



Australian Digital Alliance

ANTI-COUNTERFEITING TRADE AGREEMENT
IMPACT ON INDIVIDUALS AND INTERMEDIARIES

Submission to the
Australian Government
Department of Foreign Affairs and Trade

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EXECUTIVE SUMMARY

We welcome the decision to release an official version of the Anti-Counterfeiting Trade Agreement (**ACTA**) as a significant stride towards greater transparency. It is an opportunity to focus on meaningful public discussion of the real issues and to receive detailed comment from government.

This submission analyses potential conflicts between the requirements of ACTA and Australia's domestic policy and makes recommendations for consideration during future negotiations. While the official text has eliminated many concerns, several articles of ACTA appear to require changes to Australian copyright law. Other articles do not require changes, but may open avenues for rights holder groups to lobby for changes or limit Australia's flexibility to implement positive changes.

ACTA might have a negative impact on individuals as Internet citizens and as consumers of digital technologies because some of its requirements go beyond Australian law. ACTA will facilitate excessive damages payouts by mandating the controversial 'lost sale analysis' for the assessment of damages and encouraging punitive style statutory damages that set arbitrary amounts for infringement. ACTA will also broaden the scope of commercial scale infringement to criminalise purely private acts that occur in the homes of some Australians, and will create a new criminal offence for 'camcording'. ACTA may strengthen existing procedures to lock up copyright material and prevent Australians from accessing or using it in certain legitimate ways.

ACTA focuses on enforcement and may lack references to balance and fundamental protections for individuals, which must be recognised in order to achieve due process and the important societal objectives of copyright, such as access to knowledge.

ACTA might have a negative impact on intermediaries that will damage Australia's digital economy by diminishing Internet innovation, the free flow of information and legitimate commerce. ACTA provides for the unqualified award of injunctions against intermediaries, which creates new rights with significant potential for abuse and cost implications for ISPs. ACTA defines where third party liability will be imposed, which is a highly controversial issue that requires the flexibility of being dealt with at a domestic level. ACTA will burden intermediaries with more onerous requirements for safe harbour protection that may encourage three strikes.

For those articles of ACTA that are similar to Australia's existing requirements in AUSFTA, there is no benefit from cementing them into international obligations as this limits Australia's ability to change its laws in the future. Australia must retain flexibility, particularly given the lack of consultation in the drafting of AUSFTA and the general understanding that some aspects of it are bad policy. For example, Australia's laws on TPMs are not strictly compliant with AUSFTA as they limit protection on public policy grounds. If Australia agrees to the TPM requirements of ACTA, there are more parties that might complain and pressure Australia remove these very worthwhile limitations.

We remain concerned that ACTA threatens to upset the delicate balance of Australian copyright law that protects consumers, enables access to information and is fundamental to the success of the digital economy. It is vital that voices representing the public interest perspective have a chance to be heard and to influence the outcome of the negotiations.

SUMMARY OF RECOMMENDATIONS

Recommendation 1: propose that article 2.2.1(b) be deleted or amended because it requires courts to take into account an assessment of damages that is discredited and inaccurate.

Recommendation 2: in the alternative, propose that article 2.2.1(b) be subject to a caveat that recognises judicial discretion and requires that a Court may only consider such factors 'where appropriate' or in 'appropriate circumstances'.

Recommendation 3: propose that article 2.2.2(a) be amended to provide for limitations and protections regarding the award of statutory damages in criminal proceedings.

Recommendation 4: support the proposal that the requirements of article 2.2.2 should be optional, regardless of whether the proposal for additional damages in article 2.2.2(c) is accepted.

Recommendation 5: propose deletion of footnote 37 to article 2.14.1 as it includes purely personal gains in the assessment of criminal liability.

Recommendation 6: support the principle that criminal liability must be reserved for large scale copyright infringement that is direct and intentional, and should not encompass purely private acts.

Recommendation 7: support deletion of the proposed article 2.14.3 which creates a new criminal offence for 'camcording'.

Recommendation 8: support a position that rejects protecting regional lockouts (geographic market segmentation) and non-copyright related rights that restrict interoperability as access control technological protection measures, and encourage public policy exceptions to protection.

Recommendation 9: support qualifications to articles 2.18.3, 2.13 and 2.X that protect the right of Australian citizens to privacy, and a strong statement in article 1.4 that ACTA will not supersede international standards of privacy.

Recommendation 10: support the inclusion of fundamental protections in the text of ACTA.

Recommendation 11: support the inclusion of an article that expressly preserves the operation of fair use, fair dealing and other similar exceptions as a general qualification for the entire agreement.

Recommendation 12: support deletion of articles 2.X.2 and 2.5.X which provide for the award of injunctions and interlocutory injunctions against intermediaries, respectively.

Recommendation 13: in the alternative, support a position that amends articles 2.X.2 and 2.5.X to qualify the requirements that may be placed on intermediaries under mandatory injunctions and limit the award of injunctions to 'infringing intermediaries', 'where appropriate'.

Recommendation 14: support deletion of foot note 47 to article 2.18.3 which defines third party liability as it creates a substantive right that conflicts with Australian law.

Recommendation 15: support a position that seeks to limit the positive obligations that might be placed on intermediaries to deter or address the unauthorised storage or transmission of materials.

Recommendation 16: support clarification of where the protection of the safe harbour provisions will be denied on the basis of knowledge of infringement.

ANTI-COUNTERFEITING TRADE AGREEMENT: IMPACT ON INDIVIDUALS AND INTERMEDIARIES

A. IMPACT ON INDIVIDUALS

Assessment of Damages

Article 2.2.1(b) provides that courts 'shall consider' a lost sale analysis when assessing the amount of damages to be awarded for infringement. A lost sale analysis assesses damages on the basis that an infringement is a lost sale and the damage is the value of the good measured by its market value or retail price. This is an extremely controversial assessment for online infringement.

The United States Government Accountability Office (**GAO**) recently criticised the lost sale analysis as inaccurate in a report to congressional committees.¹ The GAO stated that the key assumption when determining the economic loss from infringement is the substitution rate.² The substitution rate is the rate at which a consumer would switch from purchasing an infringing good to purchasing a legitimate good. The GAO found that 'Many of the experts we interviewed said that a one-to-one substitution rate is not likely to exist in most circumstances where counterfeit goods are significantly cheaper than the legitimate goods.'³

The lost sale analysis for damages in ACTA is equivalent to a one-to-one substitution rate (the damage from infringement is the value of the good). A one-to-one substitution rate is completely inaccurate for online infringement according to the GAO's reasoning; because online infringing goods are free the substitution rate would be very low. The GAO cites a study which found the substitution rate for downloaded music to be one-to-five.⁴ The GAO also criticised studies from the Business Software Alliance and the Motion Picture Association that used a lost sale analysis with a one-to-one substitution rate.⁵

Courts should not be required to consider factors that will not be appropriate in every case. The GAO found that 'Because of the significant differences in types of counterfeit and pirated goods and industries involved, no single method can be used to develop estimates, and each method has limitations',⁶ yet ACTA purports to establish a single method. Requiring Australian courts to consider a lost sale analysis may also inflate damages awards, waste court time and exhaust the resources of defendants.

The Australian- United States Free Trade Agreement (**AUSFTA**) provides that courts may consider 'any legitimate measure of the value of the infringed good or service that the right holder submits,

¹ United States Government Accountability Office, 'Intellectual Property: Observations on Efforts to Quantify the Economic Effects of Counterfeit and Pirated Goods', *Report to Congressional Committees*, April 2010 <<http://www.gao.gov/new.items/d10423.pdf>>. The Government Accountability Office was directed by the *Prioritizing Resources and Organization for Intellectual Property Act 2008* (US) to provide information on the quantification of the impact of counterfeit and pirated goods to improve US government policy.

² Ibid, 17.

³ Ibid, 18.

⁴ Ibid, 22; Rafael Rob and Joel Waldfogel, *Piracy on the High C's: Music Downloading, Sales Displacement, and Social Welfare in a Sample of College Students*. *Journal of Law and Economics*, vol. XLIX, April 2006.

⁵ United States Government Accountability Office, above n 1, 21.

⁶ Ibid, 15.

including the suggested retail price'. However, unlike ACTA, the requirement in AUSFTA is not mandatory and consequently Australian copyright law does not provide for any factors to be taken into account when assessing damages for copyright infringement.⁷ Including this article in ACTA will severely limit the domestic policy freedom of Australia and encourage future lobbying from rights holder groups for Australia to change its laws.

Recommendation 1: propose that article 2.2.1(b) be deleted or amended because it requires courts to take into account an assessment of damages that is discredited and inaccurate.

Recommendation 2: in the alternative, propose that article 2.2.1(b) be subject to a caveat that recognises judicial discretion and requires that a Court may only consider such factors 'where appropriate' or in 'appropriate circumstances'.

Punitive Damages

Article 2.2 may require countries to implement one of three forms of damages regimes that are essentially punitive.

Statutory Damages

Under article 2.2.2(a), parties have the option of implementing a statutory damages regime to meet the requirements of article 2.2.2. Statutory damages are not part of Australian law and are disproportionate to actual losses, arbitrary, unprincipled, ultimately result in injustice to individuals and are used to threaten people into settling disputes. The greatest concern about statutory damages is that they will lead to excessively high awards. Statutory damages also operate punitively, however the money is received by the rights holder not the state, which creates a private windfall that encourages litigation.

ACTA does not incorporate any limitations on the scope of its proposal for statutory damages, despite the United States providing for some protection for innocent infringement in its statutory damages regime by limiting the award of damages to 'not less than \$200' and providing for a remit of damages where non-profits, educational institutions or cultural institutions had reasonable grounds to believe their use was a fair use.⁸

There is lively debate in the United States and Canada about whether statutory damages are penal and should only be available in criminal proceedings. We consider that statutory damages are penal because the level of damages bears no relationship to the harm suffered. ACTA proposes to implement remedial statutory damages, which would be available for civil infringement cases.

Mentioning statutory damages as an option in ACTA may give them legitimacy as having a remedial status, which could circumvent the debate in the United States and create a target for future lobbying. The debate on any international recognition of statutory damages must be fulsome.

⁷ AUSFTA Art 17.11.6; section 115(1) *Copyright Act 1968* (Cth).

⁸ 17 USC § 504(c)(2) (US).

Recommendation 3: propose that article 2.2.2(a) be amended to provide for limitations and protections regarding the award of statutory damages in criminal proceedings.

Presumptions for Damages

Under article 2.2.2(b), parties have the option of implementing a presumptions regime to meet the requirements of article 2.2.2. Australian copyright law does not provide for presumptions to be used to determine the amount of damages for copyright infringement, however, we note that multiples are used in the calculation of damages for patent infringement.

Article 2.2.2(b) proposes to use multiples such as the number of infringements to calculate damages, which is a contentious issue with regard to online infringement occurring via file sharing. In the recent iiNet decision in the Federal Court, it was held that ‘an iiNet user makes *each* film available online *once*’⁹ and ‘*each* iiNet user ‘electronically transmits’ *each* film *once*’.¹⁰ Further, the Court went on to find no evidence that iiNet users made ‘further copies on other storage media’.¹¹ Thus, in Australia copyright is only infringed once when content is distributed online using file sharing applications. This highlights the controversial nature of the measures proposed in ACTA.

Additional Damages

In article 2.2.2(c), ‘additional damages’ are proposed as a new option to meet the requirements of article 2.2.2, which may be supported by Australia as they are part of our law.¹² If accepted, this would make Australia compliant with article 2.2.2 in its mandatory form.

Additional damages allow a court to exercise discretion where the circumstances of an infringement indicate that it should be excused, such as where the infringer had a well-grounded belief that they could rely on an exception or that their activity was non-infringing. There is also a requirement for copyright owners to prove harm. This flexibility is not found in regimes where statutory damages or presumptions are used. However, while additional damages are superior to the other regimes, they are far from satisfactory as they allow courts to take a ‘guess’ at the amount of damages for electronic infringements and can be punitive, unfair, and lead to excessive and disproportionate awards of damages.¹³

⁹ *Roadshow Films Pty Ltd v iiNet Limited (No. 3)* [2010] FCA 24, at 299. Note: this aspect of the decision is on appeal to the Full Federal Court.

¹⁰ *Ibid*, at 317.

¹¹ *Ibid*, at 356.

¹² Australian courts may award additional (‘exemplary’) damages under section 115(4), and may take unproven electronic infringements into account under sections 115(5)-(6).

¹³ For example, see Kimberlee Weatherall, ‘The Anti-Counterfeiting Trade Agreement: Analysis of the January Consolidated Text’, April 2010, 13; *Aristocrat Technologies Australia Pty Ltd v Global Gaming Supplies Pty Ltd* [2009] FCA 1495 (compensatory damages US\$44,800; additional damages AU\$450,000); *SBO Pictures Inc v Kaos Shop Pty Ltd* [2006] FMCA 82 (compensatory damages \$3,500; additional damages \$46,500); *APRA v Cougars Tavern and Ors* [2008] FMCA 369 (compensatory damages \$22,640.83; additional damages against various respondents totalling \$315,000); and *Deckers Outdoor Corporation Inc v Farley and Others (No 5)* (2009) 262 ALR 53 (compensatory damages \$3.04 million; additional damages \$4 million).

Punitive Damages Must be Optional

The United States and Japan are proposing that the requirements of article 2.2.2 should be mandatory, obliging countries to implement one of the proposed punitive damages options. While the European Union, Canada and New Zealand are proposing that article 2.2.2 should be optional.¹⁴

Australia will be in compliance with article 2.2.2 in its mandatory form if the proposal for additional damages is accepted. However, this is a poor outcome for Australia as it will be prevented from revisiting the flawed policy of additional damages and will be subject to lobbying for more severe measures such as statutory damages and presumptions for damages.¹⁵ In mandatory form without acceptance of the additional damages proposal, Australia will not be in compliance and will have to change its laws.

Recommendation 4: support the proposal that the requirements of article 2.2.2 should be optional, regardless of whether the proposal for additional damages in article 2.2.2(c) is accepted.

Criminal Liability

We have serious concerns that ACTA may broaden the scope of criminal liability in Australia. Criminal liability should be reserved for large scale copyright infringement that is direct and intentional.

Commercial Scale

Earlier leaks of the ACTA text indicated that individuals who infringed for 'private financial gain' would commit a criminal offence.¹⁶ This would criminalise private acts that occur within the home and typically lack a public distributive effect, such as copying a DVD to avoid paying the retail price. The official text shows that 'private' has been deleted from the definition easing this concern.¹⁷

There is still a risk that ACTA could criminalise private acts. The definition of commercial scale infringement for criminal liability in article 2.14.1 of ACTA mirrors the definition in article 17.11.26 of AUSFTA.¹⁸ Both articles make the private acts of individuals in a non-commercial context subject to criminal liability by conflating them with commercial level acts. As a result, when AUSFTA was

¹⁴ EU and Member States, 'Consolidated Text: Reflects US-Japan Proposal and all Comments/Edits Received', ACTA, 18 January 2010, article 2.2.2.

¹⁵ In this respect, we note that under article 17.11.7 of AUSFTA Australia is obliged to implement a statutory damages regime if its additional damages regime is found to be ineffective. Agreeing to similar measures in ACTA would increase the pressure for Australia to adopt statutory damages. If article 2.2.2 of ACTA is expanded to cover trademark Australia would have to change its domestic laws as it does not even have additional damages for trademark.

¹⁶ ACTA, 'Consolidated Text', above n 14, article 2.14.1(a).

¹⁷ Article 2.14.1(a), ACTA.

¹⁸ United States Trade Representative, 'Free Trade Agreement Between the United States of America and Australia', 1 January 2005, article 17.11.26:

- (a) significant wilful infringements of copyright, that have no direct or indirect motivation of financial gain; and
- (b) wilful infringements for the purposes of commercial advantage or financial gain.

implemented domestically there was a significant public outcry and a concerted effort to ensure that Australian copyright law would not impose criminal liability for purely 'private' acts.¹⁹ In 2004, we submitted that:²⁰

criminalisation of what is essentially end-user copying as required by the provisions makes for unsound policy and creates a "chilling effect" for the legitimate use of works ... the implementation of article 17.11.29 [should] recognise and maintain the existing distinctions between commercial and private, individual transgressions in Australian copyright law, and minimise as far as possible the criminalisation of end user copying.

By acceding to the same definition in ACTA, Australia may lose the flexibility built into its domestic regime when it implemented AUSFTA. Other signatories to ACTA may require Australia to criminalise additional acts.

In ACTA, there is no minimum definition for commercial scale and no requirement for the scale of infringements to be wilful (as opposed to the need for only a single infringement to be wilful). In Australia, criminal liability is only imposed where the infringement has a substantial prejudicial impact and is on a commercial scale.²¹

ACTA conflicts with Australian law and AUSFTA by taking into account purely personal financial advantages for the purpose of determining whether an individual is criminally liable. Footnote 37 to article 2.14.1 defines 'financial gain' for criminal liability to include 'the receipt or expectation of anything of value', which clearly includes personal gains. Australian law specifically excludes personal gains from the definition of 'profit' for criminal liability.²²

Recommendation 5: propose deletion of footnote 37 to article 2.14.1 as it includes purely personal gains in the assessment of criminal liability.

Wilful Acts

ACTA will lower the bar for individuals to be found criminally liable for a variety of offences by imposing liability where the conduct is 'wilful'. Wilful is a word capable of very broad definition, and is typically defined in ACTA as conduct with 'actual knowledge or reasonable grounds to know'.²³

Wilfulness in Australia is much more limited than in the United States, where courts have interpreted wilfulness so broadly that those who merely should have known their conduct was

¹⁹ Kimberlee Weatherall, 'The Anti-Counterfeiting Trade Agreement: An updated analysis', November 2009 <<http://works.bepress.com/kimweatherall/19/>>, 13.

²⁰ Australian Digital Alliance, 'Submission to the Select Committee: Australia- United States Free Trade Agreement', April 2004, <<http://www.digital.org.au/downloads/Subsenateselect.doc>>.

²¹ *Copyright Act 1968*, section 132AC(1)(c)-(d).

²² Section 132AA, *Copyright Act 1968* (Cth)

profit does not include any advantage, benefit, or gain, that:

(a) is received by a person; and

(b) results from, or is associated with, the person's private or domestic use of any copyright material.

²³ ACTA, art 2.18.4, foot note 62.

infringing are often treated as wilful infringers.²⁴ The standard of criminal liability in ACTA for circumventing technological protection measures and removing digital rights management information is worryingly similar to the standard for civil liability in Australian copyright law.²⁵ Australia may be required to criminalise additional acts. In Australia, only infringements of copyright that involve commercial dealings or infringements that are on a commercial scale are criminal. The scope of criminal liability for copyright infringement in Australian law is preferable to ACTA, nevertheless, we consider it is still too broad.

We consider that if ACTA truly is, as it is asserted to be, about criminal and commercial activities and not about addressing private acts, then there is no justification for extending criminal liability beyond large scale commercial activity.

Australia is also currently experimenting with strict liability for copyright infringement, having only introduced offences in 2006. It is vital that Australia retain a high level of freedom to determine what is domestically appropriate.

Recommendation 6: support the principle that criminal liability must be reserved for large scale copyright infringement that is direct and intentional, and should not encompass purely private acts.

New Criminal Offence of Camcording

The proposed article 2.14.3 introduces a new criminal act for Australia, colloquially known as a 'camcording' offence. It requires each party to create a criminal offence for the knowing unauthorised use of a recording device to copy an audio visual work during a public performance.

Significantly, article 2.14.3 contains few details on the operation of the offence and does not contain a requirement for a financial gain, or specify a threshold for the distribution of the infringing copy required for an offence. Making a copy entirely for personal use would be a criminal offence under this article. There are clearly considerable differences among the negotiators with an earlier leak revealing that Australia and New Zealand support deletion.²⁶ However, the article is likely to be included in ACTA as it is supported by the United States and under consideration by the European Union.²⁷

If such an offence is to be created, then there is a fundamental need for the consideration of exceptions or defences, so as to avoid capturing innocent acts such as the accidental recording of an audio visual work that is being played in the background of a shot. If agreement cannot be reached on these issues, then the article should not be included in ACTA. Australia should not

²⁴ See Weatherall, 'January Analysis', above n 13, 29-30.

²⁵ For circumventing technological protection measures compare article 2.18.4 of ACTA and sections 116AN(1) and 132APC(1) of the *Copyright Act 1968* (Cth); for removing digital rights management information compare article 2.18.6 of ACTA and sections 116B(1) and 132AQ of the *Copyright Act 1968* (Cth).

²⁶ ACTA, 'Consolidated Text', above n 14, article 2.14.3.

²⁷ ACTA, 'Consolidated Text', above n 14, article 2.14.3.

agree to an article that creates a new criminal offence that will require changes to Australia's laws and will create a new substantive right for copyright owners.²⁸

Recommendation 7: support deletion of the proposed article 2.14.3 which creates a new criminal offence for 'camcording'.

Anti-Circumvention of Technological Protection Measures

Article 2.18.4(a) may extend the legal remedies for the circumvention of Technological Protection Measures (TPMs) to all TPMs, not just TPMs that control access.²⁹ This would require a significant change to Australian law as only access control TPMs are given limited protection. Protecting all TPMs would further lock up material and prevent Australians from otherwise legitimately accessing it, and may exacerbate the low regard Australians have for the anomalies of the present regime.

When the AUSFTA requirements to protect access control TPMs were implemented in Australia several exceptions were made on the basis of policy grounds. Australian law expressly provides that access control TPMs must apply in 'connection with the exercise of the copyright' and excludes TPMs such as regional lockouts (geographic market segmentation) and those that restrict interoperability.³⁰ The Australian position is potentially in conflict with the requirements of both AUSFTA and ACTA. If Australia agrees to the TPM requirements of ACTA, there are more parties that might complain and pressure Australia to change its laws and remove these very worthwhile limitations to TPM protection.³¹

Recommendation 8: support a position that rejects protecting regional lockouts (geographic market segmentation) and non-copyright related rights that restrict interoperability as access control technological protection measures, and encourage public policy exceptions to protection.

Privacy

Several proposed articles in ACTA may impinge on the privacy of Australian citizens. The safe harbours option proposed by the European Union in article 2.18.3 requires ISPs to provide information identifying alleged infringers following 'effective notification' from a copyright holder with no reference to due process that might protect individuals. Article 17.11.29(b)(xi) of AUSFTA has a requirement for ISPs to provide information under an 'administrative or judicial procedure', which is implemented in Australia with a judicial procedure. The European Union is proposing a worrying private system where the personal information of individuals would be shared without supervision.

Article 2.X proposes that countries are to share information with regard to the export or in-transit shipment of infringing goods. There are no qualifications to the article that might protect personal

²⁸ We note that copyright holders have sufficient, if not excessive, recourse for people who record public performances of audio visual works under sections 101, 116, 132AC, 132AI and 132AL of the *Copyright Act 1968* (Cth). However, these sections do not meet the standard of article 2.14.3.

²⁹ From the official text, it is clear that at least one delegation is proposing that ACTA should protect all TPMs, while another is proposing that the protection be limited to only access control TPMs.

³⁰ Section 10(1), the Act.

³¹ Kimberlee Weatherall, 'ACTA – Australian Section-by-Section Analysis (April Public Draft)', April 2010, 61.

information or confidential information relating to shipments. No equivalent exists in TRIPS, AUSFTA or Australian law.

Article 2.13 provides that countries must implement several measures to provide rights holders with information about the shipment of goods. AUSFTA only requires Australian officials to have the authority to pass on information after making a determination, there is no requirement that they must pass on information.³² AUSFTA also specifies fewer categories of information that may be provided.³³ Even the least burdensome option in article 2.13 is inconsistent with Australian law.³⁴

Article 1.4 proposes that ACTA should include a statement upholding the protection of personal privacy. Such a statement is necessary, but may ultimately offer no protection to Australian citizens as ACTA lacks an overall concept of balance and has been drafted with only the needs of right holders in mind.

Were article 1.4 to simply provide that nothing in ACTA is to supersede domestic privacy protections, it would do nothing for Australians both in Australia and doing business overseas.³⁵ Australians have no constitutional right to privacy and have relatively weak privacy legislation that offers no fall back protection if the fundamental right to privacy is contravened by copyright law.

Recommendation 9: support qualifications to articles 2.18.3, 2.13 and 2.X that protect the right of Australian citizens to privacy, and a strong statement in article 1.4 that ACTA will not supersede international standards of privacy.

Fundamental Protections and Balance

Fundamental Protections

ACTA may lack even the most humble and basic references to balance, aside from European Union proposals. It requires balance to soften the actual enforcement of copyright and related rights with procedural or other protections. These should enshrine the rights of those accused of copyright infringement and limit the extent of copyright protection in order to achieve the important societal objectives of copyright, such as access to knowledge.

A small number of articles make reference to the need for balance and fundamental protections, such as: the need for 'proportionality';³⁶ requirements for security to compensate persons affected by wrongful measures or seizures;³⁷ and some requirements to respect privacy or confidentiality.³⁸

Both TRIPS³⁹ and the European Union Proposed Directive on Criminal Measures⁴⁰ provide useful models that ensure the just enforcement of intellectual property rights. While the obligations in

³² Article 17.11.21, AUSFTA.

³³ Ibid.

³⁴ Weatherall, 'ACTA Public Draft', above n 31, 13-14.

³⁵ Weatherall, 'ACTA Public Draft', above n 31, 6.

³⁶ Article 2.1(2), article 2.3(5), article 2.15(2)(c), article 2.16 and article 2.17 of ACTA.

³⁷ Article 2.5 and article 2.9 of ACTA.

³⁸ Article 2.4 and article 2.8. of ACTA.

TRIPS will still apply to ACTA signatories, given the stringent nature of ACTA, we consider it is necessary to make a restatement of fundamental protections. Conversely, statements on fundamental protections from TRIPS are not repeated in ACTA, but statements on enforcement from TRIPS are not only repeated in ACTA, but are enhanced.

Recommendation 10: support the inclusion of fundamental protections in the text of ACTA.

Exceptions and Limitations

The text of ACTA does not reflect one of the most important objectives of copyright – to ensure access to information for the benefit of society. Protecting creators to encourage continued innovation is only one half of the copyright equation, ACTA fails to recognise the dual purpose of copyright.

Some articles do make reference to expressly preserving fair use, fair dealing and other similar exceptions.⁴¹ These exceptions should be expressly preserved in a general qualification for the entire agreement. The problem with including perseverations as a qualification to individual selected articles is that the *expressio unius* principle might apply.⁴² This would have the effect that if an article does not have a foot note preserving the exceptions, then the exceptions are deemed not to be preserved. The exceptions should apply except where otherwise expressly stated, which might occur in relation to anti-circumvention provisions.

Recommendation 11: support the inclusion of an article that expressly preserves the operation of fair use, fair dealing and other similar exceptions as a general qualification for the entire agreement.

B. IMPACT ON INTERMEDIARIES

Injunctions Against Intermediaries

Award of Injunctions Against ISPs

Article 2.X.2 proposes that an injunction may be issued against an intermediary and article 2.5.X proposes that an interlocutory injunction may be issued against an intermediary whose services are used to infringe copyright.⁴³ Earlier leaks reveal that both articles are proposed by the European Union, so it is likely that they will be included.⁴⁴ Neither Australian copyright law nor common law specifically provide for the award of an injunction or an interlocutory injunction against an intermediary whose services are used to infringe copyright.

³⁹ Trade Related Aspects of Intellectual Property Rights Agreement, opened for signature 15 April 1994, 1869 UNTS 299 (entered into force 1 January 1995) (**TRIPS**).

⁴⁰ European Union, Proposal for a European Parliament and Council Directive on criminal measures aimed at ensuring the enforcement of intellectual property rights, SEC (2005) 848.

⁴¹ See article 2.18.3, ACTA.

⁴² Weatherall, 'An Updated Analysis', above n 19.

⁴³ Note: an injunction is ordered by a Court at the end of the trial with judgment while an interlocutory injunction is ordered by a Court during the trial to preserve the status quo pending judgment.

⁴⁴ ACTA, 'Consolidated Text', above n 14, 4, 7.

Article 2.5.X causes the most concern as in Australia interlocutory injunctions are typically only available against wrong doers. While the power of courts to make orders against third parties to litigation is undoubted, it is only in very limited circumstances, under strict court supervision, and where there is an imminent need to preserve the course of justice.⁴⁵ It is highly unlikely that Australian law could provide for the award of an interlocutory injunction against an innocent third party such as an ISP, which would not be found liable for infringement and where there is no imminent need to prevent injustice.

By requiring injunctions to be issued against intermediaries, both articles cut across the law of authorisation of infringement. Authorisation requires more than the mere provision of facilities that are used for infringement. It is entirely inappropriate to determine matters of substantive authorisation law in an international agreement. Injunctions are a matter of civil procedure and apply to all civil matters, not just infringement of an intellectual property right.

Both articles contain a proposal to limit their scope to 'infringing intermediaries'. This does nothing to limit the scope of article 2.5.X in terms of interlocutory proceedings. For article 2.X.2, it still creates the potential to issue injunctions against an intermediary which affects further third parties, not just the intermediary's impugned conduct.

Significantly, a recent United States decision found that while an injunction may be awarded to restrain infringement, it does not automatically follow that an injunction will be awarded following a finding of infringement.⁴⁶ An assessment of what is appropriate in all the circumstances must be made. Providing that an injunction may only be required against an infringing intermediary offers no protection because it should not automatically follow that an injunction should be available as a remedy. Thus, even with the requirement that an intermediary must be 'infringing', the article still goes well beyond the existing law.

The articles are unqualified as to: the level of proof required for the alleged infringements that are occurring on the intermediaries' services; the question of proportionality in awarding the injunction; due process for the alleged infringers who are the subject of the injunction; and the definition of intermediaries to which the articles apply – which might extend to organisations such as libraries, cultural institutions, universities or schools.

Recommendation 12: support deletion of articles 2.X.2 and 2.5.X which provide for the award of injunctions and interlocutory injunctions against intermediaries, respectively.

Mandatory Injunctions and Three Strikes

Providing for the issue of injunctions against intermediaries has the potential to require them to take active steps to prevent ongoing infringement and arguably creates a new role for intermediaries as

⁴⁵ For example, the common law 'Anton Pillar' order allows evidence to be seized from a third party if there is a real risk that it may be destroyed, and the common law 'Mareva' order allows the seizure of property from a third party if there is a real risk that it will be dissipated to thwart the court's judgment; see Weatherall, 'ACTA Public Draft', above n 31, 12.

⁴⁶ *J.D. Salinger v Fredrik Colting et al* US CA 09-2878-cv, August Term, 2009, at 16.

the enforcement arm of the courts and rights holders. Historically, injunctions have not been awarded against intermediaries such as mail or telecommunications providers.⁴⁷

Article 2.5.X has the potential to introduce the three strikes procedure or requirements to block file sharing traffic (including non-infringing file sharing), under the guise of a mandatory injunction that would oblige an ISP to take active steps to prevent infringement. Three strikes could be implemented where a rights holder initiates an application for an injunction against an ISP that identifies several alleged individual infringers, and seeks that the court order the ISP to warn, suspend, or terminate the accounts of those infringers to prevent further infringement.⁴⁸ The judiciary is not the appropriate forum to assess the long term economic and social impact of such an injunction.

Recommendation 13: in the alternative, support a position that amends articles 2.X.2 and 2.5.X to qualify the requirements that may be placed on intermediaries under mandatory injunctions and limit the award of injunctions to 'infringing intermediaries', 'where appropriate'.

Third Party Liability

Third Party Liability at International Law

Foot note 47 to article 2.18.3 defines third party liability as authorising infringement 'for a direct financial benefit', promoting infringement, or where a person 'knowingly and materially aids any act of infringement by another'.

Questions of third party liability are highly controversial and require the flexibility that comes from having them dealt with at a domestic level. Third party liability is not covered by any existing treaties, and international positions are so varied that any attempt to agree on a single standard is premature and likely to backfire in the longer term.

Third party liability is not a matter of enforcement but substantive rights and so should not be included in ACTA. There is great difficulty in attempting to draft a definition of third party liability that will be suitable across all countries and all areas of IP law. Jurisprudence on the subject has varied greatly between countries and the requirements have not been codified. Creating an international standard that only reflects the circumstances of the United States will damage the flow of communications that intermediaries enable in Australia.

ACTA should only define what the term 'third party liability' means as a concept. It is inappropriate to define the substantive legal right for when third party liability will be imposed.

Third Party Liability at Australian Law

Each element of third party liability proposed in ACTA conflicts markedly with Australian copyright law. In Australia, third parties are liable for 'authorising' the infringement of others,⁴⁹ which is

⁴⁷ Weatherall, 'January Analysis', above n 13, at 18.

⁴⁸ Weatherall, 'January Analysis', above n 13, at 18. Note: this is a worst case scenario that assumes Courts would allow the injunction process to be abused by rights holders.

⁴⁹ Section 101, *Copyright Act 1968* (Cth).

determined by a court weighing up various factors, including whether they have the power to prevent infringement, knowledge of that infringement, and the extent to which they have taken reasonable steps to prevent it.⁵⁰ Additionally, Australian trademark and patent law have very limited concepts of authorisation, so article 2.18.3 would require serious changes to Australia's domestic position.

Authorising infringement 'for a direct financial benefit' is arguably inconsistent with Australian copyright law. A direct financial benefit without knowledge or the power to prevent infringement does not give rise to liability in Australia. The definition of what constitutes a 'direct financial benefit' is also controversial. When implementing AUSFTA a dispute arose over what constituted a 'direct financial benefit' in relation to the ISP safe harbours regime. Including such a term in ACTA with regard to the common law standard of authorisation would be completely undesirable.

Authorising infringement by promoting it is adopted from the United States common law.⁵¹ While Australian common law provides for a similar concept, it is distinctly different, and possibly subject to future judicial interpretation.⁵²

Authorising infringement by knowingly and materially aiding infringement is again adopted from the United States common law and distinctly different to Australian common law. The recent Federal Court case of iiNet held that authorisation for aiding infringement occurs only in a very limited set of circumstances.⁵³

The factors for determining third party liability in ACTA do not exist in a recognisable form in Australian common law and are not included in the codified factors that a court must consider. Article 2.18.3 would require Australia to adopt principles that differ significantly from the development of its common law.

Recommendation 14: support deletion of foot note 47 to article 2.18.3 which defines third party liability as it creates a substantive right that conflicts with Australian law.

Safe Harbour Requirements

Encouragement of Three Strikes

Previous leaks have consistently raised the spectre that ACTA may either include a reference to, or create a procedure for the adoption of, three strikes. Access to an essential service such as the Internet, should only be terminated in extreme circumstances with the fundamental protection of independent judicial oversight. Three strikes threatens matters of crucial significance: freedom of

⁵⁰ *University of New South Wales v Moorhouse* [1975] HCA 26. This was later 'codified' in sections 36(1A) and 101(1A), which resulted in years of confusion over the impact of the changes. If *further* new language is added, the law of authorisation can only become even more confusing.

⁵¹ *Metro-Goldwyn-Mayer Studios v Grokster* 545 U.S. 913. The defendant in *Grokster* was found liable for the copyright infringement of others because it took steps to induce their infringement. Per Souter J at 919:

We hold that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.

⁵² *Universal Music v Sharman Licence Holdings* (2005) 65 IPR 289.

⁵³ iiNet, above n 9.

communication, expectations of justice and fairness, access to essential services and the digital economy.

The real risk from ACTA is its encouragement of three strikes – the procedure does not need to be mandatory. Article 2.18.3 requires intermediaries to adopt and reasonably implement ‘a policy to address the unauthorised storage or transmission of materials.’ Earlier leaks revealed a foot note, now deleted, which gave an example that this might be done by cutting off the alleged infringer’s internet access.⁵⁴ ACTA also encourages the ‘development of mutually supportive relationships between online service providers and rights holders’, which could also be a veined reference to three strikes.⁵⁵

AUSFTA and Australian copyright law hold intermediaries to lower standard than ACTA. Intermediaries are only required to adopt and reasonably implement ‘a policy that provides for termination in appropriate circumstances of the accounts of repeat infringers.’⁵⁶ A policy which provided for termination following a finding of infringement by a court might meet the Australian requirement of ‘appropriate circumstances’.⁵⁷ However, it is arguable that such a policy would not meet the ACTA requirement of ‘addressing’ infringement as it does not in any way seek to reduce infringement.

The clear implication is that anything less than three strikes might be insufficient for ACTA. This article is seriously problematic as it potentially expands the obligations of ISPs. It is not unreasonable to consider that ISPs would be encouraged to adopt a policy that was more onerous than required, such as three strikes, in order to ensure that they meet the stipulations of the safe harbour.

Recommendation 15: support a position that seeks to limit the positive obligations that might be placed on intermediaries to deter or address the unauthorised storage or transmission of materials.

Knowledge of Infringement

The knowledge provision in article 2.18.3 option 1 is inconsistent with Australian copyright law and AUSFTA. The so called ‘red flag’ test in the Australian safe harbours requires that infringing material must be removed or disabled after becoming aware of infringement, or becoming aware of facts or circumstances that indicate infringement.⁵⁸ This requirement only applies to the activities of hosting of user generated content and providing information location tools or technology. A person may still qualify for the safe harbours if they have knowledge but act expeditiously after becoming aware of a red flag.

Recommendation 16: support clarification of where the protection of the safe harbour provisions will be denied on the basis of knowledge of infringement.

⁵⁴ ACTA, ‘Consolidated Text’, above n 14, 28.

⁵⁵ Article 2.18.3, ACTA.

⁵⁶ Article 17.11.29(vi)(A), AUSFTA; section 116AH, the Act.

⁵⁷ See iiNet, above n 9. The Federal Court found that iiNet had a repeat infringer policy and to have reasonably implemented it, even though it never terminated an account and did not actually reduce infringement. This was because an appropriate circumstance for termination never occurred – being a finding of infringement by a court.

⁵⁸ Section 116AH(1), Item 3-4, the Act.