

## **CASE NOTES**

### **The Mod Chip is not a Circumvention Device under Australian Copyright Law: *Kabushiki Kaisha Sony Computer Entertainment v Stevens* [2002] FCA 906**

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#### **Background**

Until now the great debates over the boundaries of digital property have engaged the attention of US courts much more so than Australian courts.<sup>1</sup> A recent Federal Court decision involving Sony is set to change that situation.

We live in an era where digital reproduction and communication of information resources whether they are books or computer games are near perfect, compared to what we had in the past. There seems to be plenty of hardware to support this and it comes as part of the advertised package: high powered microprocessors, scanners, inbuilt CD read/write drives and, of course, fast Internet connections and download capacity. There is a generation of computer users throughout the world that have been weaned on the Internet and raised on CD burners and Napster-like technologies. To this group there is no ethical problem with the free use and distribution of information. They are simply engaging in cultural exchange (copying) of information as part of their normal enjoyment of life.

This mindset has been shaken a little over the last two years by US courts in the very public trials of Napster and mp3.com. The Napster trial is only part of the story but it is central to any discussion of the issue. In very simple terms Napster was a software program that acted as a giant filing system, letting online users know who had digital copies of particular songs they wanted. Once they found out who had

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<sup>1</sup> See further Fitzgerald B, "Digital Property: The Ultimate Boundary?" (2001) 7 *Roger Williams University Law Review* 47

the songs they sent them a request and were sent the songs “person to person” or “peer to peer” over the Internet. The Napster model required a central repository (Napster Inc) to coordinate the file sharing although Napster Inc never copied or sent copied files to anyone. It merely pointed to where you could get copied files. The US courts said this was contributing to copyright infringement and Napster Inc should bear the blame: *A&M Records v Napster Inc*<sup>2</sup>. In this case the copyright owners were able to assert their intellectual property rights, not to stop someone copying, but to stop someone arming the digital generation with the tools that would assist copying. Interestingly, the very same US courts have said that VCRs are lawful.

There is another aspect to all of this. While the digital generation have become addicted to fast, cheap and free informational products the information owners have not been sitting still. Fearing the death of copyright in the digital networks of the Internet, states of the world agreed in art 11, WIPO *Copyright Treaty* (WCT) 1996 to pass laws that would prohibit circumvention of (through hacking or interfering with) technological measures used to protect copyright information e.g. passwords, and copy controls. These laws, known as anti-circumvention laws, are epitomized by the *Digital Millennium Copyright Act 1998* (DMCA) in the USA and a similar set of provisions in the amended *Australian Copyright Act 1968*. The US case that brought anti-circumvention laws to the fore was *Universal City Studios Inc v Reimerdes*<sup>3</sup>. In that case hackers posted software code (DeCSS) on websites that explained how to circumvent technological protection or encryption known as the Content Scrambling System (CSS). This encryption system is used by the movie industry to regulate the usage of movies distributed on DVD. The Internet identities that distributed the decrypting code claimed that DeCSS allowed people to play DVDs on the free software platform GNU Linux and that this implemented digital choice or diversity.<sup>4</sup> However, the US court held that posting of the decrypting code on a

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<sup>2</sup> 239 F. 3d. 1004 (9<sup>th</sup> Cir. 2001)

<sup>3</sup> 111 F. Supp. 2d 294 (S.D.N.Y. 2000) [affirmed on Appeal: *Universal City Studios Inc v Corley* 273 F.3d 429 (2<sup>nd</sup> Cir. 2001)]

<sup>4</sup> Fitzgerald B, “Intellectual Property Rights in Digital Architecture (including Software): The Question of Digital Diversity?” [2001] *EIPR* 121

website, including linking to a website, in certain circumstances was “providing or otherwise trafficking” in a circumvention device.

The first instalment in the Australian chapter of this story is the recent decision in *Kabushiki Kaisha Sony Computer Entertainment v Stevens*<sup>5</sup>.

### **The Australian PlayStation Case**

At the core of this case is one of the most popular computer games consoles or platforms in the world, the Sony PlayStation. When a person wants to play a game they insert a disc into the PlayStation much like inserting a musical disc into a CD player. The PlayStation is coded (through what is called Regional Access Coding (RAC)) to play games available in the region in which the PlayStation was sold. This means that a game purchased in the USA cannot be played on a PlayStation purchased in Australia, the platform will not support it. As well a copied, burnt or unauthorised version of a game will not play on the PlayStation, as the copying process does not embed the necessary coding in the copy. As a consequence of consumers seeking greater choice of digital products or digital diversity, a device known as the “mod chip” surfaced in the market place. It extended the functionality of the PlayStation allowing games from other regions as well as copied, unauthorised or burnt games to be played on the PlayStation.

The facts in *Kabushiki Kaisha Sony Computer Entertainment v Stevens*<sup>6</sup> were that Eddie Stevens was involved in the computer games industry in Sydney where it was alleged he sold unauthorised or copied Sony PlayStation games and also sold and/or supplied mod chips.

In particular Sony argued:

1. Stevens had engaged in **trademark infringement**: because on some of the unauthorised copies of the games that were sold by Stevens, the Sony trademark still appeared when the games were booted up in the PlayStation console. The Judge was

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<sup>5</sup> [2002] FCA 906

<sup>6</sup> [2002] FCA 906

satisfied that on the evidence before him trademark infringement was established.<sup>7</sup>

2. Stevens was engaged in **misleading and deceptive conduct** under s 42 *Fair Trading Act 1987* (NSW). The Judge held that this was not supported by the facts, as the people who purchased the unauthorised copies of the games knew that Steven was not holding himself out as being endorsed by Sony to sell those games. People buying these games knew that the games were unauthorised copies.<sup>8</sup>
3. Stevens had breached **s 116A of the *Copyright Act 1968*** in that he had sold or distributed a circumvention device, namely mod chips, which he knew or ought reasonably have known would be used as a circumvention device. A circumvention device as defined by the *Copyright Act*, is something that has little other purpose than to circumvent a technological protection measure. A technological protection measure is something that is designed to prevent access to, or copying of copyright subject matter. For instance, a password or access code making it possible to access copyright subject matter or a copy control mechanism. In this case the mod chips were alleged to have the purpose of circumventing Regional Access Coding (the technological protection measure).<sup>9</sup>

### **The Digital Agenda Amendments: Anti-Circumvention Law**

This was the first case to consider the anti-circumvention law introduced by the *Copyright Amendment (Digital Agenda Act) 2000*. Section 116A *Copyright Act*, effective 4<sup>th</sup> March 2001, introduced the anti-circumvention notion enshrined in art 11 *WIPO Copyright Treaty* (1996) into Australian law. It states:

116A (1)

Subject to subsections (2), (3) and (4), this section applies if:

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<sup>7</sup> [2002] FCA 906 at [64-5]

<sup>8</sup> [2002] FCA 906 at [73]

<sup>9</sup> [2002] FCA 906 at [24]

- (a) a work or other subject-matter is protected by a technological protection measure; and
- (b) a person does any of the following acts without the permission of the owner or exclusive licensee of the copyright in the work or other subject-matter:
  - (i) makes a circumvention device capable of circumventing, or facilitating the circumvention of, the technological protection measure;
  - (ii) sells, lets for hire, or by way of trade offers or exposes for sale or hire or otherwise promotes, advertises or markets, such a circumvention device;
  - (iii) distributes such a circumvention device for the purpose of trade, or for any other purpose that will affect prejudicially the owner of the copyright;
  - (iv) exhibits such a circumvention device in public by way of trade;
  - (v) imports such a circumvention device into Australia for the purpose of:
    - (A) selling, letting for hire, or by way of trade offering or exposing for sale or hire or otherwise promoting, advertising or marketing, the device; or
    - (B) distributing the device for the purpose of trade, or for any other purpose that will affect prejudicially the owner of the copyright; or
    - (C) exhibiting the device in public by way of trade;
  - (vi) makes such a circumvention device available online to an extent that will affect prejudicially the owner of the copyright;
  - (vii) provides, or by way of trade promotes, advertises or markets, a circumvention service capable of circumventing, or facilitating the circumvention of, the technological protection measure; and
- (c) the person knew, or ought reasonably to have known, that the device or service would be used to circumvent,

or facilitate the circumvention of, the technological protection measure.

A technological protection measure (TPM) is defined under s 10 (1) *Copyright Act* as:

a device or product, or a component incorporated into a process, that is designed, in the ordinary course of its operation, to prevent or inhibit the infringement of copyright in a work or other subject matter by either or both of the following means:

- (a) by ensuring that access to the work or other subject matter is available solely by use of an access code or process (including decryption, unscrambling or other transformation of the work or other subject matter) with the authority of the owner or licensee of the copyright;
- (b) through a copy control mechanism.

A circumvention device is also defined in s 10 (1) *Copyright Act* as:

a device (including a computer program) having only a limited commercially significant purpose or use, or no such purpose or use, other than the circumvention, or facilitating the circumvention, of an effective technological protection measure.

### **Decision on s116A Issue**

Justice Sackville held that Regional Access Coding (RAC) was not a technological protection measure because it did not and was not designed to prevent access to the copyright content or to act as a copy control mechanism of the copyright content. The crucial finding being that RAC did not prevent reproduction of a game, it only prevented user of a game that was not coded for the region in which the PlayStation was sold.<sup>10</sup> Therefore, the mod chip could not be a

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<sup>10</sup> [2002] FCA 906 at [92, 118]

circumvention device because it was not designed for the purpose of circumventing a technological protection measure.<sup>11</sup> Justice Sackville rejected the argument that RAC had the “practical effect” of inhibiting or preventing access or copying in that it created a disincentive for copying by making it difficult for copied games to be played. He explained:

There seems to be nothing in the legislative history to support the view that a technological measure is to receive legal protection from circumvention devices if the only way in which the measure prevents or inhibits the infringement of copyright is by discouraging infringements of copyright which predate the attempt to gain access to the work or to copy it.<sup>12</sup>

However the Judge did comment that if RAC was a TPM then the mod chip would have satisfied the definition of a circumvention device.<sup>13</sup>

The more complex argument made by Sony was that RAC was a TPM because it prevented copies of the games being made in the RAM (Random Access Memory) or temporary memory of the PlayStation console.<sup>14</sup> The Judge rejected this argument predominantly on the basis that reproduction in RAM was of such a limited and temporary nature that it was not reproduction “in a material form” as required by s 31 (1) (a) (i) *Copyright Act*.<sup>15</sup>

This case along with *Australian Video Retailers Association v Warner Home Video Pty Ltd*<sup>16</sup> evidence a clear principle suggesting that reproduction of a computer program in RAM will not be regarded as an infringing reproduction for the purposes of the *Copyright Act* unless it is reproduced in a manner and on a technology that will allow that temporary reproduction to be captured and further reproduced.<sup>17</sup>

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<sup>11</sup> cf. *Sony v Gamemasters* 87 F. Supp. 2d 976 (N.D. Cal. 1999); *Sony Computer Entertainment v Owen* [2002] EWHC 45

<sup>12</sup> [2002] FCA 906 at [117]

<sup>13</sup> [2002] FCA 906 at [167]

<sup>14</sup> [2002] FCA 906 at [119 ff]

<sup>15</sup> [2002] FCA 906 at [137]

<sup>16</sup> (2001) 53 IPR 242 at 262-3

<sup>17</sup> [2002] FCA 906 at [137, 147-8, 150]

The message being that “use/playing” of a computer game is not of itself an infringement under the *Copyright Act*. This seems to be the case regardless of whether a computer game is seen to be software under Part III of the *Copyright Act* or a cinematographic film under Part IV of the *Copyright Act*.<sup>18</sup>

Under Part III, the principle enunciated by Justice Sackville is reinforced by the (new) express provision in s 47B allowing certain temporary reproductions in the course of normal use of a computer program, although reproduction from an infringing copy of the program is not excused or exempted. Under Part IV, *Stevens* and *Warner*, suggest the principle of allowing temporary copying in RAM is to be implied solely as a matter of statutory interpretation of s 86(a) *Copyright Act*.<sup>19</sup>

It should be noted that the approach of Justice Sackville prevents the content owner from using the temporary reproduction in RAM, that inevitably occurs when using a computer, as the basis of an action for copyright infringement. The ability to take an action based on this temporary reproduction in RAM *per se*, would in essence allow copyright owners the right to control the use, reading or viewing of the digital material.<sup>20</sup>

Another interesting question arises from Justice Sackville’s decision that a person has the right to use a program and reproduce it in RAM so long as it cannot be further reproduced. In light of the requirements of s 47B one might ask whether this principle would be defeated if the temporary reproduction was made from an infringing copy of the program, such as a copied or burnt computer game? The general reasoning of Justice Sackville suggests not. Counsel had argued that the presence of s47B meant that reproduction in RAM was an infringement, otherwise why would you need such a legislative provision? The Judge rejected this argument saying that s47B was entirely consistent with his reasoning and would be enlivened in situations of reproduction in a material form.<sup>21</sup> It follows that where

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<sup>18</sup> *Galaxy Electronics Pty Ltd v Sega Enterprises Ltd* (1997) 75 FCR 81.

<sup>19</sup> *Australian Video Retailers Association v Warner Home Video Pty Ltd* (2001) 53 IPR 242 at 254-5 cited in [2002] FCA 906 at [158]; *Stevens* [2002] FCA 906 at [158, 161]

<sup>20</sup> Litman J, “The Exclusive Right to Read” (1994) 13 *Cardozo Arts & Ent. L. J.* 29.

<sup>21</sup> *Stevens* [2002] FCA 906 at [148-9]



the reproduction in RAM was not reproduction in a material form the fact that such reproduction was generated from an infringing copy is irrelevant as such reproduction is not in a material form and therefore not caught by the *Copyright Act*.

### **Significance of the Decision**

There is little doubt that this is a landmark judgment. For a start, it is one of the first decisions in the world to rule in favour of the digital content user rather than the digital content owner. Secondly, it is the first Australian decision to consider in any detail the new anti-circumvention laws.

Thirdly, the decision has significant implications for commercial importers of computer games. The *Copyright Amendment (Parallel Importation) Bill 2002* currently before the House of Representatives will allow software and electronic literary and music works to be imported without the permission of the copyright owner. The Explanatory Memorandum accompanying the Bill<sup>22</sup> clearly envisages that the proposed law will cover computer games.<sup>23</sup>

If this Bill becomes law then the scope for commercial importation of software without the permission of the copyright owner will significantly increase. In order to maintain some control over marketing and retain an ability to segment markets across the world, software developers will look to technological measures or “code” to do the work once carried out by the law.<sup>24</sup> However once a technological measure is found to be ineffective technologically, and lacking legal reinforcement, like RAC, technological control over the importation of software is very much watered down.

This is one of the reasons why the Australian Competition and Consumer Commission (ACCC), who intervened as *amicus curiae*, were so interested in this case. The effectiveness of RAC is crucial to the developers’ ability to technologically segment markets and engage in price differentiation across national markets.

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<sup>22</sup> available at <[www.aph.gov.au](http://www.aph.gov.au)>

<sup>23</sup> See e.g. paras 2.1 & 4.4, Part 7 Item 8.

<sup>24</sup> Fitzgerald B, “Commodifying and Transacting Informational Products through Contract” (2002) 20 *Copyright Reporter* 56.

## **Conclusion**

The judgement should not be read as a licence to engage in wholesale copying/burning of computers games. Read narrowly the decision simply provides that RAC is not a TPM for the purposes of Australian copyright law. The impact of the decision may well be that more copied or burnt games will be produced and played as a consequence of this confirmation of the legality of chipping or modifying the PlayStation in relation to RAC. However no one should take this as authorising copyright infringement in relation to computer games. That said, this decision is of assistance to those wishing to play legitimate back up copies of games made in accordance with s 47C *Copyright Act* or authorised games purchased in other regions of the world.

The decision is without doubt a victory for users of digital content and for this reason it will be of interest to many people throughout the world. However we must not lose sight of the fact that new TPMs will be developed and it is almost certain that their design will be shaped by the requirements of s 116A. For now, the most we can say is that an important chapter in the definition of digital property has arrived.

If the case is appealed to the Full Federal Court, and in all likelihood it will, the crucial issue for Sony will be to establish that RAC is a TPM. This will require Sony to convince the appellate court that the “practical effect” argument should be accepted or that there is a “reproduction in a material form” somewhere in the process. In determining these complex questions the appellate court will need to be especially mindful of the competing needs of owners and users in the digital environment.