

Opinion

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Jeremy Malcolm
provides an "Opinion"
on the legal
implications of *Telstra v*
APRA for internet
service providers.²

The High Court's decision in *Telstra Corporation Limited v Australasian Performing Right Association Limited*³ has become a celebrated, although not a universally lauded landmark in Australian intellectual property law. It was essentially a test case contrived by the parties to determine the legal consequences of the transmission of telephone hold music in which the defendant (APRA) owned the copyright, over the plaintiff's telecommunications network. On 14 August 1997 the High Court found that Telstra had caused copyright music to be transmitted to subscribers to a diffusion service in breach of the *Copyright Act 1968*. But it is the indirect implications of the decision for Internet Service Providers that have perhaps caused most concern in industry circles. This article briefly investigates some of those concerns, suggests some possible solutions and outlines one proposal for a legislative response.

The Facts

Telephone hold music can be transmitted over telephone networks in a number of circumstances, each of which carries different legal implications. These circumstances include the transmission by Telstra of music on hold played by third parties (eg. through a PABX connected to a music source), the transmission of Telstra's own music on hold when calls were made to its service centres, and the transmission of music on hold to subscribers to Telstra's CustomNet service (whereby a hold facility and music are provided by Telstra to a subscriber for callers to the subscriber's number).

Similarly, there are different types of hold music that can be transmitted over telephone networks in each of the above circumstances. These include pre-recorded music from a CD player or DAT, and music from a radio set. In the latter case the broadcaster has already paid a licence fee for use of the music to the copyright owner.

Finally, the persons to whom the music is transmitted may be the user of an ordinary telephone (whereby the music is transmitted over wires) or the user of a mobile telephone (whereby the transmission is wireless). This also has legal ramifications.

The Law

By section 31(1)(a) of the *Copyright Act 1968* (the Act) the rights protected in musical works relevantly include the exclusive rights to perform the work in public, to broadcast the work and to cause the work to be transmitted to subscribers to

a diffusion service (which may conveniently be referred to as the "performance right", the "broadcast right" and the "diffusion right" respectively). The diffusion right is the most relevant for present purposes. The term "diffusion service" is defined in section 26 of the Act. As this section is critical to the outcome of the decision, the relevant subsections are set out at some length below.

26 (1) A reference in this Act to the transmission of a work or other subject-matter to subscribers to a diffusion service shall be read as a reference to the transmission of the work or other subject-matter in the course of a service of distributing broadcast or other matter (whether provided by the person operating the service or by other persons) over wires, or over other paths provided by a material substance, to the premises of subscribers to the service.

(2) For the purposes of this Act, where a work or other subject-matter is so transmitted:

(a) the person operating the service shall be deemed to be the person causing the work or other subject-matter to be so transmitted; and

(b) no person other than the person operating the service shall be deemed to be causing the work or other subject-matter to be so transmitted, whether or not he provides any facilities for the transmission.

(3) ...

(4) A reference in this section to the person operating a service of distributing broadcast or other matter shall be read as a reference to the person who, in the agreements with subscribers to the

service, undertakes to provide them with the service, whether he is the person who transmits the broadcast or other matter or not.

(5) Where a service of distributing matter over wires or over other paths provided by a material substance is only incidental to, or part of, a service of transmitting telegraphic or telephonic communications, a subscriber to the last-mentioned service shall be taken, for the purposes of this section, to be a subscriber to the first-mentioned service.

Submissions

APRA's case against Telstra pleaded breaches of each of the above rights contained in its copyright under s.31 of the Act. After the decision of Gummow J at first instance the allegation that Telstra had breached the performance right by the transmission of music over its telecommunications network was effectively not pursued. As for the remaining rights, the alleged breach of the broadcast right related to the transmission of hold music over mobile telephones, and the alleged breach of the diffusion right related to its transmission over wires to ordinary telephones. The balance of this article will limit its focus to the diffusion right, as this is the right applicable to the transmission of data by Internet Service Providers to their customers.

APRA's argument that Telstra had breached the diffusion right was put on the basis that Telstra provided a service of distributing music on hold, as part of its service of distributing telephone communications over wires. In APRA's submission, s.26(5) of the Act had the effect that a subscriber to the service of distributing telephone communications is deemed to be a subscriber to this service of distributing music on hold. Consequently when hold music is transmitted over the telephone network Telstra is liable as the person operating the diffusion service (who is deemed to cause the music to be transmitted) for any breach of copyright committed.

Telstra responded that the distribution of hold music over its telecommunications network was not a diffusion service distinct from the telephone service itself; after all, nobody subscribes to the telephone service to receive music on hold. In support of this submission Telstra referred to that part of s.26(5) of the Act which examines whether the diffusion service is only incidental to a telephone service. This indicates the legislature's intention that the diffusion service cannot itself be the telephone service; therefore, there was no

legally relevant diffusion service over which the hold music was transmitted.

Judgments

At first instance⁴ Gummow J accepted Telstra's submissions. He agreed that playing music on hold over the telephone network was not a service of distributing music over wires, principally as those who hear such music do not ask for or desire to do so. In any event, there is no "agreement or undertaking" to provide this service to those who hear it, which is a requirement of s.26(4). Whilst the deeming provision in sub-s.(5) deems a subscriber to the telephone service to be a subscriber to the service of distributing other matter via that service, the subsection does not deem it that there is an agreement between the operator of the diffusion service and the subscriber as sub-s.(4) requires.

On appeal⁵ the majority of the Full Court of the Federal Court overturned the decision of Gummow J. Black CJ held that music on hold is a service that is incidental to the telephone service and thus falls within the deeming provision in s.26(5). Similarly Burchett J held that subscribers making calls to numbers provided with music on hold are to be taken to be subscribers to the service of distributing matter over wires, by reason of the deeming provision. However Sheppard J would have dismissed the appeal against the trial judge's finding on the diffusion right, because in his view s.26(5) did not have the effect that simply by subscribing to the telecommunications service, telephone users were deemed to have become subscribers to a diffusion service also.

The High Court dismissed Telstra's appeal. Dawson and Gaudron JJ held that a diffusion service may exist even if it is unwanted by those whom it is intended to serve, and that the service of hold music was relevantly incidental to the telephone service. Consequently under s 26(5), a subscriber to the telephone service is deemed to be a subscriber to the diffusion service. Kirby J who also reached this conclusion explained that s 26(5) removes the need for an agreement by Telstra to provide the music on hold. It is enough that music on hold should be "incidental to, or part of" the telecommunications service provided by Telstra.

Toohy J dissented. In his view s.26(5) contemplates two services which are related but are nevertheless distinct. This is not the case with hold music played over the telephone to callers. The service of receiving telephonic communication and the service of hearing hold music are the same thing from the caller's perspective. On this basis, hold music is not

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“incidental” to the telephone service for the purposes of sub-s.(5).

McHugh J also dissented. He agreed with the judge at first instance in holding that s.26(5) merely deems the subscriber to the telephonic service to be a subscriber to the diffusion service also, and that it does not deem the provider of the telephonic service to be the person who *agrees* to provide the subscriber with the diffusion service for the purposes of s.26(4).

Application to ISPs

The decision is a sobering one for telecommunications providers as it could be said to impose a kind of “strict liability” for the transmission of copyright music over the network, regardless of whether the telecommunication provider agreed with the listener (or with anyone else) to transmit the hold music, whether it played the music recording itself, whether it had any knowledge of the music being transmitted, or even whether it could have prevented the music from being transmitted.

It is little wonder that Internet Service Providers (ISPs) have seen in the *APRA v Telstra* case a very real challenge for their own industry. Indeed, Kirby J specifically acknowledged in his judgment that the court’s decision would have implications for ISPs, but he left it to the legislature to address these implications. It requires very meagre analysis to see that if telephone hold music is a diffusion service for the purposes of s.26(1), Internet access – whether or not supplied over the telephone network – is all the more so, and none of the tortuous reasoning involved in the interpretation of the deeming provision in s.26(5) is required to reach this conclusion.

At its simplest, the application of the decision in *Telstra v APRA* to ISPs arises from the fact that the provision of Internet services using the telecommunications network is “the transmission of broadcast or matter over wires”; ie. a diffusion service for the purposes of s.26. The ISP is taken to be the person who causes works to be transmitted to subscribers for the purposes of s.31(1)(v), because by reason of s.26(2)(a) the person operating the diffusion service is deemed to cause the work to be transmitted over it.

The implications of the decision for ISPs have needless to say not gone unnoticed by APRA. On 4 June 1996 APRA sent letters of demand to several small Australian ISPs claiming a licence fee of \$1 per customer per year for the infringement

of copyright in its musical works on-line. APRA’s Web site describes the imposition as a “proposed licence”; implicitly acknowledging that no ISPs are actually paying the fee at present. Following APRA’s limited mailout, negotiations were undertaken with the Internet Industry Association of Australia for the payment of the proposed licence fee by its members, but these failed to bear fruit. In February 1997 infringement proceedings were commenced by APRA against Australia’s largest ISP, Ozemail Limited, on a similar basis as to that of the claim against Telstra. At the time of writing, the case has not yet been heard.

Anomalies

Extending the application of the existing *Copyright Act* to new media or technologies has the potential to create unforeseen anomalies, and transmission of material over the Internet illustrates this phenomenon well. The most important anomaly is the potential for “double-dipping” by copyright owners. It is in the nature of Internet service provision that data may pass through the equipment of numerous providers on its path from its point of origin to its destination. Applying the reasoning in the *Telstra v APRA* decision, each Australian Internet Network Provider (INP)⁶ or ISP in the chain which transmits material to another Australian INP or ISP will be liable for the same infringement of copyright as the ISP who supplies the end-user.⁷

For example where Internet access is provided from Telstra to Highway 1 to Mr A User, not only will Highway 1 be transmitting material to Mr User in the course of a diffusion service from it to him, but Telstra will also be transmitting exactly the same material to Highway 1 in the course of a diffusion service from Telstra to Highway 1. Both transmissions are actionable at the suit of a copyright owner. This is an obvious case of “double-dipping”, yet it is unavoidable when the reasoning in the *Telstra v APRA* case is applied. No mechanism is provided in the decision to restrict the copyright owner to recovery against the final ISP in the chain.⁸

A lesser anomaly is that by reason of s.199(4) of the Act, no infringement is committed by a person who retransmits an authorised television broadcast or sound broadcast over the Internet, as by that section a person retransmitting such material over a diffusion service is deemed to be the holder of a licence to do so from the copyright owner. Since the retransmission of an authorised broadcast over the Internet could potentially broaden its audience by

millions, copyright owners could well regard this as a more severe trespass against their rights than infringements caused by casual Web surfing.

The final anomaly to be noted here is equivalent to that seen in the *Telstra v APRA* case itself in the fact that mobile telephone calls and ordinary telephones were treated differently, although it would be difficult to argue from basic principles for any rational distinction between the rights infringed in each instance.

A similar anomaly arises when Internet access is considered, as Internet provision can be supplied by wires or cables (as is most common), or via satellite or over ground-based microwave link. Whilst in its infancy, affordable satellite Internet access is already being offered by several Internet providers,⁹ and microwave links are commonly used by INPs for ISPs and larger corporate clients. Transmission over the Internet of copyright material using these technologies would infringe the broadcast right rather than the diffusion right, for equivalent reasons to those reached in the *Telstra v APRA* decision in respect of hold music played over mobile telephones (which have not been explained in this article). Although the practical outcome does not differ in this instance, the fact that different legal responses can arise from equivalent factual circumstances is an indication of fundamental deficiencies in the existing legislative scheme.

Solutions

There is no simple way for Internet Service Providers to prevent their users from accessing copyright material over their networks, however they are nevertheless not defenceless against infringement claims. Principally, much of the material available on the Internet may be subject to an implied licence to copy.¹⁰ Subject to any terms expressly imposed upon the use of such material, the extent of the implied licence is likely limited to purposes of browsing only. Although there may be a grey area in respect of the use of proxy servers in which ISPs cache material from the Internet for future use, ISPs' exercise of the diffusion right would most commonly be expected to occur in circumstances where the material is covered by the implied licence to copy. This of course does not protect, but does limit the liability of ISPs for infringing the diffusion right on as wide a scale as would otherwise be the case.

To the extent that ISPs cannot rely on implied licences, they may be able to protect themselves from liability by obtaining an express licence from

a copyright collection agency such as APRA for the use of material owned by that agency. The obvious shortcoming of this avenue is that copyright collection agencies only control a very limited subset of material on the Internet (principally music and stock photographs¹¹). As for other material such as text and computer software, there are far too many copyright owners for ISPs to obtain blanket licences from each of them.

Finally ISPs can obtain an indemnity from their own customers for liability caused to the ISP from content made available on the Internet by the customer (eg. pirated software available from the customer's Web site), or for liability caused to the ISP from the material elsewhere on the Internet that the customer may access (eg. by downloading pirated music from a Polish Web site). ISPs may be hesitant to impose such a requirement upon their customers, and customers still more hesitant to agree to it. It may also be difficult (and may raise privacy concerns) to track exactly which user of an ISP has accessed a copyright resource from elsewhere, although this is more tenable for INPs tracking the usage of ISPs. In any case, subject to the above caveats, this solution has the potential to be the most effective protection for ISPs from liability under the principles established in the *Telstra v APRA* decision.

Law Reform

In June 1997 the Attorney-General's Department and the Department of Communications and the Arts released a discussion paper entitled *Copyright Reform and the Digital Agenda*¹² which addresses many of the issues arising out of the *Telstra v APRA* decision (which had not been handed down by the High Court at the time the paper was released). The draft recommendations of the paper are designed to address the terms of the World Intellectual Property Organisation (WIPO) Copyright Treaty and Performances and Phonograms Treaty of December 1996, to which it is proposed that Australia should become a signatory.

The most important proposal is to amend the *Copyright Act* to include a technology-neutral transmission right, which would apply to literary, artistic and musical works and replace the separate diffusion and wireless broadcasting rights in the present legislation. In contrast to the rights presently contained in the *Copyright Act*, it is proposed that the maker of a transmission will be the person responsible for its content, which would exclude from liability for infringing the transmission right ISPs and INPs who only provide the infrastructure

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for the network over which copyright material is transmitted.

Also important is the proposal to amend the *Copyright Act* to include a new distinct right of "making available to the public". This right would cover certain uses of copyright material in interactive on-line services such as the World Wide Web. The right of making available to the public would be exercised when copyright material was made available for the public to access at a time and a place chosen by them. This is an additional right for copyright owners that has no close equivalent under the current law.

On the other side of the coin, it is not proposed that "browsing" copyright material that has been made available on the Internet would attract liability for either end-users or ISPs, as in such circumstances the material has already been made available to the public, and it is this which is the relevant act of infringement. Accordingly an exception to liability under the reproduction right in s.31(1)(a)(i) would exist for temporary and incidental copies made in the course of transmitting and browsing of material that has been made available to the public. However if a person browsing the Internet makes a permanent copy of any copyright material encountered, that use, unless otherwise exempted, would amount to a separate act which would require the permission of the copyright owner.

Authorisation

One danger that remains for ISPs under the scheme proposed by this discussion paper is that they may be found liable for authorisation of copyright infringement under existing common law principles. The leading case on authorisation of copyright infringement is *University of New South Wales v Moorhouse*,¹³ in which the High Court held that the University of New South Wales had authorised one of its graduates to make an infringing copy from a book of short stories by making photocopiers available in the university library. Although a notice warning users about copyright infringement was affixed to the photocopiers, the terms of the notice were not judged sufficient by the High Court.

A consequent amendment to the *Copyright Act* in section s.39A allows those who make photocopiers available for public use to protect themselves from liability by displaying the notice contained in Schedule 3 of the Regulations. The authors of *Copyright Reform and the Digital*

Agenda considered, but stopped short of recommending that a similar exemption be made available for ISPs, who could avail themselves of it by bringing an appropriate standard-form notice to the attention of their users before granting access to their system.

Without such an exemption, given that ISPs must be taken to know of the likelihood of acts of copyright infringement occurring over their networks, it will be necessary for them to take reasonable measures to prevent such infringements in order to prevent liability for authorising these. A warning notice based on the notice in Schedule 3 of the Copyright Regulations will go part of the way towards fulfilling this requirement, but ISPs may also be required to take further steps such as monitoring the content of their users' Web pages, and even perusing server logs to find traces of infringing material having been downloaded.

Conclusion

The *Telstra v APRA* decision has placed ISPs and telecommunications providers in the invidious position of bearing strict liability for all manner of copyright violations that may occur, unbeknownst to them, over their networks. Without demeaning copyright holders' legitimate interests in any way, in the writer's view the extent of liability which ISPs have been required to assume is intolerable and calls out for legislative amelioration as a matter of high priority.

The Federal Government has responded in part to the issues raised by the decision in the discussion paper on *Copyright Reform and the Digital Agenda* prepared by the Attorney-General's Department and the Department of Communications and the Arts. It is to be hoped that the discussion paper's draft recommendations will be implemented in a timely manner. Until this occurs, ISPs will be best advised to procure broad indemnities from their customers to deflect liability to those parties who are best capable of avoiding infringements being committed.

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2. This article is loosely based on the author's paper of the same title presented at a joint seminar by IPSANZ and the W.A. Society for Computers and the Law on 21 October 1997.

3. (1997) 2 MALR 148; (1997) AIPC 191-344; http://www.austlii.edu.au/au/doi2/disp.pl/au/cases/cth/high_ct/unrep338.html. In keeping with the topic of this paper, each of the references in this article will be cited in URL (Universal Resource Locator) format.

4. (1993) 46 FCR 131; (1993) 118 ALR 684;
http://www.austlii.edu.au/au/other/au-other/au-other/au-other/do2/disp.pl/au/cases/cth/federal_ct/unre/p6494.html.
5. (1995) 131 ALR 141;
http://www.austlii.edu.au/au/other/au-other/au-other/au-other/do2/disp.pl/au/cases/cth/federal_ct/unre/p7731.html.
6. Essentially an ISP to ISPs, such as Telstra and Connect.com.au Pty Ltd (although these are also ISPs in their own right).
7. Indeed, the end-user would not even have to be Australian for intermediate Australian INPs and ISPs to suffer liability for the material he or she causes to be transmitted across their networks.
8. However note that by reason of s.26(2) an ISP is only liable in respect of the diffusion service between it and the next ISP or user in the chain, it is not liable in respect of any other diffusion service that is provided further down the chain.
9. See eg. <http://www.webdish.com>.
10. See Jannuska, J. "The Great Canadian 'Cache' Grab: Rethinking Browsing as Copyright Infringement", <http://catalaw.com/logic/docs/jj-browse.html>, 1997.
11. See eg. <http://www.mPCA.com>.
12. <http://law.gov.au/publications/digital.htm>;
<http://www.dca.gov.au/pubs/digital.html>.
13. (1975) 133 CLR 1;
http://www.austlii.edu.au/au/other/au-other/au-other/au-other/do2/disp.pl/au/cases/cth/high_ct/133clr1.html.