

## 17. Contracting Out

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### Summary

17.1 Owners and users of copyright may agree that some or all of the statutory exceptions to copyright are not to apply—so that, for example, the user will remunerate the copyright owner for uses that would otherwise be covered by a free-use exception. This is referred to as ‘contracting out’ and raises fundamental questions about the objectives of copyright law, the nature of copyright owners’ exclusive rights and exceptions, and the respective roles of the *Copyright Act 1968* (Cth), contract, and competition and consumer law and policy.

17.2 This chapter considers whether the *Copyright Act* should limit the extent to which parties may effectively contract out of the operation of existing, and proposed new, exceptions to copyright.

17.3 The ALRC proposes that the *Copyright Act* should be amended to provide that contractual terms excluding or limiting the operation of the libraries and archives exceptions and the proposed fair use exception—in relation to fair uses for purposes of research or study; criticism or review; parody or satire; reporting news; and quotation—are unenforceable.

17.4 The primary reason for this proposal is to ensure that the public interests protected by copyright exceptions, including the proposed fair use exception, are not prejudiced by private arrangements. However, any broader limitation on contracting

out—for example, extending to all free-use exceptions, or to all fair uses—would not be practical or beneficial.

### **What is contracting out?**

17.5 In this chapter, the term ‘contracting out’ refers to the practice of parties entering agreements that exclude or limit the operation of exceptions to copyright provided by the *Copyright Act*.

17.6 Such agreements may be in writing, or entered online in the form of a ‘clickwrap licence’ or other electronic contract. To enter a ‘clickwrap licence’, for example, the terms of the licence are presented to the user electronically, and the user agrees to the terms of the licence by clicking on a button or ticking a box labelled ‘I agree’ or by some other electronic action.<sup>1</sup>

17.7 Contractual terms in licensing and other agreements may require copyright users to contract out of exceptions—purporting to prevent users from relying on statutory exceptions and, for example, engaging in fair dealing with copyright materials.

17.8 Copyright owners may also limit permissible uses of copyright materials by imposing technological protection measures (TPMs) which prevent, inhibit or restrict certain acts comprised in the copyright. The use and circumvention of TPMs raises similar policy issues to those raised by contracting out, and TPMs can be used to enforce the terms of licences and other agreements.<sup>2</sup>

17.9 Legislative limitations on contracting out of statutory provisions are not uncommon, at least in consumer protection law. For example, under the Australian Consumer Law (ACL), a term of a contract is void to the extent that the term purports to exclude, restrict or modify legislative consumer guarantees, such as guarantees as to the fitness for purpose of goods or services.<sup>3</sup>

### **Contracting out in practice**

17.10 In its 2002 report, *Copyright and Contract*,<sup>4</sup> the Copyright Law Review Committee (CLRC) gathered information about the extent to which contracting out was being used, with a particular emphasis on e-commerce.<sup>5</sup> Information was gathered through submissions in response to the CLRC inquiry, and from a survey of online licence agreements.

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1 D Clapperton and S Corones, ‘Unfair Terms in Clickwrap and Other Electronic Contracts’ (2007) 35 *Australian Business Law Review* 152, 154.

2 The ALRC is directed not to duplicate work on TPMs being undertaken at international level and by the Attorney-General’s Department. See Australian Government Attorney-General’s Department, *Review of Technological Protection Measure Exceptions made under the Copyright Act 1968* (2012).

3 *Competition and Consumer Act 2010* (Cth) sch 1, s 64.

4 Copyright Law Review Committee, *Copyright and Contract* (2002).

5 *Ibid*, ch 4.

17.11 Submissions to the CLRC from copyright owner interests generally argued that there was no conflict between the operation of agreements and the copyright exceptions.<sup>6</sup> In contrast, copyright user interests claimed that agreements that exclude or limit the copyright exceptions were not uncommon, particularly in online trade in copyright materials.<sup>7</sup>

17.12 For example, agreements with online publishing companies may contain clauses that prevent libraries and archives from reproducing and communicating extracts of works as would otherwise be permitted by the library and archives exceptions. Agreements may exclude or limit the fair dealing exceptions, the statutory licence scheme for educational and other institutions, and the exception for the use of copyright materials for the services of the Crown.<sup>8</sup>

17.13 The CLRC confirmed that many of the online licences it had surveyed contained such terms. It noted that uses that were prohibited by the licences included 'reproducing, making derivative works from, or commercially exploiting the material and communicating, distributing or publishing the material'.<sup>9</sup> Exceptions that were explicitly excluded included the computer programs exceptions and (in one case) exceptions allowing copying for satire or parody under the fair dealing doctrine. Further, many of the agreements examined prohibit the use of even insubstantial portions of material.<sup>10</sup>

17.14 A review of user contracts conducted for the UK Strategic Advisory Board for Intellectual Property Policy in 2010 looked at empirical evidence from the UK and several other countries. It found that the 'market for electronic services is growing rapidly, and users' access to copyright content is increasingly governed by contract' and that there was 'robust evidence that licence agreements for software, digital consumer services and educational content routinely conflict with statutory copyright exceptions (for example regarding back-up copies and archiving)'.<sup>11</sup>

17.15 Bargaining outcomes, the review found, are tilted towards rights owners, because 'fragmented end-users (such as consumers) typically are not in a position to contest the terms of licences offered'.

Even where users should be in position to negotiate, for example in the education, archive and library sectors, there is evidence that statutory limitations and exceptions under copyright law are becoming irrelevant. The reasons are not well understood but competition issues may play a part (with large bundles of rights controlled by few companies).<sup>12</sup>

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6 Ibid, 116.

7 Ibid, 118.

8 Ibid, ch 4.

9 Ibid, 129.

10 Ibid.

11 M Kretschmer, E Derclaye, F Favale and R Watt, *A Review of the Relationship between Copyright and Contract Law for the UK Strategic Advisory Board for Intellectual Property Policy* (2010), 4. Similarly, consumer protection legislation is often ignored or hard to enforce—for example, because 'many online licence agreements are not easily understood, and contain excessive exclusions of liability'.

12 Ibid, 4.

17.16 In Australia, it has been contended that the ‘majority of electronic contracts involving material protected by copyright purport to restrict the uses of that material in ways that conflict with applicable exceptions to copyright, such as fair dealing’.<sup>13</sup> Many stakeholders submitted that contracting out has continued—and perhaps become more common—since the CLRC reported.<sup>14</sup> The shift to online distribution of copyright materials was identified as a key driver of this trend.<sup>15</sup>

17.17 Recent research funded by the Australian Research Council is said to indicate that the practice of excluding or limiting exceptions by contract is ‘just as (if not more) prevalent now as it was 10 years ago’.<sup>16</sup> The study, by Robin Wright, found that common contract terms may hinder the ability of libraries to deliver interlibrary loans, reproduce and communicate materials for educational purposes, and prevent researchers or students relying on the fair dealing exceptions.<sup>17</sup>

17.18 In a submission to this Inquiry, Wright confirmed that an examination of excerpts from publisher agreements demonstrates that licence agreements include terms that ‘purport to exclude or limit a library’s ability to use the existing Australian copyright exceptions with licensed digital material’.<sup>18</sup>

17.19 Consistently, the National Library of Australia stated that only 21% of its licence agreements for subscription databases permit supply of copies to Australian users through the Australian interlibrary loan network, and 57% prohibit access by users outside the Library’s premises. Further, none of the agreements permit the Library to supply copies in response to requests from individuals and, therefore, prohibit it from supplying copies that would otherwise be permitted by fair dealing exceptions.<sup>19</sup>

17.20 Other stakeholders also provided examples of contractual terms encountered by Australian libraries that potentially affect the availability of document supply and interlibrary loans.<sup>20</sup>

17.21 Universities Australia stated that the most common forms of contractual limitations on commercially-published journal content were prohibitions on: use of content in course packs (otherwise permitted by pt VB of the *Copyright Act*); use of material for interlibrary loans (otherwise permitted by ss 49 and 50); electronic transmission of content between authorised users (otherwise permitted by ss 40 and

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13 D Clapperton and S Coronas, ‘Unfair Terms in Clickwrap and Other Electronic Contracts’ (2007) 35 *Australian Business Law Review* 152, 175.

14 See, eg, ADA and ALCC, *Submission 213*; Parliamentary Library, *Submission 107*.

15 Copyright Advisory Group—Schools, *Submission 231*; Society of University Lawyers, *Submission 158*; R Xavier, *Submission 146*.

16 ADA and ALCC, *Submission 213*, citing R Wright, ‘Libraries and Licensing: the eFuture will Need Legal as well as Technical Skills’ (Paper presented at VALA 2012, Melbourne, 9 February 2012).

17 ADA and ALCC, *Submission 213*.

18 R Wright, *Submission 167*.

19 National Library of Australia, *Submission 218*.

20 ADA and ALCC, *Submission 213*.

41); use of content for the purpose of data mining or text mining; and use other than ‘personal use’ of online broadcast material (otherwise permitted by pt VA).<sup>21</sup>

17.22 Stakeholders expressed specific concerns about the effect of contractual restrictions on fair dealing with copyright materials. The Australian Broadcasting Corporation (ABC), for example, stated that it is ‘often placed in a worse position for having entered into a contract with a rights holder, where that contract restricts fair dealing, compared with its competitors for those rights, who have no such contract and who can fair deal with that content across platforms’.<sup>22</sup>

## Current law

### Contracting out and the *Copyright Act*

17.23 The *Copyright Act* generally contains no provisions that prevent agreements from excluding or limiting the operation of exceptions, except in relation to the reproduction of computer programs. Therefore, for example:

- copyright owners of filmed recordings of sporting events may make it a condition that their customers do not provide the film to others who might exercise a fair dealing exception (for example, news reporting) or make use of the film other than as specified by contract; but
- software licensees cannot contract out of provisions allowing reverse engineering to make interoperable products or back-ups, and licensors, therefore, make these uses an exception to the restrictions in licences.

17.24 In relation to computer programs, s 47H of the *Copyright Act* expressly provides that ‘an agreement, or a provision of an agreement, that excludes or limits, or has the effect of excluding or limiting’ the operation of certain exceptions permitting the reproduction of computer programs for technical study, back-up, security testing and error correction ‘has no effect’.<sup>23</sup>

17.25 These limitations on contracting out were inserted by the *Copyright Amendment (Computer Programs) Act 1999* (Cth), which resulted from the Government’s consideration of a CLRC report on computer software protection. In that report, the CLRC stated that provisions regarding interoperability, back-up copying and de-compilation of locked programs would have little practical effect if parties could rely on contractual provisions to prevent these acts. It recommended that the *Copyright Act* be amended to ensure that these exceptions could not be avoided by contractual means.<sup>24</sup>

17.26 The existence of an express provision against contracting out in s 47H arguably helps to confirm that exceptions elsewhere in the *Copyright Act* can be overridden by

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21 Universities Australia, *Submission 246*.

22 Australian Broadcasting Corporation, *Submission 210*.

23 *Copyright Act 1968* (Cth) s 47H relating to agreements that exclude or limit exceptions provided under ss 47B(3), 47C–47F.

24 Copyright Law Review Committee, *Computer Software Protection* (1995), [10.106].

contract.<sup>25</sup> After considering the legislative history, however, the CLRC concluded that the effect of s 47H on agreements which exclude or limit other exceptions is ‘ultimately unclear’.<sup>26</sup>

17.27 The CLRC and other legal commentators have, however, identified several reasons why Parliament enacted an express provision only in relation to computer programs. These include that:

- s 47H applies expressly to specific exceptions implemented by the same amending legislation, so it is not possible to imply an intention on the part of Parliament that all pre-existing exceptions be subject to contract, no matter when they became part of the Act; and
- the relevant provisions of the *Copyright Amendment (Computer Programs) Act 1999* (Cth) were based on a model provided by a European Directive<sup>27</sup> on the protection of computer programs.<sup>28</sup>

### Enforceability of contracts

17.28 Leaving aside provisions of the *Copyright Act* itself, the CLRC *Copyright and Contract* report observed that the enforceability of contractual terms excluding or limiting exceptions may also be affected by:<sup>29</sup>

- consumer protection legislation—for example, provisions of the ACL, which proscribe misleading or deceptive conduct and unconscionable conduct in trade or commerce, and unfair contract terms in consumer contracts;<sup>30</sup>
- competition legislation—notably provisions of the *Competition and Consumer Act 2010* (Cth), which prohibit misuse of market power;<sup>31</sup>
- the ordinary principles of contract law concerning the formation of contracts—for example, where there is insufficient notice of, and assent to, the terms of online licences;<sup>32</sup>
- the equitable doctrine of unconscionable conduct—for example, where one party is known by the other to be at a special disadvantage and unfair or unconscientious advantage is taken;<sup>33</sup>

25 Thomson Reuters, *The Law of Intellectual Property: Copyright, Designs and Confidential Information*, [11.640].

26 Copyright Law Review Committee, *Copyright and Contract* (2002), 179.

27 Council of the European Communities, *Council Directive on the Legal Protection of Computer Programs* (1991).

28 See Copyright Law Review Committee, *Copyright and Contract* (2002), 174–179; J Carter, E Peden, K Stammer, ‘Contractual Restrictions and Rights Under Copyright Legislation’ (2007) 23 *Journal of Contract Law* 32, 45.

29 See Copyright Law Review Committee, *Copyright and Contract* (2002), ch 5.

30 *Competition and Consumer Act 2010* (Cth) sch 2, ch 2, pts 2–2, 2–3.

31 *Ibid* s 46.

32 The Australian Government Attorney-General’s Department is currently conducting a review of Australian contract law, which includes consideration of ‘challenges relating to internet contracting’: Australian Government Attorney-General’s Department, *Improving Australia’s Law and Justice Framework: A Discussion Paper to Explore the Scope for Reforming Australian Contract Law* (2012), 9.

- the law relating to contracts that are contrary to public policy—where a contract term defeats or circumvents a statutory public purpose or policy.

17.29 As discussed below, there are differing views on whether, and in what circumstances, contractual terms excluding or limiting exceptions to copyright may be unenforceable. Depending on the circumstances, and where agreements are governed by Australian law, contractual terms that exclude or limit the operation of exceptions may be unenforceable due to legislative provisions outside the *Copyright Act* or the operation of the general law (common law and equity).

### ***Competition and consumer law***

17.30 The ACL provides that a court may determine that a term of a standard form consumer contract is unfair and therefore void, including in response to proceedings taken by the Australian Competition and Consumer Commission (ACCC).<sup>34</sup>

17.31 Under the ACL, a ‘consumer contract’ includes a contract for the supply of goods and services to an individual who acquires them wholly or predominantly for personal, domestic or household use or consumption.<sup>35</sup> The ACL outlines a number of factors that the court must take into account in determining whether a contract is a ‘standard form contract’. Such contracts will typically be those that have been prepared by one party to the contract and are not subject to negotiation between the parties—that is, offered on a ‘take it, or leave it’ basis, as is typically the case with consumer contracts involving copyright.

17.32 The ACL provides that a contractual term is unfair if it:

- would cause a significant imbalance in the parties’ rights and obligations under the contract;
- is not reasonably necessary to protect the legitimate interest of a party to the contract; and
- would cause detriment to a party to the contract if it were to be applied or relied upon.<sup>36</sup>

17.33 In relation to competition law, there are questions about the operation of s 51(3) of the *Competition and Consumer Act*. This section provides a limited exemption from some prohibitions on restrictive trade practices for contraventions resulting from copyright licensing. Depending on how the scope of the exemption is interpreted, the exemption may, for example, permit conditions in copyright licences providing that the licensee must not acquire similar rights from any other copyright owner. This constitutes exclusive dealing and would otherwise contravene s 47 of the *Competition*

33 The CLRC concluded that this doctrine was unlikely to apply to most contracts the subject of its review: Copyright Law Review Committee, *Copyright and Contract* (2002), 151.

34 *Competition and Consumer Act 2010* (Cth) sch 2. The ACCC has been active in reviewing standard form consumer contracts in a number of industries, including in the airline, telecommunications, fitness and vehicle rental industries but has not, to date, focused on copyright licensing agreements. See Australian Competition and Consumer Commission, *Unfair Contract Terms: Industry Review Outcomes* (2013).

35 Australian Consumer Law s 23(3).

36 *Ibid* s 24(1).

and Consumer Act (provided it had the purpose or effect of substantially lessening competition in a market).<sup>37</sup>

17.34 The ACCC submitted that, while the extent of the s 51(3) exception is ‘unclear’, it ‘potentially excludes significant anti-competitive conduct, with substantial detrimental effects on efficiency and welfare’ from the application of the *Competition and Consumer Act*.<sup>38</sup>

### **Contract and public policy**

17.35 It has been argued that many contractual provisions purporting to exclude or limit a licensee’s rights under the *Copyright Act* are ineffective to do so, as such terms are void or unenforceable on public policy grounds. This view is based on the general principle of contract law that, except where permitted by legislation, ‘a contract which purports to oust the jurisdiction of the courts is contrary to public policy and therefore void or unenforceable, but probably not an illegal contract’.<sup>39</sup>

17.36 In relation to the *Copyright Act*, it may be sufficient that a court has jurisdiction to make orders in respect of rights conferred by the Act and that the rights conferred are of a public, rather than private, nature. The rights conferred by the *Copyright Act* may be characterised as public rights, because ‘at least some of the relevant provisions confer positive rights, in effect as statutory licences, which may be enforced by action against an owner’; and exceptions may be relied on as a defence in proceedings for infringement.<sup>40</sup>

17.37 The case law on contracting out of legislative rights establishes that, ‘if the operation of a contractual provision defeats or circumvents the statutory purpose or policy, then the provision is inconsistent in the relevant sense and falls within the injunction against contracting out’.<sup>41</sup>

17.38 Applying the above legal principles to contracting out under the *Copyright Act*, Professor J W Carter, Professor Elisabeth Peden and Kristin Stammer have argued that:

- Contractual terms that purport to exclude or limit the fair dealing exceptions are unenforceable, because to ‘permit an owner to sue for breach of contract in relation to conduct amounting to a fair dealing would circumvent the scheme of the Act under which fair dealing is permitted’.<sup>42</sup>

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37 ACCC, *Submission 165*.

38 Ibid.

39 J Carter, E Peden, K Stammer, ‘Contractual Restrictions and Rights Under Copyright Legislation’ (2007) 23 *Journal of Contract Law* 32, 41, citing J Carter, *Carter on Contract*.

40 Ibid, 41–42.

41 Ibid, 42, citing *Caltex Oil (Aust) Pty Ltd v Best* (1990) 170 CLR 516, 522.

42 That is, a contractual provision cannot convert fair dealing into an infringement of copyright and the Act ‘also impliedly prohibits a contractual claim in relation to conduct amounting to a fair dealing’: J Carter, E Peden, K Stammer, ‘Contractual Restrictions and Rights Under Copyright Legislation’ (2007) 23 *Journal of Contract Law* 32, 46.



- Contractual terms that purport to exclude or limit the exceptions that provide for the copying of copyright materials in libraries or archives are unenforceable. These exceptions are based on, and give effect to, important policy concerns and the ‘real beneficiaries’ of the exceptions are the users of libraries and archives.<sup>43</sup>

17.39 Some stakeholders expressed views on the extent to which current law permits contracting out. The Australasian Performing Right Association and the Australasian Mechanical Copyright Owners Society (APRA/AMCOS) submitted that ‘as a matter of law it is not possible to contract out of the existing fair dealing exceptions or statutory licences in the Act’, because ‘licences derogate at source from the rights of the copyright owner’. Therefore, the copyright owner is not in a position to ‘limit rights that it does not control’.<sup>44</sup>

17.40 Another stakeholder observed that it would be ‘wrong to generalise what exceptions are really over-ridden by licensing terms and/or relevant to users’, because contract terms differ greatly, depending on the form of copyright material and the applicable law.<sup>45</sup> Copyright Agency/Viscopy submitted that the extent to which contracting out provisions are ‘problematic in practice’ is unclear, and noted arguments that, in at least some cases, ‘contracts can be interpreted to allow for the operation of copyright exceptions’.<sup>46</sup>

### US copyright pre-emption and misuse doctrines

17.41 Some comparison with United States law may be useful, given the existence in the US of a general fair use exception. US law has developed copyright-specific constraints on the freedom of parties to contract out of copyright exceptions, based on doctrines of copyright pre-emption and copyright misuse. There remains, however, considerable uncertainty and academic debate about the application of these doctrines.<sup>47</sup>

17.42 Section 301(a) of the US *Copyright Act* provides that ‘all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright ... are governed exclusively by this title’.<sup>48</sup> This provision can be interpreted as meaning that, where a contract entered into under state contract law is inconsistent with federal copyright law, the contract may be found to be ‘pre-empted’.

17.43 However, the practical effect of this aspect of the copyright pre-emption doctrine has been limited, because courts have generally held that rights created by contract are not ‘equivalent’ to exclusive rights—that is, a copyright is a right against the world, while contracts, by contrast, ‘generally affect only their parties’.<sup>49</sup> Courts

43 Ibid, 47.

44 APRA/AMCOS, *Submission 247*.

45 IASTMP, *Submission 200*.

46 Copyright Agency/Viscopy, *Submission 249*.

47 See, eg, V Moffat, ‘Super-Copyright: Contracts, Preemption, and the Structure of Copyright Policymaking’ (2007) 14(1) *University of California Davis Law Review* 45.

48 *Copyright Act 1976* (US) s 301(a).

49 *ProCD Inc v Zeidenberg*, 86 F 3d 1447 (7th Cir, 2006), 1454.

have generally held that the US *Copyright Act* does not pre-empt contractual terms, including those that exclude fair use.<sup>50</sup>

17.44 A contract may also be ‘constitutionally’ pre-empted if there is a conflict between state enforcement of a contract and federal copyright law or policy. The US courts, however, have failed to develop consistent criteria for determining whether contract terms are pre-empted in this way.<sup>51</sup>

17.45 In addition, under the doctrine of copyright misuse, US courts may refuse to enforce agreements that attempt to extend protection of copyright material beyond the limits set by copyright law, including limits on the duration of copyright protection. In *Lasercomb America v Reynolds*,<sup>52</sup> a licensee had agreed not to develop a competitive computer-aided design program for 99 years—beyond the period of protection by copyright laws. The Court found that the copyright owner was trying to effectively extend the term and scope of its copyright beyond the permitted limits of copyright law, and that would prevent people from legitimately developing competitive software.

17.46 The underlying policy rationale for the copyright misuse doctrine is the copyright and patent clause of the *US Constitution*, which states an intention ‘to promote the Progress of Science and useful Arts’. The application of the doctrine depends on ‘whether the copyright is being used in a manner violative of the public policy embodied in the grant of a copyright’.<sup>53</sup> Courts have suggested that anti-competitive licensing agreements and agreements that exclude fair use may conflict with the public purposes of copyright.<sup>54</sup>

17.47 However, there seem to be no clear instances of the copyright pre-emption or misuse doctrines having been applied, for example, to the multitude of online contracts that exclude otherwise fair use of copyright materials. Rather, courts have ‘toed the “freedom of contract” line’.<sup>55</sup>

### Should contracting out be enforceable?

17.48 One rationale for placing statutory limitations on contracting out is that it changes the copyright ‘balance’:

As the copyright interest is constituted by the exclusive rights of copyright, 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

50 See, V Moffat, ‘Super-Copyright: Contracts, Preemption, and the Structure of Copyright Policymaking’ (2007) 14(1) *University of California Davis Law Review* 45, 74–75.

51 See, D Lindsay, *The Law and Economics of Copyright, Contract and Mass Market Licences* (2002), Research Paper prepared for the Centre for Copyright Studies Ltd. While the possibility of copyright pre-emption remains, ‘the extent to which this is likely is quite uncertain’: 42.

52 *Lasercomb America v Reynolds*, 911 F 2d 970 (4th Cir, 1990).

53 *Ibid*, 978.

54 *Video Pipeline Inc v Buena Vista Home Entertainment Inc*, 342 F 3d 191 (3rd Cir, 2003), 204–205.

55 V Moffat, ‘Super-Copyright: Contracts, Preemption, and the Structure of Copyright Policymaking’ (2007) 14(1) *University of California Davis Law Review* 45, 50.

fundamental imbalance of these rights. It follows that it should not be possible to alter that balance by means of contract.<sup>56</sup>

17.49 This perspective was echoed in many submissions to the Inquiry.<sup>57</sup> Google, for example, stated that copyright laws ‘contain a complex balance between the rights of copyright owners to protect their works and the public interest in ensuring access to knowledge and the creation of new works’. This balance, being ‘sensitively and carefully constructed’, should not be able to be ‘altered or replaced by private arrangements’.<sup>58</sup>

17.50 The public interest is also be invoked in arguing against contracting out.<sup>59</sup> That is, the public interest in the preservation of the copyright balance should take precedence over the public interest in freedom of contract.<sup>60</sup> In reaching its recommendations, the CLRC specifically referred to exceptions that ‘embody the public interest in education, the free flow of information and freedom of expression’.<sup>61</sup> Stakeholders in this Inquiry also referred specifically to the public interest in access to information and freedom of expression.<sup>62</sup>

17.51 In contrast, other stakeholders suggested that the idea of the *Copyright Act* representing a balance that must be preserved, whatever the contractual relationship of parties, is erroneous.<sup>63</sup> The Australian Publishers Association (APA), for example, stated that arguments in favour of limitations on contracting out assume that the Act ‘captures an optimal balance’ between user and owners of copyright material that is ‘inviolable and must be preserved at all costs and in all situations’; and that exceptions operate as limitations on copyright defining the scope of a copyright owner’s rights, rather than as defences.

17.52 The APA observed that the legislative history of any specific copyright exception shows how the exceptions are ‘shaped by circumstances applying at a particular point in time’, and the way in which exceptions ‘may well remain in the Act even though the circumstances that led to their introduction have changed’.<sup>64</sup>

17.53 The structure and language of the *Copyright Act* were said to clearly indicate that exceptions are, in almost all cases, defences—for example, the Act provides that ‘it is not an infringement’ to do certain things, even though those things are within the scope of the copyright owner’s exclusive rights—and the exceptions are, in many cases, ‘highly conditional and highly fact-specific’.<sup>65</sup>

56 Copyright Law Review Committee, *Copyright and Contract* (2002), 262.

57 For example, SBS, *Submission 237*; Copyright Advisory Group—Schools, *Submission 231*; Google, *Submission 217*; ADA and ALCC, *Submission 213*; Ericsson, *Submission 151*; K Bowrey, *Submission 94*.

58 Google, *Submission 217*.

59 Copyright Advisory Group—Schools, *Submission 231*; National Library of Australia, *Submission 218*; R Wright, *Submission 167*; K Bowrey, *Submission 94*.

60 Copyright Law Review Committee, *Copyright and Contract* (2002), 263.

61 *Ibid.*, 266.

62 Arts Law Centre of Australia, *Submission 171*; R Xavier, *Submission 146*.

63 Australian Publishers Association, *Submission 225*; ALPSP, *Submission 199*.

64 Australian Publishers Association, *Submission 225*.

65 *Ibid.*

17.54 Stakeholders also emphasised the important role that freedom of contract plays in facilitating the efficient use of copyright materials,<sup>66</sup> and supporting competition, especially in relation to licensing.<sup>67</sup> For example, Australian Film and TV Bodies stated that, in ‘guaranteeing freedom of contract, the *Copyright Act* promotes distribution and use of copyright material particularly in online and multi-jurisdictional environments’.<sup>68</sup> The Australian Recording Industry Association (ARIA) observed that, in the digital environment, music services use licences to ‘set the boundaries for the use of content by consumers’. Consumers typically pay higher prices for greater access so that different delivery models ‘provide varied consumer offerings and services which benefit both consumers and creators’ and are also ‘the business models of third party suppliers’.<sup>69</sup>

17.55 Contracting out was seen as important in allowing copyright owners to design licence terms that are appropriate to the material being licensed and are able to be ‘reviewed by businesses on an ongoing basis to respond to changing business and client needs’.<sup>70</sup>

17.56 Contract was seen as having an important role in protecting the legitimate interests of copyright holders.<sup>71</sup> For example, an artist who releases music for children may not wish to see their sound recordings used in contexts which, although they may be considered as a ‘fair dealing’, are ‘distinctly adult or perverse’, and should be able to contract out.<sup>72</sup>

17.57 It was also suggested that there may be problems in relation to international competitiveness, if contracting out were to be further restricted.<sup>73</sup> A possible consequence of limitations on contracting out in Australian law may be to make Australia ‘less attractive as a hub for business’.<sup>74</sup> The Interactive Games and Entertainment Association stated that

it is critical that international creators or owners, which includes Australian creators, are able to develop new and innovative business models without the risk of such business models being undermined by local copyright exceptions.<sup>75</sup>

17.58 Possible legal uncertainty in contracts and business models was a particular concern of stakeholders<sup>76</sup>—in particular, due to uncertainty about the scope and reach of exceptions. That is, if contractual terms limiting exceptions were to be made

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66 See, eg, Department of Defence, *Submission 267*; ARIA, *Submission 241*; News Limited, *Submission 224*; Australian Film/TV Bodies, *Submission 205*; ACCC, *Submission 165*.

67 For example, ARIA, *Submission 241*; Australian Film/TV Bodies, *Submission 205*; IASTMP, *Submission 200*; ACCC, *Submission 165*.

68 Australian Film/TV Bodies, *Submission 205*.

69 ARIA, *Submission 241*.

70 AAP, *Submission 206*.

71 CSIRO, *Submission 242*; ARIA, *Submission 241*.

72 ARIA, *Submission 241*.

73 Ibid; IASTMP, *Submission 200*; iGEA, *Submission 192*; Thomson Reuters, *Submission 187*.

74 IASTMP, *Submission 200*.

75 iGEA, *Submission 192*.

76 For example, APRA/AMCOS, *Submission 247*; Foxtel, *Submission 245*; ARIA, *Submission 241*; John Wiley & Sons, *Submission 239*; AAP, *Submission 206*; IASTMP, *Submission 200*.

unenforceable, ‘some users may feel that a contractual provision limits an exception, when the rights holder believes the use does not fall within the scope of an exception’.<sup>77</sup>

17.59 ARIA suggested that, rather than overriding competitive market offerings, it would be more appropriate to ‘respect and uphold agreed licence terms and leave exceptions to work as a reasonable default when usage terms have not been defined in contract’.<sup>78</sup> John Wiley & Sons submitted that

Commercial licensing, by its nature, generally grants greater rights to users than those already granted under statute. In cases, fortunately rare, when parties may disagree on the scope and reach of a copyright exception, then agreeing the scope of a use under licence can provide a pragmatic business solution satisfactory to both parties and thus increase legal certainty and mitigate risk, both essential elements of a robust policy for innovation.<sup>79</sup>

17.60 Existing contractual terms may, however, also prejudice the competitive position of copyright users who are subject to them, if others are not.<sup>80</sup> SBS referred to the need to create ‘certainty and a level playing field in relation to use of copyright material in the public interest’.<sup>81</sup>

### **Is there a need for reform?**

17.61 There are differing views on the extent to which the general law and legislation outside the *Copyright Act* are adequate to constrain contracting out, at least where agreements are governed by Australian law.

17.62 Some stakeholders suggested that existing competition and consumer protection laws are adequate to address any problems for copyright users attributable to contracting out.<sup>82</sup> The APA, for example, submitted that, ‘to the extent that an imbalance in negotiating power leads to undesirable outcomes, then competition and consumer laws are the appropriate means of redressing any contractual imbalance—not blanket prohibitions on such contracts under the Act’.<sup>83</sup>

17.63 There remain concerns, however, that copyright users are not generally in a good position to negotiate the terms on which copyright materials are licensed. Even large institutions may argue that negotiation is ‘so resource-intensive as to be effectively impossible as a general rule’; and there may be no choice of supplier.<sup>84</sup>

17.64 Different considerations may apply to mass-market licences as opposed to negotiated contracts.<sup>85</sup> The Parliamentary Library noted that, ‘in the current

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77 IASTMP, *Submission 200*.

78 ARIA, *Submission 241*.

79 John Wiley & Sons, *Submission 239*.

80 Australian Broadcasting Corporation, *Submission 210*.

81 SBS, *Submission 237*.

82 John Wiley & Sons, *Submission 239*; Australian Publishers Association, *Submission 225*; AAP, *Submission 206*; IASTMP, *Submission 200*.

83 Australian Publishers Association, *Submission 225*.

84 UK Government, *Modernising Copyright: A Modern, Robust and Flexible Framework* (2012), 17.

85 Australian Copyright Council, *Submission 219*.

environment of online mass-market agreements, such negotiations are often not practically possible'.<sup>86</sup>

17.65 Stakeholders also referred to legal uncertainty about contracting out and its effects. The Parliamentary Library noted that uncertainty about whether contracts may 'limit or exclude the operation of the parliamentary library exceptions in the Act' meant that the best option is to negotiate contract terms that specifically permit the Library to exercise its full rights under the *Copyright Act*.<sup>87</sup>

17.66 Civil Liberties Australia observed that, while doubts remain about the enforceability of contracting out, this legal uncertainty does not prevent 'deployment and uptake in practice' of such terms or their ability to regulate industry behaviour.<sup>88</sup>

17.67 The UK Hargreaves Review provided one illustration of this effect in observing that it becomes very difficult to give clear guidance to users where an institution has different contracts with a number of providers, which override different exceptions. The report stated that often 'the result will be that, for legal certainty, the institution will restrict access to the most restrictive set of terms, significantly reducing the provisions for use established by law'.<sup>89</sup>

17.68 In addition to suggesting that contracting out should be unenforceable,<sup>90</sup> or generally unenforceable,<sup>91</sup> stakeholders who favoured limitations on contracting out proposed a range of approaches to reform.

17.69 Some expressly supported the CLRC's recommendations<sup>92</sup> or reform that, in effect, follows the CLRC approach. For example, the Arts Law Centre submitted that the *Copyright Act* should be amended to prevent contracting out of copyright exceptions that have 'a strong public policy basis: research or study; criticism or review; parody or satire; and reporting news'.<sup>93</sup>

17.70 Wright suggested that contracting out of the educational instruction exception, the statutory educational licences, the libraries and archives exceptions and 'any fair dealing or fair use exceptions or any future exceptions intended to provide similar public benefits', should be prohibited.<sup>94</sup>

17.71 The Australian Digital Alliance and Australian Libraries Copyright Committee (ADA/ALCC) highlighted the importance of protecting exceptions allowing personal

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86 Parliamentary Library, *Submission 107*.

87 Ibid.

88 Civil Liberties Australia, *Submission 139*.

89 I Hargreaves, *Digital Opportunity: A Review of Intellectual Property and Growth* (2011), 51.

90 Copyright Advisory Group—Schools, *Submission 231*; Pirate Party Australia, *Submission 223*; Australian Broadcasting Corporation, *Submission 210*; R Xavier, *Submission 146*.

91 K Bowrey, *Submission 94*.

92 Universities Australia, *Submission 246*; Pirate Party Australia, *Submission 223*; ADA and ALCC, *Submission 213*; Civil Liberties Australia, *Submission 139*.

93 Arts Law Centre of Australia, *Submission 171*.

94 R Wright, *Submission 167*.

or social online use, transformative use, use of orphan works, and uses which ‘do not trade on the underlying creative and expressive purpose of the work’.<sup>95</sup>

17.72 The ADA and ALCC noted that the CLRC review did not recommend that any educational exceptions be mandated. They submitted that, given the use of digital materials in schools has expanded since the CLRC report, which makes educational copying exceptions crucial for educational services, ‘any existing or proposed educational copying exceptions should also be protected from override by contract’.<sup>96</sup>

17.73 In addition, some stakeholders submitted specifically that, if the ALRC were to recommend a new general fair use exception, contracting out from that exception should also be prohibited.<sup>97</sup> Stakeholders, including those who did not favour legislative limitations on contracting out, also made suggestions on the desirable scope of such limitations.

17.74 The Australian Copyright Council referred to the need to distinguish between contractual terms designed to protect the integrity of the work or the owner’s commercial interests from other types of restrictions—such as a restriction purporting to exclude fair dealing for judicial proceedings.<sup>98</sup> This distinction, it suggested, could provide ‘a helpful paradigm for looking at freedom to contract and copyright policy in the digital economy’. That is, prohibitions on contracting out should only be considered where ‘the exception in question serves a broad, public policy purpose’.<sup>99</sup>

17.75 The APA submitted that the ALRC should only recommend limitations on contracting out if there is empirical evidence that ‘a fundamental societal interest is in practice being eroded or removed through contract’ and that this has become an ‘entrenched problem’.<sup>100</sup> ARIA cautioned that, should evidence establish abuse of contract terms, any prohibition on contracting out should be ‘drafted very narrowly to address that issue only to avoid any chilling effect on the development of new business models’.<sup>101</sup>

17.76 Civil Liberties Australia suggested that a prohibition could apply initially to consumers, sole traders and small businesses engaged in trade or commerce.<sup>102</sup> Similarly, Copyright Agency/Viscopy suggested that any prohibition should only apply to private uses by individuals.<sup>103</sup>

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95 ADA and ALCC, *Submission 213*.

96 *Ibid.*

97 EFA, *Submission 258*; ADA and ALCC, *Submission 213*.

98 Referring to J Carter, E Peden, K Stammer ‘Contractual Restrictions and Rights Under Copyright Legislation’ (2007) 23 *Journal of Contract Law* 32, 34.

99 Australian Copyright Council, *Submission 219*.

100 Australian Publishers Association, *Submission 225*.

101 ARIA, *Submission 241*. Also CSIRO, *Submission 242*.

102 Civil Liberties Australia, *Submission 139*.

103 Copyright Agency/Viscopy, *Submission 249*.

17.77 The ACCC stated that the exemption for copyright licensing from prohibitions on restrictive trade practices in s 51(3) of the *Competition and Consumer Act* should be repealed. In its view, such a repeal would ‘not lead to an erosion of the rights created through IP laws’.<sup>104</sup>

### Approaches to reform

17.78 Copyright owners generally oppose limitations on contracting out because this challenges freedom of contract, with possible unintended consequences. Contractual terms are said to provide clarity and certainty for copyright users about how they may deal with copyright materials. In particular, if a new general fair use exception were introduced, contractual terms may be able to ‘reduce the risk of misunderstanding and provide legal certainty where an exception cannot’.<sup>105</sup>

17.79 From this perspective, copyright users should be able to effectively agree that they will pay for uses covered by free-use exceptions in the *Copyright Act*, for example, under the libraries and archives exceptions. Any restrictions on permissible uses should, in theory, be reflected in the price paid to the copyright owner.

17.80 At the same time, copyright users may gain benefits under the contract that they might otherwise not have, for example, access to the whole of the work for the making of copies or for the purposes of communication or adaptation. A contractual term is not ‘necessarily unfair’ if it prohibits something allowed under a copyright exception irrespective of the context of the provision, which includes the benefits of the contract as a whole and the circumstances in which the contract was made.<sup>106</sup>

17.81 In contrast, copyright users considered that contracting out has the potential to render exceptions under the *Copyright Act* meaningless. Copyright users, it was argued, are often not in a good position to negotiate the terms on which copyright materials are licensed. Contracting out puts at risk the public benefit that exceptions are intended to provide.

17.82 New limitations on contracting out might apply to all exceptions, or only some exceptions—for example, those that serve certain important public interests, or which are fundamental to the copyright balance.

17.83 In *Copyright and Contract*, the CLRC concluded that agreements were being used to exclude or limit copyright exceptions and that this practice ‘undermines the copyright balance established by the *Copyright Act*’.<sup>107</sup> The CLRC recommended that the

traditional fair dealing defences and the provisions relating to libraries and archives which permit uncompensated copying and communication to the public within

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104 ACCC, *Submission 165*.

105 IASTMP, *Submission 200*.

106 See Copyright Council, *Response to report of Copyright Law Review Committee on Copyright and Contracts* (2003).

107 Copyright Law Review Committee, *Copyright and Contract* (2002), 142.



specified limits, and which embody the public interest in education, the free flow of information and freedom of expression, should be made mandatory.<sup>108</sup>

17.84 The CLRC also considered that ‘exceptions introduced in recent years relating to technological developments should also be made mandatory’—specifically provisions allowing for temporary reproductions in the course of a communication.<sup>109</sup>

17.85 The UK Hargreaves Review recommended, in 2011, that the UK Government should change the law to make it clear that no exception to copyright can be overridden by contract.<sup>110</sup> In its response to the Hargreaves Review, the UK Government noted that the recommendation on contracting out reflected ‘longstanding concerns that contracts may in some circumstances undesirably restrict the uses permitted by copyright law’.<sup>111</sup>

17.86 The general principle that contracts should not be allowed to erode the benefits of permitted acts was accepted. The UK Government stated, however, that because European law provides that some permitted acts may not override contract terms,<sup>112</sup> ‘a blanket ban on contract overriding copyright’ was not possible.<sup>113</sup>

17.87 The UK Government announced that, ‘to the extent that is legally allowed, the Government will provide for each permitted act considered in this document that it cannot be undermined or waived by contract’. This, it was said, may include a prohibition on licensing override of permitted acts, or restricting the terms on which licensing may affect permitted acts.<sup>114</sup>

## Limitations on contracting out

17.88 Contracting out raises fundamental questions about the objectives of copyright law; the nature of copyright owners’ exclusive rights and exceptions; and the respective roles of the *Copyright Act*, contract and competition law and policy in governing licensing practices.

17.89 The issue has been characterised as involving a collision between two important legal principles: statutory rights reflecting public policy, on the one hand; and freedom of contract, on the other<sup>115</sup>—or public versus private ordering of rights.

108 Ibid, 266, 274, referring to *Copyright Act 1968* (Cth) ss 40, 41, 42, 43, 43A, 48A, 49, 50, 51, 51AA, 51A, 52, 103A, 103B, 103C, 104, 110A, 110B, 111A.

109 Referring to *Copyright Act 1968* (Cth) ss 43A, 111A. The Australian Government has not responded to the CLRC report.

110 I Hargreaves, *Digital Opportunity: A Review of Intellectual Property and Growth* (2011), 51.

111 UK Government, *Modernising Copyright: A Modern, Robust and Flexible Framework* (2012), 17.

112 For example, exceptions permitting libraries, educational institutions and archives to make copyright material available, for the purpose of research or private study, through dedicated terminals on their premises must be ‘subject to purchase or licensing terms’: *Directive 2001/29/EC of the European Parliament and of the Council on the Harmonisation of Certain Aspects of Copyright and Related Rights in the Information Society* (entered into force on 22 June 2001).

113 UK Government, *Modernising Copyright: A Modern, Robust and Flexible Framework* (2012), 19.

114 Ibid.

115 See Thomson Reuters, *The Law of Intellectual Property: Copyright, Designs and Confidential Information*, [11.640].

17.90 The ALRC considers that the *Copyright Act* should provide expressly that contractual terms that limit the operation of the fair dealing and libraries and archives exceptions should be unenforceable. The following discussion explains the reasons for this proposal. Briefly, these are that:

- there is doubt about the extent to which contractual terms excluding or limiting exceptions are enforceable and more certainty is desirable, in relation to some exceptions; and
- important public interests promoted by the fair dealing and libraries and archives exceptions may be compromised if these exceptions are rendered inoperative by contract.

17.91 It is apparent from information provided in submissions to this Inquiry that contractual terms excluding or limiting copyright exceptions under the *Copyright Act* remain common. While contracts may create clarity and provide copyright users with permission to use materials in ways that would otherwise be an infringement, some contractual terms can also be seen as eroding ‘socially and economically important uses of copyright works’.<sup>116</sup>

17.92 The problem is how to address any negative effects of contracting out without restricting innovation and flexibility in licensing practices. The economic value of freedom of contract is an important factor. Arguably, most contractual restrictions imposed on licensees ‘are designed either to protect the integrity of the work or the owner’s financial interests’. Both these interests are ‘legitimate concerns of anyone seeking to maximise the benefit of commercialisation of intellectual property rights, including copyright’.<sup>117</sup>

17.93 Where copyright owners are in a strong bargaining position, they may ‘overreach and circumvent the provisions of the Act to an unacceptable extent’—so that ‘private ordering may lead to a different balancing of parties’ rights than is contemplated in the many complex and carefully structured statutory provisions’ of the *Copyright Act*.<sup>118</sup>

17.94 Ricketson and Creswell note, however, that what is ‘unacceptable’ will depend on the commentator’s perspective.<sup>119</sup> In this context, it seems necessary to differentiate between different types of exceptions and the purposes exceptions are intended to serve.

17.95 Before considering how exceptions might be distinguished for the purpose of introducing limitations on contracting out, questions arise about whether statutory limitations are necessary, given existing law relating to public policy and contracts, and competition law.

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116 See UK Government, *Modernising Copyright: A Modern, Robust and Flexible Framework* (2012), 19.

117 J Carter, E Peden, K Stammer, ‘Contractual Restrictions and Rights Under Copyright Legislation’ (2007) 23 *Journal of Contract Law* 32, 34.

118 Thomson Reuters, *The Law of Intellectual Property: Copyright, Designs and Confidential Information*, [11.640].

119 *Ibid.*

**Public policy**

17.96 In particular, Carter, Peden and Stammer have argued that many contractual terms that restrict user rights under the *Copyright Act* may be invalid as ‘a result of application of the public policy rule relating to the ouster of the jurisdiction of the courts’.<sup>120</sup>

17.97 Carter, Peden and Stammer consider that, as the rights conferred by the *Copyright Act* include positive rights—for example, statutory licences that may be enforced by action against an owner; and rights that may be relied upon by way of defence in proceedings for infringement, this is sufficient to bring the public policy rule into operation.<sup>121</sup>

17.98 They argue, therefore, that prohibiting contracting out by legislation, as recommended by the CLRC, is not necessary:

Unless the purpose is to identify those rights which may be the subject of contractual restrictions, we see no pressing need for legislation to declare contractual restrictions invalid because the common law already provides for invalidity in cases where the public interest requires it.<sup>122</sup>

17.99 This view on contracting out does not seem to be universally accepted. Ricketson and Creswell, for example, state that there is nothing in the *Copyright Act* to suggest that exceptions ‘cannot be pre-empted contractually and the very existence of s 47H serves to confirm this’. They state that, in any event, ‘at general law the waiver of rights and entitlements is readily accepted, in the absence of express legislative prohibition so that little, if anything, will turn on the correct characterization of the statutory exceptions and limitations under the Act’.<sup>123</sup>

17.100 In the context of arguments that rights of fair dealing should be preserved in the face of the increased use of TPMs, Melissa de Zwart suggests that the doctrine of fair dealing might be used to create a shield, on public policy grounds, against the ‘expanding contractual and proprietary claims of copyright owners’.<sup>124</sup>

17.101 One basis for such a development is Kirby J’s reasoning in *Stevens v Kabushiki Kaisha Sony Computer Entertainment* that an interpretation of legislative provisions in the *Copyright Act* that leads to the substitution of contractual obligations interfering with the operation of the fair dealing provisions—the ‘relevant public law—should not be readily accepted’.<sup>125</sup> This reasoning may extend to the interpretation of contractual terms, and the application of a public policy rule.

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120 J Carter, E Peden, K Stammer, ‘Contractual Restrictions and Rights Under Copyright Legislation’ (2007) 23 *Journal of Contract Law* 32, 54.

121 Ibid, citing *Commonwealth of Australia v Verwayen* (1990) 170 CLR 394, 404–405.

122 J Carter, E Peden, K Stammer, ‘Contractual Restrictions and Rights Under Copyright Legislation’ (2007) 23 *Journal of Contract Law* 32, 54.

123 Thomson Reuters, *The Law of Intellectual Property: Copyright, Designs and Confidential Information*, [11.640], citing *Commonwealth of Australia v Verwayen* (1990) 170 CLR 394.

124 M De Zwart, ‘Technological Enclosure of Copyright: The End of Fair Dealing?’ (2007) 18 *Australian Intellectual Property Journal* 7, 37.

125 *Stevens v Kabushiki Kaisha Sony Computer Entertainment* (2005) 224 CLR 193, [210].

17.102 In the ALRC's view, notwithstanding arguments that the general law in Australia may render some contractual terms unenforceable, there would be benefit in clarifying that parties may not contract out of some copyright exceptions.

***Contract and competition law***

17.103 There are arguments that policy concerns about private arrangements replacing or supplementing copyright protection are best left to be dealt with under principles of contract law and competition law.

17.104 In 2002, Professor David Lindsay prepared a paper examining the relationship between copyright and contract law within a law and economics framework. Lindsay stated that understanding the proper relationship between copyright and contract implicates views regarding 'the respective roles of property and contract in a market economy and, indeed, of the respective roles of the law and of the market'.<sup>126</sup>

17.105 Lindsay concluded that limitations on contracting out of copyright protection are generally undesirable. The view that such restrictions are needed 'overestimates the ability of the law to establish optimal rules for the protection of copyright material, at the expense of the considerable advantages to be derived from private market-based arrangements' and the extent to which copyright owners, operating in a competitive market, are capable of unilaterally imposing terms. He considered that:

Insofar as private agreements may result in less than optimal outcomes, they should be dealt with under established principles of contract law, competition law or consumer protection law.<sup>127</sup>

17.106 Lindsay, however, also accepted that there may be an argument for imposing some limitations on freedom of contract 'to the extent that copyright policy is directed at promoting objectives other than economic objectives'. If so, he stated it is important that non-economic objectives 'be clearly specified and that any prohibitions be narrowly focused on achieving such objectives'.<sup>128</sup>

17.107 Similarly, Ricketson and Creswell note that, while economic considerations provide a useful starting point for analysis, 'ultimately both private and public benefit will need to be weighed in the balance in determining where the dividing lines between exclusive rights, compulsory licences and free use should be drawn'.<sup>129</sup>

***Limiting contracting out***

17.108 There is legal doubt about the extent to which contracting out is enforceable, and more certainty is desirable in relation to some exceptions. The question then arises—to which exceptions should express limitations on contracting out apply?

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126 D Lindsay, *The Law and Economics of Copyright, Contract and Mass Market Licences* (2002), Research Paper prepared for the Centre for Copyright Studies Ltd, 6.

127 *Ibid.*, 8.

128 *Ibid.*

129 Thomson Reuters, *The Law of Intellectual Property: Copyright, Designs and Confidential Information* [11.10].

17.109 The CLRC's recommendations were based on a view that contracting out may upset the copyright 'balance'<sup>130</sup> and, in the case of the fair dealing exceptions, that these are 'an integral component of the copyright interest'.<sup>131</sup>

17.110 The idea of balance is an underlying theme of those seeking to defend the operation of copyright exceptions from contractual arrangements. The concern is that 'privately enforced arrangements have the potential to upset important public policies embodied in copyright law, which are premised on establishing a balance of interests'.<sup>132</sup>

17.111 Recourse to the idea of a copyright 'balance' that must be maintained in the face of freedom of contract may be criticised.<sup>133</sup> Lindsay notes that simply to invoke the concept of balance says

nothing about why the objective of copyright law should be to balance owner and user interests, what an appropriate balance should be, and whether the balance established by the current complex combination of exclusive rights and exceptions is anywhere near appropriate.<sup>134</sup>

17.112 Similarly, the ALRC is not convinced that limitations on contracting out can be justified simply by recourse to arguments based on a need to maintain a copyright balance. This balance is constantly contested, as legislators and policy makers seek to determine 'how rights should be reformulated or modified, so as to balance the claims of the respective interests of owners and users'<sup>135</sup>—a process illustrated by this Inquiry.

17.113 Other arguments for and against limitations on contracting out derive from different conceptual understandings of copyright exceptions—on whether exceptions are considered to define the scope of the copyright owner's exclusive rights (that is, are integral to those rights), or are simply defences to claims of infringement of those exclusive rights.

17.114 If the former view is taken, it may be easier to justify limiting contracting out—on the basis that the copyright owner is seeking to extend its exclusive rights beyond their statutory limits. Again, however, the ALRC is not convinced that such an analysis is the most useful prism through which to view the issue.

17.115 A better criterion for identifying a core group of exceptions that should be subject to protection from contracting out is the extent to which exceptions are clearly for defined public purposes. These exceptions include: the fair dealing exceptions, which protect public purposes of research and study; criticism and review; parody and

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130 Copyright Law Review Committee, *Copyright and Contract* (2002), 262.

131 *Ibid.*, 266.

132 D Lindsay, *The Law and Economics of Copyright, Contract and Mass Market Licences* (2002), Research Paper prepared for the Centre for Copyright Studies Ltd, 8.

133 See, eg, Australian Publishers Association, *Submission 225*.

134 D Lindsay, *The Law and Economics of Copyright, Contract and Mass Market Licences* (2002), Research Paper prepared for the Centre for Copyright Studies Ltd, 8.

135 Thomson Reuters, *The Law of Intellectual Property: Copyright, Designs and Confidential Information*, [11.10].

satire; reporting news; and giving professional advice.<sup>136</sup> In addition, the library and archives exceptions are clearly for public rather than private purposes. As Carter, Peden and Stammer note:

The real beneficiaries of the rights are users of the libraries. For example, under s 48A the copyright in a work is not infringed by anything done by a parliamentary library for the sole purpose of assisting a person who is a member of parliament in the performance of the member's duties. The designated beneficiary is the member of parliament, on whose behalf the act is done.<sup>137</sup>

17.116 The fact that users of libraries and archives benefit from these exceptions, but are not parties to the licensing arrangements entered into by libraries and archives, makes it easier to argue that these exceptions should not be able to be removed by contract. An express limitation on contracting out from these exceptions may help remedy problems being experienced by libraries, in particular. Such an approach would be consistent with the principle of promoting fair access to and wide dissemination of content (Principle 3).<sup>138</sup>

17.117 The most important issue, however, is whether the proposed fair use exception should be subject to express statutory limitations on contracting out. The general fair use exception is more likely to be invoked in situations where the copyright user is not in a direct contractual relationship with the copyright holder. This exception also needs to be drafted to cover a broad range of possible uses. In this context, contractual terms may 'reduce the risk of misunderstanding and provide legal certainty where an exception cannot'.<sup>139</sup>

17.118 However, the ALRC is concerned that the benefits of its proposed fair use exception may be seriously compromised if copyright licensing agreements include terms that exclude fair uses. The ALRC proposes that limitation on contracting out should cover the libraries and archives exceptions and the proposed fair use exception—but only in relation to fair use for most of the existing fair dealing purposes;<sup>140</sup> and quotation, in view of the proposal that 'quotation' should be one of the illustrative purposes listed in the fair use exception.<sup>141</sup>

136 *Copyright Act 1968* (Cth) ss 41, 103A, 41A, 103AA, 42, 103B, s 43(2). See also ss 43(1), 104(a), 104(b), 104(c), which do not use the term 'fair dealing' but are broader than the fair dealing exceptions. In its 2004 report, *Genes and Ingenuity*, the ALRC recommended that the *Copyright Act* be amended to provide that, in relation to databases protected by copyright, fair dealing for the purpose of research or study cannot be excluded or modified by contract: Australian Law Reform Commission, *Genes and Ingenuity: Gene Patenting and Human Health*, Report 99 (2004), Rec 28–2.

137 See J Carter, E Peden, K Stammer, 'Contractual Restrictions and Rights Under Copyright Legislation' (2007) 23 *Journal of Contract Law* 32, 46–47.

138 See Ch 2.

139 IASTMP, *Submission 200*.

140 Questions may also be raised about whether use for the purposes of judicial proceedings or giving legal or professional advice (cf *Copyright Act 1968* (Cth) ss 43, 104) should also be covered by limitations on contracting out. However, a contract that sought to prevent copyright material being used for these purposes would be likely to be found contrary to public policy and, therefore, void or unenforceable under the common law doctrine discussed above.

141 See Ch 10.

17.119 In proposing limitations on contracting out, including in relation to fair uses, the ALRC is concerned about the possibility of unintended effects and remains interested in further comment in this regard. One reason policy makers have been reluctant to be prescriptive about limitations on contracting out is the difficulty of predicting future developments in emerging markets and technologies.<sup>142</sup>

17.120 Further, international licensing agreements may specify that the law of another country will apply in determining the rights of the parties, or that a foreign court has exclusive jurisdiction over disputes. The ALRC recognises that the proposal, if implemented, will not affect contracts governed by foreign law.<sup>143</sup>

17.121 In proposing limitations applicable to only some exceptions, the ALRC is not indicating that contractual terms excluding other exceptions should necessarily be enforceable. Rather, this is a matter that should be left to be resolved under the general law or other legislation, including the *Competition and Consumer Act*. If the ALRC's proposal is implemented, explanatory materials should record that Parliament does not intend the existence of an express provision against contracting out of these exceptions to imply that exceptions elsewhere in the *Copyright Act* can necessarily be overridden by contract.<sup>144</sup>

**Proposal 17–1** The *Copyright Act* should provide that an agreement, or a provision of an agreement, that excludes or limits, or has the effect of excluding or limiting, the operation of certain copyright exceptions has no effect. These limitations on contracting out should apply to the exceptions for libraries and archives; and the fair use or fair dealing exceptions, to the extent these exceptions apply to the use of material for research or study, criticism or review, parody or satire, reporting news, or quotation.

## Related issues

### Competition policy

17.122 The 2000 report of the Intellectual Property and Competition Review Committee, chaired by Mr Henry Ergas (Ergas Committee), recommended reform of s 51(3) of the *Trade Practices Act 1974* (Cth)—now s 51(3) of the *Competition and Consumer Act*.

142 D Lindsay, *The Law and Economics of Copyright, Contract and Mass Market Licences* (2002), Research Paper prepared for the Centre for Copyright Studies Ltd, 110.

143 Parties to a contract can choose the proper law by an express provision in their agreement. Where the parties have not chosen the proper law, the contract is, in general, governed by the system of law with which the transaction has its closest and most real connection: Thomson Reuters, *The Laws of Australia*, [5.11.1180].

144 Thomson Reuters, *The Law of Intellectual Property: Copyright, Designs and Confidential Information*, [11.640].

17.123 The Ergas Committee recommended that the s 51(3) exemption from prohibitions on restrictive trade practices should apply only where agreements do not result, or are not likely to result in, a substantial lessening of competition.<sup>145</sup> The Ergas Committee's recommendations were largely accepted in the Government's response to the report, but have not been implemented.<sup>146</sup>

17.124 The ALRC observes that amendment of s 51(3) of the *Competition and Consumer Act*, as recommended by the Ergas Committee, would tend to strengthen arguments that express statutory restrictions on contracting out are unnecessary. The implications of s 51(3) in relation to copyright licensing are considered in Chapter 6.

### Technological protection measures

17.125 Concerns about contracts supplanting copyright law are 'commonly coupled with concerns that technological forms of protection, such as encryption, will give copyright owners effective control over access to, and uses of, copyright material in digital form'.<sup>147</sup>

17.126 The use and circumvention of TPMs raises similar policy issues to those raised by contracting out. It has been argued, for example, that if parties are not able to contract out of the fair dealing exceptions, neither should copyright owners be able to make fair dealing irrelevant by means of technological access controls.<sup>148</sup>

17.127 Just as the CLRC recommended that the operation of some copyright exceptions should be preserved by statutory restrictions on contracting out, a number of previous reviews have reached similar conclusions in relation to TPMs.

17.128 In 2004, the Digital Agenda Review concluded that the *Copyright Act* should be amended to provide that 'any attempt to contractually prohibit the use of a circumvention device or service for the purposes of fair dealing is unenforceable'.<sup>149</sup> In 2006, the House of Representatives Standing Committee on Legal and Constitutional Affairs recommended that an exception for 'fair dealing with copyright material (and other actions) for criticism, review, news reporting, judicial proceedings, and professional advice' be included in new TPM provisions of the *Copyright Act*.<sup>150</sup>

145 Intellectual Property and Competition Review Committee, *Review of Intellectual Property Legislation under the Competition Principles Agreement* (2000), 19.

146 ACCC, *Submission 165*.

147 D Lindsay, *The Law and Economics of Copyright, Contract and Mass Market Licences* (2002), Research Paper prepared for the Centre for Copyright Studies Ltd, 5.

148 M De Zwart, 'Technological Enclosure of Copyright: The End of Fair Dealing?' (2007) 18 *Australian Intellectual Property Journal* 7, 38.

149 Phillips Fox, *Digital Agenda Review: Report and Recommendations* (2004), [1.6].

150 Parliament of Australia, House of Representatives Standing Committee on Legal and Constitutional Affairs, *Review of Technological Protection Measures Exceptions* (2006), rec 27, [4.169].



17.129 In the event, the new TPM provisions, subsequently enacted by the *Copyright Amendment Act 2006* (Cth) did not contain any such exception, in part because of obligations under the Australia-US Free Trade Agreement.<sup>151</sup>

17.130 In the context of this Inquiry, Universities Australia stated that there is ‘little point discussing how contracts are being used to override copyright exceptions without also discussing how TPMs are being used to achieve the same outcome’, as any legislative solution may be ‘sidestepped’ by rights holders using TPMs to achieve the same purpose.<sup>152</sup>

17.131 Arguably, if limitations on contracting out are implemented, consistent amendments to TPM provisions may be justified. That is, there may be little point in restricting contracting out of exceptions, if TPMs can be used unilaterally by copyright owners to achieve the same effect.

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151 *Australia-US Free Trade Agreement*, 18 May 2004, [2005], ATS 1 (entered into force on 1 January 2005), art 17.4.7(e)(viii). See M De Zwart, ‘Technological Enclosure of Copyright: The End of Fair Dealing?’ 18 *Australian Intellectual Property Journal* 7, 21.

152 Universities Australia, *Submission 246*. See also, Copyright Advisory Group—Schools, *Submission 231*; ADA and ALCC, *Submission 213*; R Xavier, *Submission 146*.

