A BUNDLE OF RIGHTS

17 U.S.C. § 106 (2004)

Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

(1) to reproduce the copyrighted work in copies or phonorecords;

(2) to prepare derivative works based upon the copyrighted work;

(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

(4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;

(5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and

(6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

A. THE DISTRIBUTION RIGHT

17 U.S.C. § 109 (2004)

(a) Notwithstanding the provisions of section 106 (3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord. Notwithstanding the preceding sentence, copies or phonorecords of works subject to restored copyright under section 104A that are manufactured before the date of restoration of copyright or, with respect to reliance parties, before publication or service of notice under section 104A (e), may be sold or otherwise disposed of without the authorization of the owner of the restored copyright for purposes of direct or indirect commercial advantage only during the 12-month period beginning on—

(1) the date of the publication in the Federal Register of the notice of intent filed with the Copyright Office under section 104A (d)(2)(A), or

(2) the date of the receipt of actual notice served under section 104A (d)(2)(B),

whichever occurs first.

(b) (1) (A) Notwithstanding the provisions of subsection (a), unless authorized by the owners of copyright in the sound recording or the owner of copyright in a computer program (including any tape, disk, or other medium embodying such program), and in the case of a sound recording in the musical works embodied therein, neither the owner of a particular phonorecord nor any person in possession of a particular copy of a computer program (including any tape, disk, or other medium embodying such program), may, for the purposes of direct or indirect commercial advantage, dispose of, or authorize the disposal of, the possession of that phonorecord or computer program (including any tape, disk, or other medium embodying such program) by rental, lease, or lending, or by any other act or practice in the nature of rental, lease, or lending. Nothing in the preceding sentence shall apply to the rental, lease, or lending of a phonorecord for nonprofit purposes by a nonprofit library or nonprofit educational institution. The transfer of possession of a lawfully made copy of a computer program by a nonprofit educational institution to another nonprofit educational institution or to faculty, staff, and students does not constitute rental, lease, or lending for direct or indirect commercial purposes under this subsection.

. . . .

(d) The privileges prescribed by subsections (a) and (c) do not, unless authorized by the copyright owner, extend to any person who has acquired possession of the copy or phonorecord from the copyright owner, by rental, lease, loan, or otherwise, without acquiring ownership of it.

B. THE PUBLIC PERFORMANCE RIGHT

Buck v. Jewell-Lasalle Realty Co., 283 U.S. 191 (1931)

BRANDEIS, Justice:

These suits were brought in the federal court for western Missouri by the American Society of Composers, Authors and Publishers, and one of its members, against the Jewell-LaSalle Realty Company, which operates the LaSalle Hotel at Kansas City. The hotel maintains a master radio receiving set which is wired to each of the public and private rooms. As part of the service offered to its guests, loud-speakers or head-phones are provided so that a program received on the master set can, if desired, be simultaneously heard throughout the building. Among the programs received are those transmitted by Wilson Duncan who operates a duly licensed commercial broadcasting station in the same city. Duncan selects his own programs and broadcasts them for profit. There is no arrangement of any kind between him and the hotel. Both were notified by the plaintiff society of the existence of its copyrights and were advised that unless a license were obtained, performance of any copyrighted musical composition owned by its members was forbidden. Thereafter, a copyrighted popular song, owned by the plaintiffs, was repeatedly broadcast by Duncan and was received by the hotel company and made available to its guests. Suits were brought for an injunction and damages for the alleged infringements. After a hearing on stipulated facts, relief against the hotel company was denied on the ground that its acts did not constitute a "performance" within the Copyright Act. Plaintiffs appealed to the Circuit Court of Appeals which certified the following question:

"Do the acts of a hotel proprietor, in making available to his guests, through the instrumentality of a radio receiving set and loud speakers installed in his hotel and under his control and for the entertainment of his guests, the hearing of a copyrighted musical composition which has been broadcast from a radio transmitting station, constitute a performance of such composition within the meaning of 17 USC Sec. 1 (e)?"

The provision referred to is § 1 of the Copyright Act of March 4, 1909, which provides that: "Any person entitled thereto, upon complying with the provisions of this Act, shall have the exclusive right: . . . (e) To perform the copyrighted work publicly for profit if it be a musical composition and for the purpose of public performance for profit."

The parties agree that the owner of a private radio receiving set who in his own home invites friends to hear a musical composition which is being broadcast, would not be liable for infringement. For even if this be deemed a performance, it is neither public nor for profit. The contention that what the hotel company does is not a performance within the meaning of the Copyright Act is urged on three grounds.

First. The defendant contends that the Copyright Act may not reasonably be construed as applicable to one who merely receives a composition which is being broadcast. Although the art of radio broadcasting was unknown at the time the Copyright Act of 1909 was passed, and the means of transmission and reception now employed are wholly unlike any then in use, it is not denied that such broadcasting may be within the scope of the Act. The argument here urged, however, is that since the transmitting of a musical composition by a commercial broadcasting station is a public performance for profit, control of the initial radio rendition exhausts the monopolies conferred—both that of making copies (including records) and that of giving public performances for profit (including mechanical performances from a record); and that a monopoly of the reception, for commercial purposes, of this same rendition is not warranted by the Act. The analogy is invoked of the rule under which an author who permits copies of his writings to be made cannot, by virtue of his copyright, prevent or restrict the transfer of such copies. This analogy is inapplicable. It is true that control of the sale of copies is not permitted by the Act, but a monopoly is expressly granted of all public performances for profit.

The defendant next urges that it did not perform, because there can be but one actual performance each time a copyrighted selection is rendered; and that if the broadcaster is held to be a performer, one who, without connivance, receives and distributes the transmitted selection cannot also be held to have performed it. But nothing in the Act circumscribes the meaning to be attributed to the term "performance," or prevents a single rendition of a copyrighted selection from resulting in more than one public performance for profit. While this may not have been possible before the development of radio broadcasting, the novelty of the means used does not lessen the duty of the courts to give full protection to the monopoly of public performance for profit which Congress has secured to the composer. No reason is suggested why there may not be more than one liability. And since the public reception for profit in itself constitutes an infringement, we have no occasion to determine under what circumstances a broadcaster will be held to be a performer, or the effect upon others of his paying a license fee.

The defendant contends further that the acts of the hotel company were not a performance because no detailed choice of selections was given to it. In support of this contention it is pointed out that the operator of a radio receiving set cannot render at will a performance of any composition but must accept whatever program is transmitted during the broadcasting period. Intention to infringe is not essential under the Act. And knowledge of the particular selection to be played or received is immaterial. One who hires an orchestra for a public performance for profit is not relieved from a charge of infringement merely because he does not select the particular program to be played. Similarly, when he tunes in on a broadcasting station, for his own commercial purposes, he necessarily assumes the risk that in so doing he may infringe the performing rights of another. It may be that proper control over broadcasting programs would automatically secure to the copyright owner sufficient protection from unauthorized public performances by use of a radio receiving set, and that this might justify legislation denying relief against those who in using the receiving set innocently invade the copyright, but the existing statute makes no such exception.

Second. The defendant contends that there was no performance because the reception of a radio broadcast is no different from listening to a distant rendition of the same program. We are satisfied that the reception of a radio broadcast and its translation into audible sound is not a mere audition of the original program. It is essentially a reproduction. As to the general theory of radio transmission there is no disagreement. All sounds consist of waves of relatively low frequencies which ordinarily pass through the air and are locally audible. Thus music played at a distant broadcasting studio is not directly heard at the receiving set. In the microphone of the radio transmitter the sound waves are used to modulate electrical currents of relatively high frequencies which are broadcast through an entirely different medium, conventionally known as the "ether." These radio waves are not audible. In the receiving set they are rectified; that is, converted into direct currents which actuate the loudspeaker to produce again in the air sound waves of audible frequencies. The modulation of the radio waves in the transmitting apparatus, by the audible sound waves is comparable to the manner in which the wax phonograph record is impressed by these same waves through the medium of a recording stylus. The transmitted radio waves require a receiving set for their detection and translation into audible sound waves, just as the record requires another mechanism for the reproduction of the recorded composition. In neither case is the original program heard; and, in the former, complicated electrical instrumentalities are necessary for its adequate reception and distribution. Reproduction in both cases amounts to a performance. In addition, the ordinary receiving set, and the distributing apparatus here employed by the hotel company, are equipped to amplify the broadcast program after it has been received. Such acts clearly are more than the use of mere mechanical acoustic devices for the better hearing of the original program. The guests of the hotel hear a reproduction brought about by the acts of the hotel in (1) installing, (2) supplying electric current to, and (3) operating the radio receiving set and loud-speakers. There is no difference in substance between the case where a hotel engages an orchestra to furnish the music and that where, by means of the radio set and loud-speakers here employed, it furnishes the same music for the same purpose. In each the music is produced by instrumentalities under its control.

Third. The defendant contends that there was no performance within the meaning of the Act because it is not shown that the hotel operated the receiving set and loudspeakers for profit. Unless such acts were carried on for profit, there can, of course, be no liability. But whether there was a performance does not depend upon the existence of the profit motive. The question submitted does not call for a determination whether the acts of the hotel company recited in the certificate constitute operation for profit.

The question certified is answered: Yes.

Twentieth Century Music Corp. v. Aiken, 422 U.S. 151 (1975)

STEWART, Justice:

The question presented by this case is whether the reception of a radio broadcast of a copyrighted musical composition can constitute copyright infringement, when the copyright owner has licensed the broadcaster to perform the composition publicly for profit.

I

The respondent George Aiken owns and operates a small fast-service food shop in downtown Pittsburgh, Pa., known as “George Aiken’s Chicken.” Some customers carry out the food they purchase, while others remain and eat at counters or booths. Usually the “carry-out” customers are in the restaurant for less than five minutes, and those who eat there seldom remain longer than 10 or 15 minutes.

A radio with outlets to four speakers in the ceiling receives broadcasts of music and other normal radio programming at the restaurant. Aiken usually turns on the radio each morning at the start of business. Music, news, entertainment, and commercial advertising broadcast by radio stations are thus heard by Aiken, his employees, and his customers during the hours that the establishment is open for business.

On March 11, 1972, broadcasts of two copyrighted musical compositions were received on the radio from a local station while several customers were in Aiken’s establishment. Petitioner Twentieth Century Music Corp. owns the copyright on one of these songs, “The More I See You”; petitioner Mary Bourne the copyright on the other, “Me and My Shadow.” Petitioners are members of the American Society of Composers, Authors and Publishers (ASCAP), an association that licenses the performing rights of its members to their copyrighted works. The station that broadcast the petitioners' songs was licensed by ASCAP to broadcast them.[1] Aiken, however, did not hold a license from ASCAP.

The petitioners sued Aiken in the United States District Court for the Western District of Pennsylvania to recover for copyright infringement. Their complaint alleged that the radio reception in Aiken's restaurant of the licensed broadcasts infringed their exclusive rights to "perform" their copyrighted works in public for profit. The District Judge agreed, and granted statutory monetary awards for each infringement. The United States Court of Appeals for the Third Circuit reversed that judgment, holding that the petitioners' claims against the respondent were foreclosed by this Court's decisions in *Fortnightly Corp. v. United Artists* and *Teleprompter Corp. v. CBS*. We granted certiorari.

II

The Copyright Act of 1909, as amended, gives to a copyright holder a monopoly limited to specified "exclusive" rights in his copyrighted works. As the Court explained in *Fortnightly Corp. v. United Artists*:

> "The Copyright Act does not give a copyright holder control over all uses of his copyrighted work. Instead, § 1 of the Act enumerates several 'rights' that are made 'exclusive' to the holder of the copyright. If a person, without authorization from the copyright holder, puts a copyrighted work to a use within the scope of one of these 'exclusive rights,' he infringes the copyright. If he puts the work to a use not enumerated in § 1, he does not infringe."

Accordingly, if an unlicensed use of a copyrighted work does not conflict with an "exclusive" right conferred by the statute, it is no infringement of the holder's rights. No license is required by the Copyright Act, for example, to sing a copyrighted lyric in the shower.

The limited scope of the copyright holder's statutory monopoly, like the limited copyright duration required by the Constitution, reflects a balance of competing claims upon the public interest: Creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts. The immediate effect of our copyright law is to secure a fair return for an "author's" creative labor. But the ultimate aim is, by this incentive, to stimulate artistic creativity for the general public good. "The sole interest of the United States and the primary object in conferring the monopoly," this Court has said, "lie in the general benefits derived by the public from the labors of authors." When technological change has rendered its literal terms ambiguous, the Copyright Act must be construed in light of this basic purpose.

The precise statutory issue in the present case is whether Aiken infringed upon the petitioners' exclusive right, under the Copyright Act of 1909, "[t]o perform the copyrighted work publicly for profit." We may assume that the radio reception of the musical compositions in Aiken's restaurant occurred "publicly for profit." The dispositive question, therefore, is whether this radio reception constituted a "performance" of the copyrighted works.

When this statutory provision was enacted in 1909, its purpose was to prohibit unauthorized performances of copyrighted musical compositions in such public places as concert halls, theaters, restaurants, and cabarets. An orchestra or individual instrumentalist or singer who performs a copyrighted musical composition in such a public place without a license is thus clearly an infringer under the statute. The entrepreneur who sponsors such a public performance for profit is also an infringer—direct or contributory. But it was never contemplated that the members of the audience who heard the composition would themselves also be simultaneously "performing," and thus also guilty of infringement. This much is common ground.

[1] ASCAP's license agreement with the Pittsburgh broadcasting station contained, as is customary, the following provision: "Nothing herein contained shall be construed as authorizing LICENSEE [WKJF-FM] to grant to others any right to reproduce or perform publicly for profit by any means, method or process whatsoever, any of the musical compositions licensed hereunder or as authorizing any receiver of any radio broadcast to perform publicly or reproduce the same for profit, by any means, method or process whatsoever."

With the advent of commercial radio, a broadcast musical composition could be heard instantaneously by an enormous audience of distant and separate persons operating their radio receiving sets to reconvert the broadcast to audible form. Although Congress did not revise the statutory language, copyright law was quick to adapt to prevent the exploitation of protected works through the new electronic technology. In short, it was soon established in the federal courts that the broadcast of a copyrighted musical composition by a commercial radio station was a public performance of that composition for profit - and thus an infringement of the copyright if not licensed. In one of the earliest cases so holding, the Court of Appeals for the Sixth Circuit said:

> "While the fact that the radio was not developed at the time the Copyright Act . . . was enacted may raise some question as to whether it properly comes within the purview of the statute, it is not by that fact alone excluded from the statute. In other words, the statute may be applied to new situations not anticipated by Congress, if, fairly construed, such situations come within its intent and meaning . . . While statutes should not be stretched to apply to new situations not fairly within their scope, they should not be so narrowly construed as to permit their evasion because of changing habits due to new inventions and discoveries.
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> . . . .
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> "A performance, in our judgment, is no less public because the listeners are unable to communicate with one another, or are not assembled within an inclosure, or gathered together in some open stadium or park or other public place. Nor can a performance, in our judgment, be deemed private because each listener may enjoy it alone in the privacy of his home. Radio broadcasting is intended to, and in fact does, reach a very much larger number of the public at the moment of the rendition than any other medium of performance. The artist is consciously addressing a great, though unseen and widely scattered, audience, and is therefore participating in a public performance."

If, by analogy to a live performance in a concert hall or cabaret, a radio station "performs" a musical composition when it broadcasts it, the same analogy would seem to require the conclusion that those who listen to the broadcast through the use of radio receivers do not perform the composition. And that is exactly what the early federal cases held. "Certainly those who listen do not perform, and therefore do not infringe." "One who manually or by human agency merely actuates electrical instrumentalities, whereby inaudible elements that are omnipresent in the air are made audible to persons who are within hearing, does not 'perform' within the meaning of the Copyright Law."

Such was the state of the law when this Court in 1931 decided *Buck v. Jewell-LaSalle Realty Co.* In that case the Court was called upon to answer the following question certified by the Court of Appeals for the Eighth Circuit: "Do the acts of a hotel proprietor, in making available to his guests, through the instrumentality of a radio receiving set and loud speakers installed in his hotel and under his control and for the entertainment of his guests, the hearing of a copyrighted musical composition which has been broadcast from a radio transmitting station, constitute a performance of such composition within the meaning of 17 USC Sec. 1 (e)?" The Court answered the certified question in the affirmative. In stating the facts of the case, however, the Court's opinion made clear that the broadcaster of the musical composition was not licensed to perform it, and at least twice in the course of its opinion the Court indicated that the answer to the certified question might have been different if the broadcast itself had been authorized by the copyright holder.

We may assume for present purposes that the *Jewel-LaSalle* decision retains authoritative force in a factual situation like that in which it arose. But, as the Court of Appeals in this case perceived, this Court has in two recent decisions explicitly disavowed the view that the reception of an electronic broadcast can constitute a performance, when the broadcaster himself is licensed to perform the copyrighted material that he broadcasts.

The language of the Court's opinion in the *Fortnightly* case could hardly be more explicitly dispositive of the question now before us:

> "The television broadcaster in one sense does less than the exhibitor of a motion picture or stage play; he supplies his audience not with visible images but only with electronic signals. The viewer conversely does more than a member of a theater audience; he provides the equipment to convert electronic signals into audible sound and visible images. Despite these deviations from the conventional situation contemplated by the framers of the Copyright Act, broadcasters have been judicially treated as exhibitors, and viewers as members of a theater audience. Broadcasters perform. Viewers do not perform. Thus, while both broadcaster and viewer play crucial roles in the total television process, a line is drawn between them. One is treated as active performer; the other, as passive beneficiary."

The *Fortnightly* and *Teleprompter* cases, to be sure, involved television, not radio, and the copyrighted materials there in issue were literary and dramatic works, not musical compositions. But, as the Court of Appeals correctly observed: "[I]f Fortnightly, with its elaborate CATV plant and Teleprompter with its even more sophisticated and extended technological and programming facilities were not 'performing,' then logic dictates that no 'performance' resulted when the [respondent] merely activated his restaurant radio."

To hold in this case that the respondent Aiken "performed" the petitioners' copyrighted works would thus require us to overrule two very recent decisions of this Court. But such a holding would more than offend the principles of stare decisis; it would result in a regime of copyright law that would be both wholly unenforceable and highly inequitable.

The practical unenforceability of a ruling that all of those in Aiken's position are copyright infringers is self-evident. One has only to consider the countless business establishments in this country with radio or television sets on their premises—bars, beauty shops, cafeterias, car washes, dentists' offices, and drive-ins—to realize the total futility of any evenhanded effort on the part of copyright holders to license even a substantial percentage of them.

And a ruling that a radio listener "performs" every broadcast that he receives would be highly inequitable for two distinct reasons. First, a person in Aiken's position would have no sure way of protecting himself from liability for copyright infringement except by keeping his radio set turned off. For even if he secured a license from ASCAP, he would have no way of either foreseeing or controlling the broadcast of compositions whose copyright was held by someone else. Secondly, to hold that all in Aiken's position "performed" these musical compositions would be to authorize the sale of an untold number of licenses for what is basically a single public rendition of a copyrighted work. The exaction of such multiple tribute would go far beyond what is required for the economic protection of copyright owners and would be wholly at odds with the balanced congressional purpose behind 17 U.S.C. § 1 (e):

> "The main object to be desired in expanding copyright protection accorded to music has been to give to the composer an adequate return for the value of his composition, and it has been a serious and a difficult task to combine the protection of the composer with the protection of the public, and to so frame an act that it would accomplish the double purpose of securing to the composer an adequate return for all use made of his composition and at the same time prevent the formation of oppressive monopolies, which might be founded upon the very rights granted to the composer for the purpose of protecting his interests."

For the reasons stated in this opinion, the judgment of the Court of Appeals is affirmed.

It is so ordered.

BLACKMUN, Justice (concurring):

My discomfort, now decisionally outdated to be sure, with the Court's opinion and judgment is threefold:

1. My first discomfort is factual. Respondent Aiken hardly was an innocent "listener," as the Court seems to characterize him throughout its opinion and particularly ante, at 162. In one sense, of course, he was a listener, for as he operated his small food shop and served his customers, he heard the

broadcasts himself. Perhaps his work was made more enjoyable by the soothing and entertaining effects of the music. With this aspect I would have no difficulty.

But respondent Aiken installed four loudspeakers in his small shop. This, obviously, was not done for his personal use and contentment so that he might hear the broadcast, in any corner he might be, above the noise of commercial transactions. It was done for the entertainment and edification of his customers. It was part of what Mr. Aiken offered his trade, and it added, in his estimation, to the atmosphere and attraction of his establishment. Viewed in this light, respondent is something more than a mere listener and is not so simply to be categorized.

2. My second discomfort is precedential. Forty-four years ago, in a unanimous opinion written by Mr. Justice Brandeis, this Court held that a hotel proprietor's use of a radio receiving set and loudspeakers for the entertainment of hotel guests constituted a performance within the meaning of § 1 of the Copyright Act. For more than 35 years the rule in *Jewell-LaSalle* was a benchmark in copyright law and was the foundation of a significant portion of the rather elaborate licensing agreements that evolved with the developing media technology. Seven years ago the Court, by a 5-1 vote, and with three Justices not participating, held that a community antenna television (CATV) station that transmitted copyrighted works to home subscribers was not performing the works, within the meaning of § 1 of the Copyright Act. The divided Court only briefly noted the relevance of *Jewell-LaSalle* and announced that that decision "must be understood as limited to its own facts." I have already indicated my disagreement with the reasoning of *Fortnightly* and my conviction that it, rather than *Jewell-LaSalle*, is the case that should be limited to its facts. I was there concerned about the Court's simplistic view of television's complications, a view perhaps encouraged by the obvious inadequacies of an ancient copyright Act for today's technology. A majority of the Court, however, felt otherwise and extended the simplistic analysis rejected in *Jewell-LaSalle*, but embraced in *Fortnightly*, to even more complex arrangements in the CATV industry.

I had hoped, secondarily, that the reasoning of *Fortnightly* and *Teleprompter* would be limited to CATV. At least in that context the two decisions had the arguably desirable effect of protecting an infant industry from a premature death. Today, however, the Court extends *Fortnightly* and *Teleprompter* into radio broadcasting, effectively overrules *Jewell-LaSalle*, and thereby abrogates more than 40 years of established business practices. I would limit the application of *Teleprompter* and *Fortnightly* to the peculiar industry that spawned them. Parenthetically, it is of interest to note that this is precisely the result that would be achieved by virtually all versions of proposed revisions of the Copyright Act. See, e.g., § 101 of S. 1361, 93d Cong., 2d Sess., which sought to amend 17 U.S.C. § 110(5). See also §§ 48 (5) and (6) of the British Copyright Act of 1956, which distinguishes between the use of a radio in a public place and "the causing of a work or other subject-matter to be transmitted to subscribers to a diffusion service."

Resolution of these difficult problems and the fashioning of a more modern statute are to be expected from the Congress. In any event, for now, the Court seems content to continue with its simplistic approach and to accompany it with a pragmatic reliance on the "practical unenforceability," of the copyright law against persons such as George Aiken.

3. My third discomfort is tactical. I cannot understand why the Court is so reluctant to do directly what it obviously is doing indirectly, namely, to overrule *Jewell-LaSalle*. Of course, in my view, that decision was correct at the time it was decided, and I would regard it as good law today under the identical statute and with identical broadcasting. But, as I have noted, the Court in *Fortnightly* limited *Jewell-LaSalle* "to its own facts," and in *Teleprompter* ignored its existence completely by refusing even to cite it. This means, it seems to me, that the Court did not want to overrule it, but nevertheless did not agree with it and felt, hopefully, that perhaps it would not bother us anymore anyway. Today the Court does much the same thing again by extracting and discovering great significance in the fact that the broadcaster in *Jewell-LaSalle* was not licensed to perform the composition. I cannot join the Court's intimation—surely stretched to the breaking point—that Mr. Justice Brandeis and the unanimous Court for which he spoke would have reached a contrary conclusion in *Jewell-LaSalle* in 1931 had that

broadcaster been licensed. The Court dances around *Jewell-LaSalle*, as indeed it must, for it is potent opposing precedent for the present case and stands stalwart against respondent Aiken's position. I think we should be realistic and forthright and, if *Jewell-LaSalle* is in the way, overrule it.

Although I dissented in *Teleprompter*, that case and *Fortnightly*, before it, have been decided. With the Court insisting on adhering to the rationale of those cases, the result reached by the Court of Appeals and by this Court is compelled. Accepting the precedent of those cases, I concur in the result.

BURGER, Justice (dissenting):

In *Fortnightly Corp. v. United Artists*, Mr. Justice Fortas observed that cases such as this call "not for the judgment of Solomon but for the dexterity of Houdini." There can be no really satisfactory solution to the problem presented here, until Congress acts in response to long standing proposals. My primary purpose in writing is not merely to express disagreement with the Court but to underscore what has repeatedly been stated by others as to the need for legislative action. Radio today is certainly a more commonplace and universally understood technological innovation than CATV, for example, yet we are, basically, in essentially the same awkward situation as in the past when confronted with these problems. We must attempt to apply a statute designed for another era to a situation in which Congress has never affirmatively manifested its view concerning the competing policy considerations involved.

Yet, the issue presented can only be resolved appropriately by the Congress; perhaps it will find the result which the Court reaches today a practical and equitable resolution, or perhaps it will find this "functional analysis" too simplistic an approach, and opt for another solution.

The result reached by the Court is not compelled by the language of the statute; it is contrary to the applicable case law and, even assuming the correctness and relevance of the CATV cases, *Fortnightly* and *Teleprompter*, it is not analytically dictated by those cases. In such a situation, I suggest, "the fact that the Copyright Act was written in a different day, for different factual situations, should lead us to tread cautiously here. Our major object... should be to do as little damage as possible to traditional copyright principles and to business relationships, until the Congress legislates and relieves the embarrassment which we and the interested parties face."

As the Court's opinion notes, in *Buck v. Jewell-LaSalle Realty Co.*, answering a precisely phrased certified question, the Court construed the Copyright Act in a manner which squarely conflicts with what is held today. Congress, despite many opportunities, has never legislatively overruled *Buck*. It was not overruled in *Fortnightly* but treated "as limited to its own facts." Even assuming the correctness of this dubious process of limitation, *Buck* is squarely relevant here since the license at issue expressly negated any right on the part of the broadcaster to further license performances by those who commercially receive and distribute broadcast music. Moreover, even accepting, arguendo, the restrictive reading given to *Buck* by the Court today, and assuming the correctness of *Fortnightly* and *Teleprompter* in the CATV field, it is not at all clear that the analysis of these latter cases supports the result here. Respondent was more than a "passive beneficiary." He took the transmission and used that transmission for commercial entertainment in his own profit enterprise, through a multispeaker audio system specifically designed for his business purposes. In short, this case does not call for what the Court describes as "a ruling that a radio listener 'performs' every broadcast that he receives . . .". Here, respondent received the transmission and then put it to an independent commercial use. His conduct seems to me controlled by Buck's unequivocal holding that:

> "One who hires an orchestra for a public performance for profit is not relieved from a charge of infringement merely because he does not select the particular program to be played. Similarly, when he tunes in on a broadcasting station, for his own commercial purposes, he necessarily assumes the risk that in so doing he may infringe the performing rights of another."

In short, as MR. JUSTICE DOUGLAS observed in the *Teleprompter* case: "The Court can read the result it achieves today only by 'legislating' important features of the Copyright Act out of existence." In my view, we should bear in mind that "[o]ur ax, being a rule of law, must cut straight, sharp, and deep; and perhaps this is a situation that calls for the compromise of theory and for the architectural improvisation which only legislation can accomplish."

Richard Owens, *TRIPs and the Fairness in Music Arbitration: The Repercussions,* 25 EUR. INTELL. PROP. REV. 49 (2003)

On July 27, 2000, the World Trade Organization ("WTO") Dispute Settlement Body ("DSB") adopted a Panel Report containing the first ruling of a WTO panel on the scope of copyright protection under the TRIPs Agreement. Based on a complaint against the United States brought by the European Commission ("EC"), the Report concluded that § 110(5)(B) of the US Copyright Act, as amended by the Fairness in Music Licensing Act ("FMLA") of 1998, is incompatible with the rights of public performance and communication to the public under Arts 11bis(1)(iii) and 11(1)(ii) of the Berne Convention, and by virtue of incorporation of those rights in the TRIPs Agreement, with the "three-step test" in Art.13 of TRIPs. On the basis of the Panel Report, the DSB requested that the United States bring its legislation into line with TRIPs within "a reasonable period of time", which came to an end on December 31, 2001 without amendment of the Copyright Act.

On July 23, 2001, the EC and the United States asked an arbitration panel constituted under Art.25 of the WTO Dispute Settlement Understanding ("DSU") to determine "the level of nullification or impairment of benefits to the European Communities as a result of the operation of § 110(5)(b) of the US Copyright Act". On October 12, 2001 the arbitrators issued their award, which was notified to the DSB and the TRIPs Council on November 9, 2001. According to the award, the level of EC benefits that are being nullified or impaired as a result of the operation of Section 110(5)(B) is ##1,219,900 per year, or US$1.1 million.

Following on non-compliance by the United States with the Panel Report, the award of the arbitrators in the Fairness in Music case raises worrying concerns for the enforcement of intellectual property rights under TRIPs which could reverberate well beyond the sphere of copyright.

Background

The Fairness in Music case was initiated in late 1998 by the EC following complaints from the Irish copyright management organisation ("CMO") IMRO. As amended by the FMLA in 1998, § 110(5)(B) of the US Copyright Law exempts eating, drinking and retail establishments that do not exceed a certain size (2,000 or 3,750 square feet, depending on the type of establishment) or exceed specified audio or audiovisual equipment requirements, from liability for the public performance of music played from radio and television. Section 110(5)(B) is an expanded version of the so-called "homestyle" exemption to the right of public performance contained in the Copyright Act of 1976 and based on the 1975 Aiken decision of the US Supreme Court, which absolved small "mom-and-pop" establishments from copyright liability for playing radio music using amplification equipment that would normally be used in a home setting. Underlying the original "homestyle" exemption (and the later FMLA) was that such establishments were not widely licensed by the US CMOs, owing to high transaction, administration and enforcement costs in relation to the licensing revenue likely to be generated. Notwithstanding the pre-existence of the "homestyle" exemption and low levels of licensing by US CMOs, the arbitrators relied on figures estimating actual licensing of relevant establishments by US CMOs in the three years prior to entry into force of the FMLA in their methodology for determining the level of nullification and impairment of EC benefits as a result of § 110(5)(B). The impact of that methodology in the award will be addressed below.

The Panel Report

The Panel Report found that § 110(5)(B) is inconsistent with all three prongs of the "three-step" test in Art.13 of TRIPs. In doing so it established important principles for application of Art.13 in future cases, particularly in regard to the second and third prongs of the test. First, the Panel found that § 110(5)(B) is not limited to "certain special cases". In a 1999 study requested by ASCAP based on 1998 data and the criteria in the 1998 FMLA amendment, Dun & Bradstreet had estimated that 70 per cent of eating establishments, 73 per cent of drinking establishments, and 45 per cent of retail establishments fell under the FMLA size limitations and would qualify for the exemption. The Panel stated, "[w]e fail to see how a law that exempts a major part of the users that were specifically intended to be covered by ... Article 11bis(1)(iii) [of the Berne Convention] ... could be considered as a special case in the sense of the first condition of Article 13 of the TRIPs Agreement" (emphasis in original).

Applying the second prong of the test, the Panel found that § 110(5(B)) conflicts with a normal exploitation of the work, based on the principle that exempted uses may not compete with actual or potential sources of gain from economic exploitation of the right in question:

"We believe that an exception or limitation to an exclusive right in domestic legislation rises to the level of a conflict with a normal exploitation of the work (i.e., the copyright or rather the whole bundle of exclusive rights conferred by the ownership of the copyright), if uses, that in principle are covered by that right but exempted under the exception or limitation, enter into economic competition with the ways that right holders normally extract economic value from that right to the work (i.e., the copyright) and thereby deprive them of significant or tangible commercial gains" (emphasis added).

The Panel rejected the United States' "double payment" argument that § 110(5)(B) does not conflict with a normal exploitation of the work because rightholders already receive royalties from economically more significant uses involved in "primary" performance and broadcasting. In assessing this argument the Panel noted that the TRIPs Agreement confers a number of exclusive rights under copyright, and thus "whether a limitation or an exception conflicts with a normal exploitation of a work should be judged for each exclusive right individually". It also emphasised that the current licensing practices of CMOs are not necessarily indicative of the scope of normal extraction of economic value under the second prong of the three-step test. The Panel stated that such a proposition "would equate 'normal exploitation' with 'normal remuneration' practices existing at a certain point in time in a given market or jurisdiction".

Applying the third prong of the three-step test, the Panel found that § 110(5)(B) "unreasonably prejudice[s] the legitimate interests of the right holder", based on several principles. First, while a certain degree of "prejudice" to legitimate interests must always be presumed, the Panel stated that such prejudice becomes "unreasonable" when, as in the case of § 110(5)(B), an exception causes or has the potential to cause an unreasonable loss of income to the copyright holder. It also declared that both actual and potential prejudice to rightholders caused by the exemption in question must be taken into account. Finally, the Panel stated that analysis of unreasonable prejudice should not be applied only to the interests of rightholders of the WTO Member that initiated the complaint, but should take into account the legitimate interests of copyright holders at large. This principle is particularly significant in the light of the approach taken later by the arbitrators.

The Award of the Arbitrators

On the basis of its conclusions, the Panel Report recommended that the DSB request the United States to bring § 110(5)(B) into conformity with its obligations under Art.13 of TRIPs. When it became clear by mid-2001 that amendment of the law to comply with the Panel Report was unlikely to occur within the reasonable period of time agreed between the United States and the EC, the United States and the EC submitted the case to arbitration under Art.25 of the DSU.

Before the arbitrators, the EC and the United States advanced fundamentally different arguments on methodology for determining the benefits involved. Consistent with the Panel Report's broad interpretation and application of the three-step test under TRIPs Art.13, the EC claimed that the level of benefits EC rightholders could expect to receive should be the potential licensing income realisable from exercise of the public performance right—with no deduction for costs of administration and enforcement—if the US CMOs were to license all eating, drinking and retail establishments which play radio and television music. Put another way, the EC argued that the basis for calculating the level of nullification and impairment of EC benefits should be the potential value of the right of public performance itself. On the basis of what the Panel Report characterised as a "bottom up" approach, the EC claimed that the benefits denied to EC rightholders amounted to US$25.5 million per year.

By contrast the United States argued that the number of users that US CMOs seek to license is a function of the ratio between transaction, administration and enforcement costs, on the one hand, and expected revenue per licence on the other. Thus the United States argued that the level of EC benefits nullified and impaired should be based on a "top-down" approach focusing on the number of establishments that would normally be licensed but for the exemption in § 110(5)(B). Though complete and accurate information on licensing levels was not available, the United States put forward a calculation based on payments by the US CMOs ASCAP and BMI to European rightholders in the three years prior to entry into force of the FMLA (1996-98), arriving at an estimate of benefits to EC rightholders nullified and impaired as a result of § 110(5)(B) of between US$0.4 and 0.7 million per year.

The arbitrators accepted the US "top-down" approach, as it focused on "historical figures" rather than the value of the public performance right based, inter alia, on theoretical higher levels of licensing of retail establishments by US CMOs. The arbitrators stated that the US approach was also preferable because it limited the number of assumptions and inferences necessary, while the EC "bottom-up" approach might require basing the calculation on what some arbitrations have described as a "counterfactual", i.e. basing the calculation on an "as-if" situation at the end of the reasonable period of time predicated on full licensing by CMOs of all establishments covered by the exemption. A third reason for acceptance of the US "top-down" approach was that "the Arbitrators have encountered particular difficulties due to the lack of precise information available", which "played a major role in the choices made ... with respect to the methodology and the calculations".

In accepting the "top-down" methodology and focusing only on historical licensing data from US CMOs, the arbitrators declined to apply the Panel Report's rulings on application of the second and third prongs of the three-step test in Art.13 of TRIPs, namely that both actual and potential sources of revenue are to be taken into account in determining whether an exception conflicts with a normal exploitation of the work in question, and that actual and potential economic losses are to be considered in determining whether an exemption causes unreasonable prejudice to the legitimate interests of rightholders. It is worth quoting in full from the Panel Report on application of the third prong of Art.13:

"As regards the third condition [of Art.13] in particular, we note that if only actual losses were taken into account, it might be possible to justify the introduction of a new exception to an exclusive right irrespective of its scope in situations where the right in question was newly introduced, right holders did not previously have effective or affordable means of enforcing that right, or that right was not exercised because the right holders had not yet built the necessary collective management structure required for such exercise. While under such circumstances the introduction of a new exception might not cause immediate additional loss of income to the right holder, he or she could never build up expectations to earn income from the exercise of the right in question. We believe that such an interpretation, if it became the norm, could undermine the scope and binding effect of the minimum standards of intellectual property rights protection embodied in the TRIPs Agreement" (emphasis added).

The arbitrators noted that the EC had not alleged violation of the enforcement provisions of TRIPs, implying that such a claim might have required them to consider potential prejudice to rightholders' legitimate interests in their choice of methodology. As it was, in a comment on the above passage from the Panel Report the arbitrators distinguished their task of determining the level of benefits denied to EC rightholders resulting from operation of § 110(5)(B), on the one hand, from the task of the Panel in determining whether the exemption was compatible with Art.13 of TRIPs on the other.

As indicated above, the arbitration ended with a determination that the level of nullification and impairment of EC benefits as a result of the operation of § 110(5)(B) was ##1,219,900 per year, or US$1.1 million.

C. THE DIGITAL PERFORMANCE RIGHT

Lydia Pallas Loren, *Untangling the Web of Music Copyrights*, 53 CASE W. RES. L. REV. 673 (2003)

In 1995 the potential for digital delivery of recorded music caused Congress to add complexity to what was already one of the most complex areas of copyright law. Responding to arguments by record labels that revenues from record sales were going to be significantly damaged by new methods for digital delivery of music, Congress enacted the Digital Performance Right in Sound Recordings Act of 1995 (DPRSRA). This Act added the right "to perform the copyrighted work publicly by means of a digital audio transmission" to those rights enjoyed by sound recording copyright owners.

While the DPRSRA appeared to be adding a public performance right for sound recording copyright owners, the limitations placed on that right were aimed at granting copyright owners in sound recordings a mechanism for controlling digital exploitations that were perceived to pose a serious threat to the sales of CDs. At the time, the concern was for new business models offering "audio-on-demand" and "pay-per-listen" services that allowed a level of interactivity between a subscriber and the service, permitting the subscriber to "order-up" certain songs or albums that would then be broadcast for that subscriber's listening pleasure. The record companies feared that if consumers could obtain their music through such services they would be less likely to purchase CDs. Far from a general public performance right, this more limited public performance right for sound recordings is encumbered with a set of complicated definitions and exceptions.

Because, at present, sound recording copyrights are not given a general public performance right, playing a sound recording in an auditorium filled with people is not actionable by the sound recording copyright owner. What constitutes a "digital audio transmission" defines this right that is granted in section 106(6). The Copyright Act defines "to 'transmit' a performance" as: "to communicate it by any device or process whereby images or sounds are received beyond the place from which they are sent." A digital transmission is defined as "a transmission in whole or in part in a digital or other non-analog format." Therefore, if a sound recording is sent via digital or other non-analog technology to a place that is beyond where the sender is located and such sending constitutes a public performance, the copyright owner's right under section 106(6) is implicated.

The devil, however, is in the details. Congress was attempting to address the fears of the sound recording industry that digital delivery would eviscerate the market for CDs and other tangible objects through which sound recording copyright owners make their money. At the same time, Congress did not want to "upset[] the longstanding business and contractual relationships among record producers and performers, music composers and publishers and broadcasters." In other words, Congress did not want to rock the boat. Achieving this goal, however, required an exceedingly complex set of provisions, which Congress revised and made more complicated a mere three years later. The next two Sections of this Article provide a necessarily brief overview of this morass of statutory language, currently codified in sections 114 and 115.

The addition of a public performance right for sound recordings came in response to digital delivery of music. While sound recording copyright owners feared that digital delivery would usurp the market for CD sales and significantly lessen their revenues, the reduction in CD sales would also decrease the revenues for musical work copyright owners. Recall that for each "mechanical" copy of a musical work distributed, the musical work copyright owner receives a royalty payment, currently eight cents per copy distributed. The DPRSRA amended the statute to make clear that digital downloads constitute a mechanical copy encompassed by the compulsory license.

The Act uses the term "digital phonorecord delivery" (DPD), defined as "each individual delivery of a phonorecord by a digital transmission of a sound recording which results in a specifically identifiable reproduction." The definition specifically excludes real-time transmissions "where no reproduction of the sound recording or the musical work embodied therein is made from the inception of the transmission through to its receipt by the retransmission recipient in order to make the sound recording audible." Because of this exclusion, a streamed transmission presumably is not considered a DPD. If, however, a web site allows individuals to download copies of an MP3 file, for example, the downloaded file is a "phonorecord" that qualifies as a "specifically identifiable reproduction," and the entity running the web site has therefore engaged in a DPD.

The Copyright Act, as amended by the DPRSRA, makes clear that the compulsory license for "mechanical" copies is available for these DPDs to authorize the reproduction of the musical work. That compulsory license does not, however, authorize the reproduction of the sound recording that is also embodied in the digital file. Further, the legislative history indicates that it is entirely possible for a sound recording copyright owner to authorize DPDs of the sound recording but not authorize mechanical reproductions of the musical work rendered in the sound recording. Such action would be permissible even if the sound recording were initially recorded and distributed pursuant to a mechanical license. In such a situation, the legislative history provides that the entity engaging in the digital distribution would then need to obtain, in addition to the authorization from the sound recording copyright owner, its own mechanical license from the musical work copyright owner.

Further complicating the matter, the statute expressly provides, (in three places!) that a DPD may also constitute a public performance. The significance of this possibility requires emphasis. Engaging in an authorized DPD requires payment of royalties to the sound recording copyright owner for the reproduction that occurs, and, as explored in the previous paragraph, payment of royalties under a mechanical license to the musical work copyright owner. Payment of those two royalties only authorizes the reproduction and distribution of copies of that recorded music, it does not permit the licensee to engage in a public performance of the musical work if a DPD constitutes a public performance. Permission to publicly perform the musical work must also then be obtained (most likely from one of the CROs). And, because the performance is occurring by means of a digital transmission, permission to publicly perform the sound recording will also be necessary.

The provisions concerning the royalty rates make the picture even hazier. The statute directs that the rates for the DPD compulsory license shall distinguish between a DPD in general and a DPD "where the reproduction or distribution of a phonorecord is incidental to the transmission which constitutes the digital phonorecord delivery." Such incidental DPDs are not exempt from royalty payments, the rates merely need to "distinguish" those DPDs. Thus, an activity that looks predominately like a public performance and not a DPD, nonetheless may require authorization from, and payment to, the musical work copyright owner for the reproductions that may incidentally be made, and presumably to the sound recording copyright owner who will need to be consulted and paid as well!

As explained above, in 1995 Congress granted sound recording copyright owners a limited public performance right. The contours of that right, however, were spelled out through a three tier system: (1) some performances of sound recordings by means of digital audio transmissions were statutorily exempt; (2) some were granted a compulsory license in the statute; and (3) some were left within the complete control of the copyright owner to be voluntarily licensed within the confines of statutory limits on such licenses.

Broadly speaking the 1995 amendments divided digital transmissions based on whether they were subscription or nonsubscription and whether the nonsubscription broadcasts were interactive. Interactive services were within voluntary licensing (category (3), above), meaning that authorization from the sound recording copyright owners were necessary. Non-interactive subscription services were within the copyright owners control, but subject to a compulsory license, referred to as a "statutory license" (category (2), above). Non-subscription, non-interactive broadcasts were, for the most part, exempt from any control by the sound recording copyright owner (category (1), above).

Amendments contained in the Digital Millennium Copyright Act altered the structure of these provisions. While interactive services remained within the voluntary licensing category, the DMCA amendments expanded the activities that fit in the category of statutory licensing by significantly reducing the category of activities that were exempt from the sound recording copyright owner's control. Congress termed this new category of previously exempt but now subject to statutory licensing "eligible nonsubscription transmission[s]," defining the term to mean:

> a noninteractive nonsubscription digital audio transmission . . . that is made as part of a service that provides audio programming consisting, in whole or in part, of performances of sound recordings, including retransmissions of broadcast transmissions, if the primary purpose of the service is to provide to the public such audio or other entertainment programming, and the primary purpose of the service is not to sell, advertise, or promote particular products or services other than sound recordings, live concerts, or other music-related events.

Generally speaking, this definition encompasses your average webcasting radio station. Therefore, if a radio station is transmitting its broadcasts via the Internet, the radio station will need authorization to publicly perform any sound recordings it includes in its broadcasts. That authorization can be obtained directly from the copyright owner (for each sound recording), or the radio station may avail itself of the statutory license if it stays within the statutory requirements for such a license.

Multiple separate conditions must be met for an eligible entity to stay within the bounds of the statutory license. These provisions are quite detailed and quite complex. One requirement prohibits the service from exceeding the "sound recording performance complement." Supposedly designed to permit typical programming practices used on traditional broadcast radio, the sound recording performance complement prohibits digital transmitters from performing, in any three hour period, more than four selections from a single album or single featured recording artist. The maximum number is reduced to three selections if two or more of the selections are played consecutively. Another of the requirements prohibits the transmitter from publishing program schedules or lists of featured artists or selections that will be included in an upcoming transmission. While the statute permits services to identify the names of the featured artists and specific sound recordings immediately before they are played, a service must be careful in identifying even illustrative examples of the artists played. Continuous programs that are longer than three hours are permitted, while ones of shorter duration are outside the scope of the statutory license, and thus require permission directly from the sound recording copyright owner. Similarly, archived programs that are longer than five hours are within the statutory license, so long as they do not remain available on the webcaster's site for more than two weeks. There are many more details but, hopefully, the reader now has some idea of the complexity contained in the statute.

The statute's exceptional detail, subsequent rulemakings before the Copyright Office, litigation appealing the rules, rate making arbitrations, and subsequent legislation to provide relief from the rates, have kept music copyright lawyers quite busy fleshing out the meaning of these complicated provisions.

The two different types of licenses contemplated for those transmissions that are not exempt involve a level of complication onto themselves. The first category is those licenses that are "voluntary." These are licenses issued to those services that do not qualify for the statutory license and are not exempt. The statute prohibits granting an exclusive license to an interactive service if the period of exclusivity is greater than twelve months. Copyright owners can avoid this prohibition by issuing at least five licenses to different interactive services. These restrictions are clearly aimed at reducing the effect of market concentration in the industry. The statute also contains an important restriction on the licenses issued to non-interactive services that fall within the category of voluntary licenses. Once a sound recording is licensed to an affiliated entity, the copyright owner must offer a license "on no less favorable terms and conditions to all bona fide entities that offer similar services." This "most-favored nation" requirement is intended to address "the issue of vertical integration among companies involved in both the music and the subscription service business." The statute allows for the appointment of a common agent to collect fees, presumably on a model of a CRO, but requires that each copyright owner independently establish the rates to be charged and other material license terms, to avoid the antitrust concerns inherent in any CRO.

The second type of license contemplated is the compulsory "statutory licenses." The statute provides first for negotiated agreement among the affected parties. Absent timely agreement, the Librarian of Congress is to convene a copyright arbitration royalty panel (CARP) to determine a schedule of rates and terms binding on all copyright owners and entities seeking to perform sound recordings pursuant to the statutory license. After an initial six month voluntary negotiation period with no agreement achieved, the Copyright Office convened a CARP proceeding on September 27, 1999. The CARP issued its recommendations on February 20, 2002. The Librarian of Congress rejected the panel's report and issued its modified ruling on June 20, 2002. That report set the statutory license using a per-song/per-listener rate of .07 cents.

Parties on both sides of the debate are currently appealing the rates set by that ruling to the Court of Appeals for the D.C. Circuit. Companies engaging in digital transmissions argue that the per-song/per-listener method for establishing the royalties will drive them out of business. Once the rate is finalized by the exhaustion of appeals, the rate will cover all transmissions from October 28, 1998 through December 31, 2002. Of the royalties received pursuant to this license, half is distributed to the copyright owners of sound recordings and the other half is divided among the featured artists and non-featured musicians and vocalists. This rate making proceedings has received a tremendous amount of attention. Its initial effect was to shut down a wide array of webcasters. Subsequently, Congress enacted the Small Webcaster Settlement Act of 2002, which is intended to provide some relief for small commercial and noncommercial webcasters but requires further negotiation with SoundExchange, the entity designated to collect royalties on behalf of the sound recording copyright owners.

Finally, it is important to emphasize, once the downstream user has worked its way through the maze required to clear the public performance right for the sound recording, the downstream user will still need public performance authorization from the musical work copyright owner. And, as explored above, the downstream user might need to obtain clearance for a DPD (from both the sound recording copyright owner and the musical work copyright owner), even if it is incidental to the public performance through transmission!

D. WORKS MADE FOR HIRE

17 U.S.C. § 101 (2004)

A "work made for hire" is—

(1) a work prepared by an employee within the scope of his or her employment; or

(2) a work specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas, if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire. For the purpose of the foregoing sentence, a "supplementary

work" is a work prepared for publication as a secondary adjunct to a work by another author for the purpose of introducing, concluding, illustrating, explaining, revising, commenting upon, or assisting in the use of the other work, such as forewords, afterwords, pictorial illustrations, maps, charts, tables, editorial notes, musical arrangements, answer material for tests, bibliographies, appendixes, and indexes, and an "instructional text" is a literary, pictorial, or graphic work prepared for publication and with the purpose of use in systematic instructional activities.

In determining whether any work is eligible to be considered a work made for hire under paragraph (2), neither the amendment contained in section 1011(d) of the Intellectual Property and Communications Omnibus Reform Act of 1999, as enacted by section 1000(a)(9) of Public Law 106–113, nor the deletion of the words added by that amendment—

(A) shall be considered or otherwise given any legal significance, or

(B) shall be interpreted to indicate congressional approval or disapproval of, or acquiescence in, any judicial determination,

by the courts or the Copyright Office. Paragraph (2) shall be interpreted as if both section 2(a)(1) of the Work Made For Hire and Copyright Corrections Act of 2000 and section 1011(d) of the Intellectual Property and Communications Omnibus Reform Act of 1999, as enacted by section 1000(a)(9) of Public Law 106–113, were never enacted, and without regard to any inaction or awareness by the Congress at any time of any judicial determinations.

17 U.S.C. § 203 (2004)

(b) Works Made for Hire.— In the case of a work made for hire, the employer or other person for whom the work was prepared is considered the author for purposes of this title, and, unless the parties have expressly agreed otherwise in a written instrument signed by them, owns all of the rights comprised in the copyright.

E. OVERLAPPING RIGHTS

Jessica Litman, *Sharing and Stealing*, 1 U. OTTAWA L. & TECH. JOURNAL (forthcoming 2004)

In 1976, Congress adopted divisibility of copyright. So far as I can tell, the change was completely uncontroversial. Divisibility is all sorts of useful. It's the biggest reason that authors don't need to sign over their copyrights when they publish things. It allows the author to keep control over different sorts of exploitation of her work by different entities. The problem with divisibility is that it potentially requires multiple licenses for any single use of a copyrighted work, while simultaneously making it very difficult to tell who owns the rights one needs to license. Professor Lydia Loren recently summed up the problems the music industry faces in putting its works online:

> [T]here are too many vested industry players for downstream users to be able to efficiently obtain the authorizations needed for downstream use of recorded music. Second, the divisible yet overlapping rights granted to copyright owners leads to industry gridlock and problems with holdout behavior. Finally, the demands for payment from the downstream user by too

many vested industry players, combined with industry consolidation, result in the price being too high to achieve the goal of copyright.

There once was an interesting Internet start-up named MP3.com, which specialized in making both major-label and unsigned music available in the MP3 format. MP3.com intended to stream copyrighted music to its subscribers, and bought ASCAP and BMI public performance licenses to allow it to do so. That seems right. If you look at the statutory definition of public performance, it appears to cover Internet streaming quite nicely. MP3.com got sued for willful infringement (and lost) because it didn't also license the reproduction rights to those songs, which are controlled by a different entity.

This is much worse in the Internet context because copyright owners have asserted, so far successfully, that every time a work is made available over the Internet, someone has reproduced the work, distributed the work, and publicly performed or displayed the work. Anyone who wants to post a work on the web, thus, needs a license from the owners of each of these rights, plus a license from the owners of each of these rights in any underlying works that are incorporated within the work. Under the current leading analysis of how copyright law interacts with the Internet, making any material available over the Internet (whether via posting it on a website, sending it through email, posting it to Usenet news, typing it on Internet relay chat or making it available in a share directory associated with a peer-to-peer file trading application) constitutes a reproduction of the material, a distribution of the material to the public, and a public display or performance of the material. It is therefore illegal unless done with the authorization of the copyright owners of the reproduction right, the public distribution right, and the public display or public performance right, as well as the copyright owners of those rights in any underlying material. It counts as an actionable copy notwithstanding the fact that the reproduction may be ephemeral (what the law used to deem unfixed). It counts as a distribution to the public notwithstanding the fact that no tangible copy of the material is transferred (what the law used to deem a display or performance rather than a distribution). It constitutes a public display or performance notwithstanding the fact that any display or performance may occur only between two individual computers (what the law used to deem private).

Indeed, there's some indication in the case law that making a hyperlink to material available over the Internet may be deemed to be a reproduction, public distribution, and public performance or public display, requiring the permission of the owners of the reproduction, distribution and public performance and display rights in the material on the other end of the link. Moreover, the theory underlying the recording industry's recent service of more than a thousand subpoenas on Internet service providers and universities appears to be that merely possessing an unauthorized digital copy of a protected work can itself be infringing distribution, because a member of the public could download a copy of the work from the possessor's hard disk. A bill recently introduced in Congress extends that argument further. Under Congressman Conyers' Author, Consumer, and Computer Owner Protection and Security Act, possessing an unauthorized digital copy could constitute felony distribution.

And (as if that weren't troubling enough) largely because of the adoption of divisibility of copyright, in many if not most cases, it can be difficult and sometimes impossible to discover who the copyright owners of all of those rights are. One of the more disturbing revelations of the Napster litigation was that record companies insisted that they were unable to generate a list of the copyrighted works they claimed to own. (This is particularly disquieting because one would assume they kept records in order to send out those royalty checks they're supposed to be sending out, but apparently not.) Some of the problem, apparently, is record keeping, but not most of it. In addition to difficulties caused by lost or misfiled records, there is significant legal uncertainty about the ownership of rights to control digital exploitation of works that are subject to contracts contemplating conventional exploitation. Record companies, for example, have claimed to own all copyright rights in the recorded music they distribute under the work made for hire doctrine, but most experts agree that those claims are unpersuasive.

A successful effort to amend the copyright law to strengthen the record labels' work-made-for-hire arguments excited so much outrage among musicians that the recording industry persuaded Congress to repeal the amendment the following year. Without the benefit of a work-made-for-hire claim, though, the record labels' claims to own the digital rights to the recordings they produce requires a work-by-work, contract-by-contract analysis. *New York Times v. Tasini* and *Random House v. Rosetta Books* teach us that contractual assignments of copyright may not necessarily include the electronic rights. We'd have to examine the contracts to be sure. We might need to know whether the case would be coming up on the east coast or the west coast. We'd also need to see the contract between the composer and the music publisher for each song on the recording, and the contracts between each of the music publishers and the record company that recorded each song. Those contracts aren't publicly available. One suspects that a large number of them are no longer in anyone's file cabinets either.

Bottom line: we don't know with any certainty who owns the digital rights in any number of recorded musical performances. That's why record companies have scrambled to settle cases when their ownership of sound recordings is actually put in issue. If I want to share my music collection with my newfound friend who was able to tell me that the "Fuct of Pepsiman" is a promotional toy released in Japan by the Pepsi Cola company, there isn't any way for me to figure out whose permission I need to ask.

Today, in short, everything is protected by copyright and it is almost impossible to figure out whom to ask for permission. Just as we built a communications network that would permit us, if we chose to, to dispense with a complicated and expensive distribution infrastructure, we ditched the legal rules that would have permitted us to do so without high legal barriers.

Mark A. Lemley, *Dealing with Overlapping Copyrights on the Internet,* 22 U. DAYTON L. REV. 547 (1997)

There are reasons to be concerned about the pervasive overlap of exclusive rights that is endemic to Net transmission. The overlap puts strain on a rather complex copyright system that is not designed to deal with multiple types of infringement from a single activity. [. . .]

A. Divided Ownership

Ownership of a copyright vests initially in the "author" of a work, as defined under the Copyright Act. An individual who, working alone, creates a new work is the author of that work, and owns the copyright in that work. If two or more individuals collaborate on a work, they are "joint authors," and each co-owns the copyright in the work. In the case of co-ownership of a copyright by joint authors, the co-owners hold the copyright as tenants in common. Each has an undivided interest in possession and use of the whole, subject to a duty to account for profits to the co-owner, and a duty not to "waste" the asset. In some cases the Copyright Act engages in a fiction, defining the original "author" as the corporate entity that has hired or commissioned the work. In each case, however, the copyright owner or owners hold an undivided interest in the copyright, and have the power to exercise each of the exclusive rights in § 106.

Authors can transfer their copyright to others at will. Section 201(d)(1) of the 1976 Copyright Act provides that "[t]he ownership of a copyright may be transferred . . . by any means of conveyance or by operation of law, and may be bequeathed by will or pass as personal property by the applicable laws of intestate succession," provided the transfer is in writing. This means that in many cases, the owner of a copyright will not be the original author (or even the original corporate "author" of a work for hire), but someone to whom the copyright has been assigned.

Under the 1909 Act, a copyright was "indivisible"-it could be transferred or assigned only as a single integrated whole and only to a single recipient. Grants of less than a full transfer of the undivided copyright were treated as licenses rather than assignments, and did not confer on the recipient standing to sue third parties for infringement. Such "partial licenses" were common under the 1909 Act, particularly in the music industry.

Indivisibility was abolished by the 1976 Act. Section 201(d) provides that "ownership of a copyright may be transferred in whole or in part," and in particular that:

> Any of the exclusive rights comprised in a copyright, including any subdivision of any of the rights specified by section 106, may be transferred as provided by clause (1) and owned separately. The owner of any particular exclusive right is entitled, to the extent of that right, to all of the protection and remedies accorded to the copyright owner by this title.

Under this provision, an exclusive license of one or more of the exclusive rights, or even of a subset of one of the exclusive rights, such as the exclusive right to publish copies of a book in hardcover form, effectively operates to transfer that portion of the copyright to the exclusive licensee. The exclusive licensee then has the exclusive rights to do and to authorize the particular conduct covered in the license, and to bring suit for infringement of those rights. Nonexclusive licensees, by contrast, are not treated as owners and do not have standing to sue for infringement.

Under the modern divisibility rule, it is entirely possible that unrelated entities will own different exclusive rights to the same copyrighted work. Party A may own the exclusive right to reproduce the work in copies, while party B owns certain adaptation rights, and party C owns public performance rights in the work. Further, in some cases more than one author's rights may be involved in a single work. For example, licensed creators of derivative works may own the rights to the new material they contribute, while the underlying copyright "owner" owns the reproduction and adaptation rights in the original work. Thus, those who would copy a derivative work in its entirety need licenses from both of the copyright owners who have contributed to that work. For those who wish to use one of the exclusive rights, these divided rights may be a minor inconvenience, but generally no more than that; the party seeking a license simply needs to determine who has the exclusive right to authorize the particular conduct at issue.

By contrast, consider the dilemma faced by someone who wishes to make available over the Net a copyrighted work in which ownership rights have been divided. [. . .] [P]osting such a work may make the individual posting it liable for infringement to several different entities, each of which will claim the exclusive right to authorize the same conduct. For similar reasons, even obtaining a license from the owner of the public display right will not permit the licensee to display the work on the Net, since such a display also makes copies and involves distribution of the work, and those rights may be owned by different parties. In the context of divided ownership, overlapping rights governing the same conduct may serve as a trap for unwary users, even those who have licensed the copyright from "the" owner in good faith. Further, it may undermine the laudable efforts of groups like American Society of Composers, Authors and Publishers (ASCAP) and the Copyright Clearance Center (CCC) to provide efficient market-clearing mechanisms for low-value copyright licenses. ASCAP licenses only performance rights, and the CCC only reproduction rights. The value of these services will be substantially reduced if they do not actually grant the licensee the right to use the work in question. The only way to guarantee that you are not infringing by placing something on the Net appears to be to find and obtain a license from each of the different owners of a potentially relevant exclusive right.

This is a problem not only for users, but also for copyright owners. People are willing to pay money to license copyrights because that license gives them the right to engage in certain desirable conduct. Licensees will be willing to pay party A much less for a grant of immunity from suit if they know that they can still be sued by parties B and C. Those partial owners of copyright, in turn, may be less willing to acquire only partial rights from an author, and at the very least will find those partial rights less valuable, if they do not authorize Net distribution. The effect of overlapping rights on the Net may be to reduce the divisibility of exclusive rights in practice, at the expense of free commerce. Indeed, where exclusive licenses have been given to different parties, the perverse result may well be that no one has the right to distribute the work on the Net.

B. Interpreting Existing Licenses

Not all copyright licenses are exclusive, resulting in a transfer of ownership. Nonexclusive licenses give the licensee the authority to perform one or more of the exclusive rights in § 106, often for a limited time or with conditions attached. While some digital content will be created (and presumably therefore licensed) with the Net in mind, much of it will not be. Much of the content on the Net today consists of pre-existing books, films, pictures and software. Existing licensors and licensees of this material must determine whether the existing license covers Net publication.

The general problem of applying existing license agreements to subsequently developed technologies is not new. A series of cases have set down rules for the interpretation of such agreements, though those rules are not always consistent. These cases envision three basic types of agreements: those which grant the licensee rights to work the copyright "in electronic media and in media not yet developed," those which expressly reserve such rights to the licensor, and those which are silent as to the treatment of new media. In the first and second groups, courts are inclined to enforce the terms of the license, extending the license if the terms require that result and refusing to extend it if the terms require otherwise. In the third group, however, there is no contractual provision to enforce. Courts and commentators are divided on how to approach such cases. Courts often seek to determine the "intent" of the parties to the bargain; the problem, as the Nimmer treatise observes, is that most often the parties did not intend anything at all with respect to an unanticipated medium. Various default rules have been suggested to deal with such cases, but none of them seems completely satisfactory.

The problem with the Net is much worse. Ordinarily, the problems of adapting to an unanticipated medium can be taken care of by careful drafting of the license agreement. Even general statements of the type enforced in most cases, however, may not avail a licensee who hopes to make material available on the Net. For example, a broad license of the type enforced in Brown—granting the licensee the right to reproduce a work "perpetually and throughout the world . . . in and by all media and means whatever" presumably does cover reproduction over the Net. But it does not cover distribution, public performance, and public display rights, each of which may also be necessary in order to make the work available.

The unique problem posed by the Net is that it does not merely constitute a new medium for reproduction, distribution, or performance, but rather a medium which blends each of those exclusive rights in an unanticipated way. Because of this, license agreements which are not specific to the Net cannot easily be adapted to it. Either a right to reproduce that includes new media will effectively be construed as a right to work each of the exclusive rights on the Net, or the right to reproduce in new media will effectively not apply to the Net at all. Neither outcome seems particularly satisfactory, nor especially likely to be consistent with the "intent" of the parties.

Nor is the problem necessarily cured by reference to the Net in a license agreement, as distribution on different parts of the Net implicates different rights. For example, a license agreement drafted in 1989 granting "the right to reproduce the work in any medium now known or later developed, including by electronic mail" presumably includes by implication the right to distribute the work via e-mail. But does it include the performance and display rights necessary to post the work on the Web? This problem is far from hypothetical. For example, consider the licensing of rights to musical works. ASCAP controls and licenses the right to publicly perform most musical compositions, while a different group (the publishers or record labels) generally controls the right to reproduce such works. These groups will likely fight vigorously over who has the right to license the network transmission of musical compositions (and to receive revenue from that transmission). The answer cannot be found in the license agreement, nor is it likely to be found in some presumed "intent" of the parties. The question will have to be answered as a policy matter, by courts or by Congress.

C. User Rights

The broad exclusive rights granted in § 106 of the Copyright Act are limited by a number of important exceptions. Some of these, such as the fair use doctrine, are extremely broad general protections for users of copyrighted works. Others are very narrow, such as the exemption in § 110(9) for the

> performance on a single occasion of a dramatic literary work published at least ten years before the date of the performance, by or in the course of a transmission specifically designed for and primarily directed to blind or other handicapped persons who are unable to read . . . if the performance is made without any purpose of direct or indirect commercial advantage and its transmission is made through the facilities of a radio subcarrier authorization . . . Provided, That the provisions of this clause shall not be applicable to more than one performance of the same work by the same performers or under the auspices of the same organization.

The overlapping rights implicated by material placed on the Net may allow copyright owners to circumvent certain of the statutory user rights in the Copyright Act. The problem is essentially the same as with divided ownership and license agreements. Statutes written with separate classes of use in mind do not always work well in a world where a single act may implicate all of the exclusive rights. Those user rights which are limited in their application to certain of the exclusive rights, or to certain types of works, are the most likely to be rendered worthless in the network environment.

The most celebrated example is the first sale doctrine. Section 109(a) of the Copyright Act provides that “the owner of a particular copy or phonorecord lawfully made under this title . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord” without violating the copyright owner’s exclusive right of distribution. It is this provision which allows a consumer who purchases a book to sell it to a used bookstore, loan it to her friends, and even rent it out for profit. But if you obtain a book over the Net, beware: § 109(a) will not protect you. The problem is that in a computer network, every act of distribution or importation is also an act of reproduction, and frequently of performance or display as well, and reproductions and displays are not exempt under the first sale doctrine. Section 109(a) still applies to transactions over the Net in a technical sense; it is just that its purpose is defeated by the overlapping copyright problem. The impact is to give copyright owners much broader control over the use of information-including the uncopyrightable ideas contained in their works-than they have ever had before.

The first sale doctrine is not the only example of a statutory user right that is likely to be rendered ineffective on the Net because of the overlapping copyright problem. The exemption for library copying in § 108(a) grants libraries the general right “to reproduce no more than one copy . . . or to distribute such copy” under certain specified conditions. This right is unlikely to protect network transmission of such a “copy,” both because it may also be a public display of the work and because (under MAI and its progeny) multiple “copies” may be necessary to deliver even one nontransitory reproduction. Section 110(2) permits the “performance of a nondramatic literary or musical work or display of a work, by or in the course of a transmission” for nonprofit educational or governmental purposes. Unless this performance right is held to confer an implied right to make and distribute copies, there is no way to exercise this right on the Net. The same is true of performances of literary works for the blind, normally exempted under § 110(8).

A second problem is presented by § 117 of the Copyright Act. This section was enacted by Congress in 1980 in order to prevent the proliferation of “copies” of computer programs from leading to automatic liability each time a computer program was used. Because § 117 applies only to “computer programs,” however, and not to other forms of digital content not yet envisioned by Congress at the time the provision was passed, copies of data are not subject to the same protections as copies of programs.

To be sure, not all user rights are rendered ineffective by the overlapping copyright problem. The fair use doctrine, probably the single most important user right, applies equally on-or offline, largely because it is so general. Even some of the more specific provisions survive the overlap problem because they specifically exempt users from each of the rights that might be implicated by transferring digital content. For example, § 115(a)(1) permits "digital phonorecord deliveries" of a published musical work upon obtaining a compulsory license; the definition of a "digital phonorecord delivery" makes it clear that the compulsory license is valid for each of the exclusive rights at issue. Similarly, § 118(d) exempts from liability public broadcasters who reproduce, distribute, transmit, perform, and display a work, provided they have paid a negotiated or arbitrated royalty. Nonetheless, the overlap of rights that occurs on the Net has certainly altered the balance of rights set by Congress in unforeseen ways.

D. Copyright and the Public Understanding

The Copyright Act is not simple, despite occasional efforts to pretend that it is. As Jessica Litman has pointed out on several occasions, there is a significant separation between what people think the law is and what the law in fact is. There are a number of reasons for this. First, nonlawyers want simple rules that they can understand, and in many cases the Copyright Act gives them rules so complex that even those of us who study them for a living have a hard time figuring them out. Second, nonlawyers want yes or no answers to the question "Can I do X?" Copyright responds with such models of clarity as the fair use doctrine. It is no surprise, therefore, that nonlawyers invent such copyright "myths" as the 250-word rule, the less-than-one-minute rule, or the change-every-eighth-note rule. Third, copyright law is simply never enforced against many kinds of conduct. A nonlawyer (and even some lawyers) will photocopy a Dilbert cartoon to hang on his door without giving it a second thought, simply because no one he or anyone else knows has ever been hauled into court to defend such conduct.

This cognitive dissonance between copyright law and the real world is troubling. A law which nobody obeys is not a good thing as a philosophical matter. It may lead to disrespect for laws in general. More specifically, it may lead those who violate the unenforced parts of the copyright laws with impunity to assume that they can violate the copyright law in other ways as well. At a different level, if a law is so out of touch with the way the world works that it must regularly be ignored in order for the everyday activities of ordinary people to continue, perhaps we should begin to question whether having the law is a good idea in the first place.

The overlapping copyright rights that exist on the Net greatly exacerbate this problem. The most obvious example is the absurd result of any literal application of the MAI case. The law may call every instantiation of every piece of data a "copy" and demand advance permission and a royalty to make that copy, but the Internet simply does not operate that way. Either copyright owners will literally shut down the Net by enforcing the rights the courts have declared they have, or those "rights" will continue to be ignored in the interests of day-to-day living, and the elusive meaning of what is "really" infringement will slip further out of the grasp of ordinary mortals. The problem is even worse with respect to ownership, licensing, and user rights. Here, even the rights that copyright owners or users reasonably think they have vanish when the dubious magic of the Copyright Act is applied to them. If the authors of the White Paper want to educate the public about the morality of enforcing copyrights, this is the wrong way to go about it.