3-1-2000

Foreword

F. Jay Dougherty

SYMPOSIUM

LEGAL AND BUSINESS ISSUES IN THE DIGITAL DISTRIBUTION OF MUSIC

FOREWORD

F. Jay Dougherty[*]

The observation that technological changes disturb legal and business equilibrium and require adjustments in the legal system has become so common that it may have become a cliché to even mention. However, it is undeniably true with regard to the development of digital technologies for the creation, modification and dissemination of works. Such developments are impacting the law in a more prolific way than other developments created in the twentieth century. In the next few years, we will see accelerating developments regarding all kinds of works as the result of the expansion of the user base, the development of broadband technologies giving users quicker access to digital material, the development of compression technologies which make digitally encoded material "smaller" so it can be transmitted more quickly over a given pipeline, and the rapid growth of new entrepreneurial internet entertainment content companies.

Music and records have become the early battlefields for resolving the respective rights of copyright owners and users in the digital world, which can be attributed to numerous factors, including: 1) the development of MP3, a compression format which is particularly suited to music files; 2) the increasing availability of broadband internet access to college students, who have long been a primary demographic for record consumption; 3) the

* Associate Professor of Law, Loyola Law School of Los Angeles. B.A., 1971, Yale College; J.D., 1981, Columbia University Law School. Thanks to Lon Sobel, Ron Gertz, Bill Colitre and David Norrell for their help in orgainzing the live symposium. I would also like to than the editors and staff of the *Loyola of Los Angeles Entertainment Law Review* for their work involved in preparing this Symposium for publication.

availability of CD's, which provide an already digitized format of high quality music content without encryption or other copyright management mechanisms; and, perhaps, 4) the prevalence of a culture among modern music fans that prides itself on being a bit anarchic and outside the law. How owners' and users' rights and business practices are sorted out in the on-line music and record industry may well presage how those conflicts will be resolved in other on-line entertainment businesses.

To explore legal and business developments in this rapidly developing sector of the entertainment industry, Loyola Law School, together with the Los Angeles County Bar Association Intellectual Property and Entertainment Law Section, organized a live symposium on "Legal and Business Issues in the Digital Distribution of Music" on April 17, 1999. Transcriptions from two of the panel discussions are included in this Symposium, along with four related articles which, to some extent, recapitulate points made by other speakers at the live symposium. In this Foreword, I will establish a framework for the articles, briefly discuss some recent developments and describe some of the other topics discussed at the symposium.

At the live symposium, our first speaker was August Grant, a scientist specializing in new media technologies, who explained the technological framework underlying the digitization of music and the digital transmission of music files. Although Mr. Grant's talk is not reproduced in this Symposium, "Streaming Into the Future: Music and Video Online" describes some of the basic concepts one needs to be familiar with in order to understand current discussions and debates arising from digital distribution of music. That article also explains the legal framework of one of the first head-on battles between the old record business and the new digital record business, a dispute between the Recording Industry Association of America ("RIAA") and the manufacturers of the Diamond Rio player, the first portable MP3 player device.[1] Ironically, although Diamond won the case, the Ninth Circuit's decision leaves open the possibility that the Copyright Act's explicit safe harbor for private, non-commercial audio taping will not be found to cover private, non-commercial downloading or other fixation of recordings onto a computer hard drive. It is likely that, unless further legislation protecting such home copying is passed, the fair use doctrine—United States copyright law's grand balancing mechanism between the interests of copyright owners and

1. *See* Recording Indus. Ass'n of Am., Inc. v. Diamond Multimedia Sys., Inc., 29 F. Supp. 2d 624 (C.D. Cal. 1998).

users—will be called into play to resolve future disputes as to private home recording on a computer.

Then, Lon Sobel, publisher of the *Entertainment Law Reporter*, laid out the legal framework, summarizing the various rights implicated by different types of use of music in the digital domain. A concept fundamental to understanding what rights are required is that a musical recording actually comprises at least two separate works—a musical composition (or some other underlying musical or literary material) and a derivative sound recording.[2] The performance, reproduction or distribution of a phonorecord implicates rights in each of those two works, which are typically owned by separate parties. One who engages in those activities on-line must determine what rights are required in the musical composition and in the sound recording.

Further complexity arises from two factors. First, the digital transmission process requires that at least temporary "copies" be made in order to transmit a performance of a phonorecord in the internet environment. Thus, it becomes unclear whether a performance license is sufficient, or whether reproduction rights are also required in order to engage in digital transmissions without risk of infringement claims. With regard to the musical composition, the Copyright Act provides for a compulsory license[3] in connection with digital phonorecord delivery,[4] but doesn't deal clearly with temporary or intermediate phonorecords that may be created as part of a streaming transmission. As to the sound recording itself, digital phonorecord delivery results in a reproduction of a sound recording and requires a negotiated license from the copyright owner. Whether streaming of sound recordings violates the sound recording owner's reproduction or distribution rights has not been resolved.[5]

Second, as a consequence of the potential for perfect reproduction and performance of sound recordings in the digital environment, Congress created a new right in sound recordings in 1995—the right to publicly perform them by means of a digital audio transmission.[6] Prior to that time,

---

2. *See* AL KOHN & BOB KOHN, KOHN ON MUSIC LICENSING 1240 (2d ed. 1996).

3. *See* 17 U.S.C. § 115 (1994 & Supp. IV 1998).

4. *See* 17 U.S.C. § 115(d) (1994 & Supp. IV 1998).

5. The recent Mp3.com decision found that Mp3.com's reproduction of sound recordings on its servers for purposes of streaming music to users did infringe the plaintiff record companies' reproduction rights. *See* UMG Recordings, Inc. v. Mp3.com, Inc., No. 00 Civ. 472 (JSR), at 2, 10 (S.D.N.Y. May 4, 2000) (on file with the *Loyola of Los Angeles Entertainment Law Review*). However, the parties did not argue and the opinion did not address the intermediate copying question.

6. *See* Digital Performance Right in Sound Recordings Act of 1995, Pub. L. No. 104-39, 109 Stat. 336 (1995); 17 U.S.C. § 106(6) (Supp. IV 1998).

there was no performance right in sound recordings at all in the U.S. Now that there is such a right, one who desires to stream audio recordings must not only acquire a public performance license from the music publisher (or its representative), but must, in many cases, acquire a license from the owner of the copyrighted sound recording, which is generally the record company.

Customary business terms for the licensing of sound recording performance rights—for example, fees, permitted uses and license term—have yet to develop. The administration of public performance rights in musical compositions has a long history and has involved much controversy as it developed over most of the twentieth century. Performance rights societies were formed, antitrust battles were fought and the copyright law has changed to reflect changing political and economic interests, all of which has resulted in the current relatively well-developed structure of the music performance rights industry[7]. In fact, the relative maturity of that industry is evidenced by the fact that musical composition performing rights collecting societies are now routinely offering performance right licenses for digital performances. Now a new business must grow—the administration of digital performance rights in sound recordings—and it would not be surprising if its development parallels that of the musical composition performing rights industry, including all the battles along the way.

Adding another layer of complexity, not all digital transmissions of sound recordings are infringing and some are subject to statutory licensing. The Digital Performing Rights in Sound Recordings Act ("DPRSRA") included a complex schema for exemptions and statutory licenses for certain types of performances of sound recordings, mainly those which were arguably less substitutive for record sales.[8] That statute left many uncertainties, and part of the Digital Millenium Copyright Act ("DMCA") made substantial amendments—or clarifications, depending on one's point of view—to the sound recording digital performance provisions of the Copyright Act, including those providing for exemptions and statutory licenses.[9] The broadest of those statutory licenses of sound recording

7. Of course that history continues to unfold. Consider, for example, the recent Fairness in Music Licensing Act passed as part of the Copyright Term Extension Act, which was recently successfully challenged by the Irish Music Rights Organization before a WTO dispute panel, which found that it violates U.S. obligations under the TRIPS Agreement. *See WTO Rejects U.S. Law Exempting Shops, Small Bars From Paying to Broadcast Music*, 68 U.S.L.W. 2682 (2000).s

8. *See* Digital Performance Right in Sound Recordings Act of 1995, Pub. L. No. 104-39, § 3–5, 109 Stat. 336, 336–344 (1995) (amending 17 U.S.C. §§ 112, 114 (Supp. III 1997)).

9. Digital Millennium Copyright Act, Pub. L. No. 105–304, § 402–406, 112 Stat. 2860, 2888–2902 (1998).

digital performance rights—the one that covers certain eligible non-exempt, non-interactive, nonsubscription services such as a typical "webcaster"—has not yet been worked out. As is characteristic of compulsory licenses under the Copyright Act in this era, the Act first permits the interested industries to voluntarily negotiate terms, followed by administrative arbitration if the parties fail to reach agreement. The parties' voluntary negotiations failed to reach agreement, so it appears that there will be a copyright arbitration royalty panel proceeding in the near future to work out the terms.

The other broad category of licenses—that for an interactive service[10]—is not compulsory, so record companies are not required to issue such licenses. Although there are some provisions in the Copyright Act regulating such licenses if they are given at all,[11] record companies have not rushed into this business. Presumably, when the entire schema envisioned in the DMCA becomes effective later this year and when the record industry is satisfied that its own technological measures for protecting its copyrights are perfected, voluntary licenses of interactive digital performances of sound recordings will be more likely.

One source of pressure on record companies to enter the business of digital performance licensing is the apparent consumer demand for access to digital performances. For now, however, the record industry has taken legal action against a company which streams recordings at the request of the user.[12] However, the action was not based upon unauthorized performances, but upon reproduction rights. Indeed, as this issue goes to press, summary judgement has just been granted to the record companies against Mp3.com in connection with one of its services by which individual record owners were able to register to listen to copies of recordings in their own collections wherever the listener had access to the Internet.[13] In establishing that service, however, Mp3.com made copies of some 80,000 records on its own servers, presumably so users would not have to actually upload copies of their records. The court found Mp3.com's copying to be an infringement of the reproduction right, and summarily rejected Mp3.com's fair use arguments.[14] Reports in the press suggest that Mp3.com and the record companies are now discussing settlement, which

10. *See* 17 U.S.C. § 114(j)(7) (Supp. IV 1998).

11. *See* 17 U.S.C. § 114(d)(3) (Supp. IV 1998).

12. *See* UMG Recordings, Inc. v. Mp3.com, Inc., No. 00 Civ. 472 (JSR), at 2 (S.D.N.Y. May 4, 2000) (on file with the *Loyola of Los Angeles Entertainment Law Review*).

13. *See id.* at 2.

14. *See id.* at 10.

might include the record companies' licensing the necessary rights to Mp3.com in order for it to maintain that service.

Record companies are not likely to voluntarily license digital performances or digital phonorecord deliveries until they have some level of comfort that they can protect their sound recording copyrights. Some other substantial portions of the DMCA addressed new rights protective of copyright owners and other participants in a digital network environment. Implementing the World Intellectual Property Organization ("WIPO") Copyright Treaty, the DMCA prohibits circumvention of technological measures used to protect copyrights[15] and prohibits the deletion or modification of copyright management information.[16] These new tools for copyright protection represent two of the main ways in which copyright owners hope to be able to preserve the exclusive rights of their works in the digital environment. In "Digital Delivery and Distribution of Music and Other New Media: Recent Trends in copyright Law; Relevant Technologies; and Emerging Business Models," Jennifer Burke Sylva discusses those tools and considers how they may be applied to permit sound recording copyright owners to develop new business models for the dissemination of recordings in the twenty-first century.

The loudest voices in the media at the moment seem to be those concerned that the record industry will be destroyed by rampant unauthorized digital transmissions of sound recordings. However, as technological measures and copyright management systems become more effective in the future there is a risk of the opposite problem. Record companies may have too absolute a property right, resulting from the loss of public benefits due to technological protections that can realistically pre-empt the fair use doctrine and the first sale doctrine in a digital world. Ms. Burke Sylva also notes that potential problem in her article.

Ms. Burke Sylva's article also discusses another important aspect of the DMCA, the provisions insulating certain internet service providers and others from liability for copyright infringement under some circumstances. In the first major case addressing the scope of one of those exemptions, Napster, a company that owns technology that facilitates the sharing of music files, has just lost a legal battle regarding service provider liability in a war initiated by the record industry and some artists. The Federal District Court rejected Napster's motion for summary judgement arguing that their technology acts as a passive internet service provider between users who are using Napster to share MP3 files, many of which are unauthorized

15. *See* 17 U.S.C. § 1201 (Supp. IV 1998).

16. *See* 17 U.S.C. § 1202(b) (Supp. IV 1998).

copies of the plaintiffs' recordings.[17] This loss may prevent Napster from acquiring immunity from the plaintiffs in this case.

Once the technological and legal framework was established, a panel of copyright owner representatives (including Jeremy Silver of EMI Recorded Music, Steve Marks from the RIAA and Ron Sobel of the American Society of Composers, Artists and Publishers ("ASCAP")) and copyright users (including Charles Stanford from ABC and Bob Kohn of Emusic.com) had a lively discussion regarding current practices in licensing of music and records for digital use, moderated by Ron Gertz, of Music Reports, Inc. (also copyright user). A transcript of that discussion is reprinted in this Symposium. In part, the speakers describe their activities and current concerns in licensing music rights for the Internet, highlighting some of the differing views of the respective interested parties in the new digital environment. Some specific complex issues are also considered, including issues arising from the international nature of internet distribution and from questions about the status of federally uncopyrightable pre-1972 sound recordings.

The live symposium continued with a consideration of copyright management and piracy from two points of view. First, Chuck Lawhorn, Senior Vice President, Legal Director of Anti-Piracy for the RIAA, spoke about that organization's extensive efforts in addressing digital piracy. Then, Allen Easty, another scientist specializing in new media, spoke about whether technology can be effective in protecting copyrights. Although the RIAA has had some success in its anti-piracy efforts, there was pessimism about the availability of an effective technological countermeasure at this time.

Next, Val Starr, a former record promotion executive who founded allradio.com, one of the first webcasters, spoke about the difficulties a company like hers faces in attempting to establish a viable webcasting business in compliance with the requirements for digital performance of sound recordings after the DMCA. The framework established with regard to digital performances of sound recordings by the DPRSRA as modified by the DMCA is the culmination of detailed negotiations between various interest groups. The statutory result is lengthy and intricate, perhaps more like a complex contract or collective bargaining agreement than other provisions of the Copyright Act.

Notwithstanding the level of detail, there are still numerous controversies as to the meaning of some of these provisions. Steven

17. *See* A & M Records, Inc. v. Napster, Inc., No. C 99-05183 MHP (N.D. Cal. May 8, 2000).

Marks' article in this Symposium discusses some of the current uncertainties and controversies of great importance in the growing webcasting industry. After a brief overview of the background, he addresses two important current issues. First, he discusses when a webcasting service is interactive, and thus disqualified from the statutory sound recording performing rights license available to eligible non-interactive, nonsubscription music services under the DMCA. This issue has become increasingly important, as webcasters develop programming that attempts to attract listeners by permitting customization without actually allowing the listener to designate what records the listener would like to hear. Second, Mr. Marks discusses whether internet transmissions of FCC-licensed broadcast radio station programming, commonly called simulcasts, are exempt from requiring a license for the performance of sound recordings. This issue is currently the subject of both a petition for a rulemaking before the Copyright Office filed by the RIAA[18] and a suit seeking a declaratory judgement brought by the National Association of Broadcasters in the U.S. District Court for the Southern District of New York.[19]

Although no one knows how the record and music industry will ultimately change to reflect the new business realities of the digital environment, representatives of record companies, recording artists, composers and publishers have to interpret old agreements and negotiate new agreements that will define their clients' respective interests for the years to come. In our last panel of the live symposium, entitled "Artist Relations—The Current State of Affairs and Emerging Models for Songwriter and Recording Artist Relations in Connection with Digital Exploitation of Music," I moderated a discussion among some of the premier representatives of those interests: Mark Goldstein of Warner Bros. Records, Dean Kay of Lichelle Music and ASCAP, Bob Kohn of Emusic and Jay Cooper of Manatt, Phelps & Phillips LLP. The speakers addressed issues such as how companies are currently accounting for receipts from digital exploitation of music, developments in the business models and contract practices between artists and traditional companies, and emerging business relationships between sound recording owners and digital

18. *See* Public Performance of Sound Recordings: Definition of a Service, 65 Fed. Reg. 14,227–28 (2000) (to be codified at 37 C.F.R. pt. 201) (notice of proposed rulemaking Mar. 16, 2000).

19. *See* Plaintiff's Complaint, National Ass'n of Broad. v. Recording Indus. Ass'n of Am., No. 00 Civ. 2330 (S.D.N.Y. Mar. 27, 2000) (on file with the *Loyola of Los Angeles Entertainment Law Review*).

distribution companies. A transcription of that discussion is reproduced in this Symposium.

One interesting question discussed in that last panel was whether record companies own the rights to digitally distribute sound recordings. That question is largely one of contract interpretation, and is likely to give rise to the latest round in a series of cases that arises each time a new technology for the exploitation of works of authorship is developed. Thus, for example, when film developed as a new medium, there were contract disputes over whether prior grants of "dramatic rights" included the film rights. When television became commercially successful, there were contract disputes over whether grants of motion picture rights covered the right to create T.V. series episodes. When videocassettes became commercially viable, there were disputes over whether or not music licenses covered the right to include the music in videocassette copies of films.

It is likely that we will see another round of analogous suits dealing with, for example, whether grants of sound recording copyrights include the right to authorize digital downloads, or whether a grant of television rights in a film include internet streaming rights. Indeed, a claim asserting that it is the artists, and not the record companies, who own the rights to authorize digital performances of their sound recordings was recently filed by several recording artists against their record companies and Mp3.com.[20]

In Stacey Byrnes' article, "Copyright Licenses, New Technology and Default Rules: Converging Media, Diverging Courts?," after reviewing the historical case law in this area, she argues that courts should develop federal common-law contract interpretation rules which would expressly consider and balance the policies underlying copyright law in addressing contract disputes over the allocation of rights under copyright. Of course, one can characterize the purpose of copyright in terms of the importance of benefits to the author to encourage production or in terms of the important benefits to society and users of access to the greatest amount and diversity of works, so such an approach will not necessarily lead to bright line conclusion in any particular case. Nevertheless, the suggestion that courts are not just looking for the contracting parties' intent but are, in fact, balancing competing copyright policies is intriguing.

It is an exciting time to be involved in the music and record businesses. By studying the conflicts and resolutions that arise in the digital distribution and performance of music, we can not only begin to

20. *See* Plaintiff's Complaint at 1–3, Lester Chambers v. Time Warner, Inc., No. 00 Civ. 2839 (filed Apr. 12, 2000).

decipher the complex rules and practices emerging in the music business, but we can also see how analogous problems will arise, and perhaps be resolved, as the public gains more access to other forms of entertainment through digital networks. We hope to facilitate that study through the publication of this Symposium.