

# SUBMISSION TO INTELLECTUAL PROPERTY & COMPETITION REVIEW COMMITTEE

I refer to the Intellectual Property & Competition Review Committee's ("IPCRC") invitation for the submissions in relation to the recently released Interim Report.

I believe that the IPCRC has generally identified some important issues in the Interim Report, but I submit that it has failed to make appropriate recommendations in relation to the fair dealing provisions in the *Copyright Act 1969*.

I submit that the implementation of the recommendations in Part I of the CLRC Simplification Report will provide a significant boost for developers in the Australian software industry and put it them on a equal footing with their competitors in the USA.

One example of how this competitive advantage will be achieved is set out in the case study below in relation to the development of emulators.

## Case study - Emulator development

Do the developers of game software have a right to force you to use a platform of *their* choice? Or should *you* choose which platform you would like to use particular game software on? For instance, if you already have an iMac or the latest IBM PC, you might find it convenient to play your Game Boy, Atari and PlayStation games on your machine rather than buy different hardware for each type of game. Emulators enable you to do this.

An emulator is a program that enables a computer to run software designed for a different computer or platform. For example, Pokey (an Atari 800/800XL emulator) allows you to run Atari games on a PC. But is this type of emulator legal?

In the recent US case of *Sony v Connectix*<sup>1</sup> has decided that this type of emulator is legal under US copyright law. However, under Australian copyright law they appear to be illegal.

In the Sony litigation, Sony commenced legal proceedings against companies that attempted to supply Sony PlayStation console emulators and web site administrators whose sites contained downloadable emulators. Sony asserted that under US copyright law PlayStation console emulators infringe its legal rights, including its copyright and trade marks.

However, the US Appeals Court disagreed with Sony in its case against Connectix (a developer of Sony PlayStation console emulators). Sony and Connectix have been fighting for the best part of a year over Connectix's right to reverse engineer the PlayStation BIOS code and make an emulator that enables G3 Mac users to play PlayStation games on their desktop systems, PowerBooks and iMacs.

Connectix lost the in the first instance hearing, but on appeal convinced the 9<sup>th</sup> Circuit of the US Court of Appeals that emulators were a fair use under US copyright law.

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<sup>1</sup> Unreported, US 9<sup>th</sup> Circuit Court of Appeals, no 99-15852, 10 February 2000.

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## The Trial

In early 1999 Sony sought an injunction in a US District Court preventing Connectix from supplying its Virtual Game Station to retail outlets in the US. The Virtual Game Station (VGM) is an emulator that allows about 100 of more than 500 PlayStation games to be run Mac G3 platforms. Sony alleged that the VGM infringed its copyright because Connectix had reverse engineered the BIOS code (which contains a combination of C source code and R3000 microprocessor assembly language) in the PlayStation console.

During the development of the VGS, Connectix made many copies of the Sony BIOS in the process of reverse engineering it. This was necessary to obtain information about the unprotected ideas and functions contained in the Sony BIOS.

Connectix pleaded that the reverse engineering that it carried out was a "fair use" under US copyright law and therefore legal. The District Court did not agree. It decided that Connectix had breached Sony's copyright in the BIOS because it had (among other things) repeatedly copied all of the BIOS code and used it to develop a replacement product for the PlayStation console. In the District Court's opinion, the substantial copying that Connectix performed in reverse engineering the BIOS code went beyond fair use.

The District Court also decided that the VGS tarnished the PlayStation trade mark because PlayStation games did not run as well on the VGS as they do on a PlayStation console. This was so even though Connectix published a disclaimer stating that PlayStation games used on the VGS would not run as well as they do on the PlayStation console.

Consequently, the District Court granted an injunction ordering Connectix to stop producing and selling the VGS. Connectix appealed.

## The Appeal

On appeal to the US 9<sup>th</sup> Circuit Court of Appeals, the findings of the District Court were reversed. The Appeal Court found that Connectix's use of the BIOS code was a fair use under US copyright law. The court held that "Intermediate copies made and used by Connectix during the course of its reverse engineering of the Sony BIOS were protected fair use, necessary to permit Connectix to make its non-infringing Virtual Game Station function with PlayStation games."

Further, the Appeal Court ruled that there was no evidence to support the District Court's decision in relation to Sony's trade mark infringement claim.

One issue that was not considered by the Appeals Court was Connectix's claim that its use of the BIOS code was protected under s 117 of the US Copyright Act. Section 117 provides that it is not an infringement of copyright for an owner to make a copies "created as an essential step in the utilisation of the computer program in conjunction with a machine and that it us used in no other manner."

This defence was successful in the *Aymes v Bonelli* case. In *Aymes*, the plaintiff wrote a number of programs for the defendant between 1980 and 1982. The plaintiff alleged that the defendant infringed his copyright in those programs by making modifications to the programs so that they could run on "successive generations of IBM systems", ie, different platforms. The court held that to do so was not a breach of copyright under s 117. It is not clear from

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this case whether US law would allow a defendant to adapt programs to run on any platform as opposed to *successive generations* of the platform to was designed to run on. US case law would suggest not.

### **Australian position**

In contrast to the current US position, if the type of issues that arose in the Connectix case came before an Australian courts, it is possible that an emulator developer would have cause for concern. As the recent Powerflex case demonstrated, reverse engineering rights are very difficult to establish under Australian copyright law. It is doubtful whether recent amendments to the Copyright Act would change this situation.

Under s 47D of the amended Act, a person may reverse engineer copies of a program owned by someone else, but *only* if they intend to make a product that interoperates with that program (this restriction does not apply under the more flexible “fair use” defence under US law). In other words, the right would not be available to Connectix in Australia because the VGS does not interoperate with the PlayStation console code. It is a substitute for it.

Fragile arguments might be able to be mounted in favour of emulator developers under s 47B of the Copyright Act (which is a narrower version of s 117 of US Copyright Act), but these would almost certainly waste a client’s time and money because Australian courts have yet to interpret this section. Any interpretation they do give it in the future is bound to favour copyright owners, not those who engage in reverse engineering (as most Australian cases do). Further, any protection s 47B may provide in this context can legally be excluded by a contrary term or condition in a software licence.

### **Impact of Patents**

Interestingly, Sony did not assert any patent rights in the District or Appeal Courts hearings. Software patents are much more likely to assist in the protection of the functional aspects of software and may have produced the result Sony was seeking in the Connectix litigation. This much was recognised by the Appeals Court in its decision<sup>2</sup> and the proper role of patents should be borne in mind when determining whether to implement the recommendation in Part I of the CLRC's Simplification Report.

### **Conclusion**

In Australia, it would appear that the development of emulators such as the VGS is *not* fair play under current laws. This has serious implications for Australian software developers as they cannot compete in the international market in the same way as their overseas counterparts can.

Accordingly, I submit that the IPCRC considers reversing its position on the introduction of fair use provisions in Australia, even if fair use amendments were restricted to computer programs. This could be done by extending the scope of Division 4A of the *Copyright Act* 1969.

Please contact me if you have any queries regarding this submission.

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<sup>2</sup> Ibid, at 15.