



The Hon Mark Vaile MP

Minister for Trade

Deputy Leader of The Nationals

The Honourable Robert B Zoellick
United States Trade Representative
600 17th Street NW
WASHINGTON DC 20508

Dear Ambassador Zoellick

With the Coalition Government now re-elected, my highest priority is to ensure that the Australia-United States Free Trade Agreement can enter into force on 1 January 2005 and to confirm that understanding with you.

This Agreement stands to enhance greatly our bilateral relationship and our trade and economic integration. It offers key sectors in both our economies very real and substantial benefits.

I set out in this letter further information regarding Australia's implementation of our obligations under the Agreement. As you are aware, the Australian Parliament passed legislation to implement Australia's obligations under the Agreement. This legislation is a good faith implementation of the commitments we undertook during the negotiation of the Agreement.

In addition to Australia's existing implementing legislation, I wish to advise you of further areas where my Government will introduce legislative change or regulations. I have also provided, by way of attachment to this letter, further information on how Australia's implementing legislation will operate in several areas of interest to the United States. In relation to the specific issues:

1. Criminal Offence Provisions

We will introduce legislation to correct the unintended narrowing of criminal offence provisions by requiring that an infringer be shown to have acted 'by way of trade *or* with the intention of obtaining a commercial advantage or profit', rather than '*and* with the intention of obtaining a commercial advantage or profit.' This correction will be made in all provisions which contain the new commercial advantage or profit clause.

We will introduce legislation to clarify the scope of the incidental reproduction exception by inserting the terms 'temporary' and 'necessary' so that the exception only applies to a temporary reproduction incidentally made as a necessary part of a technical process of using a copy of copyright material.

The exception will be further limited so that it will not apply:

- if the reproduction is made from an infringing copy
- if the copy from which the reproduction is made was made in another country, but would be an infringing copy if it had been made in Australia; or
- if the act of using the copyright material that resulted in the making of the temporary reproduction was itself an infringement of the copyright in that material.

This means the exception will only cover incidental temporary reproductions such as those made in the random access memory of digital devices (such as computers, DVD players and CD players) for normal legal use of legal copies of a copyright product. It will not cover temporary reproductions made while using pirated copies of copyright product or while using legal copies of copyright product in a manner that infringes the copyright in that product.

The Government will also introduce an additional clarification to specify that the exception does not cover any subsequent use of the temporary reproduction outside the original technical process in which it was made. These changes ensure that the exception cannot be used for the subsequent distribution of reproductions of copyright product.

3. Copyright Term Transitional Provisions

We will amend the copyright term extension transitional scheme by introducing a limit on the transitional period within which the use of material which would otherwise have come out of copyright is allowed, unless blocked by the copyright owner. The amendment will place a limit of two years from entry into force during which uses of works under agreements finalised before 16 August 2004 are protected and, if blocked by the copyright owner, attract an obligation to pay compensation to the user. Any such use outside this two year period will not be protected and refusal to license such use will not attract an obligation to pay compensation.

Further, the amendment will clarify that, where a user is prevented from continuing the use of copyright material during the transition period, any compensation payable is confined to restitution for costs incurred.

4. ISP Liability Provisions – Knowledge Requirement and Expeditious Takedown

We will introduce legislation to clarify that ISPs will be required to expeditiously takedown material if they have actual or constructive knowledge of infringements. Under our existing implementing legislation ISPs will be

denied access to the safeharbours if they control, initiate, or direct infringements.

The amendment will also remove the current definitions of 'directly attributable' and 'financial benefit'. The legislation will state that, in the event of legal action, in determining whether a financial benefit is directly attributable to the infringing activity, a court must consider whether the ISP's activities were outside normal industry practice or whether the financial benefit was greater than that which would usually result from charging in accordance with accepted industry practice. If it finds the financial benefit is directly attributable the ISP will be denied access to the safeharbours.

The Regulations relating to the ISP liability will include a regime for notice and expeditious takedown.

5. End-user piracy

We assure you that Australia's criminal provisions cover all acts of infringement on a 'commercial scale'. We will introduce a further legislative amendment to make clear that the making of an article for commercial advantage or profit, where that person knew or ought reasonably to have known that the article is an infringing copy of a work, would be a criminal offence.

6. Pharmaceutical patent notification

We have further explained how the new notification process fits into the arrangements for the Therapeutic Goods Administration and Pharmaceutical Benefits Scheme listing processes already in place. We assure you that, through the operation of these arrangements now and in the future, the advance notification required by section 26B(1)(b) of the Therapeutic Goods Act will be given prior to entry into the marketplace to allow patent holders sufficient opportunities to apply to a court for injunctive relief to prevent the entry into the marketplace of potentially infringing products.

7. Encoded satellite signals

We have provided further details in an attachment to this letter explaining the scope and strong deterrent ability of our new civil remedies for reception of pirated pay TV signals in the home – and our comprehensive criminal sanctions for any further use of such pirated signals.

I am also able to inform you the Government will introduce legislation to provide that criminal penalties will apply where an encoded broadcast has been decoded without the authorisation of the broadcaster and a person receives the decoded broadcast and uses, or authorises the use of, the broadcast either by way of trade or with the intention of obtaining a commercial advantage or profit.

As a result of approaches from Australian stakeholders, the Government will shortly undertake, as a separate exercise, a review of our domestic policy relating to

criminalisation of all forms of satellite signal piracy, including unauthorised distribution or receipt of signals by commercial establishments and within the home, that shall conclude no later than 1 July 2005.

Drafts of the legislative amendments are attached. The Government intends to introduce these amendments into the Parliament before the end of 2004.

In addition to these further legislative changes, the Government will submit the regulations relating to ISP liability to Executive Council in December 2004 and they will be gazetted soon after. Regulations dealing with the liberalisation of Australia's foreign investment screening policies and allowing foreign life insurers to operate in Australia through branches were approved on 4 November.

I also note the concerns you have raised regarding amendments relating to actions to enforce patents, that were made to the *Therapeutic Goods Act*, at the time that the *US Free Trade Agreement Implementation Act 2004* was being debated in the Australian Parliament and that you have reserved your rights in relation to those provisions.

Our Governments have the common objective of fully and faithfully implementing our respective commitments under the Agreement, recognizing that reasonable differences may exist over interpretation of those commitments. Thus, bringing the Agreement into effect is without prejudice to any future dispute that may arise regarding compliance of our respective laws and other measures with the Agreement, including the laws and other measures referenced in this letter.

On the basis of the further information provided in this letter, I seek your agreement to proceed to exchange notes setting out our mutual agreement to bring the Agreement into force on 1 January 2005.

Yours sincerely



MARK VAILE



Australia-United States Free Trade Agreement – Amendments to Criminal Law Provisions of the *Australian Copyright Act 1968*

Australian law criminalises ‘end-user piracy’ within Australian businesses and wilful copyright piracy on a commercial scale.

Wilful copyright piracy on a commercial scale

2. Amendments to the offences in section 132 of the *Australian Copyright Act 1968* (the Act) have been made to implement the obligation under Article 17.11.26 of the AUSFTA that each Party provide for criminal procedures and penalties to apply in cases of wilful copyright piracy on a commercial scale. Under that Article, wilful copyright piracy on a commercial scale includes ‘significant wilful infringements of copyright, that have no direct or indirect motivation of financial gain’ and ‘wilful infringements for the purposes of commercial advantage or financial gain’.

3. The obligation to provide for criminal procedures and penalties for ‘wilful infringements for the purposes of commercial advantage or financial gain’ will be implemented by amendment of the offences in sub-sections 132(1), (2) and (2A) of the Act. Relevant offences will be amended to include the phrase ‘or with the intention of obtaining a commercial advantage or profit’ in addition to acting ‘by way of trade’ or ‘for the purpose of trade’.

4. The obligation to provide for criminal procedures and penalties for ‘significant wilful infringements of copyright, that have no direct or indirect motivation of financial gain’ has been implemented by the new offence in sub-section 132(5DB). This amendment makes it an offence to commit a significant copyright infringement on a commercial scale. In this offence, ‘significance’ is determined by whether the infringement or infringements have a substantial prejudicial impact on the copyright owner.

‘End user piracy’

5. Australian law criminalises use of infringing copies within a business through existing provisions of the *Australian Copyright Act 1968* (the Act) and by amendments to the Act contained in Australia’s AUSFTA implementing legislation. This regime will be further strengthened by the ‘and/or’ amendments referred to above in paragraph 3. The combination of the offences in sub-sections 132(1), (2) and (2A) of the Act and the new offence of infringing copyright on a commercial scale (in sub-section 132(5DB)) have the effect of criminalising forms of reproduction, possession and distribution for activity within a business that involves the use of infringing copies. First, the offences in paragraph 132(1)(a) and sub-section 132(5DB) of the Act have the effect of criminalising reproduction for certain purposes. Under paragraph 132(1)(a), it is an offence to make an infringing copy for the purpose of sale or hire. Under sub-section 132(5DB), it is an offence where a person has made infringing copies on a commercial scale and where the infringement has a substantial prejudicial impact on the owner of the copyright. In addition s132(1)(a) will provide an offence of making an article to obtain a commercial advantage or profit. For example, a person that loads copies of computer software on non-networked computers within a business or on a local area network (eg Intranet) within a business without authorization will commit an offence under subsection 132(1)(a).

6. Second, where a person does not come within the scope of the reproduction offences, they may be committing a possession offence contrary to sub-section 132(2A) of the Act. Under that provision, there is a series of offences where a person is in possession of an infringing copy for certain purposes including sale, letting for hire and distribution. For example, a person may be committing one of the offences under sub-section 132(2A) if they are in possession of infringing copies of computer software for the purpose of making them available across a local area network (eg Intranet) within a business, or to non-networked computers within a business, or to another person outside a business (eg over the Internet).

7. Finally, where a person does not come within the scope of the reproduction or possession offences, they may be committing a distribution offence contrary to sub-section 132(2). For example, where a person had separately loaded a piece of software subject to a one-user licence online on a local area network within a business or to others outside the business they would be committing the expanded distribution offence in sub-section 132(2).

8. The definition of 'article' and 'distribute' in sub-section 132(9) of the Act ensures that the scope of the distribution offence in sub-section 132(2) includes the distribution of infringing material in electronic form within and outside a business. The definition of 'article' includes 'reproduction or copy in electronic form'. The definition of 'distribute' includes 'by way of communication'. Under section 10 of the Act, 'communicate' means 'make available online or electronically transmit (whether over a path, or a combination of paths, provided by a material substance or otherwise) a work or other subject-matter'. This means that electronic communication across a local area network within a business, or to non-networked computers within a business, or to another person outside a business, is captured by the distribution offence.

9. The operation of these provisions is confirmed by the Explanatory Memorandum to the legislation that introduced those amendments (the *Copyright Amendment (Digital Agenda) Act 2000*) which stated:

'It also provides that for the purposes of the section, "distribute" includes distribute by way of communication. The effect of this definition is to ensure that the offences in s 132 of the Act which relate to distribution apply both to the making available and the electronic transmission of infringing copies in electronic form.'

Rules of statutory interpretation enable a court to have regard to an explanatory memorandum as an aid to interpretation where the meaning of a statutory provision is unclear.

10. Corporations can also be guilty of these offences. The principle of 'organisational blameworthiness' in Part 2.5 of Chapter 2 of the Commonwealth *Criminal Code* means that a corporation can be held responsible for the acts and omissions of its employees, agents or officers, if the relevant person was acting within the actual or apparent scope of their employment or authority. The *Criminal Code* provides that the fault elements of the offence (that is, intention, knowledge or recklessness) must be attributed to the corporation that expressly, tacitly, or impliedly authorised or permitted the commission of the offence. Furthermore, fault may also be attributed where it is established that: a corporate culture existed within the corporation that directed, encouraged, tolerated or led to non-compliance with the relevant provision; or that the corporation failed to create and maintain a corporate culture that required compliance with the relevant provision.



Australia-United States Free Trade Agreement – Unauthorised Use of Encoded Broadcasts

Australian law effectively deters unauthorised decoding of encrypted broadcasts and related activity.

2. Australia has fulfilled its obligations in Article 17.7 of the AUSFTA in relation to encrypted program-carrying signals through amendments to the existing scheme in the *Copyright Act 1968* (the Act). That scheme applies to encoded broadcasts regardless of the method of delivery. In doing so, Australia has gone substantially further than is required by its AUSFTA obligations, capturing cable signals in addition to satellite signals.

3. The amendments to Part VAA of the Act already enacted, and further amendments proposed strengthen the protection of encoded broadcasts by extending the scope of both criminal and civil liability. Criminal liability will now extend to any use of a decoding device to gain access to an encoded broadcast without authorisation where the person uses, or authorises the use of, the broadcast by way of trade or with the intention of obtaining commercial advantage or profit. Criminal liability will also apply to the distribution of an unauthorised decoded signal irrespective of whether the distribution is for commercial advantage or profit. Finally, a further amendment will criminalise the use of a broadcast by way of trade or with the intention of obtaining a commercial advantage or profit where the initial decoding was done by another person without authority.

4. Activity for which civil actions may be brought has also been widened to include:

- use of a broadcast decoding device to gain unauthorised access to an encoded broadcast where the person knew or ought reasonably to have known that the decoding was unauthorised (sub-s 135ANA(1)),
- distribution of a decoded signal where there is a prejudicial impact on a person with an interest in the signal and the person distributing the signal knew that it had been accessed without the broadcaster's authorisation (sub-s 135ANA(1A)), and
- reception of an encoded broadcast (regardless of whether the person receiving the broadcast used a decoding device themselves), where the person knew that the broadcaster had not authorised the access (sub-s 135ANA(1B)).

5. All of these actions in paragraph 4 above will apply to activities that occur in the privacy of the home. This significantly extends the civil remedies under the Act which previously applied only to the use of a decoding device for the purpose of, or in connection with, a trade or business.

6. Standing to seek civil remedies has also been extended to channel providers and any other person with an interest in the copyright in the content of a broadcast. Previously, standing to sue under Part VAA was only made available to broadcasters.

Effectiveness of Australia's regime

7. The pre-existing civil remedy provisions under the Act have acted as an effective deterrent against activity related to the improper use and distribution of decoding devices and the

unauthorised reception of an encoded broadcast – and can only be strengthened by the most recent legislative amendments.

8. The *Report on the Copyright Amendment (Digital Agenda) Act 2000 and related matters*, commissioned from law firm Phillips Fox by the Government, considered whether further amendments were necessary to better protect copyright owners where there had been improper use of broadcast decoding devices. The Report concluded that the Act was working effectively, and recommended only that section 135ANA be amended so as to prohibit the personal use of a broadcast decoding device other than for certain purposes. This recommendation parallels commitments under AUSFTA and has effectively been implemented by Australia's AUSFTA legislation.

9. The civil remedy provisions provide for a court to award damages that are additional to compensation for loss. Under the civil remedy provisions, a court may award additional damages if it is satisfied that it is proper to do so having regard to the flagrancy with which the defendant contravened the relevant provision and the benefit gained from the contravention. Additional damages are to be awarded on principles that correspond to those governing awards of aggravated and exemplary damages at common law (*Raben Footwear Pty Ltd v Polygram Records Inc* (1997) 75 FCR 88). The purpose of such damages provisions is to punish a defendant and to serve one or more objects of punishment, namely moral retribution or deterrence (*Windeyer J in Uren v John Fairfax & Sons* (1966) 117 CLR 118 at 149).

10. There is no indication that the additional damages provisions under the Act are not achieving these objects. Indeed, there have been a number of instances in recent years where substantial amounts have been awarded to plaintiffs in copyright infringement cases using a similar provision in the Act (*Microsoft Corporation v Goodview Electronics Pty Ltd* (2000) FCA 1852 (\$500,000) and *Milpurrurru v Indofurn* (1994) 54 FCR 240 (\$70,000)). Additional damages can also substantially outweigh the compensatory damages awarded. For instance, in the case of *Raben Footwear Pty Ltd v Polygram Records Inc and Anor* [1997] 370 FCA, \$15,000 was awarded in additional damages, despite only \$275 being awarded in compensatory damages.

11. Further, full costs may be awarded in civil actions before Australian courts. This means that, in addition to damages awarded, a court may order the unsuccessful party to pay the successful party's (often substantial) legal costs. This in itself is likely to pose a substantial deterrent to activity related to the improper use of broadcast decoding devices.

12. The existing case law indicates that injunctive relief to prevent infringing activities relating to broadcast decoding devices has also been utilised with regular success under the Act. Last year, a prominent Australian subscription television operator, Sky Channel, applied for and succeeded in obtaining Anton Piller orders or interlocutory injunctions in four separate cases relating to the use of broadcast decoding devices in businesses (see *Sky Channel Pty Ltd v Darcy's Tavern Pty Ltd* [2003] FCA 19, *Sky Channel Pty Ltd v Intertwine Pty Ltd* [2003] FCA 67, *Sky Channel Pty Ltd v Yahmoc Pty Ltd* [2003] FCA 401 and *Sky Channel Pty Ltd v Palmer* [2003] FCA 1246).

13. Finally, the lower burden of proof applying in civil actions ('balance of probabilities') compared to criminal prosecutions ('beyond reasonable doubt'), provides a greater chance of a successful outcome for copyright interests.