

COPYRIGHT IN A GLOBAL INFORMATION ECONOMY

2019 Revised Chapter 7

(updated to reflect the Music Modernization Act and all
revisions in 2018 Supplement)

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Revised Chapter 7

Contents

| | |
|--|----|
| A. Introduction to the “Players” in the Music Industry | 1 |
| B. Reproduction, Public Distribution, and Derivative Works | 4 |
| 1. Musical Works and Section 115 | 5 |
| 2. Sound Recordings and Section 114 | 8 |
| 3. Synchronization Licenses | 9 |
| 4. Diving Deeper: The Audio Home Recording Act and Personal Copying | 10 |
| C. Sampling | 12 |
| <i>VMG Salsoul, LLC v. Ciccone</i> | 12 |
| D. Public Performance | 24 |
| 1. Musical Works and Performing Rights Organizations | 24 |
| 2. Public Performance of Sound Recordings by Digital Audio Transmission | 27 |
| 3. Technological Disruption and the Future of Music | 32 |
| <i>Pandora v. ASCAP</i> | 33 |
| 4. Diving Deeper: Section 110 Limitations, Revisited | 42 |

Chapter 7: Copyright in Musical Works and Sound Recordings

Copyright in the music industry is both particularly complex and particularly important. The complexity arises because there are two copyrights in any recorded piece of music: the copyright in the musical work, which can involve both musical notes and lyrics, and the copyright in the sound recording. In the music industry, this sound recording copyright creates an important second layer of protection, even though that protection is limited in various ways that we discuss below.

This chapter is designed to help you appreciate how the different §106 rights in musical works and sound recordings are utilized by the various industry players and to introduce limits on those rights that are specific to musical works and sound recordings. It also explores some of the ways that Congress has responded to the needs of existing market players whose business models, established around the then-existing copyright law, have been threatened by new technologies. Sometimes, Congress has established new licensing models to facilitate market entry; sometimes, however, new business models have been subjected to new obligations that do not apply to established entities. As new copyright arrangements have proliferated, market entry increasingly requires clearance of multiple rights, each administered by a different entity. Partly for this reason, the music industry has had difficulty adapting to the digital era.

A. INTRODUCTION TO THE “PLAYERS” IN THE MUSIC INDUSTRY

Understanding copyright issues in the music industry requires keeping straight both the layers of copyright protection involved and various interested parties. Almost everyone understands the role of the songwriter and also the role of the recording artist who performs and records a musical work. But in between these two known players are several other important entities. On the next page is a chart depicting the various rights in musical works and sound recordings and the entities that administer each right. It may be helpful to refer back to this chart as you read through the following materials.

The music publisher is the “middleman” between the songwriter and other industry players, including not only performing artists but also record companies, collective rights organizations, any other entities that might license a songwriter’s compositions. While a songwriter is not required to engage a music publisher, the music publisher knows the business and can therefore be a significant asset to the songwriter. To a large extent, the genre of music determines how active a role the publisher plays. In country music, it is common for recording artists to perform and record musical works written by others, and thus a role of the music publisher is to promote a songwriter’s songs. In rock music, it is more common for artists to write most, if not all, of their songs. In that case, the publishing company’s role is to administer the catalog of each artist’s musical works, including licensing the use of the musical works by others. In general, music publishing companies require that the copyright in the musical work be assigned to them, but agree to split royalties earned on the musical work 50/50 with the songwriter.

Copyright In a Global Information Economy

| | <i>Reproduction and Distribution in Phonorecords</i> | <i>Other Reproduction/Creation of Derivative Works</i> | <i>Public Performance</i> |
|-------------------------|---|--|--|
| <i>Musical Works</i> | <p>Statutory right: §106(1) & (3)</p> <p>Specific limitations on §106 rights: §115 — compulsory license §§1001-1008 — Audio Home Recording Act (AHRA)</p> <p>Rights Administered by: — Music Publishers — Copyright Office (§115; AHRA) -- Mechanical Licensing Collective (beginning in 2020) — Harry Fox Agency</p> | <p>Statutory right: §106(1) & (2)</p> <p>Rights Administered by: — Music Publishers</p> | <p>Statutory right: §106(4)</p> <p>Specific limitations on §106 rights: §110 – various limitations</p> <p>Rights Administered by: — ASCAP, BMI, or SESAC</p> |
| <i>Sound Recordings</i> | <p>Statutory right: §106(1) & (3)</p> <p>Specific limitations on §106 rights: §114(b) — “sound alike” not covered</p> <p>§§1001-1008 — AHRA</p> <p>Rights Administered by: — Record Labels — Copyright Office (AHRA)</p> | <p>Statutory right: §106(1) & (2)</p> <p>Specific limitations on §106 rights: §114(b) — actual sounds must be reproduced</p> <p>Rights Administered by: — Record Labels</p> | <p>Statutory right: §106(6)</p> <p>Specific limitations on §106 rights: §§106(6) & 114(a) — digital audio transmission only</p> <p>§114(d)-(j) — exemptions and statutory license</p> <p>Rights Administered by: — Record Labels — SoundExchange (§114 statutory license)</p> |

Record companies play the middleman role for performing artists. When a performing artist creates a sound recording, often there is a record company that works with the artist to produce, distribute, and promote the recorded songs, whether through sales of copies or through licensing of the recording for audio streaming. Typically, the recording artist will assign all copyright interest in the sound recording to the recording company in exchange for royalties or other compensation. The contract often specifies that the sound recording is created as a work made for hire and that, to the extent that it is not a work made for hire, the artist assigns “all right, title, and interest” to the recording company.

If the recording artist is recording a musical work written by someone else, he or she will need permission. The songwriter will be the proper person from whom to obtain permission only if the songwriter has not contracted with a music publisher. While the music publisher may grant authorization, many music publishers contract with the Harry Fox Agency (HFA) to administer certain types of licenses. HFA licenses the right to record and reproduce in phonorecords millions of musical works, as well as the right to publicly distribute those phonorecords. As explained in more detail in Section 7.B.1 below, such licenses are referred to in the industry as “mechanicals” because they originally involved the mechanical reproduction of musical works. Following the Music Modernization Act of 2018, a new entity called the Mechanical Licensing Collective (MLC) will begin administering a new blanket license that is described in more detail in Section 7.B.1 below.

At this point, distributors of recorded music enter the music industry picture. A record company may distribute CDs to brick and mortar stores, or it may make sound recordings available to digital distributors, such as Apple’s iTunes and Amazon.com, which will offer them to consumers via “digital phonorecord delivery” or DPD. The statutory duties surrounding DPDs are discussed in more detail in Sections 7.B.1 and 7.B.2.

Digital music services, radio stations broadcasting over the Internet or over the airwaves, and concert venues, nightclub owners, and other businesses that “play” music also are part of the music industry. As you know from Chapter 6, these entities are all engaging in “public performances.” Because musical work copyright owners have a public performance right, permission will be needed, assuming no specific exemption applies (e.g., §110). In many cases, obtaining authorization from each copyright owner (generally, the music publisher) would involve insurmountable transaction costs. However, collective rights organizations (CROs) license the public performance rights from music publishers and then are able to offer blanket licenses for millions of copyrighted works to those who engage in public performances of musical works. The American Society of Composers, Authors, and Publishers (ASCAP), Broadcast Music, Inc. (BMI), Global Music Rights (GMR), and the Society of European Stage Authors and Composers (SESAC) are the four main CROs. The creation and evolution of these CROs are explored in Section 7.D.1 below.

Radio stations and nightclubs also are engaged in public performances of sound recordings. As discussed in Section 7.D.2 below, the Copyright Act does not grant copyright owners of sound recordings a general public performance right. However, when the public performance is by means of a digital audio transmission—for example, streamed from an online site—the online site also will need authorization to publicly perform the sound recording. *See* 17 U.S.C. §106(6). The statute exempts certain digital public performances of sound recordings and provides a statutory license covering certain other performances. The statutory license is administered by SoundExchange, an entity created by the trade organization for the record companies, the Recording Industry Association of America (RIAA). If neither the exemption nor the statutory license applies, an entity engaged in a public performance of sound recordings via digital audio

transmission will need the permission of the copyright owners of the sound recordings being performed, as well as, of course, authorization to perform the musical works.

Finally, a number of other entities, such as film and television producers and video game companies, license musical works and sound recordings for inclusion in their own works. Such uses, which we discuss in more detail in Section 7.B.3, can implicate the reproduction right, the public performance right, and/or the derivative work right.

NOTES AND QUESTIONS

1. Where, at the end of the day, are the creative individuals who write the songs and perform the music? How big a role do these individuals play in the operation of the music industry?

2. Of course, there are individuals who listen to music, play music, make their own creative works using other people's recordings, and upload the resulting works to blogs and websites like Facebook and YouTube. The music landscape has shifted dramatically in the last decade, challenging the legal structure that was mostly established for a different technological reality. As you continue through this section, consider whether the structure as a whole is well designed for the digital world in which individuals can play a far more direct and integral role in the creation, dissemination and use of recorded music.

3. When Congress added sound recordings as a category of work eligible for copyright protection in 1971, it did so only for sound recordings fixed after the effective date of the act, February 15, 1972. Sound Recordings created before then were protected, if at all, by state law. The Classics Protection and Access Act, enacted as Title II of the Music Modernization Act of 2018, grants certain rights to owners of reproduction rights under state law in those earlier sound recordings. Specifically, such owners can sue when someone engages in a "covered activities" without authorization. "Covered activities" are defined as "any activity that the copyright owner of a sound recording would have the exclusive right to do or authorize under section 106 or 602, or that would violate section 1201 or 1202, if the sound recording were fixed on or after February 15, 1972." 17 U.S.C. §1401(l)(1). Thus, without making pre-72 sound recordings eligible for federal copyright protection directly, the Classics Act effectively provides those works with similar rights, subject to many of the same limitations and statutory licenses imposed on copyright owners in newer sound recordings.

B. REPRODUCTION, PUBLIC DISTRIBUTION, AND DERIVATIVE WORKS

Like all of the other categories of works, musical works and sound recordings are protected by the exclusive rights granted to copyright owners in §106. In music, however, each of the exclusive rights seems to take at least one special twist or turn.

1. Musical Works and Section 115

The mechanical license dates back to the turn of the last century, when player pianos and phonograph record players gained popularity. Previously, sales of sheet music had been the primary revenue source for musical work copyright owners. Initially, the makers of player piano rolls and phonograph records did not pay royalties for embodying musical works in the rolls and records. After an unsuccessful challenge to this practice in the Supreme Court, Congress amended the statute, granting musical work copyright owners the right to control the “mechanical reproduction” of their works. Congress, however, was suspicious of the market power of one piano roll company, the Aeolian Company, and so, for the first time in the history of the Copyright Act, Congress adopted a compulsory license system. Any manufacturer of piano rolls could use any musical composition without negotiating with the copyright owner for permission, so long as the musical work had been previously licensed to someone else for mechanical reproduction and the manufacturer paid a statutory royalty. The statutory royalty rate was set at 2 cents per mechanical copy distributed.

Today the compulsory license for mechanical reproductions of musical works continues to allow recording artists to record what are commonly known in the industry as “covers” — musical works written by someone else and previously released by a different recording artist. Additionally, following the Music Modernization Act, a compulsory mechanical license that covers all musical works (referred to in the Act as a “blanket license”) will be available for qualifying digital music services. Both of these important compulsory licenses, summarized below, are codified in §115.

a. The Cover License

When a performing artist records a “cover” version of a musical work, the §115 compulsory license applies to any “phonorecord” that mechanically reproduces sounds embodying the musical work. This includes CDs and vinyl albums as well as digital phonorecord deliveries (DPDs), which the Act defines as “each individual delivery of a phonorecord by a digital transmission of a sound recording which results in a specifically identifiable reproduction.” 17 U.S.C. §115(e)(10).

To be subject to the compulsory license, the musical work must have been previously distributed to the public, embodied in a phonorecord created under the authority of the copyright owner. The recording artist may make a new arrangement of the work to conform it to his or her own style, but may not change the “basic melody or fundamental character of the work.” *Id.* §115(a)(2). The new arrangement is expressly excluded from obtaining protection as a derivative work unless the copyright owner consents. *See id.* The sound recording, however, is eligible for copyright protection.

The statutory royalty rate for each phonorecord made and distributed after March, 2009, including each permanent digital download, is 9.1 cents or 1.75 cents per minute of playing time or fraction thereof, whichever is greater. The responsibility for setting rates lies with the Copyright Royalty Judges.

The international copyright system expressly contemplates this sort of compulsory licensing. Article 13 of the Berne Convention allows countries to permit the recording of musical works that have already been recorded with permission of the copyright owner, subject to the requirement that such permission not be “prejudicial to the rights of these authors to obtain equitable remuneration which, in the absence of agreement, shall be fixed by competent authority.” Berne Conv., art. 13(3).

The compulsory license in §115 is not, however, the way in which many creators of sound recordings obtain permission to use musical works. If one recording artist desires to record a performance of a musical work that has already been the subject of an authorized recording, instead of complying with the requirements of §115, a representative for the later recording artist typically contacts the Harry Fox Agency (HFA). Established in New York City in 1927 as a wholly owned subsidiary of the National Music Publishing Company, HFA is now owned by SESAC. HFA serves as an agent for many (but not all) music publishers, licensing musical works for reproduction and distribution in phonorecords — i.e., granting “mechanical” licenses. Songwriters also have other options for registering their musical works with Harry Fox directly—i.e., without assigning the copyrights to a music publisher. They can register with HFA via entities like CD Baby and Songtrust, which charge an administrative fee rather than requiring an assignment of copyright.

The availability of the compulsory mechanical license does affect the rates paid to music publishers via Harry Fox. In effect, the parties to the licenses administered by Harry Fox are negotiating in the shadow of a compulsory license that they know could be used instead. Thus, it is rare that the agreed license rate exceeds the rate set by the Copyright Royalty Judges. The number of copyright owners that have entered into licensing agreements with Harry Fox is staggering: Harry Fox represents over 48,000 music publishers, who collectively own millions of copyrighted musical works.

b. The Blanket License for DPDs and Interactive Streaming Services

Digital music providers like Apple Music and Spotify, which permit interactive streaming allow users to select the songs they want to hear and also to download playlists and albums to devices, also need a mechanical license. The copies that users of these services download are not permanent copies because they cannot be accessed after a subscription has been terminated. Previously, such copies were classified as incidental digital phonorecords (iDPDs), and the mechanical license fee was based on a percentage of revenue.

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|---|
| <p>Keep in Mind</p> <p>Both the cover license and the blanket license involve only the musical work copyright (not the sound recording copyright) and authorize only reproductions and distributions (not public performances).</p> |
|---|

The Music Modernization Act of 2018 (MMA) creates, for the first time, a “blanket license” that qualifying digital music services can use to authorize the reproduction and distribution of musical works in the course of “covered activities,” which the act defines as “the activity of making a digital phonorecord delivery of a musical work, including in the form of a permanent download, limited download, or interactive stream” §115(e)(7). The new §115 blanket license will authorize the reproductions and distributions that are “reasonable and necessary for the digital music provider to engage in” the covered activity. §115(d)(1)(B)(iii). Importantly, the blanket license will apply to all musical works, even ones whose copyright owners cannot be located.

Looking Forward

In Chapter 11 you will learn about the problem caused by “Orphan Works”-copyrighted works whose copyright owners cannot be located or even identified. The blanket license authorizes reproductions and distributions of a category of orphan works that the MMA calls “unmatched” works.

The blanket license will be administered by a new entity called the Mechanical Licensing Collective (MLC). The MMA allows two years for the MLC to get up and running. Beginning in 2020, the MLC will collect royalties and distribute them to the copyright owners of musical works. In addition, it must establish and maintain a publicly accessible musical works database. §115(d)(3)(C)(i)(IV). This database will contain information about the copyright owner of the musical work and also “information for sound recordings in which the musical work is embodied, including the name of the sound recording, featured artist, [and] sound recording copyright owner. . . .” §115(d)(3)(E).

NOTES AND QUESTIONS

1. The Copyright Office has ruled that cellular phone ringtones that are excerpts of preexisting sound recordings “fall squarely within the scope of the statutory license” under §115 and constitute DPDs. *In the Matter of Mechanical & Digital Phonorecord Delivery Rate Adjustment Proceeding*, U.S. Copyright Office, No. RF 2006-1 (Oct. 16, 2006). If additional material is added, the ringtone may be a derivative work and thus ineligible for the §115 mechanical license. *Id.* Songwriters, represented by the National Music Publishers Association, the Songwriters Guild of America, and the Nashville Songwriters Association International, had argued that all ringtones are derivative works. Why do you think the Copyright Office ruled as it did?

2. The mechanical royalty rate for distribution of ringtones, regardless of the duration of the ring tone, is 24 cents. Does it make sense that the royalty rate for a five minute song would be 9.4 cents, but a 20 second snippet of that same song as a ringtone would carry a rate of 24 cents?

3. The blanket license created by the MMA covers all musical works, including works for which the copyright owner cannot be located. The royalties collected for covered activities involving those works, called “unmatched works”

under the statute, are to be held by the MLC for 3 years and then distributed to copyright owners. The MMA charges an oversight committee within the MLC with establishing policies and procedures for the distribution of those royalties. How should those royalties be divided and distributed?

Problems

Rod Stewart and Martin Quittenton wrote the song “Maggie May,” and Stewart recorded the song in 1971 for his album *Every Picture Tells a Story*. The song was covered by a standard music publishing agreement with music publisher EMI, which has agreements with Harry Fox and ASCAP. The song has been covered by several different recording artists, including Matthew Sweet, Garth Brooks, and 2013 *The Voice* finalist Cole Vosbury.

1. What rights did each of the subsequent artists need to obtain to record the song? What were their options for obtaining those rights?
2. Could Stewart, Quittenton, or EMI have stopped any of the subsequent artists from recording and releasing the song?
3. If 15-year-old Don Dronner records his version of “Maggie May” in his basement and makes it available for free via his personal website, does he need a license? Will he be eligible for a §115 license after he has uploaded the song? (Examine §§115(a)-(b) carefully before answering.)

2. Sound Recordings and Section 114

The sound recording copyright protects the elements of original authorship that inhere in a fixed recording of sounds, whether it is a recording of a musical performance, a dramatic reading, or a sequence of railroad whistles. Whereas most copyrighted works are fixed in “copies,” sound recordings are fixed in “phonorecords,” which the Copyright Act defines as

material objects in which sounds, other than those accompanying a motion picture or other audiovisual work, are fixed by any method now known or later developed, and from which the sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.

Id. §101. Thus, phonorecords include vinyl albums, cassettes, and CDs, as well as digital files.

When phonorecords are created and distributed to the public, it is important to remember that the compulsory mechanical license only authorizes reproduction and distribution of the musical work, not the sound recording. Sales of CDs at brick and mortar stores rely on the first sale doctrine, which permits stores to purchase authorized copies of those CDs from the record companies and resell the CDs without further concern for copyright rights. When a DPD is made, however, the

distributor must pay the royalty negotiated with the record company for the sound recording.

Section 114 sets forth some additional limits on sound recording copyrights. It indicates that the §106(1) right “is limited to the right to duplicate the sound recording in the form of phonorecords or copies that directly or indirectly recapture the actual sounds fixed in the recording.” Put differently, the Act does not protect the sound recording copyright owner against imitation of the sounds in a sound recording, but only against direct duplication of the recorded sounds. While one might expect the derivative work right to cover sound alike, it is subject to the same limit as the reproduction right. A derivative work is created only when “the actual sounds fixed in the sound recording are rearranged, remixed, or otherwise altered in sequence or quality.” To further clarify both of these limitations, §114 provides that neither the reproduction nor the derivative work right “extends to the making of an independent fixation of other sounds, even though such sounds imitate or simulate those in the copyrighted sound recording.” 17 U.S.C. §114(b).

NOTES AND QUESTIONS

1. Other copyrighted works are protected against imitation as well as exact duplication. What is different about sound recordings? At least two considerations may have influenced Congress. First, Congress was focusing primarily on stopping record piracy, not imitations. Second, there is some indication in the legislative history that Congress was concerned about safeguarding our musical heritage. How does permitting sound-alike recordings help to do this?

3. Synchronization Licenses

The compulsory license codified in §115 only authorize mechanical reproductions in “phonorecords.” Licenses for other types of reproductions of musical works must be negotiated directly with the music publisher. Most notably, this includes synchronization (“synch”) licenses, which allow musical works to be included in the soundtracks to audiovisual works such as videos, movies, television commercials, and video games. Harry Fox also offers synch licenses for many musical works in its catalog. (Note that synching a previously recorded version of the musical work (as opposed to hiring musicians to record a new version strictly for the soundtrack at issue) will also require permission to reproduce the sound recording.)

While use in a soundtrack clearly requires a synch license, new product offerings sometimes can be difficult to classify. Imagine that you are a manufacturer of a karaoke product, which you hope to sell for use in restaurants and bars. What kinds of licenses do you need, and from whom? Does it make a difference whether you put the recordings on cassettes or compact discs or embed them in a microchip, which, when plugged into a television, displays the lyrics of the song on the television screen in real time? Courts have reached different answers to these questions. *Compare Leadsinger Inc. v. BMG Music Publ'g*, 512 F.3d 522 (9th Cir. 2008) (holding that a karaoke device that displays lyrics is not

a phonorecord but is an audiovisual work excluded from §115's compulsory licensing scheme), with *EMI Entm't World, Inc. v. Priddis Music, Inc.*, 505 F. Supp. 2d 1217 (D. Utah 2007) (finding that mere display of lyrics as a song is played does not amount to an audiovisual work and does not require a synch license).

Problems

Review your answers to the Problems in Section 7.B.1 *supra*, and then consider the following:

1. What types of licenses would be needed to use Garth Brooks' version of the song "Maggie May" in a movie? From whom can the movie studio obtain those licenses? Would additional licenses be needed to release "Maggie May" as part of a soundtrack album?
2. What types of licenses would be needed to include "Maggie May" in the video games Rock Band or Guitar Hero?

4. Diving Deeper: The Audio Home Recording Act and Personal Copying

Today, individuals can easily make playlists of hundreds of their favorite songs, share those lists with others, add music to videos and share the videos online, and use music to enhance other content such as websites and school projects. Prior to the advent of digital technology, individuals who engaged in similar activities did so on a much smaller scale: making mixtapes for friends or playing a cassette tape during a school presentation. Copyright owners typically did not bother objecting to such uses and many users assumed that the Copyright Act did not define such actions as infringement. Today, however, individuals can reach millions of other users with the click of a button. And today, copyright owners care about capturing the potential value that their works add to individuals' online activities.

Initially, copyright owners enlisted Congress in the regulation of digital copying technologies. The Audio Home Recording Act (AHRA) of 1992 established ground rules for the manufacturer and sale of digital audio tape (DAT) technology. Because DAT technology was quickly superseded by the personal computer, today the AHRA is interesting largely for historical purposes.

The AHRA contains three key elements. First, manufacturers of digital audio recorders and tapes must embed Serial Copy Management System (SCMS) technology that allows first generation copies to be created but prevents subsequent generation copying. The AHRA includes prohibitions on circumventing the SCMS and on marketing technology designed to circumvent the SCMS.

The second key element of the AHRA is a royalty pooling scheme. DAT manufacturers must pay royalties on both recording devices and recording media. The royalties are then pooled and subsequently divided among copyright owners of musical works, copyright owners of sound recordings, and featured recording artists, with a small percentage of the fund paid to non-featured musicians and vocalists.

Comparative Perspective

Many countries, including France and Germany, have imposed royalty levies on sales of blank recording media. The funds collected as a result of such levies are divided among authors, producers, and performers, and in some cases a portion also is allotted to a cultural fund meant to sponsor creative activities.

The final key element of the AHRA is an exemption from copyright infringement liability for consumers engaged in certain activities, as well as for manufacturers of certain devices and media. Section 1008 provides:

No action may be brought under this title alleging infringement of copyright based on the manufacture, importation, or distribution of a digital audio recording device, a digital audio recording medium, an analog recording device, or an analog recording medium, or based on the noncommercial use by a consumer of such a device or medium for making digital musical recordings or analog musical recordings.

17 U.S.C. §1008. Prior to the AHRA, the recording industry took the public position that copies made for personal use were infringing, while others asserted that fair use permitted such personal noncommercial copying. When Congress extended copyright protection to sound recordings, it indicated that such protection was not intended “to restrain the home recording, from broadcast or from tapes or records, of recorded performances, where home recording is for private use and with no purpose of reproducing or otherwise capitalizing commercially on it.” H.R. Rep. No. 487, 92d Cong., 1st Sess. 7 (1971), *reprinted in* 1971 U.S.C.C.A.N. 1566, 1572. No case had ever directly addressed the issue. Section 1008 made an exemption explicit.

The AHRA, however, specifically exempted general purpose computers from its coverage. During the negotiations leading up to the AHRA, the computer industry made clear that it would not agree to a law that would require computers to incorporate the SCMS technology or manufacturers to pay royalties on computers and blank disks. The other interested parties knew that if the computer industry opposed the law, passage was unlikely. The quickest route to passage of the AHRA was to exempt the entire computer industry from its coverage. Congress drafted a set of nested definitions for the terms “digital music recording” and “digital audio recording device” that had the effect of excluding computers from the definitions of the devices covered by the AHRA. Relying on these definitions, the Ninth Circuit has held that the AHRA does not apply to the downloading of

MP3 files. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1024-25 (9th Cir. 2001).

While there is no specific “personal use” exemption in the Copyright Act, millions of individuals continue to use music in their daily lives in ways that produce copies, cause distributions of copies, create derivative works, and constitute public performances. Congress has provided no guidance about the treatment of such uses. Instead, significant industry players have sought to shape the rights and abilities of individuals through private market arrangements. For example, YouTube’s “Content ID” system allows copyright owners to capture advertising revenue associated with user videos that employ their works. We discuss private market arrangements that respond to user-generated content in more detail in Chapter 9 which considers the liability of online service providers for infringement by users.

NOTES AND QUESTIONS

1. Compulsory licensing is one approach to balancing the competing interests of copyright owners and those who desire to use copyrighted works in certain ways. With compulsory licensing, individual copyright owners are compensated directly for the use of their works, albeit at a rate set either by statute or by some statutorily defined method. Royalty pooling, on the other hand, is not a direct payment of royalties to the copyright owners of the works used. Rather, as the name implies, the pool of royalty payments is divided in an attempt at a rough estimate of the level of use of any particular copyrighted work. Consider online distribution of music. Does either a compulsory license or a royalty pooling scheme seem appropriate? How would such a license fee or royalty payment be computed, and on whom (or what) would it be levied? Personal computers? Cell phones? CD burners and recording media? Internet service contracts?

2. Should the AHRA’s exemption from infringement liability be expressly extended to cover digital file formats created using computers? Does your answer depend on the establishment of a royalty pool?

C. SAMPLING

In certain musical genres, such as rap, hip hop, and dubstep, “sampling” is a common practice. Sampling involves digitally copying and remixing sounds from previously recorded albums. As you now know, this practice may implicate two copyrights. When should sampling require the permission of the musical work copyright owner? When should it require the permission of the sound recording copyright owner?

VMG Salsoul, LLC v. Ciccone

824 F.3d 871 (9th Cir. 2016)

GRABER, J.:

In the early 1990s, pop star Madonna Louise Ciccone, commonly known by her first name only, released the song *Vogue* to great commercial success. In this copyright infringement action, Plaintiff VMG Salsoul, LLC, alleges that the

producer of *Vogue*, Shep Pettibone, copied a 0.23-second segment of horns from an earlier song, known as *Love Break*, and used a modified version of that snippet when recording *Vogue*. Plaintiff asserts that Defendants Madonna, Pettibone, and others thereby violated Plaintiff's copyrights to *Love Break*. . . .

FACTUAL AND PROCEDURAL HISTORY

Because this case comes to us on appeal from a grant of summary judgment to Defendants, we recount the facts in the light most favorable to Plaintiff.

In the early 1980s, Pettibone recorded the song *Ooh I Love It (Love Break)*, which we refer to as *Love Break*. In 1990, Madonna and Pettibone recorded the song *Vogue*, which would become a mega-hit dance song after its release on Madonna's albums. Plaintiff alleges that, when recording *Vogue*, Pettibone "sampled" certain sounds from the recording of *Love Break* and added those sounds to *Vogue*. "Sampling" in this context means the actual physical copying of sounds from an existing recording for use in a new recording, even if accomplished with slight modifications such as changes to pitch or tempo. See *Newton v. Diamond*, 388 F.3d 1189, 1192 (9th Cir. 2004).

Plaintiff asserts that it holds copyrights to the composition and to the sound recording of *Love Break*. Plaintiff argues that . . . [w]hen creating two commercial versions of *Vogue*, Pettibone sampled a "horn hit" from *Love Break*, violating Plaintiff's copyrights to both the composition and the sound recording of *Love Break*.

The horn hit appears in *Love Break* in two forms. A "single" horn hit in *Love Break* consists of a quarter-note chord comprised of four notes—E-flat, A, D, and F—in the key of B-flat. The single horn hit lasts for 0.23 seconds. A "double" horn hit in *Love Break* consists of an eighth-note chord of those same notes, followed immediately by a quarter-note chord of the same notes. Plaintiff's expert identified the instruments as "predominantly" trombones and trumpets.

The alleged source of the sampling is the "instrumental" version of *Love Break*, which lasts 7 minutes and 46 seconds. The single horn hit occurs 27 times, and the double horn hit occurs 23 times. The horn hits occur at intervals of approximately 2 to 4 seconds in two different segments: between 3:11 and 4:38, and from 7:01 to the end, at 7:46. The general pattern is single-double repeated, double-single repeated, single-single-double repeated, and double-single repeated. Many other instruments are playing at the same time as the horns.

The horn hit in *Vogue* appears in the same two forms as in *Love Break*: single and double. A "single" horn hit in *Vogue* consists of a quarter-note chord comprised of four notes—E, A-sharp, D-sharp, and F-sharp—in the key of B-natural.³ A double horn hit in *Vogue* consists of an eighth-note chord of those same notes, followed immediately by a quarter-note chord of the same notes.

The two commercial versions of *Vogue* that Plaintiff challenges are known as the "radio edit" version and the "compilation" version. The radio edit version of *Vogue* lasts 4 minutes and 53 seconds. The single horn hit occurs once, the double

³ In musical terms, assuming that the composition was copied, Pettibone "transposed" the horn hit in *Love Break* by one-half step, resulting in notes that are half a step higher in *Vogue*.

horn hit occurs three times, and a “breakdown” version of the horn hit occurs once.⁴ They occur at 0:56, 1:02, 3:41, 4:05, and 4:18. The pattern is single-double-double-double-breakdown. As with *Love Break*, many other instruments are playing at the same time as the horns.

The compilation version of *Vogue* lasts 5 minutes and 17 seconds. The single horn hit occurs once, and the double horn hit occurs five times. They occur at 1:14, 1:20, 3:59, 4:24, 4:40, and 4:57. The pattern is single-double-double-double-double-double. Again, many other instruments are playing as well.

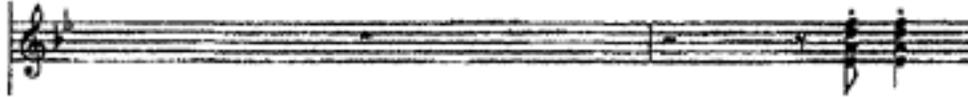
One of Plaintiff’s experts transcribed the composition of the horn hits in the two songs as follows. *Love Break*’s single horn hit:



Vogue’s single horn hit:



Love Break’s double horn hit:



Vogue’s double horn hit:



In a written order, the district court granted summary judgment to Defendants on two alternative grounds. First, neither the composition nor the sound recording of the horn hit was “original” for purposes of copyright law. Second, the court ruled that, even if the horn hit was original, any sampling of the horn hit was “de minimis or trivial.” . . .

DISCUSSION

Plaintiff has submitted evidence of actual copying. In particular, Tony Shimkin has sworn that he, as Pettibone’s personal assistant, helped with the creation of *Vogue* and that, in Shimkin’s presence, Pettibone directed an engineer to introduce sounds from *Love Break* into the recording of *Vogue*. Additionally, Plaintiff submitted reports from music experts who concluded that the horn hits in *Vogue* were sampled from *Love Break*. Defendants do not concede that sampling occurred, and they have introduced much evidence to the contrary.⁵ But

⁴ The record does not appear to disclose the meaning of a “breakdown” version of the horn hit, and neither party attributes any significance to this form of the horn hit.

⁵ For example, Plaintiff hired Shimkin and then brought this action, raising doubts about Shimkin’s credibility; Pettibone and others testified that Shimkin was not present during

for purposes of summary judgment, Plaintiff has introduced sufficient evidence (including direct evidence) to create a genuine issue of material fact as to whether copying in fact occurred. . . .

Our leading authority on actual copying is *Newton*, 388 F.3d 1189. We explained in *Newton* that proof of actual copying is insufficient to establish copyright infringement:

For an unauthorized use of a copyrighted work to be actionable, the use must be significant enough to constitute infringement. *See Ringgold v. Black Entm't Television, Inc.*, 126 F.3d 70, 74–75 (2d Cir. 1997). This means that even where the fact of copying is conceded, no legal consequences will follow from that fact unless the copying is substantial. . . .

Newton, 388 F.3d at 1192–93. In other words, to establish its infringement claim, Plaintiff must show that the copying was greater than de minimis.

Plaintiff's claim encompasses two distinct alleged infringements: infringement of the copyright to the *composition* of *Love Break* and infringement of the copyright to the *sound recording* of *Love Break*. . . . We squarely held in *Newton*, 388 F.3d at 1193, that the de minimis exception applies to claims of infringement of a copyrighted composition. But it is an open question in this circuit whether the exception applies to claims of infringement of a copyrighted sound recording.

Below, we address (A) whether the alleged copying of the composition or the sound recording was de minimis, [and] (B) whether the de minimis exception applies to alleged infringement of copyrighted sound recordings . . .⁶

A. Application of the De Minimis Exception

A “use is de minimis only if the average audience would not recognize the appropriation.” *Newton*, 388 F.3d at 1193; *see id.* at 1196 (affirming the grant of summary judgment because “an average audience would not discern Newton's hand as a composer . . . from Beastie Boys' use of the sample”). Accordingly, we must determine whether a reasonable juror could conclude that the average audience would recognize the appropriation. We will consider the composition and the sound recording copyrights in turn.

1. Alleged Infringement of the Composition Copyright

When considering an infringement claim of a copyrighted musical composition, what matters is not how the musicians actually played the notes but, rather, a “generic rendition of the composition.” *Newton*, 388 F.3d at 1194; *see id.* at 1193 (holding that, when considering infringement of the composition copyright, one “must remove from consideration all the elements unique to [the musician's] performance”). That is, we must compare the written compositions of the two pieces.

Viewing the evidence in the light most favorable to Plaintiff, Defendants copied two distinct passages in the horn part of the score for *Love Break*. First, Defendants copied the quarter-note single horn hit. But no additional part of the

the creation of *Vogue* and was not even employed by Pettibone at that time; and Defendants' experts dispute the analysis and conclusions of Plaintiff's experts.

⁶ Because we affirm the judgment on the ground that any copying was de minimis, we do not reach Defendants' alternative arguments. Accordingly, we assume without deciding that the horn hits are “original.” *See Newton*, 388 F.3d at 1192 (assuming originality). . . .

score concerning the single horn hit is the same, because the single horn hit appears at a different place in the measure. In *Love Break*, the notes for the measure are: half-note rest, quarter-note rest, single horn hit. In *Vogue*, however, the notes for the measure are: half-note rest, eighth-note rest, single horn hit, eighth-note rest. Second, Defendants copied a full measure that contains the double horn hit. In both songs, the notes for the measure are: half-note rest, eighth-note rest, eighth-note horn hit, quarter-note horn hit. In sum, Defendants copied, at most, a quarter-note single horn hit and a full measure containing rests and a double horn hit.

After listening to the recordings, we conclude that a reasonable jury could *not* conclude that an average audience would recognize the appropriation of the composition. Our decision in *Newton* is instructive. That case involved a copyrighted composition of “a piece for flute and voice.” *Newton*, 388 F.3d at 1191. The defendants used a six-second sample that “consist[ed] of three notes, C—D flat—C, sung over a background C note played on the flute.” *Id.* The composition also “require[d] overblowing the background C note that is played on the flute.” *Id.* The defendants repeated a six-second sample “throughout [the song], so that it appears over forty times in various renditions of the song.” *Id.* at 1192. After listening to the recordings, we affirmed the grant of summary judgment because “an average audience would not discern [the composer’s] hand as a composer.” *Id.* at 1196.

The snippets of the composition that were (as we must assume) taken here are much smaller than the sample at issue in *Newton*. The copied elements from the *Love Break* composition are very short, much shorter than the six-second sample in *Newton*. The single horn hit lasts less than a quarter-second, and the double horn hit lasts—even counting the rests at the beginning of the measure—less than a second. Similarly, the horn hits appear only five or six times in *Vogue*, rather than the dozens of times that the sampled material in *Newton* occurred in the challenged song in that case. Moreover, unlike in *Newton*, in which the challenged song copied *the entire composition* of the original work for the given temporal segment, the sampling at issue here involves only *one instrument group* out of many. As noted above, listening to the audio recordings confirms what the foregoing analysis of the composition strongly suggests: A reasonable jury could not conclude that an average audience would recognize an appropriation of the *Love Break* composition.

2. Alleged Infringement of the Sound Recording Copyright

When considering a claimed infringement of a copyrighted sound recording, what matters is how the musicians *played* the notes, that is, how their rendition distinguishes the recording from a generic rendition of the same composition. *See Newton*, 388 F.3d at 1193 (describing the protected elements of a copyrighted sound recording as “the elements unique to [the musician’s] performance”). Viewing the evidence in the light most favorable to Plaintiff, by accepting its experts’ reports, Pettibone sampled one single horn hit, which occurred at 3:35 in *Love Break*. Pettibone then used that sampled single horn hit to create the double horn hit used in *Vogue*.

The horn hit itself was not copied precisely. According to Plaintiff's expert, the chord "was modified by transposing it upward, cleaning up the attack slightly in order to make it punchier [by truncating the horn hit] and overlaying it with other sounds and effects. One such effect mimicked the reverse cymbal crash.... The reverb/delay 'tail' ... was prolonged and heightened." Moreover, as with the composition, the horn hits are not isolated sounds. Many other instruments are playing at the same time in both *Love Break* and *Vogue*.

In sum, viewing the evidence in the light most favorable to Plaintiff, Pettibone copied one quarter-note of a four-note chord, lasting 0.23 seconds; he isolated the horns by filtering out the other instruments playing at the same time; he transposed it to a different key; he truncated it; and he added effects and other sounds to the chord itself. For the double horn hit, he used the same process, except that he duplicated the single horn hit and shortened one of the duplicates to create the eighth-note chord from the quarter-note chord. Finally, he overlaid the resulting horn hits with sounds from many other instruments to create the song *Vogue*.

After listening to the audio recordings submitted by the parties, we conclude that a reasonable juror could *not* conclude that an average audience would recognize the appropriation of the horn hit. That common-sense conclusion is borne out by dry analysis. The horn hit is very short—less than a second. The horn hit occurs only a few times in *Vogue*. Without careful attention, the horn hits are easy to miss. Moreover, the horn hits in *Vogue* do not sound identical to the horn hits from *Love Break*. . . .

B. The De Minimis Exception and Sound Recordings

Plaintiff argues, in the alternative, that even if the copying here is trivial, that fact is irrelevant because the de minimis exception does not apply to infringements of copyrighted sound recordings. Plaintiff urges us to follow the Sixth Circuit's decision in *Bridgeport Music, Inc. v. Dimension Films*, 410 F.3d 792 (6th Cir. 2005), which adopted a bright-line rule: For copyrighted sound recordings, any unauthorized copying—no matter how trivial—constitutes infringement.

The rule that infringement occurs only when a substantial portion is copied is firmly established in the law. The leading copyright treatise traces the rule to the mid-1800s. 4 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 13.03[A][2][a], at 13-56 to 13-57, 13-57 n.102 (2013) (citing *Folsom v. Marsh*, 9 F.Cas. 342, No. 4901 (C.C. Mass. 1841)); *id.* § 13.03[E][2], at 13-100 & n.208 (citing *Daly v. Palmer*, 6 F.Cas. 1132, No. 3,552 (C.C.S.D.N.Y. 1868)) The reason for the rule is that the "plaintiff's legally protected interest [is] the potential financial return from his compositions which derive from the lay public's approbation of his efforts." [*Sid & Marty Krofft Television Prods., Inc. v. McDonald's Corp.*, 562 F.2d 1157, 1165 (9th Cir. 1977)]. If the public does not recognize the appropriation, then the copier has not benefitted from the original artist's expressive content. Accordingly, there is no infringement.

Other than *Bridgeport* and the district courts following that decision, we are aware of no case that has held that the de minimis doctrine does not apply in a copyright infringement case. Instead, courts consistently have applied the rule in *all* cases alleging copyright infringement. . . .

Plaintiff nevertheless argues that Congress intended to create a special rule for copyrighted sound recordings, eliminating the de minimis exception. We begin our analysis with the statutory text.

Title 17 U.S.C. § 102, titled “Subject matter of copyright: In general,” . . . treats sound recordings identically to all other types of protected works; nothing in the text suggests differential treatment, for any purpose, of sound recordings compared to, say, literary works. Similarly, nothing in the neutrally worded statutory definition of “sound recordings” suggests that Congress intended to eliminate the de minimis exception. . . .

Title 17 U.S.C. § 106, titled “Exclusive rights in copyrighted works,” . . . [does not] suggest[] differential treatment of de minimis copying of sound recordings compared to, say, sculptures. Although subsection (6) deals exclusively with sound recordings, that subsection concerns public performances; nothing in its text bears on de minimis copying.

Instead, Plaintiff’s statutory argument hinges on the third sentence of 17 U.S.C. § 114(b), which states:

The exclusive rights of the owner of copyright in a sound recording under clauses (1) and (2) of section 106 do not extend to the making or duplication of another sound recording that consists entirely of an independent fixation of other sounds, even though such sounds imitate or simulate those in the copyrighted sound recording.

Like all the other sentences in § 114(b), the third sentence imposes an express *limitation* on the rights of a copyright holder: “The exclusive rights of the owner of a copyright in a sound recording . . . *do not extend* to the making or duplication of another sound recording [with certain qualities].” *Id.* (emphasis added); *see id.* (first sentence: “exclusive rights . . . do not extend” to certain circumstances; second sentence: “exclusive rights . . . do not extend” to certain circumstances; fourth sentence: “exclusive rights . . . do not apply” in certain circumstances). We ordinarily would hesitate to read an *implicit expansion* of rights into Congress’ statement of an *express limitation* on rights. Given the considerable background of consistent application of the de minimis exception across centuries of jurisprudence, we are particularly hesitant to read the statutory text as an unstated, implicit elimination of that steadfast rule. . . .

Even if there were some ambiguity as to congressional intent with respect to § 114(b), the legislative history clearly confirms our analysis on each of the above points. Congress intended § 114 to limit, not to expand, the rights of copyright holders: “The approach of the bill is to set forth the copyright owner’s exclusive rights in broad terms in section 106, and then to provide various limitations, qualifications, or exemptions in the 12 sections that follow. Thus, everything in section 106 is made ‘subject to sections 107 through 118,’ and must be read in conjunction with those provisions.” H.R. Rep. No. 94-1476, at 61 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5674.

With respect to § 114(b) specifically, a House Report stated:

Subsection (b) of section 114 makes clear that statutory protection for sound recordings extends only to the particular sounds of which the

recording consists, and would not prevent a separate recording of another performance in which those sounds are imitated. Thus, infringement takes place whenever all *or any substantial portion* of the actual sounds that go to make up a copyrighted sound recording are reproduced in phonorecords by repressing, transcribing, recapturing off the air, or any other method, or by reproducing them in the soundtrack or audio portion of a motion picture or other audiovisual work. Mere imitation of a recorded performance would not constitute a copyright infringement even where one performer deliberately sets out to simulate another's performance as exactly as possible.

Id. at 106, *reprinted in* 1976 U.S.C.C.A.N. at 5721 (emphasis added). That passage strongly supports the natural reading of § 114(b), discussed above. . . .

Perhaps more importantly, the quoted passage articulates the principle that “infringement takes place whenever all *or any substantial portion* of the actual sounds ... are reproduced.” *Id.* (emphasis added). That is, when enacting this specific statutory provision, Congress clearly understood that the de minimis exception applies to copyrighted sound recordings, just as it applies to all other copyrighted works. . . .

In coming to a different conclusion, the Sixth Circuit reasoned as follows: [T]he rights of sound recording copyright holders under clauses (1) and (2) of section 106 “do not extend to the making or duplication of another sound recording that consists *entirely* of an independent fixation of other sounds, even though such sounds imitate or simulate those in the copyrighted sound recording.” 17 U.S.C. § 114(b) (emphasis added). The significance of this provision is amplified by the fact that the Copyright Act of 1976 added the word “entirely” to this language. *Compare* Sound Recording Act of 1971, Pub. L. 92-140, 85 Stat. 391 (Oct. 15, 1971) (adding subsection (f) to former 17 U.S.C. § 1) (“does not extend to the making or duplication of another sound recording that is an independent fixation of other sounds”). In other words, a sound recording owner has the exclusive right to “sample” his own recording.

Bridgeport, 410 F.3d at 800–01.

We reject that interpretation of § 114(b). *Bridgeport* ignored the statutory structure and § 114(b)'s express *limitation* on the rights of a copyright holder. *Bridgeport* also declined to consider legislative history on the ground that “digital sampling wasn’t being done in 1971.” 410 F.3d at 805. But the state of technology is irrelevant to interpreting Congress’ intent as to statutory structure. Moreover, as Nimmer points out, *Bridgeport*'s reasoning fails on its own terms because contemporary technology plainly allowed the copying of small portions of a protected sound recording. Nimmer § 13.03[A][2][b], at 13-62 n.114.16.

Close examination of *Bridgeport*'s interpretive method further exposes its illogic. In effect, *Bridgeport* inferred from the fact that “exclusive rights ... *do not extend* to the making or duplication of another sound recording that *consists entirely* of an independent fixation of other sounds,” 17 U.S.C. § 114(b) (emphases added), the conclusion that exclusive rights *do extend* to the making of another sound recording that *does not consist* entirely of an independent fixation of other sounds. As pointed out by Nimmer, *Bridgeport*'s interpretive method “rests on a logical fallacy.” Nimmer § 13.03[A][2][b], at 13-61. A statement that rights do not

extend to a particular circumstance does not automatically mean that the rights extend to all other circumstances. In logical terms, it is a fallacy to infer the inverse of a conditional from the conditional. *E.g.*, Joseph G. Brennan, *A Handbook of Logic* 79–80 (2d ed. 1961).

For example, take as a given the proposition that “if it has rained, then the grass is not dry.” It does not necessarily follow that “if it has not rained, then the grass is dry.” Someone may have watered the lawn, for instance. We cannot infer the second if-then statement from the first. The first if-then statement does not tell us *anything* about the condition of the grass if it has not rained. Accordingly, even though it is true that, “if the recording consists entirely of independent sounds, then the copyright does not extend to it,” that statement does not necessarily mean that “if the recording does not consist entirely of independent sounds, then the copyright does extend to it.”

The Sixth Circuit also looked beyond the statutory text, to the nature of a sound recording, and reasoned:

[E]ven when a small part of a sound recording is sampled, the part taken is something of value. No further proof of that is necessary than the fact that the producer of the record or the artist on the record intentionally sampled because it would (1) save costs, or (2) add something to the new recording, or (3) both. For the sound recording copyright holder, it is not the “song” but the sounds that are fixed in the medium of his choice. When those sounds are sampled they are taken directly from that fixed medium. It is a physical taking rather than an intellectual one.

Bridgeport, 410 F.3d at 801–02 (footnote omitted).

We disagree for three reasons. *First*, the possibility of a “physical taking” exists with respect to other kinds of artistic works as well, such as photographs, as to which the usual de minimis rule applies. *See, e.g., Sandoval v. New Line Cinema Corp.*, 147 F.3d 215, 216 (2d Cir. 1998) (affirming summary judgment to the defendant because the defendant’s use of the plaintiff’s photographs in a movie was de minimis). A computer program can, for instance, “sample” a piece of one photograph and insert it into another photograph or work of art. We are aware of no copyright case carving out an exception to the de minimis requirement in that context, and we can think of no principled reason to differentiate one kind of “physical taking” from another. *Second*, even accepting the premise that sound recordings differ qualitatively from other copyrighted works and therefore *could warrant* a different infringement rule, that theoretical difference does not mean that Congress *actually adopted* a different rule. *Third*, the distinction between a “physical taking” and an “intellectual one,” premised in part on “sav[ing] costs” by not having to hire musicians, does not advance the Sixth Circuit’s view. The Supreme Court has held unequivocally that the Copyright Act protects only the expressive aspects of a copyrighted work, and *not* the “fruit of the [author’s] labor.” *Feist Publ’ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 349 (1991). . . .

Because we conclude that Congress intended to maintain the “de minimis” exception for copyrights to sound recordings, we take the unusual step of creating a circuit split by disagreeing with the Sixth Circuit’s contrary holding in *Bridgeport*. . . . We acknowledge that our decision has consequences. But the goal of avoiding a circuit split cannot override our independent duty to determine

congressional intent. Otherwise, we would have no choice but to blindly follow the rule announced by whichever circuit court decided an issue first, even if we were convinced, as we are here, that our sister circuit erred. . . .

Additionally, as a practical matter, a deep split among the federal courts *already exists*. Since the Sixth Circuit decided *Bridgeport*, almost every district court not bound by that decision has declined to apply *Bridgeport's* rule. Although we are the first circuit court to follow a different path than *Bridgeport's*, we are in well-charted territory. . . .

Finally, Plaintiff advances several reasons why *Bridgeport's* rule is superior *as a matter of policy*. For example, the Sixth Circuit opined that its bright-line rule was easy to enforce; that “the market will control the license price and keep it within bounds”; and that “sampling is never accidental” and is therefore easy to avoid. *Bridgeport*, 410 F.3d at 801. Those arguments are for a legislature, not a court. They speak to what Congress *could decide*; they do not inform what Congress *actually decided*.¹¹

We hold that the “de minimis” exception applies to actions alleging infringement of a copyright to sound recordings. . . .

SILVERMAN, J., dissenting:

The plaintiff is the owner of a copyright in a fixed sound recording. This is a valuable property right, the stock-in-trade of artists who make their living recording music and selling records. The plaintiff alleges that the defendants, without a license or any sort of permission, physically copied a small part of the plaintiff's sound recording—which, to repeat, is property belonging to the plaintiff—and, having appropriated it, inserted into their *own* recording. If the plaintiff's allegations are to be believed, the defendants deemed this maneuver preferable to paying for a license to use the material, or to hiring their own musicians to record it. In any other context, this would be called theft. It is no defense to theft that the thief made off with only a “de minimis” part of the victim's property. . . .

. . . [B]y statute, sound recording copyright holders have an *exclusive* right to sample their *own* recordings. It's an exclusive right; the statute does not give that right to others. [*Bridgeport*,] 410 F.3d at 800–01. Under 17 U.S.C. §§ 106 and 114, the holder of a copyright in a sound recording (but not others) has the exclusive right to reproduce the work in copies or records “that directly or indirectly recapture the actual sounds fixed in the recording,” as well as the exclusive right to prepare derivative works “in which the actual sounds fixed in the

¹¹ It also is not clear that the cited policy reasons are necessarily persuasive. For example, this particular case presents an example in which there is uncertainty as to enforcement—musical experts disagree as to whether sampling occurred. As another example, it is not necessarily true that the market will keep license prices “within bounds”—it is possible that a bright-line rule against sampling would unduly stifle creativity in certain segments of the music industry because the licensing costs would be too expensive for the amateur musician. In any event, even raising these counter-points demonstrates that the arguments, as Plaintiff concedes, rest on policy considerations, not on statutory interpretation. One cannot answer questions such as how much licensing cost is too much without exercising value judgments—matters generally assigned to the legislature.

sound recording are rearranged, remixed, or otherwise altered in sequence or quality.” 17 U.S.C. §§ 106(1) and (2); 114(b). Congress clearly qualified these exclusive rights, writing that “another sound recording that consists entirely of an independent fixation of other sounds, even though such sounds imitate or simulate those in the copyrighted sound recording” are not within the scope of the copyright holder’s exclusive rights. 17 U.S.C. § 114(b). In other words, the world at large is free to imitate or simulate the creative work fixed in the recording (like a tribute band, for example) so long as an actual copy of the sound recording itself is not made.

The majority rejects this straightforward reading, explaining by way of a rhetorical exercise that *Bridgeport’s* reading of § 114(b) is a logical fallacy, expanding the rights of copyright holders beyond that allowed under the judicial de minimis rule. As I see it, it is the majority that tortures the natural reading of these provisions. Bear in mind that § 114(b) simply explains the scope of exclusive rights already granted to copyright holders under § 106. These two provisions must be read together, as the Sixth Circuit did. . . .

The second reason the Sixth Circuit gave for not adopting the de minimis rule is that sound recordings are different than their compositional counterparts: when a defendant copies a recording, he or she takes not the song but the sounds as they are fixed in the medium of the copyright holders’ choice. [*Bridgeport*, 410 F.3d] at 801–02. In other words, the very nature of digital sampling makes a de minimis analysis inapplicable, since sampling or pirating necessarily involves copying a fixed performance. *See id.* at 801 n.13. The defendants wanted horns to punctuate their song, so they took the plaintiff’s copyrighted recording of horns. The horn hit is brief, but clearly perceptible and does its job. This is unlike indiscernible photographs used, not for their content (which cannot be made out), but to dress a movie set. *See Sandoval v. New Line Cinema Corp.*, 147 F.3d 215, 218 (2d Cir. 1998).

This is a physical taking, not an intellectual one. [*Bridgeport*, 410 F.3d] at 802. Sampling is never accidental. *Id.* at 801. As the Sixth Circuit observed, it is not like the case of a composer who has a melody in his head, perhaps not even realizing that the reason he hears this melody is that it is the work of another that he has heard before. *Id.* When you sample a sound recording you know you are taking another’s work product. *Id.* Accordingly, the pertinent inquiry in a sampling case is not whether a defendant sampled a little or a lot, but whether a defendant sampled at all. *Id.* at 798 n.6, 801–02 and n.13. . . .

. . . *Bridgeport* provides in the case of a fixed sound recording a bright-line rule, and I quote: “Get a license or do not sample.” 410 F.3d at 801. True, *Get a license or do not sample* doesn’t carry the same divine force as *Thou Shalt Not Steal*, but it’s the same basic idea. I would hold that the de minimis exception does not apply to the sampling, copying, stealing, pirating, misappropriation—call it what you will—of copyrighted fixed sound recordings. Once the sound is fixed, it is tangible property belonging to the copyright holder, and no one else has the right to take even a little of it without permission. I therefore respectfully dissent.

NOTES AND QUESTIONS

1. The *VMG Salsoul* court’s articulation of the “de minimis use” standard incorporates its prior description of that standard in *Newton v. Diamond*, 388 F.3d 1189 (9th Cir. 2004), *cert. denied*, 545 U.S. 1114 (2005). How well did the *Newton* court define the line between permissible copying and improper appropriation? (If you would like to review *Newton* in greater detail, it is excerpted at pp. 419-25 of the casebook.)

2. Do you agree with the *VMG Salsoul* court’s conclusion that the sampled portions of the *Love Break* musical composition were de minimis as a matter of law?

3. The owners of the two copyrights implicated by sampling usually will be different entities. Sometimes, the defendant will have licensed one copyright but not the other. *Newton* is an example: defendants had licensed the sound recording from Newton’s record label but had neglected to license the composition from Newton himself. In *Bridgeport Music, Inc. v. Dimension Films*, 410 F.3d 792 (6th Cir. 2005), the defendant had licensed the musical composition but had not obtained authorization for the sound recording. Should that fact one copyright was licensed but the other was not affect resolution of the dispute as to the unlicensed copyright? How? Should it matter which of the two layers of music copyright was the licensed one, and which was the unlicensed one?

4. Was the court right to conclude that the sampled portions of the *Love Break* sound recording also were de minimis as a matter of law? As the court notes, in *Bridgeport*, the Sixth Circuit interpreted §114 to preclude application of the de minimis use standard to sound recording sampling. Which reading of the statute do you find more persuasive? Is §114 meant to limit or expand the rights granted in §106? (If you would like to review the Sixth Circuit’s opinion in *Bridgeport*, it is excerpted at pp. 425-29 of the casebook.)

5. As you learned in Chapters 5 (pp. 253-57) and 6 (pp. 396-98), the de minimis use standard is well established in copyright law—but, there is also a well established practice in certain industries of clearing rights in recognizable content. (See Question 4, p. 257.) Is explicit recognition of a “de minimis use” shelter for sampling a good idea? Why, or why not?

The *Bridgeport* court concluded that the bright-line rule it derived from the statute, “[g]et a license or do not sample,” was also sound policy. What are the costs and benefits of that bright-line rule?

6. In deciding the policy questions that surround sampling, would it be important to understand why recording artists sample when, as the court notes, they are free to make sound-alike recordings? Consider the following excerpt:

Cultural judgments about borrowing, repetition and originality are central to understanding legal evaluations of both sampling and hip hop. Repetition expressed through sampling and looping has been, for much of the history of hip hop, an inherent part of what makes hip hop music identifiably hip hop. Consequently, the question of whether and how sampling should be permitted is in some measure an inquiry about how and to what extent hip hop can and should continue to exist as a musical form. Copyright standards, particularly in the music area, must have

greater flexibility to accommodate varying styles and types of musical production, whether based on an African American aesthetic of repetition and revision, a postmodern style, transformative imitation and borrowing in the manner of Handel, allusion as practiced by Brahms or another aesthetic that fails to conform to the Romantic author ideal that has to this point been integral to copyright.

Musical borrowing is not necessarily antithetical to originality or creativity. The conceptions of creativity and originality that pervade copyright discussions are incomplete or inaccurate models of actual musical production, particularly the collaborative aspects of musical practice evident in borrowing. Similarly, views of past musical composition should be tempered with a recognition of the operation of invented traditions and cultural ideals that play a powerful role in shaping both representations and contemporary beliefs and attitudes.

Olufunmilayo B. Arewa, *From J.C. Bach to Hip Hop: Musical Borrowing, Copyright, and Cultural Context*, 84 N.C. L. Rev. 547, 630-31 (2006); see also K. J. Greene, *Copyright, Culture & Black Music: A Legacy of Unequal Protection*, 21 Hastings Comm. & Ent. L.J. 339 (1999) (arguing that copyright rules have routinely functioned to deny protection to African American music artists). Should Professor Arewa's analysis inform the legal treatment of sampling? If so, in what way?

D. PUBLIC PERFORMANCE

As you know from Chapter 6, §106 grants copyright owners not only the right to reproduce the work in copies, but also the right to publicly perform that work. Musical work copyright owners are granted a general public performance right under §106(4) while sound recording copyright owners are granted a narrower right to control only public performance "by means of a digital audio transmission." 17 U.S.C. §106(6).

1. Musical Works and Performing Rights Organizations

Although copyright owners of musical works were first granted a public performance right in 1897, it was not until almost 20 years later that this right began to have significant revenue potential. The problem concerned transaction costs: How were all of the different copyright owners realistically going to be able to detect and collect royalties for each public performance of their works in restaurants, dance halls, and theaters? To solve the transaction cost problem, a group of nine music business luminaries, headed by attorney Nathan Burkan, established the ASCAP in 1913. After its successful litigation of *Herbert v. Shanley*, 242 U.S. 591 (1917), see Chapter 6.B, which established that licenses were needed for live performances of musical works in for-profit establishments, ASCAP began the business of collective licensing, bringing together thousands of musical works and offering to license them under a blanket license agreement.

Next, as radio increased in popularity during the 1930s, ASCAP brought litigation to establish that music performed on the radio was for profit and required authorization. In 1939, after ASCAP began raising its fees considerably, radio

broadcasters formed their own performing rights organization (PRO),⁴ BMI. Some of ASCAP's members had developed a general sense that ASCAP's distribution of royalty payments was unjust, and agreed to join the new organization. However, BMI managed to lure away only one major music publisher, and its signing of new and less established artists was accomplished mainly through the use of advance payments against future royalties. Nonetheless, on January 1, 1941, radio stations began a boycott of ASCAP music, instead broadcasting almost exclusively Latin music, which ASCAP had thus far ignored. ASCAP was forced to the bargaining table, and signed a new deal with the radio broadcasters in October 1941. After establishing a foothold in Latin music, BMI expanded its catalog to include musical works of all kinds. The third PRO, SESAC, was established in 1930 in Nashville, Tennessee, with an initial foothold in country music, and now also has a varied catalog of works. A fourth PRO, Global Media Rights (GMR), was founded in 2013 and already has many big names in its catalog, ranging from Bruno Mars and Drake to John Lennon and Billy Idol.

Today, a license from ASCAP, BMI, GMR, or SESAC will allow a business to publicly perform all of the musical works in the PRO's catalog. Different licenses are available depending on the nature of the business. For example, ASCAP has license agreements for restaurants, dance schools, bowling alleys, festivals, private clubs, funeral establishments, and music on hold. Web streaming also is a public performance. ASCAP, BMI, GMR, and SESAC all offer webcasting licenses for the musical works in their respective catalogs.

Public performance royalties paid to the PROs are divided among rightholders (typically, music publishers) according to formulas determined by each PRO. To make that process more accurate, the PROs use a variety of sampling procedures to determine how often different songs are being played. Payments to music publishers typically are then split 50/50 with the songwriters.

Over the years, ASCAP's and BMI's practice of pooling thousands of copyrights and then offering blanket licenses to publicly perform those works on an all-or-nothing basis has raised claims of antitrust violations. Cases filed in the 1940s and 1950s by the Justice Department's Antitrust Division resulted in consent decrees that continue to govern aspects of the operations of both ASCAP and BMI. The federal district court for the Southern District of New York administers the ASCAP and BMI consent decrees. One of the requirements of those consent decrees is that a potential licensee may apply to the court for a binding determination of "reasonable fees" in the event that the licensee and the PRO cannot come to an agreement on the fee to be paid.

⁴ A PRO is a type of CRO (Collective Rights Organization) that licenses the performance rights. Sometimes the acronym "CRO" is used instead of PRO, even when the entity solely licenses performance rights.

NOTES AND QUESTIONS

1. Should something that qualifies as a DPD also automatically qualify as a public performance? Recall that a DPD is defined as a delivery of “a phonorecord by a digital transmission of a sound recording which results in a specifically identifiable reproduction,” 17 U.S.C. §115(e)(10), and public performance includes a performance that is transmitted “to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times.” 17 U.S.C. §101. Does it matter if the receiving computer is set up to automatically play the downloaded song? In *United States v. ASCAP*, 485 F. Supp. 2d 438 (S.D.N.Y. 2008), the court rejected ASCAP’s argument that downloading constitutes a public performance, concluding that “in light of the distinct classification and treatment of performances and reproductions under the Act . . . Congress did not intend the two uses to overlap to the extent proposed by ASCAP” *Id.* at 447.

Should the result change if the DPD is a ringtone delivered to a mobile phone and the individual then programs the phone to play the ringtone whenever a call is received? See *Application of Cellco Partnership*, 663 F.Supp.2d 363 (S.D.N.Y. 2009) (holding that use of a copyrighted ringtone by a mobile phone subscriber is not a public performance and that in any event, such a performance would be covered by the §110(4) limitation for certain nonprofit performances).

2. The Music Modernization Act of 2018 muddies these waters by creating a new category—an “interactive stream”—that is expressly defined to be a DPD. 17 U.S.C. §115(e)(13). Recall that the blanket license covers certain acts of *reproduction and distribution* that are “reasonable and necessary for the digital music provider to engage” in interactive streaming. It expressly does not authorize anything other than reproduction and distribution, i.e. it does not authorize public performance. 17 U.S.C. §115(d)(1)(B). Thus, a digital music service that offers interactive streaming must pay for both the blanket license and a public performance license. And those licenses only relate to the musical works, not the particular sound recordings that are streamed.

3. Unlike compulsory licenses and royalty pooling, PROs are not the result of any congressional action. Which is the better approach? Compulsory licenses reduce transaction costs by setting the terms of the agreement and by providing administrative support in the form of record keeping, royalty collection, and distribution. Collective rights organizations such as PROs also reduce transaction costs, but do so in a different way.

In a [collective rights organization (“CRO”)], knowledgeable industry participants set the rules of exchange. These rules are not likely to be uniform, one-size-fits-all terms as in a statutory compulsory license; they often vary according to the broad features of the rights. Individual works covered by discrete [intellectual property rights] are assigned to categories based on the members’ knowledge and experience. Through this expert tailoring, CROs produce an intermediate level of contract detail, reflecting not only collective industry expertise but also the need for efficiency in carrying out a high volume of transactions.

An important component of expert tailoring, then, is the use of royalty rates as set by experts. But the statutory compulsory licenses often begin with rational royalty rates as well. What separates private CROs from compulsory licensing schemes is that the former have proven to be more flexible over time. ASCAP, for example, frequently adjusts the rates it charges radio and television stations. Statutes, on the other hand, are difficult to change. Because interested parties can often spend enough to veto a change in legislation, compulsory licenses in the [intellectual property rights] field are subject to “legislative lock-in.” CROs avoid this problem.

Robert P. Merges, *Contracting into Liability Rules: Intellectual Property Rights and Collective Rights Organizations*, 84 Cal. L. Rev. 1293, 1295-96 (1996). While legislative lock-in is certainly a problem for statutorily established rights, the lock-in associated with licensing rates has been tempered through the use of panels of Copyright Royalty Judges to periodically revise rates. In addition, the antitrust decrees that govern the two main PROs for the public performance rights of musical work copyright owners restrict the extent of permissible tailoring. How do these considerations affect your evaluation of which is a better approach PROs or compulsory licenses? Do these rate revisions affect your evaluation of Professor Merges’ argument?

2. Public Performance of Sound Recordings by Digital Audio Transmission

Following the recognition of a sound recording copyright in 1971, copyright owners lobbied for a public performance right, but strong opposition from broadcasters thwarted any attempted legislation. The potential for digital audio transmissions to supplant purchases of CDs and DPDs finally outweighed objections by the broadcast industry, and Congress added subsection (6) to §106 in 1995. While §106(4) grants copyright owners of musical works the right to publicly perform their works, §106(6) grants sound recording copyright owners a more limited public performance right covering only public performances that occur “by means of a digital audio transmission.” Because sound recordings are not protected by a general public performance right, no license is required to publicly perform those sound recordings in most cases, whether the performance is by a DJ playing music in a nightclub, piped-in music in an elevator, or jukeboxes blasting out the latest hits. The §106(6) right is further qualified by a number of exemptions and statutory licenses, which are codified in §114.

Understanding the exemptions from the §106(6) right and the types of activities for which a statutory license is available is easier if one keeps the policy behind the law in mind. First, the amendment represents Congress’ attempt to address the concerns of the recording industry without “upsetting the longstanding business and contractual relationships among record producers and performers, music composers and publishers and broadcasters that have served all of these industries well for decades.” S. Rep. No. 104-128, at 17 (1995). To that end, Congress exempted “nonsubscription broadcast transmission[s].” 17 U.S.C. §114(d)(1)(A)-(B). Pursuant to rules issued by the Copyright Office and subsequently upheld in court, this exemption covers only free, over-the-air digital broadcasts by FCC-licensed broadcasters. See Public Performance of Sound

Recordings: Definition of a Service, Final Rule, 65 Fed.Reg. 77292 (Dec. 11, 2000); *Bonneville International Corp. v. Peters*, 347 F.3d 485 (3d Cir. 2003). Such broadcasts only require authorization from the musical work copyright owners. Internet transmission, even of the same over-the-air broadcasts, is not covered by the exemption, and requires either a statutory license or a negotiated license.

Second, Congress' purpose in granting sound recording copyright owners a limited public performance right was to guard against harm to the market for sales of phonorecords. If an individual can hear the songs she wants at any time she wants, she will be unlikely to purchase her own phonorecords of those songs. Thus, those digital transmissions that are "interactive"—i.e., that "enable[] a member of the public to receive a transmission of a program specially created for the recipient, or on request, a transmission of a particular sound recording, whether or not as part of a program, which is selected by or on behalf of the recipient," 17 U.S.C. § 114(j)(7)—are not exempt, nor are they eligible for statutory licensing; the webcaster must negotiate a license directly with the sound recording copyright owner. *See id.* §114(d)(2). (Remember, authorization from the musical work copyright owner will also be necessary. The new §115 "blanket license" enables clearing the reproduction and distribution rights for interactive streaming and the PROs enable clearing the public performance rights.) Archived programs that allow individuals to effectively rewind and fast forward through the program also are considered "interactive."

The third category of digital audio transmissions consists of those covered by the statutory license. Services that digitally perform sound recordings but are not interactive can utilize the statutory license codified in §114(d) if they (1) do not use a signal that causes the receiver to change from one program channel to another; (2) do not pre-announce the broadcast of particular songs; (3) include various information about the recording being transmitted if feasible; and (4) do not violate the "sound recording performance complement." *See id.* The sound recording performance complement is defined as

the transmission during any 3-hour period, on a particular channel used by a transmitting entity, of no more than ---

(A) 3 different selections of sound recordings from any one phonorecord, if no more than 2 such selections are transmitted consecutively; or

(B) 4 different selections of sound recordings ---

(i) by the same featured recording artist; or

(ii) from any set or compilation of phonorecords lawfully distributed together as a unit in the United States, so long as no more than three such selections are transmitted consecutively.

Id. §114(j)(13). A webcaster that exceeds the numerical limits may still qualify if the programming transmitted "was not willfully intended to avoid the numerical limitations prescribed." *Id.* Webcasting stations that comply with these requirements can use the statutory license to clear the public performance rights for the sound recordings the stations stream over the internet. The statutory

license is administered by Sound Exchange, an entity created expressly for that purpose.

Reconciling user demand for tailored programming with the complicated requirements for remaining on the non-interactive side of the line requires careful system design. Webcasters have developed sophisticated algorithms for creating personalized stations based on user feedback and, inevitably, such efforts have led to litigation. The statutory definition of “interactive” refers to programs “specially created” for users but does not define that term. The House conference report indicates that a transmission would be considered interactive “if a transmission recipient is permitted to select particular sound recordings in a prerecorded or predetermined program,” or “if a transmission recipient has the ability to move forward and backward between songs in a program.” H.R.Rep. No. 105-796, at 88 (Conf.Rep.). In litigation over the LAUNCHcast digital music service (which eventually became Yahoo! Music), the court described the defendant’s process for creating personalized radio stations as follows:

. . . First, the user is prompted to select artists whose music the user prefers. The user is then asked which music genres the user enjoys and asked to rate the genres on a scale. The user is also asked the percentage of new music-songs the user has not previously rated—the user would like to incorporate into the user’s station (the “unrated quota”) and whether the user permits playing songs with profane lyrics. The minimum unrated quota is 20%, meaning no less than 20% of the songs played can be unrated.

Once LAUNCHcast begins playing music based on the user’s preferred artists and genres, the user rates the songs, artists, or albums LAUNCHcast plays between zero and 100, with 100 being the best rating. . . . While a song is playing, the user has the ability to pause the song, skip the song, or delete the song from the station by rating the song zero. Notably, the user may not go back to restart the song that is playing, or repeat any of the previously played songs in the playlist.

Whenever the user logs into LAUNCHcast and selects a station, LAUNCHcast generates a playlist of fifty songs based on several variables. LAUNCHcast does not provide a list of the pool of songs or of the songs in the generated playlist, and therefore, the user does not know what songs might be played. LAUNCHcast selects the songs by first looking to the unrated quota and whether to exclude songs with profane lyrics or songs that cannot be transmitted over the user’s bandwidth. Next LAUNCHcast creates a list of all the potential songs that can be put in the playlist (called a “hashtable”). LAUNCHcast then generates a list of all songs played for the user within the last thirty days, a list of all DJs, genres, and radio stations to which the user subscribes, and a list of all the ratings of all the songs, artists, and albums rated by either the user or any DJ to which the user subscribes. Songs that the user has rated are “explicitly rated” songs. LAUNCHcast “implicitly rates” songs that appear in an album that the user or a subscribed-to DJ has rated and songs that appear in the same album as another song the user has already rated. All of these songs are initially added to the hashtable. LAUNCHcast then excludes: (1) all songs that the user, or a DJ to which the user subscribes, requests be skipped permanently (rated as zero) and (2) songs played within the last three hours for the user on any LAUNCHcast station. This yields approximately 4,000 songs.

LAUNCHcast then adds to the hashtable the 1,000 most popular songs—songs most highly rated by all LAUNCHcast users—in the bandwidth specified by the user, provided those songs are not already on the hashtable. [The court describes in detail the creation of the hashtable, which eventually contains approximately 10,000 songs. To create a playlist of 50 songs LAUNCHcast randomly selects songs from the hashtable and tests each song to determine if it should be discarded based on a set of rules. – Eds.] . . .

. . . LAUNCHcast does not play the same song twice in a playlist [and] LAUNCHcast excludes a song from a playlist if three other songs by that artist have already been selected for the playlist. . . . LAUNCHcast excludes a song from a playlist if two other songs from the same album have already been selected for the playlist. . . .

Finally, once all fifty songs are selected for the playlist, LAUNCHcast orders the playlist. The ordering of the songs is random, provided LAUNCHcast does not play more than two songs in the same album or three songs by the same artist consecutively.

Arista Records, LLC v. Launch Media, Inc., 578 F.3d 148, 157-160 (2d Cir. 2009).

The court held that even though any playlist generated through this process was “unique to that user at that particular time,” that did not necessarily make it “specially created” for purposes of the statutory definition of “interactive.” Rather, according to the court, the statutory touchstone for interactivity is predictability. LAUNCHcast was non-interactive because it did not provide sufficient control to users such that playlists are so predictable that users will choose to listen to the webcast in lieu of purchasing music, thereby-in the aggregate-diminishing record sales. *Id.* at 162.

The royalty rates for the §114 statutory license are determined by Copyright Royalty Judges (CRJs). §114(f)(1)(a). After a panel of CRJs established a per-performance, per-listener escalating royalty rate for all stations that exceeded a monthly aggregate tuning-hours threshold, webcasters protested that rates computed in that manner would drive them out of business. In response, Congress passed additional legislation authorizing SoundExchange to enter into webcasting licenses on behalf of all sound recording copyright owners and performers. In 2009, the Copyright Office announced a series of agreements that SoundExchange had reached with various webcasting entities and indicated that the rates and terms in the agreements are “available to any webcasters meeting the respective eligibility conditions of the agreements as an alternative to the rates and terms of any determination by the Copyright Royalty Judges.” *See* U.S. Copyright Office, *Notification of Agreements Under the Webcaster Settlement Act of 2008*, 74 Fed. Reg. 9293 (Mar. 3, 2009); U.S. Copyright Office, *Notification of Agreements Under the Webcaster Settlement Act of 2009*, 74 Fed. Reg. 34796 (July 17, 2009) and 74 Fed. Reg. 40614 (August 12, 2009).

In 2017, SoundExchange reported licensing revenue of \$717 million. The §114 statutory license mandates direct payments to the performing artists. Statutory license royalties collected by SoundExchange are split between featured artists (45%) and sound recording copyright owners (50%), with the remaining 5% divided between a fund for non-featured artists, typically session musicians, and a fund for background singers. § 114(g)(2).

NOTES AND QUESTIONS

1. Should Congress have drafted the exemption in §114(d)(1) broadly enough to cover free, over-the-air radio stations that simultaneously transmit their broadcasts via the Web? Why, or why not? How would that affect competition in the webcasting market?

2. Why did the *Arista Records* court need to give such a detailed description of the manner in which LAUNCHcast selected the music to be played for a listener? Do you agree with the court's determination that LAUNCHcast was not an interactive service? Recognize what is at stake in the determination: the defendant is going to need to pay a license fee; the question is whether it will be able to use the statutory license or whether it will need to obtain individually negotiated licenses.

3. Note that SoundExchange became a PRO by accident; as originally drafted, the amendment adding the §106(6) public performance right for sound recordings did not give SoundExchange the authority to negotiate rates. What do you think of the SoundExchange model? How does it compare with the musical work PROs that you read about in Section 7.D.1, above?

4. Consumers today enjoy a wide variety of digital services from which to obtain their music. Consumers who like to control their playlists and chose exactly what to hear tend to seek out entities that are engaged in interactive streaming. In that category are companies like Spotify, YouTube, Amazon Music, and Pandora Premium. Interactive streaming triggers all four of the key rights and players: (1) reproduction & distribution of musical works, (2) public performance of musical works, (3) reproduction & distribution of sound recordings, and (4) digital public performance of sound recordings. To remain competitive with each other, those services must license those rights for millions of songs. In what ways does the Copyright Act seek to reduce the otherwise insurmountable transaction costs associated with offering such a service? Are there ways in which the current structure creates increased costs? Are there other options for structuring rights in music?

Problems

Review your answers to the Problems in Section 7.B.1, and then consider the following:

1. If Cole Vosbury wants permission to publicly perform his version of "Maggie May" from whom must he get permission?
2. If a college radio station wants permission to publicly perform Vosbury's recording of "Maggie May," from whom must it get permission? What if it wants to stream the recording over the Internet?

Practice Exercise: Advocacy

Legislation to give sound recording copyright owners broader public performance rights has been pending in Congress for the past several years. As amended §106(6) of the Copyright Act would read as follows: “in the case of sound recordings, to perform the copyrighted work publicly by means of an audio transmission.” Noncommercial radio stations, including public, educational and religious stations would have the option of paying a nominal, annual flat fee, and the legislation would provide similar relief for commercial stations with annual revenue under \$1.25 million, which currently comprise approximately 75% of all music radio stations. Most other industrialized countries already provide similar protection for performance rights for sound recordings. The bill has broad support, including from quarters traditionally resistant to the expansion of copyright rights, but the National Association of Broadcasters has opposed it. If you were a lobbyist for the RIAA how would you convince a congressperson to vote for the bill?

3. Technological Disruption and the Future of Music

The options for experiencing music continue to evolve with technological change, yet the complicated layers of copyright rights that must be cleared create obstacles for new market entrants involved in digital music transmissions. Each of the major rightholder groups, meanwhile, has found reasons to be unhappy with its own share of the revenues resulting from current licensing arrangements. The resulting disputes suggest that more fundamental change may be brewing.

Like the LAUNCHcast service described in Section 7.D.2 above, the webcasting service Pandora uses complicated algorithms in an effort to stay within the §114 statutory license for the sound recordings that it performs. To clear the musical work public performance rights, Pandora obtained blanket licenses from the three PROs (ASCAP, BMI and SESAC). The rates Pandora paid to the musical work PROs, combined, totaled approximately 4% of its revenue. The rate it paid for clearing the sound recording performance rights was much higher, approximately 48%.^{*} Citing the stark difference in royalty rates, the major music publishers attempted to withdraw the authorization for the PROs to license “new media” public performances. Pandora instituted rate court proceedings against both ASCAP and BMI to challenge the attempted partial withdrawal and to obtain a rate for its blanket licenses. Below is an excerpt from the rate court’s decision:

^{*} Pandora’s 10-K filing from February 2014 (covering a later time period) stated that: “For the eleven months ended December 31, 2013 we incurred SoundExchange related content acquisition costs representing 48% of our total revenue for that period.”

Pandora v. American Society of Composers, Authors and Publishers

6 F. Supp. 3d 317 (S.D.N.Y. 2014)

COTE, J.:

B. The ASCAP Consent Decree

Since 1941, ASCAP has operated under a consent decree stemming from a Department of Justice antitrust lawsuit. This consent decree has been modified from time to time. The most recent version of the consent decree was issued in 2001 and is known as “AFJ2.” AFJ2 governs here.

In an attempt to ameliorate the anti-competitive concerns raised by ASCAP’s consolidation of music licenses, AFJ2 restricts how ASCAP may issue licenses in a variety of ways. . . . AFJ2 requires ASCAP to grant a license to perform all of the musical compositions in ASCAP’s repertoire to any entity that requests such a license. . . . AFJ2 [also] prevents ASCAP from discriminating in pricing or with respect to other terms or conditions between “similarly situated” licensees. ASCAP members agree to be bound in the exercise of their copyright rights by the terms of AFJ2. . . .

In addition to operating under a consent decree, ASCAP is governed by a series of internal rules and contracts. The most important internal rule set for purposes of this litigation is the ASCAP Compendium. The ASCAP Compendium can be modified by the ASCAP Board and reflects many of the important rules that govern ASCAP’s obligations to its copyright holder members and vice versa. . . .

IV. Pandora

Pandora is the most successful internet radio service operating in the United States today. It is estimated to have approximately 200 million registered users worldwide and an approximately 70% share of the internet radio market in the United States. Pandora launched its internet radio service in 2005. Roughly eight years later, it had achieved great popularity, streaming an average of 17.7 billion songs per month in the fiscal year 2013.

A. Pandora’s Music Genome Project

Pandora’s exponential growth and popularity can be directly attributed to its substantial investment in its proprietary Music Genome Project (“MGP”) database and associated algorithms. Pandora uses the MGP database to create customized internet radio stations for each of its customers. A Pandora customer creates a station by “seeding” it with a song, artist, genre, or composer. That seed serves as a starting point to which Pandora then applies the information in its MGP database to match that seed with other songs that Pandora’s algorithms predict that the listener is likely to enjoy. The listener continues to give feedback by giving a thumbs-up or thumbs-down when a composition is played, or by signaling that a song should be skipped. . . .

Pandora has a catalog of between approximately 1,000,000 to 2,000,000 songs, somewhat less than half of which are licensed through ASCAP. This number is considerably lower than the catalog size of an on-demand service like Spotify,

which must have the ability to play virtually any composition any customer might select. Successful on-demand services have catalogs in the range of 20 million songs. . . .

VI. The April 2011 ASCAP Compendium Modification

A. Overview and Context

In 2011, ASCAP modified its Compendium to permit its members to selectively withdraw from ASCAP the right to license works to new media entities. This was an unprecedented event. Never before had ASCAP granted partial withdrawal rights to its members. . . . In the year and a half that followed the adoption of the modification of the Compendium, three of the four largest music publishers withdrew their new media rights from ASCAP. . . .

To place the Compendium modification in broader context, it was simply one of the many ripple effects that have followed the onset of the digital age in the music business, and the industry's attempt to recover from the concomitant decline in some types of music sales. The modification of the Compendium came in response to pressure from ASCAP's largest music publishers. These publishers were focused principally on the disparity between the enormous fees paid by Pandora to record companies for sound recording rights and the significantly lower amount it paid to the PROs for public performance rights to compositions. The modification was enacted despite significant concern about the impact of this change on ASCAP, its writers and its independent publishers. . . .

VIII. Pandora Negotiates Direct Licenses with EMI, Sony, and [Universal Music Publishing Group] UMPG and Fails to Negotiate an Agreement with ASCAP.

A. The Pandora–EMI License Negotiations

Upon learning in May 2011 of EMI's withdrawal of its new media licensing rights from ASCAP, Pandora immediately began to negotiate with EMI for a license to its catalog. The negotiations were not contentious and the contours of the license were quickly settled. . . .

B. The Pandora–ASCAP License Negotiations

. . . [In October 2010, Pandora had applied] for a new license for the calendar years 2011 through 2015. It remained an applicant for such a license throughout 2011 and 2012, as ASCAP adopted its modification to the Compendium and as EMI withdrew new media rights from ASCAP. . . .

. . . [O]n September 28, 2012, Pandora learned that Sony was also withdrawing its new media rights from ASCAP. With its discussions with ASCAP “languish[ing]”, and with Sony's withdrawal from ASCAP due to take effect at year end, which was just weeks away, Pandora filed this rate court petition on November 5.

Pandora's filing in rate court angered some in the ASCAP community, particularly the major publishers. They expressed their outrage not only to

Pandora, but also to its outside counsel. . . . The day after the rate court filing, UMPG's [Chairman and CEO, Zach] Horowitz called one of Pandora's attorneys at Greenberg Traurig. As Horowitz promptly memorialized in an email to ASCAP's [CEO] LoFrumento, Horowitz

told [Pandora's outside counsel], as a "friend" of the firm, that I thought both the firm and Pandora are completely tone deaf. That whether his firm has the legal right to rep Pandora in litigation, the firm has lost huge goodwill with writers and artists by doing so. And that filing now for a rate court proceeding against ASCAP ... had the effect of unifying artists, writers, and PROs against Pandora.

Horowitz also gave some advice to LoFrumento regarding ASCAP's negotiating stance with Pandora. His advice boiled down to two words: be strong.

Horowitz wrote:

My take: [Pandora's outside counsel] and Pandora are scared. They just want to settle with ASCAP and settle fast. Be strong. Time is on your side. Pandora is now under intense pressure to settle with ASCAP. They have to put this behind them. You can really push Pandora and get a much better settlement as a result. They are reeling. They will pay more, a lot more than they originally intended, to do that.

. . . LoFrumento assured Horowitz that he was approaching Pandora with the mindset Horowitz advocated. . . .

Not surprisingly, given the fallout from Pandora's filing of the rate court petition, and with the deadline for Sony's withdrawal from ASCAP approaching, the negotiations between Pandora and ASCAP intensified. Had those negotiations succeeded, of course, this rate court action would have become moot.

By the end of November, Pandora believed that it had reached an agreement on terms with ASCAP, although it understood that the agreement needed final approval from ASCAP. Pandora emailed a term sheet to Pandora on November 29. ASCAP had assured Pandora that if they finalized their agreement before the end of 2012, the license would cover the Sony repertoire since the Sony withdrawal from ASCAP was only effective as of January 1, 2013.

LoFrumento decided to reject the license that his team had negotiated with Pandora. He knew that either way he faced litigation. He knew that if he executed the license, Sony would sue ASCAP. Sony had threatened to sue ASCAP in the event any license agreement with Pandora that encompassed the Sony repertoire was executed before the end of 2012. Sony had also notified ASCAP that it might not use ASCAP for administration services if ASCAP issued a license to Pandora. LoFrumento was already facing rate court litigation with Pandora. . . .

Thus, in mid-December 2012, ASCAP set itself on a course to have its rate for licensing Pandora set in this rate court proceeding, despite the cost associated with that litigation. The decision was made in the midst of great turmoil, uncertainty and pressure. The partial withdrawals of new media rights by major publishers, who collectively controlled about 50% of ASCAP's music, threatened to make ASCAP a weaker organization. Sony and UMPG had also made clear to LoFrumento that they wanted to negotiate direct licenses with Pandora and opposed ASCAP entering into a final license with Pandora. There was, of course, a chance that by placating the major publishers, they might later exercise their

option to rejoin ASCAP for all purposes. . . . In the midst of all of this, LoFrumento cast the lot of ASCAP with the withdrawing major publishers and chose to let the rate court decide the dispute between Pandora and ASCAP. On December 14, ASCAP surprised Pandora and rejected the terms they had negotiated.

C. The Pandora–Sony License Negotiations . . .

As of the Fall of 2012, Sony was the world’s largest music publisher. It owned or controlled between 25% and 30% of the market. It had taken this frontrunner position in the summer of 2012, when it became responsible for licensing EMI’s catalog. Combined, the Sony and EMI catalogs contain roughly 3 million songs.

While the effective date of the withdrawal came as a surprise to Pandora, Pandora had been aware that the withdrawal was a possibility ever since ASCAP adopted the Compendium modification. Indeed, in the Spring of 2012, Pandora wrote to the Federal Trade Commission in opposition to Sony’s acquisition of EMI and referred to this very possibility. Noting that a Sony withdrawal from the PROs would require Pandora to negotiate directly with Sony and that Pandora would be faced with a choice of either paying higher rates “or continuing to operate without Sony’s songs,” Pandora’s [former CEO Joseph] Kennedy expressed concern that the combination of the Sony and EMI catalogs would give Pandora “no choice” but to enter into a direct license for the content. While Pandora “could survive without access to Sony’s musical content,” it “could not survive without access to the combined Sony and EMI catalogues.”

The first substantive discussion between Pandora and Sony occurred in a telephone call on October 25 between Sony’s [Executive Vice President of Business and Legal Affairs, Peter] Brodsky and Pandora’s [lawyer, Robert] Rosenbloum. Sony promptly set the tenor for the negotiations with a not-too-veiled threat. Brodsky stated “[i]t’s not our intention to shut down Pandora.” In his many years of negotiating music licenses, Rosenbloum testified that [he] had never before heard such a threat. In some ways, this threat put on the table no more than what was obvious. Sony’s works were already being played on Pandora; they were incorporated in the MGP. Unless Pandora could do without those works and remove them from its repertoire by January 1, Pandora had to obtain a license from Sony or face crippling copyright infringement claims. Sony was in the driver’s seat and the clock was ticking.

The remainder of the conversation was largely devoted to Sony’s statement of the reasons why it needed Pandora to pay for the public performance of music at a substantially higher rate. The principal reason was the “massive unfair disparity” between what Pandora was paying the record labels for sound recording rights and what it was paying the music publishers for composition rights. Brodsky explained that if the labels were getting 50% of Pandora’s revenue, then it would be “fair” for music publishers to get 12% of the revenue, although Brodsky acknowledged that Pandora could not afford to pay that much. As Brodsky emphasized, it was the “differential” between the rates paid to the labels and the publishers that was the problem, and that Pandora was really just caught in the

middle of a tug of war between the labels and publishers. Brodsky admitted that if the labels were getting only 25% of Pandora's revenue, then Pandora's current industry-wide rate of 4% for the licensing of rights to publicly perform compositions would probably be alright and there wouldn't be any need to increase it. . . .

Following this conversation, Pandora decided on a two-prong strategy. It would intensify its efforts to get an ASCAP license before the end of the year. To bring ASCAP to the negotiating table it filed its petition in this rate court for an ASCAP license on November 5. Secondly, Pandora attempted to obtain leverage in its negotiations with Sony. It requested a list of the Sony catalog so that it could take the Sony works off, or at least threaten to take them off, of the Pandora service if no deal could be reached. In his years of negotiating licenses, this was the first time that Rosenblum had ever requested a list of works from a publisher.

Pandora's first request for the list came on November 1, 2012, in an email from Rosenblum to Brodsky. . . .

Brodsky received this request for a list of the Sony works, but never responded. In their telephone conversations during the month of November, Rosenblum reiterated the request for a list of works on several occasions but never got any response. Rosenblum repeated the request once more at a breakfast meeting . . . on November 30. Again, Sony did not respond.

The list of Sony works was potentially important for several purposes, and Pandora referred to those several purposes in its discussions with Sony. In addition to wanting to be able to remove the Sony works from its service if Pandora and Sony could not come to terms, Pandora needed the list so that it could understand how to apportion any payments between the EMI and Sony catalogues since the payments would apparently be made at two different rates. Pandora also wanted the list so it could evaluate whether the substantial, non-refundable advance that Sony was demanding would likely be recouped.

Sony had a list readily at hand, since the Compendium required that a publisher and ASCAP work together during the 90 day period before the effective withdrawal date to confirm precisely which works were being withdrawn. Sony understood that it would lose an advantage in its negotiations with Pandora if it provided the list of works and deliberately chose not to do so. Brodsky's explanation at trial that he did not provide the list because he believed that negotiations were proceeding smoothly and did not want to impose an unnecessary "burden" on Sony's staff is not credible. The negotiations were not going smoothly; the list had already been prepared and its production imposed no burden. As Brodsky recognized in his testimony, the list was "necessary" to Pandora in the event the parties did not reach a deal. Sony decided quite deliberately to withhold from Pandora the information Pandora needed to strengthen its hand in its negotiations with Sony.

Ultimately, Sony made an offer to Pandora in early December. Still hoping to reach an agreement with ASCAP which would obviate the need for license from Sony, Pandora did not respond to the offer or to a follow-up email of December 6.

On Friday, December 14, with two weeks left in the year, and one week remaining before the music industry took its annual holiday break, ASCAP notified Pandora that it would not execute the agreement they had negotiated. The following Monday, Pandora urgently made two renewed written requests for the list of Sony's works, one to Sony and another to ASCAP.

... Not wishing to empower Pandora, Sony never responded.

... It would have taken ASCAP about a day to respond to Pandora's request with an accurate list of the Sony works. But, ASCAP, like Sony, stonewalled Pandora and refused to provide the list. ...

If either Sony or ASCAP had provided Pandora with a list of the Sony works, Pandora would have been able to remove Sony's compositions from its service within about a week. Although ASCAP attempted at trial to show that Pandora could have used public sources of information to identify the Sony catalog, it failed to show that such an effort would have produced a reliable, comprehensive list, even if Pandora had made the extraordinary commitment necessary to try to compile such a list from public data.

The terms of the Pandora license with Sony were negotiated in four business days during the single week that ran between ASCAP's rejection of the Pandora term sheet and the start of the holiday break. On December 18, Brodsky sent Rosenbloum a term sheet. As proposed in that document, the license term would be one year, starting January 1, 2013. It required Pandora to pay a non-refundable but recoupable advance of [REDACTED] and a non-refundable [REDACTED] advance as an administrative fee. The royalty rate was set at Sony's pro-rata share of an industry-wide rate of 5%. Sony understood this to be a 25% increase over the then prevailing industry rate of approximately 4%. In his March 2013 report to his Board of Directors, Sony's Bandier bragged that Sony had leveraged its size to get this 25% increase in rate. ...

... The parties executed a Binding Heads of Agreement on December 21, 2012. ...

D. The Pandora–UMPG License Negotiations

Pandora did not have to wait long for the next publisher to leave ASCAP and demand a yet higher rate for a direct license. In February 2013, Pandora learned that UMPG was scheduled to withdraw its new media licensing rights from ASCAP effective July 1, 2013. [The court recounted the licensing negotiations with UMPG—Eds.]. ...

IX. September 17 Partial Summary Judgment Opinion

On September 17, 2013, [this court] held, *inter alia*, that AFJ2 prohibited ASCAP from withdrawing from Pandora the rights to perform any compositions over which ASCAP retained any licensing rights. Consequently, the publishers' purported withdrawals of only new media rights under the Compendium modification were held inoperative. The Court found that AFJ2 prohibited a regime in which publishers allowed ASCAP to license a composition to some music

users but not others. AFJ2 required each work that was in the ASCAP repertoire to be available to any user who requested a blanket license. The publishers, of course, remained free to withhold works from ASCAP entirely. *See In re Pandora Media, Inc.*, 2013 WL 5211927.

....

Conclusions of Law . . .

II. ASCAP's Rate Proposal . . .

3. Disparity Between Sound Recording and Composition Fees. . .

ASCAP has not offered any theoretical support for raising the rate for public performance of a composition by a comparison to the rate set for sound recording rights. There may be several reasons for this, but first and foremost is the statutory prohibition on considering sound recording rates in setting a rate for a license for public performance of a musical work. *See* 17 U.S.C. § 114(i) (“License fees payable for the public performance of sound recordings ... shall not be taken into account in any ... proceeding to set or adjust the royalties payable to copyright owners of musical works for the public performance of their works.”). Thus, this Court may not take the rates set [for sound recording licenses paid to SoundExchange] into account in determining the fair market rate for a public performance license from ASCAP to Pandora.

Despite this statutory prohibition, one observation may be safely made. Unhappiness about the gap between what Pandora pays record companies and what it pays the PROs drove the modification to the ASCAP Compendium, the publishers' withdrawals from ASCAP, and the Sony and UMPG negotiations with Pandora. The corporate rivalries over digital age revenues explain a great deal of this history. In any event, the record is devoid of any principled explanation given by either Sony or UMPG to Pandora why the rate for sound recording rights should dictate any change in the rate for composition rights.

4. Cannibalization of Music Sales

There is agreement between the parties that it is appropriate to require a higher licensing fee from a music service that acts as a substitute for the sale of a musical work, when compared to one that does not. To the extent that a music service is a replacement for sales, it is said to cannibalize the sales; to the extent it encourages sales, it is said to be promotional.

The parties have argued about the extent to which Pandora and services like it are promotional or cannibalistic. There is apparently no industry consensus on this question. It is worth noting, however, that what evidence was presented at trial suggests that Pandora is promotional.

To begin with, radio has traditionally been considered promotional. The record industry has long sought to have its music played on radio stations.⁸³ Pandora is no exception. Record labels have taken advantage of Pandora Premieres

⁸³ There is a well-documented history of record promoters going so far as to use bribes, or “payola,” to increase the number of times songs are played on a radio station.

to feature new work in advance of release, with the hope that that exposure will engender sales. Pandora itself has buy buttons that permit listeners to buy digital downloads from Amazon and Apple, and they use them with some frequency.⁸⁴ There is no evidence that artists have taken steps to prevent Pandora from playing the artist's work. As significantly, one of Pandora's principal competitors—iTunes Radio—was created to complement Apple's iTunes Store and promote sales in that digital store.

In contrast, on-demand streaming services like Spotify are widely considered cannibalistic and are licensed at a higher rate accordingly. After all, a listener has no need to purchase a digital download when the listener has any song that she wants to hear instantaneously available through Spotify. For this very reason, some prominent performers have acted to prevent Spotify from playing their recordings. In sum, while this metric—whether a service is promotional or cannibalistic—could justify a differentiation of rates between services, ASCAP failed to show that Pandora is anything other than promotional of sales.⁸⁶

. . . . [The court went on to set a rate for the ASCAP license based on an industry-wide rate of 4% of revenue for every year of the license term.]

NOTES AND QUESTIONS

1. Sony/ATV Music Publishing is co-owned by the Sony Corporation, which also owns Sony Music Entertainment, one of the world's largest record companies. Sony therefore controls vast catalogs of both musical works and sound recordings. Why do you think Sony objected to the disparity in licensing revenues paid by Pandora for musical works versus sound recordings?

Dissatisfied with Judge Cote's ruling, the music publishers took their objections to Congress. The Music Modernization Act of 2018 included provisions that music publishers believe will aid them in obtaining greater parity in royalty rates with sound recording copyright owners. First, it repealed the provision, previously codified in 17 U.S.C. § 114(i), that prohibited a rate court proceeding from taking into account license fees paid for the public performance of the sound recordings. Second, the MMA directs that assignment of rate setting petitions to district court judges is to be done randomly and that petitions may not be assigned

⁸⁴ Pandora's "buy button" resulted in over \$3 million per month in music sales on Amazon and the iTunes Store during 2013.

⁸⁶ ASCAP relies on an annual 2012 study by a firm called NPD which showed that Pandora users tend to purchase less music than do users of on-demand services like Spotify. But this does not show that Pandora is more cannibalistic of music sales than on-demand services (or that it is cannibalistic at all). Correlation does not equal causation, and the disparity may be fully explained by the self selection of music users into on-demand services versus customized or programmed radio services. Users of on-demand services tend to be music "super fans" who know what they want to listen to and use on-demand services as supplements to purchased music collections. Users of customized radio services like Pandora tend to be more casual, or "lean back" music listeners, who are less likely to purchase music for their own collections.

to the same judges who oversee the antitrust consent decrees (Judge Cote is one of those judges). 28 U.S.C. §137(b).

2. The statutory license for non-interactive digital performances was meant to facilitate licensing, but some services that would qualify for the statutory license have chosen to negotiate private agreements with the major labels instead. Nothing in the statute prohibits such private arrangements. Spotify, iTunes Radio, and iHeartRadio are services that have negotiated private licensing arrangements with the major record labels. Such arrangements can offer advantages to both parties. For example, iHeartRadio agreed to pay public performance royalties for sound recordings for its terrestrial radio station broadcasts. Remember, the default rule is that terrestrial radio stations do not need to pay for public performances of sound recordings because of the limited scope of the §106(6) public performance right. Why might iHeartRadio have agreed to that arrangement? One notable advantage of private licenses is that they can extend beyond the geographic region of the United States, something that the §114 statutory license cannot offer.

3. Spotify offers an advertising-supported free service that allows users to set up custom designed playlists. As you now know, this service is interactive and does not qualify for the §114 statutory license. To clear the sound recording copyrights, Spotify entered into a private arrangement with the major record labels, offering large up-front advances and a reported 18% equity stake in the company in exchange for authority to use the vast catalog of sound recordings owned by the labels. Of course, like Pandora, Spotify must also obtain public performance licenses from the musical work PROs (ASCAP, BMI, GMR, and SESAC).

At the time of the litigation, Pandora's service did not involve any DPDs and thus did not require clearing reproduction rights. Other streaming services, including Spotify's monthly subscription premium service, allow users to download their customized playlists onto personal devices and retain those copies so long as they continue their subscriptions. This means that Spotify also must clear reproduction and distribution rights for the musical works using the new "blanket license" created by the Music Modernization Act (see Section B.1.b *supra*). Recall that no comparable arrangement exists to clear reproduction and distribution rights for sound recordings. Spotify's private deal with the record labels solves this problem for sound recordings owned by those labels. The advantages of the arrangement for Spotify are obvious. Why do you think the record labels agreed to the deal?

Reportedly, the major labels were reluctant to renew their initial deals with Spotify, and the contracts lapsed. In spring 2017, it was widely reported that Spotify and Universal had reached a new, global, multi-year licensing agreement that, among other things, allows Universal artists to withhold new releases from Spotify's free, advertising-supported service for the first two weeks after release.

4. Privately negotiated deals do not need to be disclosed. Many have become concerned that Spotify's private deal was structured, in part, to avoid the direct payments to performing artists required under the §114 statutory license. Some

preliminary evidence suggests that royalty payments to performing artists from Spotify are much lower than the corresponding payments received by those artists from Sound Exchange. In contrast, §114 and the subsequent amendments authorizing SoundExchange to negotiate webcasting rates require transparency, and the antitrust consent decrees that govern ASCAP and BMI also impose certain transparency requirements. (Note, however, that facts relating to certain aspects of ASCAP's business were redacted from the rate court's opinion). Would it be appropriate to require public disclosure of the terms of private agreements relating to musical work and/or sound recording copyrights? Under what circumstances?

5. A significant component of the leverage that Sony had in negotiations with Pandora involved an information asymmetry. As noted in Section B.1.b *supra*, the MMA requires the Mechanical Licensing Collective to create and maintain a musical works database. That database must include not only the title and copyright owner for each musical work, but also, to the extent reasonably available, "identifying information for sound recordings in which the musical work is embodied, including the name of the sound recording, featured artist, sound recording copyright owner, producer, international standard recording code, and other information commonly used to assist in associating sound recordings with musical works." 115 (d)(3)(E)(ii). The database is to be publicly accessible, and the statute authorizes the Copyright Office to issue regulations concerning additional information that should be included. What additional information should the Copyright Office require be included in the database?

4. Diving Deeper: Section 110 Limitations, Revisited

As you learned in Chapter 6, §110 contains many different exemptions to the public performance rights of copyright owners, several of which apply to music. Some exemptions are directed at specific activities or specific actors, for example public performances of musical works that occur in religious gatherings, §110(3), at annual agricultural or horticultural fairs or exhibitions, §110(6), or at social functions of non-profit veterans groups, §110(10). Note that none of these exemptions apply to sound recordings, which, given the limited nature of the public performance right (digital transmissions only) makes sense.

Another important exemption applies to public performances that occur when someone turns on a transmission, such as a radio or television broadcast. This exemption, found in §110(5)(A) and sometimes referred to as the "homestyle" exemption, permits anyone to turn on the radio or television in a public place so long as three conditions are met: (1) the public reception of the transmission is "on a single receiving apparatus of a kind commonly used in private homes"; (2) no direct charge is made to see or hear the transmission; and (3) the transmission is not further transmitted to the public. This exemption ostensibly applies to all categories of works and all types of public transmissions. Prior to 1998, courts addressing this exemption often focused not only on the type of equipment used, but also on the number of speakers and the physical size of the establishment, despite no mention of these factors in the statute.

In 1998, Congress passed the Fairness in Music Licensing Act (FIMLA), Pub. L. No. 105-298, 112 Stat. 2830, title II. The FIMLA created, for the first time, bright-line requirements concerning square footage and equipment type for businesses to be able to play nondramatic musical works by turning on the radio or television without having to pay license fees to the PROs. The National Restaurant Association and the National Federation of Independent Businesses strongly supported the passage of this Act. Not surprisingly, ASCAP and BMI vehemently opposed what they viewed as a significant expansion of the homestyle exemption. The exemption created by the FIMLA, codified in §110(5)(B), only applies to broadcasts of musical works “originated by a radio or television station licensed as such by the FCC, or, if an audiovisual transmission, by a cable system or satellite carrier.” This limitation effectively narrows the exemption to apply only to broadcasts for which a royalty already has been paid to the copyright owner by the broadcaster.

The §110(5)(B) exemption applies only to nondramatic musical works. Small business establishments — those of less than 2,000 square feet (or less than 3,750 square feet if the business is a food service or drinking establishment) — can use any kind of equipment to receive and play the radio or television broadcast. Establishments that exceed these square footage limits face restrictions on the type of equipment they use (including the number of speakers and the screen size of any television) in order to stay within the bounds of the exemption.

Shortly after the passage of the FIMLA, the EU commenced proceedings against the U.S. before the World Trade Organization (WTO), asserting that both exemptions in §110(5) violated the TRIPS Agreement. This was the first time that the U.S. had been accused of violating its TRIPS obligations. The U.S. argued that Article 13 of TRIPS permitted the §110(5) exemptions. Article 13 allows countries to adopt exceptions to the rights of copyright owners so long as the exceptions are limited to “certain special cases which do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the right holder” - known as the “three-step test.” In July 2000, the WTO dispute settlement body (DSB) held that the §110(5)(B) exemption did not meet the three-step test and thus violated the TRIPS Agreement.

The decision found that the §110(5)(A) homestyle exemption, however, was limited enough not to violate the TRIPS Agreement. The panel decision found that the homestyle exemption was narrowed by the FIMLA:

[T]he homestyle exemption was originally intended to apply to performances of all types of works. However, given that the present subparagraph (B) applies to “a performance or display of a nondramatic musical work,” the parties agree, by way of an *a contrario* interpretation, that the effect of the introductory phrase “except as provided in subparagraph (B),” that was added to the text in subparagraph (A), is that it narrows down the application of subparagraph (A) to works other than “nondramatic musical works.”

United States — Section 110(5) of the US Copyright Act, WT/DS160/R (15 June 2000) ¶2.7.

While the WTO found that §110(5)(B) violates the US obligations under TRIPS, the US has not amended §110(5)(B).

NOTES AND QUESTIONS

1. In determining that the “homestyle” exemption of §110(5)(A) was consistent with the TRIPS Agreement, the panel noted that the U.S. had agreed that after the passage of the FIMLA, subsection (5)(A) did not apply to “nondramatic musical works.” In proceedings before the WTO, the U.S. is represented by the U.S. Trade Representative (USTR). The USTR’s interpretation of the scope of the homestyle exemption does not bind U.S. courts. Does it matter that the WTO panel expressly relied on the USTR’s narrow interpretation? If this interpretation of the homestyle exemption is correct, turning on the radio in a public place — e.g., a boombox at the beach — would not be exempted from liability by §110(5)(A). Is there another provision of §110 that might exempt that activity?

2. How likely is Congress to change the §110(5) exemption? On the one hand, many members of Congress opposed the FIMLA, and it only passed after procedural maneuvering tied its fate to legislation that increased the duration of copyright by 20 years (a change in the law that is discussed in Chapter 11) an extension that a solid majority of Congress favored. On the other hand, some members of Congress have a certain disdain for altering domestic legislation solely because the WTO requires it.

3. Assuming the USTR’s view of §110(5)(A) is not correct and it does apply to all works, does §110(5)(A) apply to Internet radio transmissions? If a business uses equipment commonly found in the home to play an internet radio station in its establishment, must it also have ASCAP, BMI, and SESAC licenses?