

MED'S POSITION PAPER ON DIGITAL TECHNOLOGY AND THE COPYRIGHT ACT: LEGISLATION WITHOUT A SOLUTION?

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Courts in various jurisdictions have had to deal with the question of whether Internet Service Providers (ISPs) can be held liable for infringing acts committed by their subscribers. It is perhaps the most controversial legal issue emerging in the digital environment. Although New Zealand courts have yet to deal with the issue of ISP liability for copyright infringement, the Ministry of Economic Development (MED) has suggested a statutory solution for this apparent problem, which was put down in the 2002 Digital Technology and the Copyright Act 1994 Position Paper. In the Position Paper, MED proposes to exempt ISPs from liability for primary and secondary infringement under certain requirements. The suggested amendment to the Copyright Act 1994 raises several issues and questions, which will be addressed in this paper. The author argues that a total liability exemption fails to take all relevant policy factors into account and favours ISPs unilaterally. The paper suggests that ISPs do not need an exemption clause, because New Zealand's copyright law, although full of uncertainties, appears to be relatively narrow compared to other jurisdictions. The proposed reform causes more problems than it addresses. The constructive knowledge standard, which ISPs have to meet in order to fall under the liability exemption clauses, is difficult to determine and amplifies the existing uncertainties. The author suggests that instead of curing the symptoms, the legislator should get at the root of the problems, which is the cluttered secondary infringement provisions and the nebulous concept of authorisation, which is the true reason for the legal uncertainty copyright owners and ISPs are currently facing.

I INTRODUCTION

The Internet, which has been described as "one gigantic copying machine",¹ poses a major threat to copyright. Because copyright owners, in particular the movie and music industries, have a hard

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¹ Louise Longdin "Copyright and On-line Service Providers" [2000] NZLJ 180.

time tracking down the individual infringers, they have sought alternative ways to compensate for their losses. Internet Service Providers (ISPs) have moved into the focus of overseas copyright infringement litigation.² This is perhaps the "most controversial legal issue emerging in the digital environment."³ Obviously, copyright owners and ISPs view this problem "from diametric positions".⁴

Although New Zealand courts have yet to deal with the issue of ISP liability for copyright infringement, the Ministry of Economic Development (MED) has suggested a statutory solution for this apparent problem. MED's view was put down in the 2001 *Digital Technology and the Copyright Act 1994 Discussion Paper* (Discussion Paper),⁵ on which MED received several submissions by concerned interest groups.⁶ The results of this public consultation process were analysed and reviewed by MED, culminating in the release of the 2002 *Digital Technology and the Copyright Act 1994 Position Paper* (Position Paper).⁷

In the Position Paper, MED proposes to exempt ISPs from liability for primary and secondary infringement under certain requirements. The proposed provisions are tailored after the example of the European Union's Electronic Commerce directive,⁸ which provides exemptions for ISPs providing a "mere conduit" to the Internet, transient caching and hosting.⁹ This also reflects the position under the World Intellectual Property Organisation's (WIPO) Internet Treaties.¹⁰ The United States provides similar "safe harbours" limiting ISP liability for copyright infringement in the Digital Millennium Copyright Act (DMCA).¹¹

2 In the United States, the music industry enjoyed recent success in forcing ISPs to reveal the identity of their subscribers. See *RIAA v Verizon Internet Services Inc* (2003) 351 F 3d 1229 (DC Circ).

3 Luca Timmeri and Michele Zamboni "Liability of Service Providers" (2003) 9 CTLR 49.

4 Mary Ann Shulman "Internet Copyright Infringement Liability: Is an Online Access Provider more like a Landlord or a Dance Hall Operator?" (1997) 27 GGULR 555, 599.

5 Ministry of Economic Development *Digital Technology and the Copyright Act 1994 Discussion Paper* (Ministry of Economic Development, Wellington, 2001).

6 A summary of the submissions can be viewed on the Ministry's website: <<http://www.med.govt.nz>> (last accessed 7 March 2005).

7 Ministry of Economic Development *Digital Technology and the Copyright Act 1994 Position Paper* (Ministry of Economic Development, Wellington, 2002).

8 Council Directive (EC) 2000/31 Electronic Commerce [2000] OJ L178/1.

9 The Directive was transformed into the national law of the United Kingdom by the Electronic Commerce (EC Directive) Regulations 2002 (UK).

10 The WIPO Copyright Treaty and the WIPO Performers and Phonograms Treaty are collectively referred to as the "Internet Treaties": <<http://www.wipo.org>> (last accessed 18 April 2005).

11 Digital Millennium Copyright Act 17 USC § 512.

The suggested amendment of the Copyright Act 1994 raises several issues and questions, which will be addressed in this paper.

Most prominently, is there actual need for the proposed liability exemption, or will it be needed in the near future? Do the underlying policies give adequate justification for the suggested amendment?

Even if the general proposition can be found to be appropriate, are the proposed statutory changes sufficient to serve the purposes identified by MED, which are to foster both private and business use of the Internet, and to ensure protection of copyright in the digital age and provide for a balance between the opposing interests?

The current proposal does not include recommendations for a formalised notice-and-takedown procedure for alleged copyright infringements. This may expose ISPs to another type of liability, namely liability to their subscribers for unwarranted blocking of material. Because ISPs usually owe a duty to host and transmit information to their subscribers under Internet services contracts, blocking such content after receipt of an infringement notice might render them liable if the blocked content turns out to be non-infringing. Thus, in a copyright conflict ISPs sit in a highly uncomfortable position between the copyright owner and the alleged infringer, which has to be taken into account when addressing the issue. Their attempts to safeguard themselves against copyright infringement liability, for instance by excluding it in the service contracts, will necessarily be at the expense of subscribers.

This paper argues that a liability exemption for ISPs does not strike a proper balance between the policies and interests that should be considered. Its justification is therefore questionable. ISP liability has not been an issue in New Zealand courts so far. Neither does there appear to be a need for an ISP exemption, because of the comparatively narrow infringement provisions, nor should ISPs be overly afraid of potential liability. Therefore, New Zealand could well do without this law reform. This aside, the suggested proposal causes more problems than it solves. The most crucial point in the whole discussion is the secondary liability issue, which is mainly governed by the relevant secondary infringement provisions and the concept of authorisation. What is already an uncertainty here, namely the relevant knowledge standard, will be extended by the proposal, which also fails to address the question of how ISPs should react to infringement notices. A formalised notice-and-takedown procedure could provide for better copyright protection and reliable standards of care on the part of the ISPs. Under the current law as well as under the proposal, ISPs are left compromised, because they are in the unfavourable position of deciding whether the hosted material is infringing or not. Apart from possible ways to abuse this system, ISPs risk being held liable either by the copyright owner or by their subscriber if they make a wrong call. The legislation fails to address this issue at all.

Instead of curing the symptoms, the legislator should get at the root of the problems, which is the cluttered secondary infringement provisions and the nebulous concept of authorisation, which is the true reason for the legal uncertainty copyright owners and ISPs are currently facing.

II TYPES OF LIABILITY ISPS COULD FACE

In order to determine whether a change in the law is necessary, it is essential to establish what the situation under the current law is. Generally, ISPs could possibly face primary or secondary liability for copyright infringement under the present law. Although there are a variety of potential causes of action, a risk analysis will reveal that liability will not be an issue in many cases.

A Primary Liability

Copyright infringement occurs if a person engages in an act restricted under the Copyright Act 1994 without having a license.¹² The acts restricted by the Copyright Act 1994 are listed in section 16, namely copying, issuing copies to the public, performing, playing or showing the work, broadcasting or including the work in a cable programme, or adapting the work. Among possible types of primary infringement in relation to ISPs, copying, broadcasting and inclusion in a cable programme service, and joint tortfeasance are the most prominent and likely ones.

1 Copying

Primary liability for copying may arise when ISPs store copyrighted material by any means.¹³ Thus, caching and other forms of temporary storage may infringe upon copyright.¹⁴

There have been cases, in particular in the United States of America, in which ISPs were held liable based on the fact that copyrighted material was stored on their systems. In *Playboy Enterprises Inc v Frena*,¹⁵ as well as in *Playboy Enterprises Inc v Hardenburgh Inc*,¹⁶ liability arose not only from the fact that the bulletin board operators provided the necessary technical means for infringement, but also from their encouragement of the subscribers' infringing conduct.¹⁷ Consequently, in *Religious Technology Center v Netcom On-Line Communication Services Inc*,¹⁸

12 Copyright Act 1994, s 29(1).

13 Copyright Act 1994, s 2.

14 Longdin, above n 1, 181.

15 *Playboy Enterprises Inc v Frena* (1993) 839 F Supp 1552 (MD Fla).

16 *Playboy Enterprises Inc v Hardenburgh Inc* (1997) 982 F Supp 503 (ND Ohio).

17 In a similar case the Court came to the same conclusion. See *Sega Enterprises Ltd v MAPHIA* (1994) 857 F Supp 679 (ND Cal).

18 *Religious Technology Center v Netcom On-Line Communication Services Inc* (1995) 907 F Supp 1361 (ND Cal).

the Court ruled in favour of the ISP in the absence of such endorsement or a volitional element on the part of the provider.

2 *Broadcasting and inclusion in a cable programme service*

The New Zealand Copyright Act 1994 offers a somewhat arbitrary distinction between the broadcast of a copyrighted work and its inclusion in a cable programme service. Both are restricted acts under New Zealand copyright law. Although similar in nature, the risk of primary liability for infringement differs significantly. MED has recognised the need to replace the illogical distinction between cable programme services and broadcasting by a technology-neutral definition. The right of communication to the public would then encompass any kind of transmission (by any means or combination of communication technologies, or via interactive, on-demand services). This would also be one of the key changes to make the Copyright Act 1994 compliant with the WIPO Internet Treaties.¹⁹

3 *Joint tortfeasance*

Joint tortfeasance is a common law doctrine similar to the United States theory of contributory infringement.²⁰ According to Scrutton LJ, persons are considered joint tortfeasors when "their respective shares in the commission of the tort are done in furtherance of a common design".²¹ Because copyright infringement is often treated as a tort, the doctrine is also applicable in copyright law.²² This requirement is higher than under the comparable contributory infringement doctrine. Under United States law, contributory liability can be established if the defendant "induces, causes or materially contributes" to the infringing conduct of another "with knowledge of the infringing activity".²³ In the Internet context, the doctrine was applied to Napster, a provider of a peer-to-peer network, which enabled its users to share copyrighted music files.²⁴ However, under New Zealand law, the threshold is much higher and demands that both tortfeasors are engaged in a concerted

19 Ministry of Economic Development "Digital Technology and the Copyright Act 1994: Policy Recommendations" (18 June 2003) para 19. This paper can be accessed at <<http://www.med.govt.nz>> (last accessed 9 May 2005).

20 Paul Apathy "Napster and New Zealand: Authorisation under the Copyright Act 1994" (2002) 33 VUWLR 287, 315; Clive Elliott "Content on the Internet – The Competing Rights of Control and Access" (2002) 11 TLF 129 appears to be of the same opinion.

21 *The Koursk* [1924] P 140, 157 (CA) Scrutton LJ; *Crystal Glass Industries v Alwinco Products* [1986] RPC 259, 268 (CA).

22 Susy Frankel and Geoff McLay *Intellectual Property in New Zealand* (LexisNexis Butterworths, Wellington, 2001) para 5.27.

23 *Gershwin Pub Corp v Columbia Artists Management Inc* (1971) 443 F 2d 1159, 1162 (CA NY).

24 *A & M Records Inc v Napster Inc* (2001) 239 F 3d 1004 (9th Cir).

action.²⁵ Merely assisting by providing the means for copyright infringement would most likely be insufficient to hold an ISP liable as a joint tortfeasor.²⁶ The argument made in *A & M Records Inc v Napster Inc* is conceptually more related to the authorisation doctrine.

B Secondary Liability

Secondary liability under New Zealand law may arise out of either the special secondary liability provisions of the Copyright Act 1994,²⁷ or due to "authorisation" of infringing conduct of a third party.²⁸

1 Secondary infringement provisions

Sections 35 to 39 of the Copyright Act 1994 deal with secondary infringement. Potential liability for ISPs is extremely limited, because most of the provisions require a physical object in which the infringing copy is embodied.²⁹ Cases of digital copying are therefore out of the scope of most of those provisions. However, it is arguable that ISPs may be liable under section 37(2) if they can be said to "transmit the work by means of a telecommunications system".

Nonetheless, secondary infringement always requires a certain degree of knowledge of the third party's infringing conduct. ISPs may be found liable if they "knew or had reason to believe" that they were, for example, distributing infringing copies.³⁰ This test of constructive knowledge is objective,³¹ and involves a standard of knowledge derived from "facts from which a reasonable person ... would arrive at the relevant belief."³² The standard of constructive knowledge under the secondary infringement provisions already poses the question of how an infringement notice may give the recipient a "reason to believe" that infringement has occurred. This issue will be discussed in detail below.³³

25 *CBS Songs Ltd v Amstrad Consumer Electronics Plc* [1988] RPC 567, 607 (HL) Lord Templeman.

26 Apathy, above n 20, 291.

27 Copyright Act 1994, ss 35-39.

28 Copyright Act 1994, s 16(i).

29 For instance, Copyright Act 1994 s 36 reads: "Copyright in a work is infringed by a person who ... possesses ... an object that is ... an infringing copy of the work".

30 See for example Copyright Act 1994, s 37.

31 The differences between actual and constructive knowledge and their implications are analysed in detail below, see Part IV B 1 The knowledge standard.

32 *Raben Footwear Pty Ltd v PolyGram Records Inc* (1996) 35 IPR 426 (FCA).

33 See Part II C 3 Hosting providers.

2 Authorisation

The authorisation of others to infringe copyright is itself considered an infringing act pursuant to section 16(i) of the Copyright Act 1994. Although "authorisation" is dealt with in section 16 among other forms of primary infringement, its nature is much closer to concepts of secondary infringement. Frankel and McLay have characterised it as "copyright's unknown quality".³⁴

There have not been many cases that decided the meaning of the word "authorise" under the Copyright Act 1994 in New Zealand. One of the leading cases under the Copyright Act 1962 was *Australasian Performing Right Association Limited v Koolman*,³⁵ where the operator of a coffee bar was held to have authorised the public performance of copyrighted music played by a band, for which he received an admission fee. English courts have interpreted authorisation as to "sanction, approve or countenance".³⁶ However, authorisation does not have to amount to "condoning".³⁷ It is generally held that the authoriser has to have a certain degree of control over the infringing conduct or over the facilities used for infringement.³⁸ One of the leading decisions in the technology field is *University of New South Wales v Moorhouse*.³⁹ It involved the provision of self-service photocopying machines in the University library. The Australian High Court stated:⁴⁰

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.

However, this definition is in contrast to the statement made by Lord Templeman in *CBS Songs Ltd v Amstrad Consumer Electronics Ltd*, "authorisation means a grant or purported grant, which may be express or implied, of the right to do the act complained about."⁴¹

In his examination of these cases with respect to their applicability to New Zealand law, Apathy suggested that the approach taken in *Amstrad* appeared to be "much closer to the correct

34 Frankel and McLay, above n 22, para 5.11.7.

35 *Australasian Performing Right Association Limited v Koolman* [1969] NZLR 273 (SC).

36 *Falcon v Famous Players Film Co* [1926] 2 KB 474 (CA).

37 *CBS Songs Ltd v Amstrad Plc* [1988] AC 1013, 1055 (HL); *Amstrad Computer Electronics Plc v British Phonographic Industry Ltd* [1986] FSR 159, 207 (UKCA).

38 Longdin, above n 1, 183.

39 *University of New South Wales v Moorhouse* [1976] RPC 151, 157 (HCA).

40 *University of New South Wales v Moorhouse*, above n 39, 157 Gibbs J.

41 *CBS Songs Ltd v Amstrad Consumer Electronics Plc*, above n 25, 604 Lord Templeman.

interpretation of 'authorise' than *Moorhouse*.⁴² According to his analysis, authorisation amounts to a misrepresentation of the right to a work, thereby leading others to infringe. This is in line with the interpretation of authorisation given in the recent Canadian case *CCH Canadian Ltd v Law Society of Upper Canada*.⁴³ Like *Moorhouse*, the case involved photocopying machines that were maintained by the Law Society and made available for use to the visitors of the Law Society's library. In *CCH*, the Court ruled that the *Moorhouse* approach was inconsistent with the concepts of authorisation under British and Canadian law. McLachlin CJ wrote:⁴⁴

In my view, the *Moorhouse* approach to authorization shifts the balance in copyright too far in favour of the owner's rights and unnecessarily interferes with the proper use of copyrighted works for the good of society as a whole.

She concluded that the Law Society did not have sufficient control over the conduct of its patrons to say that it "sanctioned, approved or countenanced the infringement".⁴⁵ This was mainly because the relationship between the library and its patrons was not like a master/servant or employer/employee relationship and because the library did not have any control over the works the clients chose to copy. Because the New Zealand authorisation provision is similar to the Canadian one,⁴⁶ this case is of particular importance to the position in New Zealand. Without doubt this understanding of the concept of authorisation is advantageous for ISPs, because an "expansive interpretation would severely handicap Internet service providers".⁴⁷

C Risk Analysis

Potential liability for ISPs under current New Zealand law can arise out of a number of sources. Although ISPs may be overly risk-adverse, an assessment reveals that in reality the dangers of liability are smaller than generally assumed. The risks may also vary depending on the role of the ISP in respect to the infringing conduct of a subscriber.

1 Content providers

ISPs that make infringing material available on the Internet themselves will be held liable just as any other direct infringer. In cases where the ISP is responsible for the content it publishes on its websites, there are no significant differences from other forms of direct infringement. Consequently

42 Apathy, above n 20, 315.

43 *CCH Canadian Ltd v Law Society of Upper Canada* [2004] 1 SCR 339.

44 *CCH Canadian Ltd v Law Society of Upper Canada*, above n 43, para 41 McLachlin CJ.

45 *CCH Canadian Ltd v Law Society of Upper Canada*, above n 43, para 45 McLachlin CJ.

46 Copyright Act RSC 1985 (Canada), c C-42.

47 Frankel and McLay, above n 22, para 5.11.7(c).

they should not be treated differently, and MED's Position Paper does not suggest a liability exception for such activities.

2 *Access providers*

The majority of ISPs offer access to the Internet, either solely or together with other services such as hosting. Subscribers can connect their computers to the provider's network, which is directly connected to the Internet, thus enabling the subscriber to browse websites. The necessary transmissions between the subscriber's computer and the servers hosting the websites occur through the ISP's system.

Under the current law, the chances of being held liable for merely providing access to the Internet are rather small. Secondary infringement is usually out of the question, because ISPs will usually lack the required actual or constructive knowledge of the infringement. They will usually have no "reason to believe" that they are distributing infringing copies, because the relevant knowledge test requires more than a suspicion that infringement occurs.⁴⁸ The sheer amount of transmitted data makes it unfeasible for access providers to monitor their systems, especially because the transmission occurs within a few seconds, which is certainly not sufficient to decide on such a multi-faceted legal question as copyright infringement. Moreover, it would be rather absurd to argue that the ISP had "authorised" the infringement in the absence of any knowledge.

An ISP that merely acts as a conduit to the Internet will not be found directly liable for distributing infringing copies in the absence of any additional volitional or knowledge elements, as in the bulletin board operator cases.

A separate issue that could cause liability is the transitory storage of information, commonly referred to as "caching". MED considers that the current definition of copying is broad enough to include temporary storage of information, for instance in a computer's Random Access Memory (RAM).⁴⁹

These issues appear to be properly addressed by the proposal. The proposed communication right resolves the absurd distinction between cable and wireless services. Furthermore, under the proposed clarification that the mere provision of physical facilities shall not attract liability, access providers should not be worried about potential liability.⁵⁰

3 *Hosting providers*

A provider who offers to host a subscriber's website on its server is probably in the greatest danger of being held liable. In respect to primary liability, its situation is not significantly different

48 *LA Gear Inc v High-Tech Sports Plc* [1992] FSR 121, 129 (EWHC) Morritt J.

49 Ministry of Economic Development, above n 7, para 45.

50 See also Part IV A Regarding Primary Liability.

from that of access providers. Neither will primary liability for copying be a concern if there are no volitional elements as in the *Playboy* cases discussed above.⁵¹

Authorisation requires that ISPs act as if they had the right to permit the use of a copyright work, which will hardly be found in most cases, provided that New Zealand courts reject the argument made in *University of New South Wales v Moorhouse*.⁵² Due to the nature of the hosting service, an ISP may be more likely to have actual or constructive knowledge of a subscriber's infringing actions. However, ISPs might be able to argue that they have neither actual knowledge nor reason to believe that the material uploaded by their subscribers infringes, due to their large number and the technical impossibility of monitoring all uploaded material. As Longdin pointed out, ISPs should be treated at least as leniently as swap meet operators who are generally aware of the fact that copyright infringement *might* occur on their premises.⁵³ It is one of the features of swap meets and ISPs that somewhere or somehow infringement may occur. This is nothing more than common knowledge. Such general awareness could however convert to constructive knowledge after receipt of an infringement notice.⁵⁴ The interpretation of authorisation in *Moorhouse* would impose a certain risk of liability on ISPs. However, the more lenient approach of *Amstrad* and *CCH* seems to be the likelier one to be adopted by courts,⁵⁵ because it strikes a reasonable balance between copyright owners' interests and the public interest of availability of useful facilities like the Internet or photocopy machines.

The situation may change when ISPs are actually notified by copyright owners of alleged infringement. It is likely that they will then be found to have had at least reason to believe that there is infringing material hosted on their servers, although there is no automatic nexus between receipt of an infringement notice and the inference of knowledge. As pointed out above, ISPs would have to determine and confirm the alleged copyright infringement, which is a legal issue that can be delegated to out-of-house counsel. In any case, it gives ISPs time to react to such notice and either remove access to the material or decide to bear the risk of liability, leaving it in the hand of the providers to minimise the risk of liability. In view of the comparatively narrow provisions, and because of the "judiciary's reluctance to expand the protections afforded by copyright without explicit legislative guidance",⁵⁶ the liability risk can probably be characterised as manageable. Out-

51 See Part II A 1 Copying.

52 *University of New South Wales v Moorhouse*, above n 39.

53 Longdin, above n 1, 183.

54 See Part IV B 1 The knowledge standard.

55 *CBS Songs Ltd v Amstrad Computer Electronics Plc*, above n 25; *CCH Canadian Ltd v Law Society of Upper Canada*, above n 43.

56 *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* (2003) 259 F Supp 2d 1029, 1046 (DC Cal).

of-house counsel can furthermore function as a means of risk management, because erroneous advice given by lawyers will attract professional liability on their part.

III IS A SECONDARY LIABILITY EXEMPTION JUSTIFIABLE?

It cannot be doubted that the risk of potential liability influences the way a person acts, particularly in business. Liability has always been the legal response to increased risks and potentially dangerous acts. There can also be no doubt that the Internet, with its decentralised structure, immanent anonymity, and its incredible potential to reproduce digital information, poses an imminent risk to the rights of the makers of creative works. The damages suffered by these creators and by the industry based on their works are immense, and due to the problems encountered in holding the primary infringers liable, copyright is becoming more and more a right without proper enforcement mechanisms in the digital environment. Thus, it is questionable whether it is appropriate to respond to such a threat by exempting those from liability who are perhaps in the best position to combat it.

There are several ways of dealing with the problem. There is the possibility of holding the one who facilitates the infringement accountable. This is, to the extent outlined above, the position under current New Zealand law. There is also the possibility of letting copyright owners incur damages without providing a remedy. That is what the Position Paper proposes. Exempting ISPs from liability means that copyright owners will not have effective tools available to stop infringement. Primary infringement action, even if the identity of the infringer is discovered, will only provide a solution for an individual infringement case. It will not stop infringement from happening in the future through other ISPs.

The persons in the best position to exercise control are the ones who provide access to the Internet and offer hosting services. Thus, the idea that ISPs should be held liable arises from the observation that "copyright infringement is a very serious problem that needs to be stamped out ruthlessly".⁵⁷ ISPs control the means through which infringement occurs. However, it would be a crude misunderstanding of the Internet as a medium to put the blame on ISPs for merely providing the communication structures that facilitate infringement. Likewise, it would be absurd to hold a telephone company accountable for infringement occurring through their telephone lines. This argument though, however often made, is convincing only in respect to access providers. Hosting services are of a different nature. An access provider only provides the admission to material that already exists in cyberspace. The material would be accessible anywhere in the world, no matter whether the particular provider enables its subscribers to access it. Thus, the standard of protection for copyright owners would not be improved by imposing liability on such access providers. However, targeting the provider who hosts the material can, at least temporarily, stop the

57 Alfred C Yen "Internet Service Provider Liability for Subscriber Copyright Infringement, Enterprise Liability, and the First Amendment" (2000) 88 GEOLJ 1833, 1892.

infringement, because it could provide for removal of the infringing material from the Internet. Therefore a host provider is not comparable to a telephone company, because hosting services are a prerequisite for making infringing material available.

This difference alone, however, would not be sufficient to justify liability. The reason for responsibility need not necessarily be based on fault. Tortious liability does not always require a wrongdoing, but it may also be based on the performance of a risky action. A car owner may be liable for the damage caused by the operation of the automobile. A dog owner may be liable for damage caused by the animal. Vicarious liability is imposed on employers for the conduct of their employees; principals may be liable for the acts of their agents.⁵⁸ One could easily think of more such cases, and the reason for liability is not fault, but the participation in a risk. However, law imposes liability only when the risk is disproportional to the average risk that every member of society has to bear. It imposes liability on those who participate in this risk and who benefit from it. It is important to note that liability is not meant as a punishment or deterrent in such cases. It is rather the price that is paid for the benefits connected to the risk. As a result, everyone has the choice to continue or to cease participating in the risk. The decision will largely depend on the relation between the likelihood and the amount of damage or benefits that can be expected from the performance of the risky act. Liability thus strikes a balance between the benefits and the risks. If the relation is roughly in balance, liability or, more precisely, potential liability will neither encourage unnecessary risky conduct nor deter risky conduct entirely.

Internet use in New Zealand is still booming.⁵⁹ As MED claims, New Zealanders are enthusiastic about using the Internet, and thus the number of subscriptions is continually increasing. One must assume that New Zealand ISPs have done their homework and calculated the risk of potential liability. It cannot be doubted that the result is already a factor in the calculation of access and hosting fees. The factor may not be as great as in the United States for instance, due to the comparatively limited liability law as outlined above, but it is certainly part of the calculation. Therefore, it is hard to argue that liability acts as a deterrent to Internet use on the one hand if the statistics tell the opposite, and one can only conclude that the balance between liability risks and benefits is properly struck. Thus, the main argument for the introduction of secondary liability exemption appears to be contradicted by reality.

What would happen if the risk of liability increased? It is likely that, in a first step, ISPs would indeed raise connection and hosting fees. It is equally likely that ISPs would think of ways to

58 It is true, though, that strict liability is not the most prominent feature of New Zealand's legal system.

59 According to a study conducted by the research company IDC, the number of Internet users climbed from 2.14 million in 2001 to 2.5 million people in 2004. Cited in Richard Pamatatua "Internet Shake-out" (2001) 2 *NZ Infotech Weekly* 7. According to an international study conducted in 2001, New Zealand users are among the most active users of the web. Cited in IDG Net Staff "Kiwis among highest users of Internet" (29 May 2001) *Computerworld*, Auckland.

prevent secondary liability by targeting the problem at its roots. There are examples to show how ISPs dealt with the problem of potential liability, despite their inability to resort to liability exemption clauses.⁶⁰

If there was not a potential for liability, there would not be a great need to find mutually agreeable ways to resolve the interest conflicts between copyright owners and ISPs. The risk of being held accountable creates an incentive to enter negotiations. This risk forces ISPs to take responsibility not only in terms of compensation of damage incurred, but also in terms of prevention of such damage. There are technological means to prevent online copyright infringement to a certain extent.⁶¹ Such approaches, however, need the cooperation of ISPs to work. If ISPs do not implement such technology, the prevention of copyright infringement is impossible. Because ISPs control the facilities, they are in a position to adopt protective mechanisms. If the risk of being held accountable is significantly reduced, ISPs do not have any incentive to act. This would lead to copyright owners incurring damage without having any real power to prevent such damage in the future.

The justification given for this result by MED is the policy of ensuring cost-effective access to the Internet. However, effective protection of copyright, in light of a threat that appears to be greater than the invention of the printing press, is a policy that is not sufficiently considered in respect of the proposed legislation. The reason for the existence of copyright in the common law system was the "encouragement of learning, by vesting the copies of printed books in the authors or purchasers of such copies."⁶² The legal protection provides the incentive to produce creative works.

60 The Finnish group of the International Federation of the Phonographic Industry (IFPI) and a number of Finnish ISPs came to an agreement upon the prevention of intellectual property rights infringements, see Nils Bortloff and Janet Henderson "Notice and Take-Down Agreements in Practice in Europe" (World Intellectual Property Organization Workshop on Service Provider Liability, Geneva, 9 December 1999) 7, available at <www.wipo.org> (last accessed 18 April 2005). Under this agreement, ISPs have to block content and reveal the identity of the content provider upon receipt of an infringement notification by IFPI. Upon repeated infractions, ISPs have to terminate their relations with the customer. In exchange, IFPI waives any liability claims and indemnifies the ISP for damages incurred because of invalid notification. In Argentina, a similar approach was taken in negotiations between the Argentine Industry Association of Record and Music Video Producers (CAPIF) and the Argentine Chamber of Data Bases (CABASE), which comprised several ISPs. Upon notification of alleged infringement, the ISP hosting the website would have five days to justify or remove the content. If the ISP failed to remove the content, a Commission would be formed consisting of CAPIF and CABASE representatives. Only if the Commission could not resolve the conflict would the parties be allowed to bring legal proceedings.

61 The Rights Protection System (RPS) is a technology that analyses the transmitted data and scans for unlawful content. If such content is found, the respective URL is blocked. Docking at the ISP's routers, the system filters the respective websites and makes them inaccessible for any clients connected through those routers. This is the so called "black listing" model, where access to specified sites is blocked. Another way is the "white listing" model, where access is only possible to listed sites. See also Rosa Julia-Barcelo "Liability for On-Line Intermediaries: A European Perspective" (1998) 20 EIPR 453.

62 British Statutes 1709 (GB) 8 Anne, ch XIX.

If the scope of this legal protection is so narrow that the enforcement of rights cannot be maintained in the digital age, this could in fact be a deterrent for future works and lead to the frustration of authors and the related industries. Electronic commerce, including the offering of digitised works, would become a particular risk and have a chilling effect on New Zealand's Internet economy. Thus, it is essential that any reform strikes a proper balance between the opposing interests. While the suggested clarifications as to primary liability are useful and take both sides into account, insufficient regard is paid to the secondary liability exemption. There are other policy considerations which ought to be considered in this argument.

A policy well worth considering is the idea of spreading the losses among all "players". This is not unknown in New Zealand. For instance, section 14 of the Rehabilitation and Compensation Insurance Act 1992 bars claims for personal injuries. Victims of personal injuries are compensated by a fund financed by employers, earners, motorists and the government. The idea of spreading the losses among virtually the whole society appears to be justified in this case, because every member of the society participates in the risk of injuring someone else, while the victims are often left with insufficient legal remedies. Thus, the objective of the introduction of this alternative form of compensation was not to ensure responsibility for the loss, but to cater for the needs.⁶³ Because of the nature of a fault-based tortious liability, in the majority of cases those needs were not met appropriately.⁶⁴ Therefore, legislation took a different path in addressing the issue. However, the idea of spreading the losses among society is not only limited to such exceptional liability models. Tortious liability for potentially risky behaviour has always worked as a way to spread the losses. Before the introduction of the accident compensation scheme, mandatory insurance for car owners served a similar purpose. Because the victims used to have difficulties both in obtaining a judgment (because of the need to prove fault) and in collecting damages (because many defendants are financially unable to pay for large amounts of damages out of their own pockets), mandatory insurance provided care for the victims' needs.

In many respects, the situation of copyright owners is similar to this situation. Obviously, suffering personal injury and the mere breach of a right are not comparable in their effects.⁶⁵ In both cases, an unlawful violation causes damage, for which adequate compensation is not available. While it is true that the situations are incomparable in their practical impacts, and that it would demean the victim of a car accident to compare him or her with an artist whose copyright is infringed upon, they have something in common. The common feature of rights, whether they are

63 Stephen Todd (ed) *The Law of Torts in New Zealand* (2ed, Brookers, Wellington, 1997) para 1.4.

64 Todd, above n 63, para 1.4.

65 A point could also be made that copyright is a legally created right. Although other jurisdictions certainly emphasise the moral aspects of copyright more strongly, a discussion on legal positivism and natural law theories is clearly outside of the scope of this paper, and it should be noted that all rights, including the right to physical integrity, ultimately exist by virtue of law.

ones as essential as physical integrity or as luxurious as an intellectual property right, is that they require efficient legal protection. If the extent of this legal protection is not sufficient to offer redress to victims for the loss of their rights or to allow enforcement of a right, the right is in danger of becoming meaningless. With such a widespread medium as the Internet, intellectual property rights, and copyright in particular, are in permanent danger. Therefore a similar doctrinal approach would hold the ones accountable who take part in creating this danger. The expected increase of fees will therefore put the burden on the shoulders of all Internet users.

This would also potentially provide copyright owners with more solvent defendants. Primary infringers often turn out to be incapable of reimbursing copyright owners for the huge damage incurred. The reason for this is that it is possible to cause enormous harm without having particularly great financial resources. ISPs, however, are much more convenient defendants if found liable. Larger ISPs especially create solid revenues through their services. Moreover, liability will almost certainly be covered by insurance companies rather than actually paid by the ISPs, since a company doing business is much more likely to have insurance coverage than a private person. Thus, the insurance premiums will be part of the ISPs fee calculation and will ultimately be paid by the subscribers. The effect would again amount to spreading the losses caused by the side-effects of the Internet's great merits.

Another strong argument against the reform is that New Zealand courts have yet to deal with ISP liability issues. There has not yet been a single lawsuit involving ISPs and secondary copyright infringement rules in New Zealand. Therefore, it appears to be legitimate to ask how exactly a change of the law can be justified. A statutory change may be warranted if it responds to an unwanted development in case law. However, if the problem has not been severe enough to generate at least one judgment in this field, it is hard to justify legislation. The confusion about ISP liability results mostly from the assumption that overseas case law, predominantly in the United States, reflects a problem that exists to the same extent in New Zealand. This is, due to the different law as outlined above, not the case. Moreover, legal confusion is often a prerequisite to the development of coherent case law. A clear definition of rules, should the issue ever arise, is what one should expect from New Zealand courts. One should be confident that clear, narrow rules will be found if courts "closely analyse the nature of online conduct".⁶⁶

It would be a legitimate question to ask whether New Zealand should refrain from adopting a position that has become the law in many western jurisdictions, among which are such important economies as the United States and the European Community. Indeed, there does not seem to be an easy answer available. However, the development of the secondary liability exemptions has to be considered in the light of historical development. The development in the United States in

66 Ian C Ballon "Pinning the Blame in Cyberspace: Towards a Coherent Theory for Imposing Vicarious Copyright, Trademark and Tort Liability for Conduct Occuring over the Internet" (1996) 18 COM/ENT 729, 766.

particular has not been steady. Cases such as *Netcom* did not exactly suggest that ISP liability could become a major issue in the United States.⁶⁷ It would have been arguable, and it was argued,⁶⁸ that the legislator should have left it to the courts to develop a coherent system of liability within the frame of tort law and the existing statutes. Some legal uncertainty would have been the negative consequence for the consistent development of the law. Before the DMCA was passed, an expert commission of the Clinton administration in fact argued in favour of the principal possibility that primary and secondary liability could be imposed on ISPs in a publication that became known as the White Paper.⁶⁹ However, this did not remain the predominant view of the legislator, and thus the DMCA came into effect.

The European Community was influenced by the development in the United States when it passed the Electronic Commerce Directive.⁷⁰ The introduction of the ISP exemption is therefore not automatically attributable to legal necessity, but to the pressure imposed by the United States on the European Internet economy. This mechanism is understandable simply because of the competition between both economies.

However, New Zealand's economy is on a much smaller scale. New Zealand's ISPs are for the most part not subject to international competition.⁷¹ Additionally, New Zealand's law is quite different. As shown above, the secondary infringement provisions and the concept of authorisation are very different from the law in the United States. In their comparative studies, commentators have argued that even a case like *Napster*,⁷² which could be characterised as a rather obvious case of secondary liability in the United States, would not apply to New Zealand.

In the case of the European Community, the Electronic Commerce Directive did not only serve the purpose of favouring a certain legal approach towards ISP liability, but also to unify the law in the member states and lower the barriers to trade, which does not apply to New Zealand. In summary, the differences in terms of economy and copyright law give New Zealand justification in going its own way.

67 *Religious Technology Centre v Netcom On-Line Communication Services Inc*, above n 18.

68 Yen, above n 57.

69 Bruce A Lehmann *Intellectual Property and the National Information Infrastructure – The Report of the Working Group on Intellectual Property Rights* (United States Patent and Trade Mark Office, 1995) 114-124.

70 Bill Thompson "Damn the Constitution: Europe must take back the Web" (The Register, 9 August 2002) <<http://www.theregister.co.uk>> (last accessed 18 April 2005).

71 See the list on <<http://www.newzealandisp.orcon.net.nz>> (last accessed 9 May 2005).

72 *A & M Records Inc v Napster Inc*, above n 24.

IV THE POSITION PAPER'S PROPOSALS

In the previous section it was argued that a general exemption for ISPs is neither necessary nor based on a balanced policy consideration. Even if one accepted the proposition that the current law is not appropriate to deal with the situation of ISPs, it can be doubted whether the proposed solutions of the Position Paper provide the best answer. While the suggestions regarding the primary liability appear to be quite a constructive amendment of the law, the provisions on secondary liability, and their impact on liability law, deserve closer examination.

A Regarding Primary Liability

The Position Paper addresses several issues with respect to potential primary liability for copyright infringement that could have an impact on the legal situation of ISPs.

1 Transient copying and the reproduction right

The current reproduction right under the Copyright Act 1994 includes the right to control digital copies of the work. MED, in accordance with the majority of submissions made on the Discussion Paper, proposes to restrict that right if transient copying is part of an automated technical process and is intended to provide for an act otherwise permitted.⁷³ If copying serves this purpose, according to MED the reproduction right is not significantly restricted since it does not encourage the creation of new works.⁷⁴ The Ministry therefore suggests an exception directed towards transient copies.⁷⁵ Although it is likely that this exception will cover caching, MED proposes an additional exception for the "common practice" of caching.⁷⁶ The Position Paper suggests that the exception clause should be modelled on the equivalent United Kingdom provision.⁷⁷

Regulation 18 of the United Kingdom Electronic Commerce Regulations provides that a service provider is exempted from liability if it does not modify the information, complies with conditions on access to the information and with any rules regarding the updating of the information, does not interfere with lawful use of technology to obtain data on use of the information, and acts expeditiously to remove or disable access to such information upon obtaining knowledge of the removal of the initial source of the transmission.⁷⁸

73 Ministry of Economic Development, above n 7, para 46.

74 Ministry of Economic Development, above n 7, para 47.

75 Ministry of Economic Development, above n 7, para 49.

76 Ministry of Economic Development, above n 7, para 85.

77 Ministry of Economic Development, above n 7, para 86.

78 Electronic Commerce (EC Directive) Regulations 2002 (UK), reg 18.

2 *Mere provision of physical facilities*

MED suggests an amendment to the Copyright Act 1994 stating that the "mere provision of physical facilities for enabling or making a communication does not itself constitute an infringement of copyright, or an authorisation for such infringement."⁷⁹ This is modelled on a similar provision of the WIPO Copyright Treaty.⁸⁰ The Canadian Supreme Court argued in *Society of Composers Authors and Music Publishers v Canadian Association of Internet Providers* that,⁸¹ as long as the role of the ISP was limited to providing the "means necessary to allow data initiated by other persons to be transmitted over the Internet", it would act as a "mere conduit".⁸² It would however go beyond such content-neutral provision of physical facilities if an ISP has notice of infringing conduct and fails to respond by taking the material down.⁸³

3 *Analysis*

The proposed clarification that the mere provision of facilities does not amount to primary infringement, will effectively release ISPs from all kinds of potential (primary) liability, provided the ISP has no control over the content of the transmission.

B *Regarding Secondary Liability*

ISPs should usually not face primary liability, and the above-mentioned suggestions certainly provide a bridge where the law has previously left gaps. However, as described above, the situation with respect to secondary liability is not as clear. Instead of changing the general rules governing secondary liability, that is, the secondary infringement and the authorisation provisions in the Copyright Act 1994, MED suggests introducing an exception to the general rule. The suggested statutory exemption is tailored after the European Community Directive.⁸⁴ According to the Directive, as transformed into national law in the United Kingdom, ISPs are exempt from liability:⁸⁵

Where an information society service is provided which consists of the storage of information provided by a recipient of the service, the service provider (if he otherwise would) shall not be

79 Ministry of Economic Development, above n 7, para 84.

80 WIPO Copyright Treaty, art 8 Agreed Statement.

81 *Society of Composers Authors and Music Publishers v Canadian Association of Internet Providers* [2004] 2 SCR 427.

82 *Society of Composers Authors and Music Publishers v Canadian Association of Internet Providers*, above n 81, para 95 Binnie J.

83 *Society of Composers Authors and Music Publishers v Canadian Association of Internet Providers*, above n 81, para 127 Binnie J.

84 Council Directive (EC) 2000/31 Electronic Commerce [2000] OJ L178/1.

85 Electronic Commerce (EC Directive) Regulations 2002 (UK), reg 19.

liable for damages or for any other pecuniary remedy or for any criminal sanction as a result of that storage where –

- (a) the service provider –
 - (i) does not have actual knowledge of unlawful activity or information and, where a claim for damages is made, is not aware of facts or circumstances from which it would have been apparent to the service provider that the activity or information was unlawful; or
 - (ii) upon obtaining such knowledge or awareness, acts expeditiously to remove or to disable access to the information, and
- (b) the recipient of the service was not acting under the authority or the control of the service provider.

As far as the knowledge requirement is concerned, MED suggests applying the "constructive knowledge" standard, because this is consistent with the existing secondary liability provisions.⁸⁶ A possible wording for subsection (a) could therefore be:

- a. The service provider does not know or has no reason to know of unlawful activity or information;

While the proposal seems to be reasonable and balanced in respect of primary liability issues, the same cannot be said of the suggested changes to the secondary liability law. The proposal has several implications in relation to ISPs and copyright owners. While the provisions governing secondary infringement and authorisation remain unchanged, the proposal tries to reverse the unwanted results generated by the statutory mess. While this can be criticised from a doctrinal point of view, the prominent features of the exemption clauses, in particular the knowledge standard, in connection with the infringement notice factor, are going to cause or maintain vagueness and unaddressed practical problems.

1 The knowledge standard

Under the proposed amendment of the Copyright Act 1994, ISPs will only be able to avoid liability if they do not have constructive knowledge of the infringement.

Constructive knowledge commonly refers to facts from which a reasonable person in the same position as the ISP would infer that copyright infringement had occurred. This encompasses a party that "wilfully closes its eyes to the obvious and wilfully fails to make those inquiries that an honest and reasonable person in the circumstances would have made".⁸⁷ To establish a lack of knowledge,

⁸⁶ Ministry of Economic Development, above n 7, para 93.

⁸⁷ *Husqvarna Forest & Garden Ltd v Bridon New Zealand Ltd* (1997) 6 NZBLC 99,415, 102,244 (HC) Smellie J.

the defendant would have to show "subjective lack of awareness that the act constituting the infringement was an infringement of copyright; and that, objectively assessed, the respondent had no reasonable grounds for suspecting that the act constituted an infringement of copyright".⁸⁸

This objective test is contrasted by the actual knowledge standard, which was adopted in the European Community Directive. Actual knowledge means subjective knowledge by the defendant as well as knowledge of facts. It is not a requirement that the defendant draws the correct conclusions from those facts, just as an error in law is no defence.⁸⁹ As Harvey J put it, "[k]nowledge cannot mean ... any more than notice of facts such as would suggest to a reasonable man that a breach of copyright was being committed."⁹⁰ It includes cases where parties "shut their eyes to that which is obvious".⁹¹ Actual knowledge has to be evaluated on a case-by-case basis. ISPs cannot be said to have actual knowledge of an infringing act just because they are generally aware that the information they transmit will contain infringing copies from time to time.⁹²

The question arises: when can ISPs be held to have constructive knowledge of an infringement? MED suggests setting out in the legislation the relevant factors for the determination of constructive knowledge.⁹³ Because ISPs do not monitor the material they transmit, it is questionable whether a general awareness of copyright infringement occurring through their facilities can be sufficient to establish knowledge, since this knowledge has to be knowledge of facts.⁹⁴ This is supported by the view expressed by Morritt J in *LA Gear v High-Tech Sports*.⁹⁵

"Reason to believe" must involve the concept of knowledge of facts from which a reasonable man would arrive at the relevant belief. Facts from which a reasonable man might suspect the relevant conclusion cannot be enough.

The "reasonable man" test was stated in *PolyGram Records v Raben Footwear* as knowledge of "facts as would suggest to a reasonable person, having the ordinary understanding expected of persons in the particular line of business, that a breach of copyright was committed."⁹⁶ However,

88 *Milwell Pty Ltd v Olympic Amusement Pty Ltd* (1999) 43 IPR 32 (FCA).

89 *Star Micronics Pty Ltd v Five Star Computers Pty Ltd* (1990) 18 IPR 225, 235 (FCA) Davies J.

90 *Albert v S Hoffnung & Co Ltd* (1921) 22 SR 75, 81 (NSWSC) Harvey J.

91 *LA Gear Inc v High-Tech Sports Plc* [1992] FSR 121, 128 (EWHC) Morritt J.

92 Longdin, above n 1, 183.

93 Ministry of Economic Development, above n 7, para 94.

94 *LA Gear Inc v High-Tech Sports Plc*, above n 91, 128 Morritt J.

95 *LA Gear Inc v High-Tech Sports Plc*, above n 91, 129 Morritt J.

96 *PolyGram Records Inc v Raben Footwear Pty Ltd* (1996) 35 IPR 426 (FCA).

there are limits to what a defendant reasonably can believe. For instance, in *ZYX Music v King*,⁹⁷ the defendant relied on the declaration of the record company that a particular song, which was distributed by the defendant, did not infringe copyright. Because the similarities between the song and another song were obvious, the Court held that the defendant had reason to believe. It can be concluded that the knowledge requirement under the secondary infringement provisions requires the defendant to establish facts from which reasonable grounds for their belief can be inferred.⁹⁸

Therefore, according to MED, the crucial factor in establishing knowledge should be a notice given by the copyright owner of the alleged infringement.⁹⁹ The question arises whether a receipt of a notice claiming a copyright infringement can be sufficient to hold an ISP to have "reason to believe" that there is infringement. In *LA Gear v Hi-Tech Sports Plc*, Morritt J noted that the requirement implied "the allowance of a period of time to enable the reasonable man to evaluate those facts so as to convert the facts into a reasonable belief."¹⁰⁰ From these words, it appears to be very clear that unawareness cannot transform into constructive knowledge just by the mere allegation of infringement. An ISP must be given a reasonable time to react to such notice. However, it appears to be difficult to determine such reasonable time, since there is a broad spectrum of potential cases. For instance, an ISP may receive a very detailed notice of a single, evident infringement, from which it might be obvious that there is an infraction. On the other end of the spectrum, an ISP might receive a mere general notice that a website contains an unspecified number of copyrighted files. In such a case, it might consume an enormous amount of time and resources for the ISP to arrive at a reasonable degree of belief of the copyright infringement.

These examples reveal that the suggested standard of knowledge bears a large potential of legal uncertainty. This is amplified further by questions of copyright ownership. To establish a copyright infringement claim, the plaintiff must be the owner of the relevant copyright. However, under the approach in *ZYX Music* and *Raben*, the ISP will have to show that it has reason to believe that the claimant is not the owner of the copyright. The evaluation of this legal question can be very complicated. Smaller companies may not have the human resources to make a reliable judgement on this matter. However, the test of constructive knowledge is one of facts. If there is knowledge of the relevant facts to arrive at the relevant belief, "an error of law is no excuse."¹⁰¹ It is an established rule that a person who deliberately takes the risk that something he does is wrong cannot

97 *ZYX Music GmbH v King* [1997] 2 All ER 129 (EWCA).

98 Frankel and McLay, above n 22, para 5.12.4.

99 Ministry of Economic Development, above n 7, para 94.

100 *LA Gear Inc v High-Tech Sports Plc*, above n 91, 129 Morritt J.

101 *International Business Machines Corporation v Computer Imports Ltd* [1989] 2 NZLR 395, 407 and 418 (HC) Smellie J.

"say later that he did not know that what he was doing was wrong."¹⁰² If an ISP chooses not to comply with a claim to take down allegedly infringing material, at least after the reasonable period of time that the *LA Gear* approach provides, because in their opinion there is no infringement, they have to bear the risk that this opinion might be wrong. This leaves ISPs in a very vulnerable position, because any non-compliance with infringement notifications will bear a risk of liability. However, as pointed out before, this is already a feature of the current provisions. Unfortunately, the proposal does not remedy this situation, but leaves it to the ISP to decide whether an infringement notice is warranted.

2 *The infringement notice factor*

The pressure to comply with infringement notices is increased by another form of potential liability. ISPs have a contractual duty to provide Internet access or to host material to their subscribers. If an ISP blocks access to or removes material from the web to prevent liability for copyright infringement, this collides with their contractual duties in relation to their customers. Thus, if the blocking or removal of the material turns out to be unwarranted, ISPs may be found liable to their subscribers. Of course, ISPs will probably exclude liability in their service contracts. However, implementing a liability exclusion clause will decrease the quality of the provided service, because customers are deprived of a contractual remedy. It also favours larger ISPs that may be able to afford the liability risk, and who are therefore not under the same pressure to exclude any liability to their customers. This could result in a lower acceptance rate of such contracts and, thus, lower demand. In any case, if an ISP becomes known for careless blocking of material even in cases where the infringement is doubtful, this could damage the ISP's reputation and affect its market share.

Apart from the liability risk, the absence of a regulated notification procedure bears additional problems for ISPs. It can hardly be a valid aim of the legislation to force ISPs to act as censors. This is especially because ISPs, at least when performing the functions at issue, merely provide the means that are necessary to access and make use of the Internet, and they are not in the position to look out for potentially infringing material. Imposing such a duty would mean that ISPs would have to safeguard themselves against potential liability by hiring copyright experts, whom they could then hold liable if their assessment turns out to be wrong. There can be no doubt that this form of risk-management would increase the costs of Internet access, which is exactly what the legislation is supposed to prevent. If ISPs cannot resort to a reliably regulated way of dealing with infringement notices, the liability exemptions will hardly achieve the goal of offering some relief for ISPs in respect of copyright infringement liability.

Additionally, a non-formalised infringement notice process bears a risk of abuse. While encouraging ISPs to block the infringing material could be justified in cases of undisputed copyright

102 *Sillitoe v McGraw-Hill Book Co (UK) Ltd* [1983] FSR 545, 557 (EWHC) Mervyn Davis QC.

infringement, there may be cases in which the ownership of the copyright itself is in question. With business models such as the online distribution of music files emerging, it is likely that an increased number of disputes over copyright ownership will arise in the cyberspace environment. The allegation of copyright infringement could be a powerful tool to block a competitor's website for a significant period of time. The implications could be severe.

Imagine the following case: a big company runs an online music store on its own servers, and a smaller company runs a comparable website, which is hosted by an ISP, because the small company does not have the financial means to operate its own servers. Both companies have the license to offer a certain popular song for download. It would be in the interest of the big company to raise copyright claims and thereby cause the ISP to take the small company's website (or at least the relevant song file) down. When the file is finally accessible again, the song may not be popular any more (or at least not in high demand), thus enabling the big company to concentrate the stream of customers of that particular song onto its own website.

Potential liability, especially monetary liability, is a strong incentive to act. If the law grants ISPs a way to avoid liability, legislation has to ensure that such a resort is sufficiently guarded against abuse. The law has to provide for the prevention of unjustified use of the liability exemption provisions. That could be done by creating a corresponding liability of copyright owners for causing unwarranted blocking of material, or a requirement to file suit for copyright infringement if a dispute over the legitimacy of the claimed infringement arises.

The United States DMCA addresses the problem as follows: the subscriber has to be notified of the takedown of the material and has the opportunity to file a counter notification. The ISP has to forward the notice to the copyright owner. If the copyright owner does not file suit against the alleged infringer, the ISP has to cease blocking access after 14 business days.¹⁰³

The practical experiences with this regime are quite encouraging. From the copyright owner's point of view, it is fairly uncomplicated to identify the ISP that hosts the infringing website by employing the WHOIS database.¹⁰⁴ After the contact information is ascertained, the infringement notice is filed via e-mail with the ISP's designated agent.¹⁰⁵ Copyright owners recognise that the notice-and-takedown procedure under the DMCA provide them with a useful tool to fight copyright infringement. In practice, the process has worked well, as ISPs are usually ready to cooperate in order to reach the "safe harbour".¹⁰⁶ From an ISP's perspective, the provision of a clear procedure

103 See Digital Millennium Copyright Act 17 USC § 512.

104 Available at Network Solutions <<http://www.networksolutions.com>> (last accessed 18 April 2005).

105 Under the DMCA, all ISPs are required to designate an agent responsible for the receipt of infringement notices. A database of registered agents is provided by the United States Copyright Office at <<http://www.copyright.gov>> (last accessed 18 April 2005).

on how to deal with potential infringement allows both parties to address the issue efficiently. Another positive feature is the liability on the part of copyright owners for any known misrepresentations made in relation to the takedown request. This prevents an abuse of the procedure and protects subscribers from groundless allegations, at least to a significant extent.¹⁰⁷

As the Canadian Supreme Court noted in *Canadian Association of Internet Providers v Society of Composers* with respect to the lack of such a system in Canada, the enactment of a statutory notice-and-takedown procedure would be "a more effective remedy to address this potential issue".¹⁰⁸

It would be beneficial to have a formalised way of dealing with infringement claims in the online field. If the legislator opts for infringement liability exemptions, it would make sense to include such a formalised notice-and-takedown procedure. While cases like *LA Gear* suggest that under the present law there is also a certain period of time in which ISPs can assess the claim,¹⁰⁹ the exact amount of time will always be subject to the court's assessment of the facts in the actual case. The DMCA could provide a model that works in reality.¹¹⁰ Leaving the problems related to notice-and-takedown fully unaddressed burdens ISPs unilaterally, and does not provide for the legal certainty the legislation is aiming at. If New Zealand decides that an ISP exemption is necessary at all, it would be well advised to take advantage of the practical procedural experiences of the United States. Nothing in MED's proposal indicates that it has considered adopting this approach.

106 Batur Oktay and Greg Wrenn "A Look Back at the Notice-Takedown Provisions of the US Digital Millennium Copyright Act One Year After Enactment" (World Intellectual Property Organisation Workshop on Service Provider Liability, Geneva, 9 December 1999) available at <<http://www.wipo.org>> (last accessed 18 April 2005).

107 However, according to Oktay and Wrenn, above n 106, 17, there appears to be a number of "sham infringement claims" to silence critics, for instance by the Church of Scientology relying on questionable copyrights. Under the DMCA regime this becomes more of an issue between copyright owners and alleged infringers if they oppose the takedown of the material, because the copyright owner has to file suit in this case to maintain the blocking of the material.

108 *Society of Composers, Authors and Music Publishers v Canadian Association of Internet Providers*, above n 81, para 127 Binnie J.

109 *LA Gear Inc v Hi-Tech Sports Plc*, above n 91.

110 According to a survey, a striking feature of the notice-and-takedown procedure is that the infringement notifications are almost never disputed. The counter-notification rate of the study, which involved 47,000 cases, was less than 0.009 per cent. See Smith and Metalitz "Proprietary Survey of Clients in the Audiovisual, Business and Entertainment Software, Music and Publishing Industries" (Smith and Metalitz, Washington DC, 2001), cited in The Publishers Association *Combating Internet Copyright Crime* (The Publishers Association, London, 2003).

V CONCLUSION

New Zealand is entertaining a legislation that is neither necessary nor likely to solve the problems it is supposed to address. Contrary to the assumption on which the legislation is based, ISP liability is not a key issue that will diminish the advantages of Internet usage and the promotion of electronic commerce in New Zealand. There is a reason why there has yet to be a single lawsuit involving ISP liability for copyright infringement.

The proposed law causes more problems than it addresses. The constructive knowledge standard, which ISPs have to meet in order to fall under the liability exemption clauses, is difficult to determine and bears many uncertainties. The parallel use of constructive knowledge both in secondary infringement provisions and in the exemption provisions causes a legal 'stalemate' that effectively removes the benefit of a liability exemption. Moreover, the position of ISPs will in fact be worse after the new law comes into force. If infringement notifications become a factor on which knowledge can be construed, this will affect the knowledge standard in respect of principal liability as well. The many problems connected to a non-formalised infringement notice system remain unaddressed in the proposed legislation, which will leave ISPs in the highly unfavourable position of having to assess liability risks not only in respect of copyright owners, but also of their subscribers. The need for reliable risk management will in fact increase the running costs for ISPs, who will have to safeguard themselves against those increased risks through the employment of out-of-house expertise or through insurance plans. Thus, the legislation will fail to support cost-effective access to the Internet.

This would not be a problem, if it did not contradict the primary aim of the legislation. However, by emphasising cost-effective access as its prime rationale, the legislation fails to consider other policies, which are of equal importance in respect to copyright in the digital age. The Internet is an instrument which bears unprecedented risks for copyright owners. However, the legislation shifts the risk unilaterally to copyright owners and spares the ones who benefit from the Internet the most: its users and companies making profits out of the Internet's popularity. Even if ISPs were held liable for secondary infringement, it cannot be doubted that the costs of those risks would be spread among the users through increased connection fees. However, it makes sense to spread the risk among those who participate in and benefit from a risk, especially when the remedies available are of limited use.

The New Zealand government could well have left it to the courts to determine reliable rules of secondary liability in the Internet context. Law, and especially intellectual property law, has proven to be able to respond to technological innovations in the past. The development of case law (one might think here of the example of negligence in respect to the introduction of automobiles) has the advantage of a careful assessment of the law and a thoughtful evaluation of whether the law is still capable of addressing the relevant issues in a changed environment. This rather slow progress prevents half-cooked solutions which are mainly dictated by suspected needs and which fail to consider all the necessities and implications of a legal problem. If potential secondary ISP liability

really poses a threat to the growth of the Internet economy, the legislator would have been well advised to find out whether the threat is real and whether the threat is serious. An incomplete solution to the supposed problem is neither appropriate to support the goals identified by the Ministry nor does it show great confidence in the proficiency of New Zealand courts in dealing with copyright law issues in the digital age.

Even if one is of the opinion that uncertainties in the law should be eliminated, this is not necessarily an argument in favour of a liability exemption. A better approach would have been to sort out the secondary liability rules. Providing clear rules, thus making exceptions to those rules superfluous, is the real issue legislation should target.