# Presentation by Eamon Shackleton, Director of Services, IMRO to Organisation of Independent Music Publishers Los Angeles, April 2002

## *Introduction*

The Irish Music Rights Organisation (IMRO) is an association of authors, composers and publishers of music. It is a collecting society. It engages in collective action on behalf of individual songwriters and composers. Its principal function is to administer collectively for them some of their copyrights that they cannot administer themselves.

## *The Performing Right*

The copyright, or group of copyrights, that IMRO administers on behalf of its members is generally referred to as the 'performing right' and the performing right, under the previous legislation - the 1963 Act - comprised 3 separate rights; the broadcasting right, the public performing right and the cable diffusion right. They are the 3 rights that members of IMRO assign to IMRO for them to be administered on their behalf.

As I said, the performing right includes the public performing right. The public performing right is where music is heard in a public place or under public conditions, normally pubs, clubs, restaurants, hotels, airplanes, coaches and the rest. It covers not only in-person performances but also performances by means of records, tapes etc.

The relevant issue that we are going to deal with today is the public performance of broadcasts, that is where a broadcast is received in a public place - in a bar, in a club or in a restaurant - and then is performed within that venue by means of the radio or television. We can see what Article 11 bis of Berne speaks of in relation to this. It actually envisages it and sets it out quite explicitly:-

"the public communication by loudspeaker or any other analogous instrument transmitting by signs, sounds or images, the broadcast of a work"

## *The International IMRO System*

In addition to representing IMRO members in Ireland, we also represent the members of similar organisations throughout the world in Ireland. Each country has an organisation similar to IMRO and the members obviously join those associations and then we all link together by way of a reciprocal representation system. In Ireland, we represent the authors, composers and publishers of the United States, the United Kingdom etc. That is how IMRO became interested and involved in the issue of US copyright provisions.

## *The IMRO Complaint*

IMRO was formed in 1989 as an agency for the UK collecting society, PRS. In 1995 it became a fully autonomous organisation. It was quite concerned with the apparent absence or low level of overseas earnings for Irish members, particularly from the US. IMRO embarked upon an examination of what factors were influencing this and we came across Section 110(5). We felt that it was important for a new organisation like IMRO - the first one to be created in Europe since the beginning of the 20th century - to establish itself internationally as quickly as possible. There was a political as well as a financial context to this complaint.

This involved an examination of the industry in the US as well as the level copyright protection available there. We concluded that the exemption to copyright control in the US was not consistent with internal norms and negatively affected the ability of the collecting societies to collect performance royalties.

We then made a submission to the European Commission on our findings. The Commission accepted our view and sought the removal of the exemptions by discussions. These failed and a formal complaint procedure was invoked by the Commission before the World Trade Organisation (WTO).

## *Berne Convention*

The Berne Convention, as most of you know, is an international treaty that was first established in 1886 in order to deal with international copyright protection. The basic principle behind the Berne Convention is that if you are a Member State of the Berne Union then you are obliged to afford national protection to rightholders who happen to be nationals of another Member State. Most national copyright laws, which are based on Berne, and these laws basically say that if you are a national of the Berne Union and you find that something is happening in another country which infringes your rights then you are entitled to go to the courts of that jurisdiction and seek the same reliefs as if you were effectively a national of that particular jurisdiction.

Berne does very little, in many respects, to provide harmonisation of laws. There are basic minimum rights in terms of reproduction rights etc., but what they consist of and how they function on a day-to-day basis is, by and large, left to national laws to flesh out. More importantly, the dispute resolution provisions in relation to Berne are extremely under-developed. There is no real court jurisdiction other than through the WTO to bring before an international tribunal another Member State of the Berne Union for, let’s say, non-implementation of Berne minima provisions.

## *TRIPS Agreement*

The TRIPS Agreement, however, is a rather different animal.

TRIPS - the Trade Related Intellectual Property Rights provisions of the WTO - is a special agreement and there were some 26 WTO agreements agreed in 1993/4 in which the TRIPS provisions are extremely important.

The TRIPS, by and large, reflect a lot of acceptable international law norms. There are sections on copyright, on patents/trademarks, even sections dealing with things like trade secrets. The TRIPS provisions basically provide that a dispute between individual Member States in relation to TRIPS is a matter than can be resolved through the general dispute resolution mechanisms of Article 64 of TRIPS. The issue of whether there is a dispute and whether a State is observing its obligations under the TRIPS Agreement is something that is, by and large, justiciable.

This builds upon some of the provisions in the old GATT Agreements, where there were dispute resolution mechanisms. An important point to bear in mind is that under the GATT provisions, which basically go from 1947 - 1994, there were about 100 disputes regarding international trade law but none of those disputes were actually copyright disputes. It just simply wasn't at the races.

If you look at the provisions under the TRIPS, the situation has changed dramatically. Up until the middle of 1999, which are the last figures I have, there were 15 issues that were referred under Article 64. Over 10% of the references were copyright related disputes and some of these disputes involved Ireland. For example, in 1997 there were some issue about whether Ireland was TRIPS compliant, particularly in relation to remedies, and this ultimately led to correspondence, a Panel was nearly convened etc. but, eventually, the 1998 Irish legislation managed to divert that particular dispute.

## *USA Copyright Act*

The important thing to note about the US legislation is that US philosophy really goes back to the origins of the US copyright system. The US doesn't take to the property right idea as the Europeans do. What the US says is that they have a statutory monopoly here but the monopoly will only exist insofar as it can be seen to be balanced vis-à-vis the public good. This is a very important philosophical difference between the American tradition and what we would describe perhaps as the 'Berne-type' tradition, that copyright is there in order to progress and, in the words of the Constitution, *"the progress of science and useful arts"*. It is not a blank cheque which can be used by rightholders willy-nilly.

## *The Aiken Case*

Aiken was a case involving a small fast-food outlet of approx. 900 $ft^2$, where people came in to the fast-food outlet, bought their burgers or whatever, they either took them out immediately or they stood around at a lunch counter. There were a couple of speakers in this place, which blared out radio transmissions.

The issue was whether this was a performance in public of the musical work that was included in the broadcast. If it was, then it meant that this was a performance in public and therefore the restaurateur was obliged, perhaps, to get a consent for the necessary licence.

On the other hand, if it wasn't a performance in public, then there would be no commercial use of that music by the restaurateur. The decision that the Supreme Court took was, in effect, look what's the problem here? When the broadcast organisation takes a licence, they pay the collecting society in order to be able to use the music in the broadcast. The secondary use by a receiver of the broadcast, in effect, is something that is already being adequately provided for in the agreement between the broadcast organisation and the collecting society. This is seen as a 'remote' or 'minimal' reuse, a secondary use but a remote or minimal reuse, that means that the legislation is not breached.

The Supreme Court said that the facts of Aiken represent the 'outer limit' and the kind of statement that is involved here is that the floor space here and the fact that these are 2 fairly innocuous speakers, which are simply rebroadcasting, constitute the outer limits of the exemption.
What actually happened in consequence of the 1975 decision in Aiken was that Congress sat down and decided whether it was right to regard the commercial reutilisation by Mr Aiken as being a copyright exempt act. The ultimate decision was that no, this wasn't so, but that

Aiken should be put, in effect, on a statutory basis to what is called the 'Homestyle Exemption' (S110(5)). Basically, it says that if there is a single receiving apparatus, which is used in a home, and if the single receiving apparatus is transmitting a broadcast, as distinct from, let's say, playing records or tapes, then that use of a single receiving apparatus should be not seen as an infringement of any performing right.

The reasoning of Congress was that this is part of American culture. This is about small businesses and giving small businesses a break. The image is the so called 'Mom and Pop Store' image, namely that here we are dealing with small business, where Mom runs the store, does the selling and Pop stands over the till, presumably with a shotgun, in order to take the money - this kind of folksy image that we have.

The difficulty is that the folksy image isn't in accordance with the legislation. The legislation doesn't actually refer to Mom and Pop. It talks about single receiving apparatus etc. In other words, the commercial context, the small business image, is not actually part of the legislative provisions.

What happened is that in a number of circuit cases, and the 2 examples of this are Edison Bros and Claire Boutiques, two cases that suggest that, at least in relation to retail stores as distinct from bars and restaurants, you can actually have a fairly significant economic dimension which comes within the exemption. Claire Boutiques involved a chain of shops which, instead of trying to obtain a licence in order to play music, decided that it wanted to pick up radio broadcasts and play them over the loudspeakers. There was a very deliberate choice here, the point being that, in Claire Boutiques, we have a chain of several hundred stores throughout the United States and the court says you've got to take each unit as it exists and decide whether it comes within the Aiken exemption. And the Court held, yes, even though the turnover of these stores was in the region of US$35 million and the important use was clearly a commercial use, a deliberate decision had been made in order to do that.

This had an important effect on US collecting societies because the courts were giving the exemption a very extensive interpretation, because Mom and Pop isn't part of the definition they could ignore the legislative history and, in cases like Claire Boutiques, they decided they would ignore the legislative history and simply say that no, that if Congress wanted to write in this kind of stuff they would have done so. More importantly, in Claire Boutiques, the argument was put that this is incompatible with the Berne Convention. The court disagrees, saying that Congress has stated that this is Berne compatible. The court is not going to look behind the Berne Convention or apply the Convention in contradistinction to its own domestic legislation. So, the real issue was the relationship, if any, between the domestic US law and US international obligations and whether, in that context, international treaty provisions can have any impact upon the way in which US domestic law operates within the broader international context.

## *Implied Exceptions*

With the introduction of the "Fairness in Music Licensing" Act, the intention was that the exemption in US Section 110 would be broken down into 2 types; the first is the so called 'Homestyle Exemption' - the Mom and Pop exemption. That remains in much the same kind of form, except it only covers music that is music in dramatic form - operas, operettas, extracts from musicals like Cats etc. The 'Homestyle' exemption applies to a broadcast which includes that kind of music, very narrow.

Section 110(5)(B) sets out a broader commercial exemption, as the Panel described it, which deals with different types of use of non-dramatic works, so all songs, all the kind of stuff you hear on the radio, as long as it is non-dramatic, is covered by the second exemption. The new exemption is much broader. What it basically says is, if you are one of these establishments - a pub or restaurant - and your floor space falls within certain limits, or if you are a retailer with a store and your floor space is subject to a certain size then you can play the radio transmission and retransmission without any problem, without infringing any rights of the author. Even if your floor space is bigger, you can still take yourself outside of the legislation by having fewer speakers in the room or a smaller TV screen than the legislation allows for.

The net effect of this was basically to mean that retail stores, restaurants and bars could, through various ways, say they were going to play the radio and don't have to pay anybody for it.

The issue about the Berne Convention is really this: the Europeans' complaint was based upon exclusive rights that you find in Article 11 bis and 11(2) of the convention dealing with such copyright use. There is a provision, however, in the Berne Convention, which is 11 bis (2), that says Member States of Berne are entitled to deal with this by providing for compulsory licences as long as the rightholder has equitable remuneration and Article 11(2) deals with a cable transmission of a work, which is also a cable transmission of a broadcast, the argument goes, is also infringed by Section 110(5) of the US Act.

What the Europeans were saying was that the TRIPS Agreement says there are certain provisions of the Berne Convention that Member States must observe and Article 11 bis and 11(2) are two such provisions. The Americans aren't doing this because they created an exemption. They don't make any possibility of equitable remuneration. That is a breach of Berne and is a breach therefore of the TRIPS Agreement. In order to get a breach of Berne justiciable you have to lever it in by virtue of TRIPS status.

The Americans actually acceded to the Berne Convention very late, in 1988, with effect from 1989, and they had amended very slightly US law on a couple of points but on some provisions, for example on Section 110 and on things like moral rights, they decided that they were not going to either express reservations or caveats about this provision.

The Europeans' position was fairly straightforward - you are in breach of these provisions of Article 11. People can receive the music over loudspeaker, they can receive the music via cable and you are giving an exemption without reference to equitable remuneration.

The American argument is different. The Americans argue that Article 11 is irrelevant here. These 2 provisions are irrelevant. What they are relying on is the concept of an 'implied' or 'minor' exception. They are not really concerned with any of the overt exceptions of provisions in the Berne Convention and even the Berne Union recognises that Member States are entitled to adopt *de minimis* provisions - the law does not concern itself with trifles.

## *Article 13 - TRIPS (The 3 Step Test)*

Could the Americans use the Berne Convention and the fact that Member States, even within Berne, legislate for minor exceptions in order to justify Section 110 of the legislation? The Commission's reply to this was, in effect, that Article 13 of the TRIPS Agreement is irrelevant, that Article 13 has no reference to this particular dispute. If you look at Article 13 you will see that what it does is say that the provisions of TRIPS are subject to the possibility of exceptions. Article 13 sets out three questions that have got to be asked.

1. Is this exception minor?
2. Does it not conflict with the normal exploitation of the work?
3. Does it not unreasonably prejudice the rightholder?

The Commission's argument was that Article 13 only applies to new exceptions or new rights in the TRIPS Agreement. This is an old Berne provision, and Article 13 of TRIPS cannot apply.

Article 9(2) of the Berne Convention sets out in much the same kind of language the same thing in Article 13 of the TRIPS Agreement. But the important point is this: Article 9(2) of Berne only deals with the right to control reproduction. There is no counterpart in Berne to 9(2) in relation to the rights of public performance of a work.

The Americans therefore have got to try to get the Panel to accept that it can use Article 13 of the TRIPS Agreement. The argument was accepted.

There are implied provisions, minor provisions, in the Berne Convention that aren't written in to the Convention, but Member States are still entitled to legislate for these minor exceptions.

These minor exceptions don't actually have to be pointed to in the Berne Convention, they can be used even though they are not specifically referred to.

So, on the question of who actually won the procedural argument, I think you would actually have to say that the Americans won the argument in terms of being able to rely on Article 13 straight away because the Panel said this is not an exclusive licensing-type situation, this is rather different - it is a case where there is a minor exception and the Berne Convention allows minor exceptions. Berne is translated into the TRIPS by incorporation of reference, so the issue then becomes can Article 13 be satisfied on the facts of this case? That is where you look to, you look to Article 13 of the TRIPS and ask are these 2 provisions - the 'Homestyle' exemption and the new exemption in relation to taverns - defensible under the so called '3 Step Test' under Article 13, which applies here even though it is a public performance context, rather than a reproduction context.

The answer was the commercial exemption falls but the exemption in relation to dramatic works succeeds. The Panel went through the 3 Step Test and did it in some detail. The critical issues for the Americans were the evidence about the financial and other implications of the exemptions. Even with the issue of the old 'Homestyle' exemption, the figures were quite damning for the Americans in terms of proportion. (See WTO decision ref. WT/DS160R 15th June 2000.)

## *US Reaction to Ruling*

We are dealing with something of a Chinese Puzzle here because no sooner do you get one decision but you need another decision. The US then sought a 'reasonable period of time' to implement the recommendations and rulings of the Panel.

There were negotiations between the Commission and the US Trade Representatives as to what this would be and it was impossible to arrive at an agreement. The Commission had to go back to the DSB and ask for the appointment of an arbitrator. This was done with the agreement of the US.

On 15th January 2001, the arbitrator, having gone into session a few months earlier, determined that the reasonable period of time for the US to implement the recommendations of the DSB was 12 months from the adoption of the Panel Report by the DSB on 27th July 2000. (See WTO decision ref. WT/DS160/12 15th January 2001)

On 23rd July 2001, the US and the European Union agreed to extend the period for the resolution of the case until 31st December 2001. In so agreeing, the US offered to constructively negotiate an annual sum to compensate copyright owners in the European Union for the continued existence of the US exemptions.

In doing so, the US agreed to the appointment of an arbitration procedure to calculate the level of the compensation. Both parties agreed that the award of the arbitration procedure would be final and would be accepted. It was intended that these proceedings would be completed by 25th September 2001.

## *Estimate Of The Loss Of EU Royalties Resulting From Section 110(5)*

In calculating the loss of music royalties resulting from the operation of Section 110(5), IMRO provided the results of a report commissioned by it. This indicated that the annual potential loss was US$87 million. The objective of the report was to calculate the music royalties that would have been collected if the exemptions did not exist. The formula was constructed as follows:-

**No. of retail related outlets**

**X**

**Relevant music performance license tariff**

**X**

**Percentage of retail related outlets playing music**

**X**

**Percentage of outlets that are unlicensed as a result of the exemption**

**X**

**EU composer share of the music played in these outlets**

The following data was used in each of the components of the formula:-

**1.** The number of retail related outlets in 1998 (source: The US Small Business Administration)

**2.** The music licence tariff rate - this is the sum of the relevant ASCAP, BMI and SESAC licence tariffs

**3.** The percentage of retail outlets that play music

**4.** The US composer share of the music played in these retail outlets was set at 10% based on the following data:-

a. EU composers accounted for 9.3% and 10.5% of the top 200 radio airplays in 1999 and 2000 respectively (calculations based on data provided by Broadcast Data Systems)

b. EU composers accounted for a similar market share for radio audiences, namely 9.5% and 10.9% in 1999 and 2000 (calculations again based on BDS information)

c. In 2001, British Phonogram Industries (BPI) estimated that the British artists alone accounted for approximately 6.3% of the US album market in 2000

d. EU artists accounted for 17.5% of both the total number of artists and song titles on the US-based MP3.com music web site.

## *Arbitrators' Report*

The arbitrators were keen to ensure that the EU was not compensated for licensing revenue that, regardless of exemptions in the US Copyright Act, would be collected.

This led the arbitrators to favour the US method of calculating the level of compensation. The US used a top-down approach, basing its calculation on the amount of revenue actually collected in the 1990s. The EU attempted a bottom-up approach, estimating the number of venues that used music, aggregating this to a total number of customers and then scaling this figure by both the music licence fees and the estimated EU share of the US market from these performances.

The starting point for the arbitrators' calculation was to identify a benchmark period prior to the introduction of the "Fairness in Music Licensing" Bill. Since the Bill did not come into force until 26th January 1999, the arbitrators used an average annual royalty revenue calculated by both ASCAP and BMI over the years 1996, 1997 and 1998. This generated a figure of US$55 million. The next step of the calculation was to identify the share of this revenue that was attributable to the licensing categories covered by the "Fairness in Music Licensing" Act. The arbitrators achieved this in two stages; first of all, they isolated the percentage of total revenue due to the general licensing category – 18.45%, and, secondly, they ascertained the percentage of this figure (approximately 50%) that was due to the venues covered by the "Fairness in Music Licensing" Act, namely restaurants, bars, retail outlets etc. They therefore arrived at a figure of US$5.1 million per year.

The final stage of the compensation measure was to compensate the EU at an amount exactly equal to the losses which the arbitrators believed they would have received had the 'Homestyle' and, subsequently, the "Fairness in Music Licensing" Bill not been enforced. The arbitrators calculated a sum of US$1.1 million.

The full formula used by the arbitrators can be summarised as net revenue that would have been distributed to EU rights holders had the "Fairness in Music Licensing" Bill not been enacted.