Copyright law in the digital age presents a unique challenge to legislators and the legal system in general. No case in legal history has made this more painstakingly evident than *A & M Records Inc v. Napster Inc.*¹ The peer to peer file-swapping system created little over two years ago by a nineteen year old university student has billion dollar implications for the music industry, and has recording companies partaking in mass litigation against the infringers.

On March 5, 2001, after over 14 months of litigation, Patel CJ of the District Court for the Northern District of California handed down orders restraining Napster from infringing copyrights owned by songwriters, record companies and music publishers. Whilst this case has a long way to run, the story so far demonstrates the complex nature of the enforcement of copyright law in the digital age, and carries broad implications for Australian copyright law. The complexity of the American decision should alert our legislators to the overwhelming need for technology-neutral legislation in a world where technological advances are developing at a speed which leaves the legal system trailing behind. It should also alert the music industry itself to the urgent need for authorised copying of musical works over the Internet to reduce the public demand for illegal services such as Napster.

I. The birth of Napster

Napster is the brainchild of 19 year old computer-science student Shawn Fanning, who wanted to facilitate music-swapping on the Internet with his roommate.² In 1998, Fanning came up with a solution for fellow college students to swap MP3 files over the Internet by enabling people to share their hard drives with one another, using a centralised database and specialised software which converts each user into a server.³ MP3 is a method of compressing digital information so that it takes up less space when stored (one tenth of its original size), whilst retaining a high sound quality.

Officially founded in May 1999, Napster Inc is the designer and operator of a file sharing system that permits PC users to transmit and retain copyrighted sound recordings based on MP3 technology. Napster provides the proprietary software, search engine and means of establishing a connection between two users’ computers so as to enable the infringing activity to take place. Once a user finds on the Napster index a music file he or she wishes to download, Napster provides the Internet address of the user with that file, allowing that user to download the file from the other user’s hard disk directly through the Internet. At the peak of its operations, Napster had hundreds of millions of users and an estimated value of $US80million.⁴

On December 9, 1999, the Recording Industry Association of America (RIAA) filed suit against Napster, together with eighteen other recording companies⁵ alleging

¹ *A & M Records Inc v. Napster Inc* 239 F.3d 1004 (9th Cir 2001); (2001) 50 IPR 232.
contributory copyright infringement and vicarious liability for copyright infringement. Whilst the combined decisions of the District and Appeals Courts mark an important development in the law of copyright, it is important to realise that the decisions on the matter do not amount to a final determination of Napster’s liability. At this interim stage all that RIAA needed to demonstrate was that the requirements for a preliminary injunction had been met. It has been speculated that the case may be settled out of court for a billion dollar sum.6

II. The District Court decision

On July 26, 2000 the United States District Court for the Northern District of California granted the plaintiffs’ motion for a preliminary injunction on the basis of contributory and vicarious copyright violation.7 The injunction was slightly modified by written opinion on August 10, 2000.

The threshold requirements for a preliminary injunction are similar to those required under Australian common law for the grant of an interlocutory injunction. A party must demonstrate either:

1) a combination of probable success on the merits and the possibility of irreparable harm; or
2) that serious questions are raised and the balance of hardships tips in its favour.8

This is undoubtedly reminiscent of the judgment of Mason J in Castlemaine Tooheys Ltd v. South Australia.9 Patel CJ found that these requirements had been met by the plaintiffs who established ownership and violation of their exclusive rights under federal copyright law.10 ‘The substantial or commercially significant use of the service was, and continues to be, the unauthorised downloading and uploading of popular music, most of which is copyrighted,’ she ruled.11

It was held that there was a strong likelihood that the plaintiffs would prove that Napster users had engaged in copyright infringement and that Napster had engaged in contributory vicarious copyright infringement in violation of the Audio Home Recording Act 1992. Contributory copyright liability will take place if the defendant engages in ‘personal conduct that encourages or assists the infringement’.12 Vicarious copyright infringement extends to cases where a defendant ‘has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities.’13 Patel CJ found overwhelming evidence of Napster’s actual and constructive knowledge that users were engaging and continued to engage in direct copyright infringement using the Napster service.14 Fundamental to this finding was evidence that Napster executives were aware that Napster was making pirated music available and had stressed the need to remain ignorant of users’ identities and IP addresses for this very reason.

In its defence, Napster sought protection under the Online Copyright Infringement Liability Limitation Act 1998, which provides ‘safe harbour’ provisions for Internet service

9 (1986) 60 ALJR 679 at 681.
10 17 USC 106.
12 A & M Records Inc v. Napster Inc 239 F3d 1004 at 1019 (9th Cir 2001); (2001) 50 IPR 232 at 244.
The Court, in denying Napster's motion for summary adjudication\textsuperscript{16} found that Napster does not meet the requirements of this Act because it does not transmit, route or provide connections for allegedly infringing material through its systems.

Further defences raised included reliance on the fair use doctrine, the statutory defence of conduit of information, waiver, implied licence, lack of economic loss to the recording industry and arguments based on 'sampling' and 'space shifting. After careful consideration, the Court rejected each of these defences on the evidence. Napster relied heavily on the United States Supreme Court decision in \textit{Sony} v. \textit{Universal City Studios},\textsuperscript{17} which had held that as long as a technology is 'capable of substantial non-infringing uses', a provider making available a technology which may be used for copyright infringement cannot be held liable for such infringement. Their argument that the system was used for 'sampling' and 'space shifting', and therefore fell under the fair use doctrine, was also rejected on the evidence.

The injunction granted restrained Napster from causing or assisting Internet users to 'copy' or duplicate all copyright songs and musical compositions to which the plaintiffs hold copyright. The injunction was to take effect at midnight on July 28th 2000. However, Napster was successful in obtaining an urgent stay of this order from the US Court of Appeals pending resolution of the case. It did so on the basis that the injunction would immediately put them out of business. In accordance with Federal Rule of Civil Procedure 65(c), the plaintiffs were required to post a bond set at $US5 million for damages in the event that the injunction was wrongfully issued.\textsuperscript{18}

\textbf{III. The Ninth Circuit Court of Appeals Decision}

On the 12th of February, 2001, the Ninth Circuit Court of Appeals affirmed in part, reversed in part and remanded the District Court's decision.\textsuperscript{19} The Appeals Court agreed with Patel CJ that the record companies presented a prima facie case of direct copyright infringement by Napster users. The Court also agreed with the District Court's rejection of Napster's various defences, including the defence that its users were engaged in fair use of the copyright material. The three-judge panel upheld the District Court's conclusion that Napster may be secondarily liable for copyright infringement under the doctrines of contributory and vicarious copyright infringement, in that the company knowingly encourages and assists copyright infringement from which it directly obtains financial benefit.

In departing from the reasoning of the District Court, the Appeals Court found that Napster had demonstrated that its system was open to 'commercially significant non-infringing uses'.\textsuperscript{20} Regardless of this, the Court upheld Patel CJ's finding that the plaintiffs would likely prevail in establishing that Napster knew or had reason to know of its users' infringement of the plaintiffs' copyrights.

The Appeals Court ruled that Napster does in fact aid and abet wholesale infringement of copyrighted music, facilitating 'repeated and exploitative unauthorised copies of copyrighted works...to save the expense of purchasing authorised copies'.\textsuperscript{21} 'Napster, by its conduct, knowingly encourages and assists the infringement of plaintiffs' copyrights.\textsuperscript{22}

\textsuperscript{15} 17 USC 512(a).
\textsuperscript{16} \textit{Napster Inc's Motion for Summary Adjudication}, United States District Court for the Northern District of California (Patel CJ), May 12, 2000.
\textsuperscript{17} 464 US 417 (1984).
\textsuperscript{19} \textit{A & M Records Inc v. Napster Inc} 239 F3d 1004 at 1029 (9th Cir 2001); (2001) 50 IPR 232 at 254.
\textsuperscript{20} Note 19 at 245.
\textsuperscript{21} Note 19 at 239.
\textsuperscript{22} Note 19 at 244.
However, the Ninth Circuit held that the District Court’s preliminary injunction was too broad and remanded the case to the lower court to modify the order accordingly.23 The Court held that Napster can only be liable for contributory copyright infringement if it knows of specific infringing files and fails to prevent the distribution of such files. This essentially means that Napster and the plaintiffs share the burden of removing copyrighted files from the system, ultimately a more fair and equitable result.

IV. The District Court’s revised injunction

On March 5, 2001, some 14 months after the suit was filed, the District Court handed down a revised preliminary injunction in accordance with the ruling of the Ninth Circuit Court of Appeals.24 The District Court’s order is consistent with the Circuit Court’s view that the recording industry and Napster should share the burden of complying with the order.

Under the injunction the copyright holder of a song illegally copied through the Napster system must give Napster notification of that song and legal certification of their copyright ownership. Within three business days, Napster must block the file from being traded, including ‘reasonable’ variations of the file, such as misspellings. If a new song is released, the record label can give Napster the artist name and the song in advance, and Napster must accordingly block such a title from being traded as soon as it appears on its system.25

The modified injunction thus shares responsibility for blocking files between the plaintiffs and the defendant, in contrast to the original injunction which placed the burden solely on Napster. Any disputes regarding efficiency and compliance with the order are to be resolved in court.

V. Implications of the decision

The decision in the Napster case is unprecedented. Although copyright laws have long existed, the unique technology of the Napster system has resulted in an exceptional application of the law. Although the earlier, somewhat similar decision in Sony v. Universal City Studios, Inc26 dealt with a related aspect of copyright law, the Napster decision represents the largest mass copyright infringement case in legal history and marks a new direction for US copyright law and will inevitably have global implications.

Since the District Court’s March 2001 decision, compliance with the modified preliminary injunction is the foremost concern of the recording industry. The initial filtering system proved inadequate in that users could enter a modified file name and still successfully obtain copyrighted material. Controversy over the effectiveness of the system has resulted in the appointment of a neutral technological advisor by the District Court to improve compliance through better filtering mechanisms.27

The various court rulings indicate that Napster is likely to be held responsible for a massive copyright infringement should the case come to a full trial. Napster has offered the industry a settlement of $US1billion over five years, beyond any potential damages in the case. This sum is offered in return for a temporary halt to litigation and the granting of licences to distribute music through a modified Napster subscription service.28 Although

23 Note 19 at 244.
25 Note 24 at 3.
the recording industry has rejected the offer, there are still negotiations towards a settlement and conclusion of a licensing agreement pending Napster’s implementation of adequate anti-piracy protections. If the case does go to trial, Napster may be liable for billions of dollars in damages. Damages for infringement can reach up to $US150,000 damages per copyrighted song. There are estimates that around 2.7 billion songs were traded through the service in February alone.\(^{29}\) Napster’s potential pecuniary liability is catastrophically large.

Furthermore, a group of attorneys in San Francisco\(^{30}\) are seeking to launch a worldwide class action by independent artists whose works have been included on Napster without their authorisation. Such an action would potentially bring tens of thousands of additional plaintiffs into the Napster litigation saga.\(^{31}\) When the issue was raised before Patel CJ on April 10, 2001, she indicated that this group was far too broad to be manageable: ‘We’re talking of performers and songwriters as well,’ Patel CJ said. ‘How manageable a group do you think that really is?’\(^{32}\) Patel CJ’s response to this matter outlines the sheer enormity of such a task which raises questions about the enforceability of US copyright law over copyrights obtained in England, France, Japan and Brazil. ‘This has endless possibilities for mutation,’ Patel CJ advised the applicants. ‘I’m not going to supervise the whole world.’\(^{33}\)

At present, Napster is virtually out of operation, and is busy setting up a subscription service that may be in operation by the end of 2001. The future of the service is evidently in doubt, and it may cease altogether as a result of the case. Nonetheless, Napster has taught us an interesting lesson about copyright infringement in the digital age, the capabilities of the legal system to deal with such infringement and the enormity of the damages that may be awarded against large scale infringers.

**VI. The Australian position**

The Napster decision understandably has major implications for Australian copyright law, the Australian recording industry and individual artists. Indeed, Australian music was widely available on Napster throughout its operation. The potential exists for Australian artists to take part in a class action for copyright infringement against the company.

Both American and Australian copyright law are creatures of statute, and are not dissimilar in their approach to infringing activity. The recent amendments to the *Copyright Act* (Cth) 1968 introduced by the *Copyright Amendment (Digital Agenda) Act* 2000 represent the Australian government’s response to the dangers posed to owners of copyright through the development of new communication technologies. These new provisions have undoubtedly strengthened the legal protection of Australian copyright owners. Consequently, an action similar to that brought in the *Napster* case would be likely to succeed in this country.

A new ‘right of communication to the public’ has been established by the amendments, which protect a copyright owner’s work embodied in electronic form.\(^{34}\) This new exclusive right is contained in sections 31(1)(a)(iv) and 31(1)(b)(iii) of the *Copyright Act* 1968. This right replaces the former technology-specific broadcasting right, which was limited to wireless broadcasts. The introduction of this new right of communication means that

\(^{29}\) According to research company Webnoiz.

\(^{30}\) Attorneys Hannah Bentley, of the Internet Lawyers Group, and Reed Kathrein, a partner in Weiss Bershad Hynes and Lerach’s San Francisco office.


\(^{33}\) Note 32.

making available or electronically transmitting of copyrighted material online will constitute an infringement of copyright. The amendment further provides that 'a person, including carriers and carriage service providers, who provide facilities for the making of, or facilitating the making of, communications' will not be liable for having authorised a copyright infringement merely by providing the facilities by which the communication was facilitated. Although a potential loophole for a company like Napster, it is unlikely that such a service would fall within the definition of carrier or carrier service provider and thus would not be afforded protection under this section. It is therefore highly likely that an Australian court would find that Napster had authorised copyright infringement. Whether such an opportunity will arise remains to be seen.

VII. The future

Whilst Napster itself may become a thing of the past, decentralised versions of Napster have begun to appear on the Internet. These sites perform a similar function but without a centralised server. These software systems have proven extremely difficult to monitor, as there is no single source of large-scale copyright violations. Effectively, the recording industry cannot sue the server but must go after individual infringers, a course it is understandably reluctant to take.

In addition, globalisation may hinder the ability of the recording industry to prevent mass copyright infringement. One solution for those wanting to facilitate mass infringement is to set up Napster-like systems abroad so as to be beyond the reach of American copyright law. It is possible that copyright infringement will become so widespread and technologically advanced as to be beyond the reach of the law. The recording industry is naive to believe that it can bring a permanent end to music piracy. More importantly, the industry ought to accept that there is a market for music that stretches far beyond compact disc sales. New technology is frequently perceived to be a destroyer of an existing market, only to emerge later as an immensely valuable asset.

For example, the video-cassette recorder, which the movie industry vigorously tried to banish, has actually made Hollywood a more profitable industry over the years. There is an obvious need for low priced distribution of music, along with convenient methods of purchase. Music should be sold inexpensively over the Internet so that consumers need not resort to stealing it. The Napster litigation has made it painfully evident that the public is willing to steal from an industry that is perceived as somewhat disreputable. Australia's highly inflated compact disc prices, significantly higher than those in America, emphasise that the need for cheaper access to high quality sound recordings is more urgent here than in the United States.

MP3 technology presents an unprecedented opportunity to musicians to produce and distribute their music very rapidly and cheaply. Yet despite its advantages, it also facilitates mass copying by unauthorised persons, depriving such artists of their intellectual property rights. The Napster decision is a prime example of the widely-held belief that copyright law has suffered the greatest impact from the information revolution.

If the United States (and indeed Australia) intends to provide meaningful protection of copyright in the digital age, extensive legislative change, and radical change within the music industry itself, are urgently required.

35 Decentralised services include companies such as Aimster, BearShare, iMesh, FastTrack, MusicCity, WinMX.