TV Formats: Still the Weakest Link?

Jerry Dohnel examines the emerging phenomenon of television programming with apparently similar formats. Does a breach of copyright exist?

With the advent of reality-based television programming, television formats, once regarded by entertainment lawyers, whether rightly or wrongly, with some degree of cynicism, are now enjoying newfound popularity and success. Some of Australia’s biggest rating programs for 2001 are based on television formats, including “Big Brother”, “Who Wants To Be a Millionaire”, “Survivor”, “The Weakest Link” and “The Mole”. These formats are appearing in local versions the world over and are performing surprisingly well.

“Popstars”, the cult program produced by Australian company Screentime and based on a New Zealand format acquired by Screentime, has now been produced under licence in the US, Germany, Italy, Canada, Australia and New Zealand, and has been sold to Brazil, Argentina, Portugal, Denmark, Norway and Belgium. Screentime is in the process of developing other formats for overseas exploitation, including “Strip Search”, and has itself acquired rights to a format called “Crossfire”.1

WHAT IS FORMAT LICENSING?

Format licensing, or “re-versioning” as it is also known, differs to program licensing in that it does not involve the acquisition of a finished program that has been produced elsewhere, and which may require dubbing or captioning in another language. Format licensing involves local production of television programs based on a format or concept for a television program that may have been produced elsewhere, and which is reversioned using local talent. Distraction Formats, a UK company, offers formats across a variety of genres including game shows (e.g. “Strip”, which as the name suggests involves contestants who are willing to strip), comedy/sitcom (e.g. “Girl Talk”, about “4 thirtysomething females who know they can count on each other –come hell or high water”), drama (“Virginie”, a daily soap which touches on different social subjects such as racism, violence, family difficulties etc), entertainment (“The Big Bluff”, where celebrity guests attempt to drive ordinary people crazy with their obnoxious behaviour), magazine (“The Feeling is Mutual”, which “takes viewers on a 90 minute adventure into [a particular] celebrity’s passion for the arts”) and kids (“The Lunch Box”, where a 5-year-old girl discusses the contents of her lunch box with her 3 year-old pal, Charlie).2

A RECENT TREND?

Whilst format licensing may seem like a relatively new trend, Australian production companies such as Grundy and Becker have long been licensing drama and gameshow formats internationally. Grundy has been producing overseas versions of its local Australian hits since the early 80s. In 1982 Grundy produced a US version of ‘Sale of the Century’ for NBC, becoming the first Australian producer to produce a series for a U.S. Network. Other Grundy program formats that have been successfully produced overseas, in a variety of countries from Germany to Paraguay, include “The Restless Years”, “Sons and Daughters”, “Prisoner”, “Mother and Son”, “Family Feud” and...
GREEN V BROADCASTING CORPORATION OF NEW ZEALAND

In terms of intellectual property law, protecting a television format has always been a somewhat shaky proposition. A format is, after all, basically the idea for a television program. It is trite law to say that copyright subsists not in the idea itself, but in the form of the expression. So much was decided by the Privy Council in Green v Broadcasting Corporation of New Zealand, the leading case dealing with infringement of a television format.

Green was the author, producer and compere of a television talent show, “Opportunity Knocks”, produced and broadcast in the United Kingdom from the early 1960s until 1978. Between 1975 and 1978 the Broadcasting Corporation of New Zealand produced and broadcast a television talent show with the same title. Apart from the title, the New Zealand show included assorted features of the UK show, including the use of various catchphrases, the use of sponsors to introduce contestants and the use of a “clapometer”. Green brought an action against the Corporation for passing off and infringement of copyright in the scripts and dramatic format for the program.

The New Zealand Court of Appeal, subsequently affirmed by the Privy Council, held that the scripts described by Green were no more than the skeleton outline or framework of the manner in which the television show would be conducted. Somers J said that the scripts did no more than express the general idea or concept for the show, and as such did not attract copyright protection. He cited Tate v Thomas [1921] 1 Ch 503 in which the author of a synopsis of a play was declined copyright protection. He did note, however, that it was possible for the abstraction implicit in a general idea or concept to be “delineated by or attended with detail or pattern or incidents sufficiently substantial to attract copyright in the whole**, i.e. an idea will be afforded copyright protection if it is expressed in sufficient detail so as to constitute a work protected by copyright. This suggests that if the concept for a television program is sufficiently elaborated in writing it will be afforded copyright protection.

Even so, whether or not a copyright work is infringed will depend upon the nature and quality of what is taken and whether or not it constitutes a substantial part of that work. For example, the use of elements from a television program will only constitute infringement of copyright if a court can find that the use of those elements constitutes a reproduction of a substantial part of the work in which copyright is claimed. The court will need to determine the extent to which the features which have been copied are more than mere ideas or concepts. What matters is the degree of particularity or generality of the idea which is taken. **If the general idea which underlies or forms the basis of the work has alone been taken
there will be no infringement. If more than that it will be a question of fact and degree whether there is an infringement." \(^1\) Whether or not a substantial part has been copied will depend more on the quality of what has been copied rather than the quantity.

"It is not now suggested that there was copyright in the title nor could it be suggested that the idea of a talent quest could obtain a monopoly. I think the Judge was right to hold that the use of sponsors in the way they were used by Mr Green was an idea not capable itself of being protected by the Copyright Act. The same position applies in my view to the clapometer... These features indicate the difficulties of Mr Green's case. Not surprisingly he feels his ideas have been appropriated. But that I am afraid is all that has happened. Whether taken item by item or as a whole I am of the opinion that the scripts... did not themselves do more than express a general idea or concept for a talent quest and hence were not the subject of copyright." \(^3\)

**"BOOT CAMP"**

Notwithstanding the difficulties in pursuing an action for infringement of a television format, litigation remains a real option for an aggrieved party. Much will depend on the circumstances of the particular case. A United States judge recently refused to dismiss a copyright infringement lawsuit brought by CBS, the US producer of "Survivor", against rival broadcaster, the Fox Broadcasting Corporation, and production company LMNO Distribution, the producer of "Boot Camp". "Boot Camp" is a program which, like "Survivor", involves 16 contestants competing against each other for a cash prize who are required to complete challenges and vote members out at the end of each episode. CBS alleges "Boot Camp" copied significant copyright elements from "Survivor".

LMNO Distribution apparently pitched the idea for "Boot Camp" to CBS as a program which CBS could use to capitalise on the success of "Survivor". CBS itself originally had an idea for a talent contest, "Survivor", which was produced by Sony and Fox. CBS lawyers used allegations by "Survivor" contestant Stacey Stillman, that votes were rigged on "Survivor", to differentiate "Boot Camp" as a true reality program. In a ruling released 16 June 2001, the Judge indicated that even if the outcome of "Survivor" is proven to have been manipulated, CBS is still entitled to protect its show against copyright infringement, which the judge identified as the core issue of the case.\(^6\)

Interestingly, Fox had previously filed a lawsuit against CBS in relation to the format for a reality program entitled "Race Around the World", which is currently in production, alleging that CBS stole the format from a Fox employee who created it in 1998.\(^7\)

**FORMATS ADD VALUE**

If Green confirms that there is no copyright in a television format per se, and that the idea for a television program is not really capable of copyright protection, why are formats such hot property, being bought and sold worldwide for large sums of money? To some extent it's because companies like to be seen to be doing the right thing, and want to avoid expensive lawsuits, but perhaps more so because of the value-add that a format licensor has to offer.

A format does not merely consist of the idea for a television program. After all, ideas for television programs are perhaps even more prolific than unfinished novels and film scripts. A television format is a package of materials and information which a licensee can use to create a successful program. Action Time International, a UK company that has licensing and co-production arrangements in over 30 countries, has pioneered a "one stop" service to its clients which can include comprehensive production support, including music, computer software and producers to consult on productions on-site.\(^8\)

In the case of programs which have been successfully produced elsewhere, such packages, known in the TV industry as television program formats, can include a format guide and production bible, scripts, original episodes of the program as produced in other countries, questions (in the case of game shows), blue prints of sets, know-how needed to produce the program, unique software which may have been developed specifically for the program, original music, graphics, titles, international rating figures for use by sales executives. A format licensor is basically offering licenses "all the inside knowledge that makes the format 'work'".\(^9\) This represents a significant saving to the licensee on development and production costs. Even though it may not be possible to protect the basic program idea, each individual element of the package may be capable of separate intellectual property protection, whether by way of copyright, trade mark, confidentiality or contract.

Of course, where a format is yet to be produced, it will usually consist of only a relatively short document, a so-called "paper format" because it only exists on paper, setting out the basic concept or idea for a particular program. This is then shopped to potential production companies and broadcasters. Protecting a paper format presents a far greater problem for producers than a television program format, because it will be more difficult, in instances of infringement, for a court to draw a conclusion that one program is a copy of another.

**CONCEPT TELEVISION PRODUCTIONS PTY LIMITED AND CARTOON CONCEPTS PTY LIMITED v THE AUSTRALIAN BROADCASTING CORPORATION**

Issues relating to the protection of a paper format were considered by the Federal Court of Australia in Concept Television Productions Pty Limited and Cartoon Concepts Pty Limited v the Australian Broadcasting Corporation (1988). Concept Television alleged that the ABC had stolen the format for a television quiz show entitled "The Oz Game" from a format developed by Concept. Concept sought interlocutory relief to prevent the ABC from broadcasting the program on the night of its premier. Interestingly, the three causes of action upon which Concept Television sought to rely, being breach of contract, breach of confidence and contravention of section 52 of the Trade Practices Act 1974, did not include a claim in copyright, presumably because of the difficulty in proving that a substantial part of the paper format had been reproduced.
The ABC and Concept had originally intended to jointly produce a quiz show based on a box-board game developed by Cartoon Concepts. The program was subsequently cancelled by the ABC, which then commissioned another producer, Taffner Ramsay Productions, to produce "The Oz Game" based on a concept independently developed by Taffner. Finding for the ABC, Gummow J held that there was insufficient coincidence between the information claimed as confidential by Concept Television and the format eventually used for the Oz Game. Gummow J indicated that case law relating to breach of confidence requires an applicant to clearly identify the information which is said to constitute the subject matter of the confidence so that it may then be measured against the alleged breach or threatened breach.

In relation to the issue of contract, wherein Concept claimed that there was an implied negative covenant on the ABC not to produce a TV program as the same format as that proposed by Concept, Gummow J was of the view that the parties were yet to enter into a contract, and that even if they had, and even if there had been an express term of the type claimed by Concept, the program produced by the ABC did not bear such a relationship to the format offered by Concept as to infringe the implied term on which Concept sought to rely. In essence, the Court used the same sort of reasoning that it would have applied to an action in copyright, i.e. the program produced by the ABC did not constitute a substantial infringement of Concept's format.

**STRAATEGIES FOR PROTECTING A FORMAT**

Both Green and Concept Television provide useful clues as to the strategies that can be employed to protect a television format.

**Express your format:** If your television format is yet to be produced, try to express the format in as much detail as possible to attract copyright protection. Until an idea is reduced to paper and elaborated in some way, it is very difficult to protect. The more detail in which your format is expressed, the more difficult it will be for a third party to exactly copy that format.

Be aware, however, that you can only protect your expression of the idea, and not the underlying idea itself. Although not strictly necessary, you should also mark all your documents with a copyright notice, and include the names and contact details for the authors of the document.

**Consider all forms of IP protection:** Pursue separate intellectual property protection for those elements of your format which qualify for that protection, e.g. trade mark protection for titles, slogans and catchphrases. Consider registering or depositing your format with a literary registry, or with the Format Recognition and Protection Society (FRAPA) which operates a free International Television Format Registry, first launched in February 2001 (http://www.frapa.org/). The idea of format registration is to provide evidence of the existence of a format at a certain date, and to whom it belongs.

**Confidentiality:** Program ideas and formats should only ever be disclosed to potential licensees or partners in the strictest confidence. You need a good pro forma confidentiality deed that protects you from a wide range of unauthorised use of your idea. Your documents should be marked "confidential", and any presentations of your idea should be clearly identified by you as being made "in confidence".

**Contract protection:** Ensure that you have the protection of a contract before developing or producing your idea with a third party. The contract should include restrictions on the party's ability to independently produce a television program that is based on or has a similar theme to the format in question. In addition to covering ownership of the intellectual property rights in the program, the contract should also cover ownership of the format, and any enhancements to the format (where joint or individual).

**CONCLUSION**

Producers are increasingly becoming aware of the value of their television formats, and the need to protect those formats from misuse. FRAPA, which aims to promote to producers, broadcasters and the law, the concept of formats as unique, intellectual properties, is backed by a range of format creators and providers such as Pearson, King World, Action Time, Endemol, Talkback and MTV Production. David Lyle, Pearson Television's head of light entertainment and a principal FRAPA organiser, believes that the escalating global trade in formats, plus the rise of the Internet and the "tremendous challenges" that has posed for intellectual copyright protection, have hastened the need for an organisation like FRAPA.

A UK company called tvformats.com, a division of Group Media Ltd., is also dedicated to the recognition and protection of format rights. The members of Group Media Limited have particular experience in the international format business, and the development and production of television formats. There have also been calls for stronger legislation in Europe to protect the copyright of TV formats. These and other initiatives indicate that format rights, once regarded in the entertainment industry with a certain level of contempt and cynicism, essentially "the weakest link", may prove to be a much stronger link than anyone ever imagined.

1 http://www.screentime.tv/formats/formats.html
2 http://www.distract.com/
5 Ibid at 498.
6 http://tv.yahoo.com/tvnews
7 http://www.encoremagazine.com.au
8 http://www.netsitepro.com/actiontime/
9 http://www.tvformats.com

The views expressed in this article are those of the author and not necessarily those of the firm or its clients.

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The Communications and Media Law Association Incorporated (CAMLA)  
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Essay Prize  

The Communications and Media Law Association is holding an essay competition in 2001.

The purpose of the competition is -

• to encourage high quality work in communications and media law courses; and  
• to improve links between those studying and practising in the area.

The prize will be given for an essay which meets the following criteria -

• a previously unpublished essay which is the original work of the author;  
• an essay completed by a student enrolled in an undergraduate or postgraduate course, possibly as part of that course;  
• an essay on a subject relating to communications or media law;  
• an essay of 1000 – 3000 words. The 3000 word limit (inclusive of all footnotes, annexures, attachments and bibliographies etc.) is not to be exceeded.

A prize of $1000 and a one year membership of CAMLA will be awarded to the winner.

The winning essay, edited in consultation with the author, will be published in the Communications Law Bulletin.

The winning entry, to be selected by a panel of experienced communications and media law practitioners, is likely to demonstrate original research, analysis or ideas. The panel will not necessarily be seeking detailed works of scholarship.

The award will be made at the annual CAMLA Christmas Function.

Only one essay per student may be submitted. Entries will be accepted by e-mail or by post. Entries WILL NOT be accepted by fax. Entries submitted by post should include 3 (three) copies of the entry typed well-spaced on A4 paper. The name, address, e-mail, telephone and fax contacts and the tertiary institution and course in which the author is enrolled should be included on a separate, detachable sheet.

Entries submitted by e-mail should include the same details, in a separate e-mail from the entry.

The author’s name should not appear on the pages of the essay.

Entries should be submitted to:

Essay Competition Co-ordinator, Communications and Media Law Association  
c/- 40 Swan Street, Gladesville, NSW 2111 Australia.

Email: susanturner@kpmg.com.au

by 5pm Friday, 2 November 2001. Late entries will not accepted.
The show *The Panel* has fast become a weekly fixture in the schedules of many television viewers. The blend of satire and occasionally serious conversation draws on both print media and television broadcast sources for topics of conversation and inspiration. Nothing is sacred to the members of *The Panel*’s team. Anything and everything comes under scrutiny as the lens of *The Panel* highlights the serious and the ridiculous in the week’s news and entertainment.

Late last year, Channel Nine (Nine) brought proceedings against Channel Ten (Ten) for an alleged breach of television broadcast copyright by showing short excerpts on *The Panel* of 20 of Nine’s programs. Justice Conti of the Federal Court had to consider two main issues: the scope of the television broadcast copyright granted under section 87 of the *Copyright Act 1968* (Cth) and the application of the fair dealing defence to copyright infringement in relation to each of the excerpts taken.

### The Scope of Television Broadcast Copyright: Section 87

Nine argued that Ten had infringed the exclusive rights given to them under section 87, as owners of the television broadcast copyright in their television programs. Section 87(a) grants the exclusive right to make cinematograph films of the broadcast, and section 87(c) grants the exclusive right to re-broadcast the broadcast.

**Scope of copyright?**

In order to show breach of television broadcast copyright, Nine had to show that Ten had taken a relevant part of each television broadcast in question. Nine’s critical submission was that taking any of the visual images comprised in a television broadcast amounted to a relevant taking in relation to the television broadcast because of the operation of section 25(4)(a). Section 25(4)(a) is an interpretative provision which deems that a reference to a cinematograph film of a television broadcast is a reference to any of the visual images comprised in the broadcast. Nine argued that section 25(4)(a) extends the scope of television broadcast copyright to each and every visual image of the broadcast, so that one did not need to show (unlike with other parts of the copyright regime, such as literary works) that a substantial part had been taken.

Justice Conti rejected Nine’s submission for two reasons. First, section 25(4)(a) did not apply to section 87(c), which was only concerned with re-broadcasting and not making cinematograph films. Second, although section 25(4)(a) did operate on section 87(a), the requirement that a ‘substantial part’ of the broadcast had to be taken remained. He considered that taking a literal interpretation of the impact of section 25(4)(a) on section 87(a) gave a nonsensical result. A single image is not a substantial part in most circumstances, and Justice Conti commented that such an interpretation would mean that a single sound of a sound broadcast would also infringe copyright. He therefore held that there would be no infringement unless a substantial part of the relevant broadcast was taken.

He accepted Ten’s submission that section 25(4)(a) was included to ensure that a series of single images taken would be capable of infringing copyright in certain circumstances, e.g. a series of photographs taken from a broadcast for the purposes of inclusion in a poster or advertisement. It was not intended to extend the scope...
of copyright to each and every visual image in the broadcast. To do so would be to grant television broadcast copyright greater protection than other forms of copyright, which was an unlikely legislative intention.

Justice Conti's concern that television broadcast copyright not be extended beyond copyright for original works may be valid, however, section 25(4)(a) is only concerned with infringement when cinematograph films are made of television broadcasts, not the scope of copyright to be granted in a more abstract sense. The wording of the section does make reference to both a photograph of any of the visual images in a broadcast, and a cinematograph film of any of the visual images in the broadcast. The section also does not express itself as subject to any other provision of the Act. This would seem to suggest that more than single photographic images taken for posters is intended and that the section is, therefore, intended to extend television broadcast copyright under section 87(a).

Assessment of 'substantial part'

In determining how to identify a 'substantial part' of a broadcast, His Honour considered the approach to substantiality taken in relation to both copyright works and published editions. The assessment of substantiality in relation to copyright works focuses on the quality or materiality of what is taken, rather than the quantity. The approach taken to published edition copyright focuses on the object or purpose of the use which the material is put to, as well as quality and quantity. He considered that the latter approach better informed the court on the approach to take in relation to television broadcast copyright. He therefore held that substantiality should be assessed by reference to both the quality of presentation and screen appearance taken, and the quantity of the program taken in terms of viewing time, as well as the purpose of the taking. The emphasis placed on either will depend on the circumstances of the case; however, purpose will be a significant factor that will, in some situations, be a material determinant of substantiality.

A simple and practical test for broadcasters will therefore be to ask if there has been a commercial pirating, in the sense that harm has been inflicted, or potentially will be inflicted, on the television broadcaster's commercial interest in the program eg. a reduction in ratings, diminution of advertising profits. If a broadcaster takes visual images from a competitor for the purpose of including them in a similar broadcast then the purpose will be a prohibited one, and substantiality will be established so long as a sufficient amount in terms of quantity and quality has been taken. However, as with the excerpts taken by The Panel, if the taking is for the purpose of comment, satire or light entertainment then this will not ordinarily involve infringement because no commercial interest of the competitor has been damaged, provided that a significant part has not been taken in terms of quality and quantity.

FAIR DEALING DEFENCES

Justice Conti considered the fair dealing defence, even though it was strictly unnecessary given his earlier finding of no infringement. He commented that fair dealing involves a question of degree and impression and is to be judged by the criterion of a fair minded and honest person. He went though the footage of each segment deciding in principle whether the often irreverent commentary could be called fair criticism, review, or reporting the news.

Reporting the news

Justice Conti commented that the use of humour does not disqualify commentary from being a fair dealing for the purposes of reporting the news. However he commented that the distinction between news and entertainment was difficult to determine in some situations and was a question of degree. News is also not restricted to current events, but the events depicted must be objectively judged as newsworthy. He considered that the defence of reporting the news would have been made out in relation to an excerpt of The Inaugural Allan Border Medal Dinner that was shown on The Panel. Members of team pointed out the fact that in the broadcast Glenn McGrath, a well-known cricketer, had not noticed the Prime Minister's attempt to congratulate him. Ten argued that unusual or incongruous moments in the Prime Minister's life were inherently newsworthy and Justice Conti agreed.

He would not have granted the defence, however, in relation to an excerpt of Midday that showed the Prime Minister singing 'Happy Birthday' to Sir Donald Bradman. The commentary of the members of The Panel was:

Did anyone see when Kerri-Anne got the Prime Minister to sing Happy Birthday to Don Bradman?

That will get him back in.

It's not right to mock someone's stature but he really looks like he should have a hand up his.... moving his mouth when he sits on that little stool....

Well I reckon if he didn't sing it, she would have put her hand....

Kerri-Anne will not take no for an answer.

She is essentially a Labor voter 'cos she got Costello to do the Macarena... and made him look like an idiot and now she's done it with John Howard.

Justice Conti considered that the commentary was for the purpose of satirising the Prime Minister and Kerri-Anne Kennerley and was not 'reporting the news'. The events had been televised earlier in full and were not newsworthy in any other way.

Criticism or review

Justice Conti commented that criticism or review must be fair and genuine. Any hidden motive may disqualify reliance on criticism or review, particularly if the copyright infringer is a trade rival using the copyright subject matter for their own commercial benefit. If the criticism or review is genuine, however, it need not be balanced. For example, Justice Conti would have accepted the defence in relation to an excerpt shown from the show Days of Our Lives, which showed a long-standing character, Marlena, as devil possessed. Justice Conti considered that the commentary given by the members of The Panel was fair review because it was insinuating a loss of originality and novelty in the show, or, in the words of The Panel commentators:

The writers sit around and they go... they've gone after 10 or 11 years and they've gone "guess we've got to make someone possessed".

He considered that the defence would not apply in relation to a segment of Simply The Best that was shown. Ten had argued that the criticism was of the underlying artistic work in the design when members
of The Panel said:

The set was a little....... Perplexing.

It was sort of like the seats were 'Who Wants to be a Millionaire' meets the desks of 'The Footy Show' meets an inner-city brothel. It was just...what I imagine an inner-city brothel would look like is what I mean.

Justice Conti considered that there was not a viable basis for criticism or review and that the members of The Panel were just trying to be amusing. In fact, he commented that there was not 'a viable basis for comprehending, much less resolving, what was the true nature of the criticism.'

Sufficient acknowledgement

Both defences require that sufficient acknowledgement of the author of the work is given before the defence can be established. Justice Conti commented that this is ordinarily achieved by communicating, by spoken words or writing the authors' name. He held that use by Ten of an 'on-screen watermark "Ch 9" was sufficient acknowledgement even in the absence of Nine's logo being shown.

WHAT DOES IT MEAN FOR BROADCASTERS?

Based on Justice Conti's judgment, taking small parts of a competitor's broadcast programs, or segment of a program, will generally not be an infringement of copyright so long as the excerpt is not used for a commercial purpose, or to damage a competitor's interests. A practical test for broadcasters will be to ask if there has been a commercial pirating, in the sense that harm has been inflicted, or potentially will be inflicted, on the television broadcaster's commercial interest in the program. If there has then it is likely that there has been a substantial taking. An assessment of the quality and quantity of the excerpt is still essential, but the purpose element will be significant in determining the final outcome.

A word of warning, however - although certainly providing a level of comfort, there is no guarantee that Justice Conti's interpretation of sections 25(4)(a) and 87 will be followed, and, therefore, the use of a small (insubstantial) part of a competitor's broadcast (where the fair dealing defence is not available) may still carry with it some risk.

The fair dealing defences will be available despite the program having a primarily humorous or satirical focus. The defence of reporting the news is not restricted to serious commentary, however it must be clear that it is news and not entertainment, a distinction which is often difficult to draw. If the criticism or review is genuine then the commentary need not be balanced, or serious. However hidden commercial motives may disqualify a broadcaster from relying on this defence, particularly if they are a trade rival using the copyright subject matter for their own benefit. These issues will be a question of degree and impression, and, ultimately, what sense of humour the court thinks a fair and honest minded person has!

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M-Commerce and Wireless Advertising

- Legal Challenges for Carriers

Buying a coke with your mobile phone is just the beginning for mobile commerce, Niranjan Arasaratnam and Joanna Davidson discard the hype to assess this new service.

The mobile commerce reality finally caught up with the hype in Australia in May. Coca Cola installed nine vending machines at Sydney's Central Station which allowed consumers to "dial a Coke" using their Telstra mobile phones and have the cost of the drink added to their phone bill. The phrase "Dial a Coke" was added to the suburb display on the screen of phones which have the location display option enabled, reminding consumers that the service is available. This initiative represents only the most miniscule tip of the mobile commerce iceberg.

Mobile location services are value-added services that are based on a consumer's location. They combine three factors that boost the value of information to the typical consumer: personality, time-criticality and location-dependency. They have the potential to provide solid revenue streams to carriers in mobile markets where voice telephony revenues are reaching saturation point.

Interestingly enough, regulation is driving the development of mobile location services internationally. For example, in both the US and the EU, legislation mandates carriers to provide emergency services location information in the near future. This has had a significant impact on the positioning technology adopted by mobile network operators.

Developments in mobile location service technology raise some unique privacy concerns. Regulators in overseas markets are paying increasing attention to such concerns. In Australia, with the new privacy legislation on the horizon, the regulation of this technology is at an embryonic stage.

A UNIQUELY SENSITIVE TECHNOLOGY

Mobile location services carry with them some novel legal issues. In particular, the major privacy concern of the wired internet (including surveillance, spam and profiling) are magnified by wireless technology. It allows carriers to form a
detailed and invasive dossier of each customer's movements (coupled with the government's increasing enthusiasm for surveillance technology as evidenced by the recent Cybercrimes Bill 2001). However, there are other legal challenges of the wireless environment, including:

- competition issues associated with interoperability of wireless platforms (e.g., refusal to roam, carrier collusion regarding APIs and market platforms);
- consumer credit compliance for carriers;
- legal recognition of wireless messages (e.g., the recent furore in Malaysia over whether SMS divorce declarations were valid under Islamic law);
- liability allocation issues (for example, what happens when a phone is stolen and used to fraudulently purchase goods?) and
- carrier control over advertising and other content carried on their network — should carriers have responsibility and act as a clearinghouse for advertisers, or should the ISP model apply, whereby ISPs act as mere conduits and content control is not assumed?

WHAT REGULATORY ACTIVITY IS HAPPENING OVERSEAS?

The regulation of mobile location services is generating a lot of steam in the US, where E-911 laws for emergency services location information are accelerating carrier timetables for technology implementation.

In a series of E911 orders since 1996, the Federal Communications Commission (FCC) has required that mobile phone carriers provide location information automatically to 911 call centres on calls from mobile phones. Under phase II of the E911 rules, wireless carriers must provide to call centres the location of a 911 caller by exact latitude and longitude. In most cases, phase II compliance must occur by October 1, 2001, and by the end of 2005, carriers must achieve a 95% penetration of handsets capable of providing location information.

The Wireless Communications and Public Safety Act 1999 added location to the definition of customer proprietary network information (CPNI). The Act specifically addresses the use of wireless location information and requires that a carrier obtain a customer's "express prior authorisation" in order to use or disclose call location information concerning the user of a commercial mobile service. There is an exception for emergency-related disclosures where express prior approval is not needed.

Curiously, the privacy rules for CPNI were successfully challenged by carriers on constitutional grounds in the case of U.S. West v FCC in late 1999. The court held that the privacy rules infringed the carrier's freedom of speech. The FCC is redrafting its CPNI privacy rules to avoid constitutional issues. However, even those carriers who challenged the privacy rules have now petitioned the FCC to immediately develop location privacy rules. They argue that it is in the public interest and the interest of emerging location services providers to develop the privacy rules as soon as possible.

On July 11, the Location Privacy Protection Act 2001 was introduced into the US Senate. This Bill aims to further protect the privacy of location information by prohibiting all providers of location-based services from collecting, using, disclosing or retaining location information without the customer's express authorisation. It would also strictly control the use third parties could make of location information, even though they could only receive it pursuant to a customer's express permission. The third party would not be able to disclose or permit access to location information without direct permission from the customer. The Bill has been referred to the Senate Commerce Committee for consideration.

In the EU, a Draft Directive on privacy in the electronic communications sector includes a specific article on location...
data. Under proposed article 9, location data may only be processed by electronic communications networks if it is made anonymous, or with the consent of customers only for as long as necessary to provide a value added service. Even if consent has been obtained, the customer must continue to have the possibility of temporarily refusing the processing of such data for each and every connection to the network or transmission of a communication. This must be a simple, free process.

The EU's Data Protection Working Party suggested in its Opinion on the Draft Directive that this is not a satisfactory solution to privacy risk. It said that the rule should be inverted: the customer should be able to allow the processing of location data for each delivery of an added value service, but the default setting should prevent the processing of location data at all. The discussions continue but the Draft Directive is expected to be passed by the European Parliament this September. By the end of 2001 the EU will also have received the results of a technical study currently being offered by tender on caller location in mobile networks.

Self-regulatory efforts overseas are also continuing apace. The US Cellular Telecommunications and Internet Association has proposed rules for fair location information practices to the FCC, based on the principles of notice, consent, security, integrity and technology neutrality. The Wireless Advertising Association has developed technical standards for size and graphics in SMS advertising, as well as a set of guidelines on privacy and spam. These impose particularly high standards for customer consent to "push" messaging, insisting on confirmed opt-in by subscribers to wireless advertising services.

**WHAT ABOUT AUSTRALIA?**

In Australia, the Australia Communications Industry Forum (ACIF) has established a working committee to develop an SMS marketing code of practice amid rising complaints of unsolicited SMS messages. The working committee's brief covers specific rules of messaging and some privacy issues. It is unclear whether the code will be voluntary or registered with Australian Communications Authority (and binding).

ACIF has also developed a specification governing how mobile carriers should provide mobile location information for emergency services and the transport of that information by transit networks. The specification is voluntary but the ACA is drafting a new determination which will implement the specification.

In the absence of any other specific regulation, the changes to the Privacy Act 1988 (or the ACIF code governing personal information if registered by the Privacy Commissioner as an approved privacy code) will apply from 21 December. The Privacy Act will prevent the use and disclosure of any location information without the consent of the customer. Based on the National Privacy Principle Guidelines issued by the Privacy Commissioner, a broad, general consent obtained upfront may not suffice for unsolicited mail. This means mobile carriers may not be able to use personal information to send SMS in the ways they want to. Consent to direct marketing must be explicit with the customer understanding the full extent of the proposed direct marketing. In the absence of a general consent, consent will be required for each specific use of the location information.

However, there may be a loophole in the Act that could be exploited by the telco industry. The Privacy Act governs the collection and use of personal information ... about an individual whose identity is apparent, or can reasonably be ascertained, from the information. Whether information such as mobile location will identify an individual will depend on the context and who holds it. If the mobile location information that carriers exploit is merely limited to location information (without any reference to a person's identity) it may fall outside the ambit of the Privacy Act allowing carriers to use it without restriction.

The concept of privacy is multi-faceted. One can apply the moniker of a privacy interest to several understandings of privacy, such as the right to have the moral freedom to exercise full individual autonomy, the right to control your personal data and the right to solitude, secrecy and anonymity. Mobile location services encroach upon all these privacy interests to some degree. The Privacy Act, however, only addresses personal data protection.

**CONCLUSION**

Privacy concerns with mobile location services are not just a regulatory issue. In a recent survey conducted by The Yankee Group, over 50% of respondents registered a worry over location information misuse. A cavalier approach to privacy might lead to customer churn rather than increased revenues. It may also lead to a knee-jerk legislative response and possible over-regulation of this area.

The industry needs to take leadership and develop a self-regulatory model that reconciles fair location information practices with the right of carriers to exploit their information for legitimate business goals.

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MOBILE NUMBER PORTABILITY - WILL YOU BE GETTING AROUND?

Brenton Yates explores the regulation surrounding, and expected implications of, the recent introduction of mobile number portability

In an age when the mobility of technology might determine the degree of success, there should be little surprise to learn that our mobile phone numbers are now themselves, 'mobile'. On 25 September 2001, mobile number portability (MNP) was implemented throughout Australia at the direction of the Australian Communications Authority (ACA), albeit that at the time of writing the federal government was considering the success of its implementation.

This article will briefly examine the regulatory background of MNP, as well as the new Australian Communications Industry Forum (ACIF) regime which has been developed to apply to implementation of MNP in Australia. Some of the expected benefits of MNP for both industry participants as well as consumers will also be discussed.

REGULATORY BACKGROUND TO MNP

Under the Telecommunications Act 1997 (Act), the Australian Competition and Consumer Commission (ACCC) is granted statutory powers to make directions to the (ACA) regarding the portability of allocated numbers1. In this regard, not only is the ACCC granted such powers, but the ACA cannot (of its own accord) put into place regulation about number portability unless directed to do so by the ACCC.

'Number portability' itself is an issue which predates MNP. Under the Telecommunications Numbering Plan 1997 (TNP) declared portable services require the portability of numbers. These declared services included:

- local services;
- free phone services (for example 1800 numbers); and
- local call rate services2.

In October of 1999, the ACCC issued a direction to the ACA stating that:

- number portability in connection with public mobile telephone services was to become a declared portable service under the TNP;
- amendments to the TNP were to be made to provide for MNP;
- technology was to be selected by industry participants which provided for long term solutions regarding number portability for mobile telephone services, across all mobile technologies (GSM and CDMA technologies, but excluding AMPS);
- an MNP implementation date was to be set.

These amendments to the TNP ultimately laid the foundations for the implementation of the MNP recently undertaken.

TELECOMMUNICATIONS NUMBERING PLAN AMENDMENT 2001 (No. 2)

The most recent amendment to the TNP is the Telecommunications Numbering Plan Amendment 2001 (No. 2)(TNPA). Under the TNPA, a number key amendments were introduced into the TNP. These amendments include a new definition of number portability:

"Number portability means the right of a customer receiving a service in relation to a number within a particular number range to change either carriage service provider involved in providing the service, the carrier network involved in providing the service or both, and retain the same telephone number."3

TNPA also provides that portable services now includes: "a relevant mobile service"4.

Part 2 has been added to the TNP setting out rules concerning the portability of allocated numbers and procedures which carriage service providers (CSPs) and carriers must follow to ensure that customers receive number portability. The Part also includes provisions about when number portability must be provided.

Part 3 has been added to the TNP, setting out rules to ensure that a customer using or calling a ported number receives a service that is equivalent to the service provided by the customer's new CSP to non-ported numbers. Under the TNP, carriage service provided by a CSP in relation to a ported number is an equivalent service only if any differences, in quality, reliability, services or features, between it and the carriage service that it provides in relation to a non-ported number:

- will not be apparent to a customer, or
- if they are apparent to a customer - will not affect the customer's choice of CSP.

Under the TNPA, routing telephone calls over a public telecommunications network operated by a carrier may put a CSP or carrier in any of the following roles:

- providing originating access;
- providing transit service delivery; and
- providing terminating access.

Part 5 is added to the TNP, setting out obligations on CSPs when a customer cancels a carriage service in connection with which a portable number has been ported.

AUSTRALIAN COMMUNICATIONS INDUSTRY FORUM MNP REGIME

(A CIF) has developed a framework for the introduction of MNP into the Australian market. Apart from the amendments to the TNP discussed above, the ACIF MNP regime sets the requisite standard for industry participants (and to an extent consumers) to follow.

ACIF has developed the following industry code and guidelines:

- ACIF C570 Industry Code Mobile Number Portability. Sets out non-discriminatory operational procedures for the implementation of MNP processes and criteria for assessing industry compliance.
- ACIF G556 A Framework for the Introduction of Mobile Number Portability in Australia. This
Framework provides a comprehensive set of guiding principles for the introduction of MNP - regulatory, end-user and operational, the document consolidates the agreed industry mobile number allocation approach and describes the MNP network architecture that is supported by mobile carriers (MC) and other carriers.

- **ACIF G561 Mobile Number Portability Network Plan for Voice, Data and Fax Services.** Defines industry agreed call handling arrangements to support mobile number portability. The plan describes call handling between interconnected networks for circuit switched voice, data and fax calls to portable mobile numbers.

- **ACIF G565 Mobile Number Portability Network Plan for SMS.** Specifies industry agreed routing arrangements to enable correct delivery of inter-carrier SMS.

- **ACIF G574 Mobile Number Portability Customer Information.** Provides guidance for suppliers on ongoing customer information provisions about mobile number portability in general, including information provision on mobile contracts.

- **ACIF G575 Mobile Number Portability Ported Number Register.** A ported number register is required to enable effective routing of calls following mobile number portability and updates of porting management systems.

- **ACIF G576 Mobile Number Portability Fault Management.** Documents the changes to ACIF C513 Customer and Network Fault Management Industry Code to include procedures covering the customer fault management requirements of the MNP environment.

- **ACIF G577 Mobile Number Portability Testing Strategy for Voice, Data and Fax Services.** Describes the joint network testing for voice, fax and data services to be conducted by PSDs and MCs for MNP.

- **ACIF G578 Mobile Number Portability Testing Strategy for SMS.** Describes joint network testing to be conducted by carriers and CSPs for MNP for SMS.

- **ACIF G579 Mobile Number Portability Operations Manual.** Sets out the operational arrangements for the implementation of MNP processes between MCs, CSPs, Portability Service Providers (PSPs) and Network Providers (NP).

- **MNP Equivalent Service Criteria Recommendations.** The Equivalent Service (ES) Sub-Group of the ACIF MNP Project Management Group developed this set of criteria for ES for MNP which constitutes the industry’s recommendation on MNP service equivalence to the ACA.

For the purposes of this article, it is not possible to examine each and every one of the above ACIF publications. Attention should however be given to **ACIF C570 Industry Code - Mobile Number Portability (Code)** which was registered by the ACA on 28 June 2001, and as such, the ACA may direct compliance with its provisions. This being the case, MCs and CSPs should put in place compliance procedures as outlined in the Code.

### ACIF C570 INDUSTRY CODE MOBILE NUMBER PORTABILITY

The Code itself is a complex discussion of the way in which MNP is to be conducted amongst both industry participants and consumers alike. Primarily, the Code provides that:

- **CSPs will fully inform customers about their rights, costs and obligations should they elect to port;**
- **the implementation to port be conducted efficiently and effectively;**
- **a standardised approach to porting be conducted that will minimise confusion and complexity to consumers choosing to port; and**
- **for porting to introduce as few costs as possible.**

Other key elements of the Code include:

- **each MC or CSP act in a competitively neutral and non-discriminatory manner;**
- **any information received in the process of MNP may be used only in accordance with Part 13 of the Act together with any other applicable privacy regulations and any information provided for the purposes of MNP will only be used in accordance with certain porting transactions.**

- **CSPs must ensure that customers are able to obtain information about the effect of porting their mobile service number (MSN), any costs and obligations relating to the termination of the customer’s service(s) and/or contract.** This information must be available on customer request within a reasonable period of time that is consistent with the CSPs current customer service level.

- **When advising a customer of costs, a CSP must advise the customer that there may be further caller usage costs that have not yet been applied to their account.** Particularly, the losing carriage service provider (LCSP) may inform the customer of the costs and any other obligations relating to the termination of the customer’s existing service prior to the execution of the port.

- **The LCSP must not hinder, delay or prevent the port on the basis of costs owed or obligations of the customer to LCSP.**

### BENEFITS TO CONSUMERS

Current estimates place the number of mobile phone users in Australia somewhere in the order of 11 million customers. Of this estimate, commentators suggest that 20%-30% of customers will elect to change their service provider each year, and in doing so, retain their MSN.

There can be no doubt that the introduction of MNP benefits the consumer by facilitating a choice of provider without the inconvenience and cost of losing an MSN. This is particularly relevant for small businesses who might operate via their mobile telephone service.

As well as the above benefits, there is likely to be a considerable increase in competition, both at the wholesale and retail level providing consumers with a greater choice of network provider and ultimately lowering associated costs.

It is also the case that MNP may encourage more efficient investment in network infrastructure as competitors introduce new initiative services to retain
existing customers and attract new ones. The Telecommunications Industry Ombudsman has, however, warned consumers to be aware that while mobile numbers may now be ported, consumers may still be bound by contract to their existing CSP or MC and may need to complete those contracts before porting.

**INDUSTRY BENEFITS/COSTS**

It is hoped that through the introduction of the Code, industry participants also benefit from the increased competition MNP may invoke.

As the Code envisages automated interfaces between MCs and CSPs to support MNP, it is hoped that considerable costs will be saved through the implementation of only one set of porting arrangements rather than multiple implementations which might otherwise occur at a far greater cost. Whilst the savings of a common implementation system have not been fully quantified, ACIF has indicated the saving to be somewhere in the realm of $50 million to $200 million.

Notwithstanding, MCs and CSPs will need to ensure that appropriate changes are made in their internal operating systems and networks to support MNP. New entrants will also need to build these interfaces. There will therefore be significant set up costs for most if not all industry participants.

**CONCLUSION**

It is strongly arguable that MNP is a requirement for effective competition in the provision of telecommunication services, because it removes one of the major barriers to penetration of markets by new telecommunications competitors— that is, the reluctance of residential and business customers to change their telephone numbers.

Additional qualitative benefits are likely to flow from the implementation of MNP. These include benefits such as providing an emphasis on quality of service, and introducing innovative new services to meet market needs. The primary effect of this new found competition however will no doubt be seen in lower prices of mobile telecommunications services in the marketplace, as MCs and CSPs compete for a market of consumers the majority of which, prior to 25 September 2001 simply did not exist.

**DISPUTE RESOLUTION UNDER PART XIC OF THE TRADE PRACTICES ACT – THE PROBLEMS AND THE CURE**

Michael Bray analyses these controversial provisions and getts to the bottom of current issues being confronted by industry participants, the ACCC and the Federal Government.

The Telecommunications Access Regime found in Part XIC of the *Trade Practices Act 1974* (Act) was intended to provide foundation access and interconnection rights to all operators within the telecommunications industry and to establish a framework within which the industry can develop additional arrangements to improve the efficiency with which access and interconnection are supplied. Just how effective this has been is a matter of debate. In this article we look at the dispute resolution process established by Part XIC and identify problems which have arisen in its application. We then look at the amendments proposed in the *Trade Practices Amendment (Telecommunications) Bill 2001* and ask whether those amendments go far enough towards curing these problems.

**OBJECTS OF PART XIC**

The dispute resolution provisions contained in Part XIC are intended to give effect to the objects of the Part.

The object of this Part, which is found in section 152AB of the Act, is to promote the “long-term interests of end-users of carriage services or of services provided by means of carriage services". The focus should, therefore, be on the end-users rather than on the market participants.

In determining whether something promotes the long term interests of end-users, regard must be had to the extent to which the thing is likely to result in the achievement of the objectives of:

- promoting competition in markets for listed services (as to which see section 152AB(4) of the Act);
- achieving any-to-any connectivity in relation to carriage services that involve communication between end-users (as to which see section 152AB(8) of the Act); and
- encouraging the economically efficient use of, and the economically efficient investment in, the infrastructure by which listed services are supplied (as to which see section 152AB(6) of the Act).
There is no general right of access by participants in a telecommunications market to telecommunications services.

Before a participant can gain access to telecommunications services, the ACCC must first declare an “eligible service” to be a “declared service.” The ACCC can either make such a declaration on the recommendation of the Telecommunications Access Forum or as the result of a public inquiry held by it. To date there are approximately 13 declared services. For the purposes of this article, we will look at one of the declared services, domestic PSTN originating and terminating access.

Once a service is declared, an access provider (which is defined in section 152AR of the Act) must give access to declared services. In particular, an access provider must, if requested to do so, permit the interconnection of facilities it owns or controls (or is a nominated carrier for) with an access seeker’s facilities for the purpose of enabling the access seeker to be supplied with a declared service, in order that the access seeker can provide carriage or content services. There are various other obligations set out in section 152AR with which an access provider must comply. These are known as Standard Access Obligations.

Part XIC (and, in particular, the dispute resolution provisions) places significance on a distinction between access seekers and access providers. It is useful, therefore, to consider whether such a distinction is warranted.

A likely and unavoidable consequence of any agreement in respect of access to a declared service between an access provider and an access seeker, is that the access provider will frequently also be an access seeker at some stage. This is best demonstrated in Diagram A above.

As can be seen, when a customer of Carrier A calls a customer of Carrier B, Carrier A is the access seeker to Carrier B’s network. However, if Carrier B’s customer was to call Carrier A’s customer, Carrier B would then become the access seeker and Carrier A would become the access provider. This is an unavoidable, but essential element of the way that calls, whether voice or data, are made. Without the ability to perform this two way service, a participant in the telecommunications market would not be able to provide its customers with an adequate service. This need to have access to each other’s network was recognised by the government at the time the amendments that introduced Part XIC were debated in Parliament.

With this in mind, we will now turn to the dispute resolution provisions found in Part XIC.

The dispute resolution provisions are triggered if:

- there is a declared service to which one or more Standard Access Obligations apply, or will apply; and
- an access seeker is unable to agree with the carrier or provider about the terms and conditions on which the carrier or provider is to comply with those obligations.

If those conditions occur, pursuant to section 152CM, the access seeker or carrier or provider may notify the ACCC in writing that an access dispute exists. Once notified, the arbitration process begins.

Once a dispute has been notified to the ACCC, the ACCC must make a written determination on access by the access seeker to the declared service, unless the ACCC terminates the arbitration pursuant to section 152CS (as to which see below). Sounds simple in theory, but in application the process is more complicated.
As part of its functions under Part XIC, the ACCC can give directions to the parties, if it is of the view that it will be likely to facilitate negotiations relating to that dispute. The types of directions that the ACCC can give include, a direction requiring a party to give relevant information to one or more of the parties, a direction requiring a party to respond in writing to another party's proposal or request in relation to the time and place of a meeting, a direction requiring a party, or a representative of a party, to attend a mediation conference and a direction requiring a party, or representative of a party, to attend a conciliation conference. The ACCC is empowered to seek penalties in the Federal Court, not exceeding $125,000, for each and every contravention of one of its directions made under section 152CT.

**DETERMINATIONS BY THE ACCC PURSUANT TO PART XIC**

The ACCC may make either interim or final determinations. An interim determination must be for a stated period that is no longer than 12 months.

In making a final determination, the ACCC may take into account any matters it sees fit but is required by section 152CR to take the following matters into account:

- Whether the determination will promote the long-term interests of end-users of carriage services or of services supplied by means of carriage services;
- The legitimate business interests of the carrier or provider, and the carrier's or provider's investment in facilities used to supply the declared service;
- The interests of all persons who have rights to use the declared service;
- The direct costs of providing access to the declared service;
- The value to a party of extensions, or enhancement of capability, whose costs is borne by someone else;
- The operational and technical requirements necessary for the safe and reliable operation of a carriage service, the telecommunications network or a facility; and
- The economically efficient operation of a carriage service, telecommunications network or a facility.

In its determination, the ACCC may:

- require the carrier or provider to provide access to the declared service to the access seeker;
- require the access seeker to accept and pay for access to the declared service,
- specify the terms and conditions on which the carrier or provider is obliged to comply with any or all of the Standard Access Obligations applicable to the carrier or provider;
- specify any other terms and conditions of the access seeker's access to the declared service;
- require a party to extend or enhance the capability of the facility by means of which the declared service is supplied, or
- specify the extent to which the determination overrides an earlier determination relating to access to the declared service by the access seeker. Before making any such determination however, the ACCC must first give a draft determination to the parties.

A final determination will take effect 21 days after the determination is made, unless it is expressed to have taken effect on an earlier date. That earlier date cannot be earlier than the date of notification of the access dispute.

**TERMINATION OF PART XIC ARBITRATIONS**

By section 152CS of the Act, the ACCC may at any time terminate an arbitration (without having made a determination) if it is of the view that, amongst other things:

- the notification of the dispute was vexatious,
- the subject matter of the dispute is trivial, misconceived or lacking in substance,
- a party to the arbitration of the dispute does not engage in negotiations in good faith, and
- in certain cases, that the arbitration is not likely to make a significant contribution to competition in a market or the access seekers' carriage service or content service is not of significant social and/or economic importance.

**RIGHTS OF APPEAL**

Section 152DO of the Act permits any party to the arbitration to apply to have that determination reviewed by the Australian Competition Tribunal within that 21 day period. If any such application is made, the Tribunal may stay the effect of the determination. There is also provision for review in the Federal Court of any decision made by the Tribunal.
networks. If a dispute arises in respect of that access, the new entrants will be able to lodge a notification of a dispute as an access seeker.

However, by virtue of the fact that that access seeker will also be an access provider, the existing dominant carriage service provider will be able to take advantage of these two sections and its own status as an “access seeker” to frustrate and ultimately terminate any arbitration. This is because the dominant carrier, as an “access seeker” could exercise its rights under section 152CPA(3) to object to any interim determination proposed to be made by ACCC. This would preclude the ACCC from the making of any such interim determination.

Likewise, upon receipt of the ACCC’s draft final determination, that same “access seeker” could exercise its rights under section 152CN(1)(ii) to withdraw the new entrant’s notification thereby bringing the arbitration to an end and with it, frustrating the new entrants attempts to obtain an outcome (and access) under Part XIC. The only remedy available to the frustrated new entrant in those circumstances lies in either Part IV or Part XIB of the Act, for breach of the anti-competitive conduct provisions. Such a course is also fraught with difficulties, particularly when the dominant carrier can point to an argument that it was simply exercising a legitimate, statutory right.

Yet another problem with the existing legislation is found in the Standard Access Obligations set out in section 152AR. Usefully, there is an obligation on access providers to provide access to access seekers. Unfortunately, there is no corresponding obligation on access providers to also-acquire access from an access seeker.

Because of the dual nature of an access provider’s and seeker’s existence, a participant in the telecommunications market cannot compete and offer an effective service unless it can carry calls to another carrier’s customers and also have that carrier return calls from its customers to it. As stated, there is no obligation on an access provider to acquire access. It follows that that access provider can refuse to acquire access without breaching its Standard Access Obligations. The effect of that is to allow an existing carrier or carriage service provider to “legally” prevent the new entrant from offering a complete service and effectively competing in a telecommunications market.

Clearly this result is contrary to objects of Part XIC in that it cannot be in the long-term interests of end-users to stifle competition in a market.

PROPOSED SOLUTION – THE CURE?

The anomaly in the legislation in respect of the ability to object to interim determinations and to terminate an arbitration, has been recognised by both the ACCC and the Commonwealth Government.

In the second reading speech in the Trade Practices Amendment (Telecommunications) Bill 2001 on 9 August 2001, Senator McGauran stated that in streamlining the telecommunications access regime under Part XIC of the Trade Practices Act, the ACCC will now be able to make interim determinations over the objections of an access seeker. The ACCC will also be able to prevent the unilateral withdrawal from arbitrations, thereby minimising the potential for delay and procedural abuse of the arbitration process. This will be achieved by requiring the consent of both parties to a dispute, or the notifying party and the ACCC, to withdraw a notification of dispute, and by removing the right of an access seeker to object to the making of an interim determination. These proposed amendments are the product of the recommendations of the Productivity Commission in its “Telecommunications Competition Regulation Draft Report”, released in March 2001.

If enacted, these amendments will protect the integrity of the dispute resolution process under Part XIC, in that it will no longer be possible for an “access seeker” to stifle the ACCC’s ability to make a determination.

Unfortunately however, the Trade Practices Amendment (Telecommunications) Bill 2001 does not propose to amend the Standard Access Obligations under section 152AR and does not go far enough to provide for an obligation to acquire access under the Act. It does not remove the arbitrary distinction between access seeker and access provider. It follows that, while an access seeker will no longer have the ability to frustrate the arbitration by either objecting to interim determinations or by withdrawing the notification prior to the final determination being made, the entire arbitration process may ultimately be an exercise in futility. That is because, in circumstances where there is no obligation under the Trade Practices Act to do so, the ACCC will not be able to order an access provider to acquire access. Whilst this aspect remains unaed, the calls of the frustrated access seeker will remain unconnected.

1 Hansard, Senator Cook, 25 February 1997, Page 895
2 S 152AB(2) of the Act
3 S 152AR of the Act
4 S 152AL(5)(c) of the Act
5 Hansard, Senator Cook, 25 February 1997, Page 894
6 S 152CP(1) of the Act
7 S 152CT of the Act
8 S 152CT(2) of the Act
9 S 152RU of the Act
10 S 152CPA(5) of the Act
11 S 152CR(2) of the Act
12 S 152CP(2) of the Act
13 S 152DN of the Trade Practices Act
14 S 152DNA of the Trade Practices Act
15 S 152DO of the Act
16 Hansard, Senator McGauran, 9 August 2001, page 29555

The views expressed in this article are those of the author and not necessarily those of the firm or its clients.

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Cancelled Datacasting Transmission Licences Auction - Will the Red Faces Recover?

The embarrassing cancellation of the datacasting transmission licence auction in May could cause ongoing damage to government revenue from the communications sector, Robert Gibson explains.

The planned datacasting transmitter licence (DTL) auction was one step in the Government’s plan for the progressive introduction of digital broadcasting services in Australia over the next 8 years. In general terms, the digital conversion scheme was intended to involve the allocation of new digital spectrum both to incumbents (FTAs) and to new participants wanting to lay their claims to spectrum which could eventually open up for full broadcasting use. New participants were to provide datacasting services until the Government reviews use of the extra spectrum at the end of the 8-year digital TV simulcast period. FTAs have certain obligations with respect to providing digital TV, and may use remaining digital spectrum for datacasting.

The Australian Communications Authority (ACA) issued its Datacasting Charge (Amount) Determination 2001 on 19 June (Determination) and fixed the amount payable by free-to-air broadcasters (FTAs) for datacasting on revenue generated from datacasting services. In doing so, the Authority has discarded other options for digital income from FTAs based around the auction price for DTLs.

The ACA’s approach in the Determination is clearly founded on concerns over the government’s ability to raise revenue from DTLs if and when these licences go back on sale. As regulator and tax-collector, the ACA’s job is complicated because the outcome of future negotiations on the scope of the DTLs has a double impact on fees collected from FTAs. Not only is there an impact on FTA fees resulting from the price ultimately paid for DTLs (which, under the current datacasting charge, will be an income negative impact for the government if DTLs end up attracting a premium) but also through the extent to which FTAs are protected against competition from new entrants/aspirant datacasters.

DTLS, DACASTING LICENCES: WHY THE DTL AUCTION FAILED

The Government has given no indication when DTLs will return to the auction block, but it clearly faces redoubled efforts by would-be entrants to the broadcasting sector to have datacasting licences issued without any of the complex limitations proposed in the last round. A DTL is a transmitter licence allocated by the ACA under the Radiocommunications Act 1992 (Radiocom Act) which authorises the licensee to operate transmitters to deliver a datacasting service. DTL licencees must not operate a datacasting transmitter before 1 January 2007 unless there is in force a datacasting licence under the Broadcasting Services Act 1992 (BSA)

DTLS, DATACASTING LICENCES: WHY THE DTL AUCTION FAILED

The failure of would-be datacasters to persuade the government to adopt a broad definition of datacasting led to the withdrawal from the auction race of News Limited, John Fairfax Holdings Limited, OpenTV, Online Media Group and OzEmail in early 2001. The process fell to pieces in May, when Telstra withdrew, and the auction was cancelled less than 2 weeks before its proposed date of 21 May. The government was left with little choice given the prospect of minimum or no returns from the possible sale of 1 national licence and 2 regional ones. Coupled with the heavy restrictions placed on DTLs, the outcome could not have been worse. As the Internet Industry Association’s Peter Coroneos said in April, if the government was to go ahead with the auction “the community loses twice: less return on the sale and poorer services”.

Television program genre restrictions and audio content restrictions left DTLs looking like a waste of digital space to the majority of participants in the debate. Fairfax was one of the most vocal critics of DTL conditions, with head of corporate relations Bruce Wolpe suggesting that “datacasting should be buried quietly and never again see the light of day.”

Fairfax and News Limited called for the Government to cut to the chase and issue new commercial TV broadcasting licences.

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Can Fairfax and others afford to take such an aggressive bargaining position with the government on the future of broadcast media? It depends whether you think there is a downside in delaying (or not proceeding with) the allocation of DTLs and datacasting licences. There is a view that, while the government fiddles over the digital conversion scheme and gives FTAs 6 years' lead time over new commercial broadcasting rivals to recover the costs of going digital, datacasting could go up in smoke as internet streaming technology advances. The current government does not consider internet streaming "broadcasting" for the purposes of the BSA so it is unregulated for the time being. Internet streaming technology is gradually providing smoother pictures and companies like Nokia are developing set-top boxes with PCs to allow viewers to access internet content at their TVs. Whether or not streaming could provide a viable alternative to FTA broadcasts before 2007 is debatable, but so are the consumer benefits of datacasting as currently proposed.

**WHAT HAPPENS TO DIGITAL SPECTRUM NOW?**

As it could be a new government which decides what happens to datacasting licences, the process is likely to stretch well into the next term of government. In the meantime, FTAs have retained their patch of turf, and when datacasting does eventually commence, the outcome of the government's last DTL auction failure has ensured that FTAs will be levied for datacasting on a low risk-low reward basis by the ACA.

Datacasting is only a part of the digital conversion scheme set out in the BSA and the Radcom Act. Schedule 4 to the BSA was amended by the *Broadcasting Services Amendment (Digital Television and Datacasting)* Act 2000 (Amendment Act), which came into force on 1 January 2001, and sets out the digital service obligations of FTAs. FTAs commenced standard definition TV (SDTV) broadcasts over digital spectrum on 1 January 2001. Part 2 of Schedule 4 sets out the core of the conversion scheme for FTAs (Part 3 sets out a complementary, although less restrictive, regime for the ABC and SBS). Essentially, in metropolitan areas FTAs are required to digitally simulcast SDTV with their analog broadcasts for 8 years from 1 January 2001. Then, 2 years after commencing SDTV simulcasts, FTAs will additionally be required to simulcast at least 20 hours per week of high definition TV (HDTV). A simulcast does not have to be faithul reproduction of the analog broadcast — digital enhancements, different advertisements and some multichannelling are allowed.

"Digital enhancements" basically means the choice of several camera angles from which to watch the footy on Saturday afternoon.

While digital enhancements might be the perceived "kicker" for digital TV uptake by the archetypal Australian viewer, current indications are that the government will have a hard time forcing FTAs to comply with their digital service obligations by 2003. Calculate box availability but consumer uptake is slow, while high definition TVs are not easily available in Australia yet and are expensive (in the region of $5000). There are also basic technical shortcomings affecting the conversion scheme. While digital enhancement will be available on SDTV, the transmission spectrum is not wide enough to allow multiple signals on HDTV, so it's a choice between a collection of good pictures or one very good one.

It is not drawing a particularly long bow to suggest that consumers will not confidently stride into the new digital broadcast era while the government struggles to implement one of its supposed cornerstones, datacasting. The reality appears to be that datacasting was only ever an introductory gimmick for digital conversion. It seems unlikely there will be significant consumer uptake of digital TV equipment (digital TVs or set-top boxes) on the merits of datacasting.

Under the digital conversion scheme, FTAs are allowed to use spare digital capacity (ie capacity not required to meet digital television service obligations) to provide a datacasting service. However, a FTA can't start datacasting until the earlier of 1 January 2002 (12 months after the commencement of SDTV transmissions in the digital spectrum) and the first datacast under a DTL in the same coverage area. Clearly there will not be any DTL transmissions in the near future. However, on 19 June 2001, the ACA prepared FTAs for 1 January 2002 by issuing its Determination on the FTA datacasting charge. The Determination fixes the datacasting charge as a percentage of gross revenue attributable to datacasting, using the formula for standard television licence fees set out in the *Television Licence Fees Act 1964*.

**ACA ALTERNATIVES**

In its Report to the Minister on the Determination of the Datacasting Charge (Report), the ACA floated 2 alternatives to the revenue-based model — capacity-based charging and usage-based charging. Capacity-based charging would have seen FTAs charged based on the DTL auction price, leading to "competitive neutrality between FTA datacasters and non-FTA datacasters". The Report said that the majority of the seven submissions received in response to the ABA's September 2000 discussion paper on the issue favoured this approach. Given the then growing disinterest in the DTL auction and ultimate withdrawal by Telstra, News Limited, Fairfax and the smaller players, it is hardly surprising that FTAs would take a punt on the auction price as the field for licences narrowed. The national race ended up with just one bidder, British cable company NTL. Australian Datacasting Corporation and Barwil also remained in the auction, for area licences in Perth and Sydney/Melbourne respectively.

The Report cited limited support for usage-based charging. This option also set charges by reference to the DTL auction price, but on a "metered rate" basis rather than the flat fee model used in capacity-based charging. The final option, the revenue-based model ultimately adopted by the ACA, was adopted in spite of gaining less support from the industry. The ACA's reasons for choosing a revenue based model centred on administrative difficulties in:

- adjusting the DTL auction price for application to FTAs; and
• auditing an FTA’s allocation of digital spectrum between SDTV/HDTV and datacasting.

The ACA’s chief concern in relation to using the DTL price as a basis for charging FTAs appeared to be the possibility of a DTL price hike if the government decided to allow datacasting licences to be used for services closer in nature to broadcasting. Clearly the ACA is mindful of the battle the government would face if it wanted to charge FTAs for datacasting based on a de facto broadcasting premium paid for DTLs, quite apart from the debate over the scope of datacasting licences. Equally, the ACA can pick a loser when it sees one. The recent auction failure has left it with insufficient faith in blue-skies DTL auction returns to sacrifice a proven income model from FTAs (revenue-based charging as used for standard TV licences).

Meanwhile, the chunk of digital spectrum set aside for datacasting sits dormant. If early introduction of new FTA licences would leave existing commercials exposed during their vulnerable transition to digital, at least the HDTV timetable could be sped up and the dormant spectrum allocated for better digital TV services. But in the current climate there is little chance that the Government will wholeheartedly revisit its allocation plans, in spite of the fact that the spectrum revenue pot is far from full and a little tarnished. The 3G auction in March 2001, while successful by comparison with the plans for DTLs, realised only marginally more than the reserve price, and total revenue raised from spectrum sales sits at $1.32 billion - half of what the Government forecast in the last Budget.

The way it’s been managed so far, digital broadcast spectrum is unlikely to plug the Budget hole. Consumers won’t have any compelling reasons to invest in digital TV equipment until FTAs have commenced innovative use of the digital spectrum, and critical mass will take some years to achieve while staple programming remains available via analogue broadcast. Datacasting, which might have been a catalyst for consumer uptake of digital equipment, has failed but the Government has no plans to redeem full value for the spectrum in other ways. At this stage, the community benefits of digital broadcasting are less than clear, and the Government’s timetable for going digital looks fuzzy.

1 Radcom Act, s 109A(1)(h).
2 BSA, s 28.
3 See, generally, BSA Schedule 6, inserted by the Broadcasting Services Amendment (Digital Television and Datacasting) Act 1999.
4 BSA, Schedule 4, Division 2A.
7 Minister for Communications, Information Technology and the Arts, Determination under paragraph (c) of the definition of broadcasting service (No 1 of 2000), 27 September 2000.
9 See Suzanne Shipard, “Broadcasting Regulation in Review”, C 2001 20 CLB 1

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Teen Rebel Napster Faces the Music – Will It Be a Swansong?

Mia Garlick reviews the practical impact for Napster of the Appeal Court’s decision.

July 2001 was to be a momentous occasion for Napster – the month when Napster grew up. Under Napster’s agreement with Bertelsmann, announced on 31 October 2000 (a perhaps auspicious date?), July 2001 was earmarked as the date for release for a commercial and secure Napster service. Instead, as the US celebrated its independence on July 4, Napster suspended its service because it was unable to completely block the unauthorised trading of files. The timing was poetic given claims that Napster was “igniting a revolution”. The timing was also significant given claims that the timing was poetic given claims that Napster was “igniting a revolution”.

Since the 9th Circuit Court of Appeals (Appeals Court) upheld the original injunction issued by Judge Patel against Napster in substance, Napster has engaged in a whirlwind of deal-making with non-major music labels and with technology firms who specialise in security and fingerprinting technologies. Napster has even done a deal with MusicNet, the online music platform supported by EMI, BMG and AOL Time Warner (albeit only a technology, not a music licensing deal).

Meanwhile, Napster repeatedly trooped in and out of court to report to Patel who has been overseeing Napster’s compliance with the Appeals Court decision on its progress in blocking the music owned by the record industry plaintiffs.

By mid-July, Patel ruled that the Napster service cannot resume despite Napster’s claims that it is able to block files with 99.4% accuracy. Her ruling has been stayed by the Appeals Court. As at the date of this article, Napster had still not resumed its file trading service, claiming that it was “finetuning” its filters.

The practical reality of complying with the Appeals Court decision appears to be a rod too large for Napster’s back. Perhaps ironically, the Appeals Court attempted to limit Napster’s obligation to police and remove infringing files. It seems that Napster simply cannot technically remove and block files effectively enough.

As Napster tries to transform from music industry teen rebel to a secure, commercial online music provider, Napster continues to alienate its original user base begging the question whether the entire process is ultimately worthwhile.

This article seeks to conduct a timely review of the Appeals Court’s decision and its practical impact for Napster in the wake of the recent developments which surround the business which could be Napster.

OVERVIEW APPEALS COURT DECISION

The Appeals Court’s task was a legal, not a factual inquiry. The Court was responsible to review the legal standards applied by Judge Patel in granting the original injunction and determine whether she could reasonably have issued the injunction having regard to the relevant legal principles. Only if Patel had misapplied legal principles could the Appeals Court reconsider the facts.

The Appeals Court disagreed with Patel on only one point of law and remanded the injunction back to the District Court for redrafting with respect to that point. Otherwise, the Court upheld the substance of the injunction.

In summary, the practical difference between the District Court and the Appeals Court decision is that the former would have caused Napster to shut down entirely, the latter has allowed Napster to limp to its current suspension of service.

FINER DETAILS

Napster raised similar and more detailed arguments in front of the Appeals Court in its defence including fair use, copyright misuse, free speech and compulsory royalties. The Appeals Court succinctly dismissed each of these arguments.

In rejecting Napster’s claims of fair use, the Court accepted that Napster’s free service had a “delicteous effect” on both the existing market of CDs and other physical music products, as well as hampering the record labels ability to enter and compete in future markets, such as pay-per-download. The Court commented that:

"Having digital downloads available for free on the Napster system necessarily harms the copyright holders’ attempts to charge for the same downloads.”

These were important findings about the commercial impact of a “free” service. Both the Appeals Court and the District Court recognised that a fee service could be commercially significant to the music industry and have commercial value to Napster, even in those circumstances where the individual Napster user may come within a fair dealing exception if they have ripped and emailed a friend a file outside of the Napster system.

The one point on which the Appeals Court differed from Patel was in relation to the extent of Napster’s responsibility to block the trading of unauthorised files on the Napster network. The Appeals Court held that the “entire burden” should not be placed on Napster to ensure that no copyright protected music is transmitted via the Napster system. The Court considered that this went beyond what Napster was likely to be required to do even if Napster is ultimately found liable at trial. The Appeals Judges stated:

"...absent any specific information which identifies infringing activity, a computer system operator cannot be liable for contributory infringement merely because the structure of the system allows for the exchange of copyright material”.

In other words, Napster should only be required to remove those files which Napster knew were infringing. Patel had injunctioned the Napster service simply because it was capable of infringing file trading.

The Appeals Court acknowledged that there was evidence that Napster executives had actual knowledge of infringing files. Nevertheless, the Court directed that the District Court redraft the injunction so that the record industry plaintiffs had the obligation to identify files containing infringing music before Napster was required to remove them.

Once those files are identified to Napster, the Court confirmed that Napster has the obligation to police its system to the fullest extent possible otherwise Napster would be vicariously liable for the infringements occurring via its network.
Vicarious liability means that Napster would be jointly responsible for infringing file trading. Vicarious liability, under US copyright law, will be imposed where a person has the right and ability to supervise its users conduct and gains a direct financial interest in such activities.

Napster, by its terms of service, retains the legal right to remove users from its service. Technically, Napster is also able to supervise its user’s activity. These factors meant Napster was potentially vicariously liable for the infringing activity of its users. To escape vicarious liability, Napster had to police its system to the fullest extent possible within the boundaries of the current system.

The evidence before the Appeals Court indicated that Napster could only patrol file names, which had to be correct for Napster, by its terms of service, retains a direct financial interest in such activities. to supervise its users conduct and gains a right to control the infringing activity. To escape vicarious liability, Napster had to police its system to the fullest extent possible within the boundaries of the current system.

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Interestingly, as will be discussed below, this technical limitation has been lifted in the months following the Appeal Court’s decision and as a result, Napster is now claiming that the suspension of its service is for technical rather than legal reasons. The legal requirements underpinning this technical incapacity cannot be ignored.

**NAPSTER - AN ISP?**

The sleeper issue to arise in the case is the Appeals Court’s treatment of Napster’s attempts to categorise itself as an ISP and consequently Napster’s ability to seek the protection of the “ISP safe harbour” provisions in the Digital Millennium Copyright Act 1998 (DMCA).

The DMCA sought to update US copyright laws for the Internet age. It contains detailed provisions which provide a “safe harbour” for ISPs from liability for infringing content transmitted using their networks, provided that the ISP complied with the rules prescribed by the DMCA.

The particular provision (17USC§512(D)) relied on by Napster excuses provides:

> referring or linking users to an online location containing infringing material...by using information location tools, including a directory, index, reference, pointer, or hypertext link...from liability for monetary or injunctive relief for infringement of copyright provided that they have:

- no actual or constructive knowledge;
- act expeditiously upon obtaining such knowledge to remove the infringing material;
- or, where they have a right to control the infringing activity, derive no financial benefit;
- and, a policy, which is appropriately implemented, under which subscribers which are repeat infringers have their access to the service terminated.

Patel, in a footnote, had dismissed any consideration of the applicability of the section 512(D) safe harbour because Napster had constructive knowledge. Patel commented that there was insufficient evidence that section 512(D) “shelters contributory infringers”.

The Appeals Court took issue with Patel’s footnote comment saying that it did not agree that the ISP safe harbour never protected contributory or vicarious infringers. The Appeals Court’s comments seem fairly consistent with Patel above seem to directly import the criteria of contributory and vicarious infringement.

The Appeals Court commented that a serious question of law had been raised in arguments such as whether Napster was an ISP as defined under the DMCA and whether Napster has established and implemented a detailed copyright compliance policy as required by the DMCA.

The main issue is the interrelationship between liability for contributory or vicarious infringement and the §512(D) ISP safe harbour (assuming Napster comes within the ISP safe harbour), namely, whether or not Napster loses the protection of the safe harbour by reason of its actual knowledge of the infringements occurring via its network.

Beezer J, giving the decision of the Appeals Court, commented that this issue would be more fully developed at trial but at this stage the music industry plaintiffs had raised serious questions about Napster’s ability to come within the ISP safe harbour.

Amongst other arguments, the record industry plaintiffs highlighted Napster’s direct and ongoing relationship with its users. Napster verifies files in its user’s harddrives and updates them both before and after any file trading activity. This, they argued, took Napster outside of any analogy with a video recorder manufacturer or ISP. It took Napster, so the music industry plaintiffs argued, squarely outside of the safe harbour given Napster failed to act expeditiously to remove infringing content and derived financial benefit.

By virtue of the strength of these arguments, Patel’s apparently cursory treatment of the issue was not fatal overall to the arguments of the music industry plaintiffs on the issue of the inapplicability of §512(D) to Napster.

If the Napster case does go to trial, the development and resolution of these arguments may have important ramifications for all online service providers, ISPs in particular.

**IMMEDIATE Fallout - A REVISED ORDER**

Immediately after the decision was handed down, a war of attrition and publicity commenced.

Napster claimed that the file lists given by the music industry plaintiffs were incomplete. Napster also offered to pay licence fees of $1 billion over five years. The music industry called on Napster to stand down and admit defeat. Security firms bombarded Napster with offers of their secure technologies.

Meanwhile, Napster users responded by frantically trading as many files as possible prior to the anticipated shut down of free file swapping service. Over the weekend following the Appeals Court decision, reports estimate that over 250 million files were traded via the Napster network. Napster users subsequently progressed to using “pig Latin” translations of music file names to evade the gradually developing Napster’s filtering technology.

Interestingly, despite their keen interest in perpetuating file swapping, Naspter users were surprisingly restrained in response to Napster’s calls to lobby Congress members for the continuance of the Napster service.

Amidst the public grandstanding and feverish user activity, the District Court rephrased its injunction consistent with the directions given by the Appeals Court and issued a revised order on 5 March 2001 (March Order).

The March Order placed a considerable compliance obligation both on the music industry plaintiffs to identify infringing files and on Napster to remove and confirm the removal of those files. Patel also allowed the music industry plaintiffs...
to notify Napster in advance of these details with respect to new releases from popular artists and required Napster to include files of these new releases.

Once Napster has reasonable knowledge of specific infringing files, in the form of notice from the music industry plaintiffs or through its own investigations, Napster then has three days to prevent identified files appearing in the Napster index. Napster was required to submit compliance reports to the District Court about its progress in blocking unauthorised files.

The parties are also required to work together to identify variations of file names and artists' names. Where a misspelling or misnaming is suspected, the parties were to try to ascertain the correct identity of the file.

In response to the March Order, Napster has improved its file-blocking technologies from blocking based on file names, including misspelt file names, to blocking based on reading the unique acoustic qualities of a particular music file.

Napster achieved this level of technical accuracy by entering into agreements with numerous technology security companies such as Loudeye, Retaltable, Gracenote and most recently, Gigabeat. Under the various agreements, Napster is using its technologies and databases to assist in blocking infringing files.

The extent of Napster's compliance to date has nevertheless been unacceptable to Patel. In April, Patel called Napster's failure to block infringing files "disgraceful" and appointed a technical expert, AJ Nichols, on whom Patel face is that Napster's goalposts have moved. The Appeals Court decision required Napster to police its system to the extent technically possible. Based on evidence before the Appeals Court, Napster's technical limits were restricted to blocking the files based on their names. The possibilities of fingerprinting technology were not considered by the Appeals Court.

Indeed the Appeals Court seemed to specifically countenance the fact that some infringing files may slip through the Napster network. Beczer J commented that the Court could:

"recognize that the files were user-named and may not match copyrighted material exactly (for example, the artist or the song could be spelt wrong). For Napster to function effectively, however, file names must reasonably or roughly correspond to the material contained in the files".

The Appeals Court decision of February 2001 is already outdated by technology. It seems the "Napster monster" continues to outstrip technology.

In June 2001, Napster released new software which filtered files based on audio fingerprinting. This new software was not completely successful in meeting Napster's legal obligations under the March Order.

The software was not effective to block all infringing files because, once the technology identifies a file, it must be checked against a database of files which are identified as infringing. The challenge for Napster is twofold. One the one hand, this database information must be sufficiently comprehensive and accurate to include all unauthorised files. On the other, Napster users can compress or change files in such a way as to change the audio fingerprint. As a result, Napster shut down its service.

The legal issue is now a technical one - how effective must Napster's file-blocking technology be?

It is fair to say that the Napster saga has dissolved into a war of technology. This is reflected by the fact that Napster and the music industry plaintiffs continue to meet with the court appointed technical adviser to work on how the filter can be improved.

**FINAL REACTIONS**

The Appeals Court decision (as did the original injunction) confirms the application of copyright laws to online music distribution. The differences between US legal principles and Australian legal principles are not so divergent as to lend themselves to the danger posed by Napster. Internet law possibly raises a new risk to online service providers, as those surrounding Napster).

Indeed, the Appeals Court decision is irrelevant to the Australian ISP 'safe harbours'.

The decision gives an interesting indication of the potential extent to which ISPs and other online service providers can be exposed to liability for infringing content transmitted via their networks.

The traditionally accepted "hands off" approach adopted by many online service providers may not necessarily protect an ISP or online service provider. Most online service providers have the technical ability to control and also reserve the legal right to control access to their networks. This potentially exposes online service providers to vicarious liability under Australian law unless those online service providers actively police their networks (although the circumstances of other ISPs and online service providers may not be as extreme as those surrounding Napster).

Nevertheless, this latest development in Internet law possibly raises a new risk where digital service providers adopt a "hands off" approach.

The tale of Napster may also mimic that of the Internet. The heady days of online anarchy, when Napster usage was at its peak, have ended in this sober environment of the dotbomb fallout and litigation corresponding with a considerable dip in Napster's popularity.
The online music space is rapidly consolidating. Universal (ironically the last of the majors not to settle with MP3.com) announced the intention to buy MP3.com and EMusic in May 2001. Yahoo announced its intention to acquire webcaster Launch in June 2001. Ric Dube of Webnoize was recently quoted as saying:

"We’ve now established the ABC, NBC, CBS and Fox of music distribution... The era of the startup is over."29 (With the “big four” of online music distribution being RealNetworks, America Online, Napster and Yahoo.)

It seems that a gap may be opening soon amongst the frontmen of online music. Behind them rages the real battles of the technology firms, notably Microsoft and Realnetworks, trying to assert their secure technology platforms as the standard. Napster is providing a poor example of user acceptance of such secure technologies.

Amidst all of these battles and consolidation, the very reason for Napster’s popularity, its users, seem to be looking elsewhere. No one, it seems, is staying to cheer the eventual winner.

File trading on the Napster network is estimated to have decreased considerably with Webnoize estimating 1 billion fewer users in May 2001 compared with April 2001.30 No doubt part of the reason for the decrease is that, in complying with the March Order, Napster may be engaging in ‘overblocking’, that is, blocking versions of songs which are not infringing. Another reason is that much of the material which attracted people to Napster is slowly becoming unavailable.

One commentator described the latest developments in the Napster saga as being like:

"playing legal and technical cat and mouse games with thousands of ingenious teenagers with lots of time on their hands"31

Migration to other free file swapping services seems inevitable. Although it is doubtful whether these services will ever match the useability and scalability, and consequently the popularity, of Napster. The free Napster phenomenon may well cove. Napster may only have lived to lend its name to ‘Napster-like’ services which are unlikely to ever achieve the same heights. Smells like teen spirit.

1 This view is this article are those of the author and do not necessarily represent those of Gilbert & Tobin or its clients. Since Napster’s suspension of its service since 4 July 2001, the Napster saga is developing daily. This article is current as of 21 July 2001.

3 ‘Napster Suspends its Service Because it Can’t Stop Bootlegging’, Siliconvalley.com 4 July 2001
4 Appellant Napster’s Emergency Motion to Stay pursuant to Rule 27-3 and Motion to Expedite Appeal, filed with the 9th Circuit Court of Appeals in July 2001
5 A&M Records & Ors v Napster, No 00-16403, DC No CV 00-00074 – MHP, 9th Circuit Court of Appeals 12 February 2001
6 A&M Records & Ors v Napster, 2000 US Dist. LEXIS 11862, 10 August 2000, for a discussion of this decision as well as an explanation of how the Napster service works, see “Ups and Downs of the Napster Revolution” by the same author.
7 Such as deals with the Independent Association of Music, whose members include Ministry of Sound as reported in King B ‘Napster is Alive, Alive’ Wired News 26 May 2001
8 Learmonth, M ‘Napster Signs with Major Labels’ The Standard 5 June 2001
10 www.napster.com as at 21 July 2001
11 Supra, 5 at p20
12 It should be noted that the activity of individual Napster users is only likely to come within fair dealing exceptions under US Copyright Law, not Australia fair dealing exceptions.
13 Supra 5 at p31
15 Digital Millennium Copyright Act, 17 USC 512(D)
16 ‘Emusic Chimes In on Napster Filter’ The Standard 22 March 2001
17 King, B ‘Picking at the Bones of Napster’ Wired News 14 February 2001
18 King & Clewley ‘Musicians Play a Hopeful Tune’ Wired News 13 February 2001
20 ‘Apster Fans’ Response to Ruling is Muted’ Washington Post 14 February 2001
21 Lewis, M ‘Shared Files on Napster Edge Up; Service Cuts a Deal with Gigabeat, Webnoize 23 March 2001; Lewis, M ‘Napster Adds New Fingerprinting Technology To Its Service Mix’ Webnoize 10 April 2001; King, B ‘Farewell Free Downloads’ Wired News 11 June 2001
22 Lewis, M ‘Judge Calls Napster Failure to Block Infringing Music Disgraceful’ 10 April 2001 Webnoize News
26 Lewis, M ‘Publishers Ready to Talk Settlement with Napster Webnoize 17 July 2001
27 Supra, n23
28 Supra n4, p37
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