

Chapter Seven

Should agreements which purport to exclude or modify the copyright exceptions be enforceable?

7.01 This inquiry has been brought about by the Government's stated concern to maintain an appropriate balance between the rights of copyright owners and the rights of copyright users. That balance is expressed in the Copyright Act which sets out both the rights of copyright owners and exceptions and limitations to those rights. Chapter 3 contains a detailed analysis of the exceptions and limitations as a first step in addressing the question of whether agreements which purport to exclude or modify the copyright exceptions should be enforceable.

7.02 The Committee observes that its terms of reference emphasise that the task of the Committee is the collection of information about the extent to which online and offline trade in copyright material is subject to contracts purporting to exclude or modify the copyright exceptions, the enforceability of such agreements and the views of copyright owners and copyright users in relation to these issues. As far as the Committee is aware, this has not been done before. While there is a growing body of research around copyright in the digital environment, the Committee found that it was not readily able to gather empirical data about what is happening.

7.03 Chapter 4 sets out what is happening both in terms of academic commentary and empirical data from submissions made to the Committee and its own research. The Committee's findings indicate that contracts are being used to exclude or modify the copyright exceptions in Australia. Further, the Committee considers that overseas contracts purporting to exclude or modify the copyright exceptions may be indicative of norms of behaviour in the e-marketplace.

7.04 Chapter 5 looked at the enforceability of contracts purporting to exclude or modify the copyright exceptions. Part I of Chapter 5 discussed enforceability under

domestic law. It is apparent from that discussion that the enforceability of contracts purporting to exclude or modify the copyright exceptions is unsettled as a matter of domestic law. In the event that all contracts of this type are enforceable, the Committee considers that there would be a displacement of the fundamental copyright balance. That is because, in the Committee's view, the exceptions to the exclusive rights of copyright owners define, in part, the nature of the copyright interest. This concept is explored further under the heading of 'the Copyright Interest' in paras 7.25–31. Even where remedies of the kind discussed in Chapter 5 are theoretically available, the Committee is most concerned that, in practice, there are very considerable disincentives to users ever seeking to defend their rights while there are very powerful incentives for copyright owners to seek to enforce what might otherwise be objectionable terms. Part II of Chapter 5 looked briefly at enforceability from the perspective of private international law issues. As set out in recommendation 5.182 the Committee considers that the Government should work actively to promote an international solution for private international law issues relating to contracts that purport to exclude or modify the copyright exceptions.

7.05 Chapter 6 looked at recent developments in European and US copyright law to determine whether there were any useful precedents for addressing what it has identified as a distortion of the copyright balance by contracts that purport to exclude or modify the exceptions to the exclusive rights of copyright owners. While in both Europe and the US, legislators have sought to provide for the legal protection of technological protection measures as required by the WCT, as in Australia, neither jurisdiction has resolved the issue of whether copyright exceptions can be set aside by contract. While there have also been initiatives for uniform European and US contract legislation, these have been met with mixed responses. Thus, while the Committee is mindful of the increasing need to take into account the laws of other jurisdictions, it does not think that these examples provide a template for Australia. In this context the Committee observes that Australia's legal and constitutional setting differs from that of the EU, which is subject to the European Convention of Human Rights, and the US, with its defined constitutional guarantee of rights of freedom of expression.

7.06 When consulted about possible remedies to protect against contracts purporting to exclude or modify the copyright exceptions, copyright owner interests

put forward the view that the ordinary law of contract and consumer protection properly regulated such matters. Some, such as IFPI, the AIIA and the APA, contended that standard form contracts are common in other industries and that the legislation and case law developed to protect consumers in those other situations is adequate. They also warned against the potential chilling effect of premature regulation of an evolving market (see para. 4.88).

7.07 On the other hand, user interests and the Law Council submitted that there should be legislative action to prevent contracting out of all of the exceptions to the exclusive rights of owners of copyright and to ensure that this area was regulated by copyright alone.⁹⁸⁸ While this was put forward as a general proposition with little attempt to analyse the differences between the various exceptions and their policy justifications or social and economic rationales, some submitters raised specific concerns about the exclusion or modification of particular exceptions. For example, the ADA, the ALCC and CAUL expressed concern about the possible impact of agreements on the permitted purposes for which a circumvention device or service can be supplied under s. 116A(3). The ADA stated (with the support of the ALCC and CAUL) that:

‘the permitted purposes [for which it is lawful to manufacture, import or supply circumvention devices] are sections 47D, 47E, 47F, 48A, 49, 50, 51A or 183 or Part VB. From Parliament’s refusal to see these exceptions made redundant by the use of technology, it may be reasonably inferred that it did not intend to see their redundancy achieved through contractual means.’⁹⁸⁹

7.08 MCEETYA also submitted that ‘if the CLRC [did] not accept the view that private arrangements should not be used to displace copyright exceptions, the CLRC should recommend as a “minimum standard” that contractual means cannot be used to modify or exclude both the exceptions listed as “permitted purposes”, and Part VA of the Copyright Act.’⁹⁹⁰ The ACA submitted that ‘an agreement, or a provision of an agreement, that excludes or limits, or has the effect of excluding or limiting, the operation of ss. 28, 40, 41, 42, 43, 47B, 47C, 48A, 51, 51AA, 51A, 52, 103A, 103B,

⁹⁸⁸ Although it was suggested by some that this should not be the case where licences offered greater rights than in the Act.

⁹⁸⁹ ADA submission, p. 8.

⁹⁹⁰ MCEETYA submission, p. 10.

103C, 104, 104A, 110A, 110B and Part VA should have no effect'.⁹⁹¹ The Law Council stated that, in particular, 'public access provisions such as the fair dealing and library and archives exceptions' should not be capable of exclusion or modification by contract.⁹⁹² The ABC submitted that the Act should be amended to prohibit contracts purporting to restrict fair dealing for the purpose of news reporting and criticism or review.⁹⁹³ The AVCC limited its views to exceptions relevant to educational institutions and was in favour of prohibiting contracts purporting to exclude or modify all of those exceptions. It nevertheless observed that 'there is an argument that the library provisions of sections 49 and 50 of the Act are particularly important, as they provide a means of access to copyright works which is essential if fair dealing and other user rights are to be exercised.'⁹⁹⁴

7.09 In the remainder of this Chapter, the Committee sets about examining options for addressing what it has identified as a displacement of the copyright balance and strategies for the implementation and review of these options.

Make no recommendation for legislative change

7.10 One option for the Committee is to make no recommendation for legislative change at the present time, having regard to the fact that it is the Government's intention to carry out a review of the Digital Agenda reforms by March 2004. The Committee acknowledges that it is dealing with a dynamic situation, and that for this reason, there may be merit in the 'wait and see' approach. This approach was adopted by the US Register of Copyrights (who dealt with this issue in passing in the context of the DMCA Report)⁹⁹⁵ and advanced by some submitters to this inquiry.⁹⁹⁶ The Committee notes it is common for radical legislative proposals to be accompanied

⁹⁹¹ ACA submission, p. 4.

⁹⁹² Law Council submission, p. 4.

⁹⁹³ ABC submission, p. 3.

⁹⁹⁴ AVCC submission, p. 7.

⁹⁹⁵ See Chapter 6 for further discussion.

⁹⁹⁶ For example, the APA, IFPI, AIIA. See Chapter 4 for further details.

by calls for caution.⁹⁹⁷ It also notes the counter argument that, in a constantly evolving market, there will never be an optimum time to institute change.⁹⁹⁸

7.11 As explained in Chapter 5, the Committee is not convinced that existing remedies provide an effective or realistic solution for users in cases where contracts purport to exclude or modify the copyright exceptions. It therefore does not accept the proposition advanced by many copyright owner interests that no action is required.

7.12 Under existing Australian law, remedies may be available in relation to some agreements which exclude or modify the exceptions. However, in the absence of any clear case law, the application of the remedies discussed in Chapter 5 is necessarily uncertain.

7.13 Moreover, in the Committee's view, it is impractical to expect copyright users to assume the risk of expensive litigation to maintain the copyright exceptions where individual contracts purport to exclude or modify them. While this may be worthwhile for some institutional users and in respect of some exceptions, it is the Committee's view that more often than not, risk management practices will dictate that organisations simply refrain from exercising the exception or pay for the right to use copyright material although they may be entitled to make that use under the Act.⁹⁹⁹ The Committee considers that this is particularly likely in the case of small to medium size enterprises (SMEs). Further, the Committee considers that this is even more likely to occur once such an industry precedent is set. In any event, the Committee considers that although running a test case sustaining a particular remedy would be a valuable precedent, it does not address the problem of the overall statutory balance. The Committee considers that this should be evident from the Copyright Act itself, in order to avoid the uncertainty arising from the nature of the remedies currently available.

7.14 Having established that the copyright balance is displaced by the practice of contracting out of the copyright exceptions, the Committee considers it appropriate

⁹⁹⁷ See, for example, Bently and Burrell, *op. cit.*

⁹⁹⁸ This argument was addressed by the ADA in its supplementary submission to the Committee.

⁹⁹⁹ See, Niva Elkin-Koren. A public regarding approach to contracting over copyrights, in Dreyfuss, Zimmerman and First (eds), *Expanding the Boundaries of Intellectual Property*. Oxford: Oxford University Press, 2001:211–13. Ms Elkin-Koren's proposal that copyright owners should have the onus of proving the reasonableness of a contractual exclusion of a copyright exception appears to the Committee to suffer from the same practical disincentives for users as the current rules.

to proceed to make recommendations to address that problem. In adopting this course, the Committee is aware that this Report is being written within the period of the 3-year review of the Digital Agenda Act. In the remainder of this Chapter the Committee considers what measures it should recommend to deal with contracts that purport to exclude or modify the copyright exceptions in order to ensure that an appropriate copyright balance is maintained.

Mandate exceptions

7.15 Another option for the Committee is to recommend that some or all of the statutory exceptions to the exclusive rights of copyright owners should be mandated. The Committee uses the term ‘mandate’ as referring to the avoidance of an agreement, or a provision of an agreement, that excludes or limits or has the effect of excluding or limiting the copyright exceptions insofar as they relate to lawful users of copyright material. None of the submissions the Committee received endorsed the exercise of the exceptions in relation to persons other than lawful users under contract. In this context, the Committee notes that much of the discussion at the consultative forum it held with key interests focussed on this issue. During that discussion, the Committee observed that strong supporters of the mandating option such as the ADA made it clear that its proposals only applied to lawful use of copyright material.

7.16 The starting point for the Committee’s consideration of the appropriate solution is the theoretical basis for the exceptions and limitations to the exclusive rights of the copyright owner. As the copyright interest is constituted by the exclusive rights of copyright,¹⁰⁰⁰ as defined within the framework of the exceptions to the rights set out in the Copyright Act, then any attempt to exclude or modify the exceptions by contract brings about a fundamental imbalance of these rights. It follows that it should not be possible to alter that balance by means of contract. That is, it should not be possible to extend the ambit of copyright, as set out in the Copyright Act, by

¹⁰⁰⁰ See, for example, Spoor, *op. cit.* and Burrell, 2001, *op. cit.*

means of contract. Put another way, the public interest in the preservation of the copyright balance, as set out in the Act, takes precedence over the public interest in freedom of contract. In this context, the Committee notes that many submitters commented that it would be a strange result if it were possible to avoid by private agreement the statutory copyright balance laid down by the Copyright Act.¹⁰⁰¹

7.17 Having started in this manner, the Committee went through a process of examining each of the exceptions in light of the submissions made to the Committee and the Committee's own research.¹⁰⁰² In undertaking this exercise, it soon became apparent to the Committee that it would not be possible to mandate all the exceptions, as many copyright user interests and the Law Council had submitted, if for no other reason than pure pragmatism.

7.18 It also became apparent to the Committee that while the Issues Paper and the Discussion Paper prepared for the consultative forum dealt with all these provisions as a class of 'exceptions', they each have a different historical basis and therefore it may not be appropriate to treat them all in a like manner. The AIIA supported this view in its submission:

'While it would be tempting in the interests of clarity and consistency, AIIA does not believe that all exceptions should necessarily be treated alike. Many exceptions, including Part III Division 4A (computer programs) are sectoral specific and have been developed over time to meet the particular practices and idiosyncrasies of identified industries. Therefore, it is not appropriate to apply the same approach to all exceptions. There are different expectations, different industry practices, different substantive policies, and different commercial backgrounds. To treat all exceptions alike may unsettle delicate balances, as well as adding significant costs by requiring amendment of existing practices.'¹⁰⁰³

CAL also stated:

'Each of the exceptions are shaped by a balance of the particular factors contributing to the public interest in the exception – for example, the public policy underlying s. 41, fair dealing

¹⁰⁰¹ See, for example, the AVCC, the Law Council, FACTS, the ACA and the ADA. See also, Lemley MA. Intellectual property and shrinkwrap licences. S. Cal. L. Rev.; 68:1239, 1275:

'At a theoretical level, the answer to this question is fairly clear. The intellectual property laws are decidedly instrumental in nature – they are written to achieve specific purposes. Those purposes differ for each of the statutes at issue but all of the intellectual property laws reflect a series of compromises between different affected parties. Because the intellectual property laws do represent compromises in the allocation of rights, and because those laws themselves created the rights at issue, private contracts that change those allocations risk upsetting the "delicate balance" established by Congress.'

¹⁰⁰² The results of this exercise may be seen in the table at Appendix D.

¹⁰⁰³ AIIA submission, p. 4.

for criticism or review is different from that underlying s. 43, fair dealing for the giving of professional advice. Consequently, the policy relating to the existing balance reached in each provision should be carefully considered before making any changes to the Act.¹⁰⁰⁴

7.19 The Committee observes that the preponderance of academic opinion seems to be against making all exceptions mandatory; however, few solutions are offered. For example, Burrell argues that:

'it would almost certainly be undesirable to prohibit all contractual terms that set out to exclude the operation of an exception irrespective of the circumstances and the relative bargaining power of the parties. Thus if a fair use defence were to be introduced¹⁰⁰⁵ it would probably be necessary to distinguish between uses capable of being excluded by contract and uses which should remain free in all circumstances.'¹⁰⁰⁶

7.20 Lemley also points out:

'The case for enforcing the terms of federal intellectual property law in the face of a contradictory contract depends heavily upon the nature of the federal interest at stake. There must be some affirmative governmental policy benefit in order to justify overriding public and private interests in enforcing contracts. In the context of intellectual property law, therefore, it matters greatly whether the federal statutes were intended as default rules or whether there is a public interest in enforcing the rights of vendors and users as the laws are written.'¹⁰⁰⁷

7.21 Dr Lucie Guibault suggests:

'one possible option would be to declare a number of statutory limitations mandatory, at least in standard form contracts. Like the limitations of the European Computer Programs and Database Directives have been declared mandatory to preserve free competition, such limitations as the right to quote or to make reproductions for the purposes of comment, criticism, research, or parody, could be made imperative to preserve the users' freedom of expression. Another possibility would be to extend the regulations concerning unfair consumer contract terms to cover copyright matters. For instance, a term included in a standard form contract could be presumed unfair if it departs from the provisions of the copyright act. Such a presumption of unfairness would have the advantage of having a broader application than the first option, since it would not be limited to a certain number of specific limitations.'¹⁰⁰⁸

¹⁰⁰⁴ CAL submission, p. 4.

¹⁰⁰⁵ As recommended by the CLRC in its Simplification Report: Part 1.

¹⁰⁰⁶ Burrell, 2001, *op. cit.*, p. 383.

¹⁰⁰⁷ Lemley, 1995, *op. cit.*, p. 1274.

¹⁰⁰⁸ Guibault, 2002, *op. cit.*, p. 304.

7.22 Relatively few submitters discussed the different policy bases for the various exceptions.¹⁰⁰⁹ However, SISA noted that s. 47H shows that the Government can choose to proscribe contractual attempts to nullify its copyright policies, particularly where there is no public benefit in allowing certain contractual provisions to stand. At the consultative forum the Committee held in Sydney, the Chief Executive of APRA distinguished between what he termed ‘exemptions’ (that is, acts not constituting infringements) and the statutory licences. In relation to the former, he expressed the view that copyright owners ought not, through technical means or by contractual conditions associated with giving access to a work, be able to enforce conditions of use (including payment) that conflict with the exceptions. In his view the enforcement of such conditions in such circumstances defeats Parliament’s intention in defining the balance of interests involved.¹⁰¹⁰ This distinction has been crucial to the Committee’s deliberations as discussed below.

7.23 As stated in para. 5.118 the Committee is of the view that apart from s. 47B(1) the effect of s. 47H on agreements which exclude or modify the copyright exceptions is unclear. The Committee is therefore in favour of clarifying this situation by legislative means.

7.24 The Committee also notes that it received a number of submissions which emphasised the importance of the non-application of s. 47H to s. 47B(1). For example, the BSAA submitted:

‘section 47H does not apply to section 47B(1) because it would be inconsistent with the proviso in section 47B(2). BSAA submits that this distinction is extremely important and that section 47H should not be amended to include section 47B(1).’¹⁰¹¹

The Committee considers that nothing in its recommendations should disturb the effect of s. 47H insofar as it is expressed not to apply to s. 47B(1).

¹⁰⁰⁹ See, for example, the submissions of CAL and the AIIA referred to in para. 7.18 above. Also see FACTS’ submission.

¹⁰¹⁰ It should be noted that these comments were qualified to the extent that he was of the view that there should be a greater degree of consistency – in particular, in specifying relevant factors to be taken into account – in the drafting of exemptions throughout the Copyright Act. The Committee expects the Government to address this issue in its response to the Simplification Report.

¹⁰¹¹ BSAA submission, p. 2.

The Copyright Interest

7.25 The Committee considered a range of options, from mandating all exceptions (except where there are practical reasons not to do so) to only mandating some of the exceptions, for example, particular instances of fair dealing.¹⁰¹² In the end, the Committee reached a consensus that the traditional fair dealing defences and the provisions relating to libraries and archives which permit uncompensated copying and communication to the public within specified limits, and which embody the public interest in education, the free flow of information and freedom of expression, should be made mandatory.¹⁰¹³ The Committee observes that the four fair dealing exceptions have evolved in the context of attempts by the courts to elucidate the concept of statutory copyright given by the Statute of Anne in 1709, and can be properly described as an integral component of the copyright interest.¹⁰¹⁴ The Committee also considers that the principal library and archives provisions are related to the fair dealing exceptions. As the Franki Report shows, ss. 49 and 50 are designed to protect librarians carrying out copying as agents for people claiming to be fair dealers. In addition, the library and archives provisions can be described as furthering the public interest in the free flow of information.¹⁰¹⁵

7.26 The Committee considers that certain exceptions introduced in recent years relating to technological developments should also be made mandatory. In the Committee's view, this includes the exceptions for temporary reproductions in ss. 43A and 111A. The submission from the Attorney-General's Department and DCITA to the inquiry of the House of Representatives Standing Committee on Legal and Constitutional Affairs into the Copyright Amendment (Digital Agenda) Bill 1999 explains the policy behind these provisions as follows:

"There is a strong public interest in providing an exception for the temporary copies...for effective, efficient and timely operation of communication networks. Furthermore, such

¹⁰¹² For example, the ABC suggested amending the Act to include a prohibition against contractual restriction of fair dealing for the purpose of news reporting and criticism or review, in similar terms to s. 137 of the *Broadcasting Act 1996* (UK) (which is confined to news reporting).

¹⁰¹³ The following provisions set out the fair dealing defences: ss. 40, 41, 42, 43, 103A, 103B, 103C and s. 104. The library and archives provisions are contained in ss. 48A, 49, 50, 51, 51AA, 51A, 52, 104A, 110A and 110B. These are described in detail in Chapter 3.

¹⁰¹⁴ See paras 3.24–30.

¹⁰¹⁵ See, for example, the submission of the AVCC and paras 3.69–70.

temporary copies are regarded as having no economic significance or material impact on the potential market for relevant copyright material.¹⁰¹⁶

7.27 The Committee observes that the European Copyright Directive, which as discussed in Chapter 6 (and adverted to in submissions from IFPI and the ACC) provides a strong copyright protection regime, nonetheless makes the temporary reproduction exception in Art. 5(1) mandatory for the purposes of harmonisation of national laws within the EU. The Committee considers that the same approach should be taken in Australia.

7.28 The Committee also recommends that the integrity of the ‘permitted purposes’ in s. 116A be retained by preventing a copyright owner from making it a condition of access to his or her work that users will not acquire or use a circumvention device or service for use for a ‘permitted purpose’ under s. 116A, namely, reproducing a computer program for reasons of interoperability (s. 47D), error correction (s. 47E) or security testing (s. 47F), copying by parliamentary libraries (s. 48A), inter-library loan (s. 50), reproducing and communicating works for users for research and study (s. 49), reproducing and communicating works in archives or libraries for preservation purposes (s. 51A), government copying (s. 183) and copying by educational or other institutions under Part VB.

7.29 The recommendations in paras 7.28 and 7.49 give effect to the Government’s clearly stated policy in the Digital Agenda amendments that the ‘permitted purpose’ exemptions, which relate to specific exceptions defined in the Copyright Act, should ensure a balance between the prevention of manufacture and dealing in circumvention devices and the continued operation of those exceptions to the rights of copyright owners in the digital environment. The motivation behind the ‘permitted purpose’ exceptions is to prevent the use of technological protection measures to restrict the scope of the more widely recognised exceptions and to ensure reasonable and lawful access to copyright material in electronic form. At the same time, the Committee notes that under the present provisions of the Copyright Act there is no ban on the activity of circumvention of ‘technological protection measures’ which could prevent users carrying out otherwise lawful activities such as fair dealing. The Government

¹⁰¹⁶ House of Representatives Standing Committee on Legal and Constitutional Affairs, Advisory Report on Copyright Amendment (Digital Agenda) Bill 1999, December 1999, Canberra. AGD and DCITA submission, p. S748.

has stated that it believes that the most significant threat to the rights of copyright owners lies in acts preparatory to circumvention, such as manufacture, importation and making available online, rather than individual acts of circumvention.¹⁰¹⁷

7.30 It is not this Committee's role to reopen the question of when it should be possible to circumvent a technological protection measure. What it is concerned with is the ability to do certain acts while a person has lawful access to copyright material. It is not suggesting, as the European Commission did in its original proposal for the European Copyright Directive, that one should be able to use all the exceptions as a basis for circumventing a technological protection measure.¹⁰¹⁸ The Committee acknowledges that in many instances, it will be reasonable to charge a consumer for accessing material online. For example, it may be reasonable to expect to pay a fee for subscribing to a newspaper online, in the same way that one would expect to pay for a print subscription. What the Committee considers problematic are attempts to restrict the ability to reproduce such copyright material for a lawful purpose, such as fair dealing for research or study. This argument is developed further in Chapter 4.

7.31 The Committee is aware that this approach does not go as far as many copyright user interests who argued that the exceptions should prevail in all circumstances,¹⁰¹⁹ or the Chief Executive of APRA, whose view (in para. 7.22) that copyright owners should not be able to enforce conditions of use extended to conditions of payment. It does, however, reflect a balance of the views expressed by stakeholders. In this context, the Committee notes that the provisions it has recommended be mandated are similar to the provisions given special status in Arts 5(1) and 6(4) of the European Copyright Directive (eg, temporary reproductions, reproductions for scientific or research purposes) and in s. 117 of the US Act discussed in Chapter 6. It also takes up matters identified as being of particular concern to stakeholders such as fair dealing, the library and archives provisions and the ability to provide a circumvention device or service for the purposes of doing an act that is not an infringement.

¹⁰¹⁷ See para 3.129.

¹⁰¹⁸ The Committee notes that a similar argument was advanced by the AVCC. See AVCC submission, p. 11.

¹⁰¹⁹ See para. 7.07 above.

Statutory Licences

7.32 The Committee acknowledges submissions which argued in favour of making some or all of the statutory licence schemes mandatory (rather than just allowing dealings in circumvention devices or services for those purposes).¹⁰²⁰ However, in the Committee's view the statutory licence schemes set out in Parts VA, VB and VC of the Act and in s. 183 have a different policy basis to the provisions it has described as forming the copyright interest and should not be made mandatory, except in so far as s. 116A operates with respect to Part VB and s. 183. They are a means of facilitating the licensing of copyright for users and securing to the copyright owner the payment of equitable remuneration, subject to the jurisdiction of the Copyright Tribunal. These statutory licences are not true *exceptions* to the extent that the copyright owner's exclusive right is affirmed, and might more properly be referred to as *limitations*. Each provides for the equitable remuneration of copyright owners in a situation where individual licensing would be impractical.¹⁰²¹ As such, the statutory licence schemes are an efficient means of overcoming market failure. The Committee also observes that each scheme contains provisions for voluntary licensing.

7.33 Put another way, the statutory licences are a means of practically and conveniently securing a return to copyright owners while at the same time affording a convenient and practical means of access to users, rather than exceptions marking the limits of copyright. They represent a balance. On the one hand, the copyright owners' power to withhold a licence is taken away to save users from having to seek them out to obtain a licence. On the other hand, the users are made liable to pay for the use in a way that ensures remuneration to the copyright owners without the latter having to seek out the users to obtain payment.

7.34 The Committee notes that this view is supported by the Chief Executive of APRA who, at the consultative forum, also distinguished between 'exemptions' and statutory licences. In his view parties ought to be free to vary the terms and conditions of the licences prescribed under the statute. For example, he argued that copyright owners and record companies ought to be able by contract to vary the minimum rate

¹⁰²⁰ See, for example, MCEETYA submission referred to above.

¹⁰²¹ An exception is the insubstantial copying by an educational institution under s. 135ZG.

of royalty applicable under the statutory recording licence, ie, the one cent referred to in s. 57(b). To use Lemley's analysis, in the event that parties cannot come to an agreement, the statutory licence would operate as a default rule rather than a prescription. In this context, the Committee notes that the rationale for the mechanical licence under Part III Division 6 was not convenience, such as has been suggested in relation to Parts VA, VB and VC and s. 183. Rather, this scheme was originally seen as a means of moderating the feared high royalty demands of music copyright owners for consent to the recording of their works.

7.35 There is another practical reason why the mechanical licence in Part III Division 6 and the licences in Parts VA and VB should not be made mandatory. Given that the licence in Part III Division 6 applies to cover versions of works and that records of a work would in most instances be readily available, the Committee finds it hard to imagine how a record producer would ever not have access to a work that it wanted to record. For this reason, the Committee sees a recommendation in relation to Part III Division 6 as unnecessary.

7.36 Similarly, the Committee observes that Part VA could not practically be the subject of contracting out, because free-to-air broadcasts by definition are accessible and the user of the licence does not have any contact with the copyright owners to give them the occasion for imposing contractual conditions. The licence user simply notifies the collecting society and starts copying. On that basis the Committee does not see recommendations for making exceptions mandatory as extending to Part VA.

7.37 The Committee notes that contract will also be irrelevant to the use of Part VB because use does not involve any contact between the user and the copyright owner, unless the material is only available online from a site at which the copyright owner limits access to those who enter into a click-on contract. In that event, use under Part VB is a 'permitted purpose' under s. 116A(3) for which the user could obtain a circumvention device or service to gain access.

7.38 In relation to the remaining statutory licence in s. 183, the Committee notes that use of s. 183 is a 'permitted purpose' under 116A (3) and so would to that extent be protected.

7.39 In the absence of strong evidence, the Committee is wary to intrude into a system that is otherwise working well and provides flexibility for parties to deal on different terms to those set out in the Act.

Miscellaneous Exceptions

7.40 While each of the defences the Committee has described as ‘miscellaneous exceptions’¹⁰²² was undoubtedly introduced for sound policy reasons, detailed analysis was not possible within the confines of the Committee’s terms of reference. No submissions were received by the Committee in relation to any of these exceptions and no information was available to the Committee which would enable it to make any recommendations for legislative intervention.

Other options

Consumer protection

7.41 In reaching this consensus, the Committee also considered a range of other options, for example, deeming certain contracts unconscionable. However, in the Committee’s view, this option had the disadvantage of relying on mechanisms outside copyright law and at the same time did not obviate the need to single out certain exceptions for attention. The Committee, taking account of ALIA’s submission in favour of the codification of common law unfair competition rules as they apply to copyright contracts, considered recommending the introduction of similar legislation to the *Contracts Review Act* (NSW) in each State and Territory. However, for the reasons discussed in Chapter 5, the Committee did not proceed with this option.

Mandate exceptions in relation to mass-market licences

7.42 As examined in Chapter 4, many of the difficulties discussed in the literature and brought to the Committee’s attention in submissions and its own research related

¹⁰²² See paras 3.158–79.

to mass-market agreements. The Committee observes that while large organisations are likely to enter into individually negotiated licence agreements, mass-market agreements will tend to impact on individuals and SMEs. The Committee considered whether it was desirable to allow certain exceptions to be modified only by contracts that were individually negotiated. While this 'light touch' approach was attractive to the Committee, it was also aware of the potential of this option to give rise to a whole new set of difficulties. For example, when would a contract be deemed to have been individually negotiated?

7.43 In this context, the Committee also gave consideration to ALIA's suggestion that the ACCC be given an extended jurisdiction to address any problems associated with mass-market licences. However, the Committee encountered difficulties in envisaging how this would work in practice.

Encouraging 'fair' agreements

Codes of Conduct

7.44 The Committee also considered options to encourage 'fair' agreements. For example, it considered recommending a code of conduct to outline acceptable principles of behaviour and general rules that licensors and licensees should observe when drafting agreements. The Committee is aware that this approach has its limitations. For example, a code of conduct takes time to develop and may be impractical when one considers the diverse range of copyright owners and copyright material going online in Australia. Nevertheless, the Committee considers that codes of conduct do have a role to play. It is aware that codes of conduct may encounter problems of enforcement, particularly in the context of international transactions. The submission made by APRA and AMCOS indicates that a regulatory authority may have a role to play in this regard, at least in so far as the domestic situation is concerned. That submission referred to the regulatory power of the Copyright Tribunal, stating that the Copyright Tribunal's jurisdiction over APRA and AMCOS licences gave users considerable protection in relation to unreasonable terms. In encouraging the adoption of codes of conduct where relevant, the Committee is aware that the

code of conduct recently adopted by the principal collecting societies under the statutory licence schemes may have some relevance.

Model Licences

7.45 Some submitters in the library sector (NLA and CAUL) referred to the use of model licences, discussion lists and websites such as 'liblicense' as tools that could be used in negotiating licences. It was suggested that the use of model licences could be officially promoted. For example, a model licence could be drafted with standard acceptable provisions and promoted on government and industry websites. In considering this suggestion, the Committee was aware of its limitations. It recognises that model licences are dependent upon adoption by licensors. It is also aware that model licences might pose difficulties in terms of ease of understanding, flexibility and effectiveness. As discussed above, the diverse range of copyright owners putting their works online may also make this impractical. Nevertheless, the Committee is in favour of encouraging model licences, where relevant.

7.46 While the Committee is not satisfied that either a code of conduct or a model licence would provide an adequate solution on its own, it supports the use of such tools in relation to the statutory licences and the miscellaneous exceptions insofar as they are relevant.

Confidentiality Agreements

7.47 In recommending that certain provisions be made mandatory, the Committee is aware that this might have a flow-on effect for some confidentiality agreements. As stated earlier, the Committee is concerned in this reference with the operation of the copyright exceptions in relation to lawful users of copyright material. The Committee does not support the use of copyright exceptions in relation to material that is stolen. Nor should they be used to defeat an action for breach of confidence. While the Committee is concerned that confidentiality agreements should not be used as a device for restricting the operation of the exceptions, it is also concerned that the role of copyright in encouraging innovation be preserved. The Committee notes that

s. 9(3) of the Copyright Act states that '[t]his Act does not affect the operation of the law relating to breach of trust or confidence'. The Committee recommends that this should continue to be the case in the event that the Government accepts its recommendations and amends the Act so as to expressly prohibit the exclusion or modification of the copyright exceptions the Committee has identified as defining the copyright interest.

Concluding remarks

7.48 The Committee concludes this Report in the same way as it began, by referring to the copyright balance. The recommendations made in this Report seek to preserve the integrity of the exceptions which were the subject of submissions and its own research and which it has identified as being fundamental to the copyright interest in Australia.

Recommendations

7.49 The Committee recommends that the Copyright Act be amended to provide that an agreement, or a provision of an agreement, that excludes or modifies, or has the effect of excluding or modifying, the operation of ss. 40, 41, 42, 43, 43A, 48A, 49, 50, 51, 51AA, 51A, 52, 103A, 103B, 103C, 104, 110A, 110B, 111A of the Act, has no effect.

7.50 The Committee also recommends that the integrity of the permitted purposes in s. 116A(3) (4) and (7) of the Copyright Act be retained by preventing a copyright owner from making it a condition of access to his or her work or other subject matter that users will not avail themselves of a circumvention device or service for the 'permitted purpose' of doing an act that is not an infringement of copyright under ss. 47D, 47E, 47F, 48A, 49, 50, 51A, 183 and Part VB.

7.51 The Committee considers that its recommendations should not alter the effect of s. 9(3) of the Copyright Act insofar as it relates to confidentiality agreements.

7.52 The Committee recommends the encouragement of the development of codes of conduct and model licences for dealings with the remaining exceptions in the Copyright Act where relevant.

Chapter Eight

Circuit Layouts

8.01 The Committee's terms of reference require it to consider if the issue of contracts that purport to exclude or modify the copyright exceptions also applies to the *Circuit Layouts Act 1989* (Cth) (Circuit Layouts Act).

8.02 The Circuit Layouts Act seeks to protect eligible layouts for integrated circuits and computer chips. A layout is the plan showing the three-dimensional location of the electronic components of an integrated circuit/computer chip. The Circuit Layouts Act gives the creator of an original circuit layout certain exclusive rights in relation to that layout, including the right to copy the layout and the right to make an integrated circuit in accordance with the layout. The Circuit Layouts Act is based on copyright law principles, but is a separate, unique form of protection from copyright.

International obligations in relation to circuit layouts

8.03 In passing the *Semiconductor Chip Protection Act 1984* US, the United States initiated an international move towards *sui generis* protection of circuit layouts. However, the *Semiconductor Chip Protection Act 1984* US only extended protection to foreign chips on the basis that reciprocal protection be provided to US chips. In 1989, the WIPO prepared a draft Treaty on the Protection of Intellectual Property in Respect of Integrated Circuits (Washington Treaty). The issues covered by the Washington Treaty included the reproduction of the layout-design of integrated circuits and their importation, sale and distribution. Australian legislation was prepared in anticipation of the successful conclusion of the Washington Treaty.¹⁰²³

8.04 The Washington Treaty has yet to come into force, and has not been signed by Australia. However, the Committee notes that the majority of its provisions have

¹⁰²³ Second Reading Debate, Circuit Layouts Bill 1988, Senate, 28 November 1988, 3007.

been incorporated into Art. 35 of the TRIPS Agreement,¹⁰²⁴ with some modification of the licensing provisions and terms of protection in Arts. 36-38.¹⁰²⁵ The Australian Circuit Layouts Act is consistent with the TRIPS version.

Background to the Circuit Layouts Act

8.05 Prior to the commencement of the Circuit Layouts Act, protection for circuit layouts, or what was then referred to as ‘semiconductor chip topographies’ was assumed to extend from the Copyright Act. However, as circuit layouts are three-dimensional representations of two-dimensional plans, the protection of circuit layouts was caught in the uncertainty of the design/copyright overlap.

8.06 The design/copyright overlap arises from the fact that some works may be registrable under the *Designs Act 1906* (Cth) as ‘designs’ and may also be protected as ‘artistic works’ under the Copyright Act. The rights of a copyright owner in a two-dimensional artistic work (eg, engineering drawings or plans) includes the right to reproduce the work in a three-dimensional form (s. 21(3), Copyright Act). This makes it possible for copyright to extend to the protection of ‘industrial’ products and prevents the application of an artistic work to an article as a design without infringing copyright.

8.07 The copyright and design reforms introduced by the *Copyright Amendment Act 1989* (Cth) were concurrent with reforms introduced by the *Circuit Layouts Act 1989* (Cth). The *Copyright Amendment Act 1989* (Cth) addressed the problem of the design/copyright overlap by removing the possibility of copyright protection for artistic works as three-dimensional industrial products unless these works were works of

¹⁰²⁴ Article 35 of the TRIPS Agreement (1994) imposes obligations on member countries in respect of ‘Layout-Designs (Topographies) of Integrated Circuits’.

¹⁰²⁵ Copyright Law Review Committee, 1995, op. cit., paras 3.18–20.

artistic craftsmanship or buildings.¹⁰²⁶ As a result, copyright was considered to be of limited use to chip designers to protect their products against unauthorised copying and this prompted a need for *sui generis* protection.¹⁰²⁷

8.08 The Committee notes that the Circuit Layouts Act was also introduced to support the development of the Australian computer chip industry and the international competitiveness of the industry.¹⁰²⁸

The nature of protection

8.09 The contrast between the differing underlying objectives of the Circuit Layouts Act and the Copyright Act can be seen in both the duration of protection and the breadth of the exceptions.

8.10 In recognition of the industrial utility of circuit layouts and the rapid advances of technology in the integrated circuit industry, the Circuit Layouts Act provides a maximum possible protection period of 20 years from the year of making an eligible layout. This is substantially shorter than the term of protection for most copyright material.

8.11 Just like copyright, under the Circuit Layouts Act there are a number of exceptions to owners' rights. An owner's rights in a circuit layout are not infringed by:

- (a) copying for research or teaching purposes (s. 22);
- (b) copying in the process of evaluation or analysis of a layout, ie, reverse engineering (s. 23);
- (c) uses of layouts for Commonwealth defence or security (s. 25); or

¹⁰²⁶ ss. 74-77 of the Act, as amended by the *Copyright Amendment Act 1989*, limits copyright protection for artistic works which are applied industrially as designs. The possibility of dual protection still remains for two-dimensional or surface designs. Despite the 1989 amendments, there is still seen to be an unacceptable degree of confusion surrounding the designs/copyright overlap. The Australian Law Reform Commission (ALRC) reviewed the designs regime and provided various legislative proposals to overcome these uncertainties. The Committee notes that the Government rejected the ALRC's proposal to replace ss. 74-77 and s. 21(3) of the Copyright Act with an adaptation right for copyright owners of artistic works. In contrast, an alternative proposal has been adopted which recommends technical changes only to ss. 74-77 to clarify the Act. Legislation to give effect to that proposal is in preparation but has not as yet been made publicly available (see, Australian Law Reform Commission 1995, *Designs*, AGPS, Canberra, Chapter 17 for a general discussion of the design/copyright overlap and the proposed reforms).

¹⁰²⁷ Although the *Designs Act 1906* (Cth) is capable of applying to some parts of chip layouts, design protection was considered too excessive and not suitable for the chip layout industry: Second Reading Debate, Circuit Layouts Bill 1988, Senate, 28 November 1988, 3007.

¹⁰²⁸ *ibid.*

- (d) importing, selling or otherwise distributing a layout or an integrated circuit incorporating the layout for commercial purposes where the layout has been previously exploited under licence. (s. 24).

8.12 The Circuit Layouts Act, however, significantly differs from the Copyright Act by providing exceptions from infringement for both:

- (a) copying for private use (s. 21); and
- (b) innocent commercial exploitation (s. 20).

Is the Circuit Layouts Act affected by contract or other modifications?

8.13 No submissions were made to the Committee which addressed the issue of the ability of owners or users of circuit layouts to enforce agreements which exclude or modify exceptions to the exclusive rights of circuit layout rights holders. Likewise, no submissions were made addressing whether such agreements should be enforceable under the Circuit Layouts Act.

8.14 The Committee considers that the lack of response on the issue of whether circuit layouts are affected by contract or other modifications is a result of the nature of circuit layouts and their uses. Mass-market licences seeking to restrict exceptions to exclusive rights are less applicable to circuit layouts than they are to copyright material. However, the Committee notes that as computer chips are used in specialised areas of manufacturing and other industries (eg, making bionic ears and heart pacemakers and assisting in detecting messages from space and the ocean), it is unlikely that manufacturers will use mass-market agreements to source these chips.

8.15 The Committee is of the view that case law to date does not provide any direction as to whether a circuit layout owner can contract out of any of the exceptions provided by the Circuit Layouts Act.

8.16 The Committee also notes that the Ergas Committee found no evidence to suggest that the Circuit Layouts Act has an adverse affect on competition.¹⁰²⁹ As a result the Ergas Committee recommended, in respect of its findings, no changes to the Circuit Layouts Act.

8.17 No evidence is available to the Committee to demonstrate that legislative change is necessary to address the interaction between contract and the exceptions to the exclusive rights of owners of circuit layouts.

Recommendation

8.18 The Committee makes no recommendation for change to the Circuit Layouts Act.

¹⁰²⁹ This recommendation was made as part of the Committee's inquiry into the interaction and appropriate balance between competition policy and intellectual property legislation: Ergas Committee, *op. cit.*

