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eMusic – Legal issues concerning downloading music over the Internet

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Research dissertation presented for the approval of Senate in fulfilment of part of the requirements for the LL.M in approved courses and a minor dissertation. The other part of the requirement for this qualification was the completion of a programme of courses.
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eMusic

Legal issues concerning downloading music over the Internet

by Thomas Bechle

April 2006

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Chapter 1

General Background

I. Introduction

Sharing music with friends and family has always been a popular activity. Under most copyright laws, sharing physical media with friends and family has always been seen as a "fair use" – a set of usage patterns that have been traditionally considered to be exceptions to copyright law. With the advent of digital music in the early 1990's sharing of music became redefined. Whereas sharing of physical media meant that only one person could use the media at the same time, sharing digital music involved permanent reproduction of the music files. Thus, sharing digital music equated to reproduction and distribution of music. With the invention of the mp3 standard, the size of digital music files became much smaller without a noticeable compromise of quality. Thus reproduction and distribution of digital music became faster and even easier.

With the invention of Napster and subsequent peer-to-peer (p2p) file sharing programs like Kazaa and eDonkey distribution of digital music became easier and achieved a global reach. With p2p networks, file sharing was no longer restricted to only known friends and family but anyone connected to the Internet. A high degree of anonymity and a huge user base has substantially decreased the chance of law enforcement detecting and apprehending persons involved in file sharing.

In most cases, file sharing of digital music has happened without the approval of the music companies and the copyright holders. Therefore, and instead of providing the consumers with a legal possibility to download music over the Internet, the music industry started to sue the users, Internet service providers (ISP) and the companies which invented and provided the p2p-software for infringement of their intellectual property rights. After many years of litigation and some conflicting judgements, there were finally two major decisions in 2005 concerning the liability of companies providing the p2p-software:

- Metro-Goldwyn-Mayer Studios Inc. v Grokster Ltd (June 27, 2005; Supreme Court of the United States).

- Universal Music Australia Pty Ltd v Sharman License Holdings Ltd (September 5, 2005; Federal Court of Australia).

Due to these judgements, the companies which provide p2p-software are under certain circumstances liable for copyright infringement by third parties using their software.[1] However, it is questionable whether this is the end of the road for the music industry. Furthermore, newer problems arose during the past few years including the question of the enforcement of rights in countries which do not have a proper protection of intellectual property.

Very slowly and only in the recent years, the music industry contractually allowed several companies to provide the possibility to download music over the Internet. Also in this connection problems concerning the intellectual property rights arise. But this time, it is on the part of the consumers.

II. Main Legal Problems

1. General

The legal problems concerning downloading music over the Internet are quite similar in the different countries. Particularly, both intellectual property and general contract law are mainly affected. Due to various model laws concerning eTransacting and several international treaties relating to intellectual property, in most countries the basic principles in these areas do not differ too much. But still, there are areas of law in which the different countries have very different approaches, i.e. consumer protection.

Concerning legal downloads, the paper is based on South African law since in this connection various services recently appeared in the country. Relating to eTransacting, the South African law is very closely connected to the UNCITRAL Model Law on

[1] ***Metro-Goldwyn-Mayer Studios Inc. v. Grokster Ltd (June 27, 2005; Supreme Court of the United States):*** 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, going beyond mere distribution with knowledge of third-party action, is liable for the resulting acts of infringement by third parties using the device, regardless of the device`s lawful uses; ***Universal Music Australia Pty Ltd v Sharman License Holdings Ltd (September 5, 2005; Federal Court of Australia):*** The infringing respondents be restrained, by themselves, their servants or agents, from authorising Kazaa users to do in Australia any of the infringing acts, in relation to any sound recording of which any of the applicants is the copyright owner, without the licence of the relevant copyright owner.

Electronic Commerce (1996) on which it is based. The South African copyright law is largely influenced by various WIPO treaties.

The illegal downloads caused tremendous attention worldwide since they assumed unbelievable proportions over the years. Due to the worldwide response to this development and since there are no South African judgements concerning illegal downloads, the paper takes a look at the most important international judgements in this area.

Concerning the latest problems which arose in connection with eMusic, the paper looks at the prevailing actual South African or rather international legislation and decisions.

2. Intellectual Property

The main legal problems in connection with downloading music over the Internet are the result of questions concerning intellectual property. Intellectual property means legal rights resulting from mind-created activity in the industrial, scientific, literary and artistic fields. It grants the creators of intellectual goods and services certain time-limited rights to control and exploit those productions. The granted rights are not related to the physical object in which the creation may be embodied.

a) Industrial Property and Copyright

There are two categories of intellectual property: Industrial property and copyright.

- **Industrial property**

  Industrial property includes inventions (patents), trademarks, industrial designs and geographic indications of source.

- **Copyright**

  Copyright includes literary works such as novels, poems, plays, reference works, newspapers and computer programs; databases; films, musical compositions, and choreography; artistic works such as paintings, drawings, photographs and sculpture; architecture; and advertisements,

maps and technical drawings. Rights related to copyright include those of performing artists in their performances, producers of phonograms in their recordings, and those of broadcasters in their radio and television programs.

Consequently, the questions relating to digital music are governed by copyright.

b) Legal Sources

Generally, copyright is governed by two sources: International treaties and national legislation.

aa) International Treaties

There are several international organizations which are dedicated to promote the use and protection of works of the human spirit. The two main bodies are the World Intellectual Property Organization (WIPO) and the World Trade Organization (WTO). The main international contracts concerning copyright are the following:

- Berne Convention for the Protection of Literary and Artistic Works.
- WIPO Copyright Treaty (WCT).
- WIPO Performance and Phonograms Treaty (WPPT).
- Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

South Africa is a member and signatory to the TRIPS Agreement since January 1995. Its membership to the WIPO Convention exists since March 1975 and to the Berne Convention since October 1928. But, at this stage, South Africa is not party to WCT and WPPT.

bb) National Legislation

The South African legislation concerning copyright mainly consists of the following Acts:

- Copyright Act No. 98 of 1978, as amended by the respective Copyright Amendments Acts.
- Performers' Protection Act No. 11 of 1967.
- Intellectual Property Laws Amendments Act of 1997.

3. eContracting, particularly the Electronic Communications and Transactions Act, 2002

Certainly, there are general legal problems as well concerning downloading music over the Internet, e.g. the content of the contract, particularly terms and conditions. These problems are governed by the common law and national legislation. The main Act governing eContracts is the Electronic Communications and Transactions Act, 2002 (ECT Act).

The sale of music over the Internet is also subject to a set of laws in the ECT Act concerning the sale of goods over the Internet.

Chapter 2

Legal Downloads

I. Introduction

Despite the potential which one could have recognized on the basis of the numbers of illegal downloads, the music industry refused to provide legal possibilities for downloading music for many years. Only recently the music industry recognized this potential, but only after Apple successfully launched its music portal www.apple.com/itunes/. Next to iTunes, there are many more music portals on the Internet. The biggest service in South Africa is www.musica.co.za/digital/. The biggest one in Germany is www.musicload.de. In the first six months of 2004 the turnovers of legal downloads amounted to $ 220 million and raised in the first six months of 2005 to $ 790 million. This means that legal downloads already contribute 6% to the total turnovers of the music industry.[2]

To protect the downloaded content from illegal usage, technical measures were developed. This technology which enforces certain determined rules is called “Digital Rights Management” (DRM). But DRM causes legal problems as well since the consumers are not all the time aware of the limitations technically enforced.

Recently, UMTS or 3 G mobile phone networks were introduced in South Africa. To drive the adoption of the new technology, network operators and others are promoting a large bouquet of multimedia offerings like music, music videos and pictures for download. Since the mobile phone penetration in South Africa far exceeds the penetration of Internet enabled computers, UMTS cellular phones have the potential to reach a higher market penetration than computers connected to the Internet. Because of this current development, the paper investigates the legal problems associated with music downloads on the basis of the services promoted by these networks. In particular, it will focus on two distributors - Vodafonelive! and MTNLoaded - which are promoted heavily by the network operators, Vodacom and MTN respectively. There are serious problems with how terms and conditions have been drawn up for both services. In particular, Vodafonelive! enforces contracts with the consumer through DRM enforcement without informing the consumer in the terms and

[2] http://www.netzwelt.de/news/72617-musikdownloads-im-aufwind.html (10/05/2005).

conditions of purchase. While MTNLoaded does not make use of DRM, their terms and conditions are ineffective which raises questions on its validity and usefulness.

II. Digital Rights Management (DRM)

1. General Background

"Digital Rights Management" (DRM) is a set of technologies that allow for the enforcement of a predetermined set of rules, like terms and conditions, regardless of the location of the data. Thus DRM systems can be used to enforce certain business rules concerning the use of content, such as access authorisation, at what price and on which terms. Typically, the following questions are addressed:[3]

- Is the user entitled to make any copies of the work? And, if so, how many?
- For how long is the user entitled to access the work?
- Can the user excerpt the work or make changes to it?
- Can the user access the work on one or on multiple devices?

In effect, DRM systems automate the process of licensing works. Furthermore, they also ensure that license terms are complied with.

The characteristics of DRM systems are:[4]

- Identifiers, i.e. numbers or codes permitting the unique identification of a piece of content (comparable to, for example, the ISBN number for books).
- Metadata, i.e. information about the piece of content which may include, for example, the identity of the rights holder, the price for using the work and any other terms of use.
- Technological protection measures, i.e. systems designed to ensure that certain usage rules are complied with, in particular those concerning access and copy control.

[3] WIPO, Intellectual Property on the Internet: A Survey of Issues, p 61.
[4] WIPO, see footnote 3.

In recent years, rights owners have invested lots of money in the development and deployment of DRM systems as a means of enforcing their rights in the digital environment. In the meanwhile, many systems are available and found their way into the market. However, many problems still exist especially with regards to interoperability between the different proprietary systems. Nonetheless, DRM systems are widely considered to enhance legitimate access to copyright works on the Internet for all parties.

2. Technical Background

The reproduction and distribution of digital content is easy, reasonably fast and in most cases very cheap. For this reason, digital piracy is seen as a major problem for content publishers. Thus, before publishers allow legal content to be downloadable, they usually insist on copy protection mechanisms that prevent reproduction and distribution of digital content. Digital Rights Management (DRM) is often promoted as the technology for copy protection mechanisms.

While DRM is promoted as a means to enforce copyright, it is in reality a means to enforce "persistent access control". In computer security, access control is defined as "protection of system resources against unauthorized access; a process by which use of system resources is regulated according to a security policy and is permitted by only authorized entities".[5] In effect, DRM enforces a set of agreed terms and conditions (set out in a license), and not necessarily the terms and conditions set out in copyright law.

3. Legal Background

a) International Treaties and Legislation

aa) WIPO Treaties

DRM systems are legally supported by the WIPO Copyright Treaty (WCT) and the WIPO Performances and Phonograms Treaty (WPPT). In this regard, the relevant provisions are the following:

Article 11 WCT
Obligations concerning Technological Measures

Contracting Parties shall provide adequate legal protection and effective legal remedies against the circumvention of effective technological measures that are used by authors in connection with the exercise of their rights under this Treaty or the Berne Convention and that restrict acts, in respect of their works, which are not authorized by the authors concerned or permitted by law.

Article 12 WCT
Obligations concerning Rights Management Information

(1) Contracting Parties shall provide adequate and effective legal remedies against any person knowingly performing any of the following acts knowing, or with respect to civil remedies having reasonable grounds to know, that it will induce, enable, facilitate or conceal an infringement of any right covered by this Treaty or the Berne Convention:

(i) to remove or alter any electronic rights management information without authority;

(ii) to distribute, import for distribution, broadcast or communicate to the public, without authority, works or copies of works knowing that electronic rights management information has been removed or altered without authority.

(2) As used in this Article, "rights management information" means information which identifies the work, the author of the work, the owner of any right in the work, or information about the terms and conditions of use of the work, and any numbers or codes that represent such information, when any of these items of information is attached to a copy of a work or appears in connection with the communication of a work to the public.

Article 18 WPPT
Obligations concerning Technological Measures

Contracting Parties shall provide adequate legal protection and effective legal remedies against the circumvention of effective technological measures that are used by performers or producers of phonograms in connection with the exercise of their rights under this Treaty and that restrict acts, in respect of their performances or phonograms, which are not authorized by the performers or the producers of phonograms concerned or permitted by law.

Article 19 WPPT
Obligations concerning Rights Management Information

(1) Contracting Parties shall provide adequate and effective legal remedies against any person knowingly performing any of the following acts knowing, or with respect to civil remedies having reasonable grounds to know, that it will induce, enable, facilitate or conceal an infringement of any right covered by this Treaty:

(i) to remove or alter any electronic rights management information without authority;

[5] Shirey R, *RFC 2828 - Internet Security Glossary*, May 2000, http://www.faqs.org/rfcs/rfc2828.html.

(ii) to distribute, import for distribution, broadcast, communicate or make available to the public, without authority, performances, copies of fixed performances or phonograms knowing that electronic rights management information has been removed or altered without authority.

(2) As used in this Article, "rights management information" means information which identifies the performer, the performance of the performer, the producer of the phonogram, the phonogram, the owner of any right in the performance or phonogram, or information about the terms and conditions of use of the performance or phonogram, and any numbers or codes that represent such information, when any of these items of information is attached to a copy of a fixed performance or a phonogram or appears in connection with the communication or making available of a fixed performance or a phonogram to the public.

bb) ECT Act, 2002

In South Africa, the corresponding provision to the above mentioned WIPO articles is section 86 (3) and (4) of the ECT Act, 2002. This section penalises persons utilizing a device or computer program to unlawfully overcome security measures designed to protect data or access thereto:

86. ECT Act
Unauthorised access to, interception of or interference with data

(3) A person who unlawfully produces, sells, offers to sell, procures for use, designs, adapts for use, distributes or possesses any device, including a computer program or a component, which is designed primarily to overcome security measures for the protection of data, or performs any of those acts with regard to a password, access code or any other similar kind of data with the intent to unlawfully utilise such item to contravene this section, is guilty of an offence.

(4) A person who utilises any device or computer program mentioned in subsection (3) in order to unlawfully overcome security measures designed to protect such data or access thereto, is guilty of an offence.

A person who is convicted of an offence referred to in section 86 (3) is liable to a fine or imprisonment for a period not exceeding 12 months, section 89 (1) ECT Act. In case of a conviction referred to in section 86 (4), the person is liable to a fine or imprisonment for a period not exceeding five years, section 89 (2) ECT Act.

b) Purchase and License Agreement – Copyright Act, 1978

aa) Protection and Rights due to the Copyright Act, 1978

i) The Act provides in section 2 (1) (b) that musical works, if they are original, shall be eligible for copyright.[6] But the work shall not be eligible for copyright unless the work has been written down, recorded, represented in digital data or signals or otherwise reduced to a material form, section 2 (2).

2. Copyright Act
Works eligible for copyright

(1) Subject to the provisions of this Act, the following works, if they are original, shall be eligible for copyright-

(a) literary works;

(b) musical works;

(c) artistic works;

(d) cinematograph films;

(e) sound recordings;

(f) broadcasts;

(g) programme-carrying signals;

(h) published editions;

(i) computer programs.

(2) A work, except a broadcast or programme-carrying signal, shall not be eligible for copyright unless the work has been written down, recorded, represented in digital data or signals or otherwise reduced to a material form.

ii) In section 6 the Act lists the exclusive rights which copyright in a literary or musical work vests, e.g. reproducing the work in any manner or form, publishing the work if it was hitherto unpublished and making an adaptation of the work:

[6] Section 3 (1) of the Copyright Act only protects South African authors. But due to international treaties (TRIPS, WIPO), the protection has been extended to a number of countries (“principle of national treatment”). The protected countries are listed in a schedule to the copyright regulations.

6. Copyright Act
Nature of copyright in literary or musical works

Copyright in a literary or musical work vests the exclusive right to do or to authorize the doing of any of the following acts in the Republic:

(a) Reproducing the work in any manner or form;

(b) publishing the work if it was hitherto unpublished;

(c) performing the work in public;

(d) broadcasting the work;

(e) causing the work to be transmitted in a diffusion service, unless such service transmits a lawful broadcast, including the work, and is operated by the original broadcaster;

(f) making an adaptation of the work;

(g) doing, in relation to an adaptation of the work, any of the acts specified in relation to the work in paragraphs (a) to (e) inclusive.

iii) But there are some exceptions to the protection of musical works. Concerning the purchase of musical works by consumers, the main issue is, according to section 12 (1) (a), that copyright shall not be infringed by any fair dealing with a musical work for the purposes of research or private study by, or the personal or private use of, the person using the work.

12. Copyright Act
General exceptions from protection of literary and musical works

(1) Copyright shall not be infringed by any fair dealing with a literary or musical work-

(a) for the purposes of research or private study by, or the personal or private use of, the person using the work;

(b) for the purposes of criticism or review of that work or of another work; or

(c) for the purpose of reporting current events-

(i) in a newspaper, magazine or similar periodical; or

(ii) by means of broadcasting or in a cinematograph film;

Provided that, in the case of paragraphs (b) and (c) (i), the source shall be mentioned, as well as the name of the author if it appears on the work.

The term “fair dealing” is vague and indefinite and there are no criteria listed in the Act concerning its meaning. It is submitted that as a general

rule the copying of a whole work will not constitute a fair dealing with that work if the copyright owner`s economic interests are adversely affected in that he ought reasonably to have obtained remuneration for the copy acquired by the copyist.[7] In contrary to South African law, Australian and U.S. copyright law provides a list of criteria to be considered:

- § 107 of the Copyright Law of the USA provides:

  In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include –

  (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;

  (2) the nature of the copyrighted work;

  (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

  (4) the effect of the use upon the potential market for or value of the copyrighted work.

- Section 40 (2) of the Australian Copyright Act, 1968 additionally determines the possibility of obtaining the work or adaptation within a reasonable time at an ordinary commercial price to be considered as a factor.

Since these criteria are reasonable and seem to be commonsense, the term “fair dealing” should be interpreted accordingly.[8]

In this connection, the copying of copyrighted musical works for private use is to be considered as “fair dealing”. This includes the transfer to other devices as well.

[7] O.H. Dean, Handbook of South African Copyright Law, 1-52 (9.2.2).
[8] O.H. Dean, Handbook of South African Copyright Law, 1-52 (9.2.3).

iv) Despite the exceptions of section 12, the rights holder and the consumer may contractually agree on certain limitations of usage. Such non-exclusive licence to do an act which is subject to copyright may be written or oral, or may be inferred from conduct, and may be revoked at any time, section 22 (4). Such licence granted by contract shall not be revoked, either by the person who granted the licence or his successor in title, except as the contract may provide, or by a further contract.

22. Copyright Act
Assignment and licences in respect of copyright

(1) Subject to the provisions of this section, copyright shall be transmissible as movable property by assignment, testamentary disposition or operation of law.

(4) A non-exclusive licence to do an act which is subject to copyright may be written or oral, or may be inferred from conduct, and may be revoked at any time: Provided that such a licence granted by contract shall not be revoked, either by the person who granted the licence or his successor in title, except as the contract may provide, or by a further contract.

Thus, if DRM systems are to enforce legally concluded licensing contracts which contain limitations of usage, it would be legal. Under such terms, DRM systems could restrict fair use and other actions applicable under copyright law.

bb) "Buying" and "Licensing"

Arnab and Hutchison detailed the difference between "buying" and "licensing" of content while discussing issues regarding fair use or copyright exceptions in DRM systems.[9] If a consumer buys a copyrighted work, he is bound only by the restrictions in the copyright laws of his country and appropriate treaties like the Berne Convention. When a consumer licenses a copyrighted work, he is bound by the restrictions contractually agreed upon. The authors argue that DRM by its very nature is a contracting model, and thus the consumer is licensing the right to access a copyrighted work and not buying a copy of a copyrighted work. This distinction is very crucial in the issues to be examined in this paper.

[9] Alapan Arnab and Andrew Hutchison – *Fairer Usage Contracts for DRM*; The Fifth ACM Workshop on Digital Rights Management, Co-Located with ACM Computer and Communications Security Conference, Alexandria, Virginia, November 2005.

cc) Typical License Clauses – www.apple.com/itunes/

In spring 2003, Apple opened its online music store iTunes. Since then, iTunes sold more than 500 million songs worldwide. At present, iTunes offers more than one million songs of major and independent labels.

iTunes is available in 21 countries. Except in Germany, iTunes quickly became the number one online music portal in each country after opening its doors. Currently, iTunes has a 80% share in the music download market worldwide.[10]

Like many music distributers nowadays, iTunes uses DRM technology to enforce particular license agreements. These agreements concern the usage of the downloaded content on different devices, its reproduction and the purpose for which the content can be used for.

The legal basis concerning the license agreements enforced by the DRM technology is the "Terms of Sale" used by iTunes:

"TERMS OF SALE[11]

Content Usage Rules

Your use of the Products is conditioned upon your prior acceptance of the terms of this Agreement.

You shall be authorized to use the Product only for personal, non-commercial use.

You shall be authorized to use the Product on five Apple authorized computers.

You shall be entitled to burn and export Products solely for personal, non-commercial use.

Any burning or exporting capabilities are solely an accommodation to you and shall not constitute a grant or waiver (or other limitation or implication) of any rights of the copyright owners of any content, sound recording, underlying musical composition or artwork embodied in any Product.

You agree that you will not attempt to, or encourage or assist any other person to, circumvent or modify any software required for use of the Service or any of the Usage Rules.

[10] http://www.spiegel.de/netzwelt/netzkultur/0,1518,381509,00.html (10/25/2005)
[11] http://www.info.apple.com/usen/itunes/policies.html (11/23/2005).

> The delivery of a Product does not transfer to you any commercial or promotional use rights in the Product.
>
> Refer to Terms of Sale for more detailed information on Usage Rules."

dd) Conflict between DRM Limitations and the Content of the Contract

Since DRM systems technically enforce licensing provisions, and therefore limit the rights of the consumer granted by the copyright law, there may be a conflict between the contractual agreement of the parties and the actual situation caused by the technical environment. The question is whether the customer is aware of the restrictions enforced by DRM and what the parties contractually agreed on.

III. Universal Mobile Telecommunications System (UMTS) Networks

1. General

UMTS or third generation (3G) networks is the latest mobile telephony standard. Unlike the previous generation of 2G networks (like GSM 900, 1800 used in most parts of the world including South Africa), UMTS offers a much higher bandwidth in data transmission between the mobile phone and the base station. Consequently, UMTS networks allow live video telephony and other bandwidth heavy applications.

To advantage of these features, UMTS mobile phones allow many multimedia functions such as playing music and videos, surfing the Internet and e-mail. In South Africa, the two major mobile phone network operators, Vodacom and MTN, have aggressively promoted their UMTS networks to the consumer focusing on a rich bouquet of multimedia offering. Furthermore, independent publishers and service providers such as Exactmobile have also launched and heavily promoted their own multimedia offerings accessible via mobile phones.

Media, especially music, is a very popular resource on cellular phones and often a profitable venture for the distributors. Music is mostly sold as "ringtones" and the cellular ringtone market is substantially bigger than the legal music download market led by distributors such as iTunes. It is estimated that the turnovers generated by

ringtones in 2004 amounted to more than € 3 Billion worldwide.[12] Other media such as pictures and music videos are being promoted aggressively on 3G networks.

2. DRM Systems used by Cell Phones

In 2004, the Open Mobile Alliance (OMA) - a consortium of mobile phone network operators, service providers, application developers and equipment manufacturers - released OMA DRM 1.1, a set of common DRM specifications to be used by its members.[13] Since then, virtually every new cellular phone has implemented these specifications.

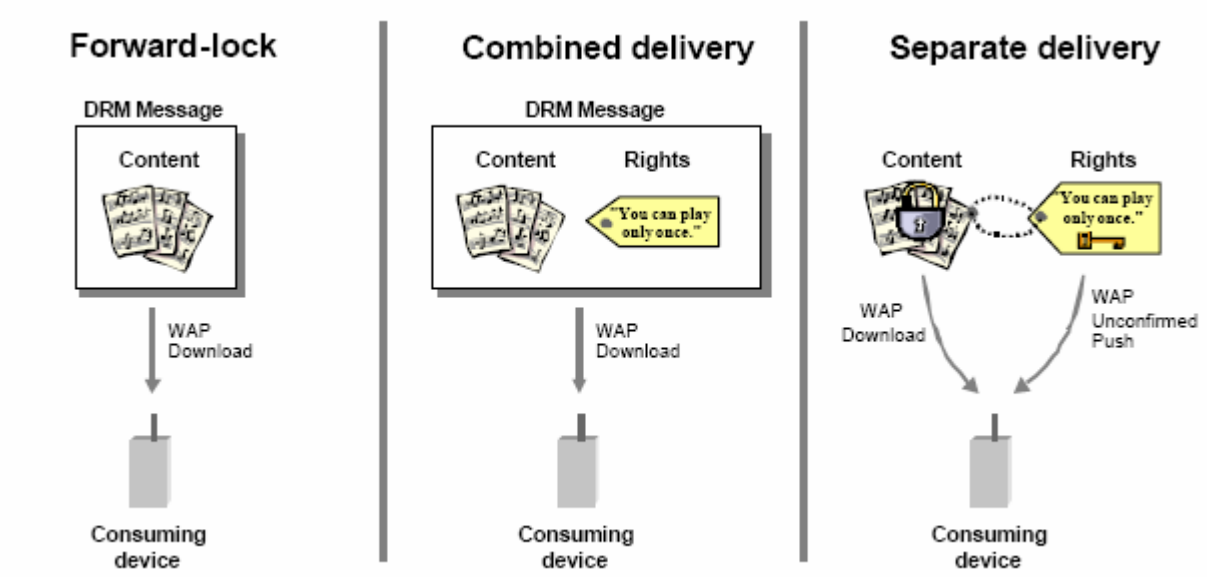

Figure 1: OMA DRM 1.1 Protection Schemes

As shown in Figure 1, OMA DRM 1.1 has three types of protection schemes:

- **Forward Lock:** Content is unencrypted but can only be accessed with the mobile phone that downloaded the content. Content cannot be forwarded to other phones and phones should not allow the content to be copied from memory. Forward lock does not make use of a license, and these terms (cannot copy, cannot distribute) are fixed to the phone.

[12] http://www.faz.net (05/23/2005).
[13] Open Mobile Alliance – *Digital Rights Management Version 1.1*, June 2004, http://www.openmobilealliance.org/release_program/drm_v1_0.html.

- **Combined Delivery:** Content is also unencrypted and can only be accessed with the mobile phone that downloaded the content. Like forward lock, content cannot be copied or distributed. Unlike forward lock, content also has an accompanying license which can impose even further restrictions, such as "user can only play song 4 times".

- **Separate Delivery:** Content is encrypted and there is no restriction on copying and redistribution. However, accessing the content requires a license which can be acquired separately from the content. Like combined delivery, the license can impose restrictions to access, but copy and redistribution is usually not restricted in such a license. In this protection scheme, the user does not pay for the media but the right to access the media.

IV. MTNLoaded and Vodafonelive!

1. General

MTN and Vodacom have been promoting UMTS/3G networks on television, radio and in the press.

Vodafonelive! is a world wide network run by Vodafone (UK) and is available in over 30 countries. Vodafonelive! is exclusive to Vodacom (and partner networks) subscribers. Currently, 4,94 million Vodafone customers are using the UMTS network.[14]

MTNLoaded is a South African service outsourced by MTN and is exclusive to MTN subscribers.

The main uses of the networks are:

- video telephony
- Internet
- music, videos and television programmes

Data is downloaded over the Internet straight to the mobile phone.

2. Main Legal Problems

Vodafonelive! and MTNLoaded provide copyrighted material for download. To protect the content, DRM technology limits what users can do with the downloaded material. In this connection, particularly contracting issues concerning the purchase and the use of downloaded material arise. The questions to be explored are:

1) The purchase is an e-commerce transaction. Is the ECT Act satisfied?

2) What are the contractual provisions concerning the copyrighted material? Are there any licensing provisions or is copyright law applicable?

a) Are there copyright protection mechanisms in place? If there are copyright protection mechanisms in place, are the customers aware of the use of DRM and the restrictions imposed by DRM?

b) Are there terms and conditions in place? If there are terms and conditions, are they accessible in terms of the ECT Act and the common law? What is the content of the terms and conditions and are there any conflicts?

3) How does the age of the parties involved affect the transactions?

3. Vodafonelive!

a) Is the ECT Act satisfied?

Since the dissemination of digital music over UMTS networks constitutes communication and transaction over an electronic medium, the ECT Act is applicable as per section 4 (1).

By its very nature, digital data cannot be returned by the consumer once acquired. Thus, according to section 42 (2) (f) (iii) of the ECT Act, the cooling off period detailed in section 44 is not applicable to digital music. The system complies with the requirements set out in section 43 of the ECT Act which details the information that needs to be provided to the consumer.

[14] http://www.spiegel.de/wirtschaft/0,1518,384967,00.html (11/15/2005).

b) Are there any licensing provisions or is copyright law applicable?

aa) Vodafonelive! uses DRM mechanisms to protect the downloaded content. In particular, the above mentiond system "forward lock only" is used. Therefore, all downloaded content is bound to the mobile phone and common actions permitted under South African copyright law, such as using copyrighted media on different devices, are not permitted. However, the purchase is promoted as "buying" and not as "licensing".

Generally, the users are unaware of these restrictions since they are not mentioned during the purchase process. There is only a little hint to the restrictions under a hyperlink called "help" which only refers to piracy in general.

bb) During the purchase process the customer is alluded to the terms and conditions via a hyperlink ("browse-wrap"). But there are no provisions concerning the use of downloaded content in the terms and conditions.

"**TERMS AND CONDITIONS**[15]

You need to purchase a Vodafone live! cellphone to access this service.

There is no charge for browsing the Vodafone live! portal, but normal browsing charges will apply when accessing non-Vodafone live! pages.

Please note that a fixed charge applies when purchasing Vodafone live! downloadable content (e.g. games, ring tones, wallpaper, pictures etc) and content subscription. This charge depends on the type of content and is specified on the payment screen prior to the purchase.

Roaming rates will apply when accessing Vodafone live! whilst roaming and will differ from country to country.

Clicking the price means you agree to the Terms and Conditions applicable to your cellular service as well as Vodacom's Website Terms and Conditions."

cc) Concerning the incorporation of standard terms and conditions, section 11 of the ECT Act provides:

11. Legal recognition of data messages.—

(1) Information is not without legal force and effect merely on the grounds that it is wholly or partly in the form of a data message.

[15] http://www.vodacom.co.za/vodafone_live/terms.jsp (11/22/2005).

> (2) Information is not without legal force and effect merely on the grounds that it is not contained in the data message purporting to give rise to such legal force and effect, but is merely referred to in such data message.
>
> (3) Information incorporated into an agreement and that is not in the public domain is regarded as having been incorporated into a data message if such information is
>
> > (a) referred to in a way in which a reasonable person would have noticed the reference thereto and incorporation thereof; and
> >
> > (b) accessible in a form in which it may be read, stored and retrieved by the other party, whether electronically or as a computer printout as long as such information is reasonably capable of being reduced to electronic form by the party incorporating it.

According to section 11 (2), it is legally admissible to allude to the terms and conditions via a hyperlink ("browse-wrap"). Furthermore, the terms and conditions become part of the contract since a reasonable person would be able to notice them.

dd) Conclusion – When the contract between the customer and Vodafonelive! is concluded, generally the customer is unaware of the limitations enforced by the implemented DRM system. In absence of a valid agreement, the actual restrictions concerning copyright do not become part of the contract. Therefore, the used DRM system limits the customers` usage to an extent which does not comply with the contract and copyright law.

c) Conclusion of contract and age restrictions

The use of DRM implies a contractual system, and thus the conclusion of a contract requires the participants to be of legal age. However, Vodafonelive! does not make any mention of this fact. The service is available to any Vodacom customer who can be of any age.

4. MTNLoaded

a) Is the ECT Act satisfied?

Since the dissemination of digital music over UMTS networks constitutes communication and transaction over an electronic medium, the ECT Act is applicable as per section 4 (1).

By its very nature, digital data cannot be returned by the consumer once acquired. Thus, according to section 42 (2) (f) (iii) of the ECT Act, the cooling off period detailed in section 44 is not applicable to digital music. The system complies with the requirements set out in section 43 of the ECT Act which details the information that needs to be provided to the consumer.

b) Are there any licensing provisions or is copyright law applicable?

aa) MTNLoaded does not use forward lock. But unlike Vodafonelive!, terms and conditions concerning the downloaded content do exist. Nevertheless, the purchase is promoted as "buying" and not as "licensing".

In this instance, the users as well are generally unaware of any restrictions since the link to the terms and conditions was broken during the investigation.

bb) As in the case of Vodafonelive!, the customer is alluded, during the purchase process, to the terms and conditions via a hyperlink ("browse-wrap"). There are a couple of provisions in the terms and conditions[16] concerning the usage of the downloaded content.

- Provision 2.3 of the terms and conditions stipulates:

  "All copies of Content remain the property either of MTN or the rights owner(s) from which the Content has been licensed."

  This provision does not make any sense. Does the purchaser have to file a written or oral application before removing the downloaded files from the cellphone? How can newly generated data "remain" one`s property? Subject to the contract is the intellectual property. Therefore, one buys embodied creations or licenses are granted. The provision sounds more like a rental agreement.

[16] http://www.mtn.co.za/?pid=40642 (22/11/2005).

- Provision 2.5 of the terms and conditions stipulates:

> "You may only use the Content for private and personal purposes. You may not infringe the intellectual property rights of others. You must comply with all other reasonable instructions regarding use of the Content."

According to section 12 (1) of the Copyright Act,[17] copyright is not infringed by any fair dealing with a literary or musical work-

> (a) for the purposes of research or private study by, or the personal or private use of, the person using the work;
>
> (b) for the purposes of criticism or review of that work or of another work; or
>
> (c) for the purpose of reporting current events-
>
> (i) in a newspaper, magazine or similar periodical; or
> (ii) by means of broadcasting or in a cinematograph film.

In the case of paragraphs (b) and (c)(i), the source must be mentioned, as well as the name of the author if it appears on the work. Since provision 2.5 of the terms and conditions limits the usage to private purposes, it is conflicting with the exceptions stated in section 12 of the Copyright Act.

- Provision 2.6 of the terms and conditions stipulates:

> "You may not, or attempt to, copy, distribute, modify, reformat, display, license, transmit, sell, perform, publish, transfer, reverse engineer or decompile (**except to the extent expressly permitted by applicable law** or as set out in this Agreement), or otherwise make available, any or all of the Content. You are expressly prohibited from forwarding Java Games (or any other Content that MTN may advise from time to time) to others."

This provision expressly refers to the exceptions stipulated in the Copyright Act. But: It is unclear wheather the exceptions relate to all actions mentioned or only to "reverse engineer or decompile". To make

[17] Section 12 of the Copyright Act contains further exceptions in the subsections (2) to (13).

any sense, the mentioning of the exceptions of the Copyright Act have to relate to all stated actions. Therefore, the limitations stated in the first part of the provision are surplus.[18]

cc) It is legally admissible to allude to the terms and conditions via a hyperlink ("browse-wrap"), section 11 (2) of the ECT Act. Since the link was broken, it is reasonable to assume that the reasonable consumer will not be able to locate the correct terms and conditions. Therefore, the terms and conditions should not form part of the contract.

dd) Conclusion – Since MTNLoaded neither uses DRM nor provide any restrictions through a valid terms and conditions of sale, the transaction is a purchase governed by copyright law.

c) Conclusion of contract and age restrictions

Unlike Vodavonelive!, MTNLoaded requires the consumer to be over the age of 16 to use their service. However, there is no mechanism in place to check for this restriction. There is also no explanation given to why the age restriction is 16 as opposed to 18, 21 or any other number. The provision 2.7 of the terms and conditions stipulates:

> "You must be over 16 years of age, or else you must be able to demonstrate to MTN that you have obtained your parent's consent to access or download the Content. Additionally, you must obtain the permission of the person who pays for the mobile phone (including usage charges) before accessing and downloading the Content. This includes where your employer or parent pays for the mobile phone bill."

5. Conclusions

The users of these services are generally unaware of any limitations concerning the usage of the downloaded copyrighted content, no matter whether they are enforced by DRM systems or written down in the terms and conditions. Therefore, license

[18] Concerning Java Games, provision 2.2 of the terms and conditions stipulates: "You are only entitled to download Java Games once to your phone and store one copy of that Content in your phone's memory. You may make one copy of that Content for back-up purposes only." And provision 2.6: "You are expressly prohibited from forwarding Java Games (or any other Content that MTN may advise from time to time) to others." – Concerning Java Games, the terms and conditions expressly limit the usage. In this instance, the contract would be a license agreement and not a purchase. Therefore, the provisions of the Copyright Act, which grant rights for a purchaser, would not be applicable.

restrictions cannot become part of the contract. But in case of Vodafonelive!, DRM systems ensure that restrictions are enforced in contrary to the contractual situation.

V. Excursion – www.musica.co.za/digital/

1. General

www.musica.co.za/digital/ is the biggest South African music portal. It offers more than 50.000 songs for download.

2. Are there any licensing provisions or is copyright law applicable?

a) Musica uses DRM technology to enforce license agreements. The license agreements typically concern the following three questions:

- Are any transfers to portable devices allowed? If yes, how many?
- Is it allowd to burn the downloaded content to CDs? If yes, how many times?
- How many times may the song be played on the computer?

During the purchase process, the product details are shown to the customer. The product details include a link called “Rights Information”. Via this link, the respective license provisions concerning the content are displayed. In most cases, the content may be transfered to portable devices and played on the computer unlimited times. Burning the songs to CDs is usually limited to a couple of times.

b) Indeed, Musica provides terms and conditions on its website but they do not contain any rules concerning the usage of the downloaded content. Unlike the terms and conditions, the “Help”-“FAQ” link on the website includes detailed information concerning the licenses used by Musica. The FAQ section deals with the following questions:

- **What is a license?**

  When you download music from our system, a license is downloaded to your computer. The music is protected and the license allows you to unlock and play the music.

- **What happens if I lose the license?**

  If you try and play the music but you have lost your license (i.e. you have recently rebuilt your PC) your system will connect to the internet and you will be requested to identify yourself as the license holder (this will be done by inputting your username/e-mail address and password). You will then be supplied with a duplicate license. There is a limit to the number of licenses you will be allowed (this will be set by the record label so may be different for each track but it is typically 3).

- **Restrictions to number of plays**

  For some downloads, the Record Label may have set up some restrictions. Our product details page will tell you how many plays you are allowed.

- **Restrictions to when licence will expire**

  For some downloads, there will be a restriction to the number of days you are allowed to listen to the track for, this will be explained on the product display screens. After this date you will not be able to play the track again.

- **Can downloaded music be copied or moved from one computer to another?**

  All our music is downloaded with a secure license which enables you to play it on your computer. You are allowed a number of license issues (typically 3) that you can use to move your downloads onto a new computer or a re-installed computer. In most cases you can burn to a CD or download to compatible portable players.

- **What are CD burn rights?**

  CD burning refers to the process of creating an audio CD from the downloaded media file on your PC. Most of the music can be 'burned' to a CD. CD 'Burn' allowances for each track are determined by the Record Labels. The media player uses the license associated with each track to check that a particular track can be 'burned' to a CD.

3. Conclusion

Unlike Vodafonelive! and MTNLoaded, Musica provides the customer with detailed information about license restrictions, as well on the homepage as during the purchase process. Since the customer, during the purchase process, can reasonably take notice of the respective licenses via the product details, the licenses become part of the contract between Musica and the customer.

VI. Excursion – SonyBMG Rootkit (DRM)

1. General

The aim of DRM is to protect copyrighted content and to enforce possible license restrictions. But since technology and knowledge develops very fast these days, no DRM system can provide absolute protection against copyright infringement. It is not only criminals who seek to overcome security measures for their profit, but also "hackers" who seek the challenge of "cracking" sophisticated technology. Therefore, the copyright holders search constantly for new ways to protect their rights against abuse.

Given the need for protection, one should not forget the consumers` interests. The borderline between reasonable protection and unreasonable limitation of the consumers` usage possibilities concerning the copyrighted content is very thin. Both, unreasonable restrictions and insufficient protection result in the loss of profit for the copyright holders.

The pursuit of protection and profit bears an additional risk. Since the copyright holders, particularly the music industry, suffered huge losses in the last years because of

copyright infringement, they urged the national legislators to draft legislation protecting their rights. As the recent case of SonyBMG shows, the usage of DRM systems can lead to an application of the new legislation. But this time the copyright holders are subject to the provisions of the criminal law.

2. Background

When the music industry changed from records to CDs, it distributed regular "master copies" which one could copy without loss of quality. This is a problem since CD-burners are affordable for everybody. In 2001, the music industry introduced technical copy protection measures to prevent copyright infringement.[19] In the beginning, the suppliers of CDs used disturbance data: deliberately added errors. Audio CD players ignore these errors but computer devices try to interprete them. As a result, either the device cannot read the CD or in worst case the computer has a break down. Mobile CD players are concerned as well since they are based on computer device technology. These facts caused serious critisism for the music companies. These days, hardly any company, which trades in copyrighted content, goes without copy protection.

Recently, it was detected that Sony uses software on particular DRM protected CDs, which hides away and opens potential security breaches.[20] The software reproduces rootkit functions – rootkits corrupt the integrity of the computer; they monitor and influence particular processes, hide away their (illegal) activities from the computer user and grant access to the basic functions of the system. Additionally, the software installs filter drivers for CD-ROM devices and the IDE drivers, which are used to control access to media.

The software is neither displayed in the software list of the system control nor is it possible to uninstall it via an unsinstaller.[21] It does not only hide its files, directories, processes and registry keys, but everything starting with sys in its name. Therefore, harmful software can easily camouflage itself only by giving an appropriate name. Furthermore, the software is poorly programmed which can lead to the instability of the system – possibly files will get lost.

[19] http://www.spiegel.de/netzwelt/technologie/0,1518,382859,00.html (11/02/2005).
[20] http://www.heise.de/newsticker/result.xhtml?url=/newsticker/meldung/65602&words=Russinovich (11/01/2005).
[21] http://www.heise.de, see footnote 20.

The software checks every 2 seconds all running processes for opened files to fulfil its task – to prevent the making of undesirable copies.[22] Therefore, it impairs the efficiency of the computer even if the CD, which shall be protected, is not in the device. The software places itself so deeply in the system that it even is started in the secured mode. Therefore, in case the software causes problems, the whole system can become useless. Additionally, an incorrect removal of the software may possibly concern the monitored system module and lead to a malfunction of the computer device.

In the license agreements of the CD, which have to be accepted to be able to start the software which enables the user to play the CD on a computer, the installation of the above mentioned software is not mentioned.

The software was programmed by First 4 Internet (F4i) and is called XCP ("Extended Copy Protection"). It has been used since spring 2005 without beeing detected, but only in the USA.[23] About 4,7 million CDs, which contain XCP, were produced; 2,1 million were sold.[24]

One day after the media reported on the rootkit-DRM, SonyBMG offered two patches on its webpage: one to remove only the stealth functions of the software and an uninstaller.[25] But this measure did not prevent SonyBMG from beeing sued for damages – meanwhile, several class-action lawsuits were submitted. Additionally, the public prosecutor`s office of Texas (USA) charged SonyBMG for installing spyware on computers via audio CDs without beeing authorized for it.[26]

3. Criminal Liability

According to South African and German criminal law, the usage of XCP would be punishable.

[22] http://www.heise.de, see footnote 20.
[23] http://www.spiegel.de/netzwelt/netzkultur/0,1518,383051,00.html (11/03/2005); http://www.spiegel.de/netzwelt/technologie/0,1518,383301,00.html (11/04/2005).
[24] http://www.spiegel.de/netzwelt/technologie/0,1518,386312,00.html (11/22/2005).
[25] http://www.spiegel.de/netzwelt/netzkultur/0,1518,383051,00.html (11/03/2005); http://www.spiegel.de/netzwelt/politik/0,1518,384248,00.html (11/10/2005).
[26] http://www.heise.de/newsticker/result.xhtml?url=/newsticker/meldung/66485&words=RIAA (11/22/2005); http://www.spiegel.de/netzwelt/technologie/0,1518,386312,00.html (11/22/2005).

a) Section 86 (2) ECT Act, 2002

According to South African law, an unauthorized person who deliberately interferes with data in a way which causes such data to be modified, destroyed or otherwise rendered ineffective, is guilty of an offence:

86. ECT Act
Unauthorised access to, interception of or interference with data

(1) Subject to the Interception and Monitoring Prohibition Act, 1992 (Act 127 of 1992), a person who intentionally accesses or intercepts any data without authority or permission to do so, is guilty of an offence.

(2) A person who intentionally and without authority to do so, interferes with data in a way which causes such data to be modified, destroyed or otherwise rendered ineffective, is guilty of an offence.

A person who is convicted of an offence referred to in section 86 (2) is liable to a fine or imprisonment for a period not exceeding 12 months, section 89 (1) ECT Act.

All the actions set out in section 86 (2) ECT Act are carried out by SonyBMG`s DRM software: XCP replaces or modifies driver files, installs strange data and, if necessary, suppresses basic functions of the operating system. Furthermore, the usage and the installation of XCP is not disclosed to the computer user. Therefore, SonyBMG acts without the authority of the computer owner/user.

b) § 303a StGB (Germany)

The German law concerning “cracking” is very similar to section 86 (2) ECT Act. The applicable rule provides:

§ 303a StGB
Modified data

(1) A person who unlawfully deletes, suppresses, renders ineffective or modifies data (§ 202a Abs. 2), is liable to a fine or imprisonment for a period not exceeding two years.

Therefore, according to German criminal law, SonyBMG would be liable as well.

4. Conclusion

Inspired by the tremendous possibilities of the technology, the music companies developed new business strategies concerning the licensing of copyrighted content. At best case for the music industry, the consumer is charged for each use of the content. But because of this pursuit of profit and the huge number of illegal downloads over the past years, nowadays the music industry tend to restrict the usage of copyrighted content to an unreasonable extent. Meanwhile, there are several movements criticizing this development with the aim to increase the protection of consumer rights.

There is no doubt that the music companies are in need for protection concerning copyright infringement. But as the case of SonyBMG shows, the impact of DRM technology on the consumers and the copyright holders using these measures is not to be underestimated. Not only that the copyright holders tend to limit unreasonably the use of the content, but there is as well the danger that they overshoot the mark and violate unlawfully the consumers` privacy and ownership.

In finding reasonable ways to protect its rights, the music industry has to find a balanced ratio between its and the consumers` interests. It has to realize that there cannot be an absolut protection against copyright infringement. Unlike SonyBMG, it should avoid to take a sledgehammer to crack a nut.

Chapter 3

Illegal Downloads

I. General

The first who confronted the issues raised by the intellectual property system with the emerging digital technologies was the music industry. The reason for this is, that with the development of compression software as mp3,[27] music files could easily be digitized, uploaded and freely downloaded from Web or file transfer protocol (FTP) sites. Therefore, music is very well suited to be distributed over the Internet. Since there are many parties which participate in the Internet, for instance Internet service providers, hard- and software developers, the users, businesses, etc., the most interesting question from the music industry`s point of view concerning intellectual property is: Who is liable for copyright infringement? Virtually, every participant could be liable.

In an early case, *UMG Recordings, Inc. v. MP3.Com, Inc.*, the court found an online music service liable for copyright infringement for facilitating the piracy of digital music by making available its database of more than 80.000 songs, almost unauthorized.[28] With the appearance of peer-to-peer (p2p) file sharing systems,[29] which facilitate the exchange of music and video files between Internet users, illegal downloads reached a much higher level. Within p2p networks, the users` computers communicate directly with each other, not through central servers. The advantage of p2p networks over information networks of other types shows up in their substantial and growing popularity. Because they need no central computer server to mediate the exchange of information or files among users, the high bandwidth communications capacity for a server may be dispensed with, and the need for costly server storage space is eliminated. Since copies of a file, particularly a popular one, are available on many users` computers, file requests and retrievals may be faster than on other types of networks, and since file exchanges do not travel through a server, communications can take place between any computers that remain connected to the network without risk that a glitch in the server will disable the network in its entirety. Given

[27] http://www.mp3.com.
[28] ***UMG Recordings, Inc. v. MP3.Com, Inc.*,** 92 F. Supp. 2d 349 (S.D.N.Y., 2000). A later case determined how statutory damages for such infringements could be calculated: *UMG Recordings, Inc. v. MP3.Com, Inc.*, 109 F. Supp. 2d. 223 (S.D.N.Y., 2000).

these benefits in security, cost, and efficiency, peer-to-peer networks are employed to store and distribute electronic files by universities, government agencies, corporations, and libraries, among others.[30]

The first and most popular file sharing system was Napster, but soon many others, as Aimster, KaZaA, Grokster and Morpheus, emerged. Meanwhile, it was estimated that 99% of all files transferred through p2p systems were unauthorized.[31] In 2001, an estimated number of 5.16 billion unlicensed audio files were shared across p2p networks, a number which were predicted to increase to 7.44 billion in 2005.[32]

Napster, which used a centralized server acting as a search engine to assist users to download music from the computers of other Napster subscribers, was logging 1.57 million simultaneous subscribers at its height in February 2000.[33] In the case of *A&M Records, Inc. v. Napster, Inc.,* the court found that the downloading of music by Napster users is a direct infringement of copyright held by the recording companies and determined that, even though Napster was not charging for its service and users were downloading the music for their personal use, the downloading was not a "fair use" under the United States Copyright Act (§107).[34] It was found that "repeated and exploitative copying of copyrighted works, even if the copies are not offered for sale, may constitute commercial use". Furthermore, the copies have been made to save the cost of purchase; this practice was cited particularly by the recording industries as a factor in the 15% drop in music sales experienced in the years 2000 and 2001.[35] Additionally, the court found that Napster itself had engaged in contributory infringement, with actual and constructive knowledge of the infringing activities, and vicarious copyright infringement, because it had a direct financial interest in drawing users to its

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[29] Giovanna Fessenden, "Peer-to-Peer Technology: Analysis of Contributory Infringement and Fair Use," Vol. 42(3), IDEA – The Journal of Law and Technology, pp.391-416 (2002).

[30] The description of the functioning and the disadvantages of peer-to-peer networks is taken from ***Metro-Goldwyn-Meyer Studios Inc. et al. v. Grokster Ltd. et al.,*** U.S. Supreme Court (June 27, 2005), p 1-2; Peer-to-peer networks have disadvantages as well. Searches on peer-to-peer networks may not reach and uncover all available files because search requests may not be transmitted to every computer on the network. There may be redundant copies of popular files. The creator of the software has no incentive to minimize storage or bandwidth consumption, the costs of which are borne by every user of the network. Most relevant here, it is more difficult to control the content of files available for retrieval and the behavior of users.

[31] R. Gooch, Senior Technology Adviser, International Federation of Phonographic Industry (IFPI), London, at WIPO Seminar on the WIPO Copyright Treaty and WIPO Performances and Phonograms Treaty: Opportunities and Challenges, Geneva (May 16, 2002) at http://www.wipo.int/news/en/index.html?wipo_content_frame=/news/en/conferences.html.

[32] Larry Dignan, "Study: Kazaa, Morpheus Rave On," CNNET News, (August 14, 2002) at http://news.com.com/2100-1023-949724.html.

[33] WIPO, Intellectual Property on the Internet, A Survey of Issues, 2002, p 55.

[34] WIPO, Intellectual Property on the Internet, A Survey of Issues, 2002, p 55, 56; ***A&M Records, Inc. v. Napster, Inc.,*** 239 F.3d 1004 (9th Cir., 2001).

[35] WIPO, Intellectual Property on the Internet, A Survey of Issues, 2002, p 56; International Federation of the Phonographic Industry (IFPI), May 2002.

service as customers.[36] As a result of the trial, the number of Napster users had fallen to 120,000 by June 2001.[37]

Unlike Napster, which was judicially stopped from making copyrighted music available online without beeing authorized thereto, it was much more difficult to restrict other file sharing systems. The reason for this was, that these systems, as Audiogalaxy, Gnutella, Grokster, KaZaA, Morpheus and MusicCity, had a different network architecture which does not require a centralized server to process search requests and downloads; rather, each user`s computer acts as a search engine. It was estimated, that in 2002 these systems attracted more than 11 million users in Western Europe alone.[38] Even it was a much more difficult task to fight these kind of p2p systems, the Recording Industry Association of America (RIAA) and the Australian National Music Publishers Association targeted them in anti-piracy campaigns and legal actions. As a result, a trial against Audiogalaxy resulted in a settlement in 2002 obliging the p2p system to remove most of its music files for download.[39] In the same year, in a suit initiated by 19 Japanese record companies, the Tokyo District Court issued a temporary injunction against Japan MMO to prevent it from operating a p2p service called File Rogue.[40] In a suit brought by the Recording Industry Association of Korea, the Sungnam District Court closed down Soribada, the Republic of Korea's most popular P2P network.[41] In the United States of America, the Motion Picture Association of America initiated legal action against the operators of other p2p networks, including KaZaA, MusicCity and Grokster, for infringement of copyright in motion picture and sound recordings.[42] In this connection, only recently two major judgements caused great sensation worldwide. In June and September 2005, the Supreme Court of the United States in *Metro-Goldwyn-Meyer Studios Inc. v. Grokster Ltd.*[43] and the Federal Court of Australia in *Universal Music Australia Pty Ltd. v Sharman License Holdings Ltd.*[44] found the sued p2p systems liable for infringement of copyright. In contrary to these recent judgements, in 2002 the Amsterdam Court of Justice

[36] WIPO, Intellectual Property on the Internet, A Survey of Issues, 2002, p 56.
[37] WIPO, see footnote 36.
[38] Steven Bonisteel, "'Legitimate' Music Losing Ground Online in Europe – Report," Newsbytes, (April 19, 2002) at http://www.newsbytes.com.
[39] The Associated Press, "Music Labels Settle with Audiogalaxy," Australian IT, (June 18, 2002) at http://www.australianit.com.au.
[40] WIPO, Intellectual Property on the Internet, A Survey of Issues, 2002, p 56; ***Tokyo District Court,*** H14 (Yo) 22010, Case of civil provisional disposition on copyright, April 11, 2002. English summary at http://www.jasrac.or.jp/ejhp/news/2002/0411.htm.
[41] WIPO, Intellectual Property on the Internet, A Survey of Issues, 2002, p 56; Soribada was the largest of between 700 and 800 Korean P2P sites and registered about 12 million users. Martyn Williams, "Users scramble as 'Korea's Napster' is shut down," IDG News Service, (August 9, 2002) at http://www.idg.com.
[42] WIPO, Intellectual Property on the Internet, A Survey of Issues, 2002, p 57.
[43] ***Metro-Goldwyn-Meyer Studios Inc. et al. v. Grokster Ltd. et al.,*** U.S. Supreme Court (June 27, 2005).
[44] ***Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd.,*** Federal Court of Australia (5 September 2005).

held in KaZaA against Buma Stemra, a Dutch music rights organization, that KaZaA was not liable for individuals` abuse of its file sharing software.[45]

The music industry not only targeted the operators of the p2p systems. It sued individual file-traders as well. This mainly happened through educational institutions or corporations where much of the piracy occurs, although this approach is limited because of sheer volume of users and privacy concerns.[46] In one action for instance, Integrated Information Systems, an American corporation, reached a $ 1 million settlement with the RIAA following evidence of illegal downloading and sharing of copyrighted mp3 files over its corporate network.[47] In another action, RIAA tried to compel an online service provider to reveal the name of a customer accused of large-scale illegal file swapping.[48]

Next to legal action, the copyright industry tries to protect its rights against piracy by using digital technologies to monitor users of copyrighted content for potential infringements. Search engines were designed to scour the Web for copyrighted movies on p2p networks and cease-and-desist letters were sent to the users via their Internet service providers.[49] As an alternative technique the coppyright industry distributes “spoof” files of music or film works onto the p2p networks; these files contain only limited or degraded portions of the work, and are designed to discourage piracy by making the illegitimate file services less attractive to use.[50] Furthermore, providers are locating potential infringers by monitoring high bandwidth users who are most likely to be exchanging copyright audiovisual material, because significant bandwidth is required to swap large movie files.[51]

In 2002, it was forecasted that the revenues from digital music will reach $ 2.1 billion by 2007; this amount corresponds to 17% of the music trade.[52] In the middle of 2005, the turnovers already reached $ 790 million, or 6% of the music trade.[53] And the legal downloads

[45] WIPO, Intellectual Property on the Internet, A Survey of Issues, 2002, p 57; *KaZaA v. Buma-Stemra*, Gerechtshof Amsterdam, March 28, 2002, rolnr. 1370/01; Reuters, “KaZaA Gets the Green Light,” Wired News, (March 28, 2002) at http://www.wired.com.
[46] WIPO, Intellectual Property on the Internet, A Survey of Issues, 2002, p 57.
[47] Steptoe & Johnson, E-Commerce Law Week, Issue 213, (August 10, 2002) at http://www.steptoe.com/WebDoc.nsf/LawNet-Main/Main.
[48] Declan McCullagh, “Music Body Presses Anti-Piracy Case,” CNET News.com, (August 21, 2002) at http://www.news.com.com/2100-1023-954658.html.
[49] WIPO, see footnote 46.
[50] David Segal, “A New Tactic in the Download War: Online ‘Spoofing’ Turns the Tables on Music Pirates,” Washington Post, (August 21, 2002) at http://www.washingtonpost.com.
[51] Associated Press, “MPAA Snooping for Spies,” Wired News, (July 22, 2002) at http://www.wired.com.
[52] Forrester Research Report, “Downloads Did Not Cause The Music Slump, But They Can Cure It,” Forrester Research, (August 13, 2002) at http://www.forrester.com/ER/Press/Release/0,1769,741,FF.html.
[53] http://www.netzwelt.de/news/72617-musikdownloads-im-aufwind.html (10/05/2005).

become more and more popular. But still, this is a small volume compared to the numbers illegal downloads already reached years ago.

II. Metro-Goldwyn-Meyer Studios Inc. v. Grokster Ltd. (U.S. Supreme Court)

1. Facts[54]

a) General

Grokster Ltd. and StreamCast Networks Inc. distributed free software products that allow computer users to share electronic files through peer-to-peer networks. Other users of peer-to-peer networks include individual recipients of Grokster`s and StreamCast`s software, and although the networks that they enjoy through using the software can be used to share any type of digital file, they have prominently employed those networks in sharing copyrighted music and video files without authorization. A group of copyright holders (MGM for short, but including motion picture studios, recording companies, songwriters, and music publishers) sued Grokster and StreamCast for their users` copyright infringements, alleging that they knowingly and intentionally distributed their software to enable users to reproduce and distribute the copyrighted works in violation of the Copyright Act.

b) Details

Grokster`s eponymous software employs what is known as FastTrack technology, a protocol developed by others and licensed to Grokster. StreamCast distributes a very similar product except that its software, called Morpheus, relies on what is known as Gnutella technology.[55] A user who downloads and installs either software possesses the protocol to send requests for files directly to the computers of others using software compatible with FastTrack or Gnutella. On the FastTrack network opened by the Grokster software, the user`s request goes to a computer given an indexing capacity by the software and designated a supernode, or to some other computer with comparable power and capacity to collect temporary indexes of the

[54] The facts are taken from ***Metro-Goldwyn-Meyer Studios Inc. et al. v. Grokster Ltd. et al.,*** U.S. Supreme Court (June 27, 2005), p 1-9.
[55] Subsequent versions of Morpheus, released after the record was made in this case, apparently rely not on Gnutella but on a technology called Neonet. These developments were not before the Supreme Court.

files available on the computers of users connected to it. The supernode (or indexing computer) searches its own index and may communicate the search request to other supernodes. If the file is found, the supernode discloses its location to the computer requesting it, and the requesting user can download the file directly from the computer located. The copied file is placed in a designated sharing folder on the requesting user`s computer, where it is available for other users to download in turn, along with any other file in that folder.

In the Gnutella network made available by Morpheus, the process is mostly the same, except that in some versions of the Gnutella protocol there are no supernodes. In these versions, peer computers using the protocol communicate directly with each other. When a user enters a search request into the Morpheus software, it sends the request to computers connected with it, which in turn pass the request along to other connected peers. The search results are communicated to the requesting computer, and the user can download desired files directly from peers` computers. As this description indicates, Grokster and StreamCast use no servers to intercept the content of the search requests or to mediate the file transfers conducted by users of the software, there being no central point through which the substance of the communications passes in either direction.

Although Grokster and StreamCast do not therefore know when particular files are copied, a few searches using their software would show what is available on the networks the software reaches. MGM commissioned a statistician to conduct a systematic search, and his study showed that nearly 90% of the files available for download on the FastTrack system were copyrighted works.[56] Grokster and StreamCast disputed this figure, raising methodological problems and arguing that free copying even of copyrighted works may be authorized by the rightholders. They also argued that potential noninfringing uses of their software are significant in kind, even if infrequent in practice. Some musical performers, for example, have gained new audiences by distributing their copyrighted works for free across peer-to-peer networks, and some distributors of unprotected content have used peer-to-peer networks to disseminate files, Shakespeare being an example. Indeed, StreamCast has given Morpheus users the opportunity to download the briefs in this very case, though their popularity has not been quantified.

[56] By comparison, evidence introduced by the plaintiffs in *A & M Records, Inc.* v. *Napster, Inc.*, showed that 87% of files available on the Napster filesharing network were copyrighted.

As for quantification, the parties` anecdotal and statistical evidence entered thus far to show the content available on the FastTrack and Gnutella networks does not say much about which files are actually downloaded by users` and no one can say how often the software is used to obtain copies of unprotected material. But MGM`s evidence gives reason to think that the vast majority of users. downloads are acts of infringement, and because well over 100 million copies of the software in question are known to have been downloaded, and billions of files are shared across the FastTrack and Gnutella networks each month.

Grokster and StreamCast conceded the infringement in most downloads and it is uncontested that they are aware that users employ their software primarily to download copyrighted files, even if the decentralized FastTrack and Gnutella networks fail to reveal which files are being copied, and when. From time to time, moreover, the companies have learned about their users` infringement directly, as from users who have sent e-mail to each company with questions about playing copyrighted movies they had downloaded, to whom the companies have responded with guidance. And MGM notified the companies of 8 million copyrighted files that could be obtained using their software.

Grokster and StreamCast were not, however, merely passive recipients of information about infringing use. 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 each took active steps to encourage infringement.

After the notorious file-sharing service, Napster, was sued by copyright holders for facilitation of copyright infringement, *A & M Records, Inc.* v. *Napster, Inc.*, StreamCast gave away a software program of a kind known as OpenNap, designed as compatible with the Napster program and open to Napster users for downloading files from other Napster and OpenNap users` computers. Evidence indicates that “[i]t was always [StreamCast`s] intent to use [its OpenNap network] to be able to capture email addresses of [its] initial target market so that [it] could promote [its] StreamCast Morpheus interface to them.” Indeed, the OpenNap program was engineered “to leverage Napster`s 50 million user base.”

StreamCast monitored both the number of users downloading its OpenNap program and the number of music files they downloaded. It also used the resulting OpenNap network to distribute copies of the Morpheus software and to encourage users to adopt it. Internal company documents indicate that StreamCast hoped to attract large numbers of former Napster users if that company was shut down by court order or otherwise, and that StreamCast planned to be the next Napster. A kit developed by StreamCast to be delivered to advertisers, for example, contained press articles about StreamCast`s potential to capture former Napster users, and it introduced itself to some potential advertisers as a company "which is similar to what Napster was." It broadcast banner advertisements to users of other Napster-compatible software, urging them to adopt its OpenNap. An internal e-mail from a company executive stated: "We have put this network in place so that when Napster pulls the plug on their free service . . . or if the Court orders them shut down prior to that . . . we will be positioned to capture the flood of their 32 million users that will be actively looking for an alternative."

Thus, StreamCast developed promotional materials to market its service as the best Napster alternative. One proposed advertisement read: "Napster Inc. has announced that it will soon begin charging you a fee. That`s if the courts don`t order it shut down first. What will you do to get around it?" Another proposed ad touted StreamCast`s software as the "#1 alternative to Napster" and asked "[w]hen the lights went off at Napster . . . where did the users go?" StreamCast even planned to flaunt the illegal uses of its software; when it launched the OpenNap network, the chief technology officer of the company averred that "[t]he goal is to get in trouble with the law and get sued. It`s the best way to get in the new[s]."

The evidence that Grokster sought to capture the market of former Napster users is sparser but revealing, for Grokster launched its own OpenNap system called Swaptor and inserted digital codes into its Web site so that computer users using Web search engines to look for "Napster" or "[f]ree filesharing" would be directed to the Grokster Web site, where they could download the Grokster software. And Grokster`s name is an apparent derivative of Napster.

StreamCast`s executives monitored the number of songs by certain commercial artists available on their networks, and an internal communication indicates they aimed to have a larger number of copyrighted songs available on their networks

than other file-sharing networks. The point, of course, would be to attract users of a mind to infringe, just as it would be with their promotional materials developed showing copyrighted songs as examples of the kinds of files available through Morpheus. Morpheus in fact allowed users to search specifically for “Top 40” songs, which were inevitably copyrighted. Similarly, Grokster sent users a newsletter promoting its ability to provide particular, popular copyrighted materials.

In addition to this evidence of express promotion, marketing, and intent to promote further, the business models employed by Grokster and StreamCast confirm that their principal object was use of their software to download copyrighted works. Grokster and StreamCast receive no revenue from users, who obtain the software itself for nothing. Instead, both companies generate income by selling advertising space, and they stream the advertising to Grokster and Morpheus users while they are employing the programs. As the number of users of each program increases, advertising opportunities become worth more. While there is doubtless some demand for free Shakespeare, the evidence shows that substantive volume is a function of free access to copyrighted work. Users seeking Top 40 songs, for example, or the latest release by Modest Mouse, are certain to be far more numerous than those seeking a free Decameron, and Grokster and StreamCast translated that demand into dollars.

Neither of both companies made an effort to filter copyrighted material from users` downloads or otherwise impede the sharing of copyrighted files. Although Grokster has sent e-mails warning users about infringing content when it received threatening notice from the copyright holders, it never blocked anyone from continuing to use its software to share copyrighted files. StreamCast not only rejected another company`s offer of help to monitor infringement, but blocked the Internet Protocol addresses of entities it believed were trying to engage in such monitoring on its networks.

2. Analysis

a) District Court and Court of Appeals

The District Court denied Grokster`s and StreamCast`s liability for distributing their software since its use did not provide the distributors with actual knowledge of

specific acts of infringement.[57] The court only considered the distribution of the current versions of their software, leaving aside whether either was liable "for damages arising from *past* versions of their software, or from other past activities." Furthermore, the District Court held that those who used the Grokster and Morpheus software to download copyrighted media files directly infringed MGM`s copyrights. This conclusion was not contested on appeal.

The Court of Appeals confirmed this decision and stated that a defendant was liable as a contributory infringer when it had knowledge of direct infringement and materially contributed to the infringement. "But the court read *Sony Corp. of America* v. *Universal City Studios Inc.*[58] as holding that distribution of a commercial product capable of substantial noninfringing uses could not give rise to contributory liability for infringement unless the distributor had actual knowledge of specific instances of infringement and failed to act on that knowledge".[59] Since the court found that the software was capable of substantial noninfringing uses and Grokster and StreamCast had no actual knowledge of infringement because of the software`s decentralized architecture, Grokster and StreamCast were not liable. Furthermore, it was held that Grokster and StreamCast did not materially contribute to their users` infringement. "It was the users themselves who searched for, retrieved, and stored the infringing files, with no involvement by the defendants beyond providing the software in the first place".[60] In addition, the court considered whether Grokster and StreamCast could be liable under a theory of vicarious infringement. This kind of liability was denied as well, since "the defendants did not monitor or control the software`s use, had no agreed-upon right or current ability to supervise its use, and had no independent duty to police infringement".[61]

b) Secondary Liability

The subject of this case is the relation between "the respective values of supporting creative pursuits through copyright protection and promoting innovation in new communication technologies by limiting the incidence of liability for copyright infringement".[62] The more creative works are protected, the more technological

[57] ***District Court of California,*** Case No. CV 01 08541 SVW (PJWx) (CD Cal., June 18, 2003).
[58] ***Sony Corp. of America* v. *Universal City Studios Inc.,*** 464 U. S. 417 (1984).
[59] ***Metro-Goldwyn-Meyer Studios Inc. et al. v. Grokster Ltd. et al.,*** U.S. Supreme Court (June 27, 2005), p 10.
[60] ***Metro-Goldwyn-Meyer Studios Inc. et al. v. Grokster Ltd. et al.,*** see footnote 59.
[61] ***Metro-Goldwyn-Meyer Studios Inc. et al. v. Grokster Ltd. et al.,*** see footnote 59.
[62] ***Metro-Goldwyn-Meyer Studios Inc. et al. v. Grokster Ltd. et al.,*** see footnote 59.

innovation may be limited and discouraged. It is up to the copyright law to find a balance.

Given the number of infringing downloads that occured every day using StreamCast`s and Grokster`s software, it seems appropriate to impose indirect liability in this case. “When a widely shared service or product is used to commit infringement, it may be impossible to enforce rights in the protected work effectively against all direct infringers. The only practical alternative being to go against the distributor of the copying device for secondary liability on a theory of contributory or vicarious infringement”.[63]

One infringes contributorily by intentionally inducing or encouraging direct infringement[64] and infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it.[65]

Although “[t]he Copyright Act does not expressly render anyone liable for infringement committed by another”,[66] these doctrines of secondary liability emerged from common law principles and are well established in the law.[67]

c) Sony Corp. v. Universal City Studios

The only recent case the Supreme Court dealt with secondary copyright infringement is *Sony Corp.* v. *Universal City Studios.*[68] In this case the court addressed a claim that secondary liability for infringement can arise from the very distribution of a commercial product.

Subject to that case was the videocassette recorder or VCR, which was newly developed at the time. Sony as the manufacturer was sued by copyright holders. The right holders claimed that Sony was contributorily liable for infringement that occurred when VCR owners taped copyrighted programs because it supplied the means used to infringe, and it had constructive knowledge that infringement would

[63] ***Metro-Goldwyn-Meyer Studios Inc. et al. v. Grokster Ltd. et al.,*** Supreme Court of the United States (June 27, 2005), p 12.
[64] ***Gershwin Pub. Corp.*** **v.** ***Columbia Artists Management, Inc.*****,** 443 F. 2d 1159, 1162 (CA2 1971).
[65] ***Shapiro, Bernstein & Co.*** **v.** ***H. L. Green Co.*****,** 316 F. 2d 304, 307 (CA2 1963).
[66] ***Sony Corp. of America*** **v.** ***Universal City Studios Inc.,*** 464 U. S. 417 (1984), at 434.
[67] ***Gershwin Pub. Corp.*** **v.** ***Columbia Artists Management, Inc.*****,** 443 F. 2d 1159, 1162 (CA2 1971), at 1162; ***Kalem Co.*** **v.** ***Harper Brothers*****,** 222 U. S., at 55, 62, 63 (1911).
[68] MGM has based its principal claim there.

occur. “The evidence showed that the principal use of the VCR was for “time-shifting,” or taping a program for later viewing at a more convenient time, which the Court found to be a fair, not an infringing, use. There was no evidence that Sony had expressed an object of bringing about taping in violation of copyright or had taken active steps to increase its profits from unlawful taping. Although Sony`s advertisements urged consumers to buy the VCR to “record favorite shows” or “build a library” of recorded programs, neither of these uses was necessarily infringing”.[69]

Since there was no evidence of stated or indicated intent to promote infringing uses, the only conceivable basis for imposing liability was on a theory of contributory infringement arising from its sale of VCRs to consumers with knowledge that some would use them to infringe.[70] But because the VCR was “capable of commercially significant noninfringing uses,” the court held the manufacturer could not be faulted solely on the basis of its distribution.[71]

This point of view “reflected patent law`s traditional staple article of commerce doctrine, now codified, that distribution of a component of a patented device will not violate the patent if it is suitable for use in other ways”.[72]

One can say that where an article is “good for nothing else” but infringement,[73] “there is no legitimate public interest in its unlicensed availability, and there is no injustice in presuming or imputing an intent to infringe. Conversely, the doctrine absolves the equivocal conduct of selling an item with substantial lawful as well as unlawful uses, and limits liability to instances of more acute fault than the mere understanding that some of one`s products will be misused. It leaves breathing room for innovation and a vigorous commerce”.[74]

Considering the above mentioned rules and given that 90% of the works available on one of the networks was shown to be copyrighted, MGM argued that the Court of Appeals gave too much weight to the value of innovative technology, and too little to

[69] ***Metro-Goldwyn-Meyer Studios Inc. et al. v. Grokster Ltd. et al.,*** U.S. Supreme Court (June 27, 2005), p 13-14.
[70] ***Sony Corp. of America* v. *Universal City Studios Inc.,*** 464 U. S. 417 (1984), at 439.
[71] ***Sony Corp. of America* v. *Universal City Studios Inc.,*** 464 U. S. 417 (1984), at 442.
[72] ***Metro-Goldwyn-Meyer Studios Inc. et al. v. Grokster Ltd. et al.,*** U.S. Supreme Court (June 27, 2005), p 14.
[73] ***Canda* v. *Michigan Malleable Iron Co.***, 124 F. 486, 489 (CA6 1903), at 489.
[74] ***Metro-Goldwyn-Meyer Studios Inc. et al. v. Grokster Ltd. et al.,*** U.S. Supreme Court (June 27, 2005), p 15.

the copyrights infringed by users of their software. Assuming the remaining 10% to be its noninfringing use, this should not qualify as "substantial".

Grokster and StreamCast replied that their software can be used to reproduce public domain works, and they point to copyright holders who actually encourage copying. Even if infringement is the principal practice with their software today, the noninfringing uses are significant and will grow.

In its judgement, the Supreme Court ascertained that the Court of Appeals "misapplied *Sony*, which it read as limiting secondary liability quite beyond the circumstances to which the case applied. *Sony* 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, which the distributor knows is in fact used for infringement. The case struck a balance between the interests of protection and innovation by holding that the product`s capability of substantial lawful employment should bar the imputation of fault and consequent secondary liability for the unlawful acts of others".[75]

The Court of Appeals "has read *Sony*`s limitation to mean that whenever a product is capable of substantial lawful use, the producer can never be held contributorily liable for third parties` infringing use of it. It read the rule as being this broad, even when an actual purpose to cause infringing use is shown by evidence independent of design and distribution of the product, unless the distributors had 'specific knowledge of infringement at a time at which they contributed to the infringement, and failed to act upon that information'".[76] Therefore, the Court of Appeals held neither company liable, since it found the StreamCast and Grokster software capable of substantial lawful use and there was no showing that their software, being without any central server, afforded them knowledge of specific unlawful uses.

[75] ***Metro-Goldwyn-Meyer Studios Inc. et al. v. Grokster Ltd. et al.,*** U.S. Supreme Court (June 27, 2005), p 16, 23-24.
[76] ***Metro-Goldwyn-Meyer Studios Inc. et al. v. Grokster Ltd. et al.,*** U.S. Supreme Court (June 27, 2005), p 16.

d) Inducement Theory

According to the Supreme Court, "*Sony*`s rule limits imputing culpable intent as a matter of law from the characteristics or uses of a distributed product. But nothing in *Sony* requires courts to ignore evidence of intent if there is such evidence, and the case was never meant to foreclose rules of fault-based liability derived from the common law. Thus, where evidence goes beyond a product`s characteristics or the knowledge that it may be put to infringing uses, and shows statements or actions directed to promoting infringement, *Sony*`s staple-article rule will not preclude liability".[77]

Usually, direct evidence of unlawful purpose occurs when one induces commission of infringement by another, or "entic[es] or persuad[es] another" to infringe,[78] as by advertising. Thus at common law a copyright or patent defendant who "not only expected but invoked [infringing use] by advertisement" was liable for infringement "on principles recognized in every part of the law".[79] In this connection, the Supreme Court explained that evidence of "active steps . . . taken to encourage direct infringement",[80] such as advertising an infringing use or instructing how to engage in an infringing use, show an affirmative intent that the product be used to infringe, and a showing that infringement was encouraged overcomes the law`s reluctance to find liability when a defendant merely sells a commercial product suitable for some lawful use".[81]

The Supreme Court adopted the inducement rule in this case, "holding 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. Accordingly, just as *Sony* did not find intentional inducement despite the knowledge of the VCR manufacturer that its device could be used to infringe, mere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability. Nor would ordinary acts incident to product distribution, such as offering customers technical support or product updates, support liability in themselves. The

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[77] ***Metro-Goldwyn-Meyer Studios Inc. et al. v. Grokster Ltd. et al.,*** Supreme Court of the United States (June 27, 2005), p 17.
[78] Black`s Law Dictionary 790 (8th ed. 2004).
[79] ***Kalem Co.*** **v.** ***Harper Brothers*****,** 222 U. S., at 62.63 (1911).
[80] ***Oak Industries, Inc.*** **v.** ***Zenith Electronics Corp.,*** 697 F. Supp. 988, 992 (ND Ill. 1988).
[81] ***Metro-Goldwyn-Meyer Studios Inc. et al. v. Grokster Ltd. et al.,*** U.S. Supreme Court (June 27, 2005), p 18.

inducement rule, instead, premises liability on purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation having a lawful promise".[82]

e) Grokster`s and StreamCast`s Liability

The point of principle is, whether StreamCast and Grokster communicated an inducing message to their software users. As the Supreme Court pointed out, "the classic instance of inducement is by advertisement or solicitation that broadcasts a message designed to stimulate others to commit violations".[83]

The answer was to be found in Grokster`s and StreamCast`s business practice. StreamCast beamed onto the computer screens of users of Napster-compatible programs ads urging the adoption of its OpenNap program, which was designed to invite the custom of patrons of Napster.[84] Those who accepted StreamCast`s OpenNap program were offered software to perform the same services, which a factfinder could conclude would readily have been understood in the Napster market as the ability to download copyrighted music files. Grokster distributed an electronic newsletter containing links to articles promoting its software`s ability to access popular copyrighted music. And anyone whose Napster or free file-sharing searches turned up a link to Grokster would have understood Grokster to be offering the same filesharing ability as Napster, and to the same people who probably used Napster for infringing downloads; that would also have been the understanding of anyone offered Grokster`s suggestively named Swaptor software, its version of OpenNap. And both companies communicated a clear message by responding affirmatively to requests for help in locating and playing copyrighted materials. In StreamCast`s case the evidence was supplemented by other unequivocal indications of unlawful purpose in the internal communications and advertising designs aimed at Napster users ("When the lights went off at Napster . . . where did the users go?").[85]

[82] ***Metro-Goldwyn-Meyer Studios Inc. et al. v. Grokster Ltd. et al.,*** U.S. Supreme Court (June 27, 2005), p 19-20.
[83] ***Metro-Goldwyn-Meyer Studios Inc. et al. v. Grokster Ltd. et al.,*** U.S. Supreme Court (June 27, 2005), p 20.
[84] Then, Napster was under attack in the courts for facilitating massive infringement.
[85] The facts concerning the business practices are taken from ***Supreme Court of the United States,*** *Metro-Goldwyn-Meyer Studios Inc. et al. v. Grokster Ltd. et al.* (June 27, 2005), p 20-21.

Concerning StreamCast, the Supreme Court ascertained that it is irrelevant whether the messages were communicated. “The function of the message in the theory of inducement is to prove by a defendant`s own statements that his unlawful purpose disqualifies him from claiming protection (and incidentally to point to actual violators likely to be found among those who hear or read the message). Proving that a message was sent out, then, is the preeminent but not exclusive way of showing that active steps were taken with the purpose of bringing about infringing acts, and of showing that infringing acts took place by using the device distributed. Unlike the manufacturer and distributor in *Sony*, Grokster and StreamCast acted with a purpose to cause copyright violations by use of software suitable for illegal use”.[86]

In this context, the Supreme Court emphasized three features of evidence of intent:[87]

- “Each company showed itself to be aiming to satisfy a known source of demand for copyright infringement, the market comprising former Napster users. StreamCast`s internal documents made constant reference to Napster, it initially distributed its Morpheus software through an OpenNap program compatible with Napster, it advertised its OpenNap program to Napster users, and its Morpheus software functions as Napster did except that it could be used to distribute more kinds of files, including copyrighted movies and software programs. Grokster`s name is apparently derived from Napster, it too initially offered an OpenNap program, its software`s function is likewise comparable to Napster`s, and it attempted to divert queries for Napster onto its own Web site. Grokster`s and StreamCast`s efforts to supply services to former Napster users, deprived of a mechanism to copy and distribute what were overwhelmingly infringing files, indicate a principal, if not exclusive, intent on the part of each to bring about infringement.

- Neither company attempted to develop filtering tools or other mechanisms to diminish the infringing activity using their software.

[86] ***Metro-Goldwyn-Meyer Studios Inc. et al. v. Grokster Ltd. et al.,*** U.S. Supreme Court (June 27, 2005), p 21.

- It is useful to recall that StreamCast and Grokster make money by selling advertising space, by directing ads to the screens of computers employing their software. The more the software is used, the more ads are sent out and the greater the advertising revenue becomes. Since the extent of the software`s use determines the gain to the distributors, the commercial sense of their enterprise turns on high-volume use, which is infringing".

Considering these facts, the Supreme Court summarized:[88] "This evidence alone would not justify an inference of unlawful intent, but viewed in the context of the entire record its import is clear. The distributors` words and deeds going beyond distribution as such shows a purpose to cause and profit from third-party acts of copyright infringement. If liability for inducing infringement is ultimately found, it will not be on the basis of presuming or imputing fault, but from inferring a patently illegal objective from statements and actions showing what that objective was. The unlawful objective is unmistakable".

f) Actual Infringement by Recipients of the Software

The inducement theory requires, next to intent to bring about infringement and distribution of a device suitable for infringing use, evidence of actual infringement by recipients of the software. The facts in the available case indicate evidence of infringement on an enormous scale.

g) The Supreme Court`s Decision

Based on the above explanations, the Supreme Court vacated the judgement of the Court of Appeals. In sum, the Supreme Court **held:**

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, going beyond mere distribution with knowledge of third-party action, is liable for the resulting acts of infringement by third parties using the device, regardless of the device`s lawful uses.

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[87] ***Metro-Goldwyn-Meyer Studios Inc. et al. v. Grokster Ltd. et al.,*** U.S. Supreme Court (June 27, 2005), p 21-22.

[88] ***Metro-Goldwyn-Meyer Studios Inc. et al. v. Grokster Ltd. et al.,*** U.S. Supreme Court (June 27, 2005), p 23-24.

3. The Direct Consequences of the Judgement

In view of the recent decision of the U.S. Supreme Court and corresponding requests of RIAA, several p2p operators adjusted their course of action:

- WinMX[89] stopped its service,
- LimeWire LCC[90] promised to develop a software version which only allows the legal swapping of music and
- the developer of eDonkey and Overnet[91] announced to implement a filter to stop the swapping of files that are not legally licensed.

Only in October 2005, iMesh, a former p2p veteran which was sued by RIAA in 2003 and finally agreed to transform its music service according to US copyright law, published a file sharing sofware that allows to distribute DRM protected files.[92]

At the beginning of November 2005, Grokster and the music industry reached a settlement which obliges Grokster to pay $ 50 million and to stop its service.[93] Grokster now intends to transform itself into a legal download music portal.

III. Universal Music Australia Pty Ltd. v Sharman License Holdings Ltd. (Federal Court of Australia)

1. Facts[94]

a) General

The case concerned the operation of the Kazaa Internet peer-to-peer file-sharing system. This system operates world wide and has been controlled by Sharman Networks Ltd since early 2002. The Kazaa system is available to users free of charge. It enables one user to share with other users any material the first user

[89] http://www.heise.de/newsticker/result.xhtml?url=/newsticker/meldung/67446&words=RIAA (12/16/2005).
[90] http://www.heise.de/newsticker/result.xhtml?url=/newsticker/meldung/64505&words=FrostWire (10/01/2005).
[91] http://www.heise.de, see footnote 89.
[92] http://www.heise.de/newsticker/result.xhtml?url=/newsticker/meldung/65351&words=iMesh (10/25/2005).
[93] http://www.spiegel.de/netzwelt/netzkultur/0,1518,383822,00.html (11/08/2005).
[94] The facts are taken from ***Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd.,*** Federal Court of Australia (5 September 2005), at 59, 62.

wishes to share, whether or not that material is subject to copyright. A user who is interested in obtaining a copy of a particular work can instantaneously search for files of other users, worldwide. If the file is located, the title will be displayed against a blue icon on the first user`s computer as a “blue file”. The work can then be downloaded onto the first user`s computer. The technology used to carry out those operations is called FastTrack.

Shortly after Sharman Networks took control of Kazaa, the system was expanded so as to add a second type of search. This was done by arrangement with Altnet Inc. Altnet controlled technology called TopSearch. Altnet`s technology enables the provision to Kazaa users of licensed works. Search results for these works are displayed on a user`s computer against a gold icon (“gold files”).

At the beginning of 2004, according to the Kazaa website, over 317 million people had downloaded Kazaa`s software. At the time of the commencement of the proceeding, Kazaa claimed to be “[t]he world’s most downloaded software application”, used for 79% of worldwide peer-to-peer file-sharing activities.

A major proportion of Kazaa`s shared blue files were works (mostly musical works) that are subject to copyright. The files were shared without the approval of the relevant copyright owner. Both the user who makes the file available and the user who downloads a copy infringes the owner`s copyright. Therefore, several music companies, including the world`s major distributors of sound recordings, sued Sharman for copyright infringement, alleging that Sharman authorised users to infringe the applicants` copyright in their sound recordings in violation of section 101 of the Australian Copyright Act.

b) Details

The Kazaa system consists of millions of individual Kazaa users each having the Kazaa software installed on their own computers. Each such computer is referred to as a "node". A feature of the Kazaa system is that a small percentage of those computers (but still a large number in total) must function as "supernodes". A supernode computer must be a powerful computer with a fast Internet connection. There is an option available to a Kazaa user within the Kazaa software to ensure that his computer does not function as a supernode. It is to be inferred that ordinary

users interfacing with the software at the basic operational level would not explore advanced functionality of that kind. Generally speaking, the software itself identifies potential supernode computers and causes them to function as supernodes. A Kazaa user is not told if his computer is being used as a supernode. However, Sharman is able to force a computer to become a supernode.

The Kazaa software is designed so that each supernode computer is connected (via the Internet) to a certain number of node computers. It appears that the number is between 100 and 200. A supernode is in constant communication with its nodes. Thus, each time a Kazaa user launches the Kazaa programme on his node computer (i.e., on the default option, on starting the computer), that computer will connect to and communicate with its supernode computer. Each supernode is connected to its nearest supernodes which in their turn are connected to other supernodes. A supernode is geographically proximate with its nodes.

Once the Kazaa software is installed on a computer that is connected to the Internet, that computer forms part of a network or system consisting of all other computers connected to the Internet on which the Kazaa software is running. The user of that computer becomes a new Kazaa user. Every time the user connects to the Internet and launches the Kazaa program he is again connected up to the Kazaa system or network and to the Kazaa website.

The Kazaa software creates a My Shared Folder on a user`s computer upon installation of the software on the computer. The Kazaa software is designed so that the supernode computer operates to search the My Shared Folder of each of the ordinary nodes to which it is connected every 60 seconds. It assembles an index of all of the files in each of those My Shared Folders.

The index contains the "metadata"[95] and "filehash"[96] of each file, along with the "IP Address"[97] of the computer holding that file.

[95] "Metadata" is data associated with and which forms part of a file. It can include the name of the file such as the title of a sound recording, the name of the artist, a description of the quality of the file or the sound recording and the size of the file in bytes. The creator of the file or the recipient of the file can usually alter or add to metadata such as the name of the file and other descriptive material.

[96] A "filehash" is assigned by the Kazaa software to each file in a user's My Shared Folder based on the digital sequence of the file. It represents a shorthand version of the file which is the application of a mathematical algorithm to the longhand version of the file. The effect of it is to produce a short sequence of digits which uniquely identifies that file. The same sound recording may be copied or "ripped" by different persons using different technologies to produce files which will sound the same when played but nevertheless will produce

When an individual (ordinary node) Kazaa user types in a search term in the Search for Files box or in the appropriate box on the search page, that search request is sent to that computer`s supernode. That communication is encoded and requires the relevant source code to be able to read the content of the communication. The supernode responds to the search request by reference to the index which it is constantly generating of all the files in the My Shared Folders of all of its connected nodes. The supernode may also forward the search request to other supernodes.

If the terms of a search request match any part of the metadata (eg artist name, or song title) of the files in the indices to which the search request is referred, those files are returned as matching Blue File search results to the user`s computer as described above, distinguished by the blue Kazaa icon. Each matching result includes the title of the file, the name of the artist, the file size, an integrity rating and the username of the user in whose My Shared Folder the file is located.

By clicking on the download icon next to the Blue File that represents a matching search result, the Kazaa software causes that file to be downloaded from the My Shared Folder of the Kazaa user where that file is located. A direct Internet link is established between the requesting user`s computer and the supplying user`s computer and the file is transferred via such direct link. The mechanism employed is to attach to each file in the search results the IP address of the computer holding that file. When the searching user clicks on the download icon for that file in the search results, the searching user`s computer sends a request to that IP address for the file specifying the file by its filehash. The supplying user`s computer responds by sending that file to the IP address of the searching user`s computer, which IP address is provided with the request.

The Kazaa software also permits the simultaneous download of different parts of the same file from different sources in order to speed up the download process. In circumstances where the search result identifies files with the same filehash located in the My Shared Folders of different Kazaa users, clicking on the download icon of

different filehashes due to idiosyncrasies in the different digital copying processes. Because the filehash is based on the content of the file, changing the name of the file - or in most circumstances the metadata - does not alter its filehash. The filehash of a file forms part of the file description included in the file indexing system. One benefit is that filehashing minimises the size of the index.

[97] The "IP Address" or "Internet Protocol Address" is a unique number, akin to a telephone number, used by machines (usually computers) to refer to each other when sending information through the Internet using the Internet Protocol. This 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.

the requested file sends requests for transfer to the different sources simultaneously. Different parts of the same file are supplied by different Kazaa users and are linked up to form a single file in the computer of the requesting user.

The direct transfer of files between users classifies the Kazaa system as a "peer-to-peer" network or system or "p2p". The description p2p is used to distinguish this method from a system which uses a central server or bank of servers to provide file content.

The supply by a Kazaa user of a file in his My Shared Folder to another Kazaa user requesting that file does not involve any additional act or step on the part of the supplying user. Once a file is in the supplying user`s My Shared Folder and the user is online and with KMD[98] running, the default option is that the file can be the subject of a search result provided to another Kazaa user and a copy of that file can be transferred from the supplying user`s My Shared Folder to the searching user`s computer.

Files enter a Kazaa user`s My Shared Folder in one of two ways. Firstly, a Kazaa user may transfer a file from another folder in his computer to his My Shared Folder or may cause a file being created by him or received by him from other sources to be saved in his My Shared Folder. For example, a Kazaa user who "rips" a sound recording to create an mp3 file might place that file in his My Shared Folder within the Kazaa programme in order that it can be "shared" with other Kazaa users.

Secondly, every time a Kazaa user downloads a file from another Kazaa user by clicking on the download icon next to a Blue File search result, a copy of the requested file is automatically transferred to the requesting user`s My Shared Folder. Unless the requesting user takes the conscious step of removing the new file from his My Shared Folder to another folder in his computer, it is immediately

[98] KMD (“Kazaa Media Desktop”) is the graphical user interface ("GUI") which is freely available and permits access to two separate networks of computers connected to the internet: FastTrack and Joltid PeerEnabler. By means of FastTrack, KMD users can (1) make available to other users files in their "My Shared Folder"; (2) search for files from other users in their "My Shared Folder"; (3) download such files from other users; and (d) save such files in their My Shared Folder, in turn making them available to other KMD users. The Joltid PeerEnabler network is quite different. First, Altnet controls all of the files which may be transferred on channels licensed by it – a user cannot choose to make available his or her own file (whether obtained lawfully or unlawfully) unless Altnet causes it to happen. Secondly, there is a list of files available on the PeerEnabler network resident on every participant’s computer, from which it follows that there is no need to communicate with any supernode in order to respond to a search request. Thirdly, it is no part of the applicants’ case that any of their copyright is infringed by the gold files distributed by Altnet through Joltid PeerEnabler.

available to be searched and downloaded by another Kazaa user. ... It is a design feature of the Kazaa software that downloads are automatically placed in a user`s My Shared Folder. That has the tendency to maximise the number of files available to be shared on the system, which in turn makes it a more attractive system for putative file sharers to use. While a user can disable this feature, again, doing so is an advanced function that the ordinary user interfacing at the basic operational level is unlikely to select.

Files in the My Shared Folder of a Kazaa user cannot be searched and accessed by external users using search engines such as Google. They are not available to ordinary Internet users. Access to the files in the My Shared Folders of existing users is obtained by downloading and installing the Kazaa software. Those existing files are then available to the new Kazaa user.

Further, it is the capability of the Kazaa software to prepare indices of files in the My Shared Folders of Kazaa users, to match search requests by reference to those indices, to deliver the results of the search to a Kazaa user and to provide the mechanism for delivery of the requested file from one user to another, which makes the files available to users. The search results mechanism is a key aspect of the system. If a file does not appear in the search results, it is not available to be downloaded.

The Kazaa system or network may be described as a "distributed system". The system takes advantage of the resources of the computers owned or used by the individual Kazaa users. One obvious benefit of this is that the suppliers of the software do not have to supply the hardware or facilities on which the software and system is operated. A key benefit is that the files which users are interested in and searchable indices of those files can be located physically on a large number of different computers which are geographically spread around the world.

This has two advantages. First, it avoids the problem of a single computer or a single bank of computers having to deal with and respond to search requests and having to hold copies of all relevant files and respond to requests for those files. Such a centralized system may result in delays or a requirement of a large number of computers to be able to cope with the demand.

Secondly, the geographic spread of nodes and supernodes along with the design feature of the software of organising a supernode and its nodes in the same proximate geographical area has the consequence that the distance which most communications must travel is small and hence the response time is quick.

Hence the continuous addition of new Kazaa users to the system by the supply of the Kazaa software benefits both existing users and also makes the system more attractive for both existing and new users. Every user gained adds value greater than one to the network and every user lost removes that value.

Equally, the more files of interest to other users that an individual user makes available in his My Shared Folder, the more attractive the system is likely to be to both existing and potential new users. The Kazaa software is designed so that Kazaa users are rewarded by participation levels based on the amount of files being uploaded from a user`s My Shared Folder. The participation level of a user is automatically determined by the ratio of the amount of data downloaded by an individual Kazaa user as opposed to the amount uploaded from that user`s computer, and is displayed as a number and level name in the bottom left hand corner of the Kazaa software. A user who has a high participation level receives a greater priority from the Kazaa system over other users when attempting to download files. Therefore, a user who is sharing many popular files will be more easily able to download desired files.

2. Analysis

a) Knowledge and Intention

In recent years, the number of people who use the Kazaa system has apparently always been high. “At the beginning of 2004, the Kazaa website was claiming that over 2.4 million people downloaded the Kazaa software during the previous week. The KMD webpage claimed total downloads of 317,552,315 people. That figure equates to about 5% of the world’s human population”.[99]

[99] ***Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd.,*** Federal Court of Australia (5 September 2005), at 182.

Finally, the court had no doubt that, at all material times, Sharman was aware that a major use of the Kazaa system was the transmission of copyright material.[100] Indeed, some people use Kazaa only in a non-infringing way. However, according to the court, "it seems unlikely that non-infringing uses would sustain the enormous Kazaa traffic".[101] The explanation of that volume of traffic was the predominant use of music file-sharing. This necessarily involved copyright infringement on a massive scale.

Sharman had no interest to prevent or curtail that predominant use. "Kazaa is apparently sustained by advertising revenue. It is a fundamental of advertising marketing that price is sensitive to the exposure likely to be achieved by the advertisement. The more shared files available through Kazaa, the greater the attraction of the Kazaa website. The more visitors to the Kazaa website, the greater its advertising value and the higher the advertising rate able to be demanded by Sharman. And what is more likely to attract large numbers of visitors to the website than music, especially currently popular 'hits'?"[102]

b) The Authorisation Issue

The claim depended entirely on the question "whether by distributing the bundle of software known as KMD, Sharman "authorises" infringements of copyright which may take place if users of the KMD make available in Australia infringing sound recordings ... or download in Australia digital files of such recordings using that software".[103]

aa) The Statutory Provisions

According to section 85 (1) of the Copyright Act, unless a contrary intention appears, the owner of the copyright in a sound recording has the exclusive right to do all or any of the following acts:

[100] ***Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd.,*** Federal Court of Australia (5 September 2005), at 181.
[101] ***Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd.,*** Federal Court of Australia (5 September 2005), at 184.
[102] ***Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd.,*** Federal Court of Australia (5 September 2005), at 191.
[103] ***Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd.,*** Federal Court of Australia (5 September 2005), at 52.

(a) to make a copy of the sound recording;
(b) to cause the recording to be heard in public;
(c) to communicate the recording to the public;
(d) to enter into a commercial rental arrangement in respect of the recording.

According to section 101 (1) of the Copyright Act, copyright is infringed by a person who, not being the owner of the copyright, and without the licence of the owner of the copyright, does in Australia, or authorizes the doing in Australia of, any act comprised in the copyright.

In this connection, the court pointed out, that "the authorisation referred to in section 101 (1) extends only to direct authorisation, by a potential defendant, of the person who performs the infringing acts".[104]

Section 101 (1A) deals with the criteria of the question whether a person has authorised the doing in Australia of an act, comprised in a copyright subsisting by virtue of Part IV of the Act, without the licence of the copyright owner. The following points have to be taken into account:

(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.

Still, "these factors are not exhaustive and do not prevent the Court from taking into account other factors, such as the respondent`s knowledge of the nature of the copyright infringement".[105]

[104] ***Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd.,*** Federal Court of Australia (5 September 2005), at 358.

bb) The Term "Authorise"

The question which has to be answered is whether Sharman authorised Kazaa users to do either of the acts described in paras (a) and (c) of section 85 (1) of the Copyright Act.

The term "authorise" is not defined in the Act. However, according to Gibbs J, the word authorise "has been held to have its dictionary meaning of "sanction, approve, countenance"".[106] Concerning the constitution of an authorisation, Gibbs J added three propositions:[107]

> (1) "A person cannot be said to authorize an infringement of copyright unless he has some power to prevent it;
> (2) Express or formal permission or sanction, or active conduct indicating approval, is not essential to constitute an authorization. "Inactivity or indifference, exhibited by acts of commission or omission, may reach a degree from which an authorization or permission may be inferred"; and
> (3) However, the word "authorize" connotes a mental element and it could not be inferred that a person had, by mere inactivity, authorized something to be done if he neither knew nor had reason to suspect that the act might be done".

"Therefore, knowledge, or lack of knowledge, is an important factor in determining whether a person has authorised an infringement. However, it is not a conclusive factor. Just as there may be authorisation without knowledge, mere knowledge is not enough".[108]

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[105] ***Universal Music Australia Pty Ltd v Cooper*** [2005] FCA 972, at 81.
[106] ***University of New South Wales v Moorhouse*** (1975) 133 CLR 1, at 12.
[107] Based on the decision ***Adelaide Corporation v Australasian Performing Right Association Limited*** (1928) 40 CLR 481.
[108] ***Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd.,*** Federal Court of Australia (5 September 2005), at 370.

cc) The Application of Section 112E

According to the court, the qualifying elements of section 112E apply to Sharman.[109]

> (1) "Sharman is '[a] person' (it does not matter whether or not it is a carriage service provider);
> (2) Sharman provides facilities (it does not matter they are not physical facilities);
> (3) the facilities are 'for making, or facilitating the making of, a communication' (an Internet file-sharing transaction)".

The court concluded "that Sharman is not taken to have authorised any infringement of copyright in a [sound recording] merely because [a Kazaa user] uses the facilities` to infringe the copyright. If the most that can be said against Sharman is that it has provided the facilities used by another person to infringe copyright, Sharman is not to be taken to have authorised the infringement".[110]

Still, this provision does not provide a general immunity. The court ascertained that "section 112E does not preclude the possibility that a person who falls within the section may be held, for other reasons, to be an authoriser. Whether or not the person should be so held is to be determined, in the present context, by reference to section 101 of the Act".[111]

dd) The Application of Section 101 to Sharman

Concerning the claim of authorisation, it has to be shown that the person has sanctioned, approved or countenanced the infringement. It is not essential there be direct evidence of the person`s attitude.

"Although section 112E provides that the provision of facilities is not enough to constitute authorisation, such provision is a matter relevant to "the nature of

[109] ***Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd.,*** Federal Court of Australia (5 September 2005), at 395.
[110] ***Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd.,*** Federal Court of Australia (5 September 2005), at 396.

[the] relationship" between Sharman and Kazaa users. If Sharman had not provided to users the facilities necessary for file-sharing, there would be no Kazaa file-sharing at all".[112]

As the court pointed out, ever-increasing file-sharing, involving an ever-greater number of people, has been in Sharman`s financial interest. And, "Sharman always knew users were likely to share files that were subject to copyright. At least since ... May 2003, Sharman ... has been aware that this was a major, even the predominant, use of the Kazaa system".[113]

In its judgement, the court points to evidence of positive acts by Sharman that would have had the effect of encouraging copyright infringement. These acts include:[114]

> (1) "Sharman`s website promotion of KMD as a file-sharing facility;
> (2) Sharman`s exhortations to users to use this facility and share their files;
> (3) Sharman`s promotion of the "Join the Revolution" movement, which is based on file-sharing, especially of music, and which scorns the attitude of record and movie companies in relation to their copyright works. Especially 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".

Indeed, "Sharman`s promotional statements were made against the background that each page of the Kazaa website, contained a notice, albeit in small print, that Sharman does not "condone activities and actions that breach the rights of copyright owners".[115] ... users were told about the relevant

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[111] ***Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd.,*** Federal Court of Australia (5 September 2005), at 399.
[112] ***Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd.,*** Federal Court of Australia (5 September 2005), at 403.
[113] ***Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd.,*** Federal Court of Australia (5 September 2005), at 404.
[114] ***Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd.,*** Federal Court of Australia (5 September 2005), at 405.
[115] At the foot of each webpage, there appeared the following words in small print: "Copyright: Sharman Networks Ltd does not condone activities and actions that breach the rights of copyright owners. As a Kazaa user you have agreed to abide by the End User License Agreement and it is your responsibility to obey all laws governing copyright in each country".

EULA[116] and made to click a box whereby they agreed to be bound by the EULA".[117] But still, according to the court, "it is difficult to believe those directing the affairs of Sharman ... ever thought these measures would be effective to prevent, or even substantially to curtail, copyright file-sharing. It would have been obvious to them that, were those measures to prove effective, they would greatly reduce Kazaa's attractiveness to users and, therefore, its advertising revenue potential".[118] Particularly after Sharman was informed about the fact that the notices and EULA had had no effect on the behaviour of the focus group participants. "Despite this, Sharman took no steps to include a filtering mechanism in its software, even in software intended to be provided to new users ... or to withdraw the "Join the Revolution" material from its website. Rather, it included that material in the later version 3.0".[119]

According to section 101 (1A) (a) and (c), one has to consider the extent of Sharman`s power to prevent copyright file-sharing and the steps it took to prevent or avoid that practice, including compliance with any relevant industry code of practice. The court found no evidence of the existence of any such code.[120]

Furthermore, the court stated that "the notices posted on Sharman's website about copyright infringement and the EULA are relevant to paras (a) and (c). However, the evidence showed that, to the knowledge of Sharman, they failed to prevent widespread copyright infringement".[121]

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[116] Clause 6 of the EULA dealt with copyright infringement. It stated: "[6.1] Sharman respects copyright and other laws. Sharman requires all Kazaa [Media Desktop] users to comply with copyright and other laws. Sharman does not by the supply of the Software authorise you to infringe the copyright or other rights of third parties; [6.2] As a condition to use the Software, you agree that you must not use the Software to infringe the intellectual property or other rights of others, in any way. The unauthorised reproduction, distribution, modification, public display, communication to the public or public performance of copyrighted works is an infringement of copyright; [6.3] Users are entirely responsible for their conduct and for ensuring that it complies with all applicable copyright and data-protection laws. In the event a user fails to comply with laws regarding copyrights, [or] other intellectual property rights, [and] data-protection and privacy, such a user may be exposed to civil and criminal liability, including possible fines and jail time".

[117] ***Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd.,*** Federal Court of Australia (5 September 2005), at 407.

[118] ***Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd.,*** see footnote 117.

[119] ***Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd.,*** see footnote 117.

[120] ***Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd.,*** Federal Court of Australia (5 September 2005), at 409.

[121] ***Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd.,*** Federal Court of Australia (5 September 2005), at 410.

Indeed, it was impossible for Sharman to control the decisions of individual users as to whether or not they would engage or to what extent they would take part in file-sharing. However, Sharman had power, through keyword filtering or gold file flood filtering, to prevent, or at least substantially to reduce, the incidence of copyright file-sharing. "In that sense, Sharman could control users` copyright infringing activities".[122] Still, Sharman did not take the necessary steps.

Finally, section 101 (1) requires that Sharman authorized the doing in Australia of an act specified in section 85 (1) of the Act. In this connection, the court found: "In the present case, it is apparent that many Kazaa users reside outside Australia; the infringing activity of these users is not done in Australia. However, it seems to me that this is immaterial. The evidence ... is that copyright infringement also takes place in Australia. If the respondents authorise Kazaa users generally to infringe copyright, they authorise the doing of the infringing acts both within Australia and outside Australia. It does not matter that the latter activity is outside the scope of section 101 of the Act".[123]

c) The Federal Court`s Decision

Based on the above explanations, the Federal Court **held:**

- Sharman Networks Ltd has infringed the copyright in each of the sound recordings being a copyright of the applicants by authorising Kazaa users, without the licence of the right holders, of

  (a) making a copy of the sound recording;
  (b) communicating the recording to the public.

- Continuation of the Kazaa Internet file-sharing system shall not be regarded as unlawful if that system is first modified pursuant to a protocol, to be agreed between the infringing respondents and the applicants, or to be approved by the Court, that ensures either

[122] ***Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd.,*** Federal Court of Australia (5 September 2005), at 414.
[123] ***Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd.,*** Federal Court of Australia (5 September 2005), at 388.

(a) that

(aa) the software program received by all new users of the Kazaa file-sharing system contains non-optional key word filter technology that excludes from the displayed blue file search results all works identified (by titles, composers' or performers' names or otherwise) in such lists of their copyright works as may be provided, and periodically updated, by any of the applicants;

(bb) all future versions of the Kazaa file-sharing system contain the said non-optional key word filter technology; and

(cc) maximum pressure is placed on existing users, by the use of dialogue boxes on the Kazaa website, to upgrade their existing Kazaa software program to a new version of the program containing the said non-optional key word filter technology; or

(b) that the TopSearch component of the Kazaa system will provide, in answer to a request for a work identified in any such list, search results that are limited to licensed works and warnings against copyright infringement and that will exclude provision of a copy of any such identified work.

IV. Is this the End of the Road?

At first view, the decisions of the U.S. Supreme Court and the Federal Court of Australia ended the era of the known file-sharing systems. According to these decisions, the Grokster/StreamCast and Kazaa software is illegal, and Kazaa has to modify its software in an appropriate way if it wants to operate further on. At closer inspection, one has to ascertain that the judicial decisions are based on the companies` concrete business practices. Particularly the questionable advertising effort in view of copyright infringements and the financial interests in connection with the distribution of the software prompted the courts to consider the companies` appearance as more than the mere distribution of software. Indeed, the decisions caused numerous providers of p2p software to transform their systems in legal, commercial download services. But still, there are ambitions to develop freely available, non-commercial p2p systems.[124] In view of the legal positions brought about by the U.S. Supreme

[124] Based on the source code of the p2p software, which was published by Lime Wire LLC under a GNU Public License, a couple of developers came together to develop the LimeWire-source code further on one`s own – and

Court and the Federal Court of Australia, it is to be doubted that the courts will consider these non-commercial systems as illegal, as long as they confine themselves merely to distribute the software or to provide facilities.

Irrespective hereof, it is to ascertain that the above mentioned decisions are based on the courts` belief that people who post or download music files are primary infringers.[125] In December 2005, RIAA sued 751 p2p users for illegal distribution of copyrighted music files. With that, the number of proceedings in the USA against p2p users increased to about 17.100 since 2003, including nearly 1000 students.[126] Until now, RIAA settled with 3400 users.[127] The average amount the users paid is more than $ 4.000. In serious cases more than $ 10.000 were paid. According to section 504 (c) (1) DMCA, statutory damages between $ 750 and $ 30.000 may be awarded for all infringements involved in the action, with respect to any one work.[128] Only recently, the United States Court of Appeals in *BMG Music v. Cecilia Gonzalez*[129] held a p2p user liable for copyright infringement and awarded damages of $ 22.500.

Therefore, also in the case of the distribution of legal p2p software, there are legal rules which prevent copyright infringements. However, this situation would complicate the enforcement of copyright since the right holders had to sue each individual user. But the right holders are not limited to legal action. They still have the possibilitiy to confine copyright infringement by increasing the use of DRM technology or offering low priced, legal download services for copyrighted content.

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without any limitations. The open-source version is known as FrostWire. According to the developers, the project is charitable and there will never be a commercial version of the software.

[125] A „fair use“ of copyrighted material is not infringement. In the USA, the question of „fair use“ is to be answered according to section 107 DMCA. This section provides that when considering a defense of fair use the court must take into account (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work. An argument, which appears very often in the context of an economic slowdown concerning the music industry`s revenue, is, that Music downloaded for free from the Internet is a close substitute for purchased music; many people are bound to keep the downloaded files without buying originals.

[126] http://www.heise.de/newsticker/result.xhtml?url=/newsticker/meldung/67446&words=RIAA (12/16/2005).

[127] http://www.heise.de/newsticker/result.xhtml?url=/newsticker/meldung/64482&words=RIAA (09/30/2005).

[128] In special cases the sum may be increased to $ 150.000, or reduced to $ 200, section 504 (c) (2) DMCA.

[129] ***BMG Music, et al, v. Cecilia Gonzalez,*** United States Court of Appeals (7. Circuit) (December 9, 2005). Background of the decision: In *BMG Music v. Cecilia Gonzalez,* the p2p user downloaded more than 1.370 copyrighted songs through the KaZaA filesharing network during a few weeks and kept them on her computer until she was caught. She said that she was just sampling music to determine what she liked enough to buy at retail. She owned compact discs containing some of the songs before she downloaded them and purchased others later, but she has never owned legitimate copies of 30 songs that she downloaded. Instead of erasing songs that she decided not to buy, she retained them (the facts are taken from ***BMG Music, et al, v. Cecilia Gonzalez,*** United States Court of Appeals (7. Circuit) (December 9, 2005), p 1-2).

Chapter 4

Further Issues

I. Introduction

Not only p2p-networks caused problems in connection with the download of music over the Internet. There are as well basic legal questions with respect to the liability of Internet service providers. And, only recently, the music industry sued a search engine (www.baidu.com) for copyright infringement.

The Internet is a borderless medium and, unfortunately for the music companies, there are different degrees of copyright protection in the different countries. Therefore, next to the legal questions, there are cross-border enforcement problems too (for instance in the case of www.allofmp3.com).

II. Liability of Internet Service Providers

1. General

An Internet service provider (ISP) is an entity that provides Internet access or online services. ISPs are crucial for the functioning of the Internet. A major question concerning intellectual property is, whether an ISP is liable for copyright infringement if it transmits or makes available materials provided by others which infringe copyright. There are two ways in which such liability could arise:[130] If the ISP

- itself has engaged in unauthorized acts of reproduction or communication to the public or
- is responsible for contributing to or making possible the act of infringement by others.

[130] WIPO, Intellectual Property on the Internet: A Survey of Issues, December 2002, p 43.

For instance, these issues were subject under Chinese copyright law in the case of *Wang Meng. v. Century Interconnecting Telecom Co. Ltd*. This case involved an ISP on whose website works of six well-known Chinese novelists were posted without their permission. The defendant argued that China`s copyright law does not address the Internet. Therefore, digital works could not infringe copyright. The court found for the plaintiffs. It held that no derivative work was created simply by the process of digitization and that Chinese copyright law gave the author the exclusive right to exploit and profit from the work both online and off. The ISP was found to be in a position to control the distribution of the works and was held liable for infringement.[131]

The question of liability is very important since the Internet is a borderless medium that internationalizes markets.

2. Legislation

The WIPO Internet Treaties are neutral on this subject.[132] Therefore, it was left to national legislation to determine the liability of ISPs. Over the past decade, a number of legislative solutions were developed.[133] There are two concepts concerning the ISPs` liability:[134]

- Either the statutes address copyright only or
- the statutes take a “horizontal approach”.

a) The Horizontal Approach

Horizontal approach means that the statute governs the liability of service providers regardless of the grounds for illegality of the transmitted material; therefore, the horizontal approach covers not only copyright infringement but also other laws such as libel or obscenity.[135] This approach is held by the laws in Germany, Sweden,

[131] WIPO, Intellectual Property on the Internet: A Survey of Issues, December 2002, p 44; ***Beijing Haidian District People's Court (1999)*** Hai Zhi Chu Zi, No.57; Zhou Lin, ed., “China Court Cases on Intellectual Property Rights,” The Chinese People's Public Security University Press (January 2002).
[132] There is only one reference to this issue in an agreed statement to Article 8 WCT: “[i]t is understood that the mere provision of physical facilities for enabling or making a communication does not in itself amount to communication within the meaning of this Treaty or the Berne Convention.”
[133] The copyright laws of various countries contain concepts of liability for contributing to the infringing activities of others. In general, the determination of liability will turn on the degree of participation and knowledge of the party that is contributing to the infringement.
[134] WIPO, Intellectual Property on the Internet: A Survey of Issues, December 2002, p 44.
[135] WIPO, Intellectual Property on the Internet: A Survey of Issues, December 2002, p 45.

Japan and South Africa. The Directive on Electronic Commerce of the European Community adopted a horizontal perspective as well. The Directive contains provisions to harmonize the treatment of liability among its Member States.[136]

aa) South African Legislation

In South Africa, the liability of a service provider is governed by Chapter XI of the ECT Act. According to section 70, "service provider" means any person providing information system services. The ECT Act does not define a provider`s liability for copyright infringement. Therefore, the existing principles of South African copyright law apply. Instead, the ECT Act defines those categories of provider activity where providers are exempt from liability for damages[137] provided that the provider

- is merely acting as a "passive conduit" for the information,
- is not the producer of the information,
- does not have actual knowledge that the data message is infringing the rights of a third party or is not aware of facts or circumstances from which the infringing nature of the data message is apparent,
- does not receive a financial benefit directly attributable to the infringing activity and
- has responded expeditiously to remove or disable access to infringing material upon notice from the copyright holder (the so-called "notice and takedown" provisions).

The service provider has no general obligation to monitor the data which it transmits or stores or actively seek facts or circumstances indicating an unlawful activity, section 78 (1).

According to section 72, the limitations on liability apply only if the service provider

[136] Article 12 of the Directive 200/31/EC of the European Parliament and the Council of June 8, 2000, on Certain Legal Aspects of Information Society Services, in Particular Electronic Commerce, in the Internal Market.
[137] The categories of activities are: (1) mere conduit; (2) caching; (3) hosting; and (4) information location tools. (sections 73 – 76).

- is a member of a recognized representative body referred to in section 71 and
- has adopted and implemented the official code of conduct of that representative body.

bb) Japanese Legislation

Japan as well has introduced a "Provider Liability Law".[138] According to Japanese law, a provider is liable[139]

- only if it is technically possible to prevent transmission of the infringing material; and
- the provider knows of the existence of the material; and
  - knows that it is infringing; or
  - reasonably ought to know that it infringes (Art. 3 (1)).

If information is necessary for a legal claim or other legitimate reason (Art. 4(1)), a person whose rights have been infringed can ask the provider to disclose information about the person transmitting the material.

b) The Alternative Approach

The alternative approach of implementing specific copyright law to determine ISP liability has been adopted by Hungary, Ireland, Singapore and the USA.

In the USA, after legislation has established different standards in other areas of the law in the past years, the Congress enacted copyright-specific legislation as part of the 1998 Digital Millennium Copyright Act (DMCA). The 'Online Copyright Infringement Liability Limitation Act', as part of the DMCA, establishes 'safe harbors' to shelter ISPs from liability for copyright infringement in certain circumstances.[140] The DMCA sets down guidelines concerning copyright infringement online but, similar to the ECT Act, it does not define a provider`s liability for copyright infringement.[141] Therefore, the existing principles of U.S. copyright law apply. As the

[138] Law No. 137 of November 30, 2001.
[139] WIPO, Intellectual Property on the Internet: A Survey of Issues, December 2002, p 45.
[140] Pub. L. No. 105-304, 112 Stat. 2860 (1998). Title II of the DMCA adds section 512 to the U.S. Copyright Act.
[141] WIPO, Intellectual Property on the Internet: A Survey of Issues, December 2002, p 45.

ECT Act, the DMCA defines those categories of provider activity where providers are exempt from liability for damages[142] provided that[143]

- the provider is merely acting as a "passive conduit" for the information,
- is not the producer of the information and
- has responded expeditiously to remove or disable access to infringing material upon notice from the copyright holder (the so-called "notice and takedown" provisions).

To qualify for immunity, the provider must implement a policy that terminates the subscriptions of repeat infringers, and accommodate and not interfere with technical measures put in place to protect and identify copyright works.

The 'safe harbor' provisions were tested in *ALS Scan, Inc. v. Remarq Communities, Inc.*. The issue was whether an ISP was liable for providing access to "adult" news groups that contained unauthorized copies of the plaintiff`s photographs, after having been informed that the site was infringing.[144] The ISP argued that it would only remove the materials if the infringing items were identified and listed with sufficient specificity. This would have been a difficult task given the number of photographs on the site. The Court found that the plaintiff had met its notice requirement and that, once notified, the provider could not rely upon the immunity granted by the DMCA.

In *Arista Records Inc. v. AT&T Broadband Corp.*, S.D.N.Y.,[145] 13 record companies requested the Court to order four ISPs to block access to a China-based website, Listen4ever.com. The English-language site was alleged to violate U.S. copyright laws. Before going offline upon initiation of the legal action, the site offered thousands of copyrighted songs for free download.

[142] The categories of activities are: (1) transitory digital network communications; (2) system caching; (3) storing information on systems or networks at direction of users; and (4) information location tools. (Section 512 (a) – (d)).
[143] WIPO, Intellectual Property on the Internet: A Survey of Issues, December 2002, p 46.
[144] WIPO, Intellectual Property on the Internet: A Survey of Issues, December 2002, p 46; ***ALS Scan, Inc. v. Remarq Communities, Inc*.., 239 F.3d 619 (4th Cir. 2001);** William T. McGrath, "U.S. Copyright Case Law Developments in the New Millennium," Copyright World, pp.16-19 (May 2001).

3. Conclusion

Meanwhile, comprehensive legislation concerning the liability of ISPs exist worldwide. Sure, since the technological development and the possible applications proceed, there will be still questions to answer and problems to solve. But since there are already legal rules in force, new legislation might be based on the existing legal framework.

III. Liability of Search Engines – www.baidu.com (China)

1. General

The sophisticated technology of the latest search engines opens huge possibilities to the Internet users. It enables the users to access immense numbers of data files saved on billions of webpages. What happens if a search engine records illegal content, particularly content that enables the users to download music illegally? Only recently, four major entertainment companies instituted the first proceedings against a search engine to settle this question.

2. Background

Baidu is a Chinese search engine which is used by about 50%[146] of the Chinese Internet users. It has displaced the world`s leading service Google from the number one position in China. What does it make so popular? What is different compared to the other search engines? Baidu enables the users to search purposefully for music; it does not only record webpages, but mp3 music files as well. For instance, if one searches for “Metallica”, one gets several hundred results which enable the download of Metalllica songs for free – although the band has strictly restricted download rights. It is estimated that about 7000 webpages offer music illegally for download, either for free or dirt cheap.[147] About 30% of all requests are allotted to music files.[148] Furthermore, unlike other competitors, Baidu makes the most of the fast growing Asian part of the Internet, which is very different to the one in Europe and the United States.

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[145] WIPO, Intellectual Property on the Internet: A Survey of Issues, December 2002, p 46; Amy Harmon, “Record Labels Want 4 Internet Providers to Block Music Site,” The New York Times, (August 17, 2002) at http://www.nytimes.com.
[146] http://www.spiegel.de/netzwelt/politik/0,1518,375047,00.html (09/16/2005).
[147] http://www.spiegel.de, see footnote 146.
[148] http://www.spiegel.de, see footnote 146.

In July and September 2005, the four largest music companies worldwide, EMI Music, SonyBMG, Universal Music and Warner Music, sued Baidu for copyright infringement, "since the search engine enables users to download songs illegally via links shown on the search engine`s page".[149] Only a few days after the last legal proceeding were instituted, a court in Beijing ordered the termination of the search of mp3 files. In addition, Baidu had to pay a penalty of 68.000 Renminbi Yuan (about € 6.900,-).[150] Baidu filed an appeal against this judgement.

3. Conclusion

Actually, the case of Baidu is similar to the p2p-cases. The sophisticated technology of the search engine enables the users to find and download music files (illegally) over the Internet. Indeed, the search engine has other purposes as well. But so has the p2p-software. Furthermore, the music search is involved in a major part of the requests and therefore extremely important for the financial success of Baidu. In view of the judgements discussed under Chapter 3 and an effective copyright protection, the judgement against Baidu is to be welcomed.

IV. Different Degrees of Copyright Protection – www.allofmp3.com (Russia)

1. General

The degree of the protection of intellectual property can differ a lot in the different countries. The range varies from a reasonable protection to a non-existing one. What in one country may be legal is in another country illegal. Since in the age of digitization and the Internet copyrighted content can easily be distributed across national borders, this fact gives rise to the questions if and how copyright can efficiently be protected internationally.

Once actions are crossing national borders, questions concerning the applicable law and jurisdiction arise. But even if these questions were judicially clarified, there is still the problem of enforcing the judgement if the defendant resides in a foreign country. In principle, a country`s power to enforce the law is limited to its own territory. Therefore, a

[149] http://www.spiegel.de, see footnote 146.
[150] http://www.spiegel.de/netzwelt/politik/0,1518,375538,00.html (09/20/2005).

judgement will only be enforced in a foreign country if it is acknowleded by this country. This may happen because of a bilateral agreement or relevant legal rules. But still, the preconditions for an acknowledgement basically are very strict. However, a country would not enforce a foreign judgement if it contravenes its own law.

2. Background

The Russian online music portal Allofmp3 is run by MediaServices Inc. It is featured as a legal service and sells music downloads dirt cheap. Most of the music portals offer a single download for € 0,99 or rather $ 0,99. In contrast to this, Allofmp3 sells it for $ 0,17 and less ($ 0,02 per 1 Mb[151]). Therefore, Allofmp3 is a rival who is not to be underestimated.

Indeed, the range of songs on offer cannot be compared with the world`s largest music portal iTunes. But still, the database contains more than 300.000 songs or rather 25.000 complete CDs. The charts of different countries like USA, Great Britain, Germany, France and Italy are fully available.

The concept of Allofmp3 is technologically attractive as well since it uses “online encoding”. This technology enables the users to download the music in a format and quality of their choice. And additionally, in contrast to the competitors, without any copy protection (DRM).

Because of these facts and the question of its legality, Allofmp3 received attention worldwide. For instance, in spring 2005 the District Court of Munich (Germany) issued a temporary injunction against Allofmp3.[152] The injunction was applied for by six leading music companies, including EMI Music, SonyBMG Music, Universal Music and Warner Music, and was based on the allegation that Allofmp3 has no license to distribute the copyrighted content on German territory. Accordingly, the court prohibited Allofmp3 „to make copyright protected records of the applicants or rather reproductions of those records publicly accessible within the German territory”, particularly “to hold them ready for download via the Internet address www.allofmp3.com”. After the decision, many private persons and media companies were warned by a law firm since they put a link

[151] http://music.allofmp3.com/help/help.shtml?help=on#top (12/13/2005).
[152] District Court of Munich I, 21. Civil Division, Case No. 21 O 9161/05 (2005).

to the offer of Allofmp3 into their Internet reporting.[153] The publishing house Heise, which runs the Internet service „heise online“, refused to delete the links in its reporting. But, a further temporary injunction forced Heise to do so.[154]

According to the terms and conditions of Allofmp3, the download service is legal – at least in Russia; it is licensed by the “Russian Organization for Multimedia & Digital Systems” (ROMS).[155] The license entitles MediaServices Inc. to offer music online. As a countermove, license fees have to be paid:

“**Copyright**[156]

All materials in the MediaServices projects have been available for distribution via the Internet in accordance with license # LS-3M-02-36 of the Russian Multimedia and Internet Society. Under the license agreement, MediaServices pays license fees for all materials subject to the Law of the Russian Federation “On Copyright and Related Rights”. All these materials are solely for personal use. Any further distribution, resale or broadcasting are prohibited.”

“Is it legal to download music from allofmp3.com?[157]

All the materials in MediaServices projects are available for distribution through the Internet in accordance with license # LS-3M-05-03 of the Russian Multimedia and Internet Society. Under the license terms, MediaServices pays license fees for all materials subject to the Law of the Russian Federation “On Copyright and Related Rights”. All materials are available solely for personal use and must not be used for further distribution, resale or broadcasting.”

In order to protect itself against possible legal problems, Allofmp3 distances itself in its terms and conditions from infringements of law by non-Russian users:

“**Copyright**[158]

You agree that use of the Services provided by MediaServices are at your own risk and with your personal consent. All Services are provided “as is” without guarantee obligations on the part of the Administration.”

“Is it legal to download music from allofmp3.com?[159]

The user bears sole responsibility for any use and distribution of all materials received from allofmp3.com. This responsibility is dependent on the national legislation in each user`s country of residence. The Administration of allofmp3.com does not possess information on the laws of each particular country and is not responsible for the actions of foreign users.”

[153] http://www.heise.de/newsticker/result.xhtml?url=/newsticker/meldung/61528&words=AllOfMP3 (07/08/2005).
[154] http://www.spiegel.de/netzwelt/politik/0,1518,373487,00.html (09/07/2005); this situation is similar to the case of Baidu (Chapter 4 III) since the link enables the users to access directly an illegal download service.
[155] http://www.roms.ru/?lang=eng.
[156] http://music.allofmp3.com/help/help.shtml?help=on#top (12/13/2005).
[157] http://music.allofmp3.com, see footnote 156.
[158] .http://music.allofmp3.com, see footnote 156.
[159] http://music.allofmp3.com, see footnote 156.

According to an interview with a Media Services Inc. manager in autumn 2004, Allofmp3 concentrates on the Russian market and the percentage of foreign users is marginal.[160] But still, the full offer is available in English and the users can pay with credit card worldwide or the Internet payment service Paypal.

In March 2005, the International Federation of the Phonographic Industry (IFPI)[161] tried to stop the service. But after short investigations, the Russian legal authorities abandoned the proceedings, since according to Russian law, the service operates legally.[162] Allofmp3 now distributes music online since nearly 4 years; and it seems that the story will continue. Meanwhile, new competitors like the Russian service MP3Search[163] arose. These services copy Allofmp3 and enlarge the problems of the music industry.

3. Conclusion

As the case of Allofmp3 shows, the protection of copyright is very limited if the local law differs considerably from the standards of other countries. Even if the music industry will succeed in stopping the service of Allofmp3, as it managed to do so with the similar Spanish service Weblisten in the end of May 2005, the problem still exists: The Allofmp3 clones just have to move from Russia to other countries like Kazakhstan or Uzbekistan.

There are not many possibilities to prevent this kind of copyright infringements. One way is to harmonize the different legal systems via international treaties. Another possibility are economic sanctions. But both ways are politically sensitive and usually take a long time to realize. The third way is national legislation which criminalizes the own citizens. This is problematic as well since it does not eliminate the actual cause. Furthermore, usually it is not obvious to the Internet user if a service operates legally or illegally, particularly if the service has a professional appearance.

[160] http://www.spiegel.de/netzwelt/politik/0,1518,373487,00.html (09/07/2005).
[161] http://www.ifpi.org.
[162] http://www.heise.de/newsticker/result.xhtml?url=/newsticker/meldung/61447&words=AllOfMP3 (07/06/2005).
[163] http://www.mp3search.ru.