

"KEEPING UP WITH THE MUSIC:
THORNY ISSUES FROM THE
'WILD WEST' OF DIGITAL MUSIC"

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ISSUE 1: "DO RINGTONES QUALIFY AS DIGITAL PHONORECORD DELIVERIES ("DPD's") WITHIN THE SCOPE OF SECTION 115?"

In January 2006, the Copyright Royalty Board ("CRB") announced its intention to commence proceedings to adjust the so-called "statutory rate" under the compulsory licensing provisions of Section 115 of the Copyright Act applicable to phonorecords and digital phonorecord deliveries or "dpds" (Adjustment or Determination of Compulsory License Rates for Making and Distributing Phonorecords (Docket 2006-3, CRB DPRA)).

As part of that rate-setting administrative proceeding before the Copyright Royalty Board, the Register of Copyright's opinion was sought as to the "novel question of law" --do ringtones qualify as dpds under the statute--pursuant to Section 802(f)(1)(B) of the Copyright Act. The Register issued her decision in October, 2006, as set forth in In re: Mechanical & Digital Phonorecord Delivery Rate Adjustment Proceeding, Memorandum Opinion by U.S. Copyright Office, Register. RF 2006-1 (U.S. Copyright Office), available at <http://www.copyright.gov/docs/ringtone-decision.pdf> (the "Ringtones" decision).

Under CARP Reform Act of 2004 and the revisions to Section 8 of the Copyright Act, the CRB judges are essentially limited to adjudicating rates, and are required by law to refer any "novel questions of law" to the Register under Section 802(f)(1)(B) of the Copyright Act. Provided the Register's decision is timely rendered, the CRB judges are then required to incorporate the Register's decision as part of their ultimate ruling and rate setting determination. See 17 U.S.C. Section 802(f)(1)(B)

At present, there is one "compulsory mechanical license" rate in place that is applicable to both physical copies of records manufactured and distributed to the public containing musical works, as well as digital copies made and distributed of the same (such as an iTunes download). The current rate, effective as of January 1, 2006 until such time as a new rate (or set of rates for different products) may be determined, is 9.1 cents per copy of the musical work made and distributed, whether that copy represents the sale of a physical record or a permanent download or "dpd". See 37 C.F.R. Section 255.3 and 255.5

As part of the CRB 2006-3 proceeding, the RIAA requested that the CRB refer the question of eligibility of "ringtones" for compulsory licensing under Section 115 of the Copyright Act to the Register for determination of this "novel question of law". The music publishers opposed the application, arguing that ringtones were not covered by a Section 115 compulsory license, but the CRB referred the following question to the Register of Copyrights:

Does a ringtone, made available for use on a cellular telephone or similar device, constitute delivery of a digital phonorecord that is subject to statutory licensing under 17 U.S.C. 115, irrespective of whether the ringtone is monophonic, polyphonic, or a mastertone?

The Register utilized the following definition of a dpd:

“each individual delivery of a phonorecord by digital transmission of a sound recording which results in a specifically identifiable reproduction by or for any transmission recipient of a phonorecord of that sound recording.”

The following is a brief summary of the competing arguments made to the Register in connection with the issue:

RIAA Arguments:

- a) Ringtones are dpd’s as that term is defined in the Copyright Act, are functionally and technically equivalent to other permanent downloads made under the auspices of Section 115 and therefore should be subject to the same statutory licensing under Section 115 as other permanent downloads;
- b) Ringtones in general, and mastertones in particular, contain no new original material and therefore are not derivative works requiring a separate license outside the scope of Section 115; and
- c) Any variation in the original work created by excerpting the ringtone “hook” from the main body of the work falls within the “arrangement privilege” contained in Section 115 (a)(2) of the Act.

Publisher Arguments:

- d) The Section 115 statutory license is narrow in scope and does not encompass ringtones;
- e) Ringtones do not fall within Section 115 since they consist of only a portion of the underlying composition, not the entire musical work;
- f) Ringtones are derivative works which fall outside Section 115, and they cannot be considered arrangements because ringtones change the basic melody and fundamental character of the work;
- g) Ringtones fail to satisfy Section 115’s requirement that the phonorecords be distributed for private use;

The Register reviewed the relevant case law, statutory history and various arguments raised, and ultimately concluded that “ringtones” are “digital phonorecord deliveries” pursuant to Section 115 of the Copyright Act and that, as such, they qualify for compulsory licensing under Section 115 in most instances. Publishers continue to maintain this is an interim decision that will be appealed once the CRB sets final rates

and publishes the decision as part of its rate-setting determination under Section 115. Appeal of the Register's decision is apparently precluded pending a decision by the CRB in the current rate-setting proceeding that embodies the Register's decision. See 17 U.S.C. Sections 802(f)(1)(D) and 803(d)(1).

The Register did state there will be some instances in which the status of a ringtone is unclear and may fall outside the scope of Section 115, such as newly created ringtones that have not yet been distributed to the public and ringtones that are so altered as to constitute a derivative work, such as by the addition of new lyrics or musical material that alters the original work.

ISSUE 2: “IS THERE A REPRODUCTION RIGHT/MECHANICAL LICENSE IMPLICATED IN “ON DEMAND” STREAMING, AND DOES THE COMPULSORY LICENSE IN SECTION 115 OF THE ACT EXTEND TO THE SAME”?

In 1995, the Digital Performance Right in Sound Recordings Act was enacted, which, *inter alia*, amended Section 115 of the Copyright Act by extending the mechanical reproduction right and the compulsory license to “dpd’s”. Language in the statute made clear that Congress recognized there might be distinctions between “dpd’s” or “general dpds” and “incidental dpd’s” (see, e.g., 17 U.S.C. Section 115(c)(3)(C)), both as to treatment and rates under Section 115, though no definition of an “incidental dpd” was ever promulgated and no rates were ever established for “incidental dpd’s”.

Within several years after enactment of DPRSRA, the RIAA requested the Copyright Office to conduct a rule making proceeding to resolve the question of which types of digital transmissions of recorded music constitute “general phonorecord deliveries”, as well as which types of transmissions should be considered “incidental dpds”, and whether and to what extent the reproduction right was implicated by streamed transmissions.

The request for a rulemaking did not result in any clarification or change in the Section 115 licensing regime, other than that some of the procedural aspects of requesting licenses under Section 115 were amended for digital music services to make the process administratively easier. The Copyright Office has also conducted a number of public hearings over time, but has not engaged in a rulemaking, choosing instead to advocate a legislative solution since there are a great number of problems associated with the current Section 115 licensing structure that are not readily susceptible to change absent legislation. Among the open issues are whether and to what extent “incidental” and “server” copies are subsumed by any mechanical license, and whether any reproduction right is implicated by streamed internet transmissions of musical works, via DMCA-compliant internet radio, “personalized” radio, or “on demand streaming”.

In 2001, as a temporary market place solution, the RIAA, the National Music Publishers Association, and the Harry Fox Agency entered into a private agreement

concerning mechanical license of musical works for new subscription services on the internet. The license, a copy of which is available on The Harry Fox Agency website at <http://www.harryfox.com/docs/FinalRIAAAgreement.pdf>, covered all reproductions made during the course of an on-demand stream and delivery of a limited download, including server copies, buffer copies, and other related copies used in the operation of a covered service. The voluntary agreement provided for publishers, on an “opt out” basis, to make their musical works available for mechanical licensing to the subscription services in exchange for an annual flat fee payment by the labels to The Harry Fox Agency. The agreement allowed the first two subscription music services—MusicNet and Napster—to legally launch without potential infringement liability. Soon thereafter, The Harry Fox Agency began extending licenses on a similar basis to other subscription and on demand music services. Recently however, in part because no “rate” for reproductions implicated by on demand streaming was ever agreed, The Harry Fox Agency announced that it would no longer continue to issue licenses on that basis.

Last year, a bill known as the Section 115 Reform Act of 2006 (“SIRA”), was introduced, and despite efforts by the recording, publishing and digital music service communities to craft a consensus solution to the issues posed by the current Section 115 structure, the bill was not reported out of committee. This past year, the Copyright Office again held hearings to determine if it should once again focus on a regulatory solution to address the problems of Section 115. On June 15, 2007, the Register conducted a Section 115 Round Table Discussion to hear from all interested parties in regard to questions concerning the scope of the license and ways to improve the efficiency of administering the license, including service of the notices of intention that are required when someone wants to use the compulsory license.

At present, the issue of the extent of the reproduction right and the scope of Section 115 with respect to “on demand” streaming services is before the CRB as part of the same CRB proceedings giving rise to the Ringtones Decision. As part of the cases-in-chief offered by each of the three groups of parties to the current Section 115 CRB Proceedings—the recording industry, represented by the RIAA, the music publishers represented by the NMPA and the Songwriters Guild of America and the digital music services, represented by the Digital Media Association or “DiMA”—each of the participants have adduced different positions regarding the applicability of Section 115 to on demand streaming and the potential licensing fees payable. More specifically, the rate proposals and cases of each proposed different mechanical rates for physical goods and digital phonorecord delivery rates for downloads, on demand streams and ringtones.

In brief, the publishers have asserted that Section 115 should apply to (and rates should be promulgated for) both limited downloads and on demand streams. The RIAA has also taken the position that Section 115 should apply to (and rates should be promulgated for) both limited downloads and on demand streams, although it has tendered much lower rate proposals than the publishers. DiMA has agreed that while a reproduction right is implicated in limited downloads, no such right is implicated by (and therefore no licensing fee should be payable for) on demand streams. The parties

respective positions and their written submitted evidence is available on that portion of the Copyright Royalty Board website dedicated to this proceeding, located at <http://www.loc.gov/crb/proceedings/2006-3/index.html#documents>.

The parties' various rate proposals for different types of records, dpds, limited downloads and other reproductions subsumed by the Section 115 CRB proceedings are summarized in the article by Susan Butler in Billboard Magazine referenced in the appendix hereto.

ISSUE 3: "IS THERE A PUBLIC PERFORMANCE IN A PERMANENT DOWNLOAD?"

Since the passage of the DPRSRA in 1995 and the inclusion of language in Section 115 making clear that the fee payable for exercise of the reproduction right under Section 115 was "regardless of whether the digital transmission is also a public performance of ...any non dramatic musical work embodied [in a sound recording] under section 106(4) of this title..." (17 U.S.C. Section 115(c)(3)A), the issue of whether a public performance right is implicated by the distribution and sale of permanent downloads (e.g., via iTunes) has until recently remained without judicial or legislative guidance.

Recently, in the case of U.S. v. ASCAP, 485 F. Supp. 2d 438 (S.D.N.Y. 2007) that issue surfaced before Judge Connor in the context of an ASCAP "rate court" proceeding to establish public performance licensing fees payable to ASCAP for certain types of internet transmissions made by digital music services. Real Networks, Yahoo! and America Online commenced a joint "rate court" application before the U.S. District Court charged with oversight of the 1941 ASCAP consent decree (as amended) (the "ASCAP Consent Decree") that governs the operations of ASCAP. Pursuant to the ASCAP Consent Decree, services seeking to be licensed for the public performance of musical works may obtain a license by seeking the same in writing from ASCAP, and then ultimately agreeing with ASCAP to a rate. In the event of any dispute as to an agreed rate, the matter can be referred to the special "rate court" sitting in the Southern District of New York with on-going jurisdiction over the ASCAP Consent Decree, for the determination of a "reasonable rate." At issue in this proceeding was what Yahoo!, AOL and Real should pay for their various digital music service offerings, which include both streamed DMCA-compliant internet radio programming as well as subscription services offering limited downloads and "on demand" streams.

In connection with its various digital music offerings, each of Real, Yahoo! and AOL sought licenses from ASCAP, and, unable to negotiate a mutually acceptable rate, commenced this litigation, asking Judge Connor to determine reasonable rates for "streamed" transmissions of musical works, whether "on demand" streaming, "personalized" radio, or DMCA-compliant webcasting.

Following commencement of the proceeding and certain discovery, a dispute arose as to whether the transmission of permanent downloads for sale – such as purchases of permanent downloads from iTunes – implicated a public performance right. ASCAP asserted that it did, the services asserted that it did not. The parties cross-moved for summary judgment. Following the filing of briefs by the parties and amici filings by other interested entities and trade organizations, including the RIAA, MPAA, DiMA, CTIA, BMI, NMPA, HFA, Songwriters Guild and others, Judge Conner issued his decision on April 25, 2007.

Judge Connor held that the transmission and downloading of a digital music file did not constitute a public performance where the transmission resulted in a permanent copy of the work. Absent a simultaneous rendering and perception of the song, no public performance was held to be implicated. The court indicated "that in order for a song to be performed, it must be transmitted in a manner designed for 'contemporaneous perception'." However, the Court did state that a transmission might, under certain circumstances, constitute both a stream and a download, each of which implicates a different right of the copyright holder. It is likely that once the District Court has issued its final judgment setting reasonable license fees, an appeal likely will be filed in regard to this decision regarding downloads.

SELECTED BIBLIOGRAPHY: Related Briefs or Amicus Briefs, Case Commentaries and Articles:

ASCAP's Memorandum of Law In Support of Its Motion For Partial Summary Judgement, (Public Version), related to U.S. v. ASCAP, 485 F. Supp. 2d 438 (S.D.N.Y. 2007).

Declaration of Matthew J. DeFilippis In Support Of ASCAP's Motion For Partial Summary Judgment, related to U.S. v. ASCAP, 485 F. Supp. 2d 438 (S.D.N.Y. 2007).

Memorandum of Amicus Curiae Broadcast Music, Inc. In Support of ASCAP's Motion For Summary Judgment, related to U.S. v. ASCAP, 485 F. Supp. 2d 438 (S.D.N.Y. 2007).

Brief Amicus Curiae of the Digital Media Association, Entertainment Merchants Association, National Association of Recording Merchandisers, and Consumer Electronics Association, related to U.S. v. ASCAP, 485 F. Supp. 2d 438 (S.D.N.Y. 2007).

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