

# **Senate Select Committee on the Australia-United States Free Trade Agreement**

## **Submission of Ms Kimberlee Weatherall**

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I am a lecturer in law at the University of Melbourne, a specialist in intellectual property law and the Associate Director (Law) of the Intellectual Property Research Institute of Australia (IPRIA). I have written and published on intellectual property (“IP”) generally, and on digital copyright issues in particular, and am currently engaged in a number of research projects relating to intellectual property (“IP”) and IP enforcement in particular. I make this submission in my own name, not in the name of IPRIA, as an academic who is keenly interested in intellectual property law, who has considered the Agreement in some detail, and engaged in wide-ranging discussions with a number of people on the implications of the IP Chapter of the AUSFTA.

I made a similar submission to the Joint Standing Committee on Treaties (JSCOT) in relation to the Australia-US Free Trade Agreement. My submission has been supplemented in light of the recent release of the Digital Agenda Review Report and Recommendations, and some of the submissions to JSCOT.

I am more than happy to appear before the Committee or otherwise answer any questions that arise from this submission. I can be contacted as follows:

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## 1 Introduction and Executive Summary

I appreciate the opportunity to make a submission on the very important issues raised by the US-Australia FTA (“AUSFTA”). Parliamentary scrutiny of the treaty-making process and public accountability are critical to the democratic process and law-making in Australia.<sup>1</sup>

This submission addresses only the IP Chapter of the AUSFTA. I seek to bring to the attention of the Committee certain concerns about that Chapter. I do not seek to address the broad balance of costs and benefits in the entire agreement.

### Overview

Intellectual property law is, without doubt, critically important to the Australian economy. Australia must have IP laws which provide IP owners with sufficiently strong and certain protection, and appropriate and not overly costly mechanisms for enforcement. But IP law is a policy instrument and must also be balanced, offering sufficient protection to users and members of the public, and to ensure proper access to and use of IP, including copyright and patented material. The AUSFTA does not represent an appropriate balance for Australia.

**In summary:** if the only question were whether to agree to this set of IP provisions, **I would strongly recommend their rejection.** The provisions fundamentally alter the balance of interest particularly in relation to Australian copyright law, tipping our law more towards copyright owners. This is not desirable policy for Australia. Further, any relatively small likely benefits for IP owners and our innovative and creative industries do not outweigh the significant costs, which are chiefly of two forms:

- (a) **costs to other parties**, including in particular to members of the Australian public, libraries, cultural institutions, both in terms of increased royalty payments, and increased transaction costs in getting necessary permissions; and
- (b) **Locking Australia into a particular IP regime**, and preventing Australia making changes to that regime in the future, as technology develops.

**Recommendation 1: the Committee should note the negotiation of the IP Chapter of the AUSFTA was a failure of sound and transparent policy-making. The Committee should make a positive finding that the Australian Government ought not to have pre-empted, and rendered effectively redundant, the major reviews of IP policy in copyright law and patent law which were occurring at the time of these negotiations.**

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<sup>1</sup> Minister for Foreign Affairs, Alexander Downer, “Treaties and Community Debate: Towards Informed Consent”, Canberra, 20 August 2002 (Speech delivered at the Launch of the Australian Treaties Database)

The provisions of the AUSFTA require the most significant changes to Australian IP law since the Digital Agenda Amendments in 2000, and, in fact, junk much of the balance carefully negotiated by the Australian government and Parliament in 2000. The AUSFTA was negotiated at the same time as two major reviews of IP law in the form of the Digital Agenda Review, and the ALRC Gene Patenting Review, but did not take advantage of those reviews to discuss the very substantial changes. In short, there was a failure of proper policy-making.

**Submission 2: the Committee should recognise the IP Chapter of the AUSFTA is far too detailed, and will seriously hinder future IP policy-making by the Australian Parliament.**

IP law is a policy instrument, designed to achieve certain social and economic aims. It must be flexible, and balanced, and subject to constant review for its appropriateness in light of technological developments.

The AUSFTA is an overly detailed, inflexible Agreement. It has many provisions which prevent Australia from introducing new exceptions or changes to its law in the future.

Negotiators have argued there is flexibility in the language. Any appearance of flexibility is likely to prove illusory in practice, in light of the proven attitude of IP Owners, particularly US IP Owners, who will, I believe, not hesitate to urge use of the Dispute Settlement Chapter (Chapter 21) if they do not agree with Australian implementation of the AUSFTA.

To the extent that IP Owners support provisions in this Agreement, as good policy for Australia, their submissions do not answer a more basic problem: that putting these provisions in a treaty is a very damaging way to implement that policy. Even if you thought these provisions were good IP policy – they shouldn't be in a treaty.

**Submission 3: I submit that if the Government does decide to ratify the FTA, implementation of Chapter 17 must be undertaken:**

- with proper public consultation processes, unlike the negotiation of the AUSFTA itself; and
- in a way that minimises disruption to Australia's current copyright regime.

The implementation must not be rushed.

**Submission 4: the Committee should recommend that if the AUSFTA is adopted, action must be taken to explore broadening existing exceptions to copyright infringement and patent infringement.**

The AUSFTA tips the balance in Australian law towards IP owners and away from new creators, users, and public institutions such as libraries and universities. This is likely to damage Australia's capacity to innovate and create.

The AUSFTA also reduces Australia's ability to find new ways to protect other stakeholders in the IP system: the Australian public and many public institutions. There are interests other than those of IP owners which need to be recognised and protected in relation to IP law; in particular, the interests of Australian users, consumers, and cultural and educational institutions. In scientific research areas, the interests of researchers must be considered and promoted.

The Committee should specifically recommend that action must be taken by the Commonwealth Government to protect the public interest, in particular:

- by considering introduction of a broad fair use exception to copyright law, as exists in US law; and
- by considering a research exemption in patent law.

**Submission 5: the Committee should ask the Australian negotiators why no attempt appears to have been made to ensure that the IP Chapter had obligations which go both ways.**

The obligations in the IP Chapter are all in one direction. US IP law lacks some protections found in Australian law. Most obviously, the US does not have a moral rights regime in copyright. Moral rights provide some important protection particularly to indigenous Australian interests. No protection for these interests was gained via the AUSFTA.

**Submission 6: In relation to copyright term extension, I support the submission of Matthew Rimmer to JSCOT, and to this Committee.**

**Submission 7: In relation to the anti-circumvention provisions, the Committee should note that these provisions are undesirable. If the agreement is to be implemented, the Committee should recommend that it must be in a way that sufficiently protects Australian users.**

Anti-circumvention provisions impose bans on devices and programs that might enable users to "get around" technological protections placed by IP owners to limit access to works, or prevent infringement of copyright in works. "Getting around" such protections can be vital for certain

important public interests: for example, ensuring interoperability of computer programs.

The AUSFTA will require Australia to depart from its existing, carefully considered balance between owner and user rights in relation to digital copyright. The AUSFTA imposes a very particularised, American regime. Australia will also not be able to implement the very different proposals of the Digital Agenda Review, commissioned by the Australian Government, and released on 28 April 2004.

One particular problem is that the AUSFTA provisions will not just catch determined copyright “pirates”. They will make law-breakers of members of the Australian public who do not actually know they are infringing copyright owners’ rights.

**Submission 8: The Committee should note the limited set of exceptions to the anti-circumvention provisions overturn Australia’s careful policy balance, and pose a serious policy problem for Australia.**

Australian law currently provides exceptions to allow some users, particularly public institutions like libraries, to break copyright protection and get access to works in circumstances where, it has been considered, an important public interest outweighs the copyright owners’ interests. The AUSFTA will:

- a) require Australia to **give up some of those current exceptions**; and
- b) **severely limit the future freedom of the Australian Parliament to adopt new exceptions** as required by changing technological, economic and social circumstances; and
- c) impose on Australia an expensive, troublesome quadriennial review process for exceptions. There are two key problems with this process:
  - i. Most ludicrously, this process will only be able to grant exceptions to **users**, and not to the ban on *distributing devices*. In other words, there will be some people left with a defence, or exception, who may only be able to use that exception if they are sufficiently technologically savvy that they can develop or build their own circumvention devices.
  - ii. It will be troublesome and expensive, as we can see from the US process. In the 2000 rulemaking in the US, 235 initial comments were received, 129 replies; 34 witnesses appeared at 5 days of hearings; 28 post-hearing comments were filed. Two exemptions were granted. In 2003, there were 51 initial comments, 337 reply comments were filed, 44 witnesses testified at 6 days of hearing, and 24 post-hearing comments were filed. Four limited exemptions were ultimately granted. Do we face something like

this – every four years – for as long as the AUSFTA continues in force?

**Submission 9: The Committee should recognise the ISP Liability provisions (Article 17.11.29): provisions will impose significant costs on Australian ISPs. If the AUSFTA is ratified, the Committee should recommend careful public consultation on implementation of the provisions, and implementation in a way that minimises the impact on those managing networks and on users’ privacy interests.**

These provisions require a substantial re-write of Australian law. The provisions are **inappropriately detailed** (over 2000 words and 4 pages just in the main text of the treaty) and **technology-specific**, contrary to Australian policy in favour of technology neutrality in regulation of digital copyright.

While it may be entirely appropriate for Australia to introduce a notice and take down procedure, the model favoured in the past has been one that allowed for Industry development of flexible Codes of Practice – that is, a co-regulatory model. The provisions of the AUSFTA will not allow such an approach.

The Committee should specifically note the need to protect the interests of those managing networks, and the interests of users, in any implementation of this regime. I support the more specific recommendations of the Australian Digital Alliance on these questions.

### ***Getting a broad picture of the Costs and Benefits of the IP Chapter of the AUSFTA***

The IP Chapter is complicated and technical. The costs and benefits of the Chapter are also complicated.<sup>2</sup> I attempt in the table below a very rough sketch of **some** of the costs and benefits of this Chapter. **This is not a definitive summary.** There is more you could put it, on both the costs and the benefits side, if we had forever to think about the issue. **It aims only to make a quite basic point: that the benefits of the Agreement have to be balanced against a range of identifiable and possible costs.** It should also be noted that the “benefits” could all be achieved by changing Australian law, without locking us in to a treaty which cannot be changed by the Australian Parliament.

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<sup>2</sup> Centre for International Economics, *Economic Analysis of AUSFTA: Impact of the bilateral free trade agreement with the United States* (released 30 April 2004). It is worth noting that the IP part of this report is extremely simplistic.

**Table 1: A very rough sketch of some of the costs and benefits of the IP Chapter**

Issue	Costs to Australia	Benefits to Australia
<p><b>General: impact on Australian policy-makers, including the Australian Parliament</b></p>	<p>Inability to adopt preferred policy approaches in IP, due to much reduced freedom to draft own IP law in the future.</p>	<p>Claim: reduced transaction costs for IP owners operating across more than one market arising from harmonised laws to Australian IP owners operating in both Australian and US Markets, encouraging investment.</p>
	<p>Costs of re-drafting Australian IP law: yet another law reform process, after all the expense and time of the Digital Agenda reforms, the Digital Agenda Review, and the ALRC Gene Patenting Review.</p>	<p><b>But note that:</b></p> <ul style="list-style-type: none"> <li>• <i>given claimed “flexibility” of provisions, and the need to implement via Australian legislation, at most there is some partial harmonisation – there will still be friction.</i></li> <li>• <i>The US system is very different from that of other trading partners: harmonisation with the US is dis-harmonisation with other countries, including Europe;</i></li> <li>• <i>Significant differences remain which will affect contracts: in particular, the moral rights provisions in Australian law.</i></li> </ul>
<p><b>Moral Rights</b></p>	<p>No moral rights protection gained in the United States for Australian creators and, in particular, indigenous creators.</p> <p>Transaction costs in cross-border trade arising from these differences will persist.</p>	
<p><b>Digital Copyright</b></p>	<p>Increased in costs to Australian public and business paid to both Australian and overseas IP owners as result of stronger protection and more narrow exceptions: royalties will largely go overseas, given our balance of trade in IP.</p>	<p>Speculative gain: potential increased profits to some Australian copyright owners as result of stronger copyright protection, via:</p> <ul style="list-style-type: none"> <li>- more control over works used in computers (control of temporary copies in particular);</li> <li>- stronger penalties to infringers;</li> <li>- stronger legal protection of technological measures used to limit access and infringement.</li> </ul>
	<p>Increased costs (licenses and transaction costs from seeking licenses) to Australian innovators and creators who need access to the existing body of works: including those protected by technology.</p>	
	<p>Possible restrictions on Australia’s ability to limit copyright owner’s rights to control temporary copies: possible</p>	
	<p><i>But note: this must be weighed against the increased cost of creating</i></p>	

	<p>problems with caching, for example by universities.</p> <p>Loss of the Australian balance of digital copyright law by the reworking of many of the <i>Digital Agenda</i> reforms to copyright law.</p> <p>Potential costs to Australian consumers arising from enforcing, via copyright, region-coding of DVDs and Games: frustrating aims of policy in favour of parallel importation.</p> <p>Inflexible and complicated exceptions: inability to introduce new exceptions to allow provision of circumvention services.</p> <p>Costly procedure every four years to consider new and existing exceptions for use of circumvention devices.</p> <p>Australian consumers may be liable for infringement where they do not actually know they are infringing anti-circumvention provisions.</p> <p>Criminal liability for infringement, which may catch Australian public because it is not limited to genuinely commercial scale or large scale infringement.</p>	<p><i>new works; and majority of benefits are going to overseas copyright owners.</i></p>
<b>ISP Liability</b>	<p>Loss of freedom to shape our own provisions in accordance with suggestions of <i>Digital Agenda Review</i></p> <p>Costs to ISP owners of compliance with notice and takedown procedures, including notices coming in from overseas as well as from Australian copyright owners.</p> <p>Costs to ISP subscribers/users whose online material is removed before they have a chance to respond to the allegation of infringement.</p>	<p>Quicker mitigation of loss for some Australian copyright owners by having material taken down quickly, and more certainty for ISPs.</p>
<b>Copyright Term Extension</b>	<p>Some new works not created because of increased costs to Australian creators and researchers of using older material: transaction costs of searching for the right person to ask for permission.</p> <p>Increased costs to the Australian public for older works (no new "classics editions").</p>	<p>Windfall gain to some existing Australian copyright owners from retrospective copyright term extension.</p> <p>Some reduction in transaction costs as a result of partial harmonisation of laws with US and EU (<i>but note Dr</i></p>

		<i>Rimmer's submission pointing out that this is not full harmonisation)</i>
	Costs in lost opportunities to create valuable archives or digital collections of older works: particularly electronic archives eg <i>Project Gutenberg</i> .	<i>At most, extremely marginal additional incentive for creation of new works (but note that this extremely marginal benefit comes only from <b>prospective</b> extension – the <b>retrospective</b> extension is <b>pure loss to Australia</b>).</i>
	“orphaned works” lost to the Australian public: works where the permission is too hard to get; the copyright owner too hard to find - and so aren't made available.	
<b>Patent</b>	Restrictions on Australia's freedom under TRIPS to allow parallel importation of patented products: (Article 17.9.4)	
	Serious restrictions on Australia's freedom to use compulsory licensing regimes in patent by limiting the purposes for which compulsory licenses may be issued: Article 17.9.	
<b>IP Enforcement</b>	Additional costs to parties accused of infringement as a result of presumptions and broad definitions in enforcement required by the AUSFTA.	<p>Lower enforcement costs for IP owners as a result of:</p> <ul style="list-style-type: none"> <li>- presumptions of subsistence and ownership of copyright rights;</li> <li>- broad definitions of “wilful infringement on a commercial scale” (Art. 17.11.26(a))</li> </ul> <p>Lower enforcement costs may make better copyright enforcement possible.</p>
	Cost of monitoring whether courts are “regularly awarding” additional damages in copyright and trade mark infringement cases.	
	Changes to basic principles regarding appropriate remedies for IP infringement: for example, by effectively requiring that additional damages are “regularly awarded” (Article 17.11.7), and by requiring courts to consider submissions on retail price of goods – a measure not considered relevant currently in Australia, or under the new European Union IP Enforcement Directive (Article 17.11.6).	

## **Detailed Submissions**

### **2 The process by which the IP Chapter was negotiated departed from principles of transparency and accountability in law-making**

#### **2.1 *Negotiations for the AUSFTA bypassed established processes of public discussion and consultation on IP law***

At the same time as the AUSFTA negotiations were occurring, two major reviews aimed at determining the appropriate IP policy for Australia were occurring: the Digital Agenda Review, and the ALRC Gene Patenting Review.<sup>3</sup>

The Digital Agenda Review<sup>4</sup> (“DAA Review”) was instituted in order to analyse the impact of the considerable changes made to digital copyright law in 2000, and to undertake:

*“an examination of whether the approach taken in the amendments ensures a reasonable balance between the competing interests of enabling copyright owners to protect their copyright material in digital form whilst allowing reasonable access to such material by copyright users”.*<sup>5</sup>

The ALRC review of *Gene Patenting and Human Health* released a comprehensive Discussion Paper in March 2004 dealing with the appropriate balance of public and private interests in patent law, particularly in relation to biotechnology.

The recommendations of both inquiries have been pre-empted by the provisions of the IP Chapter of the AUSFTA.<sup>6</sup> Further, the Australian government did not undertake, to my knowledge, any alternative assessment of the costs and benefits of the changes to IP law proposed in the AUSFTA. This is particularly striking in the context of copyright term extension.<sup>7</sup> In September 2000, the Intellectual Property and Competition Review Committee (“IPCRC”) found that:

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<sup>3</sup> See the information on the website of the ALRC, at <[www.alrc.gov.au](http://www.alrc.gov.au)>

<sup>4</sup> Attorney-General (Cth), “News Release: Review of Leading Edge Copyright Reforms”, 1 April 2003, available at <<http://www.ag.gov.au>> (last visited 3 April 2004)

<sup>5</sup> Terms of Reference, Digital Agenda Review

<sup>6</sup> Many of the issues raised in the Digital Agenda Review Issues Paper have been “dealt with” in the copyright provisions of the AUSFTA, including, for example, the anti-circumvention provisions (Article 17.4.7), ISP liability for copyright infringement (Article 17.11.29 and the relevant Side Letter). In addition, aspects of the ALRC review will be rendered redundant if the AUSFTA is ratified and implemented. For example, the ALRC has asked whether the Commonwealth amend the *Patents Act* to require a patent holder to transfer ‘know-how’ relating to the patented product or process to the Crown when the Crown uses or acquires a patent under the Act: ALRC Discussion Paper 68, *Gene Patenting and Human Health*, Question 26-1. This would be precluded by the AUSFTA: Provision 17.9.7(b)(iii)

<sup>7</sup> Required under Article 17.4.4 of the AUSFTA.

*“The Committee is not convinced there is merit in proposals to extend the term of copyright protection, and recommends that the current term not be extended.*

*We also recommend that no extension of the copyright term be introduced in future without a prior thorough and independent review of the resulting costs and benefits.”<sup>8</sup>*

In 2001 the Australian government **accepted** this proposal, stating that it had “no plans to extend the general term for works.” Now, the AUSFTA will require Australia to extend the copyright term, without any significant independent analysis of the costs and benefits of such extension being undertaken.

## **2.2 *By-passing public consultation and review in IP law has adverse consequences for Australia***

There are two key consequences of pre-empting the DAA Review and the ALRC Review.

First, democratic processes of public consultation and review have been ignored.<sup>9</sup> During both the ALRC and the Digital Agenda Review there was widespread public consultation and consultation with key stakeholders.<sup>10</sup> A large number of interested parties expended considerable time and effort making submissions or consulting with the Reviews.<sup>11</sup> The implications of adopting US-style IP law could and should have been included in the Terms of Reference for these inquiries, and more openly discussed. In refusing to do so, the government departed from its own commitment to an “open and transparent treaty-making process”.<sup>12</sup>

Second, negotiators of the IP Chapter of the AUSFTA were deprived of valuable information about the costs and benefits of existing Australian IP law, and the costs and benefits of moving to a more US-style model of IP law as envisaged under the IP Chapter of the AUSFTA.

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<sup>8</sup> Ergas Committee, *Review of intellectual property legislation under the Competition Principles Agreement* (September 2000)

<sup>9</sup> This is true regardless of whether the actual processes of the Digital Agenda Review or the ALRC Gene Patenting Review, were themselves ideally democratic.

<sup>10</sup> Attorney-General and Minister for Health and Ageing, ‘Inquiry into Human Genetic Property Issues’, *News Release*, 17 December 2002; see also in relation to the Copyright reforms, the News Release of the Attorney-General which states that “[t]he operation of the amendments will be compared against their objectives. Key copyright stakeholders will be consulted and a series of public forums will be held to encourage discussion of online copyright issues in the community.”: Attorney-General, “Review of Leading Edge Copyright Reforms”, *News Release*, 1 April 2003.

<sup>11</sup> The ALRC Discussion Paper, *Gene Patenting and Human Health*, notes that it received 65 submissions, and conducted face-to-face consultations (see Appendix 1): and this was prior to the release of the Discussion Paper; subsequently there have been even more. In relation to the Digital Agenda Review, Phillips Fox received over 70 submissions, and conducted 2 public forums (in Melbourne and Sydney) and an online consultation.

<sup>12</sup> See Commonwealth of Australia, *Review of the Treaty-Making Process*, August 1999.

A basic principle of good policy-making is that it should *begin* with sound economic support for policy changes. In the negotiation of a comprehensive trade agreement, trade-offs will be made. It is **critical** that, if the interests of Australia are to be served by the outcome of such negotiations, negotiators must have as clear a picture as is possible of the costs to Australia of making concessions.

Because issues specifically relating to the AUSFTA were not dealt with in the two ongoing public reviews, in my view the Australian negotiators did not have a clear idea of the value of:

- (a) maintaining the current balance of Australian IP law;
- (b) adopting some other balance; or
- (c) moving to US-style IP law.

In short, the negotiators **were not sufficiently informed as to the value of what they were trading away.**

These issues are highlighted by the release, two days ago, of the Digital Agenda Review Report and Recommendations.<sup>13</sup> A significant number of the recommendations of that Review have been superseded by the AUSFTA. This suggests that at least some of the changes required by the AUSFTA are not desirable from an Australian policy-making perspective.

It is worth noting that the concerns outlined above are not solved by the consultations listed by DFAT in the AUSFTA NIA. While I cannot speak for all consultations, I was present at one and did not find it a useful process. The consultation was characterised by a serious information gap: copies of proposed provisions were not supplied to “consultees,” and we were, in effect, required to “guess” what might be important to discuss, or respond to questions from the negotiators on hypothetical issues deprived of context. Such one-sided “discussions” are not a substitute for the dialogue and deeper consideration of issues that can occur in the context of a public review such as that of the ALRC.

**I therefore submit that the Committee should make a positive finding that the Australian Government ought not to have pre-empted, and rendered effectively redundant, the major reviews of IP policy in copyright law and patent law which were occurring at the time of these negotiations.**

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<sup>13</sup> *Digital Agenda Review, Report and Recommendations* (Phillips Fox, January 2004)

### **3 The highly prescriptive nature of the IP Chapter will unduly constrain Australian discretion to shape appropriate IP laws for Australian circumstances**

#### **3.1 *Harmonisation of IP law has some benefits but these must be weighed against other costs.***

One argument often advanced in favour of the IP Chapter of the AUSFTA is that harmonisation with US law will be economically beneficial. Harmonisation *does* have some benefits.

However, harmonisation is not the be all and end all. Australia's IP law needs to be crafted, and re-written when necessary, to serve Australia's national interest: as the Government has long recognised, "Australia's economic future will be shaped, in part, by how well it can manage its intellectual property assets."<sup>14</sup> Economic studies clearly show that the balance of interests embodied in IP law can and should vary between countries with different economic interests.<sup>15</sup>

The appropriate shape of IP laws is different in different countries, *even though harmonisation of IP law has some benefits* in terms of reducing transaction costs and barriers to integrated trade. Even in the European Union, a strongly integrated market, they have not tried to harmonise IP law completely. Even in the EU, countries are allowed different exceptions to IP laws.<sup>16</sup> Thus, simply following the policies of American, or European IPRs is neither necessary, nor is it desirable.<sup>17</sup> Furthermore, as economist Keith Maskus has pointed out, for countries to maximise their gains from stronger IP rights, their IP systems must interact coherently with other national policies.<sup>18</sup>

Further, if one thing is clear from the last few years, it is that IP law must adjust in response to changing technological circumstances. It is crucial that the Australian government retains the freedom to make those adjustments according to the needs of the Australian people. Much of that freedom will be lost under the IP Chapter of the AUSFTA.

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<sup>14</sup> The Hon. Mark Vaile MP, Minister for Trade, "Introduction: Intellectual Property: A Vital Asset for Australia", (DFAT, June 2000)

<sup>15</sup> Keith E. Maskus, "Implications of Regional and Multilateral Agreements for Intellectual Property Rights" (1997) 20 *The World Economy* 681

<sup>16</sup> To give just one example of this, in the EU Directive dealing with Digital Copyright, Articles 5 and 6 offer lists of exceptions that Members *may* provide – not a closed list that the Members must provide: *Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society*, OJ L 167, 22/06/2001 P. 0010 - 0019

<sup>17</sup> Keith E. Maskus, "Strengthening Intellectual Property Rights in Asia: Implications for Australia", 46<sup>th</sup> Joseph Fisher Lecture in Commerce, University of Adelaide, 19 November 1997, at page 16; see also Jerome H. Reichman, "Intellectual Property Rights and the Dissemination of Technical Knowledge: A Pro-Competitive Strategy for Compliance with the TRIPS Agreement" (1996, Geneva, UNCTAD)

<sup>18</sup> Keith E. Maskus, "Strengthening Intellectual Property Rights in Asia: Implications for Australia", 46<sup>th</sup> Joseph Fisher Lecture in Commerce, University of Adelaide, 19 November 1997, at page 16

Australia needs good, balanced IP law. Some of the changes in the IP Chapter of the AUSFTA are a good idea. Some are supported by the public reviews of IP law referred to earlier.<sup>19</sup> *It is still not appropriate to enshrine them in unchangeable treaty form.*

### 3.2 *The highly prescriptive nature of the Australia-US FTA will unduly limit the Australian Parliament's freedom to shape intellectual property law in the future*

As the Coalition Law and Justice Policy stated, back in 1996:

*“Australian laws, whether relating to human rights or other areas, should first and foremost be made by Australians, for Australians ... [W]hen Australian laws are to be changed, Australians and the Australian political process should be at the beginning of the process, not at the end.”*<sup>20</sup>

The IP Chapter of the AUSFTA will both:

- (a) require extensive changes to existing Australian IP law – the most significant re-working of Australian IP law since the Digital Agenda amendments to copyright in 2000; and
- (b) prevent the Australian Parliament from amending Australian IP law to accommodate Australian interests in the future.

The negotiators of the Agreement have in fact claimed<sup>21</sup> that the provisions allow for some flexibility: and, indeed, it is true that there is some language which could be interpreted by Australia in its implementation of the AUSFTA in the future.

However, it is **naïve** to suggest that Australia will have significant flexibility in its interpretation of the provisions of the AUSFTA, for two reasons.

#### 3.2.1 *The provisions in the Agreement are too detailed*

First, many, although by no means all of the obligations in the IP Chapter are so particularised, and the flexibility in those provisions so limited, that the reality is that the Australian Parliament will have little room to move without breaching international obligations in its implementation of any provisions.

The IP Chapter consists of 29 close-typed pages,<sup>22</sup> several of which contain exhaustive lists. For example, there is an exhaustive list of exceptions which

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<sup>19</sup> For example, the concept of having a notice and take down regime to limit ISP liability for copyright infringement has been recommended by the Digital Agenda Review: see *Digital Agenda Review, Report and Recommendations* (Phillips Fox, January 2004), Recommendation 12.

<sup>20</sup> 1996 Coalition Law and Justice Policy, quoted in the Senate Legal and Constitutional Legislation Committee, *Report on the Administrative Decisions (Effect of International Instruments) Bill 1997* (1997).

<sup>21</sup> Comments of Stephen Fox, delivered at the ACIPA Conference: *Copyright: Unlucky for Some?* February 13, 2004

Australia may provide to the ban on circulating devices that allow users to break technological protection of copyright works.<sup>23</sup> This means that, **regardless of what happens in the future**, and regardless of any problems that arise in the future in the operation of the copyright law, Australia will **not be able to add an exception** to deal with that issue without breaching its agreement with the United States.

A particularly notable example of the particularity of the obligations is Article 17.11.29, which deals with online service provider liability for copyright infringement. This provision is 1,288 words in total, and extends to 3½ - 4 pages in the currently available version of the AUSFTA. This provision operates in *conjunction with* a side letter dealing with the same issue, which extends to another 2 pages and another 931 words. That's a total of (approximately) **2219 words** (approaching the length of a university undergraduate essay) **and 6 pages dealing solely with ISP liability for copyright infringement**. The provisions are also technology specific (as to which see further below, in Part 8.1, page 28). Compare this to the current Australian Act, which if you count the two provisions dealing with the issue,<sup>24</sup> extends to 252 words and half a page.

### 3.2.2 *The United States is unlikely to tolerate many "flexible" interpretations of the Agreement*

Second, there is no reason to be confident that any apparent flexibility in the Agreement will be fully available to Australia in the future.

The Committee should ask itself: **what will happen where the United States Trade Representative disagrees with Australia's interpretation of some provision in the Agreement?**

We know what will happen. The industry representatives which advise the US Trade Representative have, in their report on the AUSFTA, already signalled their willingness to encourage use of the dispute settlement provisions of the AUSFTA should they see Australia as not implementing its obligations in good faith.<sup>25</sup> Reports written by the same industry advisory groups *already* characterise Australia's digital copyright laws as ones which "stray" from "what industry and the U.S. government considered to be full and correct implementation of the obligations" in international treaties. This strongly suggests that, in the future, they will not agree with "flexible" interpretations, or interpretations unfavourable

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<sup>22</sup> Some comparisons are apposite. The IP provisions of the North American Free Trade Agreement, concluded in 1992, are only approximately 2½ pages long. The IP provisions of the US-Jordan FTA (concluded 2000) are more like 8 pages plus an MOU.

<sup>23</sup> Article 17.4.7(e)

<sup>24</sup> ss36 and 39B. Even if the repetitive provisions in ss112E and 101 are included, it jumps to about 589 words: still only a quarter the length.

<sup>25</sup> Industry Functional Advisory Committee on Intellectual Property Rights for Trade Policy Matters (IFAC-3), *Report on the U.S.-Australia Free Trade Agreement (FTA): The Intellectual Property Provisions*, March 12, 2004, at pages 3-4

to IP owners' interests. In these circumstances, they are likely to push for use of the Dispute Settlement procedures.<sup>26</sup>

#### **4 The provisions of the IP Chapter alter the Australian copyright “balance”**

As already noted, in order to comply with the obligations in the IP chapter of the AUSFTA, Australia will need to enact significant changes to IP law. These changes will significantly “recalibrate” the existing balance of interests in both copyright law and patent law, an issue which is explored in more detail later in this submission. A very important question arises whether these changes are appropriate to Australian circumstances, and appropriately balance the interests of Australian IP users and owners (as well as the rights of foreign entities in Australia). I submit that certain provisions of the IP chapter of the AUSFTA do not strike an appropriate balance of interests.

One important reason why the provisions may not strike an appropriate balance of interests is that the Australia-US FTA seeks to introduce IP-protective US laws but does not “harmonise” aspects of US law protective of the interests of members of the public. The result of introducing these provisions in Australia without making appropriate adjustments to strengthen users' interests may be to skew IP law in Australia to be even more protective of IP owners than American law.

Parts of Australian law, in particular some of our statutory licenses, are more generous to users than the law in the United States. However, in some important respects, Australian law currently provides *more* protection to IP owners than US IP law. In copyright law, the Australian standard of originality is, following the decision of the Full Federal Court in *Desktop Marketing Systems v Telstra Corporation*,<sup>27</sup> lower than in the United States. In Australia it appears that copyright protection will be granted on the basis of the expenditure of effort alone; in the United States some degree of creativity will be required.<sup>28</sup> This means that collections of factual information which would not be protected by copyright law in the United States (or which would have only limited protection) *are* protected by relatively strong copyright in Australia. The effect of adopting the AUSFTA without addressing this difference may be to tip the balance too far in favour of copyright owners, and in particular, in favour of the compilers of collections of fact, at the expense of the interests of users. At the very least, this issue needs to be considered holistically.

Furthermore, the “fair use” defence to copyright infringement in the United States<sup>29</sup> operates more broadly than the ‘equivalent’ “fair dealing” defences to

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<sup>26</sup> Above n25, at page 8

<sup>27</sup> *Desktop Marketing Systems v Telstra Corporation* (2002) 119 FCR 491 (“the White Pages decision”), concerning Telstra’s copyright in the White Pages and Yellow Pages.

<sup>28</sup> *Feist Publications, Inc. v. Rural Telephone Service Company, Inc.* 499 US 340 (1991)

<sup>29</sup> 17 U.S.C. §107

copyright infringement in Australia. In Australia, to gain the benefit of the defence, the alleged infringer is required to show that the purpose of their use falls within one of those enumerated in the Australian legislation: criticism and review,<sup>30</sup> research and study,<sup>31</sup> news reporting,<sup>32</sup> or judicial proceedings.<sup>33</sup> In the United States, a non-exhaustive list of purposes is provided.<sup>34</sup> This has allowed US courts to find “fair use” for uses such as parody or other transformative use,<sup>35</sup> where it is by no means clear that an Australian court would find a fair dealing.<sup>36</sup>

For example, US Courts have found that “timeshifting” – taping a program to watch later – is a “fair use”.<sup>37</sup> There is currently no defence for time-shifting in Australian law: it is one of the great ironies (or rather, problems) of current Australian copyright law that Australian citizens are almost certainly infringing copyright without realising it every time they record a TV movie to watch later.<sup>38</sup> The same problem applies to “space-shifting”: US law would likely allow space-shifting,<sup>39</sup> such as copying a purchased CD onto a computer or an iPod for personal use; Australian law would not allow those activities. In 1998 the CLRC recommended “the expansion of fair dealing to an open-ended model”.<sup>40</sup> This approach has not, however, yet been adopted in Australian law.

I submit that it is not appropriate to take on extensive obligations to enact further laws protective of IP interests without a full analysis of how these provisions will operate in the context of Australian law, which is – and under the AUSFTA provisions, will remain – different from US law in certain key respects. Any Australian government considering acceding to such a treaty should undertake to review those areas of Australian IP law is stronger than that provided elsewhere in the world, and undertake to redress that imbalance.

**I therefore submit that the Committee should recommend that, if the AUSFTA is to proceed, the Government *must* undertake, simultaneously with any implementation of the IP Chapter, a review to ascertain how to appropriately broaden such defences as the fair dealing defence.**

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<sup>30</sup> *Copyright Act 1968* (Cth) ss 41, 103A

<sup>31</sup> *Copyright Act 1968* (Cth) ss 40, 103C

<sup>32</sup> *Copyright Act 1968* (Cth) ss 42, 103B

<sup>33</sup> *Copyright Act 1968* (Cth) ss 43, 104

<sup>34</sup> 17 U.S.C. §107

<sup>35</sup> *Campbell v Acuff-Rose Music, Inc* 510 US 569 (1994) (the “Pretty Woman” case); *Suntrust Bank v*

*Houghton Mifflin Co* 268 F.3d 1257 (2001) (the “Wind Done Gone” case)

<sup>36</sup> In the recent case regarding the television show *The Panel*, *TCN Channel Nine Pty Ltd v Network Ten Pty Ltd* (2002) 118 FCR 417, the Federal Court upheld a fair dealing defence for only some of a number of satirical uses of television footage.

<sup>37</sup> Home recording to watch later is allowed in the United States as a result of the *Betamax* decision (*Sony Corp of America v Universal Studios, Inc* 464 US 417 (1984)); exceptions for use by a natural person for private use are also specifically allowed under Article 5.2(b) of the European Union *Directive on the Harmonisation of Certain Aspects of Copyright and Related Rights in the Information Society*, Directive 2001/29/EC of 22 May 2004 (OJ L. 167/10, 22.6.2001)

<sup>38</sup> Attorney-General’s Department, *A Short Guide to Copyright*, FAQs, Paragraph 16.4, available online.

<sup>39</sup> *Recording Industry Association of America v Diamond Multimedia Sys., Inc* (1999) 180 F.3d 1072

<sup>40</sup> Copyright Law Review Committee, *Simplification of the Copyright Act 1968 Part 1: Exceptions to the Exclusive Rights of Copyright Owners* (September 1998), Recommendations 2.01 and 2.02.

## 5 Copyright Term Extension

I do not propose to make detailed submissions on copyright term extension. I support the submissions on this question made to JSCOT by Dr Matthew Rimmer of the Australian National University.

## 6 Particular problems will be caused by the “anti-circumvention” provisions of the AUSFTA (Article 17.4.7)

I submit that Article 17.4.7 will require significant rewriting of Australian copyright law and does not strike an appropriate balance between the interests of users and owners of copyright.

### 6.1 *The IP Chapter adopts a ban on use of circumvention devices, requiring a substantial change in existing Australian law*

Article 17.4.7(a) of the AUSFTA will require Australia to change its law by providing for a ban, not only on *distribution* of devices for circumventing technological protection measures, but also *use* of such devices.

The relevant Australian provision, s.116A of the *Copyright Act*, was enacted after an exhaustive consultation process. That process started in early 1997, and came to a culmination with the *Copyright Amendment (Digital Agenda) Act 2000*: reaching a result which, in the view of the Australian Government, achieved an appropriate balance.<sup>41</sup> In the course of this process over 250 written submissions were received by various reviewing bodies. Face to face consultations were held. A Senate Committee reviewed and reported on the legislation. This was a good faith, pragmatic attempt to reach a compromise and a balance which was uniquely Australian, and written to suit Australian circumstances.

The Australian approach under s116A of the *Copyright Act 1968* was to ban only acts of *distributing* circumvention devices. The Australian government took a

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<sup>41</sup> As Senator Alston put it in his 2<sup>nd</sup> Reading Speech, “[i]n developing the legislation, the government has given all relevant interests extensive opportunities to put their views and comment on the proposed reforms. The bill represents the culmination of that exhaustive consultation process”: Senator Richard Alston, *Copyright Amendment (Digital Agenda) Bill* (2000), Second Reading Speech, *Hansard*, 17 October 2000, page 16592. This is borne out by the facts of this consultation process. The Discussion Paper Copyright Reform and the Digital Agenda was released by the Attorney-General’s Department in July 1997. The Government conducted 13 face-to-face consultations and received 71 written responses to this Discussion Paper, from a large variety of stakeholders including copyright industry associations, copyright collecting societies, educational institutions, libraries, archives, carriers, broadcasters, ISPs, academics and others. Following this process, an exposure draft of the *Copyright Amendment (Digital Agenda) Bill 1999* that implemented the Government’s decision was released for public comment on 26 February 1999. Over 80 submissions were received, and numerous meetings held on this draft. The *Copyright Amendment (Digital Agenda) Bill 1999* was introduced into the House of Representatives on 2 September 1999 and referred to the House of Representatives Standing Committee on Legal and Constitutional Affairs. That Committee received some 100 written submissions on the Bill in addition to undertaking a number of public hearings. Following the Committee’s report, further amendments were made to the legislation which was eventually passed in October, 2000.

deliberate decision *not* to proscribe acts of circumvention. The basis for that decision was the following view expressed by the Australian government:

*“The government believes that the most significant threat to copyright owners' rights lies in preparatory acts for circumvention, such as manufacture, importation, making available online, and sale of devices, rather than individual acts of circumvention”*<sup>42</sup>

I would suggest that not only is the move to a ban on use under the AUSFTA a departure from stated Australian policy, but it is not desirable. It is not good policy to impose ever-increasing obligations under the highly technical *Copyright Act* on individual Australian citizens. In doing so, we risk increasing the already clear “disconnect” between what the copyright law in fact says, and what people think the law should be, and what they should have to do to avoid liability. Consumers are very unlikely to believe it is reasonable to make them liable if they use a “region-free” DVD player. That could, however, be the effect of the AUSFTA.

I should note that the Digital Agenda reforms have just been reviewed in the Digital Agenda Review. That Report, released last Wednesday 28 April, has found that “in general, the Digital Agenda Act is achieving its objectives and is working well”.<sup>43</sup> Some changes are recommended, but the overall workings of the legislation was not criticised.

One thing that the Digital Agenda Review suggests is that there should be a ban on use of circumvention devices. **However**, it is important to note that the Digital Agenda Review takes a **narrow view of what constitutes a circumvention device**: different from the broad interpretation in the AUSFTA. Under the AUSFTA, consumers will risk breaching the anti-circumvention provisions even when they use a device to get **non-copyright-infringing access** to a **legitimately purchased work**.<sup>44</sup>

Remember: in the end, whether the current Australian law is perfect, or the AUSFTA perfect, is not the real point. I happen to think that the AUSFTA provisions are deeply unbalanced: they certainly do not represent the balance recommended by the Digital Agenda Review. But the larger point is that Australia should reach its own balance its own way. If Australia decides it wants better protection for copyright owners, it is highly unlikely to reach the particular provisions in the AUSFTA.

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<sup>42</sup> Submissions of the Attorney-General's Department and Department of Communications to the House of Representatives Standing Committee on Legal and Constitutional Affairs on the *Digital Agenda Act*, quoted in Standing Committee Report, *Advisory Report on the Copyright Amendment (Digital Agenda) Bill 1999*, Chapter 4, page 66, paragraph 4.38.

<sup>43</sup> *Digital Agenda Review, Report and Recommendations* (Phillips Fox, January 2004), para. 1.1

<sup>44</sup> This is the effect of Article 17.4.7: I am more than happy to explain this at more length!

**6.2 *The definition of “technological measure” under Article 17.4.7(b) “circumvents” a pending appeal from the Full Federal Court and will undermine Australia’s decision to allow parallel importing of music, computer games, and enhanced CDs.***

Article 17.4.7(b) requires Australia to adopt a definition of technological measure as a device (etc) which *controls access* to a protected work, or protects any copyright.

This is a **very broad** interpretation of what should constitute a technological protection measure. There has been a long-standing debate about whether the law should protect only those technological measures (or TPMs) which actually prevent copyright infringement, or whether **access controls** put in place by copyright owners should also be protected.<sup>45</sup> The concern expressed by many in this debate was that provisions relating to TPMs should be clearly, unequivocally tied to copyright infringement, and that circumvention of mere access controls – which prevent actions by users which do not infringe copyright – should not be banned.

This question has been considered in the *Sony v Stevens* litigation (currently on appeal to the High Court), and by the Digital Agenda Review. According to the Digital Agenda Review, the definition of a technological protection measure should be limited to a device that is “designed to function ... to prevent or inhibit the infringement of copyright”.<sup>46</sup>

By requiring us to include devices that simply limit access, the AUSFTA puts in place a very strong regime and prevents us implementing the Digital Agenda Review Recommendations.

**6.3 *The AUSFTA has the potential to entrench market segmentation practices by IP Owners and defeat Australian policies in favour of parallel importation***

Even more importantly, Article 17.4.7(b) has the potential to entrench – indeed, legally protect – **anti-competitive and market segmentation practices of copyright owners**, and undermine Australia’s policies in favour of competition in the supply of legitimate copyright works, as implemented through Australia’s parallel importation laws – to the detriment of Australian consumers.

Some technological devices that are used to control access to copyright works are also used by copyright owners to implement market segmentation policies. Producers of DVDs, for example, use “region coding”: a DVD bought in the US

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<sup>45</sup> This issue was the subject of considerable debate before the House of Representatives Standing Committee which considered the Digital Agenda Bill back in 1999; it has also been a subject of debate in the recent Digital Agenda Review.

<sup>46</sup> *Digital Agenda Review, Report and Recommendations* (Phillips Fox, January 2004), Recommendation 17

cannot be played on a machine bought in Australia. A similar system has been used in relation to Sony Playstation consoles. This region coding is enforced by technological controls which control access to works. As Henry Ergas has noted, the regional coding system acts as a potentially substantial barrier to trade. This might benefit producers, but at great cost to consumers.<sup>47</sup> If we offer legal protection to the technology used to enforce region coding, we allow market segmentation and hence higher prices.

The Australian government has had an active policy of avoiding the price-inflative effects of market segmentation. Since 1998 the government has enacted several laws to allow parallel importation of some copyright items: that is, the importation of *legitimately produced copies* (copies made with the consent of the copyright owner) in other countries. The Australian government has allowed parallel importation on the basis that this would benefit Australian consumers by reducing prices and increasing availability of copyright material.<sup>48</sup> This position has been strongly supported by the Australian Competition and Consumer Commission (ACCC).

In accordance with Australia's strongly adopted policy in favour of parallel importation, it is important that Australia retains the freedom to decide whether region-coding is undesirably undermining competition, and take appropriate action to ensure genuine competition.<sup>49</sup> Australia may, in the future, depending on any harm arising from region-coding, need to amend the definition of a TPM or introduce an appropriate exception to the legal protection accorded to TPMs.

The AUSFTA will lock Australia in to a system where we must prohibit circumvention of access controls – which will, it seems, include region-coding mechanisms. This completely undermines the stated aims of the Australian government in allowing parallel importation: that competition in the provision of legitimate copies of copyright works is a boon to Australian consumers. It should be noted that there is no way, under the exceptions provisions of the AUSFTA (Article 17.4.7(e)) that the Australian government could introduce an exception to allow parallel importing or ameliorate the anti-competitive effects of such region coding.

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<sup>47</sup> Henry Ergas, *Destroy the DVD Divide*, BRW Outfront Opinion, January 17, 2002.

<sup>48</sup> *Explanatory Memorandum to the Parallel Importation Bill 2001* (Cth)

<sup>49</sup> Whether such access controls are TPMs has been considered in the case of *Sony v Stevens*. The ACCC intervened in the case owing to their concern about the anti-competitive effects of such access controls. Justice Sackville at first instance held that such access controls were not TPMs, because they did not operate to prevent copyright infringement by any physical means. This approach was overturned by the Full Federal Court. For the moment, the interpretation of the Full Federal Court covers access controls – but the case is currently on appeal to the High Court of Australia.

**6.4 The ban required by the IP Chapter will catch even consumers and other individuals who are unaware they are circumventing**

Article 17.4.7(a) requires Australia to impose liability on those who “knowingly, or **having reasonable grounds to know**” circumvent a technological protection measure.

In other words, individual consumers who use a device which they do not subjectively realise circumvents a TPM may incur liability for a breach of the *Copyright Act*.<sup>50</sup> This might include, for example, using software to play a DVD on their computer; or using a “mod chip” to play console games purchased overseas. Many consumers do not understand how the technology they use works. Currently, Australian consumers are not themselves breaking any laws when they use a circumvention device. The AUSFTA requires us to make using such a device an offence. And by requiring an objective standard of knowledge, rather than a subjective standard that only imposes liability where the consumer **knew what they were doing**, the AUSFTA would put Australian consumers at unnecessary and undesirable risk of breaking the law. It is worth noting that at least one other Free Trade Agreement negotiated by the United States has a *subjective* standard of knowledge.<sup>51</sup>

Article 17.4.7(a) will also render those who *distribute* devices liable, even if they did not subjectively realise that the devices or programs they are distributing may be used for circumvention. There is no requirement of knowledge in the relevant provision. Again, this is a departure from existing Australian law, which requires that, for there to be infringement, the person circulating the device “knew, or ought reasonably to have known, that the device or service would be used to circumvent” the TPM.<sup>52</sup>

Given that circumvention devices can include all sorts of computer programs, as well as physical devices used for many purposes, which many people simply **do not understand**, making people liable in the absence of **subjective knowledge** of their breach is not appropriate.

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<sup>50</sup> I note that the US motion picture industry takes the view that playback of a non-region 1 DVD on a multiregion DVD player is a violation of the Copyright Act, *even where* the person who put the DVD in has no knowledge that they have allegedly circumvented a TPM: see Gwen Hinze, “*Getting the Balance Right: Seven Lessons from a Comparison of the Technological Protection Measure Provisions of the FTAA, the DMCA, and the US-Singapore and US-Chile Free Trade Agreements*”, available at <[http://www.eff.org/IP/FTAA/tpm\\_implementation.php](http://www.eff.org/IP/FTAA/tpm_implementation.php)>

<sup>51</sup> Free Trade Agreement between the United States and Chile, Article 17.7.5(a), which provides liability only where a person **knowingly** circumvents any effective technological measure.

<sup>52</sup> *Copyright Act 1968* (Cth) s116A(1)(c)

## 7 Particular problems will be caused by the exceptions to the anti-circumvention provisions set out in 17.4.7(e) and (f)

### 7.1 *Article 17.4.7(e) creates a very narrow, unhelpful list of exceptions to the anti-circumvention provisions which will require a substantial re-write of Australian law*

All provisions in copyright law require exceptions to protect the public interest. Currently in Australian law, certain exceptions are provided to the ban on *distribution* in order to ensure that certain **qualified persons** who have a right or defence under copyright law to access copyright works are allowed to do so.

This whole system, adopted by the Australian Parliament in 2000 after extensive consultation described above, will have to be overturned if the AUSFTA is implemented.

In essence, the exceptions to the bans on *using* and *distributing* circumvention devices in the AUSFTA work as follows:

- In relation to the **ban on use of circumvention devices**:
  - There are **7 specified exceptions** which Australia may adopt, for such purposes as security testing, encryption research, and for the creation of interoperable computer programs;
  - Australia may, in the future, create new exceptions, but only subject to the limitations set out in Article 17.4.7(e)(viii), which requires a “credible demonstration” of “actual or likely adverse impact”, and a quadriennial review of such exceptions.
- In relation to the **ban on distribution of circumvention devices**:
  - There is a **shorter list** of specified exceptions (ie, some of the exceptions in Article 17.4.7(e) apply *only* to use); and
  - Australia **is not allowed to create new exceptions** under the quadriennial process set out in Article 17.4.7(e)(viii).

Several consequences of this system should be noted.

First, the list of specified exceptions mirrors that in the *Digital Millennium Copyright Act* 1998 in the United States. There have been numerous controversial issues that have arisen in relation to the abuse of the anti-circumvention provisions. These include threats of suit issued to computer science researchers and anti-competitive conduct. In the US, the DMCA has been used to hinder efforts of legitimate competitors to create interoperable products. For example, Vivendi-Universal’s Blizzard Video Game Division invoked the DMCA to intimidate the developers of software products derived from reverse engineering. Sony has used the DMCA to threaten hobbyists who created competing software for Sony’s Aibo robot dog. And Lexmark, a large printer vendor, employed the DMCA to prevent other companies from offering printer

cartridges for Lexmark printers.<sup>53</sup> Introducing similar provisions in Australia may lead to similar problems here.

Second, there is no provision for an exception which would allow circumvention to avoid anti-competitive conduct on the part of copyright owners. I have discussed in Part 6.2 above the potential for anti-competitive or market segmentation behaviour by copyright owners; behaviour which has been criticised by the ACCC.

Third, in some cases, there is an exception for the user, but no exception which will allow someone else to supply them with the necessary device to implement their exception. This is a nonsense. It means that an individual will only be able to use the defence if they can make the circumvention device themselves! For example, under Article 17.4.7(v), users may protect their privacy: they may circumvent TPMs to prevent their equipment collecting or disseminating personal information. But there is no exception under Article 17.4.7(e) and (f) to allow any party to supply circumvention devices to users for that purpose. Only computer geeks, it appears, can protect their privacy.

Fourth, exceptions which currently provide some protection for Australian libraries will have to be removed. At present, under Australian law, Australian libraries may circumvent TPMs for a number of purposes, including providing copies of works to clients of the library. The only “library” exception under the AUSFTA is Article 17.4.7(e)(vii), which allows *access* by a library, “for the sole purpose of making acquisition decisions”. Notably, too, this is another exception which does not extend to the distribution of circumvention devices – meaning, once more, that it appears the library will have to find a way to circumvent itself, rather than being provided with the necessary device by a commercial provider.

## 7.2 *Article 17.4.7(e)(viii): the Quadrennial Review process: a costly process for Australia to adopt*

The AUSFTA allows Australia to create new exceptions to the anti-circumvention provisions beyond those specifically listed *only* if an “actual or likely adverse impact” is “credibly demonstrated” in “a legislative or administrative review or proceeding”, which must be held at least once every four years.

The first, most fundamental problem with this process, as required by the AUSFTA, is that it **will only be able to create exceptions for users: it will not be able to create exceptions for those who might supply the necessary means to give effect to those exceptions.** This is, quite simply, an illogical and indefensible limitation, since it renders any exception close to useless to the majority of consumers and members of the Australian public.

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<sup>53</sup> These examples are explored in further detail in a document by the Electronic Frontier Foundation, “Unintended Consequences: Five Years under the DMCA” (September 24, 2003).

Second: how is this process to be implemented in Australia? Will the Attorney-General's Department have to have quadriennial processes? Australia has no similar tradition of "Rule-Making" as occurs in the United States. We have no similar body to the Library of Congress.

Third, what are to be the guiding principles of such a process? Article 17.4.7(e)(viii) refers to demonstration of "an actual or likely adverse impact" on non-infringing uses which is "credibly demonstrated". How do you "**credibly** demonstrate" that you are suffering harm by not being allowed to do something which is currently illegal? When asked at the recent Fordham IP Conference what the "guiding principles" were for this process in the United States, the relevant official, David Carson, said that there were no such principles.<sup>54</sup> Is this the process we are to model ours on?

Fourth, there are procedural problems with such a process. The provision is modelled on the processes used in the United States, where reviews under the DMCA are held by the Register of Copyrights every 3 years.<sup>55</sup> How this process may work in practice may be assessed by looking at the experience of the United States, which has now had 2 such reviews. In the United States, the following problems have been experienced:

- Consumers find the process inaccessible without legal representation, owing to its complexity and the burdens of proof applied;
- The process is costly and time-consuming: this effect is most likely to impact on the non profit sector, who are likely to be those most in need of exceptions to stringent copyright laws and copyright protection;
- A high burden of proof has been applied, which has made it extremely difficult to obtain an exception: this in an area where it is *notoriously* hard to provide actual evidence of harm arising from copyright. Historically, copyright owners have constantly complained of the difficulties of proving damage resulting from infringements, and have been given procedural advantages to mitigate that difficulty. Users are likely to experience, under the quadrennial review process, as many problems (if not more), and yet the reference to "credible" demonstration of adverse effect suggests a high burden;
- The vast costs of the procedure are likely to outweigh its meagre benefits: this can be demonstrated by the US experience. In the 2000 rulemaking, 235 initial comments were received, and 129 reply comments. 34 witnesses representing 50 groups testified at 5 days of hearings, and 28 post-hearing comments were subsequently filed. Two exemptions were ultimately granted. In the 2003 rulemaking, 51 initial comments requesting exemptions were filed, and 337 reply comments were filed, of which 254 were by consumers in support of a consumer exemption request filed by two public interest non-profit organisations (the Electronic

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<sup>54</sup> Response to question asked at the Fordham University School of Law, 12<sup>th</sup> Annual Conference: International Intellectual Property Law and Policy, Session III, 15 April 2004.

<sup>55</sup> 17 U.S.C. §1201(a)(1)(C)

Frontier Foundation and Public Knowledge). 44 witnesses representing 60 groups testified at 6 days of hearing, and 24 post-hearing comments were later filed. Four limited exemptions were ultimately granted. Do we face something like this – every four years – for as long as the AUSFTA continues in force?

It should also be noted that in the past in Australia, processes for review of digital copyright issues have elicited similar levels of comments and engagement by the policy community.

It may be the case that some of the worst problems experienced in the US process can be avoided in Australia. However, even if some of the issues can be overcome, two fundamental problems will inevitably remain:

- The process will be expensive, and difficult for Australian consumers who are affected by TPMs, and
- As the AUSFTA is drafted, only exceptions to *use* may be provided. This means that, even if the Australian Parliament decided that a new exception should be created, it could not ensure that circumvention devices could be provided.

## **8 Particular problems will be caused by the ISP liability procedure (Article 17.11.29)**

Article 17.11.29 of the AUSFTA sets out a framework regulating the liability of Internet Service Providers for copyright infringement by their end-users. I have noted in Part 3.2 above the very extensive detail in this particular provisions relating to ISP liability. The level of detail is, in itself, both concerning and inappropriate, and allows insufficient flexibility in implementation. In other words, the provisions constitute a substantial re-write of existing Australian law.

While I do not speak as a stakeholder in the issue of ISP liability, it appears that the current provisions regarding ISP liability *are* uncertain, and that some form of more specific guidance on how to deal with these issues is desired by Australian stakeholders. This need for greater certainty is highlighted by the Digital Agenda Review Report, which found that:

*“it is clear there is real uncertainty as to what steps Service Providers need to take in order to protect themselves from liability for authorisation of copyright infringement and as to when, and the manner in which, copyright owners can legitimately complain about a Service Provider’s conduct. That uncertainty, and the resultant increased risks and adverse impacts on service levels, needs to be removed or reduced.”<sup>56</sup>*

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<sup>56</sup> *Digital Agenda Review, Report and Recommendations* (Phillips Fox, January 2004), para. 16.22

Broadly, the Recommendation of the Digital Agenda Review (“DAA Review”) was to adopt a “co-regulatory” model, akin to that adopted in privacy law. That is, there should be minimum standards in the legislation, with the freedom to the relevant parties to develop a more detailed Code of Conduct.

In general, I would support a move to greater certainty for ISPs and copyright owners, provided that all the relevant interests can be balanced. However, there is a wide gulf between “uncertainty” in the Australian provisions, and over-determination under the provisions of the AUSFTA.

The provisions are apparently modelled on those in the United States Digital Millennium Copyright Act (DMCA). While the harmonisation with US law will benefit US rightsholders who will be able to use a familiar set of laws and procedures, certain problems exist with these provisions in an Australian context. Briefly, these problems are outlined below.

### **8.1 *The provisions are technology-specific, contrary to Australian digital copyright policy***

The policy of the *Digital Agenda* legislation in Australia was that copyright legislation should be technology neutral. By contrast, the provisions of the AUSFTA are highly technology specific. The danger of technology-specific laws is that they will provide insufficient flexibility to cope with new technological developments. Given the rapid pace of technological development, it is manifestly not good treaty-making policy to have technology-specific provisions set at the level of international obligations, hampering the Parliament’s ability to make adjustments in light of technological development.

An example of the technology specificity of the AUSFTA provisions is Article 17.11.29(b)(i). This provision is a **closed** list of functions that ISPs may be performing which will be covered by any “safe harbour” exempting them from infringement. The only concession here to changes in technology is Footnote 17-32, which allows the parties to request consultations on how to address future “functions of a similar nature”.

This level of specificity has *already* led to problems in the United States, where the *Copyright Act* ISP Safe Harbour Provisions are limited to essentially the same functions.<sup>57</sup> For example, ISP Pacific Bell Internet Services has brought a lawsuit against the enforcement agent of the Recording Industry Association of America, MediaForce, which sent the ISP over 16,700 arguably invalid takedown notices,

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<sup>57</sup> See *Copyright Act* (United States), 17 U.S.C. 512(b)(1) (caching, comparable to Article 17.11.29(b)(i)(B)), (c)(1) (storage at the direction of a user, comparable to Article 17.11.29(b)(i)(C)), (d)(1) (information location tools, comparable to Article 17.11.29(b)(i)(D))

requesting it to “remove” material which the ISP’s subscribers had allegedly downloaded onto their personal computers.<sup>58</sup>

**8.2 *The provisions in the AUSFTA and in the Side Letter lack some protections for the interests of consumers and users***

Any notice and take down procedure needs to be speedy, and needs to avoid imposing undue burdens on both copyright owners and on ISPs. At the same time, it is important, for the protection of users and consumers, that any notice provide accurate information about exactly what is claimed to be infringing. Users who receive a notice of removal of their material must know the extent of their alleged infringement.

The process proposed by the Digital Agenda Review seeks to ensure such accurate information in two significant ways:

1. By requiring that a notice identify the copyright work alleged to have been infringed, or a list of the copyright works or other subject matter; and
2. By requiring that the notice be accompanied by a statutory declaration – that is, a statement made on oath by someone with direct knowledge of the facts of the matter.

These requirements appear to be reasonable: alleged infringements should be identified for the benefit of the user and to ensure that the user is able adequately to respond. Some might argue that the statutory declaration is too onerous a requirement – this might require further consultation with owner interests, but it is hard to justify a claim that the copyright owner should not be required to provide a complete list of the alleged infringements.

The AUSFTA and Side Letter on ISP Liability will not allow Australia to impose these requirements on copyright owners. In the Side Letter, it is stated that the copyright owner need only provide:

*“Information that is reasonably sufficient to enable the service provider to identify the copyrighted work(s) claimed to have been infringed.”*

A footnote to this statement provides that if there are multiple works, the copyright owner need only provide “a sufficiently representative list of such works at, or linked to from, that site”.

It is not at all clear to me how a user is required to respond to a notice that provides only a “representative list”. It is not obvious to me whether a user who removed all the items on the list would be sufficiently “responding” to warrant

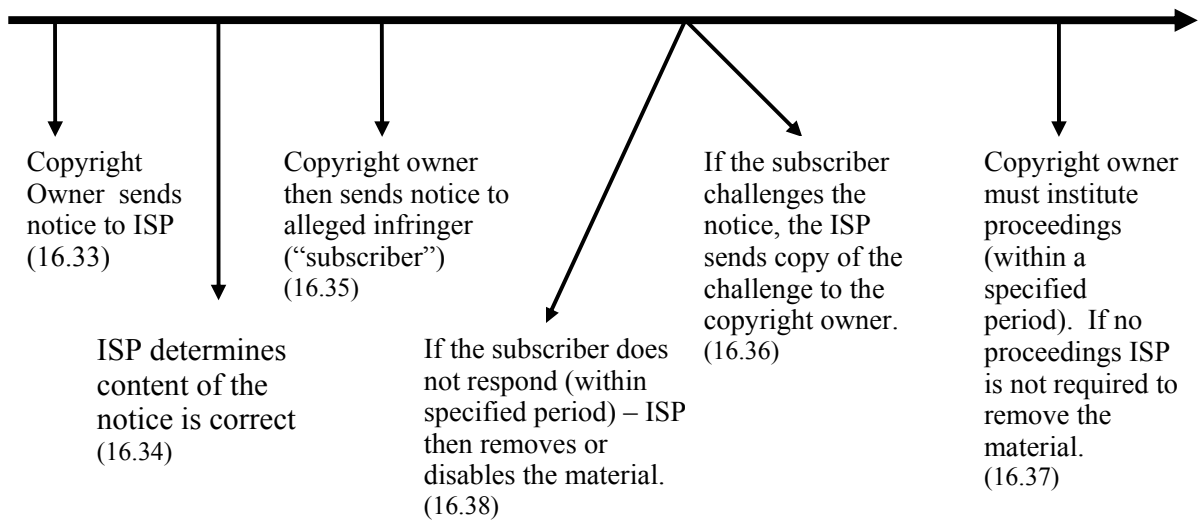
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<sup>58</sup> *Pacific Bell Internet Services v Recording Industry Association of America, Inc et al* (US District Court, Northern District of California, San Francisco Division, Case No. C03-3560 S1)

reconnection of their site. For these reasons, I am concerned that a system in the form proposed does not adequately take into account user, as well as copyright owner interests.

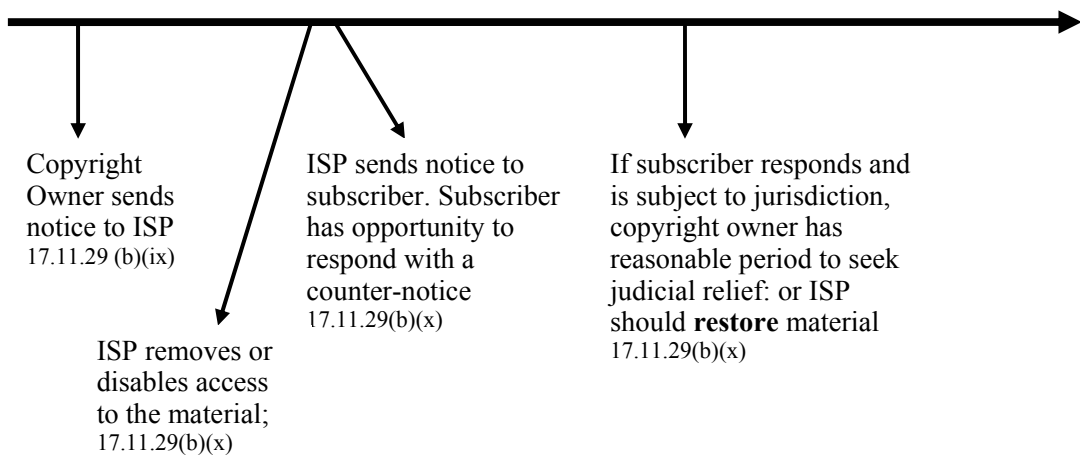
A second way that the Digital Agenda Review sought to ensure protection for users was by **ensuring that no material would be removed until the subscriber had a chance – brief, but real – to respond.**

**Figure 1: Digital Agenda Review Proposal for Notice and Take Down Process**



Compare this to the the AUSFTA requires an ISP to remove material immediately on notification – with the possibility that material will be restored once the subscriber responds:

**Figure 2: Notice and Take Down Procedure under the AUSFTA**



There is, again, some room for debate over which procedure is appropriate. The larger point is, once more, that under the AUSFTA – we have no choice.

### **8.3 *The provisions, and particularly the inflexibility of the provisions, have a significant potential to imposed costs on ISPs***

It is also worth noting that procedures of these kinds of the potential to impose significant costs on Australian ISPs. In the United States, I understand that tens of thousands of such notices have been sent to ISPs (as these procedures can be and are automated), requiring the expenditure of considerable resources by ISPs on processing the notices. Unfortunately I do not have specific figures for these costs, but it is notable that the apparent misuse of takedown notices recently led a US Congressman to call for a Congressional investigation into the practice.<sup>59</sup>

Given that some notice and takedown procedure is a preferred option for stakeholders who responded to the DAA review, some costs are inevitable, and may be justified in the interests of reducing uncertainty and the even greater costs of litigation.

However, the more complicated, specific, and inflexible the governing laws, the higher, it would seem, these costs are likely to be.

The Digital Agenda Review Report and Recommendations in part recognises this issue by advocating a “co-regulatory” approach: with minimum standards being placed in legislation, but with further specificity able to be established by a more flexible industry code.

The ability of the Australian government to use this industry code method of regulation will be limited by the AUSFTA. Article 17.11.29(a) requires the Australian government to create legal incentives for service providers to cooperate with copyright owners. It also requires Australia to provide limitations in its law regarding the scope of remedies available. The remainder of the AUSFTA article refers to “these limitations” – meaning, presumably, these legal limitations.

In short, it appears that the AUSFTA will require more to be written into the legislation, and less into an industry code. This is almost inevitably a more expensive, inflexible method of regulation. This is directly contrary to the preferences of Australian stakeholders, according to the Digital Agenda Review and Recommendations, which stated that:

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<sup>59</sup> Letter from Rep. Dennis Kucinich to House Judiciary Committee, 21 November 2003, requesting an investigation of abuse of 17 USC §512 notices: <<http://www.house.gov/kucinich/issues/Jud-Cmte-Invstgn.pdf>>

*“In the main, however, there is little support for a legislated solution, as there are concerns that such a solution will not deliver flexibility or an ability to respond quickly and efficiently to changes in technology, business practices or consumer demands.”<sup>60</sup>*

## 9 Conclusion

As noted at the outset, it has not been possible to address all of the issues relating to the AUSFTA. I hope that the examples that are considered in detail in this submission, as well as other submissions made to the Committee, will alert the Committee to the problems presented by this chapter for Australian policy-making in the future.

It should be noted that the Chapter is “not all bad”. But the problems seriously outweigh the advantages.

More generally, I appreciate that compromises in IP may well have been necessary to get an agreement. Even accepting this point, I remain concerned that the Australian negotiators were not fully, properly informed as to all the costs and benefits of what they were trading away, because of the process which was adopted, and that public law reviews and law reforms with a high level of involvement from the Australian IP policy community were significantly pre-empted.

I thank the Committee for the opportunity to make this submission, and am more than happy to answer any questions arising from the arguments set out above.

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<sup>60</sup> *Digital Agenda Review, Report and Recommendations* (Phillips Fox, January 2004), para. 16.24