

Bond University

# Bond Law Review

---

Volume 32

---

2020

A Quiet Harbour: Finding a Balanced Approach to the Copyright Liability of Online Service Providers

Sam Alexander

Swinburne University of Technology

---

Follow this and additional works at: <https://blr.scholasticahq.com/>



This work is licensed under a [Creative Commons Attribution-Noncommercial-No Derivative Works 4.0 Licence](https://creativecommons.org/licenses/by-nc-nd/4.0/).

# A Quiet Harbour: Finding a Balanced Approach to the Copyright Liability of Online Service Providers

SAM ALEXANDER\*

---

## Abstract

*The United States, via the Online Copyright Infringement Liability Limitation Act, provides a safe harbour from copyright liability for online service providers. This safe harbour has been described as one of the laws that ‘built’ Silicon Valley. Despite the experience in the United States, Australia has not extended its own copyright safe harbour provisions to online service providers. This article seeks to understand the underlying reasons for such different approaches by adopting a comparative analysis methodology. After reviewing the legislative history and case law in the United States and in Australia, this article presents evidence suggesting copyright safe harbours support innovation. As such, this article contends there is a need to reconsider the scope of Australia’s copyright safe harbour. However, it is also demonstrated that the approach taken by the United States has not been without its flaws and, therefore, rather than a complete adoption of this position, Australia should consider a more ‘balanced’ approach—namely, extending the copyright safe harbour, while also introducing amendments to bring clarity and balance to the safe harbour provisions.*

## I Introduction

On 29 June 2018, the *Copyright Amendment (Service Providers) Act 2018* (Cth) (*‘Service Providers Act’*) received royal assent. As outlined in the Explanatory Memorandum<sup>1</sup> to the *Service Providers Act*, the Act extends the operation of the safe harbour scheme in Division 2AA of Part V of the *Copyright Act 1968* (Cth) (*‘division 2AA’*) to a broader range of service providers. However, the *Service Providers Act* differed from the Exposure Draft<sup>2</sup> originally released by the Department of Communications and the Arts (*‘the Department’*). The *Service Providers Act* did not extend to *‘online service providers’* (*‘OSPs’*). This approach adopted in Australia is in contrast to the position adopted in the United States, where the United States’ safe harbour (the *Online Copyright Infringement Liability*

---

\* Swinburne Law School, Swinburne University of Technology.

<sup>1</sup> Explanatory Memorandum, Copyright Amendment (Service Providers) Bill 2017 (Cth) 2.

<sup>2</sup> Exposure Draft, Copyright Amendment (Disability Access and Other Measures) Bill 2016.

*Limitation Act*<sup>3</sup> [‘DMCA § 512’]) not only extends to OSPs, but has done so since 1998. In fact, some in the United States have described the *DMCA § 512* as one of the laws that ‘built Silicon Valley’.<sup>4</sup>

This article seeks to understand the reasons underlying the adoption of these different approaches by conducting a comparative analysis of the legislative and policy history of both the United States and Australia in relation to this issue. To conduct this analysis, this article will contrast the legal history in both the United States and Australia and the implications for innovation arising from these divergent approaches. Following this analysis, the article will contend there is evidence from case law to support the view that safe harbour protection in the United States supports innovation and the lack of safe harbour protection in Australia for OSPs undermines it. Therefore, given this evidence, it is considered there is a need to reconsider the scope of Australia’s copyright safe harbour.

However, it is also noted that the *DMCA § 512* has not been without its critics, with some contending the law is in need of reform.<sup>5</sup> As such, this article also considers an alternative to complete adoption of the position taken by the United States. This alternative is a ‘balanced’ approach. More specifically, if Australia’s copyright safe harbour is extended to OSPs, amendments could be made to *division 2AA* to address the concerns associated with the *DMCA § 512*. The amendments proposed in this article are derived from areas of contention within the case law of both the United States and Australia.

This article is organised into three sections. First, the article considers the Australian experience with *division 2AA* (and copyright safe harbours more generally). Second, the article turns to the *DMCA § 512* and the reasons why it supports innovation. Finally, the article considers the alternative approach, namely a ‘balanced approach’.

## II Australian Experience

### A Introduction to the Australian Experience

To begin, this article will consider how Australia has regulated OSPs in a copyright context and the reasons underlying this. Specifically, the article considers that Australia’s approach has been defined by a desire to protect the rights of copyright owners and by scepticism and indifference towards OSPs. The approach can be seen in three phases of the Australian reform agenda: the passing of the *Copyright Amendment (Digital Agenda) Act 2000* (Cth) (‘*Digital Agenda Act*’), the implementation of the *Australia-United States Free Trade Agreement* (‘*AUSFTA*’),<sup>6</sup> and finally the drafting of the *Service Providers Act*.

<sup>3</sup> 17 USC § 512 (1998).

<sup>4</sup> See Anupam Chander, ‘How Law Made Silicon Valley’ (2014) 63 *Emory Law Journal* 639.

<sup>5</sup> See, eg, Emily Asp, ‘Section 512 of the Digital Millennium Copyright Act: User Experience and User Frustration’ (2018) 103 *Iowa Law Review* 751.

<sup>6</sup> United States-Australia, signed 18 May 2004, [2005] ATS 1 (entered into force 1 January 2005).

## **B Online Service Providers**

First, it is important to define and understand the core term of this article: OSP. This term has a broad meaning. For example, Evans provides the following explanation of OSPs:

Today's consumers use a wide range of digital copyrighted works: from online music, television streaming, and gaming to news, videos, and electronic books. They enjoy round-the-clock Internet connectivity and interactivity via multiple devices and in various mediums. Online service providers (OSPs) deliver and maintain that connectivity and interactivity. They also provide a range of services, including conduit services that allow users to connect with each other (e.g., Facebook or Pinterest) and remote storage services (e.g., Dropbox and Carbonite).<sup>7</sup>

In other words, OSPs represent a diverse group of service businesses, ranging from internet giants such as Google and Facebook, to Australian-based start-ups. Accordingly, it is this broad definition of the OSP that represents the concept evaluated in this article.

## **C The Digital Agenda Act**

The *Digital Agenda Act* was enacted into law on 4 September 2000. As outlined in the Attorney-General's second reading speech, the *Digital Agenda Act* sought to address copyright in the digital age. As stated by the Attorney-General, 'the reforms will update Australia's copyright standards to meet the challenges posed by rapid developments in communications technology, in particular, the huge expansion of the Internet.'<sup>8</sup> The so-called 'centrepiece' of these reforms was replacing the historical broadcast and diffuse rights with a broad-based technology-neutral communication right.<sup>9</sup> The intention of this change was to ensure copyright owners could control the use of their work online.<sup>10</sup> This right was coupled with enforcement provisions, which sought to prevent the manufacture, market or supply of devices or services to circumvent technological protection measures,<sup>11</sup> and made it an offence to remove or alter electronic rights management information.<sup>12</sup>

Practically, these reforms increased the rights of copyright holders in the digital space. In fact, some have contended that the *Digital Agenda Act* represented a significant shift in rights from copyright users to copyright

---

<sup>7</sup> Tonya Evans, "'Safe Harbor' for the Innocent Infringer in the Digital Age' (2013) 50 *Willamette Law Review* 1, 1-2.

<sup>8</sup> Commonwealth, *Parliamentary Debates*, House of Representatives, 2 September 1999, 9743 (Daryl Williams, Attorney-General).

<sup>9</sup> Revised Explanatory Memorandum, Copyright Amendment (Digital Agenda) Bill 2000 (Cth) 3.

<sup>10</sup> Leeanne Wiseman, 'Copyright and the Regulation of the Australian Publishing Industry' in David Carter and Anne Galligan (eds), *Making Books: Contemporary Australian Publishing* (University of Queensland Press, 2007) 177, 178.

<sup>11</sup> *Copyright Amendment (Digital Agenda) Act 2000* (Cth) sch 1 cl 98.

<sup>12</sup> *Ibid.*

owners.<sup>13</sup> This can be seen in the reality that it was ‘taken as a given’ by the Government that digitalised versions of works would be copyright protected<sup>14</sup> and that it had to act to protect copyright owners from acts of circumvention.<sup>15</sup> Consequently, given the emphasis placed on the rights of copyright owners, the notion of the rights of others (including OSPs) was arguably a secondary consideration.<sup>16</sup> In the case of OSPs, this is demonstrated by a consideration of the defences introduced into the law—in particular, sections 39B, 43A, 111A and 112E introduced into the *Copyright Act*.

Broadly speaking, sections 43A and 111A were designed to allow the temporary reproduction of works. For example, subsection 43A(1) of the *Copyright Act* states that ‘the copyright in a work, or an adaptation of a work, is not infringed by making a temporary reproduction of the work or adaptation as part of the technical process of making or receiving a communication.’<sup>17</sup> However, as has been noted by both the Intellectual Property and Competition Review Committee<sup>18</sup> and the Australian Law Reform Commission,<sup>19</sup> it is not clear that these provisions extended to one of the most important technical processes for any OSP, but especially search engines—namely ‘caching’.<sup>20</sup>

Sections 39B and 112E state a person is not held to authorise any copyright infringement ‘merely’ because the facilities provided by them for making a communication are used by someone else to infringe copyright. However, due to the use of the word ‘merely’, it is not clear what a service provider (especially an OSP) can do to prevent liability and, consequently, it has been argued that the provisions provide no practical protection.<sup>21</sup> In other words, the Government ensured copyright holders were protected in the digital environment—arguably more so than they did before<sup>22</sup>—but provided limited and practically ineffective defences for OSPs.

### **D *Australia-United States Free Trade Agreement***

The next period of reform in Australia came with the introduction of the *AUSFTA*. The *AUSFTA* was controversial. In particular, there was

---

<sup>13</sup> See Catherine Bond, Abi Paramaguru and Graham Greenleaf, ‘Advance Australia Fair? The Copyright Reform Process’ (2007) 10(3) *Journal of World Intellectual Property* 284, 286.

<sup>14</sup> Wiseman (n 10) 178.

<sup>15</sup> Bond, Paramaguru and Greenleaf (n 13) 286.

<sup>16</sup> See Wiseman (n 10) 178.

<sup>17</sup> *Copyright Act 1968* (Cth) s 43A(1).

<sup>18</sup> Intellectual Property and Competition Review Committee, *Review of Intellectual Property Legislation under the Competition Principles Agreement* (Final Report, September 2000) 111.

<sup>19</sup> Australian Law Reform Commission, *Copyright and the Digital Economy* (Report No 122, February 2014) 252 [11.16].

<sup>20</sup> *Ibid* 250 [11.7]. The Australian Law Reform Commission defined *caching* as improving ‘the internet’s performance by allowing search engines to quickly retrieve cached copies on its server, rather than having to repeatedly retrieve copies from other servers’.

<sup>21</sup> Kanchana Kariyawasam and Anthony Austin, ‘YouTube, Internet File Sharing and Copyrights’ (2011) 11 *Contemporary Issues in Law* 141, 147.

<sup>22</sup> See Wiseman (n 10) 193.

concern regarding the lack of transparency in relation to its negotiations and the reform process.<sup>23</sup> However, during these negotiations, the United States did make it clear that it desired a mechanism similar to the *DMCA § 512* be introduced into Australian law.<sup>24</sup> This was ultimately agreed on, in article 17.11.29<sup>25</sup> of the *AUSFTA*. As a result, the text of the *AUSFTA* required Australia to introduce ‘limitations in its law’ in relation to remedies against ‘service providers’ for copyright infringements they do not control or direct.<sup>26</sup>

However, when the Government introduced the *US Free Trade Agreement Implementation Act 2004* (Cth), the mechanism did not include the broad definition of ‘service providers’ in the *AUSFTA*;<sup>27</sup> rather, Australia limited the remedy it introduced to ‘carriage service providers’<sup>28</sup> (‘CSP’). Broadly speaking, the definition of CSP<sup>29</sup> means operators of telecommunications network infrastructure (eg ISPs) and does not extend to OSPs. The justification of the Attorney-General’s Department for the limited definition is as follows: ‘at the time the safe harbour scheme was introduced, this definition was adopted ... because it was considered to be a suitable and technologically neutral term.’<sup>30</sup> Some argue this justification demonstrates the adoption of the definition was a ‘legislative error’.<sup>31</sup> However, it is contended by this article that the adoption of the definition demonstrates the Government’s indifference towards OSPs. There was evidence available at the time that the definition was too limited. In particular, the *Singapore-United States Free Trade Agreement*<sup>32</sup> had only been implemented by both nations some months before. It required Singapore to introduce a safe harbour into its law,<sup>33</sup> which Singapore did with a broadly inclusive definition.<sup>34</sup> Furthermore, when the Government did consult with affected parties in 2005 (shortly after the passing of the *US Free Trade Agreement Implementation Act 2004* (Cth)), stakeholders

<sup>23</sup> See, eg, Senate Select Committee on the Free Trade Agreement between Australia and the United States, Parliament of Australia, *Final Report on the Free Trade Agreement between Australia and the United States of America* (Report, 5 August 2004) xviii.

<sup>24</sup> See Office of the United States Trade Representative, *Free Trade ‘Down Under’: Summary of the US-Australia Free Trade Agreement* (February 2004) 6. See also YiJun Tian, ‘Wipo Treaties, Free Trade Agreement and Implications for ISP Safe Harbour Provisions (The Role of ISP in Australian Copyright Law)’ (2004) 16(1) *Bond Law Review* 186, 205-6.

<sup>25</sup> Robert Burrell and Kimberlee Weatherall, ‘Exporting Controversy? Reactions to the Copyright Provisions of the U.S.-Australia Free Trade Agreement: Lessons for US Trade Policy’ (2008) 2 *Journal of Law, Technology & Policy* 259, 309.

<sup>26</sup> *AUSFTA* (n 6) art 17.11.29(b).

<sup>27</sup> *Ibid* art 17.11.29(b)(xii).

<sup>28</sup> See *Copyright Act* (n 17) pt V div 2AA. See also Burrell and Weatherall (n 25) 309-10.

<sup>29</sup> See *Telecommunications Act 1997* (Cth) s 87.

<sup>30</sup> Attorney-General’s Department, *Revising the Scope of the Copyright ‘Safe Harbour Scheme’* (Consultation Paper, October 2011) 3.

<sup>31</sup> Kimberlee Weatherall, Submission No 37 to Senate Environment and Communications Legislation Committee, Parliament of Australia, *Inquiry into the Copyright Amendment (Service Providers) Bill 2017* (11 February 2018) 6.

<sup>32</sup> Singapore-United States, signed 6 May 2003, 1 CTIA 399 (entered into force 1 January 2004).

<sup>33</sup> *Ibid* art 16.9.22.

<sup>34</sup> *Copyright Act* (Singapore, cap 63, 2006 rev ed) pt IXA. It is noted Singapore had a safe harbour prior to the implementation of the Singapore-United States Free Trade Agreement. However, it was greatly expanded as a result of the Agreement.

advised of the inappropriate nature of the definition, but the Government took no further action.<sup>35</sup> Accordingly, the failure of the implementation of the *AUSFTA* to result in the introduction of a safe harbour, which limits the liability of OSPs, further demonstrates Australia's indifference to OSPs.

### E *Copyright Amendment (Service Providers) Act 2018*

In 2016, over a decade after the signing of *AUSFTA*, the Department released an Exposure Draft<sup>36</sup> that would 'expand the scope of the "safe harbour" scheme to include online service providers'.<sup>37</sup> In particular, the Exposure Draft included a definition of 'service provider', which was consistent with the definition in the *DMCA § 512*.<sup>38</sup> The Government proceeded with this action after it became clear the Productivity Commission, as a part of its review into intellectual property arrangements,<sup>39</sup> would recommend the expansion of the safe harbour.<sup>40</sup> The Productivity Commission supported the expansion as it considered it would be consistent with Australia's obligations under the *AUSFTA*, would improve the system's adaptability as new services are developed, and would provide an 'important balance' to the expanded protections for rights holders under international agreements.<sup>41</sup> Proponents to extending the provisions noted similar arguments to the Productivity Commission.<sup>42</sup> However, proponents also emphasised the importance of safe harbour provisions to innovation. For example, the Australian Digital Alliance stated, 'enabling innovation in our technology sector is therefore extremely important, and a working safe harbour system is part of this.'<sup>43</sup>

Opposition to this expansion was fierce. For example, the Australia Council for the Arts offered that 'such changes would allow for unfettered use of artists' material that is available in sharing formats, and would protect corporations that provide access to the material.'<sup>44</sup> Music Rights

<sup>35</sup> Attorney-General's Department (n 30) 4. See also Attorney-General's Department, *Review of the Scope of Part V Division 2AA of the Copyright Act* (Issues Paper, 2005).

<sup>36</sup> Exposure Draft, Copyright Amendment (Disability Access and Other Measures) Bill 2016.

<sup>37</sup> Department of Communications and Arts, *Proposed Reform of the Copyright Act 1968* (Stakeholder Consultation Paper, December 2015) 1.

<sup>38</sup> See Exposure Draft, Copyright Amendment (Disability Access and Other Measures) Bill 2016 sch 2 cl 4. The definition of service provider was to be expanded to include 'a provider or operator of facilities for online services or network access.'

<sup>39</sup> Productivity Commission, *Intellectual Property Arrangements* (Final Report, 20 December 2016). The terms of reference included, 'undertak[ing] an inquiry into Australia's intellectual property arrangements, including their effect on investment, competition, trade, innovation and consumer welfare': at iv.

<sup>40</sup> Department of Communications and Arts (n 37).

<sup>41</sup> Productivity Commission (n 39) 567. The Productivity Commission expressed concern earlier in its report in relation to legal 'lock-in' provisions, which expand intellectual property rights under international agreements without sound evaluation and evidence. *Ibid* 73.

<sup>42</sup> See Google Australia Pty Ltd, Submission to the Department of Communications and Arts, *Stakeholder Consultation: Proposed Reform of the Copyright Act 1968* (30 January 2016) 2.

<sup>43</sup> Australian Digital Alliance, Submission No 34 to Senate Environment and Communications Committee, Parliament of Australia, Inquiry into the Copyright Amendment (Service Providers) Bill 2017 (January 2018) 8.

<sup>44</sup> Australia Council for the Arts, Submission to the Department of Communications and Arts, *Stakeholder Consultation: Proposed Reform of the Copyright Act 1968* (February 2016) 5.

Australia contended ‘overly broad or unclear safe harbours, like those proposed by the Government and applied in the US and the EU, have led to a detrimental market distortion.’<sup>45</sup> Furthermore, Free TV Australia noted, the ineffectiveness of the authorisation provisions in the *Copyright Act*<sup>46</sup> in a digital environment<sup>47</sup> following the decision in *Roadshow Films Pty Ltd v iiNet Ltd*.<sup>48</sup> In other words, the contention from Free TV was that the rights of copyright owners had already been weakened in the digital space and these reforms would only compound those issues.<sup>49</sup> Overall, as these examples demonstrate, the opponents viewed the expansion of the safe harbour as a threat to their rights and their business operations.

Under pressure from the opponents, the Government removed the broad definition of ‘service providers’ from the *Service Providers Act*. Instead, the Government amended the definition of ‘service provider’ to be limited to CSPs and specific educational and cultural bodies.<sup>50</sup> In other words, the *Services Providers Act* no longer extended to OSPs. In announcing these changes, the Minister noted in his second reading speech, ‘the worst outcome would be for the Government to inadvertently impact on rights holders’ ability to realise returns on their creative and financial investments.’<sup>51</sup> Concern for OSPs was more subdued. In particular, it was concluded that excluding OSPs from the safe harbour would not have a significant effect on innovation.<sup>52</sup> As such, the review and implementation of the *Services Providers Act* followed a familiar path of protecting copyright holders and was largely indifferent to OSPs.

---

<sup>45</sup> Music Rights Australia, Submission to the Department of Communications and Arts, *Stakeholder Consultation: Proposed Reform of the Copyright Act 1968* (February 2016) 3.

<sup>46</sup> *Copyright Act* (n 17) ss 36, 101.

<sup>47</sup> Free TV Australia, Submission to the Department of Communications and Arts, *Stakeholder Consultation: Proposed Reform of the Copyright Act 1968* (12 February 2016) 2-3. It is noted Free TV failed to discuss the *Copyright Amendment (Online Infringement) Act 2015* (Cth). This Act inserted s 115A into the *Copyright Act* (n 17), which enables a copyright owner to apply to the Federal Court for an order requiring a CSP to block access to an online location that has the primary purpose of infringing copyright or facilitating infringement.

<sup>48</sup> [2012] HCA 16.

<sup>49</sup> Free TV Australia (n 47).

<sup>50</sup> *Copyright Amendment (Service Providers) Act 2018* (Cth) sch 1 s 6.

<sup>51</sup> Commonwealth, *Parliamentary Debates*, Senate, 6 December 2017, 9903-4 (James McGrath, Assistant Minister to the Prime Minister).

<sup>52</sup> See Evidence to the Senate Environment and Communications Committee, Parliament of Australia, Canberra, 6 March 2018, 37 (Kirsti Haipola). The Department contended: ‘We really were looking for strong evidence that linked safe harbour to innovation. We didn’t find that direct linkage. There’s some evidence about a general copyright approach. I know that there have been some studies that have looked at flexible exceptions and their contribution to innovation. But we did not find any evidence that directly linked safe harbour to an increase in innovation... We definitely looked for any evidence that we could that linked safe harbour and innovation, whether in a positive or negative sense.’ *Ibid*.



### III The United States' Experience and Innovation

#### A *Introduction to the United States' Experience and Innovation*

This article will now compare the Australian experience with that of the United States. In contrast to the Australian experience, the United States has adopted a position in favour of providing safe harbour protection for OSPs via the *DMCA § 512*. This article contends that this approach has encouraged greater innovation in the digital economy. To conduct this comparison, first this article will consider the *DMCA § 512* and the reasons for its existence. Second, the article will seek to define and understand innovation before working through two cases (one each from the United States and Australia) and contrasting their implications from an innovation perspective. The relevant cases to be considered are as follows: *Viacom International Inc v YouTube Inc*<sup>53</sup> ('*YouTube*') and *Pokémon Company International, Inc v Redbubble Ltd*<sup>54</sup> ('*Pokémon Case*').

#### B *Internet Exceptionalism and the DMCA § 512*

During the 1990s—from a legislative perspective—the United States was experiencing a wave of 'internet exceptionalism'.<sup>55</sup> 'Internet exceptionalism' is a term that holds that the internet is unique and, as such, laws and regulations need to be specifically tailored and diverge from regulation of other forms of media.<sup>56</sup> It is based on the notion that the internet is not just another form of communication; rather, it is a separate space (ie, cyberspace) that should be governed by its own unique norms and laws.<sup>57</sup> Policymakers justified this exceptionalism on the basis that, without it, the innovative character of the internet would be lost.<sup>58</sup> This logic underpinned the 1998 United States Senate debate over the *Digital Millennium Copyright Act*.<sup>59</sup> Both Republicans and Democrats rose to support the legislation. For example, as Democratic Senator Leahy stated:

These are issues that create jobs in the United States. These are issues that allow the United States to go into the next century with our innovative genius in place. These are issues that allow the United States, in creating that innovative genius,

---

<sup>53</sup> *Viacom International Inc v YouTube Inc*, 676 F 3d 19 (2<sup>nd</sup> Cir, 2012); *Viacom International Inc v YouTube Inc*, 718 F Supp 2d 514 (SD NY, 2010); *Viacom International Inc v YouTube Inc*, 940 F Supp 2d 110 (SD NY, 2013).

<sup>54</sup> [2017] FCA 1541.

<sup>55</sup> See H Brian Holland, 'In Defense of Online Intermediary Immunity: Facilitating Communities of Modified Exceptionalism' (2008) 56(2) *Kansas Law Review* 369, 394.

<sup>56</sup> David Harvey, *Collisions in the Digital Paradigm: Law and Rule-Making in the Internet Age* (Hart Publishing, 2017) 113.

<sup>57</sup> Mark MacCarthy, 'Internet Exceptionalism Revisited' in Berin Szoka and Adam Marcus (eds), *The Next Digital Decade – Essays on the Future of the Internet* (Tech Freedom, 2010) 209.

<sup>58</sup> *Ibid* 212.

<sup>59</sup> 17 USC §§ 512, 1201–5, 1301–32 (1998); 28 USC § 4001 (1998).

to continue to lead the world. Senators, in voting for this legislation, will be voting to maintain the intellectual leadership of the United States.<sup>60</sup>

Senator Leahy's view was supported by his Republican colleague Senator Ashcroft:

The United States of America, as the generator of so much content and material—the innovator, the creator of so much of what is copywritten—stands to gain most by making sure that our copyrights are respected worldwide... Proper resolution of this issue is critical to unlock the potential for the Internet.<sup>61</sup>

It was as a part of this wave of internet exceptionalism and the passing of the *Digital Millennium Copyright Act* that the *DMCA § 512* entered into United States Law.

The *DMCA § 512* protects OSPs from all 'affirmative claims' for monetary relief and limits injunctive relief in four situations.<sup>62</sup> The four specific functions are as follows:

1. conduit services<sup>63</sup> (namely, the transmission of third-party information without interference, modification, storage or selection);<sup>64</sup>
2. caching<sup>65</sup> (according to the *DMCA § 512*, this is the 'intermediate and temporary storage of material on a system or network');<sup>66</sup>
3. hosting<sup>67</sup> (information on a system or network at the direction of users);<sup>68</sup> and
4. information location tools.<sup>69</sup>

It is noted that *division 2AA* broadly covers the same four categories (in relation to ISPs).<sup>70</sup> However, there are a number of key differences between the *DMCA § 512* and *division 2AA*—in particular, the definition of 'service provider'. For the purposes of the *DMCA § 512*, a 'service provider' is defined as an ISP for subsection 512(a), and, for subsections 512(b)-(c), 'a provider of online services or network access, or operator of facilities therefor', which includes OSPs. This definition is so broad, it was

<sup>60</sup> 144 *Congressional Record* S4885 (Patrick Leahy) (daily ed, 14 May 1998).

<sup>61</sup> 144 *Congressional Record* S4887 (John Ashcroft) (daily ed, 14 May 1998).

<sup>62</sup> *Viacom International Inc v YouTube Inc*, 676 F 3d 19, 41 (2<sup>nd</sup> Cir, 2012).

<sup>63</sup> 17 USC § 512(a) (1998).

<sup>64</sup> Nathan Lovejoy, 'Standards for Determining When ISPs Have Fallen Out of Section 512(a)' (2013) 27(1) *Harvard Journal of Law & Technology* 257, 258.

<sup>65</sup> 17 USC § 512(b) (1998).

<sup>66</sup> *Ibid*.

<sup>67</sup> *Ibid* § 512(c).

<sup>68</sup> Stephen Wang, 'DMCA Safe Harbors for Virtual Private Server Providers Hosting BitTorrent Clients' (2014) 12(1) *Duke Law & Technology Law Review* 163, 169.

<sup>69</sup> 17 USC § 512(d) (1998).

<sup>70</sup> *Copyright Act* (n 17) ss 116AC-116AF breaks-down the types of activities into four categories. 'Category A activity' covers providing facilities or services for transmitting copyright material or transient storage in the course of transmission. 'Category B activity' covers caching activities. 'Category C activity' covers storing copyright material at the direction of the user. 'Category D activity' covers 'referring users to an online location using information location tools or technology.'

stated in *re Aimster Copyright Litigation*<sup>71</sup> that ““service provider” is defined so broadly that we have trouble imagining the existence of an online service that would not fall under the definition.’

There are a number of limitations in the *DMCA § 512*. In particular, service providers must adopt, implement and advise subscribers/account holders of a policy that provides for the termination of accounts of repeat offenders.<sup>72</sup> In relation to subsections 512(c) and 512(d) (hosting and information location tools), a number of additional requirements are imposed. This includes that the service provider must not have actual or apparent knowledge of infringement and, in the event it does have that knowledge, act immediately to remove any infringing material.<sup>73</sup> This latter requirement has been the subject of substantial litigation.<sup>74</sup> Service providers also must not receive any financial benefit directly attributable to the infringing material<sup>75</sup> and they must establish a system of ‘takedown notices’<sup>76</sup> whereby they take down infringing material upon receiving a notice advising them accordingly.<sup>77</sup> It is this piece of legislation that this article considers has had an impact on innovation in the digital space.

### C Innovation

Before considering innovation in the context of the Australian and United States approaches, it is important to first understand what ‘innovation’ as a concept means. Innovation is inherently difficult to measure, quantify and define.<sup>78</sup> In fact, the lack of academic consensus led Adams, Bessant and Phelps to conclude:

The measures proposed in the literature often seem to be proposed abstractly, with little consideration given to the use of measures as a management tool in the day-to-day context of managing innovation. In the absence of a comprehensive framework for innovation management measurement, organi[s]ations will inevitably resort to ad-hoc and partial metrics, which can encourage wasteful practice.<sup>79</sup>

Fearing that the term will be rendered meaningless, a series of researchers have attempted to develop a more specific understanding of the

<sup>71</sup> 252 F Supp 2d 634, 658 (ND Ill, 2002).

<sup>72</sup> 17 USC § 512(i) (1998). See also *Wolk v Kodak Imaging Networks Inc*, 840 F Supp 2d 724 (SD NY, 2012).

<sup>73</sup> 17 USC §§ 512(c)(1)(A), 512(d)(1) (1998).

<sup>74</sup> See, eg, *Viacom International Inc v YouTube Inc*, 676 F 3d 19 (2<sup>nd</sup> Cir, 2012); *Capitol Records LLC v Vimeo LLC*, 826 F 3d 78 (2<sup>nd</sup> Cir, 2016).

<sup>75</sup> 17 USC §§ 512(c)(1)(B), 512(d)(2) (1998).

<sup>76</sup> See, eg, Jennifer Urban and Laura Quilter, ‘Efficient Process or “Chilling Effects?” Takedown Notices Under Section 512 of the Digital Millennium Copyright Act’ (2005) 22 *Santa Clara Computer & High Tech Law Journal* 622.

<sup>77</sup> 17 USC §§ 512(c)(1)(C), 512(d)(3) (1998).

<sup>78</sup> Ryan Born and Yuchen Guo, ‘Measuring Innovation’ (2016) 14(3) *DICE Report* 72, 72. See also Stephen Kline and Nathan Rosenberg, ‘An Overview of Innovation’ in Nathan Rosenberg (ed), *Studies on Science and the Innovation Process* (World Scientific, 2009) 279.

<sup>79</sup> Richard Adams, John Bessant and Robert Phelps, ‘Innovation Management Measurements: A Review’ (2006) 8(1) *International Journal of Management Reviews* 21, 40.

term.<sup>80</sup> In particular, Crossan and Apaydin reviewed 10,946 papers on innovation and came to the following definition:

Innovation is: production or adoption, assimilation, and exploitation of a value-added novelty in economic and social spheres; renewal and enlargement of products, services, and markets; development of new methods of production; and establishment of new management systems. It is both a process and an outcome.<sup>81</sup>

However, relevantly for this article, Edison, bin Ali and Torkar noted that the literature review that gave rise to the abovementioned definition did not focus on the software industry.<sup>82</sup> Nevertheless, they recommended the ‘use’ of the definition due to its comprehensive coverage.<sup>83</sup> Edison, bin Ali and Torkar also noted that, while innovation is hard to measure, they consider (based on their own literature review) that there are three aspects at an entity level that can be measured: capability, output and success.<sup>84</sup> In this context, ‘capability’ means the ‘willingness and ability to create, adopt and imitate new ideas’.<sup>85</sup> Output is the measure of commercialised ideas arising from inputs.<sup>86</sup> It is in light of the abovementioned definition and measurable aspects that this article outlines the impact the approaches in both Australia and the United States have had on innovation.

### **D The Chilling Effect**

As outlined above, one of the few aspects of innovation that is measurable is capability. As stated by Lemley and Reece, traditional copyright lawsuits against direct infringers of copyright generally do not harm innovation.<sup>87</sup> This is because the case only punishes the infringing individual<sup>88</sup>—for

---

<sup>80</sup> See, eg, Neil Anderson, Carsten De Deru and Bernard Nijstad, ‘The Routinization of Innovation Research: A Constructively Critical Review of the State-of-Science’ (2004) 25 *Journal of Organizational Behavior* 147; Rosanna Garcia and Roger Calantone, ‘A Critical Look at Technological Innovation Typology and Innovativeness Terminology: A Literature Review’ (2002) 19(2) *Journal of Product Innovation* 110.

<sup>81</sup> Mary Crossan and Marina Apaydin, ‘A Multi-Dimensional Framework of Organizational Innovation: A Systematic Review of the Literature’ (2010) 47(6) *Journal of Management Studies* 1154, 1155.

<sup>82</sup> Henry Edison, Nauman bin Ali and Richard Torkar, ‘Towards Innovation Measurement in the Software Industry’ (2013) 86 *The Journal of Systems and Software* 1390, 1391.

<sup>83</sup> *Ibid* 1401.

<sup>84</sup> *Ibid* 1403.

<sup>85</sup> *Ibid*. See also Gülşen Akman and Cengiz Yilmaz, ‘Innovative Capability, Innovation Strategy and Market Orientation: An Empirical Analysis in Turkish Software Industry’ (2008) 12(1) *International Journal of Innovation Management* 69.

<sup>86</sup> *Ibid* 1404.

<sup>87</sup> For completeness, it is noted that in some cases the dicta of decisions can have broader implications. For example, after *Desktop Marketing Systems Pty Ltd v Telstra Corporation Ltd* [2002] FCAFC 112 there was uncertainty regarding whether third parties could reproduce material derived from a phone directory compilation, which may have resulted in third parties not pursuing opportunities in this space. See Brian Fitzgerald and Cheranne Bartlett, ‘Database Protection under Australian Copyright Law: *Desktop Marketing Systems Pty Ltd v Telstra Corporation* [2002] FCAFC 112’ (2003) 7 *Southern Cross University Law Review* 308.

<sup>88</sup> Mark Lemley and Anthony Reece, ‘Reducing Digital Copyright Infringement Without Restricting Innovation’ (2004) 56 *Stanford Law Review* 1345, 1387.

example, a publisher suing an individual for illegally selling a physical book. However, the problem with copyright suits against OSPs is that the legal case is not being made against the infringer; rather, it is being made against the technology/platform owner. In other words, the intention of the suit is to limit the use of the technology. Restricting the use of the technology has negative impacts from an innovation perspective.<sup>89</sup> In particular, it undermines the capability of entrepreneurs to create new ideas from those technologies due to the fear of litigation.<sup>90</sup> The *DMCA § 512* has acted as a guard against this chilling effect in the United States and the lack of a similar safe harbour in Australia has undermined the willingness and, in turn, the capacity of Australian entrepreneurs to innovate online. This can be seen through a comparison of two legal decisions, one in the United States (*YouTube*) and one in Australia (the *Pokémon Case*).

### E *YouTube*

YouTube.com was founded in 2005 as a website which allowed user-generated content to be uploaded and viewed for free. The website, within 12 months of going live, was streaming more than 30 million videos per day.<sup>91</sup> However, given the capacity for any user from around the world to upload to the site, significant amounts of copyright-infringing content were uploaded to the website in its early days. In fact, at the time of the litigation, it was contended that between 30 and 90 percent of content on the website comprised infringing videos.<sup>92</sup> However, this figure was highly disputed.<sup>93</sup> Viacom was a conglomerate based in the United States with interests in numerous media and entertainment businesses ranging from Paramount Pictures to MTV. In this situation, Viacom's content had been uploaded to the site in breach of copyright. Viacom sued YouTube for damages, alleging (1) YouTube's business model was dependent on infringing content to be uploaded; and (2) YouTube had failed to take 'reasonable precautions' to stop this infringement.<sup>94</sup> In its defence, YouTube relied on the 'hosting' safe harbour in the *DMCA § 512*.

Ultimately, in two separate decisions, Stanton J found that YouTube was covered by the safe harbour on the basis it did not have 'actual knowledge' of specific infringement.<sup>95</sup> His first judgment was noted as

---

<sup>89</sup> Ibid 1388.

<sup>90</sup> Ibid. See also Matthew Fagin, Frank Pasquale and Kim Weatherall, 'Beyond Napster: Using Antitrust Law to Advance and Enhance Online Music Distribution' (2002) 8(2) *Boston University Journal of Science & Technology* 451, 500.

<sup>91</sup> John Williams and Craig Mandell, 'Winning the Battle, but Losing the War: Why the Second Circuit's Decision in *Viacom Int'l, Inc v Youtube, Inc* is a Landmark Victory for Internet Service Providers' (2013) 41(2) *AIPLA Quarterly Review* 235, 245.

<sup>92</sup> Michael Driscoll, 'Will YouTube Sail into the DMCA's Safe Harbor or Sink for Internet Piracy' (2007) 6 *The John Marshall Review of Intellectual Property Law* 550, 552.

<sup>93</sup> Ibid 553.

<sup>94</sup> Williams and Mandell (n 91) 247.

<sup>95</sup> 718 F Supp 2d 514 (SD NY, 2010); 940 F Supp 2d 110 (SD NY, 2013).

being ‘incredibly brief’ and dealt with the matter in 30 pages.<sup>96</sup> However, in his second judgment, Stanton J went into depth regarding the role of the *DMCA § 512*:

[The *DMCA § 512*] was enacted because service providers perform a useful function, but the great volume of works placed by outsiders on their platforms, of whose contents service providers were generally unaware, might well contain copyright-infringing material which the service provider would mechanically ‘publish,’ thus ignorantly incurring liability under the copyright law.<sup>97</sup>

While it was not denied by Stanton J that a jury could have found that YouTube had generally been aware and had even encouraged copyright infringement,<sup>98</sup> YouTube was not required to take steps to prevent infringement unless they acquired specific knowledge of identifiable infringements.<sup>99</sup> Practically, this meant that, until it received a takedown notice or otherwise became aware of the infringement, YouTube was not required to take action in relation to an individual post.<sup>100</sup> In Stanton J’s opinion, YouTube was performing these activities and noted accordingly that ‘the system is entirely workable: in 2007 Viacom itself gave... notice to YouTube of infringements by some 100,000 videos, which were taken down by YouTube by the next business day.’<sup>101</sup>

This decision by Stanton J has had profound implications for YouTube as a business. In particular, it is noted that, shortly before the litigation with Viacom begun, Google purchased YouTube for \$1.65 billion (USD).<sup>102</sup> If Viacom had successfully sued, it could have been entitled to damages of \$24 billion, nearly 15 times the amount originally invested by Google.<sup>103</sup> It is not surprising, then, that some commentators have observed that if the safe harbour was not in place, ‘there would be no YouTube’.<sup>104</sup>

Since the end of the cases and, in turn, the risk of financial ruin, YouTube has been a story of innovative success. For example, according to internet data firm – *Alexa Internet Inc*, YouTube is the second most viewed website in the world,<sup>105</sup> and in 2020 it is anticipated it will generate

<sup>96</sup> Annsley Ward, ‘The “*Viacom v YouTube*” Litigation and Section 512(c) DMCA: When the Safe Harbour Becomes a Permanent Mooring’ in Aurelio Lopez-Tarruella Martinez (ed), *Google and the Law* (TMC Asser Press, 2012) 230.

<sup>97</sup> *Viacom International Inc v YouTube Inc*, 940 F Supp 2d 110, 112 (SD NY, 2013).

<sup>98</sup> *Viacom International Inc v YouTube Inc*, 718 F Supp 2d 514, 518 (SD NY, 2010).

<sup>99</sup> Matthew Sag, ‘Internet Safe Harbors and the Transformation of Copyright Law’ (2018) 93(2) *Notre Dame Law Review* 499, 516.

<sup>100</sup> *Ibid* 517.

<sup>101</sup> *Viacom International Inc v YouTube Inc*, 940 F Supp 2d 110, 116 (SD NY, 2013).

<sup>102</sup> Google LLC, *Google to Acquire YouTube for \$1.65 Billion in Stock* (Blog Post, 9 October 2018) <[http://googlepress.blogspot.com/2006/10/google-to-acquire-youtube-for-165\\_09.html](http://googlepress.blogspot.com/2006/10/google-to-acquire-youtube-for-165_09.html)>.

<sup>103</sup> Michael Carrier, *Innovation for the 21<sup>st</sup> Century: Harnessing the Power of Intellectual Property and Antitrust Law* (Oxford University Press, 2009) 147.

<sup>104</sup> Eli Neiburger, ‘User-Generated Content’ (2010) 8 *Library Technology Reports* 13, 21. See also Edward Lee, ‘Decoding the DMCA Safe Harbors’ (2009) 32 *Columbia Journal of Law & the Arts* 233.

<sup>105</sup> Alexa Industries Inc, *The Top 500 Sites on the Web* (2019) <<https://www.alexa.com/topsites>>.

Alphabet (the parent company of Google) approximately \$12 billion in global advertising revenue.<sup>106</sup> However, what is less well known is that the *DMCA § 512* allowed YouTube to deal with copyright infringements on its own terms and innovate in this space. YouTube worked alongside copyright owners to develop a filtering system to prevent infringement, namely ‘Content ID’.<sup>107</sup> Broadly speaking, Content ID works by scanning content uploaded to YouTube’s website against a database of content provided by copyright owners. Where infringing material is identified, copyright owners can then decide to have this content removed from the website.<sup>108</sup> This system has fundamentally changed the operation of copyright enforcement in the digital space, with YouTube’s innovation allowing rightsholders to enforce their rights without any human intervention.<sup>109</sup> In summary, if it was not for the *DMCA § 512*, YouTube and the innovation it has developed, including in the copyright protection space, may not exist.

### F *Pokémon Case*

The United States’ experience with YouTube can be contrasted with the Australian experience in the *Pokémon Case*.<sup>110</sup> The applicant was a wholly-owned subsidiary of the Pokémon Company, being the owner of the intellectual property of the Pokémon game and cartoon franchise. The respondent was an Australian OSP, which operated an online marketplace where designers could upload and sell their designs to consumers. Redbubble derived revenue by taking a percentage of sales.<sup>111</sup> The applicant alleged that Redbubble was in breach of copyright when third parties uploaded images of Pokémon characters without the authority of the respondent.<sup>112</sup> Redbubble was aware of these risks and took a number of steps to mitigate them. In particular, Redbubble did more than simply have written warnings on its website against copyright infringement, as was the case in *Universal Music Australia Pty Ltd v Sharman Licence Holdings*.<sup>113</sup> More precisely, Redbubble also had a detailed IP policy and sought to enforce it, removing material where a copyright owner advised of infringement.<sup>114</sup> In fact, Pagone J acknowledged that ‘there were, indeed,

<sup>106</sup> Statista, *Global YouTube Net Advertising Revenues 2016-2020* (2019) <<https://www.statista.com/statistics/289658/youtube-global-net-advertising-revenues/>>.

<sup>107</sup> Sag (n 99) 541. Sag noted others have contended that Content ID arose due to Google’s desire to sell targeted advertising on YouTube.

<sup>108</sup> Google, *How Content ID Works* (2019) <<https://support.google.com/youtube/answer/2797370>>.

<sup>109</sup> Sag (n 99) 544.

<sup>110</sup> *Pokemon Company International, Inc. v Redbubble Ltd* [2017] FCA 1541.

<sup>111</sup> Amanda Caldwell and Martin Friedgut, ‘Current Developments – Australia’ (2018) 111 *Intellectual Property Forum* 37, 47.

<sup>112</sup> *Ibid* 48.

<sup>113</sup> [2005] FCA 1242, [506]. The operators of the file-sharing software, ‘Kazaa’, had warnings on their website against copyright infringement, but took no action to enforce it. In fact, it was noted there was evidence supporting the view that Sharman encouraged infringement. *Ibid* [405].

<sup>114</sup> *Pokémon Case* (n 110) [63].

many reasonable steps taken by Redbubble directed to preventing infringement.<sup>115</sup>

Nevertheless, Pagone J still determined Redbubble infringed copyright by communicating, exhibiting and authorising reproduction of infringing material.<sup>116</sup> In fact, despite the reasonable steps taken by Redbubble, Pagone J found:

The business established by Redbubble carried the inherent risk of infringement of copyright... It is true that Redbubble sought to mitigate the risk, but it was an inevitable incident of the business, as Redbubble chose to conduct it, that there were likely to be infringements.<sup>117</sup>

In other words, in light of the *Pokémon Case*, OSPs in Australia can be found to be communicating, exhibiting and authorising copyright infringement regardless of taking steps towards mitigation.<sup>118</sup>

Based on theory and the initial evidence available, the *Pokémon Case* appears to be having a chilling effect on innovation by imposing heightened risks and costs on Australian OSPs. Specifically, OSPs in Australia face higher compliance costs and greater risk of liability. First, Australian OSPs may face higher compliance costs as liability potentially arises due to it being an 'inevitable incident' of their business model, rather than liability arising due to direct knowledge.<sup>119</sup> Consequently, Australian OSPs may have to develop or purchase 'prohibitively expensive'<sup>120</sup> monitoring software to reduce the risk of infringing material being posted on their website.<sup>121</sup> The actual cost of such software can be astonishing, for example Google has spent approximately \$100 million on developing Content ID.<sup>122</sup> Even if the cost to Australian OSPs is only a fraction of this amount, it would still be a large capital outlay which diverts limited investor funds from other and potentially more innovative expenditure.<sup>123</sup>

In addition to higher compliance costs, Australian OSPs also face the risk of copyright litigation, and the various associated costs. As outlined by StartupAUS, litigation to smaller OSPs represents 'a legitimately existential risk'.<sup>124</sup> Litigation risks have an economic impact. Where a legal

---

<sup>115</sup> Ibid.

<sup>116</sup> Caldwell and Friedgut (n 111) 49.

<sup>117</sup> *Pokémon Case* (n 110) [67].

<sup>118</sup> Weatherall (n 31) 11.

<sup>119</sup> See also *Hells Angels Motorcycle Corporation (Australia) Pty Ltd v Redbubble Ltd* [2019] FCA 355, [436], where it was held by Greenwood J, 'I am satisfied that Redbubble, in Australia, by its business model deployed in Australia, has made the artistic work in suit available online in Australia and I am satisfied that Redbubble is the person responsible for determining the content of the communications'.

<sup>120</sup> Giancarlo Frosio, 'Google Books Rejected: Taking the Orphans to the Digital Public Library of Alexandra' (2011) 28(1) *Santa Clara High Technology Law Journal* 81, 88.

<sup>121</sup> Giancarlo Frosio, 'Reforming Intermediary Liability in the Platform Economy: A European Digital Single Market Strategy' (2017) 112 *Northwestern University Law Review* 19, 42.

<sup>122</sup> Annemarie Bridy, 'EU Copyright Reform: Grappling with the Google Effect' (2019) 21(5) *Vanderbilt Journal of Entertainment & Technology Law* (forthcoming).

<sup>123</sup> See, eg, Aimee Chanthadavong, 'Copyright Reforms' Problem for Tech', *InnovationAus* (29 June 2018) <<https://www.innovationaus.com/2018/06/Copyright-reforms-problem-for-tech>>.

<sup>124</sup> StartupAUS, Submission to the Australian Competition and Consumer Commission, *Digital Platforms Inquiry* (15 February 2019). This risk is also acknowledged in the submission of



system ensures there is an ever present risk of litigation, the marginal cost of each post on an OSP's website never goes to zero, as each post represents some fixed percentage cost of legal liability.<sup>125</sup> The higher the probability of litigation, the higher the fixed cost.<sup>126</sup> Broadly, under the *DMCA § 512* the risk of litigation is generally diminished until a 'takedown notice' is received, whereas under the Australian system the risk is largely always present. Given the heightened risk of litigation and the fact that the fixed cost is higher in Australia, the system incentivises more cautious investment and practices in Australia and, in turn, undermines the capability of entrepreneurs to innovate.<sup>127</sup>

When combined the above two risks make smaller OSPs less competitive as compared to their larger peers. This is because the cost and time associated with responding to copyright litigation and compliance are more easily addressed by larger entities compared to smaller entities, the former having significantly greater resources at their disposal.<sup>128</sup> In other words, this entrenches the position of large OSPs (such as Google and Facebook).<sup>129</sup> The entrenchment of the large OSPs leads to what Tim Berners-Lee describes as the 'balkanisation' of the internet.<sup>130</sup> A balkanised web means a user's experience online is curated and controlled by a small number of entities, thereby restricting the creativity and sharing of ideas by users and start-ups alike.<sup>131</sup> The initial response to the *Pokémon Case* in Australia appears to suggest that entrenchment of the large OSPs may be occurring. In particular, there is genuine concern that a number of Australian OSPs (such as Redbubble and Envato) will leave the Australian marketplace.<sup>132</sup>

### ***G The Connection between Innovation and Safe Harbours***

In light of the comparative analysis outlined above, this article contends the experience from the United States shows that the *DMCA § 512* has a positive effect on innovation. However, given the difficulty in measuring

---

the Australian Digital Alliance to the Australian Competition and Consumer Commission, where it was noted 'Redbubble shows that without the protection provided by the safe harbour, compliant service providers will still be subject to substantial legal risk simply for operating in Australia and/or be forced to pay hundreds of thousands of dollars in costs defending their day-to-day operations': Australian Digital Alliance, Submission to Australian Competition and Consumer Commission, *Digital Platform Inquiry* (15 February 2019) 14.

<sup>125</sup> Cecilia Ziniti, 'Optimal Liability System for Online Service Providers: How *Zeran v. America Online* Got it Right and Web 2.0 Proves It' (2008) 23(1) *Berkeley Technology Law Journal* 583, 604.

<sup>126</sup> *Ibid.*

<sup>127</sup> Lemley and Reece (n 88) 1387.

<sup>128</sup> Andrew Tyner, 'The EU Copyright Directive: "Fit for the Digital Age" or Finishing it?' (2019) 26(2) *Journal of Intellectual Property Law* 275, 286.

<sup>129</sup> Australian Digital Alliance (n 124) 22.

<sup>130</sup> Interview with Sir Tim Berners-Lee (Jessica Yu, Ford Foundation) (21 September 2016) <<https://www.fordfoundation.org/ideas/equals-change-blog/posts/the-web-belongs-to-all-of-us-qa-with-the-web-s-inventor-sir-tim-berners-lee/>>.

<sup>131</sup> *Ibid.*

<sup>132</sup> Denham Sadler, 'Copyright reform misses the mark', *InnovationAus* (7 December 2017) <<https://www.innovationaus.com/2017/12/Copyright-reforms-miss-the-mark/>>.

and quantifying innovation, this positive influence can be seen through the fact that the *DMCA § 512* has ensured US-based innovators have had the ‘capability’ to innovate and do not live in fear of copyright infringement (the so-called chilling effect). The success of YouTube can be contrasted with the deflated environment in Australia following the *Pokémon Case*. This is an environment where Australian OSPs face higher costs, greater risk of litigation and are less competitive relative to their larger international peers. Accordingly, given the implications safe harbour protection has on innovation, this article considers there is an argument that Australia should reconsider *division 2AA* and whether it should be extended to OSPs.

## IV A Balanced Approach

### A *Introduction to the Balanced Approach*

As outlined above, this article considers there is evidence to support a connection between copyright safe harbours and innovation—in particular, the *DMCA § 512* and innovation. However, the *DMCA § 512* is not above criticism. In particular, the *DMCA § 512* has been described as poorly-drafted and inconsistent legislation<sup>133</sup> and favouring service providers over copyright owners by a creating a ‘value gap’.<sup>134</sup> The ‘value gap’ refers to the supposed situation that content-sharing services like YouTube are underpaying per stream of copyrighted music relative to dedicated music streaming services like Spotify.<sup>135</sup> This article will now consider these critiques and outline possible reforms to *division 2AA*.

### B *The Long Shadow of the European Union*

Firstly, before discussing the suggested reforms in detail, it is important to address reforms that have recently taken place in the European Union. In April 2019, the European Parliament passed a controversial law which sought to address the ‘value gap’,<sup>136</sup> namely Article 17 (formerly Article 13) of the *Directive on copyright and related rights in the Digital Single Market* (‘*DSM Directive*’).<sup>137</sup> Article 17 seeks to achieve this objective by holding that ‘online content-sharing service providers’<sup>138</sup> (‘OCSSPs’)

---

<sup>133</sup> Asp (n 5) 767.

<sup>134</sup> *Ibid.*

<sup>135</sup> Bridy (n 122) 3.

<sup>136</sup> Victoriano Darias de las Heras, ‘Content ID as a Solution to Address the Value Gap’ (2018) 18(1) *MEIEA Journal* 105, 106.

<sup>137</sup> *Directive (EU) 2019/790 of the European Parliament and of the Council of 17 April 2019 on Copyright and Related Rights in the Digital Single Market and Amending Directives 96/9/EC and 2001/29/EC* [2019] OJL 130/92, art 17. Article 13 was the article number of the law in the original draft legislation.

<sup>138</sup> Defined in art 2(6) of the *DMS Directive* [2019] OJL 130/92 as ‘a provider of an information society service of which the main or one of the main purposes is to store and give the public access to a large amount of copyright-protected works or other protected subject matter uploaded by its users, which it organises and promotes for profit-making purposes.’ However, there are specific carve-outs including not-for-profit online encyclopedias, not-for-profit

carry out acts of communication to the public when they give access to works/subject matter uploaded by their users.<sup>139</sup> In other words, Article 17 makes OCSSPs directly liable for users' content/uploads.<sup>140</sup> In order to avoid liability OCSSPs cannot rely on the safe harbour in Article 14(1) of the *E-Commerce Directive*,<sup>141</sup> but rather have two options. OCSSPs can either obtain an authorisation to communicate the content from the copyright holders (eg licensing) or meet a number of cumulative conditions.<sup>142</sup> These conditions require that the OCSSPs have:

1. Made best efforts to obtain an authorisation;
2. Made best efforts to ensure the unavailability of specific works for which the right holders have provided the OCSSP with the relevant and necessary information; or
3. Acted expeditiously, subsequent to notice from right holders, to take down infringing content and made best efforts to prevent its future upload.<sup>143</sup>

These options are subject to some exceptions to limit the 'negative effects',<sup>144</sup> such as taking into account the 'principle of proportionality'<sup>145</sup> and an exemption for new and small businesses.<sup>146</sup>

In light of the emergence of Article 17, some researchers have suggested that it should be adopted in Australia as a solution to the 'value gap', which is contended to be present in Australia despite the lack of application of *division 2AA* to OSPs.<sup>147</sup> However, the evidence in favour of the 'value gap' is weak at best, lacking clear empirical evidence to support it.<sup>148</sup> In fact, the European Commission's own impact assessment noted the 'limited availability of data in this area' to assess the impact.<sup>149</sup> Furthermore, independent of the lack of empirical evidence, other researchers have noted Article 17 and the *DSM Directive* is a flawed piece of legislation.<sup>150</sup> For example, it has been noted by some researchers these 'best efforts' requirements amount to a de facto technical measure

---

educational and scientific repositories, open source software-developing and sharing platforms, online marketplaces and business-to-business cloud service.

<sup>139</sup> Ibid art 17(1).

<sup>140</sup> Joao Pedro Quintais, 'The New Copyright in the Digital Single Market Directive: A Critical Look' (2019) 41 *European Intellectual Property Review* (forthcoming) 18. See also Dirk Visser, 'Trying to Understand Article 13' (Working Paper, Leiden University, 17 March 2019).

<sup>141</sup> *DSM Directive* (n 138) art 17(3).

<sup>142</sup> Quintais (n 140) 18.

<sup>143</sup> Ibid.

<sup>144</sup> Ibid 19.

<sup>145</sup> *DSM Directive* (n 138) art 17(5).

<sup>146</sup> Ibid art 17(6). Broadly, OCSSPs which are less than three years old, have an annual turnover below EUR 10 million or have less than five million monthly unique visitors.

<sup>147</sup> See, eg, Richard Vella, Shane Homan and Tracey Redhead, 'Why Music is not Lost', *The Conversation* (28 November 2016) <<https://theconversation.com/why-music-is-not-lost-69130>>.

<sup>148</sup> Frosio (n 120) 27.

<sup>149</sup> European Commission, *Commission Staff Working Document Impact Assessment on the Modernisation of EU Copyright* (European Union, 2016) 136.

<sup>150</sup> Quintais, (n 140) 2.

requirement, whereby OCSSPs are required to adopt filtering mechanisms.<sup>151</sup> Consequently, Article 17 makes developing and/or purchasing the expensive filtering products discussed earlier in the article a legal requirement.

Given the flaws of Article 17 and uncertainty as to the existence of the ‘value gap’, this article does not support reforms in the form of Article 17. Instead, this article proposes a ‘balanced’ approach on the basis that it extends *division 2AA* to cover OSPs, but also proposes three amendments to *division 2AA* to bring clarity to the safe harbour regime. These three amendments are outlined in detail in this final section of the article. First, this section will outline how the requirement of service providers having a policy of terminating accounts of repeat infringers could be strengthened; second, a third statutory knowledge requirement of ‘wilful blindness’ will be considered; and finally, reforms to strengthen the ‘takedown notice’ system will be outlined.

### ***C Policy of Terminating Accounts of Repeat Infringers***

One of the key areas of confusion in litigation in both Australia and the United States has been with regard to the following phrase that is used in both the *DMCA § 512* and *division 2AA*<sup>152</sup>—that is, a service provider ‘must adopt and reasonably implement a policy that provides for termination, in appropriate circumstances, of the accounts of repeat infringers.’<sup>153</sup> For example, in *Roadshow Films Pty Limited v iiNet Limited*,<sup>154</sup> the Full Federal Court considered the meaning of this provision. Relevantly, Nicholas J (quoting the Trial Judge) noted that ‘the complete vacuum of legislative guidance in relation to this particular condition’<sup>155</sup> and ‘nowhere in the Act or the Regulations are the expressions “repeat infringer” or “appropriate circumstances” defined.’<sup>156</sup> Accordingly, Nicholas J explained how this uncertainty has provided service providers with significant ‘latitude’ to draft policies.<sup>157</sup> This has resulted in a broad range of mechanisms in the United States being determined to amount to reasonably implemented policies, including policies not written down<sup>158</sup> and policies that treated numerous notices as representative of one ‘strike’ in a three-strike policy.<sup>159</sup> It is noted that, given the continuous state of flux and the speed in the development of software and technology,<sup>160</sup> strict guidelines would likely be unhelpful. However, greater clarity could potentially be achieved through more detailed principles being outlined. In

<sup>151</sup> Bridy (n 122) 23.

<sup>152</sup> This requirement is currently in place for ISPs.

<sup>153</sup> *Copyright Act* (n 17) s 116AH(1) item 1. See also 17 USC § 512(i)(1)(A) (1998).

<sup>154</sup> [2011] FCAFC 23.

<sup>155</sup> *Ibid* [632].

<sup>156</sup> *Ibid* [804].

<sup>157</sup> *Ibid*.

<sup>158</sup> See, eg, *Hempton v Pond5 Inc*, No 3 15-cv-05696-BJR (WD Was, 2016).

<sup>159</sup> See, eg, *UMG Recordings Inc v Veoh Networks Inc*, 665 F Supp 2d 1009 (CD Cal, 2009).

<sup>160</sup> See Henry Lucas and Jie Mein Goh, ‘Disruptive Technology: How Kodak Missed the Digital Photography Revolution’ (2009) 18(1) *Journal of Strategic Information Systems* 46.

particular, the principles as laid out in the decision of *Corbis Corporation v Amazon.com Inc*<sup>161</sup> ('*Corbis*') could be legislatively introduced into the *Copyright Act* or via the *Copyright Regulations 2007* (Cth) ('*Copyright Regulations*').

In *Corbis*, Corbis Corporation alleged that Amazon and 15 other defendants infringed copyright when third-party vendors sold photos, which Corbis Corporation had copyright over via the Amazon-owned platform, zShops.com.<sup>162</sup> In the case, Lasnik CJ outlined a clear and concise summary of policy principles. First, Lasnik CJ determined that the requirement of an adopted policy is 'not a paper tiger', but rather:

It is clear that a properly adopted infringement policy must convey to users that those who repeatedly or flagrantly abuse their access to the Internet through disrespect for the intellectual property rights of others... know that there is a realistic threat of losing that access.<sup>163</sup>

In relation to this requirement, Lasnik CJ emphasised the importance of repeat infringers being informed that their activities will result in suspension.<sup>164</sup> Having established that Amazon had adopted a policy, Lasnik CJ moved on to consider whether that policy had been reasonably implemented. Lasnik CJ outlined two aspects a service provider must satisfy to meet this requirement:

The first is whether the service provider adopted a procedure for receiving complaints and conveying those complaints to users... If such a procedure has been adopted, then the second question is whether the service provider nonetheless still tolerates flagrant or blatant copyright infringement by its users.<sup>165</sup>

In light of this, the following principles can be derived from Lasnik CJ's decision and could be included in the *Copyright Act* or the *Copyright Regulations* for definitional purposes. First, a repeat infringer is someone that repeatedly abuses their access to an online service through disrespecting the copyright of others. Second, an adopted policy is a policy that makes it clear that repeat infringers will lose access to the service. Finally, a reasonably implemented policy is a policy which satisfies three limbs: the policy has a procedure for receiving complaints and conveying those complaints to users; the service provider actively seeks to implement and enforce the policy on users; and users have a right to appeal their termination in circumstances where the user considers it unreasonable or unfair in their specific case. This latter element is necessary as not all infringements are equal, given it is possible for good actors to be denied access through the application of an inflexible policy.<sup>166</sup>

---

<sup>161</sup> 351 F Supp 2d 1090 (WD Was, 2004).

<sup>162</sup> Editor, 'Corbis Corp v Amazon.com Inc' (2006) 21 *Berkley Technology Law Journal* 398.

<sup>163</sup> *Corbis Corporation v Amazon.com Inc*, 351 F Supp 2d 1090, 1101 (WD Was, 2004).

<sup>164</sup> *Ibid.*

<sup>165</sup> *Ibid* 1102.

<sup>166</sup> Amanda Reid, 'Considering Fair Use: DMCA's Take Down and Repeat Infringers Policies' (2019) 24(1) *Communication Law and Policy* 101, 138.

## D *Wilful Blindness*

*Division 2AA*—like the *DMCA § 512*—states that, in order for service providers to rely on the hosting and information tool safe harbours, the service provider must act expeditiously to remove copyright material from its system or network if the service provider becomes aware that the material is infringing, or becomes aware of facts and circumstances that make it apparent that the material is likely to be infringing.<sup>167</sup> In the United States, these two types of knowledge have been described as ‘actual knowledge’ and ‘red flag knowledge’.<sup>168</sup> It has been noted by the 2<sup>nd</sup> Circuit Court that these two types of knowledge do not overlap and both only apply to ‘specific instances of infringement’.<sup>169</sup> Accordingly, to apply the knowledge requirements to other situations, courts have had to apply common law doctrines.

One such doctrine is ‘wilful blindness’. A person is wilfully blind where that person was aware of a high probability of a fact (eg infringement) and consciously avoided confirming that fact.<sup>170</sup> In this regard, it was acknowledged in *YouTube*<sup>171</sup> that:

The statute does not ‘speak directly’ to the wilful blindness doctrine... [and] does not abrogate—the doctrine. Accordingly, we hold that the wilful blindness doctrine may be applied, in appropriate circumstances, to demonstrate knowledge or awareness of specific instances of infringement under the *DMCA*.

Following *YouTube*, and its affirmation of the application of the wilful blindness doctrine to the *DMCA § 512*, some courts have limited safe harbour protections in cases where it may have historically applied.<sup>172</sup> As such, this article considers that, to provide greater protection to copyright holders, the *Copyright Act* could be amended to specifically include ‘wilful blindness’. It also considers that such a move would not be introducing a new concept into Australian law. The doctrine has been adopted in Australia in the past—for example, in the context of fiduciary duties.<sup>173</sup> As outlined in *Farah Constructions Pty Ltd v Say-Dee Pty Ltd*,<sup>174</sup> ‘wilful blindness’ represents two categories of knowledge in the so-called ‘Baden scale’,<sup>175</sup> both of which are used to establish the knowledge of a fiduciary

<sup>167</sup> *Copyright Act* (n 17) s 116HA(1) items 4(2A), 5(2A). See also 17 USC §§ 512(c)(1)(A), 512(d)(1) (1998).

<sup>168</sup> See, eg, *Capital Records LLC v Vimeo LLC*, 826 F 3d 78, 95 (2<sup>nd</sup> Cir, 2016).

<sup>169</sup> *Viacom International Inc v YouTube Inc*, 676 F 3d 19, 31 (2<sup>nd</sup> Cir, 2012).

<sup>170</sup> *Ibid* 35.

<sup>171</sup> *Ibid*.

<sup>172</sup> See the difference in decisions between *Capitol Records Inc v MP3Tunes LLC*, 821 F Supp 2d 627 (SD NY, 2011) and *EM Christian Music Group Inc v MP3Tunes LLC*, 844 F 3d 79 (2<sup>nd</sup> Cir, 2016).

<sup>173</sup> Stefano Barazzo, ‘Secondary Liability for IP Infringement: Converging Patterns and Approaches to Comparative Case Law’ (2012) 7(12) *Journal of Intellectual Property Law & Practice* 879, 886.

<sup>174</sup> [2007] HCA 22, [174].

<sup>175</sup> See *Baden v Société Générale pour Favoriser le Développement du Commerce et de L’Industrie en France* [1983] 1 WLR 509, 575-576, where Gibson J outlined the five elements of the scale: ‘(i) actual knowledge; (ii) wilfully shutting one’s eyes to the obvious; (iii) wilfully and recklessly failing to make such inquiries as an honest and reasonable man would make;

or a third party.<sup>176</sup> Consequently, the doctrine would not be untested in Australian law should it be introduced.

### *E Takedown Notices*

The final reform to be considered is amendment to the so-called ‘takedown notice’ regime.<sup>177</sup> As outlined earlier in this article, this process effectively involves the copyright owner notifying the service provider of the existence of infringing material and requesting it be removed.<sup>178</sup> The notice must contain specific information and must be issued following a specific procedure.<sup>179</sup> In Australia, for example, notices must be issued to a ‘designated representative’ of a CSP,<sup>180</sup> and be issued in a specific format as outlined in the *Copyright Regulations*.<sup>181</sup> This regime has been subject to critique. A report by Urban, Karaganis and Quilter<sup>182</sup> found the system is showing ‘strains’.<sup>183</sup> For example, one of their studies found ‘about 30% of takedown requests were potentially problematic.’<sup>184</sup> An earlier study by Seng found equally troubling results.<sup>185</sup> It was found that the use of electronic notices had resulted in the ‘exponential use of takedown notices’. In the dataset considered by Seng, the number of notices increased from 7,374 notices in 2010 to 435,063 notices in 2012.<sup>186</sup> Furthermore, it was increasingly common for ‘mega’ notices to be used, which often included thousands of requests.<sup>187</sup> The concern arising from this arrangement is that small businesses would be overwhelmed by the number of requests and legitimate claims would be ignored.<sup>188</sup>

Before considering the proposed reforms, it is noted that the complete elimination of the existing takedown regime would run counter to the views of many leading researchers. In particular, Seng notes the increasingly automated system has generally worked well.<sup>189</sup> Weatherall argues the

---

(iv) knowledge of circumstances which would indicate the facts to an honest and reasonable man; (v) knowledge of circumstances which would put an honest and reasonable man on inquiry.’ It is noted that the ‘Baden scale’ has been the subject of critique: see, eg, Robert Walker, ‘Dishonesty and Unconscionable Conduct in Commercial Life—Some Reflections on Accessory Liability and Knowing Receipt’ (2005) 27(2) *Sydney Law Review* 187, 194.

<sup>176</sup> The Hon Justice David Jackson, ‘The First Limb of *Barnes v Addy*: A Taxonomy in Tatters’ (2015) 15(1) *QUT Law Review* 4, 16.

<sup>177</sup> See Vikrant Vasudeva, ‘The Notice and Takedown Procedure Under Copyright Law: Developing a Measured Approach’ (2011) 13 *University of Notre Dame Australia Law Review* 193.

<sup>178</sup> *Ibid* 196.

<sup>179</sup> *Ibid*.

<sup>180</sup> *Copyright Regulations 2017*(Cth) reg 19.

<sup>181</sup> See *Ibid* sch 2.

<sup>182</sup> Jennifer Urban, Joe Karaganis and Laura Quilter, ‘Notice and Takedown in Everyday Practice’ (Research Paper No 2755628, Berkeley Law, University of California, March 2017).

<sup>183</sup> *Ibid* 3.

<sup>184</sup> *Ibid* 2.

<sup>185</sup> Daniel Seng, ‘The State of Discordant Union: An Empirical Analysis of DMCA Takedown Notices’ (2014) 18 *Journal of Law & Technology* 349.

<sup>186</sup> *Ibid* 432.

<sup>187</sup> *Ibid* 434.

<sup>188</sup> *Ibid*.

<sup>189</sup> *Ibid* 441.

system is ‘deeply embedded’ in the practice and policies of copyright owners and service providers.<sup>190</sup> Additionally, Carpou contends that automatic notices (so-called ‘robo-takedowns’) are here to stay, as they are an effective means of removing infringing content.<sup>191</sup> Accordingly, this article does not support the recommendation of the Australian Competition and Consumer Commission (‘ACCC’) to establish a mandatory industry code to govern the takedown processes of ‘digital platforms’, which is independent of *division 2AA*.<sup>192</sup> As outlined by StartupAUS, such a system could potentially result in existing Australian based OSPs being required to implement two systems, one for compliance with Australian law and one for international compliance, at a significant compliance cost.<sup>193</sup>

Instead of the ACCC’s recommendation, this article recommends two alternative reforms to the takedown regime. First, to ensure entities comply with their obligations under the *Copyright Act* and *Copyright Regulations*, an advisory system could be developed to assist both Australian OSPs and copyright owners. Specifically, an advisory service within the Department could be established to assist Australian OSPs with developing best practice compliance systems and copyright owners with issuing takedown notices, which are consistent with the law. Such an advisory service is not without precedent. For example, the International Trade Remedies Advisory Service within the Department of Industry, Innovation and Science provides a similar service to Australian small businesses in relation to Australia’s anti-dumping system.<sup>194</sup>

The other key reform to the takedown regime to be considered involves misrepresentations. Currently under Australian law, in the event a copyright holder issues a notice of misrepresentation, the CSP may seek a civil remedy if it suffers any loss or damage.<sup>195</sup> A similar system exists in the United States.<sup>196</sup> Nevertheless, despite the operation of the misrepresentation provisions, notices are commonly issued that are highly questionable.<sup>197</sup> To address this issue, a principle from US case law could be adopted<sup>198</sup> - namely, a notice should not be issued in subjective ‘bad faith’.<sup>199</sup> However, in the event a notice is issued in bad faith, rather than requiring a court to make a determination, an administrative body could make the determination for expedience purposes. Such a reform would not

---

<sup>190</sup> Weatherall (n 31) 13.

<sup>191</sup> Zoe Carpou, ‘Robots, Pirates and the Rise of Automated Takedown Regime: Using the DCMA to Fight Piracy and Protect End-Users’ (2016) 39 *Columbia Journal of Law & the Arts* 551, 583.

<sup>192</sup> Australian Competition and Consumer Commission, *Digital Platforms Inquiry* (Final Report, June 2019) 274.

<sup>193</sup> StartupAUS (n 126) 2.

<sup>194</sup> Department of Industry, Innovation and Science, *International Trade Remedies Advisory Service* (2 August 2019) <<https://www.business.gov.au/advisory-services/international-trade-remedies-advisory-service>>.

<sup>195</sup> *Copyright Regulations* (n 180) reg 39.2.

<sup>196</sup> 17 USC § 512(f) (1998).

<sup>197</sup> See Urban and Quilter (n 76) 681-2.

<sup>198</sup> See *Rossi v Motion Picture Association of America Inc*, 391 F 3d 1000 (9<sup>th</sup> Cir, 2004); *Lenz v Universal Music Corp*, 801 F 3d 1126 (9<sup>th</sup> Cir, 2015).

<sup>199</sup> Carpou (n 191) 584.



be without precedent in Australian intellectual property law. For example, a ground to oppose a trade mark application is bad faith<sup>200</sup> and it is IP Australia (as registrar) that is the determining entity in that case.<sup>201</sup> It is contended this reform could discourage the lodgement of misleading notices, as the chance of the notice being challenged is greater. This, in turn, would free up more time for service providers to process legitimate notices.

## V Conclusion

This article has conducted a comparative analysis of the legislative and policy history of both the United States and Australia in relation to copyright safe harbours. In light of this analysis, the article contends there is evidence to support the view that safe harbour protection in the United States supports innovation and the lack of safe harbour protection in Australia for OSPs undermines it. In particular, the capability and innovative output that has been experienced by YouTube and similar platforms following *YouTube* were compared with the ‘chilling effect’ following the *Pokémon Case* in the Australian digital ecosystem. Given this evidence, it is considered there is a need to reconsider the scope of Australia’s copyright safe harbour.

However, it was also noted that the *DMCA § 512* is not perfect and is not above reform. Accordingly, if the copyright safe harbour is extended to OSPs, three amendments could be made to *division 2AA* to bring greater clarity and balance. First, a more specific definition of a ‘policy of terminating accounts of repeat infringers’ was proposed. Second, an additional limitation of wilful blindness could be included in the legislation. And, finally, the takedown notice regime could be strengthened by empowering an advisory service within the Department, and IP Australia (or another authority) could be allowed to regulate notices that have been issued in bad faith.

---

<sup>200</sup> *Trade Mark Act 1995* (Cth) s 62A.

<sup>201</sup> *Ibid* s 55. See also *Hard Coffee Pty Limited v Hard Coffee Main Beach Pty Limited* [2009] ATMO 26.