

Date	March 31, 2005	Court	Tokyo High Court, 3rd Intellectual Property Division
Case number	2004 (Ne) 405		
<p>– A case in which the court maintained the judgment in prior instance that found that the transmission and receipt, conducted through the electric file exchange service run by the appellant company, of electronic files (MP3 files) of musical works under the management of the appellee, constitutes infringement by the appellant company of the appellee's copyrights (right to make available for transmission and right to conduct automatic public transmission) for these musical works, and prohibited the appellant company from making the relevant electronic files subject to the transmission and receipt through said service.</p>			

References: Article 2, paragraph (1), item (ix)-4 and item (ix)-5, and Article 23 of the Copyright Act

Number of related rights, etc.:

### Summary of the Judgment

#### 1. Background

The appellee is a copyright management association. The appellant company runs an electronic file exchange service in the name of "File Rogue," using a server owned by a company in Canada (the "Service").

In this case, the appellee alleged against the appellant company that the transmission and receipt of the MP3 electronic files of musical works, which the appellee manages or otherwise handles, through the use of the abovementioned electronic file exchange service constitutes infringement by the appellant company of copyrights for said musical works (right to make available for transmission and right to conduct automatic public transmission). Based on this allegation, the appellee demanded that the appellant company be prohibited from making the relevant electronic files subject to transmission and receipt through said service and sought against the appellant company and its representative director X ("Appellant X") compensation for damages based on infringement of copyrights for said musical works.

The court of prior instance first found that the appellant company infringes the appellee's copyrights for musical works (the "Managed Works") of the numbers stated in the music list (attached to the judgment in prior instance), and then granted an injunction against the transmission and receipt of MP3 files and partially upheld the appellee's claim for compensation for damages against the appellants.

In response, the appellants filed an appeal in relation to the part where they lost the case.

## 2. Court decision

In this judgment, the court also found that the appellant company is the actor who committed infringement of copyrights for the Managed Works, and determined the judgment in prior instance to be reasonable in granting an injunction against the transmission and receipt of MP3 files and partially upholding the appellee's claim for compensation for damage against the appellants. In conclusion, the court dismissed the appellants' claims.

The findings and determination regarding the actor who committed infringement of copyrights are as follows.

- Distribution of information via the Internet is conducted constantly on a daily basis and in large quantity, as, for example, through the use of the Service, and it is socially indispensable. Even if such distribution includes illegal distribution, it is not necessarily technically easy to capture every piece of distributed information. Taking these points into account, it is inappropriate to consider the appellant company to be an actor who commits infringement of copyrights because it provides such information communication service as the Service, only on the grounds that it is likely to be illegally used in general. However, the appellant company should be by necessity accused of being one who causes infringements by an act it can control and can be recognized as an actor who commits infringements if the Service is not merely likely to be illegally used in general but there are also the following facts: in terms of its property, the Service brings about a specific type of illegal act of copyright infringement with a specific and realistic probability; the appellant company provides the Service while being aware of such probability and induces such act of infringement; in addition, it also conducts management of the Service, and there seems to a possibility for the appellant company to gain some sort of economic benefits.

- Regarding the property of the Service

➤ The Service is specialized in file exchange, has functions necessary therefor in an integrated fashion, is highly suited for the transmission and receipt of a specific type of files, that is, MP3 files to be used for the reproduction of commercially-available CDs, etc., and induces such form of use. Taking these facts into account, the Service can be considered to have a specific and realistic probability of bringing about the transmission and receipt of MP3 files to be used for the reproduction of commercially-available CDs, etc. Therefore, in relation to the part relating to exchange of MP3 files, the Service can be found to have the

property of a service intended to have users make MP3 files as mentioned above available for transmission and to have users conduct the automatic public transmission of such files.

- According to the situation before and after the start of the Service, it would be inevitable that many persons recognize that the Service is one that makes it possible for them to exchange MP3 files pertaining to the reproduction of commercially-available CDs, etc. and actually use the Service in that manner. In addition, the appellant company can be considered to have sufficiently expected the occurrence of such situation.

- Regarding the power to manage

- The appellant company provides the Service that has functions necessary for file exchange in an integrated manner, and the Service is suited for the transmission and receipt of MP3 files to be used for the reproduction of commercially-available CDs, etc. and induces such transmission and receipt with a specific and realistic probability. In addition, the appellant company also expected that the Service would be used in that manner. Consequently, just for MP3 files, the appellant company was in the position to perform monitoring so as to eliminate MP3 files that infringe copyrights and to take necessary measures (even if the appellant company cannot perfectly prevent occurrence of infringement, if it is possible to even partially block the exchange of MP3 files that constitutes infringement of copyrights, the appellant company should take such measures).
- Even though the appellant company provides the Service through a Canadian company, it can figure out the location and content of files subject to transmission and receipt in the Service and can take measures, such as restriction of the transmission and receipt of a file (prohibition of the transmission and receipt of a specific file) as needed and prohibition of use of the Service by a specific user. Therefore, the appellant company is recognized as having the power to manage the content of files subject to transmission and receipt.
- In the Service, it is individual users that decide the number and types of MP3 files stored in a shared folder on their own client computers. In addition, individual users also decide whether to connect to the Server. However, taking into account the following facts, the appellant company is considered to be able to control the scope of MP3 files subject to transmission and receipt to a considerable extent, and its power to manage the content of files is affirmable: [i] The appellant company can figure out the number of MP3 files that are made available for transmission at a given time based on the maximum value and average value, etc.,

and it can control the maximum number of files that are made available for transmission at a time by restricting access; [ii] The appellant company can figure out how many Managed Works are included in MP3 files that are made available for transmission at a given time individually based on the names of files and folders or in round numbers based on an estimation by random sampling; [iii] The appellant company can also eliminate illegal MP3 files based on the names of files and folders, though the elimination is not perfect.

- Even if acquisition of file information, receipt of search requests and return of search results, and mediation of direct transmission and receipt of files between users in the Service are processed mechanically and automatically, it is not sufficient to deny the appellant company's power to manage the content of files. Even if the system of the Service is intended to conduct such mechanical processing, the appellant company can still figure out and control the content of transmitted and received files to a certain extent manually or by other means, and also assumes the responsibility of doing so.

- Regarding the existence of the Appellant Company's benefits

- Even if users basically see advertising banners on the appellant company's website only when acquiring an account and downloading the client software, as long as it is indispensable to acquire an account and download the client software to use the Service, the appellant company can be considered to be getting direct benefits, that is, advertising fees, in relation to the provision of the Service. Moreover, it cannot be denied that the Service has value as an advertising medium.
- In addition, the fact that users can transmit and receive MP3 files to be used for the reproduction of commercially-available CDs, etc. in the Service is the biggest power to attract and increase the users of the Service. It is obvious that the commercial value of the Service will increase in the future through a shift to paid provision of the Service or utilization of the Service as an advertising medium, etc. if the number of users increases.

- Comprehensively taking into account the aforementioned points, the appellant company can be recognized as an actor who infringes the right to make available for transmission and right to conduct automatic public transmission in relation to the Managed Works through the provision of the Service.

Judgment rendered on March 31, 2005

2004 (Ne) 405, Appeal Case of Seeking an Injunction against Copyright Infringement

(Court of prior instance: Tokyo District Court; 2002 (Wa) 4237)

Date of conclusion of oral argument: February 14, 2005

#### Judgment

Appellant: Yugen Kaisha Nihon MMO

Appellant: X

Appellee: Japanese Society for Rights of Authors, Composers and  
Publishers

#### Main Text

1. The appeals in question shall be dismissed.
2. The appellants shall bear the court costs.
3. The statement in paragraph 1 of the main text of the judgment in prior instance "electronic files reproduced in the form of MP3 (MPEG-1 Audio Layer-3)" shall be corrected to the statement "electronic files reproduced in the form of MP3 (MPEG-1 Audio Layer-3) (excluding such electronic files other than those pertaining to the reproduction of the musical works stated in said music list)."

#### Facts and reasons

No. 1 Judicial decision sought by the parties

1. Appellants

(1) The part in the judgment in prior instance where the appellants lost the case shall be revoked.

(2) All of the appellee's claims shall be dismissed.

(3) The appellee shall bear the court costs for both the first and the second instances.

2. Appellee

The same as paragraphs 1 and 2 of the main text.

No. 2 Outline of the case

The appellee alleged that the transmission and receipt of the MP3 electronic files of musical works which the appellee manages or otherwise handles, through the use of the electronic file exchange service that is run by the appellant Yugen Kaisha Nihon MMO (hereinafter referred to as the "Appellant Company") in the name of "File Rogue" constitutes infringement of copyrights for said musical works (right to make available for transmission and right to conduct automatic public transmission). Based on this allegation, the appellee filed an action against the Appellant Company to seek an injunction of said act and against the Appellant Company and its representative director X (hereinafter referred to as "Appellant X") to seek compensation for

damages based on infringement of copyrights for said musical works.

The court of prior instance first found that the Appellant Company infringes the appellee's copyrights for musical works (hereinafter referred to as the "Managed Works") of the pieces of music stated in the music list (hereinafter referred to as the "Music List") attached to the judgment in prior instance, and then granted an injunction against the transmission and receipt of MP3 files and partially upheld the appellee's claim for compensation for damages against the appellants. In response, the appellants filed an appeal in relation to the part where they lost the case.

(omitted)

### No. 3 Court decision

This court also determines as follows: The Appellant Company is an actor who infringes copyrights for the Managed Works; regarding the service in question (the "Service"), an injunction should be granted for the transmission and receipt of MP3 files stated in paragraph 1 of the main text of the judgment in prior instance, and the appellants should jointly and severally compensate the appellee for damages to the extent upheld in the judgment in prior instance.

(omitted)

### 2. Regarding [an error in the finding of the system in question]

The following is stated in Exhibit Ko No. 4-1 (a copy of part of the Appellant Company's website):

"File Rogue" is a file exchange tool that is completely free of constraints regarding file type and file size. ...

#### 1) Client

This is software installed on each user's computer. It serves as an interface when a user participates in the File Rogue Community. It is an application used by a user when searching a file or sending a message to or chatting with other users.

#### 2) Server

This plays a role as a guide for direct communication between clients. The server manages messages and chat sessions as well as carrying forward listing (global catalogue) of files that exist in the File Rogue Community. In addition, it also plays the role of sending back a search result in response to a search request from a client.

This model makes it possible for a user to exchange files and messages with all the other

users who are logged in the File Rogue Community."

In addition, the following is stated in Exhibit Ko No. 4-2 (a copy of part of the Appellant Company's website): "The File Rogue Server has a grasp of the information concerning all the valid files in the community and the login status of all users on a real-time basis. Clients in a user's computer can conduct file searches and exchange of messages while having a dialogue with the server."

According to these statements, it is obvious that a user needs to be connected to the Appellant Company's server in order to exchange a file through the use of the Service.

Even if a user can exchange a file by another means, this provides no basis for denying that connection to the Appellant Company's server is indispensable in the Service.

3. Regarding [an error in the finding that the Appellant Company is an actor who infringes the right to make available for transmission and the right to conduct automatic public transmission]

What is sought in this case are an injunction against the transmission and receipt of the Managed Works through the use of the Service and compensation for damages based on the infringement of the right to make available for transmission and the right to conduct automatic public transmission in relation to the Managed Works. Distribution of information via the Internet is conducted constantly on a daily basis and in large quantity, as, for example, through the use of the Service, and it is socially indispensable. Even if such distribution includes illegal distribution, it is not necessarily technically easy to capture every piece of distributed information. Taking these points into account, it is, needless to say, inappropriate to consider the Appellant Company to be an actor who commits the aforementioned infringement because it provides such information communication service, only on the grounds that the Service is likely to be illegally used in general. However, the Appellant Company should be by necessity accused of as one who causes infringements by an act it can control and can be recognized as an actor who commits infringements if the Service is not merely likely to be illegally used in general but there are the following facts: In terms of its property, the Service brings about a specific type of illegal act of copyright infringement with a specific and realistic probability; The Appellant Company provides the Service while being aware of such probability and induces such act of infringement; in addition, it also conducts management of the Service, and there seems to a possibility for the Appellant Company to gain some sort of economic benefits.

(1) Regarding the property of the Service

A. According to Exhibits Ko No.6 and No. 20 and the entire import of the argument, the Service is recognized as one that makes it possible to search a file by keywords and extensions. Based on this fact, the statements indicated in 2., and the facts found in the judgment in prior instance pertaining to the aforementioned citation (B.(A)a. on page 36 of the interlocutory judgment), the Service also has an instant message service function but it is basically specialized in and has

basic functions necessary for file exchange, such as collection and sorting of information necessary to specify a file (building of a database for search), search (accepting a request for search of a file or a folder that includes a specific word in its name and answering with the location of the file or the folder), and mediation of the direct transmission and receipt of a file between users, in an integrated fashion. In addition, the Service can be considered to have hardware (server) for fulfilling these functions and to provide software (the "Client Software") to individual users.

Moreover, the Appellant Company itself explains the Service as a file exchange tool, and furthermore says that "A user can voluntarily choose his/her file which he/she shares with other users, and can also search, inspect, and exchange files which other users set as being shared. By using File Rogue, a user can share any type of file and can exchange files with users around the world" (Exhibit Ko No. 4-1). Taking this into account, it is obvious that the Service recommends individual users not only to obtain files but also to provide their own files to other users.

B. The search function of the Service covers the names of files and folders in the shared folders on individual client computers, in addition to the extensions of files. Therefore, it is possible to search only files and folders whose name consists of a well-known word. To state it from the opposite perspective, the Service can be considered to be suited for searching such files and folders (for example, even if a file, such as a document file, happens to include a search keyword in its content, it is not extracted through search; therefore, a more focused search result is presented to users).

Electronic files pertaining to music basically do not include any words as their content, and it may not be easy to recall a word that simply expresses the content thereof as distinguished from that of other files. It is also considered ineffective, for example, to specify a file by the date and time of creation. Consequently, it is obvious that the most typical method for managing such a file (distinguishing it from other files of the same kind) is to adopt the name of a piece of music or name of an artist as the name of the file, or to attach the name of an artist, etc. to the folder in which the file is stored (according to Exhibits Ko No. 6, No. 17, and No. 20, such files are recognized as being actually handled in this manner). Moreover, even if there are multiple types (formats) of electronic files pertaining to music, an MP3 file format is widely used owing to its file capacity and sound quality balance. In addition, it is a general rule that the extension of a MP3 file is "mp3" (Exhibits Ko No. 6, No. 7, No. 9, No. 17, No. 18, and No. 20 and Exhibits Otsu No. 10 and No. 11, etc.).

Based on the above, an electronic file pertaining to a widely known piece of music, i.e. an MP3 file pertaining to the reproduction of a commercially-available CD, etc., can be considered to be one of the types of files that are highly suited to be searched and furthermore transmitted

and received through the use of the Service. In addition, an MP3 file enables a user to obtain a paid piece of music for free. Therefore, in terms of the property, the Service is considered to have strong power to induce users to conduct such use.

This is proven by the fact that most MP3 files that were made available for transmission through the use of the Service were actually reproductions of commercially-available CDs, etc. (Exhibits Ko No. 6, No. 17, and No. 20; incidentally, the appellants make an allegation that denies the probative force of these reports, but there is no specific ground for the allegation and the allegation is thus unacceptable).

C. As mentioned in A. and B., the Service is specialized in file exchange, has functions necessary therefor in an integrated fashion, is highly suited for the transmission and receipt of a specific type of files, that is, MP3 files pertaining to the reproduction of commercially-available CDs, etc., and induces such form of use. Taking these facts into account, the Service can be considered to have a specific and realistic probability of bringing about the transmission and receipt of MP3 files pertaining to the reproduction of commercially-available CDs, etc. Therefore, in relation to the part relating to exchange of MP3 files, the Service can be easily found to have the property of a service intended to have users make MP3 files as mentioned above available for transmission and to have users conduct the automatic public transmission of such files.

Incidentally, as the Service does not distinguish files subject to transmission and receipt based on the type thereof, the same applies, for example, to a document file pertaining to a famous author's novel. However, this does not affect the finding that the Service has the aforementioned property. In addition, as mentioned in I. below, the situation just before and after the start of the Service can be considered to show the aforementioned property of the Service more strongly.

D. In this regard, the appellants allege as follows: The Service does not differ from line provision services, such as B FLET'S, Internet connection services provided by ISPs, combinations of a web browser and a search engine, and file-sharing capabilities of network-compatible operation systems, and it is not general procedure to select a specific form of use of these services and discuss the property thereof; therefore, the Service should also be treated as such.

(A) As mentioned above, the Service is specialized in file exchange, provides functions necessary therefor in an integrated fashion, is suited for the exchange of MP3 files pertaining to the reproduction of commercially-available CDs, etc. in terms of its property, and strongly induces such use. On the other hand, B FLET'S, etc. are intended only to provide a line, and ISPs only provide connection to the Internet. Different from the Service, these services do not induce users who have received provision of a line or connection to transmit and receive a

specific type of files. Furthermore, mere provision of a line or connection does not make it possible or easier to exchange files.

(B) In addition, combinations of web browsers and search engines were not originally intended for file exchange nor do they recommend users to provide files. In addition, as words on websites are also subject to search, it is not necessarily possible to precisely figure out the location of MP3 files pertaining to the reproduction of commercially-available CDs, etc. Therefore, such combinations are not considered to cause a specific and realistic probability of having users transmit and receive MP3 files pertaining to the reproduction of commercially-available CDs, etc.

(C) Even if the file-sharing capabilities of a network-compatible operation system have a function equivalent to the Service in relation to exchange of MP3 files pertaining to the reproduction of commercially-available CDs, etc., it is impossible to discuss such file-sharing capabilities and the Service in the same manner (Exhibit Ko No. 16) in terms of the probability of causing use, that is, the aforementioned exchange of MP3 files, for the following reason: The latter does not depend on an operation system (see the statement in Exhibit Ko No. 4-2 "File Rogue is written in JAVA and can work on various platforms, irrespective of the operation system. File Rogue works in the JAVA 1.3 environment or higher") and potentially covers all persons who have Internet access, and actually, it acquired many users immediately after its start and makes the tens of thousands of files (MP3 files) available for transmission on a steady basis; On the other hand, the former is only available to those who are users of said operation system and belong to a specific network (LAN), and the number of MP3 files pertaining to the reproduction of commercially-available CDs, etc. accumulated therein is recognized as not becoming particularly large, and in addition, files in a folder set as one that is shared are constantly shared (different from the Service, it is not that files are shared only when a user activates specific software), and it is common knowledge that users think that an illegal act is easily discovered in a small and closed network. Furthermore, document files, etc. relating to work, etc. are also exchanged among those who belong to a specific network (it is possible to set an appropriate search word owing to shared knowledge, etc., which they come to acquire by belonging to the same organization), and the file-sharing capabilities of a network-compatible operation system are thus not especially advantageous only with regard to exchange of MP3 files pertaining to the reproduction of commercially-available CDs, etc.

(D) Even if there is some degree of distribution of information via electronic bulletin boards or the Internet itself that falls under defamation or infringement of copyright, the specific form thereof is undetermined and may not be easy to understand. On the other hand, in the Service, a typical act of copyright infringement occurs with a specific and realistic probability. As the manager of the server, the Appellant Company (provider of the Service) can, easily and with

considerable accuracy, recognize and figure out files pertaining to the reproduction of commercially-available CDs, etc. out of MP3 files among all files that have been made available for transmission, based on the names of files or folders. Therefore, the Service cannot be equated with such distribution of information.

E. According to Attachments 1 to 9 of Exhibit Ko No. 6, Attachments 2 to 13 of Exhibit Ko No. 20, and the entire import of argument, the Service is recognized as having an AND search function based on an extension and a single keyword. This function alone is sufficient to search MP3 files pertaining to the reproduction of commercially-available CDs, etc. whose file name or folder name is a famous original title or a name of an artist. Incidentally, based on the existence of the "Search Refinement (R)" button, it can be presumptively recognized that it is possible to conduct an AND search by inputting a word stepwise though it is impossible to conduct an AND search by inputting multiple words at a given time.

Moreover, even if it can be presumptively recognized that dummy files are also made available for transmission in the Service (Exhibits Otu No. 34 to No. 36), the number thereof and the percentage thereof in all MP3 files that are made available for transmission are unclear. This fact is not sufficient to reverse the finding that the Service is convenient for transmitting and receiving MP3 files pertaining to the reproduction of commercially-available CDs, etc.

F. Even if it is true that legitimate transmission and receipt of MP3 files could be conducted through the use of the Service and it is impossible to deny the possibility that the percentage of such transmission and receipt will increase in the future, it is not recognized even based on all the pieces of evidence in this case that there is the probability that the actual conditions of use of the Service up to the ruling of the provisional disposition in question will significantly change. As long as this is true, the aforementioned finding concerning the property of the Service (the Service has a specific and realistic probability of having users exchange a specific type of files: MP3 files pertaining to the reproduction of commercially-available CDs, etc.) based on the actual conditions of use up to the ruling of the provisional disposition in question will not be reversed.

Incidentally, the main text granting an injunction in question (hereinafter referred to as the "Main Text Granting an Injunction") does not make it inevitable that the Service itself will be suspended, as mentioned below.

G. The terms of service of the Service (Exhibit Ko No. 5; hereinafter referred to as the "Terms of Service") may provide for the notice and takedown procedures by stipulating that: "We may delete or suspend the use of your account without prior notice. In addition, we may delete the whole or part of the information you input or a list of file names uploaded on the central server without prior notice" (on the first page of Exhibit Ko No. 5); and that "•Complaints from right holders: You shall agree to follow the 'terms of the notice and takedown procedures' if you

receive a claim for elimination of the shared status from a person who alleges that his/her own right was infringed by a file which you made available for transmission" (on the third to fourth pages of said Exhibit). However, the Terms of Service are originally intended only to eliminate an act of infringement after the fact and is not intended to prevent it.

Occurrence of such act may be eventually deterred owing to the existence of said procedures and elimination of acts of copyright infringement after the fact through appropriate application of the procedures. However, in the Terms of Service, the Appellant Company clearly states that it neither manages nor investigates actively the actual use of the Service by stipulating that "Moreover, we shall neither manage nor investigate the information inputted by users and information about exchanged files in principle" (on the second page of Exhibit Ko No. 5). In addition, the Appellant Company does not have users declare their names and addresses. Therefore, it can be said that not a few users believe that they would not be subject to inquiry regarding their civil or criminal responsibility because anonymity is kept among users and their own identity would not be easily revealed. Consequently, it is not recognized that users refrain from committing acts of copyright infringement due to the existence of the notice and takedown procedures.

In addition, under the system of the Service, users form the status of connecting to the Appellant Company's server only when they want to by activating the Client Software. If a user cuts the connection to the server, information about the files which he/she made subject to transmission and receipt is deleted from the search database. Therefore, it is considered substantially difficult for a third party who does not manage the Appellant Company's server to figure out what files individual users have made available for transmission or have conducted automatic public transmission of. Consequently, it is also considered difficult for right holders to use the notice and takedown procedures.

In that case, the notice and takedown procedures cannot be considered to be an effective means of preventing the transmission and receipt of MP3 files pertaining to the reproduction of commercially-available CDs, etc. in relation to the Service, and it cannot be said that adoption of said procedures lessens the transmission and receipt of such MP3 files and changes the aforementioned finding concerning the property of the Service.

Incidentally, the Terms of Service stipulates that "•Prohibited matters: ... (a) Making a file, which infringes a copyright, neighboring right, right of honor, right to privacy, or any other right of a third party, available for transmission" (on the second page of Exhibit Ko No. 5) and that "• Guarantee: You shall agree that any file set as being shared does not infringe any third party's right. ... Illegal acts shall include infringement of the 'right to make available for transmission' by making a copyrighted file available for transmission on your own computer without permission"(on the third page of the same). Even taking into account that the Appellant

Company alerts users not to commit the act of transmission or receipt of a file that constitutes infringement of a copyright, the aforementioned finding concerning the property of the Service is not affected.

H. The appellants neither allege nor prove specifically the existence of users of the Service who had been authorized to make available for transmission or to conduct automatic public transmission by the appellee, or the percentage of such users. Therefore, it is impossible to discuss the property of the Service on the premise that such users do not represent all users but account for a significant percentage.

It is not recognized that other measures sufficient to prevent exchange of MP3 files pertaining to the reproduction of commercially-available CDs, etc. are taken in the Service, and there is no fact that is sufficient to reverse the aforementioned finding that the Service has the property of a service intended to make it possible to transmit and receive the aforementioned MP3 files.

I. Before the start of the Service, there had been a file exchange service called "Napster," which adopted a hybrid P2P system and had a great number of users by enabling exchange of electronic files of musical works, in the United States. This was also known in Japan, and the Service had been in the news before and after the start thereof as one that provides service similar to that of Napster (Exhibit Ko No. 9).

Moreover, the following was reported in Nikkei Business Daily dated September 28, 2001 (Exhibit Ko No. 10): "ITP Solutions (Calgary) that runs a free file exchange site (File Rogue) in Canada will start its service in Japan in the middle of October. ... It plans to launch a full-scale file exchange site in the Japanese language in cooperation with Nihon MMO ....

The adopted mechanism is almost the same as that of Napster in the United States, a free music exchange site. Users share their own files, such as music files, in the network, and freely search and download them. A user can obtain his/her desired song for free if another member has it."

Furthermore, the start of the Service was covered on television on November 1, 2001. In the coverage, the Service was introduced as follows: "Get new songs for free"; "A service that shakes the Japanese music industry started"; "The service makes it possible for its users to obtain all pieces of music recorded on CDs, including new songs of popular artists, at home and for free, and has already caused a controversy over copyrights"; "In the United States, a company named Napster started a similar service two years ago. The number of its users is about 50,000,000, and amazingly, 3,000,000,000 pieces of music were freely exchanged in one month"; "Different from Napster, MMO's service is provided in the Japanese language, and the number of its users in Japan is expected to explode. The service started at nine o'clock this morning and 20,000 pieces of music were registered in just six hours." In addition, Appellant X

also stated as follows: "At least around 100,000 persons will use the Service annually. About 1,000,000 pieces of music will be exchanged." Furthermore, in response to the Recording Industry Association of Japan's comment that there is no other choice but to take legal action against the Service as the Service infringes copyrights, Appellant X stated as follows: "We only provide an opportunity to exchange files freely. How users use the Service is outside our responsibility" (incidentally, the same television station did a broadcast about the start of the Service two more times, and introduced the Service as one that makes it possible to obtain MP3 files pertaining to the reproduction of commercially-available CDs) (Exhibit Ko No. 18).

According to the situation before and after the start of the Service as mentioned above, it goes without saying that many persons recognize that the Service is one that makes it possible for them to exchange MP3 files pertaining to the reproduction of commercially-available CDs, etc. and use the Service in that manner. This situation can be considered to indicate more strongly the property of the Service pertaining to the aforementioned finding. In addition, the Appellant Company should be considered to have sufficiently expected the occurrence of such situation.

(2) Regarding the power to manage

A. According to the findings and instructions in 2. and 3.(1) above and the system of the Service as found in the judgment in prior instance pertaining to citation (a. to d., f., and g. on pages 39 to 40 of the interlocutory judgment) (incidentally, regarding the fact mentioned in g. above, as long as the Appellant Company explains the method of using the Service on its website, it is obvious in light of rules of thumb that users use the explanation as a reference in some form, setting aside the question of the degree and form of use of the explanation), the Appellant Company provides the Service that has functions necessary for file exchange in an integrated manner, and the Service is suited for the transmission and receipt of MP3 files pertaining to the reproduction of commercially-available CDs, etc. and induces such transmission and receipt with a specific and realistic probability. In addition, the Appellant Company can be considered to have expected that the Service would be used in that manner. Consequently, just for MP3 files, the Appellant Company should be considered to be in the position to perform monitoring so as to eliminate MP3 files that infringe copyrights and to take necessary measures (even if the Appellant Company cannot perfectly prevent occurrence of infringement, if it can block, even partially, exchange of MP3 files that constitutes infringement of copyrights, it should by necessity take such measures).

Even though the Appellant Company provides the Service through a Canadian company, it can figure out the location and content of files subject to transmission and receipt in the Service and can take measures, such as restriction of the transmission and receipt of a file (prohibition of the transmission and receipt of a specific file) as needed and prohibition of use of the Service

by a specific user (see the content of the Terms of Service as found in (1)G. above). Therefore, the Appellant Company is recognized as having the power to manage the content of files subject to transmission and receipt.

B. The appellants allege as follows: Even if the MP3 files of the Managed Works become subject to transmission and receipt, the Appellant Company can neither ask the appellee to give the authorization to appropriately exploit the works nor eliminate MP3 files that infringes the appellee's copyrights as it cannot decide files subject to transmission and receipt in the Service; therefore, the Appellant Company should not be considered to have the power to manage the content of files.

In the Service, it is individual users that decide the number and types of MP3 files stored in a shared folder on their own client computers. In addition, individual users also decide whether to connect to the Server. However, taking into account the following facts, the Appellant Company is considered to be able to control the scope of MP3 files subject to transmission and receipt to a considerable extent, and its power to manage the content of files is affirmable: [i] The Appellant Company can figure out the number of MP3 files that are made available for transmission at a given time based on the maximum value and average value, etc. (Exhibit Ko No. 16), and it can control the maximum number of files that are made available for transmission at a time by restricting access; [ii] The Appellant Company can figure out how many Managed Works are included in MP3 files that are made available for transmission at a given time individually based on the names of files and folders or in round numbers based on an estimation by random sampling; [iii] The Appellant Company can also eliminate illegal MP3 files based on the names of files and folders, though the elimination is not perfect (see 4. below in relation to the point that the Appellant Company can do so). Incidentally, even if such management does not fall under management in the sense of being able to specifically decide the scope of files subject to transmission and receipt, the Appellant Company itself adopts and provides such system (the Appellant Company enjoys the advantage of this system that makes it possible to realize exchange of many or large files with a relatively low-speed line and inexpensive devices, such as a server that does not have a high-capacity storage device). As long as the Appellant Company can conduct control as mentioned above, it is impossible to deny the Appellant Company's power to manage the content of files even if the Appellant Company does not decide transmitted and received files.

C. The appellants allege the adequacy of the determination indicated in the judgment on the Club Cat's Eye case and an error in the application of the determination to this case at full length. However, the Appellant Company is recognized as an actor who commits infringement, as mentioned above.

In addition, in terms of interpretation of the Copyright Act, actors who commit copyright

infringement should not be limited to those who actually commit a physical act, that is, use of a work, etc. itself, and the appellants' allegation of a violation of Article 29, paragraph (2) of the Constitution of Japan on a premise different from this perspective lacks the valid premise thereof and is thus unreasonable.

D. Even if acquisition of file information, receipt of search requests and return of search results, and mediation of direct transmission and receipt of files between users in the Service are processed mechanically and automatically, it is not sufficient to deny the Appellant Company's power to manage the content of files found in A. and B. above. Even if the system of the Service is intended to conduct such mechanical processing, the Appellant Company can still figure out and control the content of transmitted and received files to a certain extent manually or by other means, and also assumes the responsibility of doing so.

(3) Regarding the existence of the Appellant Company's benefits

Even if users basically see advertising banners on the Appellant Company's website only when acquiring an account (see the Terms of Service) and downloading the Client Software, as long as it is indispensable to acquire an account and download the Client Software to use the Service, the Appellant Company can be considered to be getting direct benefits, that is, advertising fees, in relation to the provision of the Service. Moreover, the Service cannot be considered to have no value as an advertising medium.

In addition, the fact that users can transmit and receive MP3 files pertaining to the reproduction of commercially-available CDs, etc. in the Service is the biggest power to attract and increase the users of the Service (incidentally, an increase in the number of users and an increase in the number and types of MP3 files transmitted and received through the use of the Service have a positive effect on each other; that is, if the former occurs, the latter occurs, and consequently, the Service becomes increasingly attractive, and the number of users increases). It is obvious that the commercial value of the Service will increase in the future through a shift to paid provision of the Service or utilization of the Service as an advertising medium, etc. if the number of users increases.

(4) Comprehensively taking into account the aforementioned points, the Appellant Company can be recognized as an actor who infringes the right to make available for transmission and right to conduct automatic public transmission in relation to the Managed Works through the offering of the Service.

4. Regarding [an error in the Main Text Granting an Injunction]

(1) In short, the appellee's claim is one for an injunction against the act of making the Managed Works subject to transmission and receipt through the offering of the Service.

In light of the instructions in the judgment in prior instance pertaining to the aforementioned citation, it is clear that said act is the subject matter of an injunction granted in the Main Text

Granting an Injunction, and that the phrase "electronic files reproduced in the form of MP3 (MPEG-1 Audio Layer-3)," which are stated in the Main Text Granting an Injunction as those that should not be subject to transmission and receipt, is not intended to include MP3 files other than those pertaining to the reproduction of the Managed Works. Therefore, the Main Text Granting an Injunction does not go against the principle of party disposition. Incidentally, in order to avoid the misunderstanding as alleged by the Appellant Company, the Main Text Granting an Injunction is partially corrected as paragraph 3 of the main text just in case for the purpose of making the purpose of the Main Text Granting an Injunction clearer.

(2) The Appellant Company alleges that it is impossible to perform the Main Text Granting an Injunction.

However, the names of files and folders subject to search in the Service are considered to consist only of an original title or a name of an artist in most cases (Attachments 1 to 9 of Exhibit Ko No. 6 and Attachments 2 to 13 of Exhibit Ko No. 20). Therefore, it is possible to determine the files that are considered to be subject to injunction against transmission and receipt in the Main Text Granting an Injunction without requiring much time (the aforementioned pieces of evidence and the entire import of argument) by using a method of narrowing down files to, for example, those whose name consists of an original title or name of an artist starting with the character "宇" (it is not necessary to conduct processing to determine whether each kanji, hiragana, katakana, or alphabetical character that indicates the original title or name of an artist corresponds one by one) and then repeatedly determining whether or not to eliminate a file through filtering. Therefore, it is not impossible to perform the Main Text Granting an Injunction. In addition, it is also possible to comply with search requests from receivers by adding files that have passed through such filtering to the database in order of precedence. Consequently, it is not the case that there is no other choice but to suspend the entire Service in order to perform the Main Text Granting an Injunction.

(omitted)

#### 6. Regarding [an error in relation to applicable law]

The Appellant Company is a Japanese corporation. In addition, the Appellant Company's website is written in the Japanese language, and the Client Software is also written in the Japanese language. In light of these facts, it is recognized that most cases of transmission and receipt of files through the use of the Service are conducted in Japan. Even if the Appellant Company's server is located in Canada, the Appellant Company can decide to run, stop, or otherwise handle the server in relation to the Service (Exhibit Otsu No. 8-1). Based on the above, even if the Appellant Company's server is not located in Japan, the act of copyright

infringement in the Service can be considered to have been substantially committed in Japan. In addition, the infringed rights are also based on the Copyright Act of Japan.

According to the aforementioned facts, Japanese law should be applicable to this case pursuant to the reason (in relation to a claim for an injunction) or Article 11, paragraph (1) of the Act on General Rules for Application of Laws (in relation to a tort).

#### 7. Conclusion

On these grounds, the judgment in prior instance is reasonable, and the appeal filed by the appellants shall be dismissed as there is no reason therefor. For the court costs, the judgment shall be rendered in the form of the main text by applying Article 67, paragraph (1), Article 61, and Article 65, paragraph (1) of the Code of Civil Procedure.

Tokyo High Court, Third Intellectual Property Division

Presiding judge: SATO Hisao

Judge: SHITARA Ryuichi

Judge: TAKASE Yoshihisa