

Before the High Court

Providing Services to Copyright Infringers: *Roadshow Films Pty Ltd v iiNet Ltd*

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Abstract

In *Roadshow Films v iiNet* the High Court will consider whether an ISP can be held liable for authorising copyright infringements committed by its subscribers. The case has significant ramifications for the regulation of the internet in Australia and may colour international debates about the responsibility of ISPs towards copyright owners. The legal issues at stake are, however, relatively self-contained and the authors argue that it would be inappropriate for the High Court to seek to draw on broader issues of policy when arriving at its decision. The authors argue that the Full Federal Court erred in building its reasoning on authorisation around the expectation that termination of user accounts was required. On the contrary, iiNet was not required to suspend or terminate accounts in order to avoid liability. iiNet was, *prima facie*, required to pass on copyright warning notices generated by the applicants to its subscribers. However, despite having failed to take even this limited step, iiNet avoid liability thanks to the operation of s 112E of the *Copyright Act 1968* (Cth), which deems certain conduct not to constitute authorisation of infringement.

I Introduction

The operation of copyright law in the digital environment has been a controversial subject for close to 20 years. The underlying problem is that widespread copying of works online poses a threat to the viability of a number of established copyright industries. For many years it was the music industry, in particular, that bore the brunt of losses from downloading and file sharing. With the growth of high speed networks, and hence the ability to transfer much larger files, the movie industry has become increasingly concerned. Copyright owners have employed a variety of strategies to mitigate the threat to their businesses: they

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have lobbied successfully for new international instruments and domestic legislation; they have funded public education campaigns; they have pursued operators of websites that host infringing material and distributors of peer-to-peer software through the courts; and they have brought a number of highly publicised cases against individual users. More recently, copyright owners have focused their attention on co-opting internet service providers (ISPs)¹ to the task of reducing copyright infringement. Copyright owners are particularly keen to persuade ISPs to implement ‘graduated response’ policies, whereby subscribers who infringe copyright are first sent warning notices and then, if these notices are ignored, have their internet access restricted or blocked entirely.² Restricting user access is not, however, in the commercial interests of ISPs. One way to ensure that ISPs are willing to work with copyright owners is to establish that ISPs can be held legally responsible for acts of copyright infringement committed by their users. This purpose lies behind the litigation in *Roadshow Films Pty Ltd v iiNet Ltd* (‘iiNet’).

Attempts to apply legal pressure to ISPs have been hampered by the fact that in the early days of the internet, ISPs managed to secure a number of legislative safeguards that were designed with the express intention of limiting ISP liability for things done by internet users.³ Critics of these carve outs have argued that the technological environment has changed considerably since these provisions were introduced and that it would now be much less onerous to insist that ISPs shoulder some of the responsibility for curtailing copyright infringement. In contrast, opponents of graduated response have argued that such policies: fail to respect due process and user privacy; create

¹ ‘ISP’ is being used here in the narrow sense, to refer to a carriage service provider as defined in s 87 of the *Telecommunications Act 1997* (Cth); that is, someone who provides internet access (a ‘listed carriage service’ under s 16), and not in the broader sense of any person who provides any services online.

² ‘Graduated response’ is an omnibus term used to describe various systems being promoted around the world to involve ISPs in providing escalating responses against infringing subscribers. The usual understanding of ‘graduated response’ involves warnings followed by technical measures including, in particular, termination of internet access. However, although termination is possible under regulatory systems adopted in France (*Loi 2009-1311 du 28 octobre 2009 relative à la protection pénale de la propriété littéraire et artistique sur internet* arts 6 and 7, 251 Journal Officiel de la République Française, 29 October 2009, 18290) and New Zealand (*Copyright (Infringing File Sharing) Amendment Act 2011* (NZ)), it is not (yet) available under the system introduced by the *Digital Economy Act 2010* (UK) or under a private Memorandum of Understanding negotiated among copyright industries and major ISPs in the United States (US): ‘Memorandum of Understanding of 7 June 2011 between Content Owner Representatives and Participating ISPs, Participating Content Owners Group’ (‘US MOU’).

³ See, for example, in the US, 17 USC §512, inserted by the *Digital Millennium Copyright Act 1998*; for the European equivalent, see *Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market OJ L 178, 1–16* (‘E-Commerce Directive’), arts 12–14.

uncertainty for providers of internet access in public spaces; skew the market for the provision of internet access towards established providers; and rest on a flawed moral premise in that there is no general duty to act to preserve the property rights of third parties. Opponents of graduated response have found natural allies in groups and commentators who take a sceptical view of the complaints of the copyright owners — groups who argue that many of the problems faced by the established copyright industries flow from their failure to embrace new business models and who insist that the role of copyright in the digital environment needs to be rethought entirely.⁴

iiNet goes to the heart of the above issues, with the High Court being asked to determine whether an Australian ISP, iiNet, which refused to implement a graduated response policy, can be held liable for having authorised the copyright infringement of its subscribers. It is a case that has significant ramifications for how the internet is to be regulated in Australia. It is also a decision that is going to colour the debate about ISP liability and graduated response internationally, and is being watched closely around the world. It is important, however, that this global attention, and the broad and contentious economic and policy questions raised, do not distract from the relatively narrow questions of doctrine and statutory interpretation that demand resolution.

While we agree that the Full Federal Court reached the correct conclusion in finding that iiNet was not liable for infringement by authorisation, we argue for a position that differs both from that taken at first instance and from that adopted by each of the members of the Full Court. Specifically, we contend that when s 101(1A) of the *Copyright Act 1968* (Cth) is interpreted in light of the judicially developed principles that the Australian Parliament was seeking to codify, iiNet's liability for authorising infringement depends on how iiNet was ultimately required to deal with copyright infringement by its subscribers. If authorisation turns on iiNet's failure to warn or notify its subscribers, then failing to pass on notices of infringement to those subscribers was inexcusable, subject to any arguments available under the *Telecommunications Act 1997* (Cth). If, on the other hand, iiNet was required to initiate a graduated response scheme that would result in accounts being restricted or terminated, then problems with the quality and sufficiency of the information in the notices, as noted by the

⁴ For summaries of the arguments surrounding graduated response schemes and further references see, eg, Peter K Yu, 'The Graduated Response' (2010) 62 *Florida Law Review* 1373; Christophe Geiger, 'Honourable Attempt But (Ultimately) Disproportionately Offensive Against Peer-To-Peer On The Internet (HADOPI) – A Critical Analysis Of The Recent Anti-File-Sharing Legislation In France' (2011) 42 *IIC* 457; Christopher M Swartout, 'Toward A Regulatory Model Of Internet Intermediary Liability: File-Sharing And Copyright Enforcement' (2011) 31 *Northwestern Journal of International Law and Business* 499.

Full Court, justified iiNet's refusal to act. We also argue, however, that even if authorisation turns on the failure to warn or notify, such that iiNet prima facie authorised infringement, iiNet is still entitled to take advantage of s 112E of the *Copyright Act 1968* (Cth), which deems certain conduct not to constitute authorisation of infringement. We recognise that the result we argue for will not please many. However, the High Court's decision cannot offer a complete solution to the problem of peer-to-peer file sharing or online service providers' responsibilities in the digital environment. The best that can be done is to provide a clear statement of the current law of authorisation and to send the issues back to the political and legislative sphere.

II *Roadshow Films Pty Ltd v iiNet Ltd*

A *The Factual Background*

iiNet involves a clash of significant players. The appellants are 34 film and television production companies that own copyright in an extensive catalogue of popular movies and television series; the litigation being coordinated by the Australian Federation Against Copyright Theft (AFACT).⁵ The respondent, iiNet, is one of Australia's largest internet service providers, selling internet access to the general public. The appeal before the Full Federal Court also saw the participation of a number of amici: the Australasian Performing Right Association; the Media Entertainment and Arts Alliance; and the Screen Actors Guild. These parties have again sought leave to intervene before the High Court,⁶ joined by a number of other potential amici, including: the Australian Record Industry Association; the Australian Privacy Foundation; the Australian Digital Alliance;⁷ and the Communications Alliance, a telecommunications industry body.

The respondent stands accused of authorising infringement committed by its customers, who used the BitTorrent protocol to engage in file-sharing of the appellants' films and television programs. The BitTorrent protocol is a popular means used by individuals engaged in peer-to-peer file sharing. It is particularly efficient for sharing large files (such as films and television programs, or large software distributions) because once an individual user connects to a

⁵ AFACT is a specialised enforcement body funded by the industry, including the various appellants involved in the case.

⁶ See High Court of Australia, *Case S288/2011: Roadshow Films Pty Ltd and Ors v. iiNet Limited* (2010), <<http://www.hcourt.gov.au/cases/case-s288/2011>>.

⁷ A non-profit coalition of public and private sector interests formed to promote 'balanced' copyright law with members among Australian universities, schools, libraries, and the technology industry.

‘swarm’⁸ (a group of users) sharing the desired file, the user’s software will simultaneously download bits of the file from many different swarm members, and make available bits to multiple others, also simultaneously.⁹ There were, at trial and on appeal, difficult questions of legal construction as to the number of infringements committed. However, there is no real doubt that iiNet subscriber accounts were being used to infringe the appellants’ copyright via BitTorrent.

To investigate online infringement, AFACT hired a specialist company, DtecNet Software APS (‘DtecNet’), to gather information about iiNet subscriber accounts using BitTorrent to download copies of the appellants’ films.¹⁰ DtecNet used specialised software to connect with relevant swarms, download bits of the appellants’ films only from iiNet subscribers, and log information about the pieces downloaded (the film, the copyright owner, the nature of the bit(s) downloaded), the IP address, and the time. AFACT provided this information — sufficient for iiNet to identify the subscribers’ accounts involved — to iiNet, together with a demand that iiNet prevent the accounts from being used to infringe copyright, and ‘take any other action available under iiNet’s Customer Relationship Agreement (CRA) which was appropriate having regard to their conduct’. The demand enclosed provisions of the CRA giving iiNet the right to terminate service for illegal conduct,¹¹ thus suggesting, as indeed the appellants argued both at trial and on appeal, that iiNet was required to step in to terminate service to those users, should infringement continue. Similar notifications were forwarded weekly to iiNet for a period of many weeks in 2008–2009. These notices did not contain any explanation of how the data was generated, nor did they contain any statement verifying the accuracy of the data or the reliability of the methods used to collect it;¹² DtecNet’s methods were more fully revealed to iiNet in the context of the subsequent litigation. This lack of information, in the context of the several hundred other copyright infringement notices iiNet received daily from other sources, became an important issue in the case, going to the extent of iiNet’s knowledge of its customers’ infringements.

iiNet took the view that it had no obligation to act. It therefore refused to take any direct action against subscribers. Eventually the appellants filed proceedings, alleging that iiNet’s failure to take action constituted authorisation of its users’ copyright infringement.

⁸ A process described in *Roadshow Films Pty Ltd v iiNet Ltd (No 3)* (2010) 83 IPR 430, 446–50 (‘*iiNet (No 3)*’).

⁹ *Ibid.*

¹⁰ Other ISPs were also investigated: *iiNet (No 3)* (2010) 83 IPR 430, 453.

¹¹ *Ibid.* 454–5.

¹² *Roadshow Films Pty Ltd v iiNet Ltd* (2011) 89 IPR 1, 169 [762] (‘*iiNet*’).

At trial, Justice Cowdroy dismissed the appellants' arguments, concluding that iiNet was not liable as it had not provided the 'true means' of infringement: at most, internet access was a precondition not giving rise to liability for subsequent infringements.¹³ This reasoning effectively meant that an ISP whose activities were limited to providing internet access could never be held liable for authorising the copyright infringements of its users. On appeal, the Full Federal Court by majority upheld the outcome (Jagot J dissenting), but on very different reasoning. Emmett J and Nicholas J both took the view that the information provided by AFACT was insufficient to create an obligation for iiNet to act against its customers.¹⁴ However, they also contemplated that there are circumstances in which an ISP could be liable for failing to act against infringing users. Justice Emmett concluded that iiNet would have been obliged to act if provided with 'unequivocal and cogent evidence of the alleged primary acts of infringement' coupled with an undertaking by the copyright owners to reimburse iiNet for the reasonable cost of verifying the particulars of the primary acts of infringement and of maintaining a regime for monitoring for further infringement, plus an offer to indemnify iiNet in respect of any liability reasonably incurred as a consequence of mistaken suspension or termination of service based on the allegations of the copyright owner.¹⁵ Justice Nicholas concluded that an ISP's refusal to act on allegations of infringement might give rise to authorisation if such a refusal were unreasonable, with this determination depending on the nature and quality of the information provided by the copyright owner to the ISP.¹⁶

B The Issues and Arguments

The first challenge for the High Court is to make sense of the law of authorisation generally, and as it applies to ISPs. The case takes the High Court back to similar ground to that traversed in its last consideration of these issues, 36 years ago in *University of New South Wales v Moorhouse* ('Moorhouse').¹⁷ Once again the Court is being asked to consider the liability of a party who provides facilities that

¹³ *iiNet (No 3)* (2010) 83 IPR 430. For a description and critique of Justice Cowdroy's reasoning, see David Brennan, 'ISP Liability for Copyright Authorisation: The Trial Decision in *Roadshow Films v iiNet* (2010) 28(4) *Communications Law Bulletin* 1; 29(1) *Communications Law Bulletin* 8; David Lindsay, 'Liability of ISPs for End-User Copyright Infringements: The First Instance Decision in *Roadshow Films Pty Ltd v iiNet (No 3)* (2010) 60(2) *Telecommunications Journal of Australia* 29.1.

¹⁴ *iiNet* (2011) 89 IPR 1, 46 [205] (Emmett J); 172 [781] (Nicholas J). Justice Jagot took the view that the information provided by AFACT was 'prima facie credible evidence of widespread and repeated infringement' and, had it required further information, iiNet could have made inquiries of AFACT: 99 [420]–[421].

¹⁵ *iiNet* (2011) 89 IPR 1, 48 [210].

¹⁶ *Ibid* 169 [762]–[763].

¹⁷ (1975) 133 CLR 1.

others use to infringe copyright, and who is aware, in general terms, that infringement is occurring. The question, however, must now be considered in light of significant developments since 1975.¹⁸ In addition to changes to the technological landscape, there have been a number of cases developing the law both in Australia and overseas in the intervening period. Further, the Australian legislature has provided guidance as to how the question of authorisation is to be determined through the addition of s 101(1A) of the *Copyright Act 1968* (Cth).

A second issue of statutory construction concerns the effect of s 112E of the *Copyright Act 1968* (Cth) and, specifically, whether this provision serves to confer additional protection on ISPs or whether it is a provision that merely makes express a result that the application of the s 101(1A) factors would have produced in any event.¹⁹

The final issue that arises in the case is the relevance of Part 13 of the *Telecommunications Act 1997* (Cth) which, iiNet contends, prohibits iiNet's use of certain information about iiNet's customers and their activities, thus depriving iiNet of the means that would be necessary to identify and, hence, take action against their customers for copyright infringement. This latter issue is not dealt with here.

III The Meaning of Authorisation

A Background

The *Copyright Act of 1911* (Imp) ('1911 Act') imposed liability for authorising an infringing act, and the concept of infringement through 'authorisation' is still to be found in the copyright laws of many countries in the British Commonwealth, including Canada, India, New Zealand, Singapore and the United Kingdom (UK).²⁰ However, Australia is unique amongst these countries in that the concept of authorisation did not first find its way into the law through the local adoption of the *1911 Act*. Rather, liability for authorising an infringing act was already present in the *Copyright Act 1905* (Cth).²¹

¹⁸ Ibid.

¹⁹ Another issue, not before the High Court, although it was part of the case below, is whether iiNet could rely on the statutory safe harbour in Part V Div 2AA. In the authors' view, it is unfortunate that this issue has not been appealed, since there are significant problems with the Full Court's interpretation of the scope of these provisions, a point we develop elsewhere: Kimberlee Weatherall and Robert Burrell, 'Repairing the Harbour Wall: Rethinking the *iiNet* approach to limiting remedies against carriage service providers', (forthcoming).

²⁰ See, respectively *Copyright Act* (RSC, 1985, c.C-42) (Canada) s 3(1); *Copyright Act 1957* (India) s 14; *Copyright Act 1994* (NZ) s 16(1)(i); *Copyright Act* (Ch 63) (Singapore) s 31(1) (works), s 103(1) (other subject matter); *Copyright, Designs and Patents Act 1988* (UK) s 16(2).

²¹ See ss 13 (books), 14 (performing right in dramatic and musical works), 15 (lecturing right), 34 (artistic works). See also *WEA International Inc v Hanimex*

‘Authorisation’ thus provides one example of where Australian law developed in advance of its UK counterpart and provided a template for the subsequent Imperial Act.²² It seems appropriate that the High Court will be the first apex court in the British Commonwealth to consider how authorisation applies to ISPs.²³

For many years, the meaning of authorisation was left solely to the courts. It has long been clear that a direct instruction to perform an infringing act, or the purported grant of a licence to perform an infringing act, or the express and unequivocal *ex ante* approval of an infringing act would constitute authorisation.²⁴ In contrast, the extent to which authorisation can be inferred from the facilitation of infringement has long been much more controversial.²⁵ The resolution of this question has not been assisted by the much repeated assertion that authorisation occurs whenever a defendant ‘sanctions, approves or countenances’ an infringement.²⁶ This merely substitutes one problem

Corporation Ltd (1987) 17 FCR 274, where these provisions of the 1905 Act are briefly discussed.

²² See, generally, Robert Burrell, ‘Copyright Reform in the Early 20th Century: The View from Australia’ (2006) 27 *Journal of Legal History* 239.

²³ The shared concept of infringement through authorisation thus provides one mechanism by which the High Court’s judgment may prove to be influential internationally. Having said this, the law of authorisation has begun to diverge. In Canada, for example, the *Moorhouse* standard has been comprehensively rejected by the Supreme Court of Canada in *CCH v Law Society of Upper Canada* (2004) 236 DLR (4th) 395. In the UK, the relationship between the leading domestic cases and the leading Australian cases is complex and intertwined, an issue that we touch on below.

²⁴ *Finn v Pugliese* (1918) 18 SR (NSW) 530, 541. For a recent example, see *EMI Songs Australia v Larrikin Music Publishing* (2011) 191 FCR 444, 502–6.

²⁵ Compare *Vigneux v Canadian Performing Right Society Ltd* [1945] AC 108 (PC) with *Winstone v Wurlitzer Automatic Phonograph Co of Australia Pty Ltd* [1946] VLR 338.

²⁶ The decision of the Court of Appeal in *Falcon v Famous Players* [1926] 2 KB 474 is often given as authority for this definition, although its origins can actually be traced to the decision of Tomlin J in *Evans v E Hulston & Co Ltd* (1924) 131 LT 534. As an historical aside it might also be noted that Bankes LJ was the only Member of the Court of Appeal in *Falcon v Famous Players* to adopt this definition. The judgment of Scrutton LJ (who was highly experienced in copyright matters) contains no support for this definition. The judgment of the third member of the Court, Atkin LJ, is somewhat more difficult to interpret. However, it should be noted that although his Lordship did express support for the outcome in *Evans v Hulston*, he framed the test for authorisation not in terms of ‘sanction, approve, countenance’, but rather in terms of whether the defendant granted or purported to grant the right to do the act complained of. Acceptance of the ‘sanction, approve, countenance’ test was almost certainly assisted by the fact that in *Copinger on the Law of Copyright* at this time this test was presented as if it clearly represented the approach adopted by the Court as a whole. See, eg, Walter A Copinger and Francis E Skone James, *Copinger and Skone James on the Law of Copyright* (Sweet & Maxwell, 8th ed, 1948), 135. It is also worth noting that even if one focuses purely on the judgment of Bankes LJ, in the original his Lordship phrased the test as ‘sanction, approve, and countenance’. The move from this conjunctive formulation to the disjunctive ‘sanction, approve or countenance’ is another example of the slippage that seems to have occurred over time.

of interpretation for another. Particular difficulty attaches to the term ‘countenance’, which carries with it connotations both of active encouragement and also of more passive permission or tolerance.²⁷

Moorhouse, the leading case concerning authorisation by facilitating infringing acts, establishes that in some circumstances a failure to take adequate steps to reduce the likelihood of infringement by a third party can constitute authorisation under Australian law. The case famously concerned the liability of a university for infringements committed using photocopiers supplied with minimal supervision in the university library. *Moorhouse*, however, can be read in at least two ways. A narrow reading starts with the idea that the word ‘authorise’ always carries with it the connotation that the defendant has granted *permission* for the conduct in question. On this view all that *Moorhouse* tells us is that such permission may be inferred from inaction — neither express approval nor active conduct is required. This narrow reading of *Moorhouse* is usually associated with the lead judgment of Jacobs J (with which McTiernan ACJ agreed), but is also open on the judgment of Gibbs J.²⁸ It sits more comfortably with the law as it has developed in the UK. Most recently, the application of something like the narrow reading of *Moorhouse* can be seen in *Twentieth Century Fox Film Corp v Newzbin Ltd*,²⁹ in which the operators of a website somewhat analogous to that involved in the recent Australian case of *Cooper*³⁰ were found to have authorised infringement. In so finding, Kitchin J

²⁷ *Macquarie Dictionary*: ‘encourage, support’; ‘to tolerate, permit’; *Shorter Oxford English Dictionary*: ‘Give approval to; sanction, permit’. There may be a case that the development of the law of authorisation would have been different had there not been slippage in the UK case law from the statutory language of ‘authorise’ to the judicially developed test of ‘sanction, approve, countenance’ as countenance has meanings that the word authorise would never normally bear. A good discussion of this point is to be found in the defendant’s submissions in *CBS Inc v Ames Records & Tapes Ltd* [1982] Ch 91, 109; see also *iiNet* (2011) 89 IPR 1, 172 [778]–[779] (Nicholas J).

²⁸ The judgment of Jacobs J is clearly framed in terms of ‘permission’ or ‘invitation’; in the case, the University had given a general permission or invitation to use the photocopiers. The judgment of Gibbs J, however, also frames his discussion by noting that ‘express or formal *permission or sanction*, or active conduct indicating approval, is not essential to constitute an authorisation; inactivity or indifference, exhibited by acts of commission or omission, may reach a degree from which an authorisation or *permission* may be inferred’ (*Moorhouse* (1975) 133 CLR 1, 13, internal quote marks omitted, emphasis added). In this respect Gibbs J drew on *Adelaide Corporation v Australasian Performing Right Association Ltd* (1928) 40 CLR 481, although it should be noted that this was a case dealing not with authorisation, but rather with the interpretation of the term ‘permit’ (as used in the equivalent of today’s *Copyright Act 1968* (Cth) s 39).

²⁹ *Twentieth Century Fox Film Corp v Newzbin Ltd* [2010] FSR 21 (‘*Newzbin*’).

³⁰ *Cooper v Universal Music Australia Pty Ltd* (2006) 156 FCR 380 (‘*Cooper*’). *Cooper* concerned a website that allowed users to upload links to mp3 (music) files online, most or all of which were infringing files, and then made these links available to other users on the website. *Newzbin* concerned a website that indexed content available on Usenet and (for paying premium members) provided tools to facilitate the downloading of files, including in particular large files such as movies.

found it necessary to draw the quite unconvincing conclusion that the users of the website would mistakenly believe that the defendant was purporting to possess the authority to grant a licence to its members to copy the films.³¹ In contrast, a broader reading of *Moorhouse* posits that it is enough to *permit* infringement (in the sense of letting something be done), such that mere inaction can constitute authorisation — at least when coupled with knowledge and some control over the infringing acts. This broader reading focuses on a particular passage from the judgment of Gibbs J, in which his Honour concluded that:

a person who has under his control the means by which an infringement of copyright may be committed ... and who makes it available to other persons, knowing, or having reason to suspect, that it is likely to be used for the purpose of committing an infringement, and omitting to take reasonable steps to limit its use to legitimate purposes, would authorise any infringement that resulted from its use.³²

Australian courts have been far from clear as to which of these readings they have adopted: references to the grant of permission or an invitation to infringe persist even as judges have tended to reject defendant pleas to restrict the operation of authorisation to the purported grant of authority to undertake an act.³³ In *iiNet*, the High Court has the opportunity to bring some clarity to this question.

In so doing, however, the Court will have to take a critical further factor into account: namely, the impact of a set of statutory factors for determining authorisation, embodied in ss 36(1A) and 101(1A) of the *Copyright Act 1968* (Cth) and introduced in 2001 via the *Copyright Amendment (Digital Agenda) Act 2000* (Cth). We move now to consider the impact of those factors.

B The Test of Authorisation

Sections 36(1A) and 101(1A) deal with works and other copyright subject matter, respectively. In all other respects these provisions mirror one another. Only s 101(1A) is relevant in *iiNet*, and this subsection provides:

³¹ *Newzbin* [2010] FSR 21, [90], [102].

³² *Moorhouse* (1975) 133 CLR 1, 13.

³³ *iiNet* (2011) 89 IPR 1, 9–11 [24]–[25], [29], [33] (Emmett J); 172 [779] (Nicholas J). For example, in *Cooper* on appeal, the defendant argued that for a narrow view of authorisation, requiring the grant or purported grant of permission to undertake the infringing act; this was rejected by the Full Federal Court: *Cooper* (2006) 156 FCR 380, 409 [140] (Kenny J). Even so, Kenny J continues to talk about ‘permission’: see, eg, 410 [143].

(1A) In determining, for the purposes of subsection (1), whether or not a person has authorised the doing in Australia of any act comprised in a copyright subsisting by virtue of this Part without the licence of the owner of the copyright, the matters that must be taken into account include the following:

- (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.

Although, in enacting these provisions, the legislature claimed to be codifying the existing case law, and particularly referenced *Moorhouse*,³⁴ the discussion in the previous section makes clear that this proposition is not very informative. It also carries the danger that by starting with *Moorhouse*, one may come to read extrinsic considerations into the statutory test.³⁵ It is the text of the legislation that must now form the starting point for determining what constitutes authorisation.³⁶

It is also important to note that points (a) through (c) are expressed as factors that a court must consider in determining the question of authorisation, not requirements or necessary conditions for a finding of liability. It is, therefore, possible to find authorisation even in the absence of one or other of these factors, given the presence of other, compelling facts referable to one or more of the other factors. Treating the statutory factors as ‘hurdles’— which must all be met for authorisation to be met — is likely to lead courts to lower the standards applied to each factor; a tendency which, over time, is likely to expand the bounds of authorisation liability. We would, therefore, argue that, contrary to a view that seems to be emerging,³⁷ the better interpretation

³⁴ Explanatory Memorandum, Copyright Amendment (Digital Agenda) Bill 2000 (Cth) [56].

³⁵ For example, it is arguable that the trial judge in *iiNet*, by focusing on *Moorhouse*, read into the law the concept of the ‘means of infringement’, elevating this aspect of the facts of *Moorhouse* above the statutory text. See *iiNet* (2011) 89 IPR 1, 30 [126] (referring to this approach as ‘unconventional’) (Emmett J); 88–92 [369]–[384] (Jagot J); 154–5 [693]–[698] (Nicholas J).

³⁶ This proposition scarcely requires authority, but see, eg, *Alcan (NT) Alumina Pty Ltd v Commissioner of Territory Revenue* (2009) 239 CLR 27, 47–9 (noting that ‘[f]ixing upon the general legislative purpose ... carrie[s] with it the danger that the text [does] not receive the attention it deserves’).

³⁷ *Nationwide News Pty Ltd v Copyright Agency Ltd* (1996) 65 FCR 399, 423; *Australasian Performing Right Association Ltd v Jain* (1990) 26 FCR 53, 57 (‘Jain’); *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* (2005) 65 IPR

is that it is possible to authorise infringement even in the absence of any power to prevent the particular infringement. We recognise that this appears to contradict the judgment of Gibbs J in *Moorhouse*,³⁸ but our view is strongly supported by the statutory language, which refers to a 'power to prevent (if any)'.³⁹ In addition, it is important to bear in mind that Gibbs J was only dealing with one particular type of authorisation case.⁴⁰

(a) *Power to Prevent*

Under the statute the first question that arises is the extent to which the defendant had the power 'to prevent the doing of the act concerned'. The first point to note about this language is that it would seem to suggest that the legislature has adopted the broader interpretation of *Moorhouse*. The language of 'power to prevent' infringement does not lend itself to an enquiry into the purported grant of permission to undertake an act, and there is no reference in the factors to 'permission', purported grant of a licence, or invitation. In other words, a failure to act can, in appropriate circumstances (depending on other critical facts such as knowledge and control), be sufficient to ground liability for authorising infringement. In this way the statute provides the opportunity to avoid one of the problems with the inferred permission test, namely, that it is difficult to talk meaningfully about 'permission' being inferred in a case where all concerned knew that the acts in question were unlawful⁴¹ (although, as we note above,

289, 377 ('*Sharman*'). See also Rebecca Giblin, 'The uncertainties, baby: Hidden perils of Australia's authorisation law' (2009) 20 *Australian Intellectual Property Journal* 148, 158–159.

³⁸ *Moorhouse* (1975) 133 CLR 1, 12.

³⁹ See also Jane Ginsburg and Sam Ricketson, 'Inducers and authorisers: A comparison of the US Supreme Court's *Grokster* decision and the Australian Federal Court's *KaZaa* ruling' (2006) 11 *Media and Arts Law Review* 1, 14.

⁴⁰ Reference to a 'power to prevent' infringement is inapt when considering how the 'paradigmatic' express direction case fits within the statutory factors set out in s 101(1A). Thus, for example, we would argue that in a case in which the defendant had purported to grant a licence to reproduce a work, a finding of authorisation would be justified because the second statutory factor would point overwhelmingly to a finding that the copyright had been authorised. The temptation in such cases is to find that a 'power to prevent' was present in that the defendant could have refrained from purporting to issue a licence. However, difficulties might then arise were the person who carried out the infringing act to insist that he or she would have carried out the act irrespective of the purported licence. We also believe that recognition that a power to prevent is not a precondition of a finding of authorisation also helps explain why such a finding might be appropriate in a case where the defendant has sold a product over which it has no continuing control and that does not have substantial non-infringing uses.

⁴¹ Consider the relationship between a burglar and a bystander. Even if the bystander eggs the burglar on, it would be difficult to argue that the bystander had granted the burglar permission to enter the property, so long as the burglar knew the bystander was not the householder. This is because the word permission carries with it the sense of a formal allowance or consent: *Macquarie Dictionary*. There are situations

Australian courts have not aided matters by continuing to rely on or make reference to a need for a permission or invitation to infringe).

The next question when considering the defendant's power 'to prevent the doing of the act concerned' is whether the 'act concerned' has to be the specific act(s) of infringement alleged to have been authorised, or whether it is sufficient that the defendant had the power to exercise control in a more general sense over the type of conduct that produced the infringement. The cases decided under s 101(1A) have thus far taken the latter, broader interpretation.⁴² This must be correct: it is the only interpretation consistent with any reading of *Moorhouse*. It is, therefore, no answer for a defendant to say that it had no power to prevent, say, any given individual acts of downloading — at issue is the extent of its power to reduce the level of infringing conduct by its users more generally.

The case law suggests that when assessing the extent of the defendant's power to prevent infringing acts an important distinction is to be drawn based on whether the defendant is in a position to exercise ongoing control over the conduct that produced the infringements. In cases where there is no capacity for ongoing supervision or control, it is generally much more difficult to establish authorisation. This is illustrated by *CBS Songs Ltd v Amstrad Consumer Electronics Plc*⁴³ and *Australian Tape Manufacturers v Commonwealth*.⁴⁴ These cases both involved the sale of a consumer good that could be used in a way that infringed copyright. In neither case did the alleged authoriser, the seller of the good, retain any degree of control over the activities of consumers post-sale. In *Australian Tape Manufacturers*, the joint majority judgment of Mason CJ, Brennan, Deane and Gaudron JJ emphasised that no authorisation was involved in the sale of goods with lawful uses, even if the manufacturer or vendor knows that some articles will be used for infringement, provided the vendor 'has no control over the purchaser's use of the article'.⁴⁵ In this way, the majority was able to reconcile *Moorhouse* with the subsequent decision of the House of Lords in *Amstrad*, emphasising that control was the critical distinguishing factor between the two cases.⁴⁶ Similarly, the House of Lords in *Amstrad* was itself careful to leave the *Moorhouse* standard open, emphasising that *Amstrad* was not a case in which

where everyone understands that the conduct in question is unlawful, but where no one has granted permission for the acts in question. This is true perhaps even more commonly in the internet environment than before: see, for example, the unconvincing arguments made in *Newzbin* [2010] FSR 21 as discussed above.

⁴² Eg *Sharman* (2005) 65 IPR 289, 387 [414].

⁴³ [1988] AC 1013 (*'Amstrad'*).

⁴⁴ (1993) 176 CLR 480 (*'Australian Tape Manufacturers'*).

⁴⁵ *Ibid* 498.

⁴⁶ *Ibid*.

ongoing control was at issue.⁴⁷ In contrast to *Amstrad* and *Australian Tape Manufacturers*, one might take a case such as *Australasian Performing Right Association Limited v Jain*, which concerned the playing of musical works in a public tavern. In finding that the respondent tavern owner had authorised infringing performances, the Full Federal Court emphasised that he ‘had the power to control what music was played at the tavern’.⁴⁸

The central role of control in considering the defendant’s ‘power to prevent’ infringement also makes sense as a matter of principle. The alleged authoriser’s ongoing control enables it to prevent infringing activities, *without restraining non-infringing activities*. After all, strictly speaking, *Amstrad* did have the ‘power to prevent’ infringements via its machines by ceasing to sell the machines altogether. But it had no power to prevent the infringing acts without also putting a stop to many legitimate activities. Although the significance of this point is sometimes missed, it is important in ensuring that copyright law remains within its proper bounds, and does not prevent legitimate activities or hinder technological development. A focus on the defendant’s power to prevent infringement untied to the capacity of the defendant to act to take steps to stop or reduce infringement without unduly harming legitimate activity runs the risk of stifling innovation, since many technologies have both legitimate and illegitimate uses.⁴⁹ In this respect an echo of US law is to be found in the ongoing control test: in *Sony Corporation of America v Universal City Studios Inc* the United States Supreme Court held that there could be no liability for contributory infringement of copyright for the sale of products that are ‘capable of substantial non-infringing uses’.⁵⁰ Significantly, *Sony* was cited with approval by the majority in *Australian Tape Manufacturers*.⁵¹

Courts’ concern to prevent infringement whilst not interfering with non-infringing activities is clearly evident in *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd*.⁵² In this case,

⁴⁷ This is not, however, to suggest that there are not important differences in emphasis between *Moorhouse* and *Amstrad*.

⁴⁸ *Jain* (1990) 26 FCR 53, 61. See similarly *Australasian Performing Right Association Ltd v Metro on George Pty Ltd* (2004) 61 IPR 575 (‘*Metro on George*’).

⁴⁹ To be clear, where a technology or device does not have significant legitimate uses it may well be that authorisation can be established even in the absence of ongoing control. Importantly, however, in the terms of the statute, one arrives at this result not by varying how the first factor is interpreted, but rather by saying that in such a case, even in the absence of a power to prevent, the second factor would invariably point to a finding that infringement was authorised, because the seller is clearly building their entire business model based on profiting from infringement. See also above n 40.

⁵⁰ 464 US 417, 442 (1984) (‘*Sony*’).

⁵¹ *Australian Tape Manufacturers* (1993) 176 CLR 480, 498.

⁵² (2005) 65 IPR 289.

Wilcox J exercised a great deal of care in determining the extent of the defendants' ability to control the conduct of users. In light of evidence that the defendants had significant ability to determine how its software was utilised through, for example, the imposition of keyword filtering and the flooding of search results with links to licensed versions of copyright works (referred to in the judgment as 'gold file flood filtering'). As a result of these powers, the Court held that Sharman 'was in a position...to prevent or restrict users' access to identified copyright works; in that sense, Sharman could control users' copyright infringing activities'.⁵³ Neither measure, it was emphasised by the Court, would interfere in a more than minimal way with legitimate non-infringing use of the software. The Court's concern with non-infringing activities is particularly evident in the way the final orders were framed.⁵⁴ In fact, Wilcox J identified preventing non-infringing file sharing as an unacceptable cost:

I am anxious not to make an order which the respondents are not able to obey, except at the unacceptable cost of preventing the sharing even of files which do not infringe the applicants' copyright. There needs to be an opportunity for the relevant respondents to modify the Kazaa system in a targeted way, so as to protect the applicants' copyright interests (as far as possible) but without unnecessarily intruding on others' freedom of speech and communication. The evidence about keyword filtering and gold file flood filtering, indicates how this might be done. It should be provided that the injunctive order will be satisfied if the respondents take either of these steps. The steps, in my judgment, are available to the respondents and likely significantly, though perhaps not totally, to protect the applicants' copyrights. ... There will be orders providing, in effect, that continuation of the Kazaa internet file-sharing system will not be regarded as a contravention of the general injunctive order if the system is first modified, in a manner agreed by the applicants or approved by the court, to ensure keyword filtering or gold file flood filtering. To allow this to

⁵³ *Sharman* (2005) 65 IPR 289, 387 [414].

⁵⁴ This concern to protect non-infringing uses in *Sharman* seems on its face inconsistent with Emmett J's assertion, in the *iiNet* appeal, that 'question of substantial non-infringing use arises only where ... the alleged authoriser does not have control over the alleged infringing acts': *iiNet* (2011) 89 IPR 1, 44 [191]. Emmett J however may only be referring to 'substantial non-infringing uses' as a determinative factor indicating there cannot be authorisation. As *Sharman* shows, it would be incorrect to say that non-infringing uses are *irrelevant* to authorisation analysis in a case where the respondent has some control over conduct. They are clearly relevant to any discussion of what constitutes 'reasonable steps' under s 101(1A)(c).

happen, the operation of the injunction will be stayed for 2 months.⁵⁵

In summary, as regards the first limb of the statutory test, the ‘power to prevent’ must be treated as being an enquiry that goes to whether iiNet had the ability to exercise ongoing control over how its customers behaved online. The fact that iiNet could have chosen not to be in the business of offering internet access at all is entirely irrelevant to the ‘power to prevent’ enquiry, just as it was never suggested in *Moorhouse* that the library should have avoided placing photocopiers in the library altogether.⁵⁶

A final matter on which it is necessary to comment before turning to the second part of the statutory test is how the defendant’s knowledge relates to the first factor. In our view, the defendant’s knowledge that infringements are occurring only has a limited bearing on the assessment of the defendant’s power to prevent infringing acts. Admittedly, without *some* knowledge that infringement is occurring, or is likely to occur, the defendant cannot meaningfully be said to have the power to prevent the acts in question. However, *Moorhouse* suggests that provided there is a ‘suspicion’ of infringement, the power to prevent may (depending on all the circumstances of the case) be present.⁵⁷ To use language from *Moorhouse*, it is enough that the defendant ‘had reasonable grounds to suspect that some infringements would be made’.⁵⁸ This does not, of course, mean that the defendant’s state of mind may not be relevant to the analysis in other ways (particularly the assessment of what action is ‘reasonable’, as well as other, non-statutory factors), but it is important to bear in mind that one must start with the statutory factors and that these do not give freestanding significance to the defendant’s state of mind.

(b) Relationship Between Alleged Authoriser and Infringer

The second consideration set out in s 101(1A) is the ‘nature of any relationship existing between the person and the person who did the act

⁵⁵ *Sharman* (2005) 65 IPR 289, 403–4 [520]–[522].

⁵⁶ Justice Branson’s comments in *Cooper* to the contrary ((2006) 156 FCR 380, 388–9 [36]–[41]) should, we consider, be rejected as an inaccurate reading of *Moorhouse*. We believe that Justice Branson’s approach in *Cooper* was based on the mistaken premise that without a positive finding under the first factor, no finding of authorisation could be made. Rather, as explained below, the outcome in *Cooper* is to be explained on the basis that the second factor overwhelmingly favoured a finding of authorisation. Alternatively, another explanation (albeit one only touched upon by the Court) was that Cooper did have the requisite degree of ongoing control in that he had the power to redesign the website at any time.

⁵⁷ See also *Metro on George* (2004) 61 IPR 575, 588.

⁵⁸ *Moorhouse* (1975) 133 CLR 1, 14 (Gibbs J). See also Gibbs J at 13: noting that a person who ‘knows or suspects that a particular act of infringement is likely to be done’ may authorise, as may a person who has ‘knowledge or reason to suspect that any one of a number of particular acts is likely to be done’.

concerned'. Of the three statutory factors this is the one that has the potential to cause most confusion. The origins of the problems with s 101(1A)(b) can be traced to the fact that although the *Copyright Amendment (Digital Agenda) Act 2000* (Cth) amendments purported to codify the principles established in *Moorhouse*, it is far from clear how the 'nature of the relationship' test relates to anything that was actually said in that case. The relationship in *Moorhouse* was neither close nor formal: the user of the photocopier was a former rather than a current student of the University and the library was in any event open to the public. Despite these uncertain foundations, the principles of statutory interpretation dictate that this second factor must be given some work to do, and the case law suggests two considerations that are relevant to how it is to be applied.

One of the things that stands out in previous cases involving authorisation of infringement over the internet is that the defendants in question have often stood to gain a direct financial benefit from infringing activity in particular. In *Sharman*, for example, it was noted that it was in the defendant's 'financial interest for there to be ever-increasing file-sharing, involving an ever-greater number of people'.⁵⁹ In the *Newzbin* case in the UK, the defendant relied on generating an income stream from its premium members for whom the chief benefit of membership was better access to infringing copies of films.⁶⁰ In *Cooper*, the defendant (Cooper) relied on advertising revenue and this was dependent on generating as many visits to its internet site as possible, while the defendant webhost advertised on the site and, thus, also benefited from increased visits. In all three cases, it was *infringing* conduct in particular that led to increased benefits, since in all three cases it was infringing, commercial content that was the drawcard for users. In fact, it was fair to say that the various defendants had business models built around infringement.⁶¹

Significantly, the Full Federal Court in *Cooper* was unanimous in treating the financial benefit derived by Cooper as going to the second factor of s 101(1A).⁶² In other words, where the relationship between defendant and the person performing the infringing act is such that the defendant stands to gain financially from an increase in infringement it will be easier to establish authorisation. To say much the same thing another way, the defendant will have to go to much

⁵⁹ *Sharman* (2005) 65 IPR 289, 385 [404].

⁶⁰ *Newzbin* [2010] FSR 21, [111].

⁶¹ Jane Ginsburg and Sam Ricketson, 'Separating Sony sheep from Grokster (and Kazaa) goats: Reckoning future business plans of copyright-dependent technology entrepreneurs' (2008) 19 *Australian Intellectual Property Journal* 10; Justin Hughes, 'On the Logic of Suing One's Own Customers and the Dilemma of Infringement-based Business Models' (2005) 22 *Cardozo Arts and Entertainment Law Journal* 725, 760-4.

⁶² *Cooper* (2006) 156 FCR 380 [1] (French J); [48] (Branson J); [150] (Kenny J).

greater lengths to reduce the incidence of infringing activity. The decision of the Full Federal Court in *Cooper* points to the type of relationship between the defendant and the person performing the infringing act that, in our view, should be given most weight for the purposes of the second factor in s 101(1A).

We note also that a situation in which a defendant stands to gain financial benefits from an increase in infringement should be distinguished from one in which a defendant gains from both infringing and non-infringing conduct. There will be some situations in which a party gains effectively the same financial benefit from its customers whether they infringe or not, such that whether infringement occurs is a largely irrelevant to the party. Obvious examples include *Amstrad* and *Australian Tape Manufacturers*. In both cases, the goal of the defendant was to sell their wares (double cassette decks, or blank tapes), it being a matter of complete indifference to them whether those goods were later used for infringing purposes or not. Equally, in *Adelaide Corporation*, the defendant benefited from payments received from the infringer under the rental arrangement for the town hall; those returns did not depend on whether copyright infringement occurred or not. In these kinds of cases, we would argue that the second statutory factor does not lean in favour of authorisation.⁶³

Another consideration that courts have identified as going to the second limb of the test is whether there is an ongoing contractual relationship between the parties.⁶⁴ Again, it is eminently sensible that this be taken into account, since the existence of such a relationship will help determine the degree to which the defendant has the power to prevent the infringing acts and may colour what it means to take 'reasonable steps' to avoid infringement for the purposes of the third limb of the test. The mere existence of an ongoing contractual relationship should not, however, weigh as heavily as a finding that the defendant has a financial interest that runs counter to trying to reduce infringement.

(c) Reasonable Steps

Turning to the third factor set out in s 101(1A), it can be noted that there is no 'relevant industry code of practice' at issue in *iiNet*. The sole question is, therefore, whether the *iiNet* 'took *any other reasonable steps* to prevent or avoid the doing of the act'.⁶⁵ Clearly,

⁶³ It is, therefore, largely irrelevant to say, as Emmett J does in *iiNet*, that *iiNet* 'benefitted financially from continued usage of its services': *iiNet* (2011) 89 IPR 1, 40 [174]–[175].

⁶⁴ *iiNet* (2011) 89 IPR 1 [188], [192] (Emmett J); [428]–[430] (Jagot J); 726–8 (Nicholas J); see also *Metro on George* (2004) 61 IPR 575.

⁶⁵ 'Other' here should be treated as redundant. The first two limbs of the test do not identify anything in the nature of a 'step' and nor do they rest on a finding of

this factor is closely tied to the first factor, namely whether the defendant had the power to prevent the infringing acts. Ordinarily, the 'steps' a defendant can be expected to take would involve the exercise of the defendant's power (or powers) to prevent infringement, and the key question will be whether, in all the circumstances, the exercise of those powers should be considered 'reasonable'.

When determining whether the defendant took reasonable steps to prevent or avoid infringement, weight should be given to the extent of the defendant's knowledge. Higher expectations that a defendant will take steps apply where the defendant has clear knowledge that a very significant level of infringing activity is taking place, than in a case where the defendant merely suspects that isolated acts of infringement may be occurring. Also significant is anything that suggests that steps a defendant has taken are 'cosmetic' or 'cynical'. For example, in cases such as *Sharman, Cooper* and *Newzbin* warnings against copyright infringement were rightly discounted by courts in the face of evidence that these warnings were merely intended as a fig leaf.⁶⁶ As noted above in our discussion of s 101(1A)(a), also relevant to any assessment of 'reasonable steps' would be the impact steps will have on non-infringing activities.

Finally, it should be remembered that the statutory test is open-ended, such that other considerations may also be relevant to a finding of authorisation. Importantly, this allows the court to take account of highly fact-specific considerations that cannot comfortably be accommodated within the statutory criteria. The importance of the particular facts to any given finding of authorisation (or lack of authorisation) is sometimes emphasised by courts, but all too often lost amidst the tendency to recite statements of principle abstracted from the cases from which they come.

C Application to iiNet

Having outlined our understanding of the test of authorisation generally, we can turn to consider how the statutory factors might apply to iiNet.

reasonableness. Thus, as Nicholas J noted, 'it is difficult to resist the conclusion that the use of the word 'other' in s 101(1A)(c) is a drafting error: *iiNet* (2011) 89 IPR 1, 163 [730]. See also Sydney Birchall, 'Authorisation of Copyright Infringement: Is the Word "Other" an Impostor in Section 101(1A)(c)?' (2006) 66 *Intellectual Property Forum* 34.

⁶⁶ For a non-internet case of this kind, see *Metro on George* (2004) 61 IPR 575, in which a contractual provision that purported to transfer the obligation to obtain a licence to venue hirers could have been reasonable, but became unreasonable on its own once the defendant was made aware that it was being ignored by venue hirers. See also *Newzbin* [2010] FSR 21, [101]; also *Cooper* (2006) 156 FCR 380, 390 [49], 412 [152].

As regards the first factor, there can be little doubt that iiNet did, to some extent, have powers it could have used to prevent, or at least reduce, infringement in the sense canvassed above. The evidence presented by the appellants demonstrates conclusively that iiNet had much more than the minimum requisite suspicion that infringement was occurring. It is also clear that iiNet had the ability to exert a degree of ongoing control over the way its customers behaved online — iiNet could have passed on the ‘copyright infringement notices’ sent to it by AFACT. It also could have suspended or terminated an accused user’s access,⁶⁷ although importantly, the latter step of termination would have had a significant impact on legitimate activity, as discussed further below. It is, therefore, difficult to avoid the conclusion that the first factor weighs in favour of a finding of authorisation; and indeed, the three members of the Full Federal Court were unanimous on this point.⁶⁸

In relation to the second factor, the key point is that iiNet did not build a business model that depended on high volumes of infringing use. It, therefore, did not stand to gain direct financial benefits from an increase of infringement in the sense argued for above, although the appellants did seek to establish such a case, arguing that iiNet benefited from BitTorrent users who generated more traffic on iiNet’s network.⁶⁹

⁶⁷ Other technical measures were mentioned at trial. These included ‘playpenning’ (confining users to a restricted set of websites), blocking access to particular websites, and ‘shaping’, which involves the restriction of a customer’s internet speeds. Shaping was imposed by iiNet in other circumstances (ie where a customer was nearing their quota): see *iiNet* (2011) 89 IPR 1, 164 (Nicholas J). At trial, Cowdroy J found that there was insufficient evidence as to the practicability of these measures: *iiNet (No 3)* (2010) 83 IPR 430, 530 [459]. On appeal, only Jagot J disputed these findings: *iiNet* (2011) 89 IPR 1, 100 [426]. Emmett J did not discuss other technical measures, while Nicholas J agreed with the trial judge that the evidence on other measures was insufficient: *iiNet* (2011) 89 IPR 1, 164–6, especially [740], [745].

⁶⁸ *iiNet* (2011) 89 IPR 1, 42–4 (Emmett J); 100 (Jagot J); 161–2 (Nicholas J).

⁶⁹ At trial, Cowdroy J found that there was no evidence as to what proportion of BitTorrent traffic constituted infringing materials, or what proportion constituted infringing materials owned by the applicants in particular (since other materials, such as software, video games or pornography would constitute some proportion of that traffic): *iiNet (No 3)* (2010) 83 IPR 430, 481 [241]–[244]. Further, even in relation to the particular user accounts identified for the purposes of the case, the Court found it ‘impossible to conclude that even a substantial amount of monthly quota of those subscribers was being used to infringe the applicants’ copyright’: *iiNet (No 3)* (2010) 83 IPR 430, 481 [247]. Finally, the trial judge found at 477–480 that increasing infringement was not necessarily in iiNet’s financial interests. There was ‘no sufficient nexus between profitability and the commercial interests of the respondent on the one hand and infringing activity on the other, such that it is necessarily in the respondent’s interests to have the iiNet users infringing’: *iiNet (No 3)* (2010) 83 IPR 430, 527 [452]. On appeal, this conclusion was accepted by Jagot J at 96 [406], with Nicholas J at 144 [641] noting that the finding was not challenged by the appellants: *iiNet* (2011) 89 IPR 1. Emmett J did not comment on this argument, making instead the different and, we have argued, irrelevant point (above n 63) that iiNet ‘benefitted

Absent such a relationship, the second factor does not point strongly in favour of a finding of authorisation. Nevertheless, the contractual nature of the relationship between iiNet and its users which, *inter alia*, allowed iiNet to terminate its relationship in the event of its system being used unlawfully does help suggest that it had the power to prevent infringing acts occurring and might colour the analysis of the reasonable steps factor. This fact should, also, however, be tempered by the recognition that, at least in some cases, the actual person infringing copyright would not be someone in a direct contractual relationship with iiNet.⁷⁰

Turning to the third factor, if one accepts that iiNet had the power to prevent infringement, a finding reinforced by the contractual nature of the relationship between the respondent and its customers, much will depend on the ‘reasonable steps’ that iiNet was required to take to deal with copyright infringement by its subscribers. Here there are two distinct possibilities. One possibility is that the reasonable step that iiNet was required to take was to pass on notices of infringement to subscribers. The other possibility is that iiNet was required to introduce a graduated response scheme culminating in termination of subscriber accounts.

In our view the former interpretation is to be preferred — it is unclear to us that termination could ever be a reasonable step. Our first and most important reason for adopting this view is that termination fails to protect legitimate (non-infringing) activities of the internet user or the legitimate activities of other users of the same internet account. As argued above, a key reason why ongoing supervision or control is so critical to a finding of authorisation is that it enables an alleged authoriser to take action that will prevent or reduce infringement without unduly encroaching on activities that copyright owners have no right to stop or control. Like the defendants in *Sharman*, iiNet can, in other words, be required to take action that will impact on infringement; it ought not to be required to take action that will stop all online activity. Our second reason is that such radical action would not

financially from continued usage of its services’: *iiNet* (2011) 89 IPR 1, 40 [174]–[175].

⁷⁰ The members of the Full Federal Court seem, at times, to dismiss the relevance of this point by stating that the account holders would, nevertheless, be responsible for any infringements using their account. The basis for such responsibility is, however, poorly articulated. At times, the judges seem to suggest that account holders are *direct* infringers regardless of the human being who actually performs the infringing act: this cannot be correct. At other times, the suggestion appears to be that account holders are liable for *authorising* any infringements undertaken using their account; this assertion is, however, unaccompanied by any analysis of the statutory factors to support the suggestion. We would suggest that so far as the authorisation analysis is concerned, the recognition that other human beings, other than account holders in contractual relationship with iiNet, were in some cases likely to be the infringers, should colour the analysis of what steps iiNet ought to take.

be reasonable in the absence of any independent review of the evidence or investigation, such as would be provided in judicial or administrative proceedings for infringement.⁷¹ Our third reason for adopting this view is that suggesting that passing on notices is the key reasonable step required is that this is consistent with the reasoning and outcome in *Moorhouse*.⁷²

If we are correct in treating the passing on of notices as the key reasonable step required, then given that iiNet had reason to believe that a significant level of infringing activity was taking place over its network and that certain accounts were alleged to have been used for infringement, it seems to us that passing on notices of infringement to accused customers was required for iiNet to avoid liability for authorisation (other than by operation of some defence and the impact of the *Telecommunications Act 1997* (Cth)).⁷³

The danger in taking the alternative view, namely, that iiNet was required to introduce a graduated response scheme, is that the analysis seems to go backwards. Rather than starting with the knowledge and powers that iiNet had and what it should do with those powers, based on the knowledge it had at the time of the alleged authorisation, the judges in the Full Federal Court appear to start their analysis from the proposed steps of warning and termination, to reason backwards to the level of knowledge that iiNet would need — rightly described as ‘compelling’ and ‘unequivocal’ — before it could be required take such drastic action.

In contrast to our analysis, the Full Federal Court appeared to rely on two arguments to support a finding that termination was a potentially reasonable step. The first argument was that termination was contemplated in the safe harbours under part V div 2AA of the

⁷¹ Mechanisms for independent review have been included in those countries where termination has been contemplated as a possible penalty for copyright infringement. In New Zealand, termination may not be applied without a proceeding before the District Court (*Copyright Act 1994* (NZ) s 122P). In the UK, a copyright owner who wishes to pursue matters against a user who has received three Copyright Infringement Reports must obtain their details via court order to facilitate the commencement of proceedings: *Communications Act 2003* (UK) s 124B. Even in the US MOU, above n 2, where termination is not included, a user may appeal any contemplated action (such as shaping) to an independent panel.

⁷² We note that the respondent has submitted that the idea of only sending on warning notices was not raised in correspondence prior to the commencement of proceedings. This is a question of fact that we are not in a position to explore. However, it is not clear that the possibility of notices on photocopiers was discussed prior to the commencement of proceedings in *Moorhouse*, and whilst a failure to discuss (or request) a particular step might impact on the finding of reasonableness it should not be treated as determinative of the analysis under s 101(1A).

⁷³ In this respect, it is important to note that the Full Court accepted that passing on notices could have a significant impact on levels of infringement. To the extent that the notices were deficient (an issue discussed below) subscribers would have been free to ignore or to seek to correct them.

Copyright Act 1968 (Cth), which require that the ISP have and reasonably implement a policy for the termination in appropriate circumstances of the accounts of repeat infringers. Since termination was contemplated there, it was said that the legislature must believe that termination was a reasonable response.⁷⁴ Aside from the fact that this argument reasons backward from the safe harbours to determine the scope of liability — a form of reasoning expressly prohibited by s 116A(2) — this argument ignores the qualification that termination is only required ‘in appropriate circumstances’, which could involve arbitration by an independent body such as a court.⁷⁵ The second argument was that cases like *Moorhouse* contemplate drastic action, such as the removal of photocopiers from libraries or the banning of individual users from their use, as a possible ‘reasonable step’. This is a bold reading of the cases. The judges in *Moorhouse* did not discuss such a step. Indeed, the main case to have allowed for complete termination of service used for infringing activities appears to be *Cooper*, in which the webhost was permanently enjoined from hosting the mp3sforfree.net website. This order is, however, arguably referable to the special facts of that case, in which such an order could not possibly have impacted on any legitimate activity, since there appeared to have been none occurring on the relevant website.

If we are wrong in treating the passing on of notices as the critical step, and the High Court prefers the view that reasonable steps must include some form of graduated response, two further issues present themselves. The first is whether iiNet, in failing to institute such a scheme, acted unreasonably. To our mind, this issue is dealt with comprehensively and sensibly by Justices Emmett and Nicholas in the Full Court. As their Honours explain, the notices provided by AFACT were defective, particularly in failing to explain the methodology used by DtectNet, and, hence, did not provide a sufficiently reliable basis for iiNet to act against its subscribers. It is one thing to suggest that notices of this type should be forwarded to subscribers; it is quite another to suggest that they were adequate for iiNet to start a process that might result in termination.

The second issue relates to the form any graduated response scheme should take. Irrespective of whether the High Court considers iiNet to have authorised infringement, the strong temptation will be to provide comprehensive guidance as to the steps an ISP ought to take when confronted with third party allegations of infringement by its subscribers. Such an attempt characterises the judgment below of Justice Emmett, which sets out a detailed scheme that would require ISPs to act on receiving ‘unequivocal and cogent evidence’ of

⁷⁴ *iiNet* (2011) 89 IPR 1, 43 [189] (Emmett J); 98 [415] (Jagot J).

⁷⁵ This is a point we have developed at length elsewhere in discussing the safe harbours specifically, see Weatherall and Burrell, above n 19.

infringement, provided that such evidence was accompanied by an offer by the copyright owners to cover costs. In such cases, Emmett J considered that ISPs would be required to send a warning letter to the user followed by termination should the user persist in their infringement.⁷⁶

Emmett J's judgment illustrates two problems involved in seeking to provide comprehensive guidance. One danger is that it may involve the court in considering facts not in issue in the case. For example, the requirement that copyright owners reimburse or indemnify ISPs, and the costs involved, while no doubt important issues in any graduated response scheme, do not appear to have been explored in any detail in evidence. A second concern is that establishing such a comprehensive scheme involves questions of economics and policy beyond the usual scope of a court's competence.⁷⁷ It is notable that in several respects Emmett J's scheme is more stringent than the schemes established by legislation or private agreement elsewhere in the world.⁷⁸ More generally, it is hard to argue with the critique that the scheme set out by Emmett J amounts to

⁷⁶ *iiNet* (2011) 89 IPR 1, 47–48 [210]. The remaining judges are less categorical in their expectations, but some suggestions do emerge from their judgments. Justice Nicholas would leave an ISP 'considerable latitude' in the details of any system, but does seem to make it clear that, where an ISP was 'satisfied that a subscriber's account had been used to infringe copyright' on the basis of better information than AFACT provided, then it would be a 'reasonable step' for that ISP to adopt 'some system providing for the issuing of warnings followed by termination or suspension': *iiNet* (2011) 89 IPR 1, 167 [750]–[751]. Justice Jagot contemplates a range of reasonable steps that *iiNet* might be expected to take on the basis of what her Honour viewed as sufficient information: warnings, 'shaping', suspension and termination; albeit her Honour does suggest that the details would need to be worked out by the ISP: *iiNet* (2011) 89 IPR 1, 101 [431].

⁷⁷ See further below notes 95–101 and accompanying text.

⁷⁸ For references for the overseas schemes in France, the UK, New Zealand and the US, see n 2 above. Some differences may be briefly pointed out. Justice Emmett jumps straight to suspension (potentially after a single copyright infringement notice) and termination of internet service, whereas the UK has held off imposing technical solutions pending determination whether warning letters alone sufficiently reduce infringement. The US MOU contemplates only penalties short of termination: shaping (see above n 67), education, and temporary suspension. Emmett J's solution provides no mechanism for review or challenge by the account holder; overseas schemes all involve independent review. Justice Emmett's solution also contains no recognition of the fact that an account holder might be a business, a hotel, a school etc. The US, UK and New Zealand specifically allow an effective 'defence' in cases where the account holder is not the infringer (and the account holder takes or has taken some reasonable steps to reduce infringement). Finally, unlike overseas schemes, Emmett J's solution imposes no limit on the number of copyright infringement notices that may be sent (other than, perhaps, the limits imposed by cost) and no 'grace period' for users to respond and reform their ways. It should, however, be noted that Emmett J is concerned only with actions by an individual ISP, meaning a terminated user could (in many cases, albeit not everywhere in Australia) perhaps obtain internet service from another provider; in some countries, such as France, a terminated user is entered on a blacklist for a period of time.

judicial legislation,⁷⁹ written without any input from many of the parties it purports to regulate.⁸⁰

A less radical approach would be for the High Court to give broad guidance as to whether some form of graduated response mechanism resulting in shaping or termination is required, without specifying the details of such a scheme.⁸¹ To our mind, however, even this would be to go too far. It is not difficult to imagine a whole host of policies that an ISP might adopt or considerations that could be relevant to such a policy. An ISP might:

1. pass on warnings, but refuse to take any further steps against alleged infringers;
2. give alleged infringers a number of warnings between one and infinity before taking further action;
3. adapt its response according to its assessment of the reliability of evidence received about the actions of any given user;
4. condition its response according to the alleged volume of infringing use;
5. take further action depending on receiving a contribution towards costs from the copyright owner;
6. condition further action by the response of the alleged infringer, with different views being taken as to the importance of a denial of wrongdoing by the customer; and/or
7. limit further action to shaping, or go further, applying suspension or ultimately termination.

The reasonableness of any given ‘step’ (such as termination) can only be assessed by looking at how it operates in conjunction with other features of the policy in aggregate. It is, therefore, not appropriate for the Court to indicate that decontextualised factors are or are not essential to a finding of reasonableness.⁸² This underlines the point,

⁷⁹ *iiNet*, Appellant’s written submissions in *iiNet* (2011) 89 IPR 1, 09/09/2011, [44]–[45].

⁸⁰ We acknowledge that Emmett J’s ‘scheme’ in [210] is all obiter (as no authorisation was found) and, strictly speaking, would apply only to the parties before the Court. However, it would be unrealistic to suppose that the scheme would not be influential in relation to other ISPs, and in relation to other copyright owners beyond those in the film and television industry.

⁸¹ This approach was adopted by Nicholas J at 167, [750], who clearly contemplates that warnings followed up with termination would be ‘reasonable steps’, albeit acknowledging that the ISP would have ‘considerable latitude’ to determine the details of such a scheme.

⁸² In other words, it makes no sense to say that ‘termination’ is a reasonable step unless the steps leading up to termination, defences, and issues of cost are also considered. It might also be pointless. If all that is specified is that ‘termination’ could sometimes be reasonable, it would not be hard for an ISP so minded to erect a policy effectively

frequently made in the cases, that a finding of authorisation is dependent on the particular facts of the case at hand. As it was expressed in *Jain*, ‘any attempt to prescribe beforehand ready-made tests for determining on which side of the line a particular case will fall, would seem doomed to failure’.⁸³ The questions before the High Court are, therefore, whether a graduated response scheme is required, and, if so, whether iiNet acted unreasonably in failing to have such a scheme given the information with which it was provided. The High Court can answer both of these questions without engaging in any way with the content of what a ‘reasonable graduated response scheme’ might look like.

IV Section 112E

If we are right in saying that iiNet may have authorised infringement (that is, if passing on the notices was sufficient, and iiNet acted unreasonably in failing to do so), the question arises whether any defence applies. The relevant defence (bearing in mind that the safe harbours are not at issue before the High Court) is that found in s 112E of the *Copyright Act 1968* (Cth). This provision states:

A person (including a carrier or carriage service provider) who provides facilities for making, or facilitating the making of, a communication is not taken to have authorised any infringement of copyright in an audio-visual item merely because another person uses the facilities so provided to do something the right to do which is included in the copyright.

There are two aspects of this provision worth noting. On the one hand, the provision only provides a limited degree of protection for ISPs (and other providers of facilities for communication): the language of ‘merely because’ is clearly intended to preserve the possibility that an ISP might be held to have authorised infringement because of other considerations. On the other hand, in the absence of any legislative guidance to the contrary,⁸⁴ it must be assumed that Parliament intended this provision to have some effect,⁸⁵ that is, to provide some protection

putting the requirement out of practical reach: as, indeed, iiNet appears to have done. This leads us straight back to the temptation to be more specific, and the dangers of Emmett J’s approach.

⁸³ *Jain* (1990) 26 FCR 53, 59, citing *Winstone v Wurlitzer Automatic Phonograph Co of Australia Pty Ltd* [1946] VLR 338, 345; see also *Metro on George* (2004) 61 IPR 575, 582 [17].

⁸⁴ In cases where Parliament does not intend the availability of a defence to influence how the scope of the underlying right is interpreted it says so expressly. See, for example, *Copyright Act 1968* (Cth), s 116A(2); *Copyright, Designs and Patents Act 1988* (UK), s 28(3).

⁸⁵ *Commonwealth v Baume* (1905) 2 CLR 405, 414 (Griffith J); Dennis Pearce and Robert Geddes, *Statutory Interpretation in Australia* (7th ed 2011), 49.

to ISPs that they would not otherwise enjoy. Finding an interpretation that gives s 112E some meaningful work to do is no easy task. It is one made more difficult by the open-textured nature of the statutory test contained in s 101(1A): it is always more difficult to work out what role a positive defence might play when the test for the legal wrong is itself flexible. Logically, however, for s 112E to have any effect it must have the potential to apply when the s 101(1A) factors weigh in favour of a finding of authorisation. This suggests that it cannot be enough to exclude the operation of s 112E to be able to point to evidence that an ISP had the power to prevent infringement occurring, but failed to take reasonable steps to reduce the incidence of infringement, because without such evidence no finding of authorisation would be possible. For this reason we are of the view that the starting presumption must be that iiNet is entitled to rely on s 112E.

The question then becomes whether there is anything in the language of the section to call this presumption into question. Here it must be acknowledged that the language of ‘merely because’ casts real doubt on the intended effect of this section, such that it is appropriate to look to both intrinsic and extrinsic aids to statutory construction.⁸⁶ Unfortunately, these only shed limited additional light. The Supplementary Explanatory Memorandum to the Copyright Amendment (Digital Agenda) Bill 1999 states that the new s 112E: ‘has the effect of expressly limiting the authorisation liability of persons who provide facilities for the making of, or facilitating the making of, communications’.⁸⁷ In *Cooper*, the Full Federal Court held that this indicates that s 112E was intended to have a substantive effect.⁸⁸ Alternatively, it might be countered that the language of *expressly* limiting suggests the provision was only intended to make *explicit* a limitation that would have applied in any event. In our view, therefore, the explanatory memoranda do not assist one way or the other. The objects clause of the *Copyright Amendment (Digital Agenda) Act 2000* (Cth) is similarly unhelpful: s 3(b) states that the Act aims to ‘promote certainty for communication and information technology industries that are investing in and providing online access to copyright materials’. The difficulty is that Parliament could be understood to have ‘promoted certainty’ for ISPs either by seeking to clarify the standard of authorisation or by providing them with much more robust protection. In the Court below, a limited reading of s 112E was justified by reference to the Agreed Statement to article 8 of the *1996 WIPO*

⁸⁶ *Acts Interpretation Act 1901* (Cth) s 15AB(1)(b).

⁸⁷ Supplementary Explanatory Memorandum, Copyright Amendment (Digital Agenda) Bill 1999 (Cth), [64]. See also Explanatory Memorandum, Copyright Amendment (Digital Agenda) Bill 1999 (Cth), [138] (similar wording for previous version which was confined to carriage service providers only).

⁸⁸ *Cooper* (2006) 156 FCR 380, 389 [39] (Branson J, with whom French J agreed).

Copyright Treaty,⁸⁹ which states, '[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'.⁹⁰ However, this statement is not useful in understanding s 112E, because it is aimed solely at clarifying the scope of the communication right and not at the liability of service providers more generally. In any event, it is at least arguable that the agreed statement suffers from much the same ambiguity as s 112E: iiNet can claim that it has merely provided physical facilities that others have used to infringe. Somewhat more informative is the Second Reading Speech on the Copyright Amendment (Digital Agenda) Bill 1999 (Cth), in which the Minister responsible for introducing the legislation into the House stated: '[t]he provisions in the bill limit and clarify the liability of carriers and Internet service providers in relation to both direct and authorisation liability'.⁹¹ The language of '*limit and clarify*' naturally suggests that the intention was to do more than give express effect to an immanent restriction on scope of liability. Also relevant is the fact that House of Representatives Standing Committee on Legal and Constitutional Affairs rejected the suggestion that the language of 'merely because' considerably limited the scope of s 112E.⁹² The extrinsic materials, thus, provide limited support for a reading of the section that gives it a meaningful role, but cannot be said to require such a reading.

Absent any clear guidance in the intrinsic and extrinsic aids to construction one is taken back to the presumption that the provision must be intended to achieve some substantive effect. In this context it must be remembered that in other cases, where Parliament has intended a provision to operate 'for the avoidance of doubt', an express statement to this can be found, either in the legislation itself or in the Explanatory Memorandum. If we are correct, and the 'abundance of caution' interpretation is to be rejected, the question then becomes how the language of 'merely because' is to be interpreted. In our view, the best reading that gives s 112E some role is one which recognises that the taking of 'reasonable steps' is part of the test of authorisation in s 101(1A), and that, therefore, s 112E must be designed to protect a person who has failed to take reasonable steps. From this we can gather that in order for an ISP to fall outside of the section, the plaintiff would need to establish some more active involvement in the underlying infringement, as opposed to a mere failure to take reasonable steps.

⁸⁹ *WIPO Copyright Treaty*, opened for signature 20 December 1996, 2186 UNTS 121 (entered into force 6 March 2002).

⁹⁰ *iiNet* (2011) 89 IPR 1, 50 [222] (Emmett J); 174 [791] (Nicholas J).

⁹¹ Commonwealth, *Parliamentary Debates*, House of Representatives, 2 September 1999, 9750 (Daryl Williams, Attorney-General).

⁹² House of Representatives Standing Committee on Legal and Constitutional Affairs, Parliament of Australia, *Advisory Report on the Copyright Amendment (Digital Agenda) Bill 1999* (1999) 105 [6.28].

Thus, for instance, s 112E would provide no protection to an ISP that encourages infringing use or who also supplied the copyright material that is infringed.⁹³ In contrast, an ISP that merely fails to act to prevent infringement is entitled to the protection of s 112E. For example, the ISP in *Cooper* would be excluded from the benefit of s 112E because of its provision of technical assistance and, more generally, because of the unusually close relationship that existed between the ISP and the Mr Cooper. In contrast, iiNet is entitled to the benefit of the section. In our view, such a distinction most closely adheres to the language and scheme of the Act and the relationship between ss 101(1A) and 112E, and cannot be said to create an intolerable level of uncertainty.

V Conclusions

As we have presented it, the issues in *iiNet* can be reduced to two narrow issues of legal construction. In presenting the case in this way we are not seeking to pretend that important policy issues are not at stake. On the contrary, we would insist that the broader issues at stake are so significant and so divisive that they must be left to Parliament. It is for this reason that we hope that the High Court will not be swayed by controversial and contestable arguments of policy from either side.

One example of the type of consideration that does not, in our view, merit judicial attention is the argument raised by the appellants during the application for special leave that ‘authorisation is a practical test by which you can attempt to enforce or protect ... rights with someone who it is practical to deal with’.⁹⁴ Similar arguments have been made by a number of Australian academics.⁹⁵ On this view, copyright owners should be able to co-opt ISPs to the task of reducing infringement because it would be too difficult and expensive to go after individual users. Underlying this claim is the idea that one should look at ISP liability through the lens of economic efficiency. Specifically, ‘cheapest cost avoider theory’ may suggest that ISPs ought to bear liability for the acts of their customers, provided certain conditions are satisfied. In tort law, this theory posits that liability should fall on the party that could have avoided the harm most cheaply.⁹⁶ It is used, for example, by scholars of law and economics to explain why strict

⁹³ *iiNet* (2011) 89 IPR 1 [793].

⁹⁴ *Roadshow Films Pty Ltd v iiNet Ltd* [2011] HCATrans 210.

⁹⁵ Brennan, above n 13; Lindsay, above n 13. Interestingly, both Lindsay and Brennan cite a 2006 article by Doug Lichtman and Eric Posner for the efficiency-based argument in favour of ISP liability, although in the original article, Lichtman and Posner express significant qualms about its application in the copyright context: Doug Lichtman and Eric Posner, ‘Holding Internet Service Providers Accountable’ (2006) 14 *Supreme Court Economic Review* 221, see especially 256–9.

⁹⁶ See Guido Calabresi, ‘Some Thoughts on Risk Distribution and the Law of Tort’ (1961) 70 *Yale Law Journal* 499; Guido Calabresi and Jon T Hirschoff, ‘Towards a Test for Strict Liability in Torts’ (1972) 81 *Yale Law Journal* 1055.

liability often attaches to manufacturers of defective goods.⁹⁷ There can be no question that cheapest cost avoider theory provides one potentially instructive way of viewing the question of ISP liability. There are, however, some ready counterpoints. First, even under the conventional economic model it may not be desirable to impose liability on a cheapest cost avoider where to do so would cause substantial interference with legitimate activity.⁹⁸ Second, in addition to arguments about the efficiency of imposing liability on cheapest cost avoiders, economics has also provided us with the ‘theory of the second best’.⁹⁹ This teaches us that once an imperfection is present in a market, an apparently efficient intervention may in fact make matters worse — it may be more efficient to allow two imperfections to counteract one another.¹⁰⁰ Consequently, if one were to adopt the view (held passionately by many) that modern copyright law is highly inefficient because it provides much too high a level of protection, then high enforcement costs or less-than-perfect enforcement outcomes in copyright might in fact be welcome.¹⁰¹ Perfect (or more perfect) enforcement might actually increase the overall inefficiency of copyright and increase its deleterious impacts on socially valuable activities. It is, therefore, incomplete and misleading to assess the costs and benefits of different mechanisms of enforcement in isolation. The superficial appeal of arguments based on efficiency or ‘practical enforcement’ are therefore, in this context, a distraction from the fundamentally legal questions in issue.

Whatever the High Court decides, impassioned arguments over ISP liability, graduated response and the role of copyright in the online environment will continue. There is a good chance that whatever conclusion the Court reaches, there will be some demand for legislative intervention. That will put the issue back squarely where it belongs: in the hands of Parliament.

⁹⁷ Calabresi and Hirschhoff, above n 96.

⁹⁸ Lichtman and Posner give the example that if a telephone company were liable for ‘crank calls’, on the basis that by monitoring calling patterns the company could deter such activity, that monitoring would interfere with substantial legitimate telephone activity: above n 95.

⁹⁹ Richard G Lipsey and Kelvin Lancaster, ‘The General Theory of Second Best’ (1956–1957) 24(1) *The Review of Economic Studies* 11–32.

¹⁰⁰ Thus, there is no economic justification for piecemeal policies establishing ‘perfect’ or ideal conditions, when the overall fully efficient allocation is not attainable: Richard G Lipsey, ‘Reflections on the general theory of second best at its golden jubilee’ (2007) 14 *International Tax and Public Finance* 349, 351. If some optimum conditions cannot be fulfilled, there is no presumption that fulfilling others will improve efficiency or welfare.

¹⁰¹ Arguments of this kind are often dismissed as irrelevant by those who argue for ‘more efficient’ indirect liability in copyright: see, for example, Brennan, above n 13 who describes such issues as ‘red herrings to the legal questions’. We tend to agree, but one cannot have it both ways — if considerations of economic efficiency are relevant, then a full range of such considerations needs to be taken into account; alternatively judicial reasoning should eschew such considerations altogether.