rights is such that one cannot publish without distributing; more particularly, in terms of section 1(5)(*a*) there must be sufficient quantities of the work "to reasonably meet the needs of the public, having regard to the nature of the work". It is further submitted, particularly with reference to copies, records, digital representation of data or signals and material embodiments that the term "public" in relation to publication and distribution rights means any person other than the transferor. In other words, the wider view applies to or encompasses DP2P file-sharing. In fact, if an unpublished sound recording lies in the computer of a peer in DP2P network, the sound recording is already uploaded and made available to the public.

Finally, it is submitted that in terms of the Act, the rights of publication and distribution in a sound recording are synonymous in South Africa in that the Act requires no formalities or notice, whereas the US regime (Copyright Act), specifically does.[50]

A sound recording in a digital format is published and distributed once. However, the right of communication is exercised after publication. In other words, one cannot talk of publication and distribution of a sound recording after it is first made available where exhaustion of right exists because the right of communication takes over.

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[48] Pistorius "Copyright law and IT" at 266.

[49] Ibid.

[50] This is a key distinction between the American and South African copyright regimes. See also Ginsburg "Recent developments in US copyright law" at 22.

6.2.3 The right of communication to the public

The control of the communication of digital works and copying of digital works is important in copyright protection.[51] The Copyright Act accords a copyright holder the right to distribute his work by broadcasting it and transmitting it in a diffusion service.[52] These two rights are limited to content that may be transmitted through broadcasts and programme-carrying signals.[53] A programme-carrying signal is a broadcast during the up leg of a transmission.[54] When the broadcast is transmitted through the satellite, there is a transformation of data from a broadcast to a programme-carrying signal. The broadcasting and programme carrying signal are two specific technologies[55] and do not fall under on-demand systems. However, mobile-communication protocols, both wired and wireless communication systems, converged communication platforms, webcasting and interactive on-demand systems do not fall, and cannot be grouped, within the realm of broadcasting and programme-carrying signals. Therefore, the need exists to provide for the right of transmission of works to the public over the Internet.[56]

Article 14 of the WPPT effectively grants "Producers of phonograms" the exclusive right to authorize the transmission of sound recordings over the Internet. This right is a broad one and may be applied in a diverse range of communication techniques.[57] Section 9(*e*) of the Copyright Act similarly provides for the exclusive right to authorize the communication of sound recordings to the public.

Although section 9(*e*) is not worded in the same manner as article 14 of the WPPT, it is argued that, on the basis of the distinction between the specific technologies in broadcasting

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[51] See Ministry of Economic Development "Digital Technology and the Copyright Act 1994 – Position paper"; Pistorius "Copyright law and IT" at 266.

[52] Diffusion service" means "a telecommunication service of transmissions consisting of sounds, images, signs or signals, which takes place over wires or other paths provided by material substance and intended for reception by specific members of the public; and diffusion shall not be deemed to constitute a performance or a broadcast or as causing sounds, images, signs or signals to be seen or heard; and where sounds, images, signs or signals are displayed or emitted by any receiving apparatus to which they are conveyed by diffusion in such manner as to constitute a performance or a causing of sounds, images, signs or signals to be seen or heard in public, this shall be deemed to be effected by the operation of the receiving apparatus" see section 1(1)(XVI).

[53] See sections 1, 6, 10 and 11 of the Copyright Act. See also Pistorius "Copyright law and IT" at 266.

[54] See section 1 of the Copyright Act for the definition of "broadcast"; See also Pistorius "Copyright and IT" at 266.

[55] See Pistorius "Copyright law and IT" at 266.

[56] Ibid. at 266–267.

[57] Ibid. at 267.

and programme-carrying signals on the one hand and the Internet on the other, the meaning of the right of communication in article 14 of the WPPT is adopted in the discussion in this segment. Aside from the remarks made by Dean with respect to the Collecting Society Regulations administering the so-called "public playing right",[58] there is no case law or opinion in South Africa contradicting article 14.[59]

Given the nature of online transmission by ISPs in DP2P networks, the right of communication in section 9(*e*) may include a "public playing right".[60] Communication on the Internet is not simultaneous and a user may make a public performance from the instantly downloaded copy. Moreover, to the extent that broadcasting and simulcasting occur on the Internet ISPs are indirectly involved in public performance.

6.2.3.1 The needle-time right

The needle-time right is applicable in the restrictive acts in section 9(*c*), (*d*) and (*e*) of the Copyright Act which consist of concept popularly known as "needle time" or "pay for play".

The needle-time concept was preceded by heated debates between broadcasters and record-producing companies.[61] The debate centred on the protection of performance right concerning sound recordings and the remuneration of performers for public dissemination of their performances embodied in records. The needle-time provisions of the Copyright Act must be read with those of section 5 of the Performers' Protection Act 11 of 1967. In the end, an understanding was reached between the record companies and broadcasters to the effect that needle-time protection for sound recordings and performers would not give rise to an act absolutely restricted. Essentially, the right does not prohibit the right of performance of a sound recording from being enforced in other ways but requires the payment of a reasonable – compulsory – royalty.[62] ISPs were not involved in the negotiation of this right, because it was not negotiated then.

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[58] Dean *Handbook of South African Copyright Law* at 1-36C, para. 7.5.15.
[59] See para. 3.6.3.3 of this study.
[60] Dean *Handbook of South African Copyright Law* at 1-36C, para. 7.5.15 and at 1-36, para. 7.5.2 where he generally introduces the right but does not make any distinction between these two terms which are rights of communication and public playing rights.
[61] Dean *Handbook of South African Copyright Law* at 1-35, para. 7.5.2.
[62] Ibid.

The term "users" as adopted in section 9A of the Copyright Act expressly refers to the broadcasters who were involved in the debate before the enactment of the Copyright Act (Amendment Act 9 of 2002).

6.2.3.2 Royalties pursuant to the needle-time right

Section 9A of the Copyright Act provides that "In the absence of an agreement to the contrary, no person may broadcast, cause the transmission of or play a sound recording as contemplated in section 9(9), (d) or (e) without payment of a royalty to the owner of the relevant copyright".The amount of the royalty must be "determined by an agreement between the user of the sound recording, the performer and the owner of the copyright, or between their representative collecting societies".[63] If such an agreement cannot be concluded between the copyright owner and the indirect user, the dispute may be referred to the Copyright Tribunal or for arbitration in terms of the Arbitration Act 42 of 1965.[64] The Copyright Tribunal may grant a compulsory licence which would not infringe a copyright work.[65]

The owner of the copyright in a sound recording who receives a needle-time royalty must share that royalty with "any performer whose performance is featured on the sound recording in question and who would have been entitled to receive a royalty" in terms of section 5 of the Performers' Protection Act.[66] Consequently, section 9A(2)(*d*) of the Copyright Act stipulates that any payment made by the indirect user of a sound recording to the owner of copyright in that recording fulfils the obligation concerning the execution of a needle-time agreement.

In terms of section 5(4)(*a*) of the Performers' Protection Act, a performer who authorizes the fixation of his or her performance – in the form of, for example, a sound recording of his or her performance – he or she is entitled to a share of the royalty payment received by the copyright owner of the sound recording.[67] Essentially, it is contemplated by the legislature that

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[63] Section 9A(1)(*b*) of the Copyright Act, read with section 9A(1)(*a*). See also Dean *Handbook of South African Copyright Law* at 1-35, para. 7.5.4.

[64] See section 9A(1)(*c*) and (2)(*c*) of the Act. See also Dean *Handbook of South African Copyright Law* at 1-36, para. 7.5.5.

[65] Dean *Handbook of South African Copyright Law* at 1-58B–1-60 and 1-36.

[66] See section 9A(2)(*a*) of the Copyright Act.

[67] See section 9A(2)(*a*) of the Copyright Act; Dean *Handbook of South African Copyright Law* at 1-36A, para. 7.5.8.

the copyright owner, namely the producer of the sound recording, will administer the needle-time right generally.[68]

If an indirect user makes a single royalty payment in the exercise of the needle-time right in terms of section 5 of the Performers' Protection Act, he or she is absolved from the obligation to pay a royalty to the copyright owner of the sound recording in terms of section 9A of the Copyright Act. However, Dean observes that this approach seems inconsistent in that the producer is entitled to administer the needle-time right for both parties. This inconsistency does not suggest there is only one rights-holder in section 9A; however, the right of payment of royalty benefits both parties.[69]

6.2.3.3 Shortcomings of the needle-time right

There is an inconsistency in the concept of needle time under the Copyright Act and the Performers' Protection Act in that the way in which the right is expressed in the Copyright Act is different from the way in which it is expressed in the Performers' Protection Act. Section 9(*c*), (*d*) and (*e*) of the Copyright Act provides for exclusive restricted rights. The producer has to grant the right to the use of the work for needle-time purposes.

On the other hand, in section 9A(1)(*a*) of the Copyright Act, the conclusion can be drawn that if the owner of copyright in a sound recording agrees that his or her work may be used for needle-time purposes a royalty must be paid unless the indirect user and the copyright owner come to a different agreement. In this regard, the right of a producer of a sound recording as regards needle time is not different from that of a performer.[70] On this issue, it seems the understanding on the payment of royalty is inconsistent. The inconsistency is addressed by Dean who suggests that it makes the right non-exclusive or categorizes the work under a compulsory licence. Further, section 5 of the Performers' Protection Act does not contain an absolute right of a performance; it contains the right to claim a royalty in relation to the exercise of the needle-time right.

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[68] Dean *Handbook of South African Copyright Law* at 1-36A, para. 7.5.8.
[69] Ibid. at 1-36A, para. 7.5.9.
[70] Dean *Handbook of South African Copyright Law* at 1-36B para.7.5.11 uses "any copyright owner" to describe broadcasters contemplated in section 9A.

There is an unusual position inherent in needle-time royalty. When a sound recording is used without the copyright owner's permission, the owner's right is infringed and he or she can make a retrospective (an *ex post facto*) claim for a reasonable royalty in lieu of damages. The claim is not limited under the provisions of section 9A of the Copyright Act. However, if the producer seeks to make an arrangement under section 9A for the payment of a royalty, his or her arrangement is limited by the fact that he or she has to comply with the provisions of that section.[71] Thus, it is submitted that a reasonable royalty should be an amount that would compensate the rights-holder, otherwise an indirect user would opt to pay damages in lieu of royalty, thereby frustrating the implementation of section 9A.

6.3 Infringement

In the historic case *Donoghue v Stevenson*,[72] the court laid down the neighbourhood principle under the general concept of duty of care. Accordingly, the basic principles of the duty of care relating to infringement and liability are relevant to determining infringement of copyright in DP2P file-sharing.

According to Pistorius,[73] the role of an ISP will determine its liability. For instance, an ISP that makes an unauthorized reproduction of a copyright work for technical reasons such as caching may be liable for direct infringement, but an ISP that merely transmits or facilitates access to copyright work may be liable for infringement at common law.

6.3.1 Direct infringement

Direct infringement occurs when someone commits any of the acts of which the right to perform or authorize is restricted exclusively to copyright owners.[74]

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[71] Dean *Handbook of South African Copyright Law* at 1-36C, para. 7.5.13.

[72] In *Donoghue v Stevenson* supra at 579–580, a woman succeeded in establishing a manufacturer of ginger beer owed her a duty of care, where it had been negligently produced. Following this, the duty concept has expanded into a coherent judicial test, which must be satisfied in order to claim in negligence. See also Beever *Rediscovering the Law of Negligence* at 73.

[73] Pistorius "Copyright law and IT" at 274.

[74] Section 23(1) of the Copyright Act. See Copeling *Copyright Law in South Africa* at 64 for a discussion of similar provision in the 1965 Copyright Act. See also Dean *Handbook of South African Copyright Law* at 1-37, para. 8.2. Criminal copyright infringement is provided for in sections 23(2) and 27 of the Act. See Dean at 1-47, para. 8.18; Pistorius "Copyright law and IT" at 263 where she identifies direct infringement.

Copying (not infringement) may be direct or indirect. It is direct if an original work is copied and indirect if an intervening copy of the original work is copied.[75] In digital reproduction and distribution, an original copy cannot be distinguished or identified since digitization makes an *exact* copy of the work reproduced. However, because there is no distinction between an original copy and an intervening copy, it may be assumed that every copy reproduced or distributed in the digital world is an intervening copy since the master copy can only be regarded as the original copy stored by the producer of the sound recording. To believe otherwise would be to assume that all copies are original copies. According to Copeling, copying may also be carried out consciously or subconsciously.[76]

Concerning sound recordings, a producer enjoys the right of reproduction by "making, directly or indirectly, a record embodying the sound recording" or "letting, or offering or exposing for hire by way of trade, directly or indirectly, a reproduction of the sound recording".[77]

6.3.2 Indirect infringement

Indirect infringement occurs when an infringer, while not actually infringing in respect of any of the restricted acts, nevertheless *knowingly* does something in furtherance of the restricted act of reproduction, distribution and communication to the public or trading in infringing copies.[78]A person commits indirect infringement when he or she exploits copies of a work commercially in the knowledge that they were infringements at the time the works were made.[79]

Conventionally, indirect infringement falls into two categories:[80] unauthorized dealing with infringing copies of a work and unauthorized public performance of a literary or a musical work. Unauthorized dealing is committed by importing a copyright work into South Africa for a purpose other than the importer's private and domestic use, by selling, letting or by way of

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[75] Copeling *Copyright Law in South Africa* at 66.
[76] Ibid. Subconscious copying occurs when one reads, sees or hears a work then forgets it but later reproduces the work in the honest belief that one is the creator.
[77] Section 9(*a*) and (*b*) of the Copyright Act.
[78] Pistorius "Copyright law and IT" at 263.
[79] Ibid.
[80] Copeling *Copyright Law in South Africa* at 140.

trade offering or exposing for sale or hire of a copyright work or by distributing a copyright work for the purposes of trade, or for any other purpose, to such an extent that the copyright owner is prejudicially affected.[81]

6.4 Application of principles of law to the indirect infringement of sound recordings

6.4.1 Introduction

Pistorius[82] avers that the liability of ISPs for infringement of intellectual property remains controversial in copyright law. Electronic commerce has also compounded the liability of ISPs for the infringement of intellectual property rights. She further notes that when determining the liability of a particular ISP one should bear in mind that the law of delict and copyright law make provision for liability for acts or omissions.[83] The law of delict may assist to determine when the impairment of a *legally recognized interest* constitutes a delict[84] and how such a disturbance in the harmonious balance of interests may be restored.[85] According to Pistorius,[86] contributory, vicarious or inducement liability may arise from an ISP's act or omission.

6.4.2 Joint wrongdoing or contributory infringement

When more than one person causes the same damaging consequences to a plaintiff, each culprit is according to the ordinary principles of delict liable for only the specific damage he or she has caused.[87] Joint wrongdoing arises where more than one person is being involved in the commission of a wrongful act by instigating, aiding or advising its perpetration.[88] Joint wrongdoers are persons who are jointly or severally liable in delict for the same damage. Joint wrongdoers may be sued in the same action.[89]

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[81] See section 23(2) of the Copyright Act; Copeling *Copyright Law in South Africa* at 140; Dean *Handbook of South African Copyright Law* at 1-44.
[82] Pistorius "Copyright law and IT" at 274.
[83] Ibid.
[84] See *Herschel v Mrupe* at 465, 485 and 490.
[85] Neethling et al. *Law of Delict* at 3. See *Coronation Brick (Pty) Ltd v Strachan Construction Co (Pty) Ltd* at 372D–E.
[86] Pistorius "Copyright law and IT" at 274.
[87] Dean *Handbook of South African Copyright Law* at 1-49, para. 8.22; Van der Merwe and Olivier *Die Onregmatige Daad in die Suid-Afrikaanse Reg* at 293–294; Neethling et al. *Law of Delict* at 257.
[88] See *Jooste v Minister of Police* at 349; *Chetty v Minister of Police* at 450; *Savage and Lovemore Mining (Pty) Ltd v International Shipping Co (Pty) Ltd* at 153B–C. See also Neethling et al. *Law of Delict* at 257.
[89] See Neethling et al. *Law of Delict* at 257.

South African courts recognize the Aquilian liability principle. In *McKenzie v Van der Merwe*,[90] the court held that under the *lex Aquila* principle two categories of people are held liable for damage caused: namely the persons who actually take part in the commission of a delict and those who assist them in any way.

Dean submits that in contributory infringement an instigator of the infringing act commits a causal copyright infringement which ordinarily constitutes a material contribution to the infringing act.[91] The general principles of common-law delict apply to copyright infringement – particularly regarding the question of joint wrongdoing or participation – unless the Copyright Act contradicts the common-law principles.[92] In *Atari, Inc and another v JB Radio Parts (Pty) Ltd*,[93] the applicants alleged that the respondent instigated or facilitated the making of unauthorized copies of the applicants' computer games by third parties. Even though there was no evidence of any actual reproduction of the applicant's games, the respondent was held to have infringed copyright.

According to this case, if a copyright holder can prove that an ISP has facilitated file-sharing of sound recordings in a DP2P network, he or she proves contributory infringement by the ISP. The proof of facilitation by ISPs of making unauthorised sound recordings by users on DP2P networks is strengthened by the main submission in this study which is to the effect that ISPs can identify illegal sharing of sound recordings on their network without intercepting or monitoring the transmission. The remedies available to the rights-holder in an *Aquilian* action are damages, injunctive relief and delivery up.[94]

6.4.3 Vicarious liability

6.4.3.1 Introduction

Each person is usually responsible for his or her own actions only. However, there are situations in which the law imposes liability on a person who was not personally involved in

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[90] *McKenzie v Van der Merwe* at 51.

[91] Dean *Handbook of South African Copyright Law* at 1-50.

[92] Ibid. at 1-49, para. 8.22. See also *Esquire Electronics Ltd v Executive Video* at 590 with respect to the comparable statutory delict of trade-mark infringement.

[93] See Dean *Handbook of South African Copyright Law* at 1-11 and 1-50A.

[94] See section 24(1) of the Copyright Act. See also Visser "Online service providers: Models for limiting their liability" at 166.

causing damage.[95] According to Roos[96] this is a type of strict liability on the part of the person who is finally liable for the delict committed by another person, or it is a liability without personal fault by another person.[97]

Vicarious liability runs counter to the basic principles of the law of delict in that a defendant can be held vicariously liable without being at fault or wrongfully causing the damage. Thus, vicarious liability can be qualified as quasi-delictual.[98] The rationale behind non-fault liability is premised on policy considerations. The factors determining vicarious liability include control over another's activity, the creation of risk,[99] who benefits from the activity, and who can afford to pay for the damages incurred.[100]

Commenting on vicarious liability, the court in *S v Makwanazi* refused to extend the Aquilian action to rescue the plaintiff who was in a position to avoid the risk of harm.[101] In *Trustees, Two Oceans Aquarium Trust v Kantey & Templer (Pty) Ltd*,[102] the court held that the approach of South African courts has been not to extend the scope of the Aquilian action to new circumstances unless public or legal policy considerations favour the extension.

Of course, each case must be decided on its own merits. In *Minister of Finance and others v Gore NO*,[103] the court reiterated that liability is decided on a case-by-case basis, as a matter of public policy.[104] The public or legal policy considerations in the law of delict can be deduced from ISPs' exclusive and inherent technical right and ability to control their users' access. Moreover, it is difficult for copyright holders to provide proof of an infringement

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[95] See Neethling et al. *Law of Delict* at 352; Alheit *Issues of Civil Liability Arising from the Use of Expert Systems* at 526.

[96] See Roos "Freedom of expression" at 415.

[97] See Wicke *Vicarious Liability in Modern South African Law* at 1.

[98] Wicke *Vicarious Liability in Modern South African Law* at 1; See Van der Walt and Midgley *Delict: Principles and Cases Vol. 1: Principles* at 25.

[99] See *S v Makwanazi* at 596–597.

[100] See Alheit *Issues of Civil Liability arising from the Use of Experts Systems* at 527; Wicke *Vicarious Liability in Modern South African Law* at 1. See also *Boucher v Du Toit* at 971; *Du Plessis v Faul* 1985 at 85; *Gijzen v Verrinder*at 811E–F.

[101] *S v Makwanazi* at 596–597.

[102] *Trustees, Two Oceans Aquarium Trust v Kantey & Templer (Pty) Ltd* at 145C.

[103] *Minister of Finance and others v Gore NO* at 149.

[104] Ibid. at 123. Policy is limited regarding the extent to which it can be enforced by the courts, but can be complemented by the general provisions of legislation in favour of rights-holders. Section 25(4)(*b*) of the 1996 Constitution and sections 2, 4 and 78(2) of the ECTA, for example, generally protect intellectual property.

because they do not have access to the records; they can only rely on the principle of constructive knowledge.

The indiscriminate use of terminology makes determining legal rules complicated. The complication is because there is inconsistency in the ratio.[105] The most common and significant category of vicarious liability is that of an employer's liability for the delicts of an employee committed in the course of the employee's employment.[106]

Basically, vicarious liability applies when there is a particular relationship between parties. Three such relationships are the relationship between an employer and employee,[107] the relationship between principal and agent,[108] and the relationship between independent service provider and user. In this thesis, the relationship between ISPs and users will be considered.

6.4.3.2 The relationship between an independent service provider and its users

The relationship between ISPs and their users is essentially contractual. ISPs provide users with routine and specialized services such as Internet services. The ISP is vicariously liable for the wrongdoing of the user by virtue of its professional expertise, even though users can be held directly liable.

(a) The relationship between ISPs and the users

The approach of Van der Walt and Midgley[109] will assist in determining the vicarious liability of ISPs. The relationship between the person who commits the delict and the person who is vicariously liable is important.[110] Vicarious liability refers to a particular relationship between two persons.[111] Their relationship on the Internet is such that a delict cannot be committed by the primary infringer (a user) without the facilities provided by the secondary infringer (an

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105 See Wicke *Vicarious Liability in Modern South African Law* at 1.

106 Ibid.

107 Neethling et al. *Law of Delict* at 352–358; Alheit *Issues of Civil Liability Arising from the Use of Expert Systems* at 527–528 and 530; *Mkize v Martins* at 390.

108 Wicke *Vicarious Liability in Modern South African Law* at 1; Neethling et al. *Law of Delict* at 352; Alheit *Issues of Civil Liability Arising from the Use of Expert Systems* at 527; Van der Merwe and Olivier *Die Onregmatige Daad in die Suid-Afrikaanse Reg* at 520.

109 *Delict: Principles and Cases Vol. 1: Principles* at 24.

110 Ibid.

111 Neethling et al. *Law of Delict* at 352.

ISP).[112] On the other hand, one needs to establish a link between the delict and the activity of the person who is alleged to be vicariously liable.[113] The link of liability is between the direct infringement of a copyright work (for instance sound recordings) by users in and the activity of ISPs in DP2P technology.

(b) The ISP must be an expert in the area of specialization

The business of providing Internet access is technical and cannot be operated by non-experts; great skill is required. ISPs are experts in this field. In this regard, Von Seidel submits that ISPs have the right and ability to control infringing acts.[114]

Alheit argues that professionals should be dealt with separately under professional negligence from whom a higher standard of care is expected.[115] In her submission, she referred to many YK2 consultants as mere opportunists and added that they should not be allowed to get away with professional negligence under the cloak of lack of experience. According to her, a person who undertakes activities that require particular skills that he or she does not possess is, in terms of the maxim *imperitia culpae adnumeratur*, negligent, and fraudulent if something goes wrong.[116]

(c) The service provider must have the ability to change the network or *modus operandi*

The changing of the network or modus operandi may be done so that only legal transactions can be carried out and that the rights of users and copyright owners are not infringed. The ability of ISPs to adjust the network is unequivocal.[117]

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[112] See paras 2.3 and 2.7 of this study.

[113] See Van der Walt and Midgley *Delict: Principles and Cases Vol. 1: Principles* at 25.

[114] Von Seidel (ed.) *Intellectual Property –The John & Kernick Guide* at 88. See also *Deneys Reitz v SA Commercial Catering and Allied Workers Union* at 685.

[115] See Alheit *Issues of Civil Liability Arising from the Use of Expert Systems* at 522. See also Van der Merwe *Computers and the Law* at 154.

[116] Ibid.

[117] Ibid.

(d) The ISP neglects, refuses or omits to change the network or *modus operandi*[118]

Although ISPs have the technical ability to reconfigure the network to disallow the use of DP2P applications or any unknown or foreign application on the network,[119] they are prohibited from monitoring or intercepting their networks.

(e) An ISP must derive a financial benefit from the infringing act

ISPs must envisage or derive a financial benefit from the infringing activity. This benefit need not be direct. The benefit to an ISP could be a loss to a right holder. The *lex Aquila* is based on liability for economic loss[120] which is what copyright owners suffer as a result of DP2P file-sharing. Economists believe that individuals do not engage in activities that do not provide a positive expected return. Therefore, it is to be expected that sharers must receive some benefits for their efforts.[121] Any form of benefit to the infringer that results in pure economic loss to the copyright owner is sufficient for infringement of copyright to occur. In *CCP Record Co (Pty) v Avalon Record Centre,*[122] the court held that the defendant's benefit was the plaintiff's loss.

Expanding on the practical meaning of financial benefit, Van der Walt and Midgley[123] argue that pure economic loss is "financial loss sustained without the interposition of a physical lesion or any injury to a person or corporeal property". In *Administrator, Natal v Trust Bank van Afrika Bpk,*[124] the Appellate Court, for the first time, recognized Aquilian liability for economic loss caused by negligence. However, notwithstanding this recognition, in Hoffman's opinion South African courts are more cautious when granting a delictual action for pure economic loss caused by negligence.[125] In *Greenfield Engineering Works (Pty) Ltd v NKR Construction,*[126] the court noted that granting such a claim opens the floodgates to litigants with similar claims. This was probably the concern that culminated in the legislature's enactment of

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[118] *Minister of Safety and Security v Mohofe* at 218G and 219–220.
[119] See paras 2.3 and 2.7 of this study.
[120] Neethling et al. *Law of Delict* at 280.
[121] See Cooter and Ulen *Law and Economics* at 16; Thomas "Vanquishing copyright pirates and patent trills: The divergent evolution of copyright and patent laws" at 701.
[122] *CCP Record Co (Pty) v Avalon Record Centre* at 445.
[123] *Delict: Principles and Cases Vol. 1: Principles* at 77.
[124] *Administrator, Natal v Trust Bank van Afrika Bpk* at 824.
[125] Hoffman *Cyberlaw: A Guide for South Africans doing Business Online* at 134.
[126] *Greenfield Engineering Works (Pty) Ltd v NKR Construction* at 901. See also Van der Merwe *Computers and the Law* at 155.

the limitation clause in section 78(1) of ECTA and section 2 of RICA.[127] These provisions limit the liability of ISPs.

In *Arthur E Abrahams & Gross v Cohen and others*,[128] it was held that a court in pronouncing on economic loss must satisfy itself that the possibility of pure economic loss was reasonably foreseeable by the defendant and that he or she was under a legal duty to prevent such loss. I submit that because ISPs do not owe a legal duty to monitor or intercept their networks for infringing copyright works under the ECTA, the limitation clause applies as a ground of defence for copyright infringement.

In the opinion of Van der Walt and Midgley,[129] the application or otherwise of Aquilian liability for negligently causing pure economic loss is the criterion of reasonableness, which depends on the circumstances of each case. Von Seidel argues that ISPs are liable for copyright infringement because they receive direct financial benefits from their subscribers.[130]

6.4.4 Inducing infringement

The term "inducement" is commonly used in the context of criminal law in relation to bribery and other related criminal activities.[131] In the civil-law context, inducement is significant in relation to unlawfulness in that, although it may not be a prerequisite to a successful action, certain factors are considered when the court decides whether the *boni mores* or the criterion of reasonableness would regard a particular conduct in a contractual relationship as unlawful.[132] In *Godongwana v Mpisana*[133] the court held in relation to the law of contract that in the case of an inducement to commit a breach of contract there is a direct interference with the contractual relationship.[134]

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[127] The RICA was enacted on 30 December 2002 as one of the two pieces of legislation prohibiting the interception and monitoring of information. It came into force on 30 September 2005 and repealed the Monitoring Prohibition Act.

[128] *Arthur E Abrahams & Gross v Cohen and others* at 308.

[129] *Delict: Principles and Cases Vol. 1: Principles* at 77.

[130] Von Seidel (ed.) *Intellectual Property –The John & Kernick Guide* at 88.

[131] See Claassen *Dictionary of Legal Words and Phrases*, Issue 3, at 1-70; Milne, Cooper and Burne *Bell's South African Legal Dictionary* at 390; *R v Alexander* at 41; *R v Patel* at 511; *R v Chorle* at 487; *S v Narker and another* at 583.

[132] *Lanco Engineering CC v Aris Box Manufacturing (Pty) Ltd* at 378.

[133] *Godongwana v Mpisana* at 814.

[134] Supra at 816 E–H.

According to McKerron, the rule of inducement is that he who wilfully induces another to do an unlawful act which, but for his persuasion, would or might never have been committed, is answerable for the wrong which he has procured. In order to establish a prima facie cause of action, all that a plaintiff need show is that the defendant knowingly and intentionally interfered, and that the breach was a consequence of interference. However, it should be noted that nothing less than knowledge and intention will suffice.[135] This description shows the presence of intent and knowledge when a party is induced to perform an act. In this regard Pistorius[136] states that "The concept of inducement liability is applied to those who intentionally induce violation of copyright". Thus, intent is fundamental to inducement liability which will be examined from the point of view of delictual liability since there is no South Africa copyright case law in this respect.

Intent (*dolus* or *animus iniuriandi*) is a

> "legally-reprehensible state of mind or mental disposition encompassing two requirements, namely direction of the will to the attainment of a particular consequence and knowledge (consciousness) of the fact that such result is being achieved in an unlawful or wrongful manner".[137] The test for intent is subjective in that intent is established only if the defendant intended to bring about a particular result and was at the same time subjectively aware of the wrongful nature of his or her conduct. The notion of consciously wrongful intent applies throughout the law of delict.[138]

6.4.4.1 Direction of the will in the infringement of sound recordings

Three forms of intent exist: direct intent (*dolus directus*) or *oogmerkopset*,[139] indirect intent (*dolus indirectus*)[140] and *dolus eventualis*.[141] Of these, indirect intent is most relevant to this study. Indirect intent is present when a wrongdoer directly intends his or her conduct to achieve

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135 McKerron *The Law of Delict* at 268 -269 .

136 Pistorius "Copyright law and IT" at 174.

137 See Van der Walt and Midgley *Delict: Principles and Cases Vol. 1: Principles* at 127; *Dantex Investments Holdings (Pty) Ltd v Brenner* at 390C.

138 Ibid.

139 See Van der Merwe and Olivier *Die Onregmatige Daad in die Suid-Afrikaanse Reg* at 115; Van der Walt and Midgley *Delict: Principles and Cases Vol. 1: Principles* at 63; Neethling et al. *Law of Delict* at 117.

140 Van der Merve and Olivier *Die Onregmatige Daad in die Suid-Afrikaanse Reg* at 115–116; Neethling et al. *Law of Delict* at 117.

141 See *Moaki v Reckitt and Colman (Africa) Ltd* at 708–709.

one consequence but at the same time knows that it will inevitably result in another consequence.[142] According to Dean,[143] indirect intent exists when an ISP unintentionally reproduces a work by making the work available to a user.

6.4.4.2 Knowledge of wrongfulness

It is insufficient for the wrongdoer merely to direct his or her will to causing a particular result; he or she must also know (realize) or at least foresee the possibility that his or her conduct is wrongful in that it is contrary to law or infringes another's rights.[144]In a similar vein, it is insufficient for the ISP merely to direct its will to infringing copyright in sound recordings; it must also know or at least foresee the possibility that its conduct is wrongful, that it is contrary to law.

It is submitted that to prove intent a rights-holder must prove that an ISP knows or at least foresees the possibility that its conduct in copyright infringement on the Internet is wrongful.[145] For instance, in *Bosal Africa (Pty) Ltd v Grapnel (Pty) Ltd,*[146] the claim was dismissed because of a lack of proof of knowledge of infringement.

Guilt is the fact or state of having committed a wrong; guilty is the state of being responsible for a civil wrong such as a delict or breach of contract.[147] Dean[148] points out that the test of guilty knowledge in cases of civil copyright infringement[149] has been said to be primarily objective; in other words, a reasonable person in possession of the facts would conclude that copyright has in fact been infringed.[150]

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[142] Van der Merwe and Olivier *Die Onregmatige Daad in die Suid-Afrikaanse Reg* at 115–116; Neethling et al. *Law of Delict* at 117.
[143] Dean *Handbook of South African Copyright Law* at 1-40 to 1-41, para. 8.4.7.
[144] See Van der Walt and Midgley Delict: Principles and Cases Vol. 1: Principles at 63; Van der Merwe and Olivier Die Onregmatige Daad in die Suid-Afrikaanse Reg at 122–125; Neethling et al. Law *of Delict* at 119; *Dantex Investment Holdings (Pty) Ltd v Brenner* at 396–397.
[145] Neethling et al. *Law of Delict* at 119.
[146] *Bosal Africa (Pty) Ltd v Grapnel (Pty) Ltd and another* at 893.
[147] Snyman *Criminal Law* at 97; Garner (ed.) *Black's Law Dictionary* at 714.
[148] Dean *Handbook of South African Copyright Law* at 1-48.
[149] See section 27 of the Copyright Act and Dean *Handbook of South African Copyright Law* at 1.47 to 1-48 paras 8.18 - 8.19 on the provision of criminal infringement of copyright.
[150] Ibid. and at 1-47.

According to Van Wyk et al.[151] it is necessary to prove guilty knowledge on the part of the indirect infringer to constitute infringement in copyright. In *Twentieth Century Fox Film Corporation and another v Anthony Black Films (Pty) Ltd*,[152] it was held that persons who infringe copyright work are liable to an action for infringement if they do so knowingly. In *Harnischfeger Corporation v Appleton*,[153] the court held that the indirect infringement governed by section 23(2) of the Copyright Act, covering the distribution of an article which is an infringing copy, depends on guilty knowledge. Further, in *Frank & Hirsch (Pty) Ltd v A Roopanand Brothers (Pty) Ltd*,[154] the court held that the respondent had guilty knowledge and stated that it is no defence for an indirect infringer to argue that he or she believed that the infringing copies to which the claim of copyright infringement relates were not infringing copies when in fact they were.[155]

(a) Constructive knowledge

According to Esselaar,[156] information on the "Go-to list of prohibited sites" is available to anyone online. This list enumerates the particulars of illegal websites and warns users to be careful of undesirable contents, elements and activities on the Internet. Since this information is available on the Internet, it is known to the world, including ISPs.[157] In *Gramophone Co Ltd v Music Machine (Pty) Ltd*[158] the court held that guilty knowledge of the infringing nature of an article entails notice of facts which would suggest to a reasonable person that a breach of copyright law was being committed. This knowledge amounts to constructive knowledge. This position was followed in *Paramount Pictures Corporation v Video Parktown North (Pty) Ltd*.[159]

In *Frank & Hirsch (Pty) Ltd v A Roopanand Brothers (Pty) Ltd*,[160] the court held that it is no defence for the defendant to claim ignorance of the infringement despite possessing all the

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151 Van Wyk et al "South Africa" at 314.
152 *Twentieth Century Fox Film Corporation and another v Anthony Black Films (Pty) Ltd* at 589.
153 *Harnischfeger Corporation and another v Appleton and another* at 453.
154 *Frank & Hirsch (Pty) Ltd v A Roopanand Brothers (Pty) Ltd* at 467.
155 See also Dean *Handbook of South African Copyright Law* at 1-47, para.8.16.
156 Esselaar "What ISPs can do about undesirable content" at 20.
157 See paras 2.3 and 2.7 of this study.
158 *Gramophone Co Ltd v Music Machine (Pty) Ltd and others* at 188. See also Dean *Handbook of South African Copyright Law* at 1-46–1-47.
159 *Paramount Pictures Corporation v Video Parktown North (Pty) Ltd* at 251.
160 *Frank & Hirsch (Pty) Ltd v A Roopanand Brothers (Pty) Ltd* at 467.

relevant facts.[161] In the opinion of Wyk et al.,[162] knowledge *of* the infringement does not mean that it has to be shown conclusively that the infringer knew that the work infringed copyright but simply that the infringer had reasonable grounds to have knowledge of the infringement of copyright on the basis of which the infringer could or should have made inquiries into whether copyright subsisted or not.[163] In sum, further to the submissions on the identification of infringing sound recordings in DP2P networks,[164] it is safe to conclude that constructive knowledge of infringement applies in the sense of being sufficient to establish knowledge.

(b) Actual knowledge

From the perspective of the IRB Guidelines and the ISPA Code, actual knowledge of infringement is required.[165] In the view of Van der Merwe,[166] the South African Constitution, particularly the Bill of Rights,[167] is a factor to be taken into consideration as to whether a particular conduct was wrongful.[168] The question that a rights-holder needs to answer is, are all sound recordings transmitted on the Internet illegal? The answer is "no". This is because, while there may be some cases of infringement of copyright in DP2P technology, there is also evidence that the technology can be used legitimately. However, such legitimate use constitutes only a tenth of all DP2P file-sharing activity.[169]

Finally, the statutes (Copyright Act, ECTA and RICA) require actual knowledge of infringement while common law requires constructive knowledge. Whether it is actual or constrictive knowledge, it is my submission in this thesis that ISPs know of the copyright infringement of sound recordings on their networks.[170]

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[161] See also Dean *Handbook of South African Copyright Law* at 1-47.
[162] Van Wyk et al "South Africa" at 314.
[163] Ibid.
[164] See paras 2.3 and 2.7 of this study.
[165] See paras 5.4.2 and 5.7 of the IRB Guidelines and para. 23 of the ISPA Code. See also Dean *Handbook of South African Copyright Law* at 1-46, para. 8.15.
[166] Van der Merwe *Computers and the Law* at 152.
[167] See section 14(*d*) of the 1996 Constitution, paras 4,5.6, 6.6.2 and 6.6.4 of part 1 of the IRB Guidelines, Government Notice 29474 No 1283 of December 14, 2006 and chapters 4 and 5 of the Promotion of Access to Information Act 2 of 2000.
[168] See Van der Merwe *Computers and the Law* at 152.
[169] *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* 380 F.3d 1154 (9th Cir. 2004) at 1158 and *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* 125 S. Ct. 2764 (2005) at 2778 revealed that only 10% of the total files shared by means of DP2P software were legal and that sound recordings were the most frequently infringed type of work.
[170] See paras 2.3 and 2.7 of this study.

6.5 The Electronic Communications and Transactions Act's limitation of ISP liability for DP2P file-sharing

ECTA neither provides for fair dealing in copyright works in favour of ISPs nor excludes the liability of ISPs for indirect infringement of copyright. In addition, there is no South African case law establishing the limits of ISPs' liability for such infringement. ECTA applies to all statutory law, also the Copyright Act.[171]

Aside from the requirements in section 73(1)(*a*) to (*d*) of the ECTA which limit the liability of ISPs acting as mere conduits, several other criteria must be met before an ISP can claim or benefit from this safe-harbour law. Thus, the limitation law is not automatic.

6.5.1 Threshold conditions for limitation of an ISP's liability

In terms of section 72(*a*) of the ECTA the limitation on an ISP's liability applies only if an ISP is a member of a representative body referred to in section 71 of the ECTA which is the Internet Service Providers Association (ISPA).[172] In addition, an ISP must have "adopted and implemented the official code of conduct of ISPA before the limitation applies. [173]

6.5.2 Recognition of the ISPA

For ISPs to take advantage of the liability-limiting provisions of the ECTA they must be recognized as a "representative body under section 71 of ECTA. Section 71 of the ECTA provides that:

> "the Minister of Communication "may, on application by an industry representative body for service providers [i.e. the ISPA] by notice in the *Gazette*, recognise such body for purposes of section 72" of the Act.[174]

In essence, recognition of an IRB is not automatic since the body must apply for recognition and the decision to recognize it must be gazetted. The word "may" in section 71(1) suggests that it is

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[171] See section 3 of the ECTA.
[172] See also Pistorius "Copyright law and IT" at 286.
[173] See section 71(1)(C) of the ECTA.
[174] Section 71(1) of the ECTA. The Act does not limit the number of representative bodies in a particular industry

at the discretion of the minister to accord such recognition which I submit, must not be unreasonably withheld if the conditions are met. The four conditions are: subjecting ISPs to a code of conduct;[175] subjecting ISPA membership to "adequate criteria"[176] continued adherence to adequate standards of conduct[177] and IRB's capability to monitor and enforce its code of conduct.[178]

6.5.3 Lack of obligation to monitor or actively seek facts or circumstances indicating an unlawful activity on the Internet by ISPs

Section 78(1) of the ECTA states that an ISP providing the services contemplated in Chapter XI of the Act is not generally obliged to monitor the data it transmits or stores or "actively seek facts or circumstances indicating an unlawful activity". This provision is reiterated in the ISPA Code.[179] It limits the liability of ISPs with regard to ECTA monitoring or actively seeking for facts or circumstances indicating an unlawful activity on the Internet. Furthermore, section 2 of the Regulation of Interception of Communications and Provision of Communication-related Information Act 70 of 2002 (RICA) prohibits ISPs from intercepting communications.

The legislative intervention in section 78(1) was informed by the *boni mores* principle and by justification of protection of ISPs by the statutory authority[180] in the online world. The *boni mores*[181] balance the interests that ISPs actually promote by their acts and those they actually infringe (the rights of rights-holders, for example). Courts must weigh the conflicting interests of rights-holders and ISPs in the light of all relevant circumstances and in view of all the pertinent factors to decide whether infringement of the rights-holders' interests was

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[175] The Code of Conduct is based on the guiding principles which are set out in part 1 para 2 of IRB Guidelines namely: self-regulation; effectiveness; constitutional values; minimum standards of professional conduct; lack of basis for liability; preferred standards of conduct; protection of consumers and public; law enforcement; no general obligation to monitor (see section 78 of the ECTA); equality and technological neutrality; and fairness.

[176] In pursuance of section 71(2)(*b*) of the ECTA, the IRB Guidelines provides for a checklist of adequate criteria for the IRB to meet namely: Para. 31 of the ISPA Code which complies with para. 12 of part 2 of the IRB Guidelines; Para. 32 of the ISPA Code which complies with para. 11 of part 2 of the IRB Guidelines; Para. 33 of the ISPA Code which complies with para. 13 of part 2 of the IRB Guidelines; Para. 34 of the ISPA Code which complies with paras 11, 12 and 13 of part 2 of the IRB Guidelines; Para. 35 of the ISPA Code which complies with para 11.1 of part 2 of the IRB Guidelines.

[177] See section 71(2)(c) of the ECTA.

[178] See section 71(2)(d) of the ECTA.

[179] See para. 22 of the ISPA Code. See also Visser "A new online service provider liability regime- The Electronic Communication and Transaction Act 2002 now applies" *JBL* vol. II part 1 at 43.

[180] Neethling et al. *Law of Delict* at 32–35 and 97–98.

[181] See the description of *boni mores* by Neethling et al. *Law of Delict* at 32–33.

reasonable. Under the statutory authority principle, ISPs do not act wrongfully when they carry out an act under statutory authority which act would otherwise have been wrongful.[182] Harmful conduct authorized by statute is thus reasonable (or justified) and consequently lawful.

However, even though ISPs are not obliged to monitor their networks they are subject to such other statutory duties as may be directed by the minister under section 78(2) of the ECTA. Section 78(2) applies when illegal activities take place on an ISP's network. Accordingly, the minister may, subject to section 14 of the Constitution, prescribe procedures by means of which ISPs must inform "competent public authorities" of alleged illegal activities and "communicate to the competent authorities" information that will identify users.

Section 79 of the ECTA provides that statutory limitation of ISPs' liability does not affect:[183]

> (*a*) any obligation founded on an agreement: for instance, a group of right holders may agree to supply a TPM (Technical Protection Measure) free in order to prevent the infringement of copyright in sound recordings. ISPs may agree on the condition that infringement of copyright in sound recording does not occur within a specified period during which the statutory limitation clause will not affect the parties;
>
> (*b*) the obligation of a service provider acting as such under a licensing or other regulatory regime established by or under any law: for example, a collecting society may issue license to an ISPs free to explore sound recording and pay an agreed royalty (either in advance or arrears) and thereafter ISPs will appropriate to themselves any other income that they earn. During the agreed period, the statutory limitation clause will not affect the parties;
>
> (*c*) any obligation imposed by law or by a court to remove, block or deny access to any data message: for instance, where a right holder in sound recording has been able to prove that his work has been infringed by an

[182] See Neethling et al. *Law of Delict* at 97–98 for the definition of statutory authority in relation to the law of delict.

[183] See paras 13, 22 and 24 of the ISPA Code.

ISP, the court will in pursuance of section 73(3) of ECTA order such ISP to terminate or prevent unlawful activity. With an order of court, the statutory limitation clause will not affect the parties;

(*d*) any right to limitation of liability based on the common law or the Constitution: for example, where the common law imposes a duty of care on ISPs to prohibit illegal sharing of sound recordings on their networks in furtherance of the protection of rights copyright in sound recordings. Another instance is where section 25(4)(b) of the Constitution categorically states that the rights of sound recordings in the online world are protected under copyright.

6.5.4 Conditions for limiting the liability of an ISP as a mere conduit

The ECTA makes provision for the limitation of liability of ISPs that act as mere conduits, cache, host, or link data messages.[184] Most relevant to this study of the liability of ISPs in DP2P file-sharing is section 73 of the ECTA which concerns ISPs serving as mere conduits. Section 73(1) states that an ISP is not liable for providing access to or for operating facilities for information systems or transmitting, routing or storage of data messages via an information system under its control, as long as the service provider –

(*a*) does not initiate the transmission;

(*b*) does not select the addressee;

(*c*) performs the functions in an automatic, technical manner without selection of the data; and

(*d*) does not modify the data contained in the transmission.

Section 73(2) throws more light on the intent behind the legislation. It states that the acts of transmission, routing and of provision of access referred to in subsection (1) include the automatic, intermediate and transient storage of the information transmitted in so far as this takes place –

[184] See sections 73–76 of the ECTA.

(*a*) for the sole purpose of carrying out the transmission in the information system;

(*b*) in a manner that makes it ordinarily inaccessible to anyone other than anticipated recipients; and

(*c*) for a period no longer than is reasonably necessary for the transmission.

The requirements in section 73(1) and (2) that ISPs must satisfy in order to enjoy the limitation clause are not stringent or impossible to meet. This is because, equitably speaking, ISPs are shielded from owing copyright owners a duty to monitor infringing activity. In fact, in 1998, before the invention of DP2P software applications, Von Seidel[185] recommended the use and implementation of an automatic screening device on the Internet to prevent infringement.

6.5.5 Take-down and notification

Section 77 of the ECTA sets the following requirements for a take-down notice with respect to unlawful activity. The notification must be in writing and must be addressed by the complainant to the service provide or its designated agents which includes:[186] the full names and address of the complainant; the written or electronic signature of the complainant; identification of the right that has allegedly been infringed; identification of the material or activity that is claimed to be the subject of unlawful activity; remedial action required to be taken by the service provider in respect of the complainant; telephonic and electronic contact details, if any, of the complainant, a statement that the complainant is acting in good faith and a statement by the complaint that the information in take-down notification is to his or her knowledge true and correct.

6.5.6 Other observations on the limitations in the ECTA

1. The effect of compliance with the notice and take-down procedure in the US Copyright Act is more limited than that of compliance with the take-down procedure in the ECTA. Compliance with the former does not exclude liability generally or for damages only;

[185] Von Seidel (ed.) *Intellectual Property–The John & Kernick Guide* at 88.

[186] See Visser "A new online service provider liability regime- The Electronic Communication and Transaction Act 2002 now applies" *JBL* vol. II part 1 at 43.

rather, it authorizes only limited injunctive relief against ISPs who comply with the requirements of denying access to infringers and blocking infringing content.[187]

2. There are no similar limitations in favour of non-educational profit institutions that carry out Internet services for student use. This exposes them to liability like that to which any other direct infringer of copyright on the Internet is exposed.[188]

3. The ISPA Code does not provide for any penalty when the ISPA code is contravened by ISPs. It only provides for co-operation with the ISPA in accordance with the complaints and disciplinary procedures and for compliance with any decision taken with respect to the ISPA code and the complaints and disciplinary procedure.[189]

6.6 Conclusion

In view of the lex Aquila principle, an ISP would be held liable in contributory infringement because it assists users to infringe the rights in sound recording in DP2P technology by not detecting infringing sound recordings in their network.[190] With regards to vicarious liability, the new concepts canvassed in this study would hold ISPs liable because of the presence of the following: there is a relationship between an ISP and users in DP2P technology; ISPs are experts in their area of specialization; ISPs have the ability to change the network or modus operandi to prevent infringement which they neglect, refuse or omit to change the network and ISPs derive financial benefit from the infringing act.[191] Concerning inducing infringement, an ISP is liable for infringement of copyright based on the indirect intent of an ISP coupled with the knowledge of wrongfulness which may either be constructive or actual.[192]

Notwithstanding that chapter XI of ECTA seeks to protect ISPs from online liability, the legislation did not take into consideration the special features in sound recordings. Sound recordings are not capable of being monitored or intercepted but capable of being filtered, identified, and detected save private sound recordings (such as recordings carried out for

[187] See Visser "A new online service provider liability regime- The Electronic Communication and Transaction Act 2002 now applies" *JBL* vol. II part 1 at 43; Pistorius "Copyright law and IT" at 289.
[188] See Visser "A new online service provider liability regime- The Electronic Communication and Transaction Act 2002 now applies" *JBL* vol. II part 1 at 44; Pistorius "Copyright law and IT" at 290.
[189] See para. 31 of the ISPA Code.
[190] See para 6.4.2 of this study.
[191] See para. 6.4.3 of this study.
[192] See para. 6.4.4. of this study.

security and business purposes for quality purposes), therefore, ISPs are not exempt from liability in this regard based on the principles of law of delict.[193] Further, it is submitted that there are circumstances in which the protection accorded ISPs may not apply under the section 79 of the ECTA.

It is important to note that the IRB Guidelines and the ISPA Code cure the defects in the ECTA, albeit with some inadequacies such as failure to protect non-profit organizations that carry out Internet services and lack of uniform rules for take-down notices.

However, were the principles of indirect liability applied to ISPs in DP2P file-sharing, those ISPs would not be able to survive in the market; hence the need to amend the ECTA to include filtering, identification and detecting as part of the words under monitoring and interception. Further, there is the need to interpret section 25(4)(*b*) of the Constitution in favour of ISPs and to protect the skill and labour used in granting access on the Internet access to users in much the same way as copyright holders are protected. This protection should be read in conjunction with section 25(1) of the Constitution which generally recognizes the right property.

[193] See para. 2.8 of this study.

CHAPTER 7

RESTATEMENT OF THE LIABILITY OF INTERNET SERVICE PROVIDERS

7.1 Introduction

In the course of examining the liability of ISPs in the three jurisdictions considered in the previous chapters in this study, I referred to some *sui generis* principles in the law of delict or tort. These principles generally transcend all borders and jurisdictions.

7.2 Approach to innovation

The first approach on innovation was postulated by Anns,[1] which says that a duty of care need not be limited to the facts of previous situations, but that one should establish whether recognized principles apply to the situations. The historic *Donoghue* case[2] is a statement of principle which ought to apply in new situations unless there is a compelling reason for its exclusion.[3]

In resolving the application of the statement of principle to new situations of duty of care, two questions must be addressed:[4]

(a) First, is there a "sufficiently close relationship" between the parties to warrant the duty of care based on the "neighbourhood concept"?[5] It is submitted that an ISP, being a "go-between" and gatekeeper between "right-holders and users", is in a sufficiently close relation between the adverse parties.

(b) Secondly, is there any public-policy consideration which may negate or limit the scope of the duty, the category of persons to whom it is owed, or the damages to which a breach of it may arise?[6] I submit that public policy must be objective and in the interests of all

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[1] Beever *Rediscovering the Law of Negligence* at 168- 181.
[2] *Donoghue v Stevenson* at 31.
[3] Supra.
[4] Beever *Rediscovering the Law of Negligence* at 169.
[5] Ibid.
[6] Ibid.

copyright stakeholders. It should also examine the role of quasi service providers or non-professional participants in DP2P file-sharing to determine to whom a duty of care is owed.

The second approach is called the "incremental" approach.[7] The approach is based on the belief that it is preferable that the law should expand new categories of infringement incrementally with "analogy in special categories"[8] rather than applying a *prima facie* duty of care generally.[9] DP2P application is a special category upon which the law of delict should expand.

7.3 ISPs' duty of care

It is possible for infringement to occur when a duty of care is not owed to the claimant. Duty of care concerns the person to whom one owes care.[10] The question that arises is to whom does the infringer owe a duty of care?[11] Liability must end somewhere. Lord Atkins believes that there must be "some general conception of relations giving rise to a duty of care".[12]

Duty of care is based on ISPs' ability to control activities on the Internet. This is further complicated by the disputes relating to the capability and responsibilities of ISPs. ISPs characterize their role as that of common "carriers".[13] They argue that they only transmit, and have no control over the Internet; others believe that ISPs should be treated as conventional distributors or publishers who adopt a higher level of responsibility than that of a mere conduit.[14] In countries where the "safe harbour rule" or limitation clause has been enacted to protect ISPs from liability, no duty is placed on ISPs to monitor or seek facts about infringing activities although they are expected to implement "standard technical measures".

Generally, liability is flows from the commission of an act or omission to engage in an act. That party bears a *prima facie* duty of care in a transaction emanating from statute, contract or

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[7] Ibid. at 182.
[8] My emphasis.
[9] Beever *Rediscovering the Law of Negligence* at 182. In this regard, inducement, a new infringement category, was introduced in the *Grokster* matter, although the court in *Grokster* III case rejected this new theory. See *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1166 and the appeal court's examination of it in *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* III case supra at 2764.
[10] Beever *Rediscovering the Law of Negligence* at 73.
[11] Ibid. at 119.
[12] Ibid. at 122.
[13] Geist *Internet Law in Canada* at 84.
[14] Ibid; Street and Grant *Law of the Internet* at 503–504 submit that it is the concern of ISPs whether operators of Internet routers should be regarded as publishers or distributors of infringing content and held liable despite their lack of knowledge or inability to control, limit or police the infringing content.

the *sui generis* principle of law. Some believe that ISPs have the potential to carry out regulatory functions on the Internet and prevent civil and criminal infringements.[15] In this regard, I have attempted to show that ISPs are duty-bound to detect infringing sound recordings.

The duty of care is open in principle[16] given that the forms of negligence are never foreclosed.[17] For instance, a new theory has been introduced in copyright infringement: the inducement theory. This theory was introduced in response to further protect the interests of rights-holders in the developments in the digital world.

In addition, the role of ISPs has changed. In the early 1990s, ISP services were restricted to providing public Internet access, but today they provide a wide range of access services (such as dial-up, high speed Internet connectivity, content, discussion forums, Internet guides), software, and phone services. Thus, ISPs may not be easily categorized, and their responsibility in the overall regulatory framework should reflect their evolving role.[18]

This position has been upheld by the courts. For instance, in the *Shapiro* case[19] the court held that infringers are expected to make enquiries before they can be exonerated from liability, otherwise the infringer, who has an opportunity to guard against the infringement by diligent inquiry, or at least the ability to guard against the infringement, must suffer.

7.4 Standard of care

The standard of care is pivotal in determining infringement and liability. The action of a defendant is not expected to be below the standard of care required in the circumstances; failure to meet this standard will render the defendant liable.[20]

The standard of care is the degree of care that a reasonable person should exercise[21] in the performance of his or her duty. It refers to the conduct required of a person in particular

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[15] See para. 2.7 of this study. See also *In re: Aimster Copyright Litigation* supra at 646; Mee and Watters "Detecting and tracing copyright infringements in P2P networks" at 6; Geist *Internet Law in Canada* at 84.
[16] Beever *Rediscovering the Law of Negligence* at 121.
[17] Ibid. at 116.
[18] See para. 2.3 of this study. See also Geist *Internet Law in Canada* at 85.
[19] *Shapiro, Bernstein & Co et al. v HL Green Company, Inc, & Jalen Amusement Company, Inc* at 308.
[20] Beever *Rediscovering the Law of Negligence* at 73.
[21] Garner (ed.) *Black's Law Dictionary* at 1413.

circumstances and includes the "expected level of attention" a person should give to potential damage, mistakes and pitfalls and to preventing the materialization of risks.[22] In other words, it is the expected level of attention ISPs should give to, among other things, preventing infringement of copyright in the process of providing Internet services.

This standard applies only to defendants who have demonstrated their will in action.[23] Liability is not imposed on those who "behave", but on those who have elected or chosen to act in an illegal manner.[24] ISPs provide users with access but do not control or supervise the content of what is distributed by users. The inability to control the content amounts to action and ultimately an illegal act. The inability to control becomes an action when an ISP does not take necessary precautions to prevent the materialization of risk and knows that the unique nature of digitization and the consequential infringements that may occur in DP2P networks will expose copyright owners to risks.

Action may be defined as conduct over which a person has the required degree of control[25] to act according to the requirements. With reference to copyright infringement on the Internet, I submit that ISPs have the required degree of control over infringing actions performed through or in their networks.

One may argue that ISPs exercise their free will and self-determination by engaging in the business of providing Internet service and that they thereby become morally responsible and answerable to stakeholders, particularly the holders of copyright in sound recordings.

Furthermore, the moral issue is premised on the "neighbourhood" principle in terms of which an ISP is morally responsible for taking reasonable care of the people in its neighbourhood. For a long time, ISPs have exercised their free will and self-determination in favour of Internet users by turning a blind eye to infringements committed by users on their networks. However, ISPs have a moral responsibility to act in favour of copyright holders in accordance with the neighbourhood principle.

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[22] Ibid. at 204.
[23] Beever *Rediscovering the Law of Negligence* at 73.
[24] Ibid. at 74.
[25] Ibid. at 73.

Furthermore, with regards to the standard of care, the action is influenced by the ISP's "level of knowledge"[26] of any infringement by users. The level of knowledge is not a new principle, as was mentioned in passing with reference to constructive and actual knowledge of digital distribution in the historic *Grokster* case[27] which introduced several principles of DP2P file-sharing to the law.

According to Williams and Das,[28] there is a course of action against a person dealing with "articles"[29] specifically designed or adapted for making copies of a work when that person knows or has reason to believe that the articles are to be used to make infringing copies. However, they admit that it may be difficult to prove the infringing use because it is believed that the "main purpose"[30] of the software application is to locate files for copying and that the actual copies are made by other means.[31]

7.4.1 Objective standard

An objective standard is meant to strike a balance between participants, although sometimes the standard may be adjusted to preserve equality between them.[32] The parties in this respect are the rights-holders, ISPs and users. ISPs also serve as the "go-betweens" of the parties.

The objective-standard test generally boils down to what would be expected of a person of "ordinary prudence".[33] Case law has been able to contribute to the meaning of a person of ordinary prudence. For instance, in the English case *RCA Corp v Custom Cleared Sales Pty Ltd* [34] the court, in examining the knowledge requirement, considered the Australian case *Albert v Hoffnung & Co Ltd* [35] in which section 2(2) of the Australian Copyright Act was considered.

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[26] See *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1161.
[27] Supra at 1163.
[28] Williams and Das "Napster: Guilty of infringement" at 499 and 502. Their submission is based on the *Napster* cases.
[29] This is the terms used in subsection 24(1) of the CDPA.
[30] The phrase "main purpose" suggests that there are other possible uses. In the *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1161 it was strongly suggested that the software at issue was capable of substantial or commercially significant infringing use in addition to non-infringing use, see also para 4.4.1.2. of this study.
[31] Williams and Das "Napster: Guilty of infringement" at 502. A reasonable level of proof is recommended in "Digital Britain – The interim report".
[32] Beever *Rediscovering the Law of Negligence* at 73 and 78.
[33] Ibid. at 78.
[34] *RCA Corp v Custom Cleared Sales Pty Ltd* supra at 123.
[35] *Albert v Hoffnung & Co Ltd* at 81.

In the *RCA* case, the Court of Appeal dealt with the Australian provision identical to section 5(3) of the UK Copyright Act 1956, saying that "the true position is that the court is not concerned with the knowledge of a reasonable man but is *concerned with reasonable inferences to be drawn from a concrete situation disclosed in the evidence as it affects the particular person whose knowledge is in issue*".[36]

The objective-standard test mediates between the conflicting interests of parties by laying down a "neutral standard" by which a defendant's liability is determined from his or her actions.[37] An ISP's prudence is decided with reference to the way in which people's ordinary acts would be regulated, not actually between the parties but with regard to third parties. An ISP's act of providing access to the Internet would be regulated with regard to a third party's "neutral standard".

In terms of the objective standard defendants are not expected to do more than an ordinary reasonable person in particular circumstances.[38] The particular circumstances at the core of this study are those relating to Internet access and DP2P file-sharing. As has been argued by technical experts and scholars with regard to Internet security,[39] ISPs are not asked to monitor infringing sound recordings but to "detect" infringing sound recordings in DP2P file-sharing.

The objective test is friendlier to defendants than it is to claimants. This is because the criteria for making such decisions are equitable and clearly stated. In some cases, the syndrome of "winner takes all"[40] tilts towards the defendant, although sometimes it benefits claimants too. For instance, the US Digital Millennium Copyright Act of 1998 – like other limitation laws in this study – benefits ISPs more than it does right-holders to the extent that it reduces ISPs' liability.

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[36] See *RCA Corp v Custom Cleared Sales Pty Ltd* supra at 123; See also Cornish (ed.) *Cases and Materials in Intellectual Property* at 314.
[37] Beever *Rediscovering the Law of Negligence* at 84.
[38] Ibid. at 79.
[39] See para. 2.7 of this study.
[40] Beever *Rediscovering the Law of Negligence* at 79.

7.4.2 Reasonable care

Reasonable care is a test for liability for negligence. According to Garner, it is the degree of care that "prudent and competent persons engaged in the same line of business or endeavour would exercise under similar situations".[41] According to Garner's definition, ISPs who are in the same line of business (of providing access to networks) would still be said to be exercising reasonable care in their industry even though they are not able to prevent the illegal file-sharing in DP2P networks. However, the prudence and competence required of ISPs are the filtering, identification and detection of the illegal sharing of sound recordings on their networks.[42]

ISPs should exercise reasonable care in providing network services as there is a "sufficiently close" relationship[43] between ISPs and right-holders. Furthermore, ISPs' serve as "go-betweens" between right-holders and users; ISPs gain financial benefits through the sharing of sound recordings; and various limitation laws limit ISPs' liability.[44]

7.4.3 Unreasonable risk

An unreasonable risk is one "the probability of which multiplied by its seriousness is greater than the burden of its elimination".[45] It is submitted that ISPs that create such risks should be held liable for indirect infringement in that the risk is both foreseeable and actual.[46]

The risks start from ISPs' irrebuttable *ab initio* knowledge that the digitization results in multiple copies' being made available to the world through uploading, transmission and downloading of works. Mee and Watters[47] submit that it is wrong to hold that the current technology in P2P networks cannot detect copyright infringement. They submit that ninety nine

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41 Garner (ed.) *Black's Law Dictionary* at 204. See para.7.4 on the decision of the court in *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1163.

42 See para 2.7 of this study on the findings on the ability of ISPs to identify the sharing of illegal sound recordings o its network without monitoring or intercepting the network.

43 Beever *Rediscovering the Law of Negligence* at 168.

44 Though the limitation requirements are not described as reasonable care in section 512(*a*) of the US Copyright Act as amended by the DMCA] or other limitation laws, to some extent they are nonetheless examples of reasonable care as expected in the US Copyright Act in the circumstance because the Act sets a standard for ISPs to abide by on the Internet, although it may not be fool-proof.

45 Beever *Rediscovering the Law of Negligence* at 96.

46 See also "Digital Britain – The interim report" at 38, 39, 41 and 42.

47 Mee and Watters "Detecting and tracing copyright infringements in P2P networks" at 6.

(99) percent of file transfers can be detected at the router level and that detection can be undertaken without imposing a great burden on ISPs.[48]

As far as I know, amongst the ISPs that are taking steps to control and supervise their networks none has adduced cost as a hindrance to their inability to tackle the problem of controlling infringement of copyright in sound recordings. According to Mee and Watters,[49] ISPs generally present the difficulty as being that of not being able to control the rate of infringement on the Internet because of the enormous number of users. However, it is submitted that this general defence does not absolve ISPs of responsibility.

7.4.3.1 Actual risk

Actual risk is risk that exists in fact and is real as opposed to merely foreseeable.[50] Actual present harm need not be shown nor is it compulsory to show that harm will result. What is essential is proof on the preponderance of evidence that some meaningful likelihood of future harm exists.[51] ISPs that breach their duty to exercise a reasonable standard of care create actual risk for copyright holders.

The doctrine of "actual risk" in relation to online copyright infringement is premised on the fact that copyright infringement takes place in DP2P networks. In essence, there is a causal link between the activities of ISPs offering networks services to peers in DP2P networks and the infringement arising from those activities.

Actual risks exist for two reasons. The first is the ISPs' foreknowledge of the real risk of copyright infringement at the commencement of their Internet operations. Secondly, in the case of DP2P file-sharing the preponderance of evidence indicates that some meaningful likelihood of future harm will occur in. It is submitted that an ISP that deems Internet business economically viable and decides to enter into such a venture would have considered the risks or loss in the venture when drafting the feasibility study or projection. Furthermore, it seems likely that the ISP should have considered the actual risk in mind and neglected to exercise a

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[48] Ibid.
[49] Ibid.
[50] See Garner (ed.) *Black's Law Dictionary* at 35.
[51] See *Sony Corporation of America et al. v Universal City Studios* supra at 776 and 793.

duty of reasonable care *ab initio* which the sufficiently close relationship between the ISP and right-holders would have made necessary or equitable.

Intent is "the state of mind accompanying an act, particularly a restricted act, as well as the mental resolution or determination to do an act".[52] The positive intent of an ISP entering into the venture is to make profit and nothing but profit. Profit cannot be made without costs. ISP should incur the cost of taking reasonable care and to lessen the risks that their networks be used for illegal purposes, including the infringing of copyright owners' rights. ISPs should be held responsible if they failed to act without the requisite degree of reasonable care. A question closely related to the foregoing is not how great the risk was in fact, but how great the risk would have appeared to be to a reasonable person.[53] Regarding both foreseeable and actual risk, the nature of digitization, Internet operations and DP2P file-sharing is sufficient to indicate to a reasonable person that the risks of copyright infringement is enormous. In summary, actual risk existed on the Internet prior to the invention of DP2P file-sharing. The risk is likened to that related to the "egg skull" doctrine[54] which holds that at every point in time anyone who carries out an activity should bear in mind the special circumstances surrounding the likely victim. The special circumstances present in DP2P networks is relevant

7.4.3.2 Foreseeable risk

ISPs can foresee risk of copyright infringement because their role is usurped and eroded in DP2P networks. Foreseeability is also premised on the fact that ISPs have not taken adequate steps, if any at all, despite the fact that the rate of copyright infringement of sound recordings is on the increase.

7.4.4 Vulnerability of rights-holders

In Beever's view,[55] the court will impose a duty of care on the infringer when the claimant suffers an economic loss. He notes that negligence should not generally be based on vulnerability to economic loss but should be determined on an *ad hoc* basis.[56]

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[52] Garner (ed.) *Black's Law Dictionary* at 660. You were previously criticised by examiners for referring to a US dictionary in explaining SA legal concepts?!
[53] Beever *Rediscovering the Law of Negligence* at 100.
[54] Ibid. at 168–200.
[55] Ibid at 194.

Copyright owners suffer economic loss as a result of illegal file-sharing.

7.5 Breach of duty of care by ISPs

The responsibility of ISPs for DP2P file-sharing is a new issue and the debate is still in its infancy.[57] Those in favour of exoneration ISPs from liability for infringing acts of users argue that ISPs are unable to fully control the large amount of data transferred on their networks; bar or prohibit the transfer of infringing material on their networks, or police or act against infringers who operate on an international level.[58] They submit that the duty of care has not been breached as it seems technically impossible to stop these illegal acts.[59]

Courts recognize the challenges posed by new technologies and they are not opposed to the application of new theories to new circumstances. However, the courts exercise caution in restructuring liability theories; it is their view that such matters should be left to legislatures.[60]

7.6 Causal connection

Other than when fault is not a requirement for liability, a causal connection must be proved between a person's action or inaction and the harm caused by it before that person can be held liable. Basically, the issue for consideration is whether the act or omission was a prerequisite for the damage to occur. This is determined by the "but for" test in terms of which a right-holder must prove that the harm would not have occurred "but for" the infringer's conduct. This proof would establish "factual causation" or "cause in fact".[61]

For there to be a causal connection, however, there must also be a legal cause. An infringer can only escape liability if the factual cause of the harm is not regarded as the "legal cause" of the harm. At common law, negligence is founded on the test of "foreseeability", or the proximate cause, and not on the "remote" cause of damages.[62] Basically, a person can be

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[56] Ibid.
[57] See Sieber "Responsibility of Internet providers: Comparative analysis of a basic question of information law" at 234.
[58] See Mee and Watters "Detecting and tracing copyright infringements in P2P networks" at 6; Kumar and Sharma *Cyber Laws Intellectual Property and E-Commerce Security* at 70.
[59] Sieber "Responsibility of Internet providers" at 235.
[60] See *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1167.
[61] See Koelman and Hugenholtz "Online service provider liability for copyright infringement" at 8.
[62] See para. 2.7 of this study.

held liable for the damages suffered as a result of his or her act or omission if there is factual causation or cause in fact. The rationale behind the test of casual connection is to limit the extent of liability for wrongful acts. A causal connection must be proved between ISPs' inaction and the harm caused by D2P2 file sharers before ISPs can be held liable for indirect copyright infringement.

7.7 Fault

Fault requires the application of the ethical principle that people are morally and psychologically responsible for their actions or omissions because they possess free will and self-determinism.[63]

7.7.1 With-fault liability

Essentially, a person is held liable if he or she is to blame for his or her actions and omissions. With-fault liability is premised on the requirement of intent.[64] Specific intent emanates from consciousness (knowledge) and the direction of the will. Sometimes, mere inadvertence may be sufficient to prove fault against an infringer.[65]

7.7.2 Without-fault or strict liability

Strict liability does not require proof. It is premised on the doctrine of *res ipsa loquitur*. Beever[66] says that an objective test is appropriate in strict liability because it accords equal importance to both right-holders and infringers in deciding whether the infringer unlawfully infringed the work. In support of Beever's position, Garner[67] submits that strict liability is that liability which does not depend on actual negligence or intent to harm; rather it is premised on the breach of the absolute duty to make something safe.

Bently and Sherman[68] assert that strict liability (also referred to as absolute liability without fault) is often applied to ultra-hazardous activity such as product-liability cases.[69] On

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[63] Koelman and Hugenholtz "Online service provider liability for copyright infringement" at 8.
[64] Ibid.
[65] Ibid.
[66] Beever *Rediscovering the Law of Negligence* at 111.
[67] Garner (ed.) *Black's Law Dictionary* at 926.
[68] Bently and Sherman *Intellectual Property Law* at 131.

this score Internet operations in relation to copyright infringement are generally risky, whereas DP2P file-sharing may be typified as an ultra hazardous activity, hence a strict liability is most likely to be applied.

7.7.3 Intermediate-fault liability

Intermediate-fault liability possesses an element of reverse burden of proof. Although fault is required, because of the reversal of the onus of proof, intermediate-fault liability may come close to strict liability.[70] The element is such that instead of a rights-holder proving his case, the ISP has to show to some extent justification for its willingness or inability to control infringement. Intermediate liability balances the other two approaches which are with-fault and without-fault.[71]

In view of the overall submissions made so far, an ISP offering DP2P file-sharing will have to justify its failure to curb copyright infringement through file sharing in accordance with the principles of intermediate-fault liability.

7.8 Conclusion

An ISP in a DP2P network is liable when it breaches its duty of care by consenting to the illegal sharing of sound recordings by granting access to users without "detecting" and identifying illegal sharing of files containing sound recordings. Detecting files containing infringing sound recordings would enable the ISP to exercise its right to deny access to or to block infringing sound recordings on the basis of its prior agreement with or notice to users regarding the penalty for infringing copyright. It is submitted that such actions should form the basic threshold requirements with which ISPs must comply before a limitation of liability clause can apply in their favour.

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[69] Ibid.
[70] Ibid..
[71] Ibid.

CHAPTER 8

CONCLUSIONS AND RECOMMENDATIONS

8.1 Introduction

In this study, I have examined several controversial issues regarding the indirect liability of ISPs for the copyright infringement of sound recordings in DP2P file-sharing. I examined whether ISPs have the right and ability to identify infringing sound recordings in DP2P networks without monitoring or intercepting users' communications. This study reviewed the copyright protection of sound recordings under domestic law and international copyright conventions and agreements. A comparative study was made of the protection afforded to sound recordings in the US, the UK and South Africa, and the statutory limitations on ISPs' liability as applied to the illegal sharing of sound recordings in DP2P networks.

In many ways there is a conflict between ISPs and holders of copyright in sound recordings, a conflict complicated by the involvement of users.[1] Obviously right-holders believe that their rights must be maximally protected by ISPs because the works are vulnerable to multiple reproductions in the digital world.[2] Sound recordings are "the Cinderella of the copyright family" being the most patronised work in copyright.[3] The creation of sound recordings is motivated by the work's ultimate use by end users. Copyright owners have the exclusive right to reproduce to distribute and to communicate the works to the public.

At the same time, ISPs contest their liability for copyright infringement when they did not know or could not reasonably have been expected to know of the infringing acts. There is no doubt that ISPs face potential liability for the transmission of digital works on the Internet in contravention of the copyright owner's exclusive rights.[4] The importance of the role ISPs play on the Internet cannot be overemphasized; therefore, there should be a comprehensive effort by the authorities to ensure that the limitation of the liability of ISPs is based on the correct

[1] "Digital Britain – The interim report" at 40 and 42.
[2] Sterling *World Copyright Law* at 538.
[3] See Dean "Sound recordings in South Africa: The Cinderella of the copyright family" at 913–917.
[4] Visser "Online service providers: Models for limiting their liability" at 167–168.

premise. In this chapter, I shall draw attention to some of the findings and conclusions in this study and recommend ways in which the interests of the two groups could be balanced.[5]

8.2 The Internet as a channel of file-sharing

The thrust of this study is on the finding that sound recordings can easily be identified on the network of ISPs.[6] Given the description of DP2P technology,[7] it is fallacious to contend that ISPs cannot detect or identify unauthorised copies of sound recordings on their networks without monitoring or intercepting.[8]

DP2P software can be used for both infringing and non-infringing purposes, although it is more often put to infringing use. I concur with Conradi,[9] namely that it is high time that ISPs acknowledged the fact that the transmission of sound recordings in DP2P networks can be easily identified without monitoring or intercepting communications.

It is imperative that a legal duty be imposed on ISPs to install and use software applications that will identify illegal transactions involving sound recordings in subscribers' accounts;[10] ISPs should deny such an identified account holder access to their networks. In view of the increasing threat of copyright piracy, copyright holders are availing themselves of technical protection measures (TPMs) to protect their rights. These measures include anti-copy devices, access control, electronic envelopes, proprietary viewer software, encryption, passwords, watermarking, user authentication (fingerprinting), metering and monitoring of usage, and remuneration systems.[11]

Another option in limiting the liability of ISPs is to implement what is called "traffic shaping", a process by which the bandwidth allocated for file-swapping is limited thus slowing

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[5] See "Digital Britain – The interim report" at 41.

[6] See "Digital Britain – The interim report" at 39, see para. 2.7 of this study generally.

[7] See para 2.5 of this study.

[8] See para 2.7 of this study.

[9] Conradi "ISP liability – UK" at 292-293 says that ISPs should ensure that any material they transmit should not be allowed to go through the network without caution, nor should they authorize illegal activity on their networks. He also says that since file-sharing activity constitutes a large share of an ISP's business, it is quite possible that the courts would take a less tolerant view on illegal sharing of files .

[10] Philips "BPI, Virgin to pilot 'warning' scheme for downloaders" at 1. See also Sieber "Responsibility of Internet providers: Comparative analysis of a basic question of information law" at 236–237.

[11] Albert *Intellectual Property Law in Cyberspace* at 265–271; Khaw "Of encryption and devices: The anti-circumvention provision of the Malaysian Copyright Act"; Pistorius "Copyright law and IT" at 268.

down the time taken to download files. This will discourage or frustrate users that want to share files containing infringing copies of sound recordings. Defaulting ISPs who facilitate the transmission of infringing copies of sound recordings by failing to install and use software applications that will identify illegal transactions involving sound recordings should not be able to limit their liability for copyright infringement. An ISP can also be banned from offering network services if a specified number of warnings has been issued to such ISP by the regulatory authorities. This approach imposes a severe punishment for contributing to copyright infringement on the Internet, forcing ISPs to be alert to their responsibilities.[12] Further, with the awareness that ISPs could be banned, ISPs may become self-evaluating and conscious of the rate of infringement on their networks. They would thus limit the risks of being liable for infringement or be banned from offering network services and consequently take steps to limit their own liability.

Finally, international best practices amongst ISPs should dictate the adoption of software applications and policies to curb on-line copyright infringement.

8.3 Rights in sound recordings

Beginning with the right of reproduction in sound recordings, the various jurisdictions considered in this dissertation have extended the notion of tangible copies to include electronic copies; consequently, distribution now includes intangible copies transmitted on the Internet via ISPs' networks. It should be noted that there is no definition of distribution in either the WIPO Performances and Phonograms Treaty (WPPT) or the WIPO Copyright Treaty (WCT).[13]

This lack of clarity has led to uncertainty in the implementation of *inter alia* the norms relating to the distribution right.[14] Also with respect to the right of communication, the meaning of "making available" as adopted in the US differs from the "making available" right adopted in the other countries considered in this study.[15]

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[12] Banning has become a judicial option in the US. See Chartier "IPFI gets Israeli ISPs to block Hebrew peer-to-peer site".

[13] Wong "The exclusive right of 'distribution', 'communication to the public' and 'making available' under the WIPO Copyright Treaty at 35.

[14] Ibid. at 38.

[15] See para 4.2.3. for the US, para 5.2.3 for the UK and para 6.2.3 for South Africa.

An approach was contemplated at the 1996 Diplomatic Conference on the Scope of the Reproduction Right namely limiting the liability of ISPs without regard to end use. Accordingly, it was proposed that temporary reproduction does not constitute reproduction within the meaning of article 9(2) of the Berne Convention. This approach was premised on the fact that temporary reproduction is undertaken for the purpose of transmission (as part of a technical process incidental to the act of transmission) of the work.[16]

The uncertainties in the scope in the meaning of terms created uncertainties and subsequently some errors in the adoption of the treaties.

8.4 The position of ISPs reconsidered

8.4.1 The balance of rights between ISPs and copyright owners

The major premise upon which ISPs' liability for copyright infringement of sound recordings in DP2P networks is based, is the breach of protocol in the closed P2P network on the Internet. One would have thought that the technical breach in the Internet protocol by users in DP2P networks[17] would be a source of concern to ISPs, but it has proved not to be so. In the near future the law would be complicated further when the role of ISPs in AP2P networks becomes a reality.[18]

The special skill and labour of ISPs are necessary for the provision of Internet access and network-related services. Because ISPs are indispensible to the functioning of the Internet their rights (which are highlighted below) ought to be protected otherwise we run the risk of exposing them to more harm as rights holders in sound recordings are exposed to. A revenue-sharing or collective licensing scheme between ISPs and rights-holders would serve as an incentive to act against copyright infringement[19] and it would recognise the complexities of the role that ISPs play in the value chain. Such a remuneration right would make ISPs a valuable

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[16] See para. 2 of article 7 in the "Basic Proposal for the Substantive Provisions of the Treaty on Certain Questions Concerning the Protection of Literary and Artistic Works", CRNR/DC/4, 30 August 1996. This approach was supported by certain African countries including South Africa. See Visser "Online service providers: Models for limiting their liability" at 167.

[17] Vincents "Secondary liability for copyright infringement in the BitTorrent platform: Placing the blame where it belongs" at 6–8; *Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd* II case supra at 1163.

[18] See para 2.5.3.4 of this study.

[19] Castonguay "The digital music market: Educating users" at 12.

stakeholder. The ISPs would also then have an economic incentive to use all technical means at their disposal to curb copyright infringement activities on their networks and to ensure that only authorised copies of, for example, sound recordings, are distributed..

However, no significant collective attempt has been made at the international and domestic levels to renegotiate the rights conferred and duties imposed by copyright law to ensure a new balance of interests in favour interests of ISPs.[20]

8.4.2 Network levies

It is obvious that rights-holders will not be able to control the invention and development of new technologies which could adversely affect them.[21] In view of this, one of the measures to protect the interest of rights holders in sound recording is the imposition of blank network levy or fee. A levy is a payment for empty recording equipment. They are a desirable alternative model to copyright works from which parties will reasonably benefit or to compensate copyright owners for the copying and distribution of infringing works on the Internet.[22]

A levy is determined by law or public authority[23] and is imposed on the sale of digital audio recording devices and media.[24] For instance, the Audio Home Recording Act (AHRA)[25] of the US requires all digital audio devices to implement serial copy management systems (SCMS), a technology should ensure that two copies cannot be made from a downloaded sound recording. Should additional copies of a sound recording be needed, the user would need to make another royalty payment aside from the first payment made to gain access to the sound recording.[26]

In view of the problems they pose, however, blank network levies should be considered as a last resort. First is the problem of determining the amount to be levied. Secondly, the collection and allocation of levies would be complicated and costly, as is evident from the

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[20] Elkin-Koren "Making technology visible: Liability of Internet service providers in peer-to-peer traffic" at 18.
[21] See Reichman et al. "A reverse notice and takedown regime to enable public interest uses of technically protected copyrighted works" at 259.
[22] See Besek "Anti-circumvention laws and copyright: A report from the Kerochan Centre for Law, Media and Arts" at 385 -519.
[23] Akester "A practical guide to digital copyright law" at 66; "Digital Britain – The interim report" at 38.
[24] See Conroy *A Comparative Study of Technological Protection Measures in Copyright Law* at 283; Lehman "Intellectual property and the national and global information infrastructure" at 79.
[25] 17 USC section 1002(2).
[26] Besek "Anti-circumvention laws and copyright: A report from the Kerochan Centre for Law, Media and Arts" at 486; Conroy *A Comparative Study of Technological Protection Measures in Copyright Law* at 284.

administration of existing compulsory licences. Thirdly, how do you determine the distribution of the levies (royalties) to copyright holders and fourthly, international treaties would be violated were current compulsory licence systems replaced with levy schemes.[27]

8.4.3 Implementation of Potato System

An alternative recommendation to the ISP incentive and network levy systems is the implementation of the "potato" system.[28] This system allows every user to be a mini-distributor on the Internet and get rewarded monetarily which has the tendency of discouraging illegal file sharing of sound recordings.[29] The potato system is a motivational one in which users play an active role in the distribution of sound recordings: they redistribute sound recordings for which they are paid online and earn income from them on a percentage basis. The potato system pays for any redistributed file through the user who acts as a sub-distributor.[30]

Every transaction in the potato system records date of purchase, name of the content owner, content's description, audio ID of the content, name of the last buyer, price and price model, sell link, and further information.[31] When a sub-distributor sells, he or she acquires points which are credited to his or her account and which can be used to buy new sound recordings or converted to cash.[32]

8.5 Theories on infringement

Basically, ISPs are not liable for direct copyright infringement because the unauthorised copies of sound recordings that pass through their networks are transmitted in the course of their business operations. In some countries, however, ISPs may be directly liable for copyright infringement. For instance, in the UK, authorizing a person to perform an act restricted by copyright, without the permission of the right-holder, is classified as a direct infringement.[33]

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[27] Besek "Anti-circumvention laws and copyright: A report from the Kerochan Centre for Law, Media and Arts" at 488; Conroy *A Comparative Study of Technological Protection Measures in Copyright Law* at 285; Akester "A practical guide to digital copyright law" at 67.

[28] Nutzel and Grimm "Potato system and signed media format: An alternative approach to online music business"at 1.

[29] Ibid.

[30] Ibid. at 1–3.

[31] Ibid. at 3.

[32] Ibid. at 4.

[33] See Akester "A practical guide to digital copyright law" at 37.

Classifying ISPs as direct infringers is to implement the negative–positive approach;[34] thus, ISPs would be directly liable for copyright infringement in sound recording because there is a common intent by both ISPs and users to infringe copyright in sound recordings.

With reference to indirect infringement, I have shown that given the features of DP2P technology, constructive knowledge is applicable under the requirement of knowledge for contributory infringement.[35]

An examination of actual knowledge of infringement shows that even if a right holder proves constructive knowledge, the particulars of claim must show the details of the infringement. The detailed facts will ultimately constitute actual knowledge[36] hence, the submission by Daly that there is no clear-cut distinction between the constructive and actual knowledge.[37]

In the light of the findings in this study, liability of ISPs under the three forms of infringement (i.e. contributory, vicarious and inducing) has been interpreted differently by courts and countries, thereby making the application of the theories of infringement inconsistent with the features of Internet services and sound recordings.

It is my recommendation therefore that when practicable and affordable, special courts be set up in every jurisdiction to adjudicate on matters of IT and intellectual-property law, if the normal courts are unable to do substantial justice to the issues in copyright. Special courts are created for many reasons ranging from the need for specialization, competence to speedy dispensation of justice. For instance, in South Africa, the Copyright Tribunal is one such court established to adjudicate on copyright conflicts including but not limited to disputes arising between licensing bodies[38] and payment of royalties to rights holders.[39]

The need for these specialized courts was highlighted in the US when a court expressed its lack of knowledge in the areas of Internet technology and copyright law. In *Interscope v*

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[34] See para. 8.3 of this study.

[35] See Daly "Life after *Grokster*: Analysis of US and European approaches to file sharing" at 319 on the examination of constructive and actual knowledge. See also Chapter 4 of this study.

[36] See the discussion of actual knowledge in the UK chapter at para. 5.4.1.1 of this study.

[37] See Daly "Life after *Grokster*: Analysis of US and European approaches to file sharing" at 319 on the examination of constructive and actual knowledge.

[38] See section 29 and 30 of the Copyright Act on the establishment of the Copyright Tribunal and its jurisdiction respectively

[39] See section 9A of the Copyright Act

Duty,[40] the court noted that it possessed an "incomplete understanding" of the Kazaa technology and marked its opinion as not for publication.[41]

In addition, in view of the virtual nature of the Internet, I recommend that there is a need at international level (preferably WIPO) for the provision of universally applicable liability clauses for member states of WIPO to use as guides for their domestic legislation on copyright or related areas. In this way some level of international uniformity in the enforcement of the law would be achieved.

8.6 Limitation of ISPs' liability

The law limiting the liability of ISPs – particularly law not imposing on them a duty to monitor, intercept or actively seek infringing facts – was enacted for the purpose of protecting ISPs from general liability, although there are instances in which ISPs may be held liable.[42]

ISPs may also be held liable at common law when they are not prohibited from identifying illegal transactions in copyright sound recordings. The ability of ISPs to identify illegal transactions in sound recordings exposes them to more liability, which legislators in the three jurisdictions examined did not take into account either before or during the drafting of the limitation law.[43] Worse still, the limitation law in the three jurisdictions is erroneously understood as *excluding* liability to identify illegal transactions in sound recordings, whereas the law in these jurisdictions provides for circumstances in which ISPs are held liable for non-compliance with the law. Liability for non-compliance by ISPs implies that there is no exclusion of liability on the part of ISPs.

Essentially, if the legislatures in the various jurisdictions intended limiting the liability of ISPs in respect of all works, they would have amended the limitation law to include filtering, identification and detection as terms designed to prohibit ISPs from monitoring or intercepting.

In this context the idea behind identification is enabling ISPs *suo moto* to use one of the remedies in the limitation clause against a user who has, for example, committed more than an

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[40] *Interscope v Duty* 05-CV-3744 PHX-FJM (D. Ariz., 14 April 2006).

[41] See Wong "The exclusive right of 'distribution', 'communication to the public' and 'making available' under the WIPO Copyright Treaty at 16.

[42] See section 73(1)(*a*)–(*d*) of the South African Electronic Communications and Transactions Act 25 of 2002.

[43] See para. 2.7 of this study.

acceptable number of infringements. Identifying culprits by identifying illegal sound recordings on the Internet can be achieved with the support of ISPs.

Some jurisdictions do not stipulate procedure for the issuing of take-down and counter take-down notices by right-holders and users respectively, or stipulate an adequate procedure. For instance, the UK has not formulated such a procedure, while the US relies on civil-procedure rules. In South Africa the ISPA has issued to its members a directive instructing them to devise individual take-down-notice procedures. As a result there is no uniform procedure. In the light of these international and domestic disparities, I recommend that a uniform procedure be adopted at international level for domestic implementation so that ISPs, right-holders and users can become acquainted with and use one procedure.

8.7 Conclusion

The various domestic laws and copyright treaties (TRIPS, WCT and WPPT) do not provide for all needs on the Internet as examined in this study. In view of this, and for the smooth operation of the Internet as a public good, parties involved in the enforcement of copyright and functioning of the Internet ought to come to an agreement, and understanding to cure the defects in the treaties as examined in this study and set an international machinery in motion to evaluate developments, interpretation and compliance with such agreements. This would assist the courts in the jurisdictions to formulate, and adopt uniform measures to deal with ISPs liability for infringements in DP2P networks.

In terms of the principles to be applied in dealing with infringement of sound recordings in the online world, South Africa should adopt with pragmatism the three principles of infringement as examined in the South African chapter in line with the laws of delict and copyright and the dynamism of Internet technology with a view to balance all the interests at stake. Over protection of one party against the other would encourage abuse by the former.

South Africa should adopt the following models on the recognition of the role and limitation of liability of ISPs in the following ways: 1) the regulatory authorities should amend the ECTA *vide* the regulations by including the words “filter, identify and detect” in the category of the phrase “monitoring, intercepting or actively seeking for facts” in section 78 of ECTA; 2) ISPs should adopt measures (software) to filter, identify and detect illegal sharing of

sound recordings ISPs and should accommodate and not interfere with "standard technical measures"[44] notwithstanding the foregoing paragraph; 3) ISPs should adopt and implement a policy that provides for termination of the accounts or subscriptions of infringers who frequently infringe copyright and contravene the ISPs' policy on digital copyright transmission;[45] 4) ISPs should inform their subscribers and account holders of their policy on digital copyright transmission;[46] 5) ISPs should limit their liability by electronically pasting warning notices around computer terminals and on the screen, monitor access to electronic materials and generally educate users about copyright law and the importance of respecting copyright works;[47] 6) regulatory authorities and ISPs should also promote the development of non-legal measures ranging from age-verification systems and user awareness to other preventive measures;[48] 7) a voluntary agreement between record companies and ISPs is another approach to protecting sound recordings. Such an agreement could serve as the ISP industry's norm and standard on the Internet; and 8) ISPs should have a better understanding of the law of copyright as it pertains to electronic publishing. They should also ensure that the electronic content they transmit is not misused.[49]

Aside from the recommendations in this study, other measures that could be put in place to recognize the role ISPs play are the recognition and protection of entrepreneurial rights of ISPs for granting access to users on the network in similar way as broadcasting organizations are recognized[50] and the execution of an insurance policy with regards to sound recordings.

Finally, I strongly believe that if these recommendations are equitably and reasonably implemented, the wrongs committed against rights-holders would be effectively remedied and the liability of ISPs limited in the lawful and equitable exploitation of copyright.

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[50] See Ogawa *Protection of Broadcasters' Rights* at 5.

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Karem T A conversation between December 2007 March 2011 between the author and T Karem, former researcher at the Wireless Mesh Network Unit of the Meraka Institute, Council for Science and Industrial Research, Pretoria, South Africa and now an MSS Core Network Integrator at Ericsson in South Africa.