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On the heels of the decision of the U.S. Supreme Court in *MGM Studios v. Grokster*, 125 S. Ct. 2764 (2005), where the Court found that file-sharing services could be held liable for contributory copyright infringement, the Federal Court of Australia on September 5th decided *Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd.*, [2005] FCA 1242. Justice Wilcox of the Federal Court held that certain defendants associated with Sharman Networks were liable for “authorization” of copyright infringement as a result of having distributed the Kazaa file-sharing software. Notwithstanding substantial differences between the legal systems and copyright jurisprudence in Australia and the United States, *Grokster* and *Sharman* demonstrate remarkable similarities in analysis.

I. Summary of *Sharman*

The *Sharman* litigation began in February 2004. The copyright holders advanced several causes of action: violations of the Australian Trade Practices Act of 1974 and the Fair Trading Act of 1987, conspiracy, and claims of copyright infringement under the Australian Copyright Act of 1968, as amended in 2000. Justice Wilcox of the Federal Court of Australia rejected all claims except copyright infringement. As to infringement, he found that six of the named respondents had “authorized” infringement of 98 specific sound recordings listed in the decision.

A. Australian Approach to Secondary Liability

Australian copyright law addresses secondary liability through statute, in Section 101(1) of the Copyright Act of 1968. Section 101(1) proscribes direct “authorization” of infringement. *Sharman* ¶¶ 357-58. Australia’s Copyright Amendment (Digital Agenda) of 2000 elaborated on this prohibition, creating a three-prong inquiry:

- (a) the extent (if any) of the person’s power to prevent the doing of the act concerned;
- (b) the nature of any relationship existing between the person and the person who did the act concerned;
- (c) whether the person took any other reasonable steps to prevent or avoid the doing of the act, including whether the person complied with any relevant industry codes of practice.

Id. ¶ 359. The court added that, although not a statutory element, “[k]nowledge, or lack of knowledge, is an important factor in determining whether a person has authorized an infringement.” *Id.* ¶ 370.

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The court made clear that “express or formal permission or sanction... is not essential to constitute an authorization.” *Sharman* ¶ 367. Thus, authorization extends beyond copying which is explicitly directed, and includes “inactivity or indifference... from which an authorization or permission may be inferred.” *Id.* ¶¶ 366-67.

From an America perspective, the use of the term “authorization” is confusing, for it refers to copying *unauthorized* by the copyright holder. In the United States, secondary copyright liability also exists, in the form of doctrines of vicarious and contributory copyright infringement. These are judge-made doctrines, however, and represent the judicial infusion of *respondeat superior* and related tort law concepts into copyright. *See Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996); *Shapiro, Bernstein & Co. v. H.L. Green & Co.*, 316 F.2d 304 (2d Cir. 1963). This absence of statutory language addressed to secondary infringement led Justice Wilcox to observe that “much of the Australian statutory law had no counterpart in United States law.” *Sharman* ¶ 30.

B. The Holding

After a lengthy exploration of Australian precedent applying the principle of authorization, Justice Wilcox held that the Sharman parties qualified for a statutory safe harbor enacted in 2000, Section 112E. Under the safe harbor, a person is not to be held responsible for authorization of infringement merely because it provided the facilities used to infringe. *Id.* ¶ 396. Nevertheless, Justice Wilcox determined that Section 112E “does not confer general immunity against a finding of authorization.” *Id.* ¶ 399. Because Justice Wilcox found “something more” – additional evidence of authorized infringement – the Section 112E defense did not exonerate the Sharman parties from liability.

Justice Wilcox relied on various facts to find authorization of infringement. Aside from statements on the Kazaa website admonishing users against infringing copyright, and statements in the Kazaa software’s end user license agreement, Sharman parties had not otherwise engaged its users an effort to limit copyright infringement by users. The decision states that Sharman could have taken certain actions to restrict infringement. It contains a lengthy discussion about the viability of keyword filtering of the filenames of shared content. *Id.* ¶¶ 254-94. Similarly, the decision discusses at length the possibility of using “gold files.” These files, provided by Sharman’s co-respondent Altnet, represented digital rights management (DRM) protected files. Experts for the copyright holders suggested that Sharman could have “flooded” search results for copyright-protected content with these gold files, which could have either been legitimate, DRM-protected files, or empty ‘dummy’ files. *Id.* ¶¶ 300-310. In light of his conclusions regarding these strategies, Justice Wilcox found that Sharman had the “power” to prevent or reduce infringement, but did not. *Id.* ¶ 411.

On the contrary, because Sharman relied upon advertisement revenue, it was “understandable that the respondents would wish to increase file-sharing.” Citing

Kazaa's "Join the Revolution" ad campaign, Justice Wilcox concluded that Sharman knew that users were infringing copyrighted content. While noting that the "Kazaa Revolution" promotions did not advocate directly the infringement of copyright, Justice Wilcox determined that Sharman had endeavored to popularize unlawful file-sharing by imbuing it with a sense of "cool." *Id.* ¶¶ 190-92, 404.

C. The Remedy

Based upon these findings, Justice Wilcox held that the Sharman parties infringed by authorizing Kazaa users to copy recordings and communicating them to others, and by "entering into a common design to carry out, procure, or direct" that authorization. *Id.* ¶ 517.

In issuing an injunction in favor of the copyright holders, Justice Wilcox stated that "[t]here needs to be an opportunity for the relevant respondents to modify the Kazaa system in a targeted way, so as to protect the applicants' copyright interests (as far as possible) but without unnecessarily intruding on others' freedom of speech and communication. The evidence about keyword filtering and gold file flood filtering, indicates how this might be done." *Id.* ¶ 520. Thus, the ruling provides for a period of time in which the parties can develop a protocol to filter infringing material, so as to preserve the system for its recognized non-infringing uses.

If U.S. cases provide any indication, the copyright holders should not expect closure of this dispute in the near future. An appeal is likely, and the Sharman parties and copyright holders will most likely dispute the scope and feasibility of various filtering mechanisms. As observers of the *Napster* litigation will be aware, injunctions based upon filtering can prove to be both contentious and technical. Moreover, observers of U.S. file-sharing litigation in general will recall that damages figure prominently into the results of the litigation process, and damages have yet to be determined in this case. It is entirely possible that the amount of damages may moot disputes over the scope of the injunction.

Sharman and Grokster Compared

Just over two months before the Federal Court in Australia decided the *Sharman* case, the United States Supreme Court ruled in *MGM Studios v. Grokster*. Notwithstanding the differences in the copyright systems of Australia and the United States, the reasoning of the courts' opinions is remarkably similar.

Both courts found that the users of the file sharing software engaged in direct infringement, and considered whether the distributor of the software was liable for the users' infringement. In the United States, the court asked whether Grokster contributed or induced the infringement; in Australia, the court examined whether Sharman authorized the infringement. Although the courts phrased the questions differently, the inquiry was the same.

In conducting this inquiry, both courts recognized that the act of distributing the software was insufficient to trigger liability. In Australia, Section 112E of the Copyright Act provides that a person does not authorize an infringement “merely because” he has provided the facilities used by others to engage in infringement. Likewise, the *Grokster* court found that its 1984 decision, *Sony Corp. v. Universal City Studios*, 464 U.S. 417 (1984), “barred secondary liability based on presuming or imputing intent to cause infringement solely from the design or distribution of a product capable of substantial lawful use.....” 125 S. Ct. at 2778.

However, for both courts, a distributor could still incur liability if it engaged in “something more” that authorized or induced the infringement. *See Sharman* ¶ 401. The “something more” in both cases were strikingly similar. In *Sharman*, the court found that Sharman included on its website exhortations to users to “Join the Revolution” by increasing their file-sharing in the face of the record companies’ opposition to file sharing. While the website did not expressly encourage the infringement of copyright, the website “scorns the attitude of record and movie companies in relation to their copyrighted works.” To a young audience, “the ‘Join the Revolution’ website material would have conveyed the idea that it was ‘cool’ to defy the record companies and their stuffy reliance on their copyrights.” *Sharman* ¶ 405.

By the same token, the *Grokster* Court stated that “the classic instance of inducement is by advertisement or solicitation that broadcasts a message designed to stimulate others to commit violations.” 125 S. Ct. at 2780. *Grokster* distributed an electronic newsletter containing links to articles promoting its software’s ability to access popular copyrighted music. Additionally, *Grokster* and StreamCast aimed to “satisfy a known source of demand for copyright infringement, the market comprising former Napster users.” *Id.* at 2781. For example, StreamCast advertised its services to Napster users, and made clear that its software could perform the same functions as Napster.

In addition to advertising campaigns that indirectly promoted infringement, both courts highlighted the defendants’ failure to adopt available technological measures to prevent infringement. Once aware that its software was being used to infringe, “*Sharman* took no steps to include a filtering mechanism in its software, even in software intended to be provided to new users. There is no credible evidence that filtering was ever discussed.” *Sharman* ¶ 407. Likewise, neither defendant in *Grokster* “attempted to develop filtering tools or other mechanisms to diminish the infringing activity using their software.” 125 S. Ct. at 2781. The Court found that this failure “underscores *Grokster*’s and StreamCast’s intentional facilitation of their users’ infringement.” *Id.*

Finally, both courts recognized that the defendants benefited financially from their users’ infringement, and had no incentive to prevent it. The *Sharman* court noted that had efforts to prevent infringement been successful, “they would greatly reduce Kazaa’s attractiveness to users and, therefore, its advertising revenue potential.” *Sharman* ¶ 407. The *Grokster* Court observed that “[s]ince the extent of their software’s use determines the gain to the distributors, the commercial sense of their enterprise turns on high-volume use, which the record shows is infringing.” 125 S. Ct. at 2782.

Conclusion

There are striking similarities between the Federal Court of Australia's decision in *Universal v. Sharman*, and the U.S. Supreme Court's decision in *MGM Studios v. Grokster*. Although Justice Wilcox stated that the litigants "comments confirmed my impression that the differences, both legal and factual, are such as to render *Groskter* of little assistance to me," *Sharman* ¶ 30, it is safe to assume that Justice Wilcox was influenced in some manner by Justice Souter's opinion in *Grokster*. Still, it is premature to conclude that a global consensus is emerging on this issue. First, Sharman may appeal the Australian decision to a higher court, which may reverse the trial court's ruling. Second, in December 2003, the Supreme Court of Netherlands affirmed a lower court ruling that Kazaa was not liable for the infringing conduct of its users.

But even if the entertainment industry brings a successful infringement action in the European Union against a distributor of file sharing software, users will continue to employ file-sharing software to exchange sound recordings and motion pictures. This is because file-sharing software could still be distributed from locations outside of the U.S., the EU, and Australia, where concepts of secondary copyright liability do not exist or are not enforced. The only effective way for the entertainment industry to fight Internet-based infringement is to develop new business models that are more attractive to users than Kazaa and Groskter.