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The First International Challenge to U.S. Copyright Law:
What Does the WTO Analysis of 17 U.S.C. § 110(5) Mean to the Future of
International Harmonization of Copyright Laws Under the TRIPS Agreement?

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I. Introduction

June 15, 2000 was a landmark date in the development of international copyright law. A World Trade Organization ("WTO") dispute settlement body ("Panel") published a panel report, which found that Section 110(5) of the United States Copyright Act of 1976¹ as amended in 1998,² was incompatible with US obligations under the Uruguay Round Multilateral Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS Agreement").³ The Panel has recommended that the US amend 110(5) in order to conform with the TRIPS Agreement.⁵

At issue was the Fairness in Music Licensing Act ("FMLA"), an amendment to Section 110(5) enacted by Congress in October, 1998.⁶ The same day FMLA became law on January 26, 1999, the European Community ("EC"), comprised of fifteen-member nations,⁷ brought a challenge under the World Trade Organization's dispute settlement procedures.⁸ The EC complaint, fueled initially by complaints from performers' rights organizations,⁹ concluded that the practical effect of the FMLA resulted in royalty losses totaling approximately Euro 28 million per annum.¹⁰ Thereafter, Australia, Brazil, Canada, Japan, and Switzerland joined in the EC complaint, participating in formal discus-

¹ United States Copyright Act of 1976, Act of Oct. 19, 1976, Pub. L. No. 94-553, 90 Stat. 2541 (as amended).

² Copyright Act, 17 U.S.C. 110(5) (1994 & Supp. I 1996).

³ See Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization [hereinafter the WTO Agreement], Annex 1C, in Results of the Uruguay Round of Multilateral Trade Negotiations 1 (1994) [hereinafter Uruguay Round Results] 365 (1994), 33 I.L.M. 1197 [hereinafter TRIPS Agreement].

⁴ United States: Section 110(5) of the US Copyright Act, Report of the Panel, June 15, 2000, (00-2284), WT/DS160/R, at 69, [hereinafter 110(5) Panel Report].

⁵ *Id.*

⁶ Copyright Act of 1998, Pub. L. No. 105-298, 112 Stat. 2830 (1998) [hereinafter FMLA].

⁷ See generally Treaty Establishing the European Community, Mar. 25, 1957, 37 I.L.M. 56.

⁸ See 110(5) Panel Report, *supra* note 4 at 1. See also Laurence R. Helfer, World Music on a U.S. Stage: A Berne/TRIPS and Economic Analysis of the Fairness in Music Licensing Act, 80 B.U. L. Rev. 93, 99 (2000).

⁹ See Daniel Pruzin, EU Seeks WTO Talks on 1998 Challenges to United States Music-Licensing Copyright Rules, 16 Int'l Trade Rep. (BNA) 321, 321 (Feb. 24, 1999) (explaining performer's rights organizations, such as the Irish Music Rights Organisation ("IMRO"), which claimed that the losses to their members alone totaled \$ 1.36 million, and the European Group of Authors' and Composers' Societies ("GESAC") involvement in the complaint).

¹⁰ See 110(5) DSB Panel Report, *supra* note 4, at 1.

sions with the United States and reserving their right to participate in the dispute settlement procedures as third parties.¹¹

Ultimately, settlement negotiations failed and, on May 26, 1999, the EC requested that the WTO appoint a dispute settlement body to decide the issue.¹² The WTO complied and convened a three-100 member panel ("The Panel"), comprised of international trade and copyright experts.¹³ This marked the beginning of the first (and thus far only) successful challenge to US intellectual property laws decided by the WTO dispute settlement procedures. The report also contained other firsts, which may alter the application of WTO members' copyright laws.

Although this Comment may broadly apply to all intellectual property, it focuses solely on copyright protection. Part II of this Comment provides a general review of the pervasive theories of copyright, which form the foundation of the national and inter-national copyright laws and treaties discussed in the following sections. This will provide an understanding of the theoretical framework in which copyright law is built and will provide insight into the policy goals of copyright protection. In Part III, this Comment provides a thumbnail sketch of the national and international treaties, agreements, and organizations, which comprise the framework of the dispute regarding US Copyright 110(5). The WTO Panel report addressing the dispute is analyzed in Part IV. Finally, Part V seeks to illustrate how the Panel's reasoning, as it could possibly apply to other nations' copyright laws, which are subject to the same international agreements and organizations as US Copyright 110(5), could undercut some of the policy objectives of copyright theory generally, as discussed in Part II. Most importantly, such effects are in express contravention of the stated purposes of the agreements and international organizations discussed in Part III.

II. Theory Behind the Harmonization of Copyright Laws

A. The Nature of Copyright Law in General

The vast majority of nations protect intellectual property "in an attempt to balance the interests of [their copyright] industry's desire to capitalize on its investments ... with society's rights to benefit from the knowledge and resources of its country."¹⁴ Generally speaking, copyright laws exist for three basic reasons: (1) to reward authors for their creative works, both economically (US theory) and morally (EU theory), thereby (2) encouraging the proliferation and availability of creative works; and (3) to facilitate the access and use of creative works by the general public in appropriate situations.¹⁵

Copyright laws grant authors of creative works certain exclusive rights of ownership, including the "authority to regulate how and under what terms protected [works are] sold, bought, used, and

¹¹ Id.

¹² Id.

¹³ Id.

¹⁴ Mark Ritchie et al., *Intellectual Property Rights and Biodiversity: The Industrialization of Natural Resources and Traditional Knowledge*, 11 St. John's J. Legal Comment, 431, 431 (1996).

¹⁵ See generally Janis H. Bruwelheide, *The Copyright Primer for Librarians and Educators*. (Am. Lib. Ass'n. 1995).

otherwise transmitted."¹⁶ The author may also assign these ownership rights to another, in whole or in part. In an attempt to balance the public's need for free movement of creative works with the necessary task of first rewarding and incentivizing creators, governments agree to protect copyrights for a limited time only.¹⁷ Thus, a limited monopoly of sorts is created to balance copyright's competing interests.

The rights protected by copyright laws are "quintessential property rule entitlements."¹⁸ Thus, the copyright holder must grant permission in order for another to exploit one or more of the rights. Typically, permission is granted in exchange for the payment of a licensing fee.¹⁹ When a copyright holder's rights are circumvented, several avenues of redress are generally available.²⁰ Usually, copyright holders may seek injunctions to halt or prevent the unauthorized use of their works and then, damages for compensation and deterrence of future violations.²¹

B. Copyright Economic Markets

"Neoclassical copyright theorists"²² argue that the granting of exclusive rights to authors of creative works provides incentives for the continued production of creative works.²³ The incentives include, not only monetary gain, but also recognition of ownership once the work is publicly introduced. Neoclassical copyright theorists argue that an author's "profit-maximizing" incentives provide for the assignment of his rights to others who value his creation, with the price determined by the market into which the work is introduced.²⁴ The theory provides that governments should seek to provide the initial entitlement incentives, and then to allow the market pressures to form "licensing markets that facilitate the transfer of rights to their highest and best uses."²⁵

As with any market, however, the potential for failure exists. From the copyright holder's perspective, bargaining for the transfer of their rights is usually associated with costs and, once the rights are granted, additional costs are incurred by the monitoring and enforcement of the granted licenses.²⁶ These costs are considered necessary in that they give meaning to the copyrights. When the whole of the costs associated with granting copyright licenses exceed the market value for the copyrighted work, a "market failure" ensues, as both the copyright holder and market participants

¹⁶ Ruth Gana Okediji, Symposium on Globalization at the Margins: Perspectives on Globalization from Developing States: Copyright and Public Welfare in Global Perspective, 7 *Ind. J. Global Legal. Stud.* 117, 119 (1999).

¹⁷ Susan Scafidi, Practice Outline: Intellectual Property, 6 *NAFTA L. & Bus. Rev. Am.* 72, 76 (2000).

¹⁸ See Robert P. Merges, Contracting into Liability Rules: Intellectual Property Rights and Collective Rights Organizations, 84 *Cal. L. Rev.* 1293, 1302 (1996).

¹⁹ See *id.*

²⁰ See *id.*

²¹ See *id.*

²² See Neil W. Netanel, Copyright and a Democratic Civil Society, 106 *Yale L.J.* 283, 308 (1996).

²³ See Laurence R. Helfer, World Music on a U.S. Stage: A Berne/TRIPS and Economic Analysis of the Fairness in Music Licensing Act, 80 *B.U. L. Rev.* 93, 106 (2000).

²⁴ See *id.*

²⁵ See Netanel, *supra* note 22, at 310

²⁶ See Robert Cooter & Thomas Ulen, *Law and Economics* 84 (2d ed. 1996) (detailing these transaction costs).

lose their incentive to conform with copyright laws.²⁷ The result is that market participants must choose between using the work illegally or refraining from using the work altogether.²⁸

C. Homogeneous International Copyright Protection

The main theory behind an international harmonization of copyright protection is that, if all national markets grant universal standards of protection, then the free flow of trade in copyright markets is encouraged.²⁹ Encouragement in such trade will then benefit societies economically and educationally through exposure to creative works.³⁰

III. World Trade Organization Framework

A. The World Intellectual Property Organization

The WTO is the primary body charged with enforcement of international treaties administered by the World Intellectual Property Organization ("WIPO").³¹ Established at the Stockholm Convention in 1974, the WIPO is one of sixteen specialized United Nations ("UN") agencies; its membership is open to all UN members.³² The organization's mission is "to promote the creation, dissemination, use and protection of works of the human spirit for the economic, cultural and social progress of all mankind."³³ This statement embodies the essential nature of the dual theory of copyright discussed in Part II. The WIPO's objectives, as described in the Treaty Establishing the WIPO, are (i) to promote the protection of intellectual property throughout the world through cooperation among States and, where appropriate, in collaboration with any other international organization, and (ii) to ensure administrative cooperation among Unions.³⁴

Currently, the WIPO has 175 member states, which are divided accordingly: (1) developed nations; (2) developing nations; and (3) least-developed nations.³⁵ WIPO aims at homogenizing na-

²⁷ See *id.* at 82 (stating the theory that parties will not bargain for copyright licenses if the transaction costs exceed the productive gain of the bargain).

²⁸ See Jay M. Fujitani, Comment, Controlling the Market Power of Performing Rights Societies: An Administrative Substitute for Antitrust Regulation, 72 Cal. L. Rev. 103, 107 (1984) (identifying the potential options for licensees whose transaction costs are too high).

²⁹ Okediji, *supra* note 16, at 119-20.

³⁰ See *id.*

³¹ World Trade Organization, WTO and WIPO Join Forces to Help Developing Countries Meet Year-2000 Commitments on Intellectual Property, available at http://www.wto.org/english/news_e/pres98_e/pr108_e.htm (last visited Oct. 22, 2001).

³² Convention establishing the World Intellectual Property Organization, Article 3: Objectives of the Organization, Signed at Stockholm on July 14, 1967 (and as amended on September 28, 1979) [hereinafter WIPO Convention].

³³ Dr. Kamil Idris, A Message from the Director General: Welcome to the Website of the World Intellectual Property Organization, available at <http://www.wipo.org/about-wipo/en/index.html> (last visited Oct. 22, 2001).

³⁴ See WIPO Convention, *supra* note 32.

³⁵ A complete, updated list of WIPO members is available at <http://www.wipo.org/members/members/index.html> (last visited Oct. 22, 2001); see also *id.* (noting that, with 177 member countries, the WIPO membership list constitutes nearly 90 per cent of the world's countries).

tional intellectual property protections³⁶ with an ultimate eye towards the creation of a unified, cohesive body of worldwide international law. Although the WIPO administers six (6) copyright treaties,³⁷ the Berne Convention for the Protection of Literary and Artistic Works ("Berne Convention"),³⁸ as it is incorporated into the GATT Uruguay Round Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS Agreement")³⁹ provides the major source of international protection of copyrights.⁴⁰

B. The Berne Convention

The Berne Convention was the first multinational treaty designed to create uniform international standards of copyright protection.⁴¹ The treaty entered into force in 1887,⁴² creating the Berne Union; the United States has been a party since 1989.⁴³ Prior to the creation of the Berne Convention, U.S. copyright laws typically mandated a series of formalities, such as registration and fixation, which had to be followed in order for an author to enjoy copyright protection in that country.⁴⁴ Such formalities had to be followed in each country where an author might seek to market his work; it created serious impediments to multinational marketing and the copyright policy of promoting the spread of creative works. The Berne Convention addressed such difficulties by including a provision which mandates that, if a work originates in a Berne member nation, it will be protected in all other Berne member nations without any formalities.⁴⁵ This provision, however, does not preclude member nations from requiring formalities within their borders, if the work originates from within.

The Berne protects literary works, which are defined as "every production in the literary, scientific, and artistic domain, whatever may be the mode or form of its expression."⁴⁶ This treaty introduced the concept of "minima,"⁴⁷ or a set standard of exclusive rights that member nations must grant to the author (or his assigns include the protection of the rights of reproduction, translation, adaptation, public performance, public recitation, bro),⁴⁸ and then allows the member nation to limit

³⁶ See WIPO Convention, supra note 32.

³⁷ See Idiris, supra note 33.

³⁸ Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, available at LEXIS, 1 B.D.I.L. 715 [hereinafter Berne Convention].

³⁹ TRIPS Agreement, supra note 3, art. 9.1.

⁴⁰ 110(5) Panel Report, supra note 4, at 26.

⁴¹ Julie S. Sheinblatt, Article: VII. Foreign and International Law: b) International Law and Treaties: The WIPO Copyright Treaty, 13 Berkeley Tech. L.J. 535, 536 (1998).

⁴² See Berne Convention, supra note 38.

⁴³ Berne Convention Implementation Act of 1988, Pub. L. No. 100-568 (1988). See also Craig Joyce, et al., Copyright Law 36 (Lexis Pub. 5th ed. 2000) (describing a loophole that allowed US authors (prior to the BCIA March 1, 1989) and authors from other nations that had not adopted the Berne to enjoy the Berne Protection by publishing in a Berne member nation, and its difficulties).

⁴⁴ See id. at 36.

⁴⁵ Berne Convention, supra note 38, art. 5(2).

⁴⁶ Id. at art. 5.

⁴⁷ See Joyce, supra note 43, at 33

⁴⁸ See generally Berne Convention, supra note 38, arts. 8, 9, 11, 12, 14. See also Joyce, supra note 43, at 36 (noting that these exclusive rights are substantially similar to those rights granted by 106 of the US Copyright Act of 1976).

those rights through a fair use provision.⁴⁹ The exclusive rights adcasting, and film.⁵⁰ Member nations must agree to protect these rights for a minimum term calculated by adding the life of the creator plus 50 years, or the publication date plus 50 years in the case of anonymous and pseudonymous works.⁵¹ Member nations are permitted to grant protection in excess of the minimum standards set by the Berne Convention.⁵² Members of the Berne must also comply with a national treatment policy, which means that a country's copyright laws may not discriminate between their nationals and foreigners.⁵³ The substantive provisions of the Berne Convention are incorporated into the TRIPS Agreement, except for a provision granting moral rights.⁵⁴

Although the Berne Convention succeeded in heightening international copyright protection and harmonizing national laws, a major problem existed. The International Court of Justice in the Hague ("Hague Court") was granted jurisdiction in Art. 33(1) over disputes between member nations,⁵⁵ yet nations are free to declare that they are not subject to that jurisdiction.⁵⁶ Many nations, including the United States, have done so, which is largely the reason why the Hague Court has never presided over a treaty compliance dispute to date.⁵⁷ One commentator has pointed out that, under the Berne Convention alone, "each country [was] its own final arbiter in interpreting the Convention, as applied to the field of domestic law."⁵⁸ The TRIPS Agreement represents an attempt to remedy the problems that existed under the Berne Convention.

C. The TRIPS Agreement

Since the Berne Convention, intellectual property theories evolved to tie international trade to international property protections. The General Agreement on Tariffs and Trade ("GATT") was organized after WWII to "promote the reduction of tariff barriers to the international movement of goods."⁵⁹ Subsequent multinational discussions, called "Rounds," have revised and updated the GATT mission.⁶⁰ In 1994, the Uruguay Round produced the TRIPS Agreement and the WTO.

In 1994, the US joined the WTO and Congress enacted the US obligations under TRIPS with the passage of the Uruguay Round Agreements Act ("URAA").⁶¹

⁴⁹ See generally Berne Convention, supra note 38, art. 9.

⁵⁰ See generally Berne Convention, supra note 38, arts. 8, 9, 11, 12, 14. See also Joyce, supra note 44, at 37 (noting that these exclusive rights are substantially similar to those rights granted by 106 of the US Copyright Act of 1976).

⁵¹ Berne Convention, supra note 38, art. 7(1).

⁵² Id. art. 7(6).

⁵³ Id. art. 5.

⁵⁴ See Joyce, supra note 43, at 45.

⁵⁵ Berne Convention, supra note 38, art. 33(1).

⁵⁶ Berne Convention, supra note 38, art. 33(2).

⁵⁷ See Joyce, supra note 43, at 38.

⁵⁸ Id.

⁵⁹ Id at 44.

⁶⁰ Id.

⁶¹ Pub.L.No. 103-465, 103d Cong., 2d Sess., 108 Stat. 4809 (Dec. 8, 1994).

Like the Berne Convention, the TRIPS Agreement sets out basic international standards for intellectual property protection, yet it is not dedicated to copyrights alone, but encompasses patents and trademarks as well.⁶² In the area of copyright, the incorporated Berne provisions provide the source of protection.⁶³

The TRIPS Agreement entered into force on January 1, 1995. At that time, a schedule was set for nations that endeavored to become members must follow to bring their national laws into compliance with the new treaty. Developed nations were given one year to conform with TRIPS, developing nations were given five years, and least-developed nations were given an even longer period of compliance that lasts, "in general," until January 1, 2006.⁶⁴ The WTO and WIPO have a working agreement to facilitate the sharing of information and administration of international intellectual property agreements.⁶⁵ Most recently, in 1998, WTO and WIPO established a "joint technical cooperation initiative" to ensure developing nations' timely compliance with the TRIPS Agreement.⁶⁶

D. Approval of National Laws Process

Compliance with TRIPS Agreement requires nations to revise their national copyright laws or to adopt a new body of law (if copyrights have not previously been protected) so that copyright protections supply their nationals with, at least, the minimum standards of the TRIPS Agreement. International property agreements, such as the TRIPS Agreement, are the only such multinational agreements to require that countries adopt an entire affirmative body of law. Understandably the revision process is lengthy. Nations seeking to become TRIPS compliant agree to allow a TRIPS council to review their proposed legislation. Where the council believes clarification is needed, it sends written interrogatories to the nation and asks for clarification on the issue involved. The country then revises their laws in this process until the TRIPS Council deems the copyright laws TRIPS compliant.⁶⁷

E. Dispute Resolution.

Concurrent creation of TRIPS and WTO provided nations with not only a structure of international intellectual property rights, but also a forum in which to prevent and resolve disputes.⁶⁸ Both endeavored to cure the failures of prior international intellectual property treaties, such as the Berne Convention, and to provide effective enforcement mechanisms for the new legal structures.⁶⁹ Accordingly, the Uruguay Round provided new structural and procedural mechanisms to enforce intellectual property treaties and resolve treaty noncompliance disputes.⁷⁰

⁶² See generally, TRIPS Agreement, *supra* note 3.

⁶³ 110(5) Panel Report, *supra* note 4, at 26.

⁶⁴ See Idris, *supra* note 33.

⁶⁵ *Id.*

⁶⁶ *Id.*

⁶⁷ *Id.*

⁶⁸ See Understanding on Rules and Procedures Governing the Settlement of Disputes, [hereinafter DSU] Apr. 15, 1994, art 23.1, WTO Agreement, Annex 2, in Uruguay Round Results, *supra* note 3, at 404, 425 (1994); 33 I.L.M. at 1226

⁶⁹ Joyce, *supra* note 44, at 45-46.

⁷⁰ See DSU, *supra* note 68, at 404, 425 (1994); 33 I.L.M. at 1226

The WTO Dispute Settlement Understanding ("DSU")⁷¹ and the TRIPS Agreement set out the necessary steps a member nation must take when complaining of a violation of the TRIPS Agreement. The EC followed these steps when asserting a violation complaint against the US concerning Copyright 110(5).⁷² A violation complaint⁷³ alleges an outright violation of the TRIPS, asserting "the failure of another contracting party to carry out its obligations under this Agreement."⁷⁴

First, the EC requested formal consultations with the US, as the alleged offending nation.⁷⁵ Then, because the countries failed to reach a mutually satisfactory conclusion, and the EC requested that a body of specialists in the dispute area be impaneled to review the complaint.⁷⁶ As a final resort, the panel convened to decide the dispute regarding US Copyright 110(5).⁷⁷

IV. The Panel Report

A. Background

1. EC Claims - Specifically, the EC requested that the Panel separately consider the "homestyle" exemption defined in subparagraph (A)⁷⁸ and the "business" exemption defined in sub-paragraph (B)⁷⁹ of 110(5) as amended in 1998.⁸⁰ Both subparagraphs grant exceptions to provi-

⁷¹ See *id.*

⁷² 110(5) Panel Report, *supra* note 4, at 1.

⁷³ See DSU, *supra* note 68, at 404, 425 (1994); 33 I.L.M. at 1226. (the other types of complaints are situation and nonviolation)

⁷⁴ See General Agreement on Tariffs and Trade, Oct. 30, 1947, art. 23(1)(a), 61 Stat. A-11, T.I.A.S. 1700, 55 U.N.T.S. 194 [hereinafter GATT 1947].

⁷⁵ See DSU, *supra* note 68, at 404, 425 (1994); 33 I.L.M. at 1226. (the other types of complaints are situation and nonviolation) DSU Art. 4 and TRIPS Art. 64.1 Panel Report p. 1.

⁷⁶ See DSU, *supra* note 68, art. 6. See also TRIPS Agreement, *supra* note 3, at art. 64. See also 110(5) Panel Report, *supra* note 4, at 1.

⁷⁷ See DSU, *supra* note 68, art. 23. See also 110(5) Panel Report, *supra* note 4 at 1.

⁷⁸ US Copyright Act, *supra* note 1, 110(5) (A). The complete text is:

110. Limitations On Exclusive Rights: Exception of Certain Performances and Displays

Notwithstanding the provisions of section 106, the following are not infringements of copyright:

(5)(A) except as provided in subparagraph (B), communication of a transmission embodying a performance or display of a work by the public reception of the transmission on a single receiving apparatus of a kind commonly used in private homes, unless -

(A) a direct charge is made to see or hear the transmission; or

(B) the transmission thus received is further transmitted to the public

⁷⁹ US Copyright Act, *supra* note 1, 110(5)(B). The complete text is:

110. Limitations On Exclusive Rights: Exception of Certain Performances and Displays

Notwithstanding the provisions of section 106, the following are not infringements of copyright:

(5)(B) communication by an establishment of a transmission or retransmission embodying a performance or display of a nondrammatic musical work intended to be received by the general public, originated by a radio or television broadcast station licensed as such by the Federal Communications Commission, or, if an audiovisual transmission, by a cable system or satellite carrier, if -

(i) in the case of an establishment other than a food service or drinking establishment, either the establishment in which the communication occurs has less than 2,000 gross square feet of space (excluding space used for customer parking and for

sions in 106 of the Copyright Act. The relevant portion of 106 grants copyright holders the "exclusive rights to do and to authorize ... the [public] performance or display," of copyrighted "literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works."⁸¹

2. The Homestyle Exemption - The homestyle exemption is essentially a revised version of the 1976 Aiken exemption;⁸² it allows persons to publicly broadcast dramatic works (such as operas and musicals, or portions thereof if performed in a dramatic context) "on a single receiving apparatus of a kind commonly used in private homes," provided that "no direct charge is made to see or hear the transmission; or the transmission ... is [not] further transmitted to the public."⁸³ The practical effect of subparagraph (A) is to exempt persons or small businesses from paying copyright li-

no other purpose), or the establishment in which the communication occurs has 2,000 or more gross square feet of space (excluding space used for customer parking and for no other purpose) and -

(I) if the performance is by audio means only, the performance is communicated by means of a total of not more than 6 loudspeakers, of which not more than 4 loudspeakers are located in any 1 room or adjoining outdoor space; or

(II) if the performance or display is by audiovisual means, any visual portion of the performance or display is communicated by means of a total of not more than 4 audiovisual devices, of which not more than 1 audiovisual device is located in any 1 room, and no such audiovisual device has a diagonal screen size greater than 55 inches, and any audio portion of the performance or display is communicated by means of a total of not more than 6 loudspeakers, of which not more than 4 loudspeakers are located in any 1 room or adjoining outdoor space;

(ii) in the case of a food service or drinking establishment, either the establishment in which the communication occurs has less than 3,750 gross square feet of space (excluding space used for customer parking and for no other purpose), or the establishment in which the communication occurs has 3,750 gross square feet of space or more (excluding space used for customer parking and for no other purpose) and -

(I) if the performance is by audio means only, the performance is communicated by means of a total of not more than 6 loudspeakers, of which not more than 4 loudspeakers are located in any 1 room or adjoining outdoor space; or

(II) if the performance or display is by audiovisual means, any visual portion of the performance or display is communicated by means of a total of not more than 4 audiovisual devices, of which not more than one audiovisual device is located in any 1 room, and no such audiovisual device has a diagonal screen size greater than 55 inches, and any audio portion of the performance or display is communicated by means of a total of not more than 6 loudspeakers, of which not more than 4 loudspeakers are located in any 1 room or adjoining outdoor space;

(iii) no direct charge is made to see or hear the transmission or retransmission;

(iv) the transmission or retransmission is not further transmitted beyond the establishment where it is received; and

(v) the transmission or retransmission is licensed by the copyright owner of the work so publicly performed or displayed

....

⁸⁰ 110(5) Panel Report, *supra* note 4, at 26.

⁸¹ US Copyright Act, *supra* note 1, 106. The relevant text is:

106. Exclusive Rights in Copyrighted Works

Subject to sections 107 through 121, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

(4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audio visual 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 audio visual work, to display the copyrighted work publicly.

⁸² US Copyright Act, *supra* note 2. *Twentieth Century Music v. Aiken*, 422 U.S. 151 (1975).

⁸³ FMLA, *supra* note 6, (A).

censing fees when they are broadcasting dramatic works by a non-commercial radio system or television set.⁸⁴

3. The Business Exemption - The business exemption allows food service or drinking establishments under 3,750 gross square feet and other establishments (i.e., retail) under 2,000 gross square feet to communicate, without the payment of licensing fees, "the transmission or retransmission ... of a nondramatic musical work," provided that the following conditions are met: 1) the work was "intended to be received by the general public;" 2) "the work originated by a radio or television station licensed as such by the Federal Communications Commission, or if an audio visual transmission, by a cable system or satellite carrier;" 3) "no direct charge is made to see or hear the transmission or retransmission;" 4) "the transmission or retransmission is not transmitted beyond the establishment where it is received;" and 5) "the transmission or retransmission is licensed by the copyright owner of the work so publicly performed or displayed."⁸⁵

Establishments that exceed the size limits stated above are allowed the same exemption, provided that the following additional provisions are met: 1) the diagonal screen of any visual or audio visual device used does not exceed fifty-five inches and not more than four such devices are used, "of which not more than one ... device is located in any one room or adjoining outdoor space;" and 2) if an audio device is used, not more than 6 audio loudspeakers are used, "of which not more than four ... are located in any one room or adjoining outdoor space."⁸⁶

4. Application of the Exemptions - Subparagraphs (A) and (B) apply to transmissions of "original broadcasts over the air by satellite, rebroadcasts by terrestrial means or by satellite, cable retransmissions of original broadcasts, and original cable transmissions or other transmissions by wire."⁸⁷ Neither provision distinguishes between "analog and digital transmissions;" neither applies to the "use of recorded music, such as CDs or cassette tapes, or to live performances of music."⁸⁸

5. The Panel's Conclusions - The Panel concluded that the homestyle exemption constitutes a valid exception to exclusive rights per the TRIPS Agreement.⁸⁹ The Panel also concluded, however, that the business exemption constitutes a violation of US obligations under the TRIPS Agreement.⁹⁰ The Report recommends that the US amend subparagraph (B) to conform with its TRIPS requirements.⁹¹

B. The Relationship Between US 110(5) and TRIPS

⁸⁴ See Report of the House Committee on the Judiciary, H.R. Rep. No. 94-1476, 94th Congress, 2nd Session 87 (1976) [hereinafter FMLA House Report] (listing factors for determining the copyright liability in particular instances may include "the size, physical arrangement, and noise level" in the broadcasting establishment, as well as whether or not the transmitting apparatus had been "altered or augmented for the purpose of improving" its audio or visual quality).

⁸⁵ FMLA, supra note 6, (B).

⁸⁶ Id.

⁸⁷ 110(5) Panel Report, supra note 4, at 6.

⁸⁸ Id.

⁸⁹ Id at 69.

⁹⁰ Id.

⁹¹ Id.

1. Applicable TRIPS Agreement Provisions - The homestyle and business exceptions implicate TRIPS Article 9.1, which mandates that WTO members must comply with Berne Convention Articles 1-21.⁹² Specifically concerned in this dispute are portions of the Berne Convention,⁹³ which, since the Convention's implementation in 1886, implicitly and explicitly grant national governments wide discretion to balance the rights of copyright holders against other important societal goals, including the proliferation of knowledge and artistic expression, the promotion of freedom of expression and the development of culture.⁹⁴

Further implicated by subparagraphs (A) and (B) is TRIPS Agreement Article 13, which "provides the standard by which to judge the appropriateness of ... limitations or exceptions" in member nations' laws predicated on the Berne Convention exceptions clauses, as incorporated into the TRIPS Agreement.⁹⁵ The precise meaning of Article 13, and its relationship to the Berne Convention exceptions and limitations provisions, are among the most ambiguous and contested issues in international copyright law.⁹⁶ The dispute concerning 110(5)(A) and (B) instigated the first authoritative attempt, as contained in the Panel Report, to resolve such issues by the international institutions charged with enforcing national copyright laws.

2. Applicable Berne Convention Provisions - Berne Convention Articles 11(1)(ii) and 11bis(iii), which are incorporated into the TRIPS Agreement by reference in Article 9.1,⁹⁷ are the specific exceptions and limitations clauses relevant to the dispute.⁹⁸ In both cases, the exceptions apply to public performance only; no copyright holder authorization is required for private uses.⁹⁹

Article 11 bis(1)(iii)¹⁰⁰ provides that "Authors of literary and artistic works shall enjoy the exclusive right of authorizing: ... (iii) the public communication by loudspeaker or any other analogous instrument transmitting by signs, sounds, or images, the broadcast of the work."¹⁰¹ Per Berne Convention Article 2, artistic works referenced in Article 11bis(1) "include nondramatic and other musical works."¹⁰² The right conferred by subparagraph (iii) is exclusive, which means that the

⁹² Id. at 11, n.11 (providing the text of TRIPS Agreement Art. 9.1).

⁹³ 110(5) Panel Report, supra note 4, at 13.

⁹⁴ See Laurence R. Helfer, *Adjudicating Copyright Claims Under the TRIPS Agreement: The Case for a European Union Human Rights Analogy*, 39 *Harv. Int'l L.J.* 357, 369 (1998).

⁹⁵ 110(5) Panel Report, supra note 4, at 7.

⁹⁶ See Neil W. Netanel, *The Next Round: The Impact of the WIPO Copyright Treaty on TRIPs Dispute Settlement*, 37 *Va. J. Int'l L.* 441, 459-60, n.72 (1997) (discussing relationship among the Berne Convention, TRIPs and the WIPO Copyright Treaty regarding article 13). See also 110(5) Panel Report, supra note 4, at 15 (stating that the EC considers the "precise scope and legal status" of these Berne Convention Articles as "unclear").

⁹⁷ 110(5) Panel Report, supra note 4, at 7.

⁹⁸ 110(5) Panel Report, supra note 4, at 13-14 (noting that, neither the US or EC disputed this claim on a superficial level and directing the reader's attention to fn 37, which references specific submissions from the parties regarding the degree to which the relevant Articles are implicated).

⁹⁹ 110(5) Panel Report, supra note 4, at 14.

¹⁰⁰ Id. at 12.

¹⁰¹ Berne Convention, supra note 38, art. 11bis(1)(iii).

¹⁰² Id. art. 2.

copyright holder must authorize, and may expect remuneration in exchange for a third party's exploitation of such right.¹⁰³

Berne Convention Article 11(1)(ii) provides that Authors of dramatic, dramatico-musical and musical works shall enjoy the exclusive right of authorizing: ... (ii) any communication to the public of the performance of their works.¹⁰⁴

This article applies to communication generally, by any means or process, which could include original transmissions, retransmissions, and transmissions of recordings.¹⁰⁵

a. The Minor Exceptions Doctrine - The Panel found that the minor exceptions doctrine, as it has developed in relation to the Berne Convention Articles 11bis(1)(iii) and 11(1)(ii), applies under the TRIPS Agreement.¹⁰⁶ The minor exceptions doctrine is a grant of implied limitations or exceptions in addition to the Berne Convention's explicit limitations and exceptions provisions.¹⁰⁷ The minor exceptions doctrine allows nations to provide exceptions in their national laws to the "rights provided, inter alia, under Articles 11bis and 11 of the Berne Convention."¹⁰⁸ The Panel found that this doctrine was incorporated into the TRIPS Agreement concurrently with the other Berne Convention Articles 1-21.¹⁰⁹

Thus, the TRIPS Agreement provides for the possibility that members may make minor exceptions to the exclusive rights granted by Berne Convention Articles 11 and 11bis, as they were incorporated into the TRIPS via Article 9.1.¹¹⁰ First, the Panel concluded "that the minor exceptions doctrine forms a part of the context" of, at least, Articles 11bis and 11 of the Berne Convention.¹¹¹ The US defense is based on a claim that TRIPS Article 13 gives meaning to the "minor exceptions" doctrine of the Berne Convention and incorporated into the TRIPS Agreement.¹¹²

b. EC and US Views of Minor Exceptions Doctrine - The EC claimed that the minor exceptions doctrine was limited to public performances for non-commercial purposes.¹¹³ The EC further submitted that the minor exceptions doctrine applied only to exceptions that existed before the 1967 Stockholm Diplomatic Conference, regardless of when a country became a party to the Berne Convention.¹¹⁴

On the other hand, the US stated that, in their view, the minor exceptions doctrine was not limited to specific examples that had been discussed at Brussels or Stockholm Diplomatic conferences.

¹⁰³ 110(5) Panel Report, *supra* note 4, at 12.

¹⁰⁴ Berne Convention, *supra* note 38, art. 11(2).

¹⁰⁵ 110(5) Panel Report, *supra* note 4, at 13.

¹⁰⁶ *Id.* at 23.

¹⁰⁷ *Id.* at 18.

¹⁰⁸ *Id.* at 19, n.58.

¹⁰⁹ *Id.* at 23.

¹¹⁰ 110(5) Panel Report, *supra* note 4, at 23.

¹¹¹ *Id.*

¹¹² *Id.* at 14.

¹¹³ *Id.* at 15.

¹¹⁴ *Id.*

¹¹⁵ The US also contested both of the EC interpretations of the minor exceptions doctrine, stating that it was not limited to non-commercial uses or pre-existing exceptions.¹¹⁶

c. Panel's Conclusions - The Panel rejected the EC arguments, stating that the minor exceptions doctrine is not limited to examples set forth in the Berne Convention revision conferences in Brussels or Stockholm or to exceptions that existed in member nations laws prior to 1967 or any other date.¹¹⁷ In scope, the Panel found that the minor exceptions doctrine could conceivably apply to commercial uses or exploitations that have a "more than negligible economic impact on copyright holders." However, the commercial nature or degree of economic impact are factors to consider and are "not determinative provided that the exception contained in national law is indeed minor."¹¹⁸ (emphasis in original).

3. TRIPS Article 13 Test Generally - The Panel then went on to conclude that the three step test in TRIPS Article 13 applies to all exceptions to exclusive rights granted by national government's copyright laws, whether predicated on the minor exceptions doctrine or otherwise.¹¹⁹ Thus, the Article 13 test applies to Berne Convention Articles 11(1)(ii) and 11bis(1)(iii), and to any national law which is predicated upon the minor exceptions doctrine as it is incorporated into the TRIPS Agreement.¹²⁰ Article 13 of the TRIPS Agreement provides that, "members shall confine limitations or exceptions to exclusive rights to certain special cases which do not conflict with a normal exploitation of a work and do not unreasonably prejudice the legitimate interests of the right holder."¹²¹ The three conditions are separate and cumulative; each step of the test must be passed by a nation invoking an exception to exclusive rights.¹²²

C. Preliminary Matters

Before applying the Article 13 test to the homestyle and business exemptions, the Panel clarified three important preliminary matters: 1) the burden of proof; 2) general principles of agreement or treaty construction; and 3) a distinction between the effects of exemptions or limitations.

1. Burden of Proof - First, the Panel noted that the EC, as the party alleging a violation of the TRIPS Agreement, bore the burden of "establishing a prima facie violation [by the homestyle and business exemptions] of the basic rights" provided therein and of the relevant, incorporated Berne Convention provisions.¹²³ Where the EC accomplished their initial burden, the burden then shifted

¹¹⁵ 110(5) Panel Report, supra note 4, at 15.

¹¹⁶ Id. at 15-16, n.43.

¹¹⁷ 110(5) Panel Report, supra note 4, at 30.

¹¹⁸ Id. at 22, n.74.

¹¹⁹ Id. at 27 (noting that, "the wording of Article 13 does not contain an express limitation to the categories of rights under copyright to which it may apply.") See also id. at 28 (noting that this was the US position in respect to the limitations and exclusive rights to which Article 13 applies).

¹²⁰ Id. at 30.

¹²¹ TRIPS Agreement, supra note 2, art. 13.

¹²² 110(5) Panel Report, supra note 4, at 27 (noting that both the EC and US agree with this categorization of the Article 13 application).

¹²³ Id. at 11.

to the US, which was required to show that "any exception or limitation is applicable and that the conditions, if any, for invoking such exception are fulfilled."¹²⁴

2. General Rules of Construction - Second, in regard to general rules of agreement construction and interpretation, the Panel stated that, "ordinary meaning has to be given to the terms of a treaty in their context and in the light of its object and purpose."¹²⁵ The Panel also stated that, because the TRIPS Agreement and Berne Convention provide the "overall framework" for inter-national copy-right law, every attempt should be made to reconcile the two.¹²⁶

3. Actual vs. Potential Effects of Exceptions or Limitations - Last, the Panel distinguished between the "actual" and "potential" effects of copyright limitations and exceptions to exclusive rights.¹²⁷ The actual effects are those that illustrate "the immediate and direct impact on copyright holders" as a result of the legislation at issue.¹²⁸ The potential effects are those that demonstrate "the way that the exemptions affect the right-holders' opportunities to exercise their exclusive rights as well as the indirect impact of exemptions."¹²⁹

D. Application of the TRIPS Article 13 Test

The Panel found that Section 110(5)(A) and (B) contained exceptions that allow the use of copy-righted works without the author's permission and without equitable remuneration to the author.¹³⁰ However, the Panel noted that these factors alone are not determinative, as the TRIPS Agreement allows for the possibility of exceptions granted without authorization and remuneration.¹³¹ This is because governments may justify exceptions based only on Article 13.

The TRIPS Agreement Article 13 test provides three conditions which must be satisfied by any member nations' law which grants limitations or exceptions to a copyright holder's exclusive rights.¹³² Article 13 mandates that the exception or limitation: 1) must be confined to special cases; 2) must not conflict with the normal exploitation of the work in question; and 3) must not unreasonably prejudice the legitimate interests of the copyright holder.¹³³

Per the Panel Report, it is now clear that the three conditions are distinct requirements that apply on a cumulative basis.¹³⁴ "Failure to comply with any one of the three conditions results in the Ar-

¹²⁴ Id.

¹²⁵ Id. at 17 (describing the general sources of treaty interpretation principles to which the WTO Panel is bound) and fn 48 (quoting from one such source).

¹²⁶ . Id. at 24 (stating that the Panel felt their interpretation of the treaties concerned in this dispute was consistent with the general principles to which they are bound) and n.86 (listing two cases in which the above described principle of treaty consistency was applied).

¹²⁷ 110(5) Panel Report, supra note 4, at 32.

¹²⁸ Id. (noting that the US focused on actual effects; the US argued that only by focusing on actual affects, which necessarily includes "a realistic appraisal of the conditions that prevail in the market," could the Panel avoid an arbitrary result).

¹²⁹ Id. at 32 (noting that the EU focused on potential effects).

¹³⁰ Id. at 30.

¹³¹ Id. at 29-30.

¹³² 110(5)Panel Report, supra note 4, at 31.

¹³³ Id.

¹³⁴ 110(5)Panel Report, supra note 4, at 31.

title 13 exception being disallowed."¹³⁵ Any exception to exclusive rights must be in conformity with all three Article 13 requirements, or the nation will be in violation of their TRIPS Agreement obligations.¹³⁶

As a preliminary matter, the Panel noted that their interpretation of the meaning of the three conditions would necessarily be narrow and limited.¹³⁷ The panel found that the language was modeled after Article 9(2) of the Berne Convention, which was intended to provide only exceptions of a "limited nature."¹³⁸ Thus, the Panel stated that a narrow interpretation of Article 13 was the only permissible, consistent reading.¹³⁹ The Panel then proceeded to apply TRIPS Article 13 to the homestyle and business exemptions separately.

1. Confinement to Certain Special Cases

a. Generally - The Panel determined that the first TRIPS Agreement Article 13 requirement, that a limitation or exception be confined to special cases, means that the national law must be sufficiently particularized to afford a high degree of "legal certainty," which may be achieved through a clearly defined exception.¹⁴⁰ This clearly defined exception does not need to list every possible application scenario, provided that the "scope of the exception is known and particularized."¹⁴¹ The scope must also be narrow and coupled with "an exceptional or distinct objective."¹⁴² However, the Panel pointed out that an exceptional or distinct objective did not mean that a national exception or limitation must attempt to achieve a special public policy purpose in order to satisfy this first condition.¹⁴³ Yet, the Panel noted that legislators' stated public policy purposes may help to discern the scope of a limitation or exception.¹⁴⁴

In sum, the Panel concluded that the first Article 13 requirement means that an exception or limitation must be clearly defined and narrow in scope and reach.¹⁴⁵ Both subparagraphs (A) and (B) were deemed clearly defined, but that, while the homestyle exemption was narrow in scope and reach,¹⁴⁶ the business exemption was not.

b. Clearly Defined - The subparagraphs listed the size of establishments that may benefit from, and the legislation and the type and number of equipment that may be used, to take advantage of the exceptions and were thus clearly defined.¹⁴⁷

¹³⁵ Id.

¹³⁶ Id.

¹³⁷ Id.

¹³⁸ Id.

¹³⁹ 110(5)Panel Report, supra note 4, at 31.

¹⁴⁰ Id. at 33.

¹⁴¹ Id.

¹⁴² Id.

¹⁴³ Id.

¹⁴⁴ Id. at 34.

¹⁴⁵ 110(5)Panel Report, supra note 4, at 34.

¹⁴⁶ Id. at 43.

¹⁴⁷ Id. at 34-35.

c. Narrow in Scope and Reach - The Panel stated that the application of an exemption or limitation's must be narrow in a qualitative and quantitative sense.¹⁴⁸ Yet, the determinative factor in assessing the scope of the respective subparagraph's application was the percentage of establishments that benefited from the exceptions contained the subparagraphs (A) and (B).¹⁴⁹ Relying on statistical data supplied by both the US and EU, the Panel found that the homestyle exemption excludes only an "insignificant" portion of copyright royalties as it is available to only 18% of retail establishments, 16% of eating establishments, and 13.5% of drinking establishments,¹⁵⁰ while the business exemption results in significant royalty losses to copyright holders as it exempts 70% of eating and drinking establishments and 45% of all retail establishments¹⁵¹ from paying such fees.¹⁵² Because the business exemption was available to so many, the Panel concluded that the business exemption does not satisfy the first part of the three-part Article 13 test.¹⁵³

2. Normal Exploitation

a. Generally - The Panel stated that its assessment of the second part of the Article 13 test would "focus on the degree of conflict with the normal exploitation of the work."¹⁵⁴ The Panel found that normal exploitation refers to "something less than the exclusive right" to "extract economic value from" a copyright holder's works.¹⁵⁵ Each exclusive right must be judged individually according to its normal exploitation.¹⁵⁶ The Panel created a dual test to judge whether or not an exception or limitation interferes with a copyright holder's normal exploitation.¹⁵⁷

b. Quantitative Step - The first part of the test involves a quantitative "economic analysis of the degree of 'market displacement' in terms of forgone collection of remuneration by right owners caused by the free use of works due to the exemption at issue."¹⁵⁸ The basic inquiry is whether or not the exemption cuts off a right holder's access to markets that he would otherwise exploit in the normal course of exercising his rights.¹⁵⁹ Thus, markets that are not ordinarily open to a copyright holder are not a part of this equation.¹⁶⁰

c. Qualitative Step - The second part of this dual test is a normative approach, under which the question is whether or not the uses allowed by the exemption compete with the author's uses in an

¹⁴⁸ Id. at 33.

¹⁴⁹ Id. at 34. (stating the primary consideration was the percentage of establishments reached by subparagraphs (A) and (B) that only on a subsidiary basis did the Panel consider the "stated policy purposes" of the exemptions).

¹⁵⁰ 110(5)Panel Report, supra note 4, at 39-40.

¹⁵¹ Id. at 36.

¹⁵² Id.

¹⁵³ Id. at 43. (the panel also states that it will continue in its analysis of the business exemption despite the fact that, since it does not pass the first Article 13 test requirement, it is inconsistent with TRIPS Agreement).

¹⁵⁴ Id. at 32.

¹⁵⁵ 110(5)Panel Report, supra note 4, at 44, n.152.

¹⁵⁶ Id. at 45.

¹⁵⁷ Id. at 47-48.

¹⁵⁸ Id. at 47, n.160.

¹⁵⁹ Id. at 47.

¹⁶⁰ 110(5) Panel Report, supra note 4, at 47.

economically significant or practically important way.¹⁶¹ If the answer is in the affirmative, then the uses must be available exclusively to the author.¹⁶² If the uses allowed by the exception have the potential to gain "considerable or practical importance," then they are disallowed under Article 13.¹⁶³ The Panel considers not only those who currently use works free of charge, but also [*322] those who may be induced to use them free of charge as a result of the exception's availability.¹⁶⁴ The Panel's evaluation of the actual and potential effects is based on current market conditions, as well as the market conditions as they are likely to evolve in the near future.¹⁶⁵

The US argued that, prior to the FMLA, a relatively low number of right holders licensed their works in the market for which subparagraphs (A) and (B) were created.¹⁶⁶ Their conclusion was that this statistical data showed that the market reached by FMLA was not a part of the normal market for right holders.¹⁶⁷ The Panel rejected this argument, stating that whether or not right holders choose to enforce their rights in a given market is not determinative of whether a given market is ordinary and normal.¹⁶⁸ Thus, the licensing practices "in a given market at a given time do not define the minimum standards of protection under the TRIPS Agreement that have to be provided by national legislation." Given the large percentages of business reached by the business exemption, the Panel found that it interfered with a significant portion of a potentially large economic market for copyright holders.¹⁶⁹ Therefore, subsection (B) was deemed in conflict with the second part of the Article 13 test, regardless of whether or not copyright holders commonly utilized this market.¹⁷⁰

However, the Panel concluded that subparagraph (A) is consistent with the second Article 13 requirement.¹⁷¹ The homestyle exemption does not interfere with the normal exploitation because no "collective licensing mechanism" exists for dramatic renditions of dramatic musical works and thus, authors do not regularly attempt to license such practices."¹⁷²

3. Unreasonable Prejudice - The third Article 13 requirement was also satisfied by the homestyle exception, but not by the business exemption. The Panel's application of the third and final requirement focused on "the extent of the prejudice caused to the legitimate interests of the right holder."¹⁷³ The US argued that the extent of prejudice caused to a copyright holder was small, because the amounts previously paid by the now-exempted users was minimal. However, the Panel

¹⁶¹ Id.

¹⁶² Id.

¹⁶³ Id. at 48.

¹⁶⁴ Id. at 49.

¹⁶⁵ 110(5) Panel Report, supra note 4, at 50. (stating that the Panel does not wish to speculate on future market conditions, but must necessarily consider "technological developments" and "changing consumer preferences" as two factors that will change market conditions).

¹⁶⁶ Id. at 51-52.

¹⁶⁷ Id. at 52.

¹⁶⁸ Id.

¹⁶⁹ Id. at 54-55.

¹⁷⁰ 110(5) Panel Report, supra note 4, at 55.

¹⁷¹ Id. at 57.

¹⁷² Id. at 56.

¹⁷³ Id. at 32.

stated that this argument was not determinative as it lacked the foresight to take into account the number of businesses who might change their business broadcast practices in order to take advantage of the exemptions. Second, the legitimate interests of a copyright holder are not "necessarily limited to actual or potential economic advantage or detriment."¹⁷⁴ However, an assessment of the copyrights' economic value is useful in an attempt to qualify the prejudice a given exception may cause.¹⁷⁵ In assessing the economic value of the exceptions allowed by the business exemption, the Panel found that the exceptions contained therein were specifically aimed at increasing the profits of US small businesses, while resulting in a significant detrimental impact to EU copyright holders.¹⁷⁶

V. Possible Effects of the Panel's Reasoning

A. Clear Standards are Necessary for Effective Implementation of the TRIPS Agreement

Based on the foregoing analysis, it is difficult to determine how other national laws that contain exceptions to exclusive rights would fare under the Article 13 test. Negotiators who participated in the formation of the TRIPS Agreement are concerned by the unexpected reality of "significant non-compliance" with its substantive provisions.¹⁷⁷ In response, they argue that, above all, clear standards should be the first priority.¹⁷⁸ As the first authoritative promulgation regarding member nations' exceptions to exclusive copyrights, the 110(5) Panel report did not help to clarify the TRIPS Article 13 test, as the standard by which all such exceptions must be judged. The Panel's reasoning serves more to muddy the waters surrounding acceptable exceptions, rather than to clear them.

The Panel's over-reliance on economic data as the determinative factor under each of the three parts of the Article 13 test is an unworkable strategy for assessing such exceptions: at best, it gives wealthier nations an advantage over poorer ones; at worst it makes an a priori prediction of such exceptions' permissibility under TRIPS nearly impossible.

When assessing the FMLA's compliance with the TRIPS Agreement, the U.S. Congress assessed how the copyright market might be potentially affected by its passage.¹⁷⁹ The US government relied upon detailed, statistical data compiled by the Congressional Research Service, and other business organizations.¹⁸⁰ It would be difficult to imagine many other nations, save the very wealthiest, that would be able to undertake such a study when assessing domestic legislation. Moreover, the Panel and the EU asserted that the US data, though thorough, was insufficient in some respects and incorrect in other respects.¹⁸¹

¹⁷⁴ Id. at 58.

¹⁷⁵ 110(5)Panel Report, *supra* note 4, at 58.

¹⁷⁶ Id.

¹⁷⁷ Charles S. Levy, Review of Key Substantive Agreement: Panel II A: Agreement on Trade-Related Intellectual Property Rights (TRIPS): Implementing Trips - A Test of Political Will, 31 Law & Pol'y Int'l Bus. 789, 789-90 (2000).

¹⁷⁸ Id.

¹⁷⁹ See generally FMLA House Report, *supra* note 84.

¹⁸⁰ Id. at 2 (Music Licensing Fairness Coalition, "which represents several restraint, tavern, retail, and other establishment groups" and ASCAP, BMI, and SESAC, which are "performing rights societies") and 3 (National License Beverage Association).

¹⁸¹ See 110(5) Panel Report, *supra* note 4, at 37-41.

Thus, the Panel relied on compilations of data from many sources, the majority of which had been prepared specifically in preparation for this dispute. In this respect, the Panel's reasoning was based upon a foundation laid down ipso facto. This type of backward-looking assessment grants virtually no certainty when assessing national laws.

B. Application of the Panel's Reasoning to an Example

In some cases, the Panel's narrow interpretation of the Article 13 test may serve to invalidate existing member nations' exceptions, or to restrict their scope so much that the underlying policy objectives are thwarted. The fact that these possibilities exist suggests that the Panel's decision has, in effect, changed the playing field of TRIPS compliant exceptions. Countries wishing to become TRIPS compliant have adopted entire bodies of affirmative law through a detailed negotiation process. Now, it seems that some of the exceptions contained therein will no longer be acceptable based on the Panel decision. For example, consider this passage from Bulgaria's copyright law, which is contained in a section entitled "Permissible Free Use":

reproduction by copier or other similar means of parts of published works or of small works, as well as the recording of parts of films and other audio-visual works on audio or video media by educational Institutions (sic) and their use for educational purposes¹⁸²

This is a selection from an entire body of copyright law adopted by Bulgaria, which, with WTO approval, entered into force less than one month before the Panel's decision was adopted.¹⁸³ It does not appear that this exception to the exclusive right of publication would pass even the first step of the Article 13 test, that an exception must be clearly defined and narrow in scope and reach.

The exception does not appear to be clearly defined for two main reasons. First, it uses the terms "part"¹⁸⁴ and "small"¹⁸⁵ to define what may be copied free of use. Both terms rely on other concepts, "whole"¹⁸⁶ and "large,"¹⁸⁷ respectively, for their definition. And even then the definition is not precise, because the terms relied upon are reliant upon other concepts for certainty.¹⁸⁸ That is, a thing is large or small only in comparison to other things and something is a part of a whole, which is constituted of all the parts.

Second, the term "educational," with respect to the type of permissible "use" and "institutions" is not defined. For example, it does not differentiate between educational institutions which are profit making entities, such as a language school for foreign business men, and those which are government-run, such as primary schools or universities, of the type commonly meant to benefit from such exceptions. Neither is the term defined elsewhere in the legislation.

¹⁸² Copyright and Neighbouring Rights Act of 1993 (as amended in 1994 and 2000), State Gazette Vol. 4. No. 28, Apr. 2000, ch.5, art. 23(2). (Republic of Bulgaria).

¹⁸³ Id. at Introductory Notes (stating that the law entered into force on May 6, 2000).

¹⁸⁴ The Oxford Paperback Dictionary 584 (4th ed. 1994).

¹⁸⁵ Id. at 757.

¹⁸⁶ Id. at 584, 918.

¹⁸⁷ Id. at 757, 450.

¹⁸⁸ See id. at 918, 450.

With regard to scope, the second step of the first Article 13 requirement, the ambiguous terms used in the example make discerning the exception's application to "parts" of works likewise difficult. As mentioned above, part of a work may refer to 1 or 99 pages of a 100-page text. As the law is written, the copier is free to decide how much of a work he may copy free of charge. Moreover, the scope as it applies to "small works" seems to encompass all small works. It does not seem that an application to all of a certain type of work can be considered narrow in scope. Yet, this analysis is incomplete, as under the Panel's reasoning, scope is determined by reliance on statistical data.

Moving on to the requirement that an exception must not prejudice the legitimate interests of a right holder, the same logic applies. Parts of works may prejudice legitimate interests in some cases. And exemptions for small works seem to be highly prejudicial to authors of those works, as it encompasses the entire market for those works.

Consider, for example, two versions of a typical scenario involving textbooks that are designed for the educational market. In both cases, a substantial portion of the market for which the textbooks were produced would potentially be affected. In the first instance, all students who take courses in which the required reading involves some, but not all, of several textbooks would be allowed to copy the parts of the textbooks that they have been assigned free of charge. In the United States, this practice was deemed to have been unduly prejudicial to author's copyrights.

In the second instance, students taking a particular course are required to read three texts, which are constituted of 118, 118, and 123 pages, respectively. Many students may consider these works small, and thus copy each for free. In this way, it seems that the law may be prejudicial to a large portion of authors who publish "small" textbooks. Again, though, neither of these analysis would be determinative under the Panel's reasoning without detailed statistical data.

The third Article 13 requirement is not discussed in detail, as the Bulgarian example has already been susceptible to the first two steps.

Examples such as the portion of Bulgarian law considered above are quite common, as exceptions for child and adult education serve the goal of protecting societal rights to benefit from the free flow of knowledge. The educational market is also highly susceptible to market failure, as the market participants are usually government-run institutions with limited resources. Market failure in the education area is also potentially the most damaging, as education is dependant upon copyrighted material for survival. Further, scholars see the availability of education as one of the most important factors in the reduction of poverty and enhancement of free trade among nations.¹⁸⁹ Laws that may not pass the Article 13 test, especially those specifically designed to serve one of the most important reasons for the protection of copyrights (proliferation of knowledge), should be revised now, rather than later.

VI. Conclusion

In sum, the result of the dispute concerning 110(5) does not provide clear guidelines by which member nations may judge their copyright exceptions' compliance with the TRIPS Agreement. Nations that have already undergone the WTO revision process should not be subject to a change in the standards that they must follow. The above is merely an illustrative example of a law that has entered into force with WTO approval. While this Comment does not attempt to review every copy-

¹⁸⁹ See generally Dan Ben-David & L. Alan Winters, World Trade Organization Special Studies: Trade, Income, Disparity, and Poverty (1999) available at http://www.wto.org/english/news_e/pres00_e/pr181_e.htm (last visited Oct. 22, 2001).

right exception, perhaps a review should be undertaken. The appropriate WTO authorities should seriously consider how the Panel's decision will affect existing legislation that has been deemed TRIPS compliant by the WTO.

Moreover, the next five years, as the general time frame in which developing nations must become TRIPS compliant, are critical. These nations are in dire need of clear guidelines to follow. Yet, the Panel's over reliance on statistical data compiled largely after 110(5) (A) and (B) had entered into force does not serve this end. Instead, it shows by example, that some laws' compliance can not be predicted in advance, and that a nation must undergo costly and time-consuming litigation in order to obtain a definitive answer.