



27 May 2011

Ministry of Economic Development  
IPONZ  
Wellington

By email: [ip.policy@med.govt.nz](mailto:ip.policy@med.govt.nz)

### **Copyright (Infringing File Sharing) Amendment Act 2011 Regulations**

1. The New Zealand Law Society (the Society) welcomes the opportunity to comment on the Copyright (Infringing File Sharing) Regulations 2011 – Discussion Document (the discussion document) published by the Ministry of Economic Development (the Ministry). This submission has been prepared with assistance from the Society’s Intellectual Property Law Committee.
2. This submission addresses six issues pertaining to the regulations that will be promulgated under the Copyright (Infringing File Sharing) Amendment Act 2011 (the Act). They are:
  - (a) Information rights owners must provide to internet protocol address providers (IPAPs),
  - (b) Fees payable by rights owners to IPAPs,
  - (c) Form and content of infringement notices and account holder challenges,
  - (d) Applications by rights owners to the Copyright Tribunal,
  - (e) Notice of Tribunal proceedings, and
  - (f) Calculation of damages by the Tribunal.

### **Information provided to IPAPs by rights owners**

3. The Act’s three-notice system begins with respect to an account holder when the IPAP first receives from the rights owner “information that identifies an IP address at which an infringement of its copyright is alleged to have occurred as a result of file sharing” (the infringement information).<sup>1</sup> Under s122C(3)(d), the IPAP may refuse to issue an infringement notice if “the rights owner has not complied with regulations ... that impose requirements” on the infringement information. The discussion document suggests 10 items to be included in the infringement information, each of which the Society considers is appropriate.
4. The Society notes that the infringement information will, as a matter of course, inform the content of subsequent infringement notices sent by the IPAP to the account holder. The content of these notices shall serve as the primary evidentiary basis of copyright infringement before the Copyright Tribunal (Tribunal) in any subsequent proceedings.<sup>2</sup> The Tribunal shall presume “that each incidence of file sharing identified in the notice constituted an infringement of the rights owner’s copyright in the work identified.”<sup>3</sup>

<sup>1</sup> Copyright (Infringing File Sharing) Amendment Act 2011, s122C(1).

<sup>2</sup> Copyright (Infringing File Sharing) Amendment Act, ss122L(2)(a), 122N(1).

<sup>3</sup> Ibid, s122N(1)(a).

5. Neither the Act nor the discussion document addresses the matter of legally identifying the copyrighted work's subject matter or the nature of the alleged infringements. For example, s122D(2)(b) and other parts simply refer to identifying the alleged infringement. An infringement in the file sharing context may occur by copying the protected work or communicating it to the public.<sup>4</sup>
6. The Act's three-notice system may be an expedited, fast-track procedure, but there still needs to be proper identification and particularisation of the legal dispute. The parties and Tribunal must know just what is in dispute and which remedies may be sought under the Act. Because the infringement information will be used in the IPAP's infringement notices, it should adequately define the issues and thereby inform the parties, in advance, of the case they may have to meet.
7. A similar requirement should apply to account holder challenges under this regime: the reasons for challenge should be specified because the rights owner is equally entitled to be given proper notice of the nature of any challenges.

### ***Recommendation***

8. The Act requires the rights owner to provide information, described at paragraph 13(c), (d) and (e) of the discussion document, to the IPAP. The Society agrees that the remaining information described at paragraph 13 also be submitted to the IPAP. The Society recommends that the rights owner be required to identify the type of work infringed (in addition to its title), as well as the restricted act allegedly committed, in the infringement information it must send to the IPAP.

### **Fees payable by rights owners to IPAPs**

9. The discussion document states that Parliament intended under s122R for "IPAPs to recover the on-going costs of [conducting] the regime, but not the cost of establishing" the system that must be developed in order for IPAPs to carry out the functions required of them under the regime.<sup>5</sup>
10. The Society understands that determining the fees or costs allocation between IPAPs and rights owners for administering a "graduated response law" has proved challenging in other jurisdictions.<sup>6</sup>
11. It is clear from the wording of s122U itself (and from the five options advanced in the Discussion Paper) that Parliament did not intend a full cost reimbursement to IPAPs. The Society is not in the best position to comment on what the costs to IPAPs are likely to be of administering the system.
12. The Society notes that the graduated response mechanism was part of a package of measures originally introduced in the Copyright (New Technologies) Amendment Act (ss92A-E). Under those original provisions, in return for obtaining safe harbour immunity in s92B, C and E, Internet Service Providers (now IPAPs) were to put in place a mechanism for terminating accounts of repeat infringers (s92A). That termination mechanism has now been transformed into ss122A-U. However, when fixing the fee regime it is important not to lose sight of the fact that IPAPs have now obtained safe harbour immunity, so have gained the benefit of the original

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<sup>4</sup> Copyright Act 1994, ss16(a)(f).

<sup>5</sup> Discussion Document at [24].

<sup>6</sup> For example, in the United Kingdom, two IPAPs (BT and TalkTalk) challenged Section 15 of the Digital Economy Act 2010 which enables the Secretary of State to issue a "Costs Order" outlining IPAPs and rights owners' respective contributions. The Cost Order issued in January 2011 ordered IPAPs to bear 25% of the price incurred internally of administering the system, with rights owners' providing for the remaining 75%. This was upheld under judicial review in *British Telecommunications Plc v Sec of State for Business, Innovation and Skills* 2011 [EWHC] 1021 (Admin) at 193].

bargain. It is therefore reasonable to expect that there should be some contribution by IPAPs towards the cost of implementation of the notice regime.

13. As to the fees themselves, the Society makes two points:
- (a) It is important that the fees regime be a transparent, simple and straightforward one. The overall thrust of this amended scheme is to educate Internet account holders on their obligations in relation to file sharing. In these circumstances the fees should be set at a low level that enables that educational process to occur so that the level of fees are not used as an impediment to the number of notices that may be sent. A fixed fee would be the most appropriate.
  - (b) If, contrary to this preferred option, MED were to decide on a fee regime based on IPAPs' actual costs, these costs would need to be identified and assessed in a transparent fashion. The Society suggests that any such regime based on actual fees would need to have built in a provision for an independent audit so that a check can be undertaken in the first 6 – 12 months of operation to ensure that there is no inappropriate mismatch between the fees set and the actual costs being incurred by IPAPs. This is particularly important when, as the discussion document notes, IPAPs are likely to invest in an automated system to handle the sending of notices.

#### ***Recommendations***

14. In the event that a fee regime were to be based on IPAPs' actual running costs for administrative systems in order to comply with the Act, the Society recommends that the Ministry commission an independent audit of these actual running costs, six months following the date of implementation of the regulations. Once the results of the audit are obtained, the Society recommends that the Ministry review the fees charged by IPAPs to rights owners in light of the audit results.

#### **Form and content of infringement notices under ss122C through 122F and account holder challenges under s122G**

- 15 Deterrence is a key policy objective of the Act. An express statement of the legal consequences of continuing infringement – monetary liability of up to \$15,000 (and Internet suspension of up to six months if ss122P and 122Q are brought into force) – in the notices would be a deterrent at the first instance.
- 16 Privacy concerns are addressed to an extent in the Act. The IPAP, during the administration of the infringement notices, does not disclose the account holder's identity to the rights owner. To obtain this information, the rights owner must apply to the Tribunal under s122J for a compensation order, and then either obtain that compensation order under s122O or obtain an earlier disclosure discretion from the Tribunal under s122L(4). With this in mind, the Society recommends that the infringement notices should not contain the contact details of the rights owner, as suggested in the discussion document.<sup>7</sup> This would narrow the possibility of an account holder revealing his or her identity and making statements against his or her interest to the rights owner. Furthermore, it is the IPAP that relays account holder challenges to rights owners under the law.<sup>8</sup> The rights owner does not receive them from the account holder directly.

<sup>7</sup> Discussion Document at [20(iv)]. ("rights owner contact details to enable challenges")

<sup>8</sup> Copyright (Infringing File Sharing) Amendment Act 2011, s122G.

- 17 The Act explicitly discourages the involvement of lawyers in Tribunal proceedings.<sup>9</sup> The Society remains opposed to the exclusion (in the main) of lawyers from this procedure and is of the view that parties should have the option of representation before the Tribunal.<sup>10</sup> The legislative scheme is too complex for ordinary members of the internet community. At the same time, the Society understands that the Act seeks to provide a less expensive means of resolving copyright infringement disputes than traditional litigation. Therefore, to mitigate the risk of increased costs, the challenge form as well as the infringement notices should adequately inform the account holder of the nature of the allegations made against him or her without employing legalese that, to comprehend, could require legal assistance.

### ***Recommendations***

18. In addition to the recommendation at paragraph 8 above, the Society recommends that all infringement notices expressly state the maximum penalties under the law.
19. The Society recommends that the infringement notices should not provide the contact details of the rights owner.
20. The Society recommends that infringement notices and challenge forms are drafted so as to enable the average account holder to understand the allegations made against him or her and to respond accordingly. These documents could explain that the account holder may consult a lawyer, at his or her own cost, in challenging any infringement notice, but at the same time state that the account holder may not be represented by a lawyer at Tribunal proceedings except under certain defined circumstances.

### **Rights owner application to the Copyright Tribunal**

21. Under s122J(2)(c) of the Act, the rights owner must list those “infringements identified in the enforcement notice” for which it seeks to recover damages in its application to the Tribunal. As noted above, neither the Act nor the discussion document addresses the type of work infringed or the restricted act committed. In the Society’s view, an “infringement” carries with it an impermissibly broad definition in this context. While the Act creates a new enforcement regime for rights holders, it does not create a new species of copyright protection in digital files.

### ***Recommendation***

22. The Society recommends that the rights owner, in its application to the Copyright Tribunal, list the type of work alleged to be infringed under s14 of the Copyright Act 1994 and how it is said to infringe under s16 of the same.

### **Notice of Copyright Tribunal proceedings under s122K**

23. As explained above, the account holder should be adequately informed of the nature of his or her copyright infringement and the amount sought by the rights owner as a remedy for infringement. Section 122K(2)(a) and (b) requires this information to be specified in the notice of Copyright Tribunal proceedings that is sent to the account holder. The format of this information should be straightforward and clear.

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<sup>9</sup> Neither party may be represented by a lawyer before the Tribunal unless the Tribunal gives leave. Copyright (Infringing File Sharing) Amendment Act 2011, s122M(4).

<sup>10</sup> New Zealand Law Society submission on the Copyright (Infringing File Sharing) Amendment Bill, 18 June 2010, paragraphs 22 – 25.

**Recommendation**

24. The Society suggests that the Ministry consider wording that was used in a Disputes Tribunal “Form of Claim” as an example, which provides a suitable approach. It states:

The claimant claims the amount of \_\_\_\_\_

Particulars of the grounds and the manner in which it is calculated are set out as follows: \_\_\_\_\_

The grounds for the claim are: \_\_\_\_\_ (set out sufficient particulars to inform the defendant of the grounds for the claim)

The amount of claim is calculated as follows: \_\_\_\_\_ (set out in full the manner in which the amount of claim is calculated and whether it includes any interest or expenses)

**Copyright Tribunal method of calculating damages payable by an account holder to the rights owner under proceedings conducted in accordance with ss122J through 122O**

25. Section 122O sets out the circumstances in which the Copyright Tribunal makes orders requiring payments to rights owners. If the Tribunal is satisfied as to certain matters it must make an order requiring an account holder to pay a sum which must be determined in accordance with regulations. The Ministry sets out two possible options for these regulations.
26. Option 1 “would require the Tribunal to make a compensation based award, and provide discretion to award an additional amount as a deterrent”.<sup>11</sup> Under this option, the compensatory amount awarded to the rights owner would be based on the market value of the work(s) infringed.<sup>12</sup> The Tribunal would also be allowed to award punitive damages in addition to the compensatory amount.<sup>13</sup> In awarding punitive damages, the Tribunal would consider the “flagrancy” of the infringement and the totality of the circumstances of the case.<sup>14</sup> Finally, the Tribunal is entitled to order the account holder to reimburse the rights owner for notice fees paid to the IPAP and application fees paid to the Tribunal.
27. Option 2 would codify “a set range of sums”, from which the Tribunal would award damages per work infringed or define a “multiple of the market value of the work” per work infringed, in addition to the compensation element of the award.<sup>15</sup>
28. Despite the benefits of more certainty and, possibly, a swifter procedure under Option 2, the Society supports Option 1. To require the Tribunal to impose virtually set amounts is wrong in principle and the predetermination in Option 2 precludes the Tribunal from exercising its judgment in light of the particular facts of the case before it. Although this regime is somewhat unusual in a civil setting (as it seeks to impart an educative and deterrent effect), the Tribunal should be given some degree of latitude to ensure fairness for individual circumstances. Otherwise, the Tribunal procedure could be tantamount to ‘speed camera’ justice.

<sup>11</sup> Discussion Document at [49].

<sup>12</sup> Ibid at [50a].

<sup>13</sup> Referred to in the Discussion Document as the “additional amount” or “the deterrent element”. Discussion Document at [49], [50b]. See also *ibid* at [45]. (“We also note the recommendation of the Commerce Select Committee that a ‘punitive element’ should be included in the award, and agree with this recommendation. This will...have a deterrent effect to future infringing, which is a key policy driver for the regime.”)

<sup>14</sup> Discussion Document at [50(b)].

<sup>15</sup> *Ibid* at [55].

29. The Society notes that s122O(5) allows the Tribunal to decline to make a monetary order if it would be “manifestly unjust”. However, there is no provision under s122O allowing the Tribunal to reduce the damages from a manifestly unjust amount. As it stands, the Tribunal could be faced with a situation wherein it must award all or nothing. “All” being a sum which may be just shy of being “manifestly unjust”, and “nothing”, which could be manifestly unjust to the rights owner. As the Act implements a completely new system, it is difficult to know in advance what particular circumstances may arise that should be taken into account in making such an order. The Society considers that there ought to be some discretion available to the Tribunal regarding the amount awarded, when an order is in fact justified.
30. In accordance with s122O(2) a payment must be ordered for every infringement (about which the Tribunal is “satisfied”). The number of infringements may vary considerably, as may the type of work. Both aspects will be relevant to the size of the payment ordered and require a flexible response.
31. The Society notes the Ministry’s references to “flagrancy” and a “deterrent element” in paragraph 50(b) of the discussion document. The latter has not been part of the considerations in cases deciding additional damages under the Copyright Act.<sup>16</sup> Nor are these words actually used in the Copyright (Infringing file Sharing) Amendment Act 2011. If they are indeed factors to be included in the regulations, then the Society suggests that the Tribunal be given a very clear, overall discretion to take into account all of “the circumstances of the case”.<sup>17</sup>

***Recommendation***

32. As to the content of the regulations under Option 1, the Society agrees that the regulations should provide guidelines so that the process is relatively simple and transparent for all concerned. In keeping with these guidelines, the Society recommends the regulations dealing with the Tribunal’s calculation of damage awards are based on Option 1, but providing a degree of flexibility in calculating damages and including a discretion as to whether ‘additional’ damages are to be awarded.<sup>18</sup>
33. If you wish to discuss this submission further please contact the convener of the Society’s Intellectual Property Law Committee, Mr Clive Elliott, through the committee secretary, Julie Smith - phone (04) 463 2967 or email [julie.smith@lawsociety.org.nz](mailto:julie.smith@lawsociety.org.nz).

Yours sincerely



Jonathan Temm  
**President**

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<sup>16</sup> See Laddie et al, 3rd ed, at [39.42].

<sup>17</sup> Discussion Document, at [50(b)].

<sup>18</sup> Discussion Document, at [49].