

COLLECTIVE MANAGEMENT SYSTEM IN DIGITAL
ENVIRONMENT

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SUMMARY

The present work examines the role of the collective management system in the digital environment. The work starts with a discussion of on-going efforts to adapt pre-Internet copyright law to the Information Age. This discussion provides an overall picture of copyright law developments in the context of Internet and the balance that must be achieved between the various stakeholders in the face of the technological challenges to the traditional legal paradigm of copyright. The first Chapter of the work examines how copyright law responded to the technological developments both at the international and national levels, and what are the main concerns of stakeholders involved. One of the major concerns of the interested parties is application of rules of private international law given the borderless nature of the Internet. Protection and enforcement of rights are principal functions of the collective management system. Thus, the second Chapter of the thesis explores the interface of private international law and copyright. The lengthy discussion of the overall legal framework in which the collective management system is to operate leads to the discussion of challenges faced by collecting societies in their attempts to adapt to the Internet, which are raised in the third Chapter. This Chapter concentrates on the operation of performing rights societies in the United Kingdom and Singapore. The Chapter further analyzes attempts of the organizations in streamlining their services under conditions of online exploitation of works and distinguishes long-term and short-term objectives of the collective management reform. The former relates to deployment of comprehensive digital right management systems, establishment of single regional dispute resolution bodies and licensing centers or rights clearance centers. The latter relates to the membership terms of collecting societies, their *de facto* monopoly and safeguards aimed at controlling actions of the societies, their licensing and cross-licensing activities in online regime. The last Chapter analyzes the operation of the collective management system in the Russian Federation, the challenges that Russian collecting societies face and will face with the advent of digital technologies, as well as the lessons these societies can learn from the operation of more advanced collecting societies, like those operating in UK and Singapore. The collective management system, being one of the compound elements of copyright law, is in the transition period of adaptation to the Internet environment. Similarly the copyright community is in the middle of a great debate over the proper scope of copyright. At stake is balance of powers. Yet collecting societies are in a unique position when they have a capacity to maintain this balance between copyright owners and users by offering services more efficient and adequate to the Internet environment for the benefit of users.

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INTRODUCTION

Internet Challenges to Copyright Law

Copyright seems to be the most vulnerable intellectual property subject matter to the problems and challenges of digitization in the information century. The long-established, fragile, and thus carefully maintained balance between authors and users experiences both internal and external pressures. The balance between authors and users is, first of all, disturbed by what Hugenholtz calls *role convergence*¹. Users enjoying a remarkable opportunity to manipulate information that the Internet provides, can become authors. "...[T]raditional intermediaries, such as university libraries, may take on new roles as information providers."² Internet intermediaries can become both authors by compiling indexes of information and publishers by making available such indexes to their subscribers³. Software and hardware development companies increasingly act as both content providers and intermediaries⁴.

Different actors operating in entertainment, media and communication technologies converge into multinational corporate structures, thus, creating *platform or industry convergence*⁵. Hugenholtz distinguishes two interrelated factors, namely, media concentration

¹ P. B. Hugenholtz, "Adapting Copyright to the Information Superhighway" in P.B.Hugenholtz, ed., *The Future of Copyright in a Digital Environment* (The Hague: Kluwer Law International, 1996), at 82.

² *Ibid.*

³ As Seng notes in "*Religious Technology Centre v. Netcom On-line Communication Services* (1995) 33 IPR 132... the court had to consider whether the Internet intermediary is liable for direct infringement – an activity more closely associated with the end user, as well as for contributory infringement – an activity more closely associated with those engaged in commercial dealings with works." D.Seng, "Copyright and Internet" (1998) 2 SJICL at 92 [hereinafter Seng, "Copyright and Internet"].

⁴ Apple is one of the examples of how initially established as hardware company in 1977, it expanded its services in 2004 to producing hard disk music player, iPod and offering online music store services, iTunes. Detailed information about the history of the company is available online: Apple's Homepage < <http://www.apple-history.com/frames/?> > (date accessed: 17 September 2004).

⁵ Seng defines platform convergence as overlapping and gradually merging activities of three separate industries – the telecommunications, computing and audiovisual industries, in their markets, services and infrastructure provision, and the regulation of such activities. Seng, "Copyright and Internet", *supra* note 3 at 83. One example has been the merger in 2000 of the online service provider, America Online (AOL) and entertainment industry, Time Warner, including its cable networks, movie and music productions, to create the world's largest media conglomerate, News Corp., Bertelsmann and Elsevier.

and *media convergence* that affect the balance between authors and producers⁶. Convergence is primarily a product of a revolution in technology, i.e. digitization. *Technological convergence* lies at the heart of all the processes above. It can be generally described as a vast array of different types of technology to perform very similar task, i.e. person-to-person communication. Today, the general public increasingly uses devices that integrate services and products of telecommunications, broadcast media and information technology. One of the most popular examples is the personal computer networked to the Internet⁷, representing a combination of digitization and the development of interconnecting networks of the World Wide Web⁸.

One scholar described Internet as “spontaneous cooperation and collaboration between countries and cultures. It’s about freely sharing knowledge and information. Everyone can join in:

⁶ P.B. Hugenholtz, *The Great Copyright Robbery. Rights Allocation in a Digital Environment For A Free Information Ecology in a Digital Environment Conference*, NYU School of Law, March 31 – April 2, 2000, online: University of Amsterdam, Institute for Informational Law Homepage < <http://www.ivir.nl/publications/hugenholtz/PBH-Ecology.doc> > (date accessed: 7 July, 2004).

⁷ “The Internet is not a physical or tangible entity, but rather a giant network which interconnects innumerable smaller groups of linked computer networks. It is thus a network of networks.... The Internet had its origins in 1969 as an experimental project of the Advanced Research Project Agency (‘ARPA’), and was called ARPANET. This network linked computers and computer networks owned by the military, defense, contractors, and university laboratories conducting defense-related research.... As it evolved far beyond its research origins in the United States to encompass universities, corporations and people around the world, the ARPANET came to be called the ‘DARPA Internet’, and finally just the ‘Internet’.... Messages between computers on the Internet do not necessarily travel entirely along the same path. The Internet uses ‘packet switching’ communication protocols that allow individual messages to be sub-divided into smaller ‘packets’ that are then sent independently to the destination, and are then automatically reassembled by the receiving computer. While all packets of a given message often travel along the same path to the destination, if computers along the route become overloaded, then packets can be re-routed to less loaded computers. At the same time that ARPANET was maturing (it subsequently ceased to exist) similar networks developed to link universities, research facilities, businesses, and individuals around the world.... Eventually, each of these networks (many of which overlapped) were themselves linked together, allowing users of any computers linked to any one of the network to transmit communications to users of computers on other networks. It is this series of linked networks (themselves linking computers and computer networks) that is today commonly known as the Internet.” *American Civil Liberties Union, et al. v. Janet Reno, Attorney General of the United States*, 929 F Supp 824 (E.D.Pa. 1996).

⁸ “World Wide Web is the third primary method of locating and retrieving information on the Internet. The other two are use of ‘ftp’ (file transfer protocol) that lists the names of computer files available on a remote computer, and transfers one or more of those files to an individual’s local computer, and use of ‘gopher’ program and format that guides an individual’s search through the resources available on a remote computer. The World Wide Web represents a series of documents of different formats, including text, still images, sounds and video that are stored in different computers all over the Internet. Each document has its own address and most web documents contain ‘links’ – references to another documents. This ability of the WWW to point to any document is considered to be the power of the Web that provides a platform for individuals to communicate through shared information.” *Ibid.*

there is no social discrimination based on age, skin, color or sex”⁹. Technological features of Internet can be summarized into a set of the most salient features. It is primarily instantaneous accurate reproduction of the information with little effort that allows no difference between original and copy, thus no loss of quality is taking place. It is a possibility to manipulate and modify the work online. It is facilitation of the retrieval of existing works in the Internet by means of mechanisms such as WWW and search engines¹⁰. It is the vast memory storage capacity (coupled with improved processing speeds and cable networks) which allows the storage of vast amounts of information together with a geometrically increasing speed at which copies can be delivered to the public. Apart from regular modems working at a speed up to 56 kbps, cable modem and digital subscriber phone lines achieving the speed of up to 512 kbps are becoming increasingly popular. It is compression technologies such as, MPEG for video and MP3 for music that make copies much smaller than the original digital size, and thus audio and video works in digital format do not take as much space to be stored and transmitted across the Internet¹¹. It is finally such method of sharing the information over the Internet, as P2P network communication that allows users to trade a wide variety of files back and forth, including written documents, pictures, software programs, music and movies¹².

There is a wide variety of avenues to access Internet. The most popular is using a computer or computer terminal that is directly or indirectly (through modem) connected to a computer network connected, in its turn, to the Internet. Thus, it is controlled not by large media organizations like traditional broadcasters, but by *any* person having access to a computer networked to the Internet. Moreover, any ‘properly equipped’ person can access the online

⁹ J.S. Taylor, “The Internet Experience and Authors’ Rights” (1996) 24 Int’l. J. Legal Info 117.

¹⁰ A search engine collects information from different web-sites and allows users to search this information by using keywords. The most popular search engines are Yahoo, Altavista, Google, to name a few.

¹¹ P.S.Menell, “Envisioning Copyright Law’s Digital Future” (2003) 46 N.Y.L. Sch.Rev. 63 at 110-111.

¹² A P2P network is “a type of transient Internet network that allows a group of computer users with the same networking program to connect with each other and directly access files from one another’s hard drives”. More information is available at <

http://searchnetworking.techtarget.com/sDefinition/0,,sid7_gci212769,00.html > (date accessed: 13 October 2004).

information and can communicate online *at any time* he or she likes to, and *at any place*. Similarly, materials posted on the Web can be accessed by anyone in the world despite its physical location in only one place, and the content may be easily moved from one place to another, being hosted in one place and directed to users in another. Indeed, events on the Net occur everywhere, but nowhere in particular¹³. All this makes Internet global and borderless.

Debates at the theoretical plane as to the impact of Internet on the future of copyright law are still underway. Some scholars argue that creators will not be able ‘to reap what is sown’, and thus, will stop creating¹⁴. Others are concerned with too much expansion of copyright, which might ultimately lead to the loss of the right to read¹⁵. There are those who predict the death of copyright in the nearest future of digital innovations as “the information wants to be free”¹⁶ or lessening of value of intellectual property¹⁷. Some scholars suggest that there should be a completely new set of rules that can be developed by themselves in the state of the art in technology. This is the so called *lex informatica*, i.e. rules set by software engineers and consisting of contractual and technological measures¹⁸. Others, see an answer to copyright in the digital age in development of “copyleft”, i.e. free software which permits a person to use, modify and distribute that software¹⁹.

Copyright turns out to be divided into different “thin” and “thick” categorizations or classifications, i.e. minimalist and maximalist approaches to copyright. The former assumes only

¹³ D.Post, and D.Johnson, “Law and Borders -The Rise of Law in Cyberspace”, online: D.Post Homepage <<http://www.temple.edu/lawschool/dpost/Borders.html#B.%20%20The%20Absence%20of%20Territorial%20Borders%20in%20Cyberspace>> (date accessed: 14 October, 2004).

¹⁴ Information Infrastructure Task Force, Intellectual Property and the National Information Infrastructure: The Report of the Working Group on Intellectual Property Rights (1995), online: U.S. Patent & Trademark Office <<http://www.uspto.gov/web/offices/com/doc/ipnii/>> (date accessed: 23 February, 2004) [hereinafter *White paper*].

¹⁵ J.Litman, “Exclusive Right to Read” (1994) 13 *Cardozo Arts & Ent. L.J.* 29.

¹⁶ J. Barlow, “The Economy of Idea”, *Wired Magazine* (Issue 2.03, March, 1994), online: Wired Magazine Homepage <<http://www.wired.com/wired/archive/2.03/economy.ideas.html>> (date accessed: 23 February, 2004).

¹⁷ E.Dyson, “Intellectual Value”, *Wired Magazine* (Issue 3.07, July 1995), online Wired Magazine Homepage <<http://www.wired.com/wired/3.07/features/dyson.html>> (date accessed: 23 February, 2004)

¹⁸ L.Lessig, “The Zones of Cyberspace” (1996) 48 *Stanford L. R.* 1403 at 1410.

¹⁹ P.Lambert, “Copyleft, Copyright and Software IPRs: Is Contract still King?” [2001] 23(4) *E.I.P.R.* 165 at 167.

as much protection of works “as is needed to encourage creativity but with a goal of making works readily available to the public”²⁰. The main goal of the latter is “to maximize profits”. Maximalists²¹, represented by copyright owners, the entertainment industry, and “copyright-optimists”²² stand for maximum expansion of copyright law so that rightowners could get control over distribution and use of digital information. Their opponents bring forward the public interest argument relying on fair use/fair dealing doctrine and freedom of speech²³. Ku names the combination of Internet and digital technology as the digital dilemma that is faced by copyright law today. As a result of this dilemma, “we are in the midst of a great debate over the proper scope of copyright in the twenty first century. At stake is the balance of power in the information age”²⁴.

The present work examines the role of the collective management system in the digital environment. To obtain an overall picture of copyright law developments in the context of the Internet and the balance that must be achieved between the various interest groups in the face of

²⁰ K.Coyle, “The Technology of Rights: Digital Rights Management”, online: K.Coyle Homepage <http://www.kcoyle.net/drm_basics1.html> (date accessed: 14 February, 2004)

²¹ P.Samuelson, “The Copyright Grab”, *Wired Magazine* (Issue 4.01, January, 1996), online: Wired Magazine Homepage < http://www.wired.com/wired/archive/4.01/white_paper.html > (date accessed: 14 February 2004) (summarizing findings and recommendations of the *White Paper* (see *supra* note 14) into the maximalist agenda into “eight interrelated parts”, which can be, in turn, summarized as follows: 1) full control of rightholders over the use of works in digital form; 2) full control of copyright owners over transmission of works in digital form; 3) elimination of fair-use rights whenever the use can be licensed; 4) deprivation of the first sale right from the public; 5) provision of a possibility to the publishers to track any use of the digital work at any time; 6) protection of every digital copy of every work technologically and making any attempt to circumvent it illegal; 7) “forced” transformation of online service providers into copyright police; 8) teaching new copyright rules to children at schools).

²² R.Ku, “The Creative Destruction of Copyright: Napster and the New Economics of Digital Technology” (2002) 69 U.Chi.L.Rev. 263 [hereinafter Ku, *The Creative Destruction*] (Ku names Paul Goldstein as the representative of copyright “optimists” citing Goldstein’s argument that “copyright should be extended “into every corner where consumers derive value from literary and artistic works” in P.Goldstein, *Copyright’s Highway: The Law and Lore of Copyright from Gutenberg to the Celestial Jukebox* (Hill & Wang, 1994) at 236).

²³ Y.Benkler, “Free as the Air to Common Use: First Amendment Constraints on Enclosure of the Public Domain” (1999) 74 NYU L.Rev. 354; J.Cohen, “A Right to Read Anonymously: A Closer Look at “Copyright Management” in Cyberspace” (1996) 28 Conn. L. Rev. 981; The Future of Intellectual Property: Debate (between Lawrence Lessig, Stanford Law School, and Jack Valenti, President of the Motion Picture Association of America, sponsored by Harvard Law School on October 1, 2000, Informal Notes available online: Havard Law School, The Berkman Center for Internet and Society Homepage <<http://cyber.law.harvard.edu/futureofip/notes.asp>> (date accessed: 27 May, 2004).

²⁴ Ku, “The Creative Destruction”, *supra* note 22.

the technological challenges to the traditional legal paradigm of copyright, this work starts with a discussion of on-going effort to adapt pre-Internet copyright law to the Information Age. Whilst the legal regulation is still evolving, it will be seen that a significant amount of regulation has already been put in place by the international community. The first Chapter examines how copyright law responded to the technological developments both at the international and national levels, and what are the main concerns of stakeholders involved. The second Chapter is devoted to one of the major concerns of copyright stakeholders: the application of rules of private international law (in particular on the question of ownership of rights to be enforced) given the borderless nature of the Internet. Protection and enforcement of rights are the principal function of the collective management system. It is thus expedient to outline some of the private international law issues that arise in cases of copyright infringement on-line. After lengthy discussion of the overall legal framework in which the collective management system is to operate, the challenges faced by collecting societies in their attempts to adapt to the Internet are discussed in Chapter 3 focusing on the experience of performing rights societies in UK and Singapore. The last Chapter continues discussing the role, place and problems of collective management system in the Russian Federation²⁵.

²⁵ While the thesis does focus on collective administration of rights in Chapter 3 and 4, initial discussion of the overall impact of the Internet and digital environment on copyright is presented in Chapters 1 and 2. In particular, Chapter 1 will examine the rights required in the digital environment and Chapter 2 will discuss private international law implications of the Internet given its borderless nature and the exercise of rights. The rationale for this is that efficient collective management of rights in the digital environment requires clear and consistent resolution of the issues to be discussed in the first two Chapters of the work.

CHAPTER I. INTERNET AND COPYRIGHT LEGISLATIVE DEVELOPMENTS AT INTERNATIONAL AND NATIONAL LEVELS

1. From Berne to WIPO Internet Treaties

The history of the Berne Convention²⁶ shows that it has been one of the instruments in which the basic principles were established at the beginning, with the list of rights guaranteed by the Convention being expanded with each revision, as well as extensions of the scheme of protection²⁷. To a certain extent the same observation is applied to copyright subject matter. However, as is discussed below, the technology has always been developing faster than the copyright law, and every breakthrough of communication or cultural technologies affects the legal paradigms²⁸.

The roots of written communication can be found back in 3500 BC, when the Sumerians developed cuneiform writing and Tsai Lun invented paper. Copyright, however, emerged much later. It has its roots in the privileges, laws and regulations associated with the advent of printing in the fifteenth century after Gutenberg having invented printing press with metal movable type, perfected the block printing press already in use in Europe. Though national copyright legislative frameworks had been steadily established post 15th century, it was only in the middle of 19th century that the world recognized a necessity for international cooperation in the field of copyright law. While discussions at the international level ultimately led to the adoption of the Berne Convention for the Protection of Literary and Artistic Works in 1886 (hereinafter Berne Convention), it is notable that this was the 9th year since Thomas Edison invented the phonograph

²⁶ *Berne Convention for the Protection of Literary and Artistic Works*, Paris Act of July 24, 1971, as amended on September 28, 1979, online: World Intellectual Property Organization Homepage < <http://www.wipo.int/clea/docs/en/wo/wo001en.htm> > (date accessed: 5 March 2004) [hereinafter *Berne Convention*].

²⁷ J.A.L. Sterling, *World Copyright Law* (London: Sweet & Maxwell, 2003) at 602 [hereinafter Sterling, *World Copyright Law*].

²⁸ Cultural technologies starting from the printing press, the telegraph, television, satellite and ending with the Internet are technologies that have changed culture in profound ways and which have determined the shape of many cultures. Cultural technologies are directly related to cultural industries. While there is no exhaustive definition of the latter, cultural industry (such as film, TV, radio, publishing and sound recordings) is seen to comprise areas, which seek profit and mainly produce art for mass audience.

and developed the carbon telephone transmitter. Only a couple years after the adoption of Berne, Edison received a patent for the first motion picture camera and Emile Berliner invents gramophone disks.

1.1. Subject Matter Developments

The Berne Convention grants protection to literary and artistic works, including every production in the literary, scientific and artistic domain, whatever may be the mode or form of its expression²⁹. It also provides for an illustrative list of subject matters that fall within the general definition. As Ricketson notes “it is a list that has steadily grown from the initial enumeration given in article 4 of the Berne Act, with the insertion of new categories of works at each successive Revision”³⁰. Every new category of work was included into the Berne Convention and other multilateral intellectual property legislation much later than the actual technological achievements due to difficulties in finding international consensus regarding the level of protection and sometimes difficulties in applying copyright subject matter criteria to the new type of work.

Books, and other writings, dramatic and musical works were within the original enumeration of the 1886 Act. Cinematographic production came into existence in 1896, the first film with a story line was created by Charles Melies in 1900, and the U.S. Academy of Motion Picture Arts and Sciences presented first Oscar awards in 1926³¹. It took about 50 years for cinematographic works and assimilated works expressed by a process analogous to cinematography to be added to the list at the Brussels revision of Berne in 1948³². At the same

²⁹ Article 2(1), *Berne Convention*. Here and throughout the text literary and artistic works will also include dramatic and musical works.

³⁰ S. Ricketson, *The Berne Convention for the Protection of Literary and Artistic Works: 1886-1986* (London: Centre for Commercial Law Studies, Queen Mary and Westfield College, 1986) at 235 [hereinafter Ricketson, *Berne Convention*].

³¹ W. McGaughey, *Five Epochs of Civilization* (Thistlerose Publications, 2003), *Some Dates in the History of Cultural Technologies* online: Thistlerose Publications Homepage <<http://www.worldhistorysite.com/culttech.html>> (date accessed: 7 September 2004).

³² Art. 2(1), *Berne Convention*. As Ricketson notes “the Convention, had, since 1908, accorded protection to certain kinds of cinematographic production”. *Origins of protection of sound pictures, works expressed by*

Revision Conference, i.e. Brussels revision in 1948, photographic works were granted copyright protection while people had started enjoying photography on a large scale in 1884, when George Eastman introduced flexible film, and four years later the lightweight and inexpensive Kodak camera³³.

In the years immediately following the Stockholm Revision in 1967, technological progress once again extended the modes of exploitation of sounds and images. This period is most famous for introducing Betamax videocassette recorder by Sony in 1975, and the Disney suit against Sony for copyright infringement³⁴. The term “videogram” was used to designate these new modes of fixation. It was generally accepted that they fall under the category of cinematographic works.

The first commercially successful general-purpose computer, IBM’s 701 EDPM was developed in 1953³⁵. The following years witnessed a boom in the computer industry. While hardware companies were competing in improving their products, the legal community faced

a process analogous to cinematography can be found in art. 14 of the Berlin Act, where it was provided that the provisions of that article were also to apply to “reproduction or production effected by any other process analogous to cinematography. The reason for this was that the Berlin commission thought, in view of the rapidly developing character of the film industry, that new processes were likely to be invented, and that provision should be made for these to be included under the Convention”, Ricketson, *Berne Convention*, *supra* note 30 at 558. Another reason for a delay in recognizing cinematographic works as subject matter of copyright was debate about who was the author of a cinematographic work. Given the fact that the Berne contains no definition of “author” the question of who is author of a cinematographic work is still open. Consequently, different approaches to the definition of an author of cinematographic work entail numerous issues in digital environment.

³³ Art. 2 (1), *Berne Convention*. Photographic works were within the scope of the Berne Convention since its inception, but were explicitly enumerated in art. 2(1) since the Brussels Revision (1948). The reason for much debates regarding inclusion of this type of work into the copyright subject matter were different approaches to protection of photographic works in different countries and a fear of extending protection to non-artistic photographs, lacking originality. *Ibid.* at 257-267.

³⁴ *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 104 S.Ct. 774 (1984), known as *the Betamax* case. The plaintiff brought suit against Sony, the manufacturer of a video cassette recorder as a contributory infringer for supplying the means to the principal infringer, to infringe plaintiff’s copyrighted works played on the public airwaves. Plaintiff asked for an injunction against Sony as well as profits and damages. The Supreme Court held that off-the-air taping from the public airwaves for private purposes (time-shifting) constituted a fair use of the copyrighted work. See also W. J.Gordon, “Fair Use as Market Failure: A Structural and Economic Analysis of the *Betamax* Case and its Predecessors” (1982) 82. *Colum.L.Rev.* 1600.

³⁵ M.Bellis, “The History of Computers”, online: About, Inc. Homepage, < <http://inventors.about.com/library/blcoindex.htm> > (date accessed: 7 September 2004).

another constraint with respect to granting copyright protection to computer programs³⁶. Computer programs represented technological product that could be both an invention, and thus protected by patent law, or it could be protected by copyright law. Eventually computer works were granted copyright protection as literary works first in WTO Agreement on Trade-Related Aspects of Intellectual Property Rights³⁷ (hereinafter TRIPS Agreement), and later in WIPO Copyright Treaty 1996³⁸ (hereinafter WCT). However, granting protection to computer programs

³⁶ Although World Intellectual Property Organization (WIPO) was slow to act on the issue of granting protection to computer programs, by 1980s national courts in U.S., UK, Australia, and elsewhere faced numerous litigations over the status of computer programs and established a high degree of acceptance that computer programs can be protected by copyright. While there were no problems in applying copyright to source code of computer programs, many argued that object code programs could hardly satisfy the definition of literary work, i.e. something comprising words intended to offer information, instruction or pleasure to a reader. In the U.S. in *Apple Computers, Inc v. Franklin Computer Corp.* 714 F.2d 1240, 1248 (3d Cir. 1983), *cert.denied*, 479 U.S. 1033 (1984) the Court of Appeal for the Third Circuit had little trouble finding that a work written in object code would qualify as literary work. The court states that the definition of “literary works” as those expressed in “...numbers or other...numerical symbols or indicia...,” clearly encompasses the zeros and ones of a binary language object code. On the other hand patent protection of computer programs was also considered, and though after much debates computer programs were granted copyright protection, today they can also be protected by patents, though patent protection is far less widely accepted than copyright protection. The most extensive patent protection of software is provided in the United States. The leading case in accepting the validity of patents for computer programs is *Diamond v. Diehr*, 450 U.S. 175 (1981), where the court held that a machine which transforms materials physically under the control of a programmed computer is patentable. Computer programs receive patent protection in the U.S. if they meet the standard patent law criteria, i.e. they must be novel, useful and non-obvious. Patent protection of computer programs in Europe is far less extensive comparing with the United States. Patents that incorporate computer programs are granted in Europe when they are part of a machine or process and when they solve an identifiable technical problem. Programs are deemed to solve a technical problem when they perform functions that involve more than mere mathematical calculation. Although it is said that the EU is not yet prepared to grant patents for stand-alone software, over 30,000 patents on software were granted. Proponents of computer programs patents contend that patent protection gives economic incentives necessary for software developers to continue creating new software, whereas opponents fear that such a protection will reduce innovation in the industry as software developers will face difficulties in modifying and building upon the code that has already been developed, and will negatively impact activities of small and medium-sized enterprises. The legal uncertainty over patenting software led to drafting of the EU Computer Implemented Inventions Directive. The Directive’s goal was to clarify the issue of patenting pure software and business models, however it has not yet entered into force. For more information on the issue, see online: European Union, Internal Market Homepage <http://europa.eu.int/comm/internal_market/en/indprop/comp/index.htm> (date accessed: 7 May 2005).

³⁷ Art.10, *Agreement on Trade-Related Aspects of Intellectual Property Rights, Annex 1C to the Agreement Establishing the World Trade Organization*, 1994, online: World Trade Organization Homepage <http://www.wto.org/english/docs_e/legal_e/27-trips.doc> (date accessed: 7 September 2004) [hereinafter *TRIPS Agreement*]

³⁸ Art. 4, *WIPO Copyright Treaty*, 20 December 1996, online: World Intellectual Property Organization Homepage <http://www.wipo.int/treaties/en/ip/wct/trtdocs_wo033.html> (date accessed: 7 September 2004) [hereinafter *WCT*].

as literary works did not resolve all the questions, today second generation issues especially over application of expression/idea principles continue to arise³⁹.

Both TRIPS Agreement and WCT confirmed application of copyright to databases⁴⁰. But today the scope of protection of electronic databases is still uncertain. The main controversy lies in the *sine qua non* of copyright, i.e. originality requirement⁴¹. Different countries take different approaches to copyright protection of databases: U.S. grants thin copyright protection according to which database is to have some minimal degree of creativity to qualify for the protection⁴²; in Australia fat copyright protection is granted to databases according to which mere collection of facts can be the reason for a compilation to be original, therefore, little efforts in selection or arrangement of database will suffice for its qualification for protection⁴³; and in the European

³⁹ The issue of scope of copyright protection of computer programs, electronic databases and multimedia, whilst very important, can be discussed only briefly due to the space constraints and because it does not directly affect the main theme of the present work, which is collective administration of rights in the Internet.

⁴⁰ Article 10.2, *TRIPS Agreement*, art.5, *WCT*.

⁴¹ The traditional view on the issue of originality was articulated in the early English case *University of London Press v. University Tutorial Press*, [1916] 2 Ch. 601. The Tutorial Press published examination papers written for the University of London without the latter's permission. The defendants argued that the examiners benefited from a common pool of knowledge and that some of the questions were similar to those asked by other examiners. The issue before the court was whether the exam papers were "original literary works". The court held that the papers in question were original, in particular, Peterson J stated that originality relates to the expression of thought, "[b]ut the Act does not require that the expression must be in an original or novel form, but that the work must not be copied from another work – that it must originate from the author".

⁴² In *Feist* the U.S. court specifically demised the long-established and rather successful "sweat of the brow doctrine". The Supreme Court held that originality is a constitutional requirement that required "independent creation" and a "modicum of creativity". The Supreme Court distinguished between the facts that are not copyrightable, and compilations of facts that are copyrightable. The court declared that originality means that (a) the work was independently created by the authors (not copied from other works) and (b) it demonstrates at least some degree of creativity by virtue of the selection, coordination or arrangement. Facts are not copyrightable because "facts do not owe their origin to the act of authorship.. the first person to find and report a particular fact has not created the fact". See, *Feist Publications v. Rural Telephone Service*, 499 US 340, 113 L Ed 2d 358, 11 S Ct 1282 (1991).

⁴³ In *Telstra* the Australian High Court upheld the decision of the Federal Court that "originality in a factual compilation may lie in the skill, judgment or labor and expense involved in collecting the information recorded in the work, as distinct from the "creative" exercise of skill or judgment, or the application of intellectual effort" See, *Desktop Marketing Systems Pty Ltd. (DtMS Ltd) v. Telstra Corp.* [2002] FCAFC 112 para 407.

Union both copyright and *sui generis* protection of databases exist⁴⁴. To find a balance between different levels of protection, the international consensus is more than needed⁴⁵.

Today we are having other digital phenomena, such as multimedia works. Multimedia is characterized as a convergence of video, audio and telephony technologies, as well as combination of writings, pictures and music⁴⁶. It is a new subject matter of copyright, though not regulated *per se*. There are no specific provisions on multimedia in Berne, TRIPS or WCT, therefore, different countries protect multimedia products under the existing categories. In some countries multimedia works are regarded as cinematographic works, in others as a compilation, and in the third again as falling under both headings, or as a database. It is self evident that multimedia works cannot be easily referred to one or another copyright subject-matter. To begin with, like any other type of work, it is necessary to show that the work has been reduced to material form. Once the multimedia work has been so reduced the question of categorization arises. As a type of compilation (literary work) it must also satisfy the originality requirement⁴⁷. Applying *Feist* definition of originality, most multimedia works can demonstrate some degree of creativity in its selection, coordination and arrangement. Whilst the individual component parts may be copied from elsewhere, what is important in a compilation is the work as a whole. So long as effort of selection and arrangement of contents is demonstrable, the multimedia work as a

⁴⁴ The *EU Directive on Legal Protection of Databases* adopted in 1996 created two-tier system of database protection: it provides uniform copyright protection for the creative selection and arrangement of a database, and establishes a *sui generis* right or database right, which is in contrast to the copyright protection based on a “sweat of the brow” theory. See *Directive 96/9/EEC of the European Parliament and of the Council of 11 March 1996 on the legal protection of databases* in A. Christie & S.Gare, *Blackstone’s Statutes on Intellectual Property*, 6th ed. (Oxford University Press, 2003) at 184 [hereinafter *EC Database Directive*].

⁴⁵ Perhaps WIPO will consider these issues in its yet-to-be-developed WIPO Database Treaty.

⁴⁶ J.Cameron, “Approaches to the Problems of Multimedia” [1996] 18(3) E.I.P.R. 115. See, also I.Stamatoudi, *Copyright and Multimedia Products: A Comparative Analysis* (Cambridge: Cambridge University Press, 2002) at 20 [hereinafter Stamatoudi, *Copyright & Multimedia*] (Stamatoudi defines multimedia as “a product or service which combines and integrates in a single medium, in a digitized form, at least two of the following elements: text, audio, still or moving images, computer programs and other data. It requires a software tool that allows for a substantial degree of interactivity and which allows for the retrieval and presentation of the above information”. She further names three key cumulative features which distinguish multimedia products from traditional works, namely, digitization, combination of different kinds of works or expressions, and interactivity).

⁴⁷ See *supra* notes 41-43 for discussion of the originality requirement.

whole should enjoy copyright if it is treated as a type of compilation. Of course, even more so if sweat of the brow approach to originality is adopted. Aside from protection as a compilation, some have suggested that multimedia can be treated as a computer program or even cinematograph film. Protection of multimedia as a computer program raises some issues: first, every multimedia has the program; secondly, it is the software that makes multimedia interactive; finally, though the computer program plays an important role in multimedia work, it is content, which is essential for the work. Thus, if multimedia is protected as computer program, it will be only partially protected. What if multimedia is protected as cinematographic work?⁴⁸ In a number of countries the definition of cinematographic work requires the presence of “a moving image”, but not all types of multimedia works satisfy this requirement. Every multimedia work is distinguished by the diversity of inputs and user interactivity: how can combination of inputs, such as text, photographs, video clips, icons and images, constitute a “moving picture” given the fact that many of these inputs are still, and taking into account the quantity of inputs? Wei expresses concern that certain types of multimedia may lack the degree of continuity required to be eligible for protection as a “film”⁴⁹. According to Stamatoudi films are not interactive while multimedia works are by definition⁵⁰. There are equally pros and cons for protection of

⁴⁸ The Federal Court of Australia held that video game was protected as cinematograph film in *Galaxy Electronics Pty Ltd. v. Sega Enterprises Ltd* [1997] 37 IPR 462, having relied on more liberal interpretation of cinematograph film to cover new technologies. Galaxy Electronics was an appeal to the Full Federal Court of Australia from the first instance court’s judgment. Sega Enterprises was the manufacturer and exclusive Australian licensee of two video games, “Virtua Cop” and “Dayton USA Twin”. Galaxy, the appellant, imported into Australia machines containing copies of the computer program and displayed them for sale or hire at their premises. Sega brought an action against the appellant to prevent parallel importation of the two Sega computer video games, claiming that the latter was “cinematograph film”. On appeal to the Full Court the appellants claimed that video games should be classified as either computer programs or cinematograph films, but not both. They further argued that video games were computer programs and can not qualify for protection of cinematograph films as each frame of the visual display was generated by the program at the very moment of its display and could differ throughout the game. The Full Court held that both the video games were cinematograph films within the meaning of the Copyright Act 1968 and that importation of the console units containing the games without Sega's consent, therefore, infringed its copyright.

⁴⁹ G.Wei, “Multimedia and Intellectual and Industrial Property Rights in Singapore” [1995] 3 (3) I.J.L. & I.T. 214.

⁵⁰ Thus, multimedia works do not neatly fit the cinematographic works category. Moreover, given the different approaches to the issue of authorship of a cinematographic work in different countries, the issue of

multimedia works as compilations. Stamatoudi argues that multimedia work does not fall within the definition of a database in the majority of cases⁵¹. According to her the main problem in protecting multimedia as compilations is in the fact that the elements of the database must be individually accessible, whereas in almost all sophisticated multimedia works the elements of database will always be accessed in conjunction with each other⁵². Thus, only the simplest types of multimedia works can qualify for database protection. On the other hand, perhaps a broad definition of multimedia work and its qualification for protection as compilation is needed⁵³. The lack of homogeneous approach to the scope of protection of multimedia works complicates their exploitation in the digital environment, thus, some international harmonization in the area of multimedia protection is required.

The three relatively new copyright subject matters, i.e. multimedia works, computer programs, and electronic databases being creatures of the modern technology represent good example of how copyright is trying to adapt to the new digital reality, and the journey is not over yet.

1.2. Expansion of Scope of Rights

Currently the Berne Convention contains a list of exclusive rights that lacks any systematic organization. The reason for this lies in the fact that every new right or rights have been added to the Convention usually in response to what Ricketson calls “particular contemporary needs and pressures”⁵⁴. The latter were political and societal, including

ownership of multimedia protected as a film can entail numerous unsolved and unclear issues. Stamatoudi, *Copyright & Multimedia*, *supra* note 46 at 111-116, 204.

⁵¹ Stamatoudi refers to the definition of database in art. 1 of the *EC Database Directive*, according to which “database” means a collection of independent works, data or other materials arranged in a systematic or methodical way and individually accessible by electronic or other means.

⁵² Stamatoudi, *Copyright & Multimedia*, *supra* note 46 at 96-98.

⁵³ See for example s.7A of the Singapore Copyright Act 1987 (cap. 63 Rev.Ed. 2005)), which protects multimedia as a compilation, or table, consisting wholly or partly of relevant materials or parts thereof, or of data other than relevant materials of parts thereof, which by reason of the selection or arrangement of its contents, constitutes an intellectual creation. Relevant material includes a work, sound recording, cinematograph film, published edition of a work, television or sound broadcast, cable program or recording of a performance [hereinafter *Singapore Copyright Act*].

⁵⁴ Ricketson, *Berne Convention*, *supra* note 30 at 367.

technological pressures. Exclusive rights stipulated by the Berne are rights to translation⁵⁵; reproduction in any manner or form⁵⁶; public performance⁵⁷; communication to the public⁵⁸; broadcasting⁵⁹; adaptation, arrangement and other alterations⁶⁰; distribution⁶¹; and the *droit de suite*⁶². While each right has its own legislative history, four of them will be discussed below given their importance in connection with the digital exploitation of works.

The first and the most controversial right is the *right of reproduction* found in Art. 9 of the Berne. Though as Ricketson notes the Convention arguably “implicitly required member countries to protect this right”⁶³ it was not until 1967 Stockholm Revision of the Berne when the Convention expressly recognized this most fundamental right. Article 9 (1) of the Berne grants authors of literary and artistic works protected by the Convention the exclusive right of reproduction of these works, in any manner or form. Literary and artistic works include “every production in the literary, scientific and artistic domain, whatever may be the mode or form of its expression.”⁶⁴ The right of reproduction covers reproduction in any manner or form, thus, as Ficsor notes, the coverage of this right is absolute⁶⁵. The Berne Convention does not contain a

⁵⁵ Art. 8, *Berne Convention*.

⁵⁶ Art. 9(1), *Berne Convention*.

⁵⁷ Art. 11(1) (public performance of dramatic, dramatico-musical and musical works by any manner or means), Art. 14(1)(i) (public performance of cinematographic adaptations and reproductions), *Berne Convention*

⁵⁸ Art. 11 (2) (communication of performances to the public); Art. 11bis(1)(i) (communication to the public by any means of wireless diffusion of signs, sounds or images); Art. 11bis(1)(ii) (communication to the public of broadcasts and rebroadcasts by wire); Art. 11bis (1)(iii) (public communication of broadcasts by loudspeakers or other analogous instruments); Art. 11ter(1)(ii) (public communication of recitations of literary works); Art. 11ter(2) (public communication of translations of literary works); Art. 14(1)(ii) (communication to the public by wire of cinematographic adaptations and reproductions), *Berne Convention*. See also, Art. 11ter(1)(i) (public recitation of literary works), and Art. 11ter(2) (public recitation of translations of literary works), *Berne Convention*.

⁵⁹ Art. 11bis (1)(i), *Berne Convention*

⁶⁰ Art. 12, *Berne Convention*

⁶¹ Art. 14(1)(i) (distribution of cinematographic adaptations and reproductions of works), *Berne Convention*.

⁶² Art. 14ter (*droit de suite* in original works of art and original manuscripts of writers and composers), *Berne Convention*.

⁶³ Ricketson, *Berne Convention*, *supra* note 30 at 369.

⁶⁴ Art. 2(1), *Berne Convention*.

⁶⁵ But subject to exceptions provided the conditions determined in Art. 9(2) of the *Berne Convention* are met.

definition of reproduction.⁶⁶ However, pursuant to Article 9(3) of the Convention the right of reproduction shall also cover making of sound and visual recordings⁶⁷.

The next exclusive right set out in the Berne Convention is *right of public performance*. Similarly to the right of reproduction, the general public performance right as one of the “the rights specifically granted by this Convention” was included into Article 11(1) of the Berne at the Brussels Revision of 1948⁶⁸. The Convention grants the right of public performance in its four Articles (Arts. 11(1), 11ter(1)(i), 14 (1)(i), 14bis(1). The right of public performance applies to dramatic, dramatico-musical and musical works, literary works, literary or artistic works that have become objects of cinematographic adaptation and/or reproduction, and to cinematographic works. In the sense of the Berne Convention, the public performance right is distinct from the right to communication to the public by wire or by broadcasting as the public is to be present at the place of performance. The public performance right may be considered as “a kind of communication to the public on the basis of a very broad concept of communication”⁶⁹.

Communication to the public right by wire was granted to authors at the Brussels Revision of 1948 with respect to performances of dramatic, dramatico-musical and musical works to the public⁷⁰. The right of communication to the public with respect to literary works was not recognized until the 1967 Stockholm Revision. The present Article 11ter(1)(ii) sets out an exclusive right of the authors of literary works “of authorizing... any communication to the public of the performance of their works”. At the same revision conference authors were granted

⁶⁶ M.Ficsor, *The Law of Copyright and the Internet. The 1996 WIPO Treaties, Their Interpretation and Implementation* (Oxford University Press, 2002) at 444, paras 3.21, 3.22 [hereinafter Ficsor, *WIPO Treaties*].

⁶⁷ This provision is considered to be redundant and superfluous as reproduction in the meaning of Art. 9(1) covers all reproduction in any manner or form. Ficsor notes two reasons for inclusion of such a provision in Art.9, namely, historical reason: recording of musical works was recognized as a form of reproduction in the text of the Convention at Brussels Revision of 1948; and prevention of any restrictive interpretative of the concept of reproduction. *Ibid.*, at 91.

⁶⁸ Ricketson, *Berne Convention*, *supra* note 30 at 428.

⁶⁹ Ficsor, *WIPO Internet Treaties*, *supra* note 66 at 156.

⁷⁰ Art. 11(1)(ii), *Berne Convention*.

communication of cinematographic adaptations to the public by wire⁷¹, and the right to communication to the public of cinematographic works⁷². The Berne Convention also sets out the *right of broadcasting*. Pursuant to Article 11*bis*(1)(i) authors of literary and artistic works enjoy exclusive right of authorizing the broadcasting of their works by any other means of wireless diffusion of signs, sounds or images. The broadcasting right was first adopted at Rome Revision 1928, however the scope of the right was expanded to include television and loudspeakers at Brussels Revision 1948.

Most of the rights outlined above were fully recognized in Berne in the middle of 20th century while communication technologies had been rapidly developing starting from the end of 19th century. Achievements in wireless broadcasting⁷³ brought a further dimension to the means of exploiting authors' works. As broadcasters used not only public domain works, but also works of the then modern authors, a question arose whether authors should have the right to control such use. Therefore, at Rome Revision Conference of the Berne Convention in 1928 the broadcasting right was created⁷⁴. In 1940-s tape recorders were widely sold in the United States, and Polaroid introduced quick-developing film in the market. However, copyright developments at the international level were still lagging behind. The Brussels Revision Conference of 1948 was the most successful in terms of granting authors new exclusive rights and strengthening a number of preexisting ones⁷⁵. The Rome Convention was adopted in 1961⁷⁶ granting performers, phonogram

⁷¹ Art. 14 (1)(ii), *Berne Convention*.

⁷² Art. 14*bis*(1), *Berne Convention*.

⁷³ For instance, development of wireless practical telegraphy by Guglielmo Marconi.

⁷⁴ Under the broadcasting right the *Berne Convention* granted authors "the exclusive right of authorizing the communication of their works to the public by radio-diffusion" though subject to compulsory license, not affecting adversely moral rights of right holders or depriving them of equitable remuneration (art.11*bis*(2)). Another achievement of the Rome Revision of *Berne* was introduction of moral rights. The issue of moral rights protection on Internet is discussed at notes 194-199 *infra*.

⁷⁵ Authors were eventually granted the exclusive right to authorize public performances and presentations of their works, as well as public recitation; the scope of broadcasting right was expanded to include television and loudspeakers and of cinematographic right to include the right to authorize distribution of cinematographic works; the recording right and the right of adaptation were also clarified.

⁷⁶ International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations (Rome Convention), October 26, 1961, online: World Intellectual Property Organization's homepage < <http://www.wipo.int/treaties/en/ip/rome/> > (date accessed: 16 June 2004) [hereinafter *Rome*

producers and broadcasting organizations certain exclusive rights. The reproduction right being the core right of every copyright system was finally introduced into the Berne Convention at its last revision held in Stockholm in 1967, and only 2 years later, in 1969 the first ARPANET link, the predecessor of Internet was established.

Technological developments during 1980-ies and early 1990-ies raised a number of new copyright issues and made it urgent to find relevant solutions to problems posed by new means of electronic dissemination of works. It was realized that a strategy of guided development⁷⁷ adopted by WIPO was not efficient, and mere guidelines were no longer adequate for harmonious development, and that there was a danger that national legislators would choose different solutions to new problems⁷⁸. During the preparations leading up to WIPO Copyright Treaty and WIPO Performances and Phonograms Treaty (hereinafter WPPT), known as WIPO Internet Treaties, many suggestions were made as to which right should cover the exploitation of works over computer networks. Finally both the Treaties came into force in 2002 having become the

Convention]. Art. I of the *Rome Convention* expressly subordinates neighboring rights to copyrights stating that “[p]rotection granted under this Convention shall leave intact and shall in no way affect the protection of copyright in literary and artistic works. Consequently, no provision of this Convention may be interpreted as prejudicing such protection.” The Convention establishes national treatment principle in protecting rights of performers, phonogram producers and broadcasting organizations, as well as points of attachment for each of the neighboring rights holders. Performers are guaranteed minimum rights against the broadcast or communication to the public or fixation of a performance, and if the performance is fixed, against reproduction of the fixation of the performance (Art. 7). Phonogram producers are granted the right “to authorize or prohibit the direct or indirect reproduction of their phonograms” (Art.10), and a right to equitable remuneration in the case of secondary uses (Art.12). Broadcasting organizations have the right to fix or rebroadcast their broadcasts and to reproduce certain fixations (Art.13). The term of protection of performances is 20 years as of the date of the performance in case of unfixed performances, and from the date of fixation in case where performances have been fixed in phonograms; the term of protection for phonograms is 20 years from the date of fixation; and the same 20-year protection term applies to broadcasters from the date when the broadcast took place (Art.14). The Rome Convention also allows a contracting state to stipulate exceptions for private use, news reporting, teaching or research and ephemeral fixation by broadcasters, as well as establish the same kinds of limitations that a contracting state provides for literary and artistic works under its copyright law (Art. 15).

⁷⁷ According to the strategy of guided development all the important issues raised by different new technologies were discussed by groups of experts and national legislators and governments were offered the result of these discussions in the form of recommendations, guiding principles and model provisions. Ricketson, *The Berne Convention*, *supra* note 30 at 919.

⁷⁸ M.Ficsor, “Legislating on the New Technologies: International Norm-Setting in the Field of Copyright and Neighboring Rights” (CISAC’s 39th Congress, Washington D.C., 18-20 September 1994) at 6.

first international treaties that deal specifically with copyright infringement over the Internet⁷⁹. A brief analysis of the Treaties is provided below.

1.3. Rights and Obligations under WIPO Copyright Treaty

Reproduction Right

As Ricketson notes storage in the form of a series of invisible electrical impulses, for instance, where the work is stored in a computer storage device, is one respect in which the Berne Convention would benefit from clarification⁸⁰. The WCT clarified the reproduction right of copyright owners by stating that the right originally defined in the Berne Convention covers reproduction in digital form, though not in the main body of the Treaty, but in Agreed Statement concerning Article 1(4)⁸¹. The persuasive effect of this agreed statement is controversial, since unlike all other Agreed Statements, which were adopted by consensus, this was agreed only by majority vote⁸². Lack of consensus with respect to the reproduction right, which threatened to defeat the entire WCT, reminds of the situation with inclusion of the reproduction right in the Berne. Then the arguments varied from “everybody knows what reproduction means” to danger of creating hazardous situation by defining reproduction. As a result, the Convention does not define what is meant by reproduction, leaving its interpretation at the discretion of member states⁸³.

⁷⁹ WCT; WIPO Performances and Phonograms Treaty (hereinafter *WPPT*), December 20, 1996, online: World Intellectual Property Organization Homepage < <http://www.wipo.int/documents/en/diplconf/distrib/95dc.htm> > (date accessed: 11 February, 2004) [hereinafter *WPPT*].

⁸⁰ Ricketson, *Berne Convention*, *supra* note 30 at 374.

⁸¹ “The reproduction right, as set out in Article 9 of the Berne Convention, and the exceptions permitted thereunder, fully apply in the digital environment, in particular to the use of works in digital form. It is understood that the storage of a protected work in digital form in an electronic medium constitutes a reproduction within the meaning of article 9 of the Berne Convention.” Agreed Statement Concerning Article 1(4), *WCT*. However, the Agreed Statement does not in any case touch on the issue of transitory reproductions.

⁸² Article 31(2)(a), of the Vienna Convention on the Law of Treaties, May 23, 1969 in particular states that an agreed statement is not part of the “context” in which a treaty should be interpreted unless all the parties have agreed to it, for the text of the Convention, see online United Nations Homepage: < <http://www.un.org/law/ilc/texts/treaties.htm> > (date accessed: 18 May, 2004).

⁸³ According to Spoor the mainstream interpretation stresses that reproduction requires some form of ‘fixation in material form’, J.H.Spoor, “The Copyright Approach to Copying on the Internet:

During negotiation of the WCT, arguments focused more on temporary storage of a work, or more accurately whether downloading of a work to the RAM of the computer is reproduction requiring authors' consent. There were also fears that the reproduction argument would lead to a superficial distinction between broadcasting and webcasting, and it was suggested that purely technical "reproductions" should automatically be included within the real economic right of the use, i.e. public performance or communication to the public⁸⁴. Concerns regarding limitation of the scope of the reproduction rights were also expressed.

Ficsor singles out several "indispensable elements" of the concept of reproduction to be applied under the WCT, Berne and TRIPS which in fact broaden the concept of reproduction⁸⁵. Reinbothe and von Lewinski analyzing the agreed statement and in particular the concept of reproduction note that Article 9(1) of the Berne Convention reflects the wide concept of reproduction, thus, the expression "in any manner or form" covers "all methods of reproduction" and "all processes known or yet to be discovered"⁸⁶. This concept is based on fixation, which needs not be permanent as long as it can be perceived, reproduced or otherwise communicated. Thus, temporary copies, including those made in RAM and those, made in the course of

(Over)Stretching the Reproduction Right?" in P.Hugenholtz, ed., *The Future of Copyright in a Digital Environment* (The Hague: Kluwer Law International, 1996) at 69.

⁸⁴ M.F.Makeen, *Copyright in a Global Information Society: The Scope of Copyright Protection under International, US, UK and French Law* (The Hague, Boston: Kluwer Law International, 2000) at 288 [hereinafter Makeen, *Copyright*] (referring to opposition of delegations during the Seventh Session of the Committee of Experts on A Possible Protocol to the Berne Convention to the EU proposal on the introduction of a new article in the WIPO Copyright Treaty to extend the reproduction right to permanent and temporary storage of works in electronic media, which included the uploading and downloading of works to and from the memory of computer).

⁸⁵ Indispensable elements of the concept of reproduction are (a) 'reproduction' is a [new] fixation of the work sufficiently stable that the work may be perceived, [further] reproduced and communicated on the basis thereof; (b) the method, manner and form of the reproduction are irrelevant; (c) it is irrelevant whether the work thus fixed (the copy of the work) may be perceived directly or only through a device; (d) it is irrelevant whether or not the copy is embodied in a tangible object that may be held in hand; (e) it is irrelevant whether the reproduction is made directly (for example, on the basis of such a tangible copy) or indirectly (for example, off air from a broadcast programme); (f) storage of works in electronic memory is reproduction; (g) the duration of the fixation (including storage in an electronic memory) – whether it is permanent or temporary – is irrelevant (as long as, on the basis of the [new] fixation, the work may be perceived, reproduced or communicated. Ficsor, *WIPO Treaties*, *supra* note 66 at 449.

⁸⁶ Reinbothe J., & S. von Lewinski, *The WIPO Treaties 1996: The WIPO Copyright Treaty and The WIPO Performances and Phonograms Treaty: Commentary and Legal Analysis* (Butterworths, Lexis Nexis, 2002) at 42 [hereinafter Reinbothe & von Lewinski, *WIPO Treaties*] (citing Massouye, Guide to the Berne Convention at note 26)

communicating the work on internet, fall under the scope of the reproduction right⁸⁷. Ginsburg criticizes the approach taken to interpretation of the reproduction right under WCT and its scope under the Berne. She argues that the WCT text scrupulously avoids detailing the meaning of “storage”, thus causing uncertainty as to what act might fall under the scope of reproduction⁸⁸. This, according to Ginsburg, suggests a more cynical reason for the balance the WCT is credited with achieving⁸⁹. She further argues that each side sees what it wishes to see in a text that permits more than one reading⁹⁰.

It is not completely clear from the history and the text of the WCT that international consensus has been achieved on the scope of reproduction right, particularly, in the context of digital communications⁹¹. However, it is submitted that while the WCT may be said to support a broad definition of reproduction, there is sufficient ambiguity which will allow signatories to exclude temporary reproduction in RAM from the scope of the reproduction right. Such a position, arguably might be WCT compliant. The reality, however, is that many if not most countries have taken the position (through case law and statutory intervention) that reproduction

⁸⁷ *Ibid.* at 43.

⁸⁸ J.Ginsburg, “Achieving Balance in International Copyright Law” Book Review of *The WIPO Treaties 1996: The WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty: Commentary and Legal Analysis* by J. Reinbothe & S. von Lewinski (2002) 26 Colum.J.L.& Arts 201 [hereinafter Ginsburg, “Book Review”].

⁸⁹ *Ibid.* Reference is, in particular, made to the preamble of the WCT... “Recognizing the need to maintain a balance between the rights of authors and the larger public interest, particularly, education, research and access to information, as reflected in the Berne Convention”. Similar Recital may be found in the preamble of the WPPT with respect to rights of the performers and producers of phonograms and the larger public interest. But see S.Pamuelson, “The U.S. Digital Agenda at WIPO” (1997) 37 Va.J. Int’l L. 369 (arguing that final version of the WCT was more balanced comparing with the digital agenda promoted by the United States during treaties negotiations).

⁹⁰ *Ibid.*

⁹¹ *Ibid.* See also I.S.Ayers, “The Future of Global Protection: Has Copyright Law Gone Too Far?” (2000) 62 U.Pitt.L.Rev. 49 (arguing that WCT does not live up to the promise of its preamble and represents an expansion of copyright protection with too few safeguards of the “larger public interest”, which ultimately might lead to overprotection of copyright: a world of fewer artistic and literary works, more expensive works, and private censorship).

will include transient copying into RAM⁹². What these countries seek to do now is to redress the balance by crafting appropriate (limited) exceptions to the reproduction right.

A traditional conception of the reproduction right is an ability of the author or copyright owner to prevent unauthorized duplication of a work involving creation of additional copy that can substitute the original. Reproduction of a work without authorized consent of an author or copyright owner has been traditionally considered to be a threat to their legitimate economic interests. However, temporary copying in RAM does not seem to implicate the traditional conception: a copy in RAM is automatically extinguished after the computer is switched off; further copies can not be made; the data copied is “dynamic”; and the act of loading a digital work into RAM of a computer, provided it is to be used in the manner intended, is similar to the act of reading a book. The latter does not in any case implicate the reproduction right. The act that presents immediate and direct threat to the economic interests of the owner of copyright in a digital work is the act of making the work available to the public over the Internet by posting it on a web-site. These interests are adequately protected by a new communication to the public right, discussed below. It is submitted that inclusion of transient copying into RAM within the scope of the reproduction right represents an unwarranted extension of the exclusive economic rights of copyright owners and authors and shifts the copyright balance too far in their favor.

Nevertheless, courts in some countries have interpreted the reproduction right as covering transitory reproductions even prior to any legislative reforms at the international and domestic

⁹² Such countries as the United States have specifically included a definition of reproduction to cover transient copying into free trade agreements like the one signed with Singapore. Art. 16.4(1) of the *U.S.-Singapore Free Trade Agreement* (signed on May 6, 2003, online: Ministry of Trade and Industry of Singapore < http://www.mti.gov.sg/public/FTA/fm_FTA_Default.asp?sid=36 > (date accessed 5 July 2004) states that “Each Party shall provide that authors, performers, and producers of phonograms and their successors in interest have the right to authorize or prohibit all reproductions, in any manner or form, permanent or temporary (including temporary storage in electronic form) [hereinafter *U.S.-Singapore FTA*]. Given the strong U.S. push and the use of FTA’s to implement higher standards, it is hard to resist the reality that temporary copying is covered. See also, s. 15(1A) Singapore Copyright Act 1987 (cap.63 Rev.Ed. 2005), where reproduction is defined as including temporary copying by way of statutory amendment.

levels. In *MAI Systems Corp. v. Peak Computer Inc*⁹³ the U.S. court held that loading an operating system into RAM for maintenance purposes by an unlicensed third party maintenance organization created an illegal copy of the program fixed in RAM. In *Bookmakers Afternoon Greyhound Services v. Wilf Gilbert (Staffordshire) Ltd*⁹⁴ the UK court noted that despite the fact that the then acting 1956 Copyright Act did not contain any definition of the words “material form” there was no reason to give them a meaning which will exclude materialization on a television monitor. Thus, turning on the television monitor was considered to constitute reproduction of a substantial part of the race card in dispute. In *Creative Technology Ltd. v. Aztech Systems Pte Ltd*⁹⁵ the first instance Singapore court found that running a computer program for the purpose of disassembling of a sound card computer program was individual copying into the memory of the computer.

Although Berne and WCT provide for a broad definition-based approach, its member countries preferred the exception-based approach, which is promoted by a need to provide legal support for new business models based on digital technologies and thereby enable rightowners to appropriate a greater economic value. The definition-based approach, on the other hand, provides the right to users to make normal use of a work without fear of infringing copyright. But neither of the two is able to find the balance between the public interest and protection of copyright rights. As is discussed below, the exception-based approach, and therefore, protection of economic interests of copyright owners and authors so far prevail in the national legislation aimed at implementing the WIPO Internet Treaties, whose attention now concentrates more on crafting exceptions to the reproduction right.

Right of Communication to the Public

The old communication to the public right included a right of broadcasting and a right of including the subject matter in a cable program. However, the existence of these two separate

⁹³ 991 F.2d 511 (9th Cir. 1993)

⁹⁴ [1994] FSR 723

⁹⁵ [1997] FSR 491

rights did not fit well with the reality of new communication technologies, when transmission of a work over the Internet may involve both wireless and wire-based technologies. It was recognized that a single unitary right of communication to the public that encompasses both wireless and wire-driven technologies is needed, i.e. technologically neutral. In order for the WCT to recognize a comprehensive public communication right, some gaps in the Berne Convention had to be eliminated. Although the Berne Convention recognizes such a right, it does not provide for an exclusive right of communication to the public in respect of all categories of work⁹⁶. Therefore, it was agreed by the drafters that the new right will cover all categories of works without any discrimination. Another problem with the old communication to the public rights concerned wireless transmission to the public. The provisions did not apply well where the transmission was to an individual in response to a request made by him. Subsequently the new communication to the public right was defined as the making available of works to the public regardless of whether any person has actually received the work or engaged in downloading the same from the Internet. The prohibited acts begin with the making available of the work for access by the public⁹⁷.

The minimum making available right should apply in such a way that members of the public may access these works from a place and at a time individually chosen by them. While it is

⁹⁶ The *Berne Convention* does not provide for a general right of communication to the public. It rather grants certain communication rights to specific subject matters. For instance, art. 11 of the *Berne Convention* grants authors of dramatic, dramatico-musical and musical works the exclusive right of authorizing the communication to the public of the performance of their work; art. 11*ter* grants the same right in respect of recitation of literary works; arts. 14*bis* grants both these rights to the owner of copyright in a cinematographic work. In contrast, art.11*bis*(1)(i) grants the right of broadcasting to the public that extends to all categories of literary and artistic works; and art. 11*bis*(1)(ii) grants the exclusive right of communication to the public by wire or by rebroadcasting. Thus, the communication rights provided in Berne, are fragmented along two lines: along the lines of subject matter, and second, along the lines of technology or mode of communication.

⁹⁷ Makeen, *Copyright, supra* note 84 at 291. Article 8 of the WCT is accompanied by the Agreed Statement that provides that “it is understood that the mere provision of physical facilities for enabling or making a communication does not in itself amount to communication within the meaning of this Treaty or the Berne Convention. It is further understood that nothing in Article 8 precludes a Contracting Party from applying Article 11*bis*(2).” The Agreed Statement is a result of lobbying efforts of non-governmental organizations that represented internet service providers and telecommunication operators, seeking some kind of guarantees that would limit their liability for infringements committed by their clients.

clear that the element of individual choice includes on-demand situations and excludes any other offerings of works at specified time and place⁹⁸, the term “public” has not been defined in the treaty. It was rather left to be interpreted by national law in the light of the treaty’s preamble⁹⁹.

Difficulties with defining “public” are not new, the requirement of “public” arises both in the context of the public performance right and in the context of broadcasting and communication to the public by cable rights. One of the important criteria of public performance has been the character of audience: domestic or quasi-domestic (non-infringing) and non domestic (in public – infringing)¹⁰⁰. However, courts faced some difficulties in applying this criteria to the broadcasting right, having preferred to rely on the criteria of the commercial deprivation of the copyright owner¹⁰¹. Determining public or private nature of the audience also appears problematic in case of

⁹⁸ However, making offerings of works at a specified time and place may still infringe the general right of communication to the public as art.8 of the *WCT* covers two points, i.e. the general right of communication to the public and the making available right.

⁹⁹ Recital 1 of the Preamble of the *WCT* states: “Desiring to develop and maintain the protection of rights of authors in their literary and artistic works in a manner as effective and uniform as possible”. *Berne Convention* contains no definition of the notion “public” as well.

¹⁰⁰ For instance, following UK and Australian caselaw the nature of audience has been generally defined by reference to the nature of the “tie” that draws an audience together or creates a relationship between the audience and those controlling a performance. In *Jennings v. Stephens* [1936] 1 Ch 855, the court in determining public nature of the performance stated that the expression “in public” must be considered in relation to the owner of the copyright. In *Ernest Turner Electrical Instruments Ltd. v. Performing Right Society, Ltd.* [1943] 1 Ch 167, the concept of “the copyright owner’s public” was extended to whether the audience is one which the copyright owner could fairly consider a part of his public. In *Australian Performing Rights Association Ltd. v. Commonwealth Bank of Australia* [1992] 111 A.L.R. 671, the court held that public performance right of a plaintiff in a musical work was infringed by using the work as a background music for an instructional video tape that had been made for employees of the defendant bank. Although the video-tape was shown only to a limited number of the bank’s employees and thus closed to the general public, it was not mandatory for employees to watch the video and no fee was charged, the court held that the performance of the musical work was public because the audience were brought together by an element of their “public ties” rather by any domestic tie.

¹⁰¹ The case of *Telstra Corporation Ltd. v. Australasian Performing Right Association Ltd.* [1997] 146 A.L.R. 649, was brought under the old 1968 Australian Copyright Act or infringement of the then existing two communication rights, the cable right and the right to broadcast the work to the public. While it was easy for the court to find the infringement of both the rights, the court faced a question whether the transmission by wireless telegraphy to the public (broadcasting) was “to the public”. The High Court held that the transmission of music on hold to individual mobile phones by telecommunication operator, Telstra, who acted as a passive carrier was a transmission to the copyright owner’s public. The court tried to apply the notion of the copyright owner’s public developed in the public performance infringement cases to the broadcasting right. The court recognized the difficulty of applying the domestic/non-domestic distinction to the transmission to individual phone users though noting that this distinction is of little assistance in determining “to the public”. The High Court relied on copyright owner commercial deprivation reasoning given the fact that use of copyright works in a commercial setting means that the audience is unlikely to be a domestic.

communication of a work on the Internet: "... in the context of a digital world, where the technology exists for numerous individuals to have access to copyright works, on demand and from the privacy of their own home, the distinction between domestic and non-domestic transmissions disappears or becomes redundant..."¹⁰². It is submitted that while extensive interpretation of "the public" requirement in case of public performance right can be easily justified, the same approach to communication to the public right has the potential of giving too much control to the copyright owner over all types of communication, which "strikes at, and weakens, the very foundation of the rationale" for the existence of copyright protection¹⁰³. It is also worth mentioning that there are different views as to whether Contracting Parties are free to implement the obligation of Article 8 through another right or combination of different rights¹⁰⁴.

Obligations

The Treaty introduces two obligations for its contracting parties, namely obligations concerning technological measures¹⁰⁵ and rights management information¹⁰⁶. The Treaty does not

¹⁰² K.Weatherall, "An End to Private Communications in Copyright? The Expansion of Rights to Communicate Works to the Public: Part 2." [1999] 21 (8) E.I.P.R. 398.

¹⁰³ *Ibid.*

¹⁰⁴ Ficsor, based on the minutes of the Diplomatic Conference, argues that the right to communication to the public, including the making available right, might be implemented in national legislations through application of any particular exclusive right, other than the right of communication to the public, or by a combination of exclusive rights, as long as the acts described in those Articles are covered by such rights. In particular, in the U.S. Copyright Act the right of communication to the public takes the form of the right of public performance. U.S. 1976 Copyright Act s.106(4) and (6). In fact, the United States did not introduce any amendments both to the right of distribution and to the public performance right. The U.S. *White Paper* (*supra* note 14) stated that "[t]he proposed amendment does not create a new right; [i]t is an express recognition that, as a result of technological developments, the distribution right can be exercised by means of transmission – just as the reproduction, public performance and public display rights may be". (That was actually stressed by the U.S. delegation through the declaration made at the diplomatic conference, though Ficsor mentions that the statement made by the U.S. delegation seems to be valid because it was not opposed by any delegation, adding that that was a part of the deal reached during the informal consultations, but also because it is in the harmony with an age-old practice followed by countries of the Berne Union in the application of various rights, i.e. the choice of the applicable right is frequently not the same under national laws as under the convention). Ficsor, *WIPO Treaties, supra* note 66 at 497. The same view is shared by Reinbothe and Lewinski. Reinbothe & von Lewinski, *WIPO Treaties, supra* note 86 at 108. As is discussed *infra*, the tendency in the national legislation implementing the WIPO Internet Treaties is to stipulate technologically neutral communication to the public right, making this exclusive right to be the underlying principle for application of copyright in respect of dissemination of works in non-material form.

¹⁰⁴ Article 11, *WCT*.

¹⁰⁵ Article 11, *WCT*.

explicitly explain what kind of technological measures should be protected against circumvention. It only states that those measures are to be used by authors in connection with the exercise of their rights under the Treaty, or under the Berne¹⁰⁷. Given that there are two main types of technological measures applied to protect works in online regime, namely, access control measures, preventing unauthorized access to a work¹⁰⁸ and copy control measures preventing unauthorized copying of a work¹⁰⁹, it is unclear whether controlling access is a right protected under WCT or the Berne Convention¹¹⁰. Two arguments can be brought forward in this case: on one hand, the WCT refers to measures used by copyright owners in connection with the exercise of their rights under this Treaty or the Berne Convention meaning the exercise of the bundle of exclusive rights of reproduction, distribution, public performance, public display and adaptation. Since the access control right is not among these exclusive rights it may be argued that access

¹⁰⁶ Article 12, *WCT*.

¹⁰⁷ Art. 11 of the *WCT*, broadly construed, requires member states to provide for “adequate legal protection and effective legal remedies against the circumvention of effective technological measures that are used by authors in connection with the exercise of their rights under this Treaty or the Berne Convention and that restrict acts in respect of their works, which are not authorized by the authors concerned or permitted by law”. This is clearly an example of the relatively vagueness of the Treaty as it gives way to many different levels of protection that presumably will all be adequate. The article also did not set any criterion of efficiency of technological measures needed for protection. So far, however, legislation enacted to implement the Treaty provides significantly greater protection to rightholders and is more restrictive of user rights than is required by art.11. Art. 18 of the *WPPT* contains virtually identical language obligating signatories to prevent circumvention of technological measures used by performers or producers of phonograms with respect to their performances or phonograms. See discussion of *WPPT* provisions *infra*.

¹⁰⁸ For instance, encryption of content and digital envelopes. The latter is designed to protect digital messages for their transmission via the Internet or other telecommunication channels, representing a type of security that uses two layers of encryption to protect a message. See M.Atreja, “Introduction to Digital Signatures and Digital Envelopes” at: <

http://www.techonline.com/community/tech_topic/internet/tech_paper/21585 > (date accessed: 17 September 2004).

¹⁰⁹ For instance, a copy control flag, i.e. a digital bit embedded in content indicating whether and to what extent copying is allowed. See D.S. Marks & B.H. Turnbull, “Technical Protection Measures: The Intersection of Technology, Law and Commercial Licenses” [2000], 22(5) E.I.P.R. 198 at 200 [hereinafter Marks & Turnbull, “TPM”].

¹¹⁰ Ginsburg provides for two sides of interpretation of Article 8 of the *WCT*. According to one, the choice of the public as to where and when to have an access to the works depends in fact on the rightholder, which may lead to interpretation of this article as laying the groundwork for a right to control access within the text of the treaty. As a result Article 11 of the *WCT* would mandate protection of access-control measures because these protect a right under the treaties. According to the second side, if Article 8 is not interpreted as initiating an access right, there is no need for member states to protect access controls against circumvention, at least if these controls are not used “in connection with” the exercise of better-recognized Berne and *WCT* rights. Ginsburg, *Book Review*, *supra* note 88.

control devices are not protected. On the other hand, access is a prerequisite to exercise of the above exclusive rights thus it is clear that copyright owner will rather often employ an access control device in connection with protection of his exclusive rights, and this argument is more persuasive. There are several other points that the WCT raises and leaves without proper clarification, such as the scope of prohibition of circumvention, the scope and level of exceptions to the ban on circumvention, the nature of remedies (private or criminal penalties). Thus, and as explored below, the approach that the contracting parties take in implementing these obligations differs. Suffice it to say that technological measures can be regarded as protecting both a service and a content provided by that service. They can also control user's access to a work after it was acquired by the user¹¹¹. However, as Marks and Turnbull argue, technology alone is insufficient to protect copyright for several reasons: hacker's ability to circumvent the copy protection, thus making technological protection measures fallible; and absence of retroactive protection of existing material with new technology¹¹².

Member states are also obliged to provide for effective legal protection of rights management information. The latter comprises all information whether in electronic form or otherwise, that identifies a copyrighted work and anyone who has a particular kind of involvement or interest in the work as well as any other information that would enable or facilitate the management of rights, such as conditions of use¹¹³. The importance of rights management information is in its role in online trade in content and the administration of

¹¹¹ T. Vinje, "Copyright Imperiled" [1999], 21(4) E.I.P.R. 192 at 196. Ginsburg, in particular, argues that if Berne or WCT do not provide for protection of such right then arguably member states are not obliged to protect technological measures protecting access. However, if the controlling access right is protected under both WCT and Berne (as access is a prerequisite to making reproductions or further communications of the work), then the right also covers controlling entry into RAM). *Ibid.*

¹¹² If music is already available in CD-format, it is too late to try to encrypt it. Encryption of future CDs might lead to a situation when CDs will not operate on the equipment that consumers own. Thus, the content industries "will have to wait until new formats or delivery systems are introduced". See Marks & Turnbull, "TPM", *supra* note 109.

¹¹³ A. de Kroon, "Protection of Copyright Management Information in Copyright and Electronic Commerce" in P. Hugenholtz, ed., *Legal Aspects of Electronic Copyright Management* (The Hague: Kluwer Law International, 2000) at 229.

rights¹¹⁴. Rights management information is usually expressed in the form of electronic watermark that is placed on the protected content. Watermarks may interact with devices that receive or play content and determine the conditions of use of such content¹¹⁵. Rights management information may also serve as a means of compliance with the moral right of attribution. Digital rights management is one of the most important uses of rights management information, where collective management organizations will play an important role.

1.4. WIPO Performances and Phonograms Treaty.

Rights and Obligations

Similarly to WCT, WPPT clarified and confirmed the broad scope of the right of reproduction¹¹⁶. Comparing the reproduction right under WPPT with relevant provisions of the Rome Convention and TRIPS, Ficsor identifies three differences in the language of the WPPT, namely, the latter provides for an exclusive right of authorization with respect to unfixed performances, rather than a possibility to prevent the reproduction thereof¹¹⁷; it contains explicit protection of direct and indirect reproduction as provided in Article 10 of the Rome Convention and Article 14.2 of the TRIPS Agreement; and it states that reproduction covers reproduction in any manner or form as is provided in Article 9(1) of the Berne¹¹⁸. The comments made above with respect to the reproduction right under WCT are the same under WPPT.

The WPPT provides for the right of making available of fixed performances and phonograms¹¹⁹ covering both the actual offering of the phonogram or other protected material and its subsequent transmission to members of the public. The broad formulation of the right is

¹¹⁴ The accuracy of CMI (copyright management information) may become crucial to the ability of consumers to make authorized uses of copyrighted works *Ibid.* at 230.

¹¹⁵ The WIPO Treaties: Protection of Rights Management Information, online: International Federation of the Phonographic Industry <<http://www.ifpi.org/site-content/library/wipo-treaties-rights-management-information.pdf>> (date accessed: 5 June, 2004).

¹¹⁶ Art. 7 (performers' right of reproduction) and Art. 11 (phonogram producers' right of reproduction), *WPPT*.

¹¹⁷ Art. 7.1(C), *Rome Convention*, art. 14.1, *TRIPS*.

¹¹⁸ Ficsor, *WIPO Treaties*, *supra* note 66 at 624.

¹¹⁹ Arts. 10 and 14, *WPPT*.

capable of accommodating many different types of exploitation, from services allowing only the listening of music, to services allowing the download of permanent copies of music tracks, to exciting future uses of technology¹²⁰. However, comparing with Article 8 of the WCT whereby authors enjoy a general right of authorization concerning communication to the public of their works by wire or wireless means, including on-demand availability, performers and phonogram producers enjoy only the right to authorize making available in on-demand services. Furthermore, the performer's right under Article 10 of the Treaty is limited to availability of performances fixed in phonograms¹²¹. Article 15 of the Treaty provides for the right to equitable remuneration, not the authorization right, for wireless broadcasting or communication to the public of phonograms.

The Treaty also contains a special article devoted to the protection of moral rights of performers with respect to their live aural performances or performances fixed in phonograms. Thus, the performers shall have the right to claim to be identified as performers of their performances, and to object to any distortion, mutilation or other modification prejudicial to their reputations¹²². Obligations as to protection of technological measures of rights management information¹²³ are similar to those stipulated in the WCT.

2. Implementation of WIPO Internet Treaties in European Union

2.1. EU Infosoc Directive: Scope of Rights

On April 9, 2001 the Directive on harmonization of certain aspects of copyright and related rights in the information society (the Infosoc Directive) was finally adopted¹²⁴. The main

¹²⁰ The WIPO Treaties: "Making Available" Right, online: International Federation of the Phonographic Industry < <http://www.ifpi.org/site-content/library/wipo-treaties-rights-management-information.pdf> > (date accessed: 5 June, 2004).

¹²¹ Performances in audiovisual works are not covered by art. 10, *WPPT*.

¹²² Art. 5, *WPPT*.

¹²³ Arts. 18 and 19, *WPPT*.

¹²⁴ *Directive 2001/29/EC of the European Parliament and of the Council, of 22 May 2001 on the harmonization of certain aspects of copyright and related rights in the information society* in A. Christie & S. Gare, *Blackstone's Statutes on Intellectual Property*, 6th ed. (Oxford University Press, 2003) at 204 [hereinafter *EC Infosoc Directive*].

two objectives of the Infosoc Directive are harmonization of European copyright law, particularly with respect to fundamental rights¹²⁵ and exceptions¹²⁶, and implementation of WIPO Internet Treaties¹²⁷. The Directive indeed serves as a “basis for making Internet commercial”¹²⁸. Following the approach taken in the Green Paper¹²⁹ the Infosoc Directive provides for the harmonized right of reproduction, which is the exclusive right of the author¹³⁰ “to authorize or prohibit direct or indirect, temporary or permanent reproduction of any means and in any form, in whole or in part”¹³¹. The second right that was initially perceived as the right subordinate to the right to reproduction¹³² is stipulated in Article 3 of the Infosoc Directive, i.e. the right of communication to the public, “including the making available to the public of.. works in such a way that members of the public may access them from a place and at a time individually chosen

¹²⁵ Arts. 2-4, *EC Infosoc Directive*.

¹²⁶ Art. 5, *EC Infosoc Directive*.

¹²⁷ Arts. 6 & 7, *EC Infosoc Directive*.

¹²⁸ Ch. Waelde & H.MacQueen, *The Scope of Copyright* (IP Institute and AHRB Research Center for Studies in Intellectual Property and Technology Law) at 30 [hereinafter Ch.Waelde & H.MacQueen, *The Scope of Copyright*]. See also Recital 4 of the *Infosoc Directive*, which stipulates that harmonized legal framework on copyright and related rights will “foster substantial investment in creativity and innovation, including network infrastructure and lead in turn to growth and increased competitiveness of European industry, both in the area of content provision and information technology and more generally across a wide range of industrial and cultural sectors. This will safeguard employment and encourage new job creation”. A couple of years later, the importance of Internet commerce and intellectual property was recognized in *U.S.-Singapore FTA*. “The U.S.-Singapore FTA has been hailed as the “gold standard” upon which all FTAs should be modeled”. Ng-Loy, Wee Loon, “The IP Chapter in the US-Singapore Free Trade Agreement” (2004) 16 *SAC LJ*. at 42. Therefore, it is interesting to compare the main provisions of the *Infosoc Directive*, which is to be implemented by all EU members, and provisions of the *U.S.-Singapore FTA*, that can serve as a template for other countries in the South-East Asian region, and evidently represents the copyright concerns of the United States.

¹²⁹ Copyright and Related Rights in the Information Society, Green Paper, COM (95) 382 final, Brussels, 19 July, 1995, online: Archived web-site of Directorate General Information Society, European Commission < <http://europa.eu.int/ISPO/legal/en/ipr/ipr.html> > (date accessed: 27 May 2004) [hereinafter *EC Green Paper*].

¹³⁰ Though the term “authors” is used, the same provision is applied to performers, phonogram producers, producers of the first fixations of films and broadcasting organizations. Article 2, *Infosoc Directive*. See also Recital 21, *Infosoc Directive*, which states that the Directive should define the scope of the acts covered by the reproduction right with regard to different beneficiaries.

¹³¹ The *U.S.-Singapore FTA* contains similar provision whereby “authors, performers, and producers of phonograms and their successors in interest have the right to authorize or prohibit all reproductions, in any manner or form, permanent or temporary (including temporary storage in electronic form).

¹³² Follow-up to the Green Paper on Copyright and Related Rights in the Information Society. COM (96) 568 final, Brussels. 19 July 1996., online: Archived web-site of Directorate General Information Society, European Commission < <http://europa.eu.int/ISPO/legal/en/ipr/ipr.html> > (date accessed 27 May 2004) [hereinafter *EC Green Paper Follow-up*].

by them”¹³³. The public communication right will, from the copyright owner’s point of view, eliminate the gaps in protection left in the electronic and digital world of the Internet by the present rules on distribution¹³⁴, public performance¹³⁵, and broad- and cable-casting¹³⁶.

2.2. Obligations on Technological Protection Measures and Copyright Management Information under Infosoc Directive

The provision, which caused more controversy than any other in the EU Infosoc Directive is Article 6¹³⁷, which was a direct implementation of Article 11 of the WCT and Articles 18 of the WPPT, but the Directive goes even beyond the provisions of WIPO Internet Treaties. Article 6 (1) of the Infosoc Directive is an anti-circumvention provision that involves subjective element of knowledge¹³⁸. Thus, formal violation of the ban will not be enough, there must be a showing of some kind of bad faith¹³⁹. Article 6 (1) and (2) establish the broad scope of protection of technological measures. Anti-trafficking provision contained in Article 6(2) of the Directive requires providing legal protection against the manufacture, import, distribution, sale, rental, advertisement for sale or rental, or possession for commercial purposes of devices,

¹³³ Similar provision may be found in article 16.4.2(a), *U.S.-Singapore FTA*. The third right introduced into *Infosoc Directive* is the distribution right. It relates to the distribution of the originals or tangible copies of work and thus does not extend to online distribution of services in general. Article 16.4.3 of the *U.S.-Singapore FTA* provides for the distribution right consistently with requirement of Article 6 of the *WCT*, however the FTA does not give freedom to Singapore in determining the scope of the right of distribution after first sale

¹³⁴ Namely, the limitation to first sale, rental and commercial lending of hard copies. Ch.Waelde & H.MacQueen, *The Scope of Copyright*, *supra* note 128 at 30.

¹³⁵ Namely, the need for the infringing activity to be in public and a performance for an audience, which is sometimes inapplicable to the private activities of individuals on the Internet. *Ibid*.

¹³⁶ Namely, too technology-specific to cover the reality of Internet-based communications. *Ibid*.

¹³⁷ Particularly, Article 6(4), of the *Infosoc Directive* that was adopted to strike a balance between the protection of technological measures and exceptions and limitations to copyright and related rights.

¹³⁸ Article 6(1) of the *Infosoc Directive* provides that “Member States shall provide adequate legal protection against the circumvention of any effective technological measures, which the person concerned carries out in the knowledge, or with reasonable grounds to know, that he or she pursues that objective” whereas *WCT* and *WPPT* are silent on whether knowledge (know or should have known) of the infringement is a factor of importance. See also art. 16.4(7) of the *U.S.-Singapore FTA* that includes an objective standard of knowledge for a circumvention offense.

¹³⁹ T.Foged, “U.S. v. E.U. Anti-Circumvention Legislation: Preserving the Public’s Privileges in the Digital Age?” [2002] 24 (11) E.I.P.R. 524 [hereinafter Foged, “U.S. v. EU Anti-Circumvention Legislation”].

products or components or services which are of anti-circumvention nature¹⁴⁰. Article 6(3) of the Infosoc Directive provides for a definition of technological measures and effectiveness¹⁴¹ of such measures, making the object and standards of protection seem to be very similar with the ones in the U.S. DMCA (s.1201)¹⁴². Unlike the DMCA (s.1201) the given Article does not distinguish between access control and copy control technological measures¹⁴³. However, it is submitted that the Infosoc Directive does imply both types of devices given the definition of “effective” and the general tone of the Directive. The Directive contains no exceptions to the ban on circumvention controls on access. However it makes one significant concession to permitted use rights. Art. 6(4) of the Infosoc Directive provides that, in the absence of voluntary action by rightholders, Member states must “take appropriate measures to ensure that rightholders make available” to a person who has lawful access to a work protected by a copy control technological protection measures the means of exercising certain of the permitted use exceptions recognized in art. 5 of the Infosoc

¹⁴⁰ Art. 6.2, *Infosoc Directive*. See, Recital 48 of the Directive provides for some clarification stating that such legal protection should not prevent the normal operation of electronic equipment and its technological development. It should not imply any obligation to design devices, products, components or services to correspond to technological measures so long as such device, product, component or services does not otherwise fall under the prohibition of Article 6. It should not prohibit those devices or activities which have a commercially significant purpose or use other than to circumvent the technical protection. There is not any knowledge requirement and the provision is similar to the anti-trafficking provision in the U.S. Digital Millennium Copyright Act (s.1201, Public Law 105-304, 112 Stat. 2860, 2877 (October 28, 1998)), online: The Library of U.S. Congress at < <http://thomas.loc.gov/cgi-bin/query/z?c105:h.r.2281.enr>: >, date accessed: 27 May, 2004) [hereinafter *U.S. DMCA*].

¹⁴¹ Art. 6.3 of the *Infosoc Directive* defines technological measures as “any technology, device or component that, in the normal course of its operation, is designed to prevent or restrict acts, in respect of works or other subject-matter, which are not authorized by the rightholder of any copyright or any right related to copyright as provided for by law or the *sui generis* rights”, provided in *EC Database Directive*. The technological measures are deemed effective “where the use of a protected work or other subject-matter is controlled by the rightholders through application of an access control or protection process, such as encryption, scrambling or other transformation of the work or other subject matter or a copy control mechanism, which achieves the protection objective”. According to s.1201 (a)(2)(B) of the *U.S. DMCA*, a technological measure “effectively controls access to a work” if the measure, in the ordinary course of its operation, requires the application of information, or a process or a treatment, with the authority of the copyright owner, to gain access to the work”. See also art. 16.4(7)(b) of the *U.S.-Singapore FTA* for definition of effectiveness.

¹⁴² Foged, “U.S. v. E.U. Anti-Circumvention Legislation”, *supra* note 139.

¹⁴³ The *U.S. DMCA* (s.1201(a)(1)(A) and 1201(b)(1)(A)) distinguishes between two different categories of technological protection measures: those that prevent unauthorized access to a copyright work (access controls), and those that protect the exclusive rights reserved to copyright owners usually by preventing copying (copy control).

Directive¹⁴⁴. Yet the concession is of limited nature as the states' obligation to facilitate circumvention applies only to copy control and does not extend to all permitted acts and it does not apply to works or other subject-matter made available to the public (on demand) on agreed contractual terms, which excludes most commercial websites. The issue of exceptions is explored in detail below.

Article 7 of the Directive implements Article 12 of the WCT and Article 18 of the WPPT. It requires Member States to provide for adequate legal protection against any person knowingly and without authority removing or altering any electronic rights-management information or distributing, importing for distribution, broadcasting, communicating to the public or making available to the public of works from which electronic rights management information has been removed or altered if such a person knows, or has reasonable grounds to know, that by so doing he is inducing, enabling, facilitating, or concealing of use of the work and any numbers, or codes that represent such information¹⁴⁵.

2.3. Exceptions and Limitations under Infosoc Directive

The Infosoc Directive provides for complex provisions on exceptions. The establishment of these provisions was the most challenging exercise in the formation of the Directive. The Directive applies a rather restrictive approach to the exceptions¹⁴⁶. The only mandatory exception

¹⁴⁴ Comparing with the *U.S. DMCA*, s.1201 of the latter prohibits the act of circumventing an access control, and also bans trafficking in devices "primarily designed or produced" to circumvent either category of technological protection measures regardless of whether those devices are actually used for the purpose of infringing copyright. The prohibitions are subject to a short list of narrowly drawn exceptions which does not include the general fair use exception to copyright infringement. The *DMCA* purports to secure fair use rights by not prohibiting the act of circumventing a copy control measure. However, this concession is only illusory as these rights can be exercised only if there is no access control to a work, and even then the sweeping ban on trafficking denies fair users the technological means to circumvent a "stand alone" control on copying.

¹⁴⁵ Comparing with the *Infosoc Directive*, the *U.S.-Singapore FTA* expands the scope of new rights of authors and copyright owners against the removal or alteration of rights management information, in particular any person, who without authority and knowingly or having reasonable grounds to know that it will induce, enable, facilitate or conceal an infringement of any copyright or related rights, distributes, imports for distribution, broadcasts, communicates, or makes available to the public copies of works or phonograms, shall bear both civil and criminal liability, Art. 16.4.8. (iii), *U.S.-Singapore FTA*.

¹⁴⁶ Recital 44 of the *Infosoc Directive* in particular states "...The provision of such exceptions and limitations by Member States should, in particular, duly reflect the increased economic impact that such

envisaged in the Directive relates to temporary copying. Art. 5.1. of the Directive comprises “several undefined qualifications which limit the scope of the exception”¹⁴⁷. Thus, temporary acts of reproduction shall be exempted from the reproduction right in case (1) they are transient or incidental, (2) are an integral and essential part of a technological process, (3) whose sole purpose is to enable (a) a transmission in a network between third parties by an intermediary, or (b) a lawful use of a work or other subject-matter, and (4) which have no independent economic significance¹⁴⁸. Despite the fact that Recital 33 of the Directive extends the above exception to browsing of content and caching¹⁴⁹ these are not expressly permitted. What constitutes “an integral and essential part of a technological process” and what amounts to “no independent economic significance” also raises uncertainty. The Directive contains a long exhaustive list of optional exceptions, namely in Articles 5.2 and 5.3. The stipulated exceptions can be divided into two groups: those that relate to the reproduction right and those relating to the public communication right, added by provision of Article 5.3. (o) that sets out the exception to the use in certain other cases of minor importance, where exceptions or limitations already existed. Member States may or may not implement those in their domestic legislation.

exceptions and limitations may have in the context of the new electronic environment. Therefore, the scope of certain exceptions or limitations may have to be even more limited when it comes to certain new uses of copyright works and other subject-matter”. The *U.S.-Singapore FTA* contains general clause on limitations or exceptions to right of reproduction and of authorizing the making available to the public leaving it to the parties to determine the scope of these exceptions provided the *Berne* three-prong test is met (exceptions should be confined to special cases, which do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the rightholder). See art. 10, *U.S.-Singapore FTA*. The FTA also provides for exceptions to anti-circumvention provisions, namely in art. 16.4.7. (e), (f).

¹⁴⁷ M.Hart, “The Copyright in the Information Society Directive: An Overview”, [2002] 24(2) E.I.P.R. at 59.

¹⁴⁸ The given exception does not apply to computer programs or databases by virtue of Article 1.2 of the *Infosoc Directive*. But see, T.Hoeren, “The European Union Commission and Recent Trends in European Information Law” (2003) 29 Rutgers Computer & Tech. L.J. 1.

¹⁴⁹ Article 13 of the *Directive on electronic commerce* exempts ISPs from liability, for the automatic, intermediate and temporary storage of that information performed for the sole purpose of making more efficient the information’s onward transmission to other recipients of the service upon their request. However, the ISP must comply with a number of conditions..... “ISPs remain profoundly concerned that it places an unrealistic burden upon them to respond to complaints of infringement from all and sundry”. See *Directive 2000/31/EC of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market (Directive on electronic commerce)*, O.J. 17.7.2000, L 178/1. See also B.Hugenholtz, “Caching and Copyright: The Right of Temporary Caching” [2000] 22(10) E.I.P.R. 482.

Though the Infosoc Directive is “more far-reaching (comparing with the five previous Copyright Directives).... and marks an important stage in the endeavor to provide solutions to problems posed by technical developments...”¹⁵⁰ it is “by no means brings to an end controversy and debates over its subject”¹⁵¹. The Directive does not provide for solution as to how to regulate multimedia works, it does not clarify “whether hyper-linking and framing are forms of reproduction and so require a license to be lawful, it does not deal directly with the question of whether an Internet intermediary such as Napster¹⁵² may be liable for authorizing the infringement of others, and leaves it to the Directive on electronic commerce to provide the “safe harbour” escape should such liability be found to exist under the present national laws”¹⁵³. Issues of applicable law, administration of rights and moral rights are also out of the scope of the Directive¹⁵⁴. Thus, most of the important copyright problems of the digital environment are left unresolved. Hugenholtz notes that the Directive does not do much for authors as it is “primarily geared towards protecting the right and interests of the ‘main players’ in the information industry”¹⁵⁵. The UK approach in implementing the Infosoc Directive is discussed below.

3. Implementation of WCT and WPPT at National Level

3.1. UK Copyright, Designs and Patents Act

UK implemented the Infosoc Directive by adopting the Copyright and Related Rights Regulations 2003, which came into force on 31st of October 2003¹⁵⁶. While the Copyright, Designs and Patents Act 1988 (hereinafter CDPA) has already provided protection similar to

¹⁵⁰ Sterling, *World Copyright Law*, *supra* note 27 at 862.

¹⁵¹ Ch. Waelde & H. MacQueen, *The Scope of Copyright*, *supra* note 128 at 34.

¹⁵² *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001), discussed in details at note 203 *infra*. Comprehensive information regarding the case can be found online: Electronic Frontier Foundation homepage: < <http://www.eff.org/IP/P2P/Napster/> > (date accessed 31 May 2004).

¹⁵³ Ch. Waelde & H. MacQueen, *The Scope of Copyright*, *supra* note 128, at 35. See also, *supra* note 151.

¹⁵⁴ B. Hugenholtz, “Why the Copyright Directive is Unimportant, and Possibly Invalid”, [2000] 22(11) E.I.P.R. 499, at 501-502.

¹⁵⁵ *Ibid.*

¹⁵⁶ The text of Regulations are available online: UK Cabinet Office/Office of Public Sector Information Homepage < <http://www.opsi.gov.uk/si/si2003/20032498.htm> > (date accessed: 1 June, 2005)

many of the obligations contained in the Infosoc Directive, new Regulations amended the CDPA to bring it into more compliance with the Directive. The CDPA was largely consistent with Article 2 of the Infosoc Directive concerning the reproduction right. Thus, only one change to UK law in this area was made. In particular, s.182A of the CDPA was supplemented by a provision indicating that reproduction rights of performers extend to transient and incidental copying. The same provision with respect to authors' right has already been explicitly stated in the CDPA in s. 17 (2) and (6)¹⁵⁷.

The right to control any communication to the public, including making available right, redefined the exclusive right granted to the copyright owner to control broadcasting a work or including it in a cable program service¹⁵⁸. The right has a technologically neutral meaning, covering communication to the public by electronic transmission, including by means of a broadcast, and making available to the public of works in such a way so that members of the public may access them from a place and at a time individually chosen by them¹⁵⁹. Thus, the approach the UK legislature took was for the communication to the public right to subsume broadcasting right. Moreover, the term "broadcast (and broadcasting)" was redefined as relating to transmissions by any electronic means, by wire or wireless, which are for simultaneous reception by members of the public or for presentation to them but not of an on-demand type¹⁶⁰. Thus, apart from wireless transmissions of a broadcast character, the definition of "broadcasting" also includes cable transmissions of a broadcast character, resulting in no need to have separate

¹⁵⁷ s.17, *UK CDPA 1988*. Infringement of copyright by copying. (2) Copying in relation to a literary, dramatic, musical or artistic work means reproducing the work in any material form; (6) Copying in relation to any description of work includes the making of copies which are transient or are incidental to some other use of the work, *UK Copyright, Designs and Patent Act 1988* in A.Christie & S.Gare, *Blackstone's Statutes on Intellectual Property*, 6th ed. (Oxford University Press, 2003) [hereinafter *UK CDPA*].

¹⁵⁸ Regulation 6, The Copyright and Related Rights Regulations 2003, amending section 20 of the *UK CDPA*, online: UK Cabinet Office/Office of Public Sector Information Homepage < <http://www.opsi.gov.uk/si/si2003/20032498.htm> > (date accessed: 1 June, 2005).

¹⁵⁹ Technological neutrality of the right has been achieved as a result of amendments to section 6 of the *UK CDPA*.

¹⁶⁰ Implementation of the Copyright Directive (2001/29/EC) and Related Matter. Transposition Note, online: UK Patent Office Homepage < http://www.patent.gov.uk/copy/notices/2003/copy_direct3a.htm > (date accessed: 1 June, 2005).

category of exclusive right for cable programs transmission¹⁶¹. All internet transmissions that might otherwise fall within the scope of the new definition, other than internet transmission that have a broadcast character, such as ones that take place simultaneously on the internet and by other means, are excepted from the definition of “broadcast”¹⁶². Thus, on-demand transmission is included under the making available right¹⁶³. Beneficiaries of this new, more transparent and comprehensive right of communication to the public, defined in section 20 of the CDPA, are authors, phonogram producers and broadcasters. Performers were also granted an exclusive right to control “making available” to the public of a recording of a performance¹⁶⁴.

The only mandatory exception that the UK was to implement in its legislation was mandatory exception for technical copies contained in Article 5.1 of the Infosoc Directive¹⁶⁵. Thus, the CDPA has been amended to provide that temporary acts of reproduction of copyright works that are considered to be technical copies will not infringe a copyright holder’s exclusive

¹⁶¹ S.7, *UK CDPA 1988* (covering communication to the public by cable ceased to have effect).

¹⁶² These are internet transmissions, which (i) take place simultaneously on the internet and by other means (eg. conventional radio), or (ii) are live transmissions of events as they are taking place, or (iii) are transmissions of recorded moving images or sounds forming part of a service offering programmes at scheduled times determined by the service provider. S.6(1A) Regulations 4 and 5 of the Copyright and Related Rights Regulations 2003. Consultation paper on UK Implementation of Directive 2001/29/EC on Copyright and Related Rights in the Information Society: Analysis of Responses and Government Conclusions, online: UK Patent Office Homepage <<http://www.patent.gov.uk/about/consultations/eccopyright/>> (date accessed: 1 June 2005) [hereinafter *Copyright Regulations 2003*].

¹⁶³ Drafters in particular noted that obligations in Article 3 of the *Infosoc Directive* with respect to performers are different to those for authors, a new exclusive right for performers in relation to “on-demand services” was introduced. “In line with the adjustments to authors’ rights indicated above [communication to the public right covering broadcasting right and making available right] the Government has decided to express this right as a right of “making available”. *Ibid.*

¹⁶⁴ Regulation 7 of the *Copyright Regulations 2003* introduced new section 182 CA, according to which performers’ rights are considered to be infringed in case a person makes available to the public a recording of the whole or any substantial part of a qualifying performance by electronic means in such a way that members of the public may access the recording from a place and at a time individually chosen by them without consent of the performer.

¹⁶⁵ Only some amendments were made to the *UK CDPA* regarding optional exceptions provided in Art. 5.2, 5.3. of the *Infosoc Directive*. The most significant changes are more restrictive scope of fair dealing right in respect of research (extended only to non-commercial research) and private study (extended only to study which is not directly or indirectly for a commercial purpose” (s.29); new provisions allowing lawful users of a computer program to observe, study and test the functioning of the program while performing any of the permitting acts of loading, displaying, running, transmitting or storing the program (s. 50BA); fair dealing for the purpose of criticism, review and news reporting only applies when the work has been lawfully made available to the public by any means (s.30); recording for the purposes of time shifting has been restricted to recording taking place “in domestic premises” (s.70).

reproduction rights¹⁶⁶. Computer programs and databases are explicitly excluded from the scope of exception¹⁶⁷.

The UK particularly expressed its concerns with respect to obligations as to technological protection measures under the Infosoc Directive as the CDPA has already stipulated for protection of technological protection measures applied to computer programs¹⁶⁸. Thus, difficulties in applying two different regimes were anticipated, “especially as it may not always be clear whether or not a work is a computer program, and as computer programs may themselves be used as TPMs on other forms of works”¹⁶⁹. Despite the need and calls from interested parties to clarify the interface between the regimes under two Directives, “particularly in relation to the “reverse engineering” exception in Directive 91/250/EEC [of 14 May 1991 on the legal protection of computer programs]”, the UK Government left the solution of these issues for the courts. Given the above difficulties in implementing the Article, the UK approach was: to retain the existing provisions in respect of computer programs, though amending their style¹⁷⁰; and to introduce new sections 296ZA-ZF that deal with technological measures protection in relation to works other than computer programs; create a new offence in relation to dealing in devices and services which circumvent effective technological measures, and set out definitions of

¹⁶⁶ Pursuant to s.28A, *UK CDPA* temporary act of reproduction will qualify for exception if it is an “integral and essential” part of a technological process; has the sole purpose of enabling transmission of the work in a network or a lawful use to be made of the work, and has “no independent economic significance”. Similarly to the *Infosoc Directive*, *UK CDPA* does not provide any guidance on the meaning of “integral and essential” and “no independent economic significance”, thus leaving it for interpretation by courts. See *supra* note 157.

¹⁶⁷ “The reason for this was a desire to avoid unraveling the hard-fought-out compromise relating to reverse engineering achieved in the Computer Programs Directive”. Hart M. and S.Holmes, “Implementation of the Copyright Directive in the United Kingdom” [2004] 26(6) E.I.P.R. 254.

¹⁶⁸ As it is stated in Recitals 20 and 50, *Infosoc Directive* harmonized legal protection of technological measures (in particular Art.6 of the *Infosoc Directive*) should not apply to the protection of technological measures used in connection with computer programs, which is exclusively addressed in Art. 7.1 (c) of *Directive 91/250/EEC of 14 May 1991 on the legal protection of computer programs* [hereinafter *EC Computer Programs Directive*]. However, Article 6 of the *Infosoc Directive* does apply to rights in databases. See also, Recital 48, *Infosoc Directive*.

¹⁶⁹ Consultation paper on UK Implementation of Directive 2001/29/EC on Copyright and Related Rights in the Information Society: Analysis of Responses and Government Conclusions, online: UK Patent Office Homepage < <http://www.patent.gov.uk/about/consultations/eccopyright/> > (date accessed: 1 June, 2005).

¹⁷⁰ S.296, *UK CDPA 1988*.

“technological measures” and “effective” consistently with requirements of Article 6 of the Infosoc Directive. Obligations as to the protection of electronic rights management information, being an entirely new area for UK copyright law, were implemented by introducing section 296ZG.

3.2. Russian Copyright Legislation

The Russian Federation introduced amendments to its Copyright Law in June 2004¹⁷¹. The main motivation behind the new amendments was compliance with Berne Convention¹⁷² and TRIPS Agreement. Russia is not yet a WTO member, but has signed a Partnership and Cooperation Agreement between the Russian Federation and European Union and its member countries¹⁷³. Russia is not a member of WIPO Internet Treaties. Nevertheless the recent amendments take into account the major provisions of WCT and WPPT, though the so-called Internet-law provisions will enter into force only on September 1 2006.

A new making available to the public right was added to Article 16 of the Copyright Law. The right is defined as the right to “communicate a work to the public in such way that any

¹⁷¹ Original law of the Russian Federation “On Copyright and Related Rights” (of June 9th 1993, No.5351-1) was amended by the Federal Law of the Russian Federation “On Introducing Changes into the Law of the Russian Federation “On Copyright and Related Rights” in 2004 (on July 20th 2004, No. 72-Ф3), and entered into force on July 28th 2004 except for the so-called Internet-law provisions that pursuant to art.2.2 of the Federal Law of the Russian Federation “On Introducing Changes into the Law of the RF “On Copyright and Related Rights” shall enter into force on September 1st, 2006 [hereinafter *Russian Copyright Law 2004*]. Here and throughout the text, Russian sources of information are translated by the author.

¹⁷² When Russia joined the Berne Convention in 1994, she notified the WIPO General Director that “the Berne Convention shall not cover works that were in the public domain in the territory of the Russian Federation as of the date of accession to the Convention.” Thus the 1993 Russian Copyright Law provided that public domain works included not only the works whose term of copyright protection expired, but also works that have never enjoyed copyright protection in the Russian Federation. This provision was inconsistent with arts.7 and 18 of the Berne Convention. The provision was amended in the Russian Copyright Law in 2004. See also, Л.И.Подшибихин и К.Б.Леонтьев, Реализация в Российской Федерации положений Бернской конвенции об охране литературных и художественных произведений [L.I.Podshibikhin & K.B.Leontiev, Implementation of provisions of Berne Convention for Protection of Literary and Artistic Works in the Russian Federation], online: Internet-portal “Copyright Law in Russia” < <http://www.copyright.ru/publ-412.html> > (date accessed: 7 January 2005).

¹⁷³ Russian Federation is member of the Berne, Universal Copyright Convention, Geneva Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of their Phonograms 1971 (Accession date for the three conventions is 3 November 1994). The USSR was member of the UCC since 27 May 1973, whereas the rest conventions entered into force in Russia on 13 March 1995. Partnership and Cooperation Agreement was signed on 24 June 1994 and entered into force only on 1 December 1997, online: The EC Delegation to Russia Homepage < http://www.delrus.cec.eu.int/en/p_243.htm > (date accessed: 7 January 2005).

person may access the work in interactive regime from a place and at a time individually chosen by him”¹⁷⁴. The new right shall exist alongside the right of communication to the public by cable and the right of broadcasting. “Communicate” according to Article 4 of the Copyright Law means “to show, perform, or broadcast or engage in any other act (except for the distribution of copies of the work or phonogram) whereby the works, phonograms, performances or programs of broadcasting or cable distribution organizations are made audible or visible, whether or not they are actually perceived by the public.” Though, in principle, making available right falls within the scope of the definition “communicate”, clearer language in the definition is preferable¹⁷⁵. Performers and phonogram producers were also granted the making available right¹⁷⁶. No amendments were made to the reproduction right. The Law defines reproduction as making of one or more copies of the work or of part of a work in any form, including the form of a sound or visual recording, or the making of one or more three-dimensional copies of a two-dimensional work, or one or more two-dimensional copies of a three-dimensional work. The storage of a work in a computer memory also constitutes reproduction¹⁷⁷.

Only one exception was added to the list of permissible uses of works without consent of an author and without payment of remuneration: public lending of legitimate copies of works is allowed by libraries without consent of the author and payment of remuneration. Lending of copies of works in digital format may take place only in the premises of libraries provided any conditions for a possibility to create copies of such works in digital format are excluded¹⁷⁸.

¹⁷⁴ Art.16, *Russian Copyright Law 2004*.

¹⁷⁵ There was a proposal to consolidate broadcasting right and right of communication to the public by cable under a general right of communication to the public, which would also include making available right. However, the proposed amendment was not passed. Proposals on introducing changes and additions to the Law of the RF “On Copyright and Related Rights” submitted for consideration of State Duma on 27 December 2001 by member of the State Duma, V.Ya. Komissarov and members of the Committee on Culture of the State Duma, online: Internet-portal “Copyright Law in Russia” <http://www.law.copyright.ru/lawprojects.html> > (date accessed: 7 January 2004)

¹⁷⁶ Art. 37.2. (6), Art. 38.2.(5), *Russian Copyright Law 2004*.

¹⁷⁷ Art. 4, *Russian Copyright Law 2004*. Storage in computer memory was considered to be reproduction in original 1993 Russian Copyright Law, thus no amendments were introduced in 2004.

¹⁷⁸ Art. 19.2, *Russian Copyright Law 2004*.

Exceptions to the reproduction right include reproduction of a work for private purposes¹⁷⁹, use of short excerpts in review of current events; use of the work exclusively for educational or scientific purposes; citation of short excerpts for informational purposes¹⁸⁰; for judicial purposes¹⁸¹, and etc.¹⁸². Russian Copyright Law contains new provisions on technological protection measures¹⁸³ and right management information¹⁸⁴.

Given the analysis above, it is clear that international legislation provides rather general guidelines for national governments, and subsequently for all the stakeholders of copyright, as to clear scope of rights applicable in online regime. However, too general guidelines lead to too much discretion and confusion for the national governments in developing their domestic

¹⁷⁹ Computer programs and databases are regulated by both Copyright Law and Law of the Russian Federation “*On Legal Protection of Computer Programs and Databases*” of September 23 1992, No 3523-1. [hereinafter *Russian Software Law*]. Resolution on effectuation of the *Russian Copyright Law 1993* specifically provided that normative acts adopted prior to the date of effectuation (June 9 1993) of the Copyright Law shall be applied only in part not contradicting to the new law. Thus, despite several concerns expressed earlier as to priority of Software Law (being special law and having the priority), provisions of the Copyright Law will prevail. Article 18(2) of the *Russian Copyright Law 2004* states that reproduction of a work for private purposes does not cover databases and significant parts thereof, and computer programs except for certain cases. The latter are stipulated in Article 25 of the *Russian Copyright Law 2004* and Article 15 of the *Russian Software Law*, namely making back-up copies, loading computer programs and adapting them for use on a specific computer and reverse engineering constitute legitimate free use.

¹⁸⁰ Art. 19, *Russian Copyright Law 2004*.

¹⁸¹ Art.23, *Russian Copyright Law 2004*.

¹⁸² Art. 22 of the *Russian Copyright Law 2004* allows public performance of music during official and religious ceremonies within the scope justified by such ceremonies. Art. 24 stipulates for free recording for short-term use by broadcasting organizations.

¹⁸³ Article 48.1 of the *Russian Copyright Law 2004* defines technological protection measures as any technological devices or components thereof controlling access to and preventing or restricting acts, in respect of works or related right subject matter which are not authorized by the rightholder. The prohibited acts pursuant to art. 48.2 of the Law are as follows: acts aimed at circumvention of technological measures without authorization of the rightholder; manufacture, distribution, rental, granting for temporary free use, import, advertisement of any device or components thereof, their use for receiving income or the provision of services which as a result of such acts prevent the use of technological protection measures of works and related rights subject matter, or if these technological measures are not able to provide proper protection of the rights above.

¹⁸⁴ Pursuant to art. 48.2 of the *Russian Copyright Law 2004* any information that identifies a work or related right subject matter, an author, related rights rightholder or any other owner of exclusive rights, or information about the terms of use of the work or related right subject matter, which is indicated on a copy of a work or related right subject matter, attached thereto or appears in connection with communication of a work to the public or making a work available, as well as any numbers and codes that represent such information. The prohibited acts are removal or alteration of the above information on copyright and related rights, as well as reproduction, distribution, importation for distribution, public performance, communication and making available to the public of works or related rights subject matter from which information on copyright and related rights has been removed without the authority.

legislation¹⁸⁵. The national legislation is indeed structurally complex and suffers from gaps and uncertainty as to accommodating different interests of various copyright stakeholders. But then the question arises, what are those interests, and why is it so difficult to accommodate them, and to find equilibrium in the copyright interface between all the parties?

4. Internet and Copyright Challenges from Perspective of Copyright Stakeholders

Prior to discussing interests and concerns of copyright stakeholders, the main actors of the “digital copyright battle” should be identified. Digital technologies have expanded a number of stakeholders in copyright area. Traditional parties involved, such as, copyright owners, copyright users, representatives of music, film, publishing industries, collecting societies, broadcasters have been since recently joined by representatives of IT hardware and software industries, computer electronics and telecommunications industries, and Internet service providers¹⁸⁶. Accordingly, each of stakeholders involved in the “infotainment” chain¹⁸⁷ is facing its own problems and trying to pursue its own interests.

4.1. Fears of Authors? Greed of Copyright Owners?

As mentioned earlier digital technologies disturb the balance not only between authors and users, but also the balance within the “copyright camp”, namely between individual authors and copyright owners. Though it is often assumed that the interests of authors are the same as

¹⁸⁵ A good example is *EU Infosoc Directive*, and its implementation in EU member countries, in particular, UK.

¹⁸⁶ Perhaps the most prime example of rapid expansion of intermediaries under the influence of technology development are Internet intermediaries involved in hosting, storage of transmission of information. These may include, but not limited to online sellers and distributors of goods and services, like Amazon, and online auction sites, like Ebay and Yahoo!; software and game providers, like Nintendo and Microsoft, who make their products available for download online; virtual information providers, like *The Register*, traditional media organizations in digital form, like *New York Times*; weblogs or online diaries, such as Blogger or Livejournal; universities; libraries offering access to digital content, as well as Internet communications intermediaries, such as Internet backbone providers, cable companies and mobile phone communications providers. See Ch.Waelde & L.Edwards, “Online Intermediaries and Liability for Copyright Infringement”, WIPO Seminar on Copyright and Internet Intermediaries, WIPO/IIS/05/1, 13 April, 2005, online: World Intellectual Property Organization Homepage < http://www.wipo.int/meetings/2005/wipo_iis/en/presentations/doc/wipo_iis_05_ledwards_cwaelde.doc > (date accessed: 11 June 2005) [hereinafter Ch.Waelde & L.Edwards, “Online Intermediaries and Liability”].

¹⁸⁷ The term is used in the Special Report on Intellectual Property in the Digital Era. T.Black, *Intellectual Property in the Digital Era. Special Report* (London: Sweet & Maxwell, 2002).

copyright owners, it is often not the case. In the majority of situations, individual authors assign their rights to copyright owners, such as music publishers, publishing companies, movie studios. Digital technologies serve as a stick and carrot for authors: on one hand, Internet gives them a possibility to distribute their works without the help of traditional intermediaries. However, so far only a few authors and artists have tried to do that by their own forces, and their attempts have not always been successful¹⁸⁸. On the other hand, they face an increasing number of ways to misappropriate their creations on the Internet. In this case it is almost impossible for authors to enforce their rights on an individual basis. It is likely that authors will continue remaining as the weakest link in the information and entertainment chain, depending on music publishers, publishing houses and others in marketing and exploiting their works, and on collecting societies in administering, enforcing their rights and collecting remuneration.

A possibility to exploit works online leads to a situation when the author loses control over dissemination of his work once he publishes his material on a web-site. Furthermore, the work in digital format may be easily removed or manipulated in various and endless ways. Thus, the author faces threats of unauthorized divulgence of his works, their distortion, violation of author's identity, i.e. violation of his moral rights. On the other hand there is a view that moral rights can grant authors more bargaining power, which has been historically in the hands of copyright owners and their licensees, as to the manner of exploiting authors' works on the Internet: moral rights of authors can act as "a force for equality in authors' dealings with media entrepreneurs and distributors"¹⁸⁹. Moreover, violation of moral rights is not exclusive to the Internet problem, the exclusivity is in the ease with which the author's work can be compromised. In this regard, right management information could be of significant help for authors and give

¹⁸⁸ In July 2000, Stephen King became one of the first authors to experiment in publishing his books only on Internet. He made a portion of his novel, *The Plant*, available for download at <<http://www.stephenking.com>> King charged 1usd to download each of the first three installments in the serial and 2usd per download for installments IV, V and VI. Originally King said he would keep writing if readers kept paying. By part four, only 46 percent of the people who downloaded the book paid for it. The current web-site though does not contain any e-books of the author.

¹⁸⁹ D.Vaver, "Moral Rights Yesterday, Today and Tomorrow" (2000) 7(3) I.T.L. & IT 271.

them some say over the manner their works are exploited. However, it does not mean that authors will occupy equal position with copyright owners. *Copyright owners* are and will be increasingly interested in exploiting works online *provided* they have unfettered right to exploit these rights, not subject to the moral rights of authors. Thus, moral rights represent a potential area of clash of interests within the copyright camp, i.e. authors and copyright owners.

The fact that at the legislative arena, relatively little attention has been paid to the issue of moral rights does not favor authors. Moral rights were recognized in Berne during its Rome Revision in 1928¹⁹⁰. TRIPS, however, specifically lifts the requirement of its member states to observe Article 6 *bis* of Berne. The WCT requires contracting parties to follow Articles 2-6 of the Berne Convention, but no word is said about moral rights¹⁹¹. The WPPT (Article 5) though provides for introduction into the national legislations (where not already enacted) moral rights for performers with respect to their live aural performances and those fixed in phonograms. However, no moral rights are stipulated by the DMCA and Infosoc Directive¹⁹². While it is evident that the area of moral rights is to change, it is still unclear “what shape should the “new moral rights” take?”¹⁹³ Some scholars propose to limit the extent of moral rights, others see the solution in contractual adjustment to moral rights¹⁹⁴. Still others see that “the only practical way

¹⁹⁰ Article 6*bis* of the Berne Convention stipulates that the author shall have the right to claim authorship of the work and the right to object to any distortion, mutilation or other modification of, or other derogatory action in relation to the work which would prejudice his honor or reputation, i.e. the right to claim paternity and the right to the work’s integrity.

¹⁹¹ Moral rights were included for the first time in the Berne Convention (Rome Revision 1928).

¹⁹² The *Infosoc* Directive mentions moral rights only in Recital 19, stating that moral rights should be exercised according to the national legislation, the Berne, and WIPO Internet treaties, and that they remain outside the scope of the Directive.

¹⁹³ G. Lea, “Moral Rights and the Internet: Some Thoughts from Common Law Perspective” in F.Pollaud-Dulain, ed., *Perspectives on Intellectual Property: The Internet and Authors’ Rights* vol. 5 (London: Sweet & Maxwell: 1999) at 101.

¹⁹⁴ A. Francon, “Protection of Artists’ Moral Rights and the Internet” in F.Pollaud-Dulain, ed., *Perspectives on Intellectual Property: The Internet and Authors’ Rights* vol.5 (London: Sweet & Maxwell: 1999) at 101; P. Torremans, “Moral Rights in the Digital Age” in I.Stamatoudi, P.Torremans, eds., *Perspectives on Intellectual Property: Copyright in the New Digital Environment: The Need to Redesign Copyright* vol. 8 (London: Sweet & Maxwell: 2000) at 97.

of ensuring effective recognition of moral rights in the digital context... [is the] internationally linked administration societies, duly mandated by the respective rightowners”¹⁹⁵.

Leaving aside the moral rights discussion, the fact remains that in the majority of cases economic rights belong to copyright owners, rather than authors. Given the analysis of international and national copyright legislation above, there are two rights, involved in disseminating the work online, namely, the right of reproduction and the right of communication to the public. Thus, a question arises: who owns these rights to reuse the work in electronic form? In case an author assigned his reproduction right to the publishing company, does this mean that he assigned all his reproduction rights, including electronic reproduction rights? Some countries have statutory limitation on assignment of rights unknown at the moment of conclusion of a contract¹⁹⁶. Thus, in case author assigned his reproduction right in 1980, and in 2004 new amendments to the Copyright law were introduced granting him making available right, it means that the author owns the making available right rather than the publishing company. Courts also seem to agree that “absent clear contractual language to the contrary, authors have granted only one-time, single-medium rights in their works, and have retained all rights in respect of any subsequent uses in new media”¹⁹⁷. However, as a response copyright owners have started redrafting their standard contracts so as to secure the electronic rights and sometimes leaving the

¹⁹⁵ J.A.L.Sterling, “Philosophical and Legal Challenges in the Context of Copyright and Digital Technology”, IIC, Vol. 31, No 5/2000, at 523. (referring to the precedent of administration of moral rights by collecting society in Germany, where German photographers mandated their moral rights to the administration society Bild-Kunst at note 20)

¹⁹⁶ For instance, art. 31.2 of the *Russian Copyright Law 2004* stating that the author’s contract may not relate to exploitation rights that are not known at the time of its conclusion.

¹⁹⁷ P.B.Hugenholtz, and A. M.E. de Kroon, “The Electronic Rights War. Who owns the rights to new digital uses of existing works of authorship?”, online: University of Amsterdam, Institute for Information Law Homepage: <<http://www.ivir.nl/publications/hugenholtz/e-rights.html>> (date accessed 22 June 2004) (provides an overview of the most interesting case law in Europe and U.S. with respect to disputes over the ownership of electronic rights) [hereinafter P.B. Hugenholtz & A.M.E. de Kroon, “The Electronic Rights War”].

author no choice as to retaining the electronic rights for himself or assigning them to another publisher¹⁹⁸.

Online distribution of music is probably one of the best examples of the technology impact¹⁹⁹, failure of individual rightowners' enforcement efforts²⁰⁰, and the shortsightedness of the copyright owners and/or intermediaries involved in distribution²⁰¹. As Litman argues following the U.S. history of copyright law's treatment of music, music industries are bound and determined to prevent what happened with jukeboxes in the late 1920-s²⁰², and it seems that the best strategy they use is litigation. The recent disputes, involving *Napster*²⁰³, *MP3.Com*²⁰⁴,

¹⁹⁸ A.Terry, "Tasini Aftermath: The Consequences of the Freelancers' Victory", 14 De-Paul-LCA J.Art. & Ent.L. 231 Spring 2004.

¹⁹⁹ "The relatively small size of the digital music files coupled with emerging compression technology with advances in CD copying technology and with expanding hard drives, make music a perfect candidate for downloading. Distribution of songs also gave users an option of customization that they had long desired and at a price that couldn't be beat", R. Kasunic, "Solving the P2P "Problem"", online: Stanford University Libraries and Academic Information Resources < <http://fairuse.stanford.edu/index.html> > (date accessed: 22 June 2004).

²⁰⁰ Despite the fact that RIAA announced war against music sharers in 2003 (full coverage of the RIAA up to date is provided online: Electronic Frontier Foundation Homepage < <http://www.eff.org/share/> > (date accessed: 7 July 2004), it couldn't stop music piracy online. According to Pew Internet Project Web survey of musicians and songwriters in the U.S., conducted from March 15 - April 15, 2004, many musicians and songwriters do not think the RIAA campaign against free file sharing on the Internet will benefit them. Preliminary findings of the survey are available online: Future of Music Coalition Homepage < <http://www.futureofmusic.org/research/datamemo.cfm> > (date accessed 31 August 2004).

²⁰¹ T.C.Vinje, D.Paemen, & J.Romelsjo, "Development of Online Music Market: A European Perspective" (2003) *The Computer & Internet Lawyer*, Vol.20, No 12. (noting that authors and performers today seldom retain their rights in any musical work or sound recording, transferring economic rights to a music publisher, who in turn entrusts the management of these rights to a collecting society. Thus, online music providers usually have no alternative source other than proceeding through collecting societies for the performance rights of authors, but collecting societies fail to adapt to new technology and new opportunities for providing music on the Internet, which ultimately results in an unfulfilled and constantly growing consumer demand). However, some music publishers prefer not to join collecting societies, thus retaining their rights and making profit from using it. This issue is discussed in Chapter 3, *infra*.

²⁰² J.Litman, "War Stories" (2002) 20 *Cardozo Arts & Ent. L.J.* 337 (referring to invention of jukeboxes with amplified speakers in 1920s and exemption in the copyright law for public performance on coin operated machines, which jukebox was, and failure of ASCAP in issuing licenses and collecting royalties) [hereinafter Litman, "War Stories"].

²⁰³ Several record labels sued Napster in December 1999 in the U.S. District court, Northern District of California. The plaintiff claimed that through its peer-to-peer file-sharing system Napster was liable, *inter alia*, for contributory copyright infringement and unfair competition against the rightowners. The decision of the district court was affirmed by the Court of Appeals of the Ninth Circuit, which agreed with the district court that, while Napster itself does not copy and distribute MP3 files, it engaged in activities that facilitate its subscribers to do so. Thus, it was held that these activities *prima facie* contributed to copyright infringement by consumers who uploaded the file names of copyrighted recordings onto the Napster search index (violation of distribution right), as well as to copyright infringement by consumers, who downloaded such recordings (violation of reproduction right). The Court denied all four factors of the Napster's appeal

*Reimerdes*²⁰⁵, *Grokster*²⁰⁶, and others illustrate both the current debate between copyright optimists and copyright pessimists, and the strength and greed of copyright owners. In the *Grokster* case the plaintiffs, a group of motion picture corporations and the Recording Industry Association of America (RIAA) filed suit against Grokster and StreamCast (Morpheus), both P2P software developers, for copyright infringement as in *Napster*. The district court, in granting defendants motion for summary judgment held that because neither Grokster nor StreamCast provides ‘the site and facilities’ for direct infringement as in *Napster*, but instead relied on the defendants’ software (non centralized network). The court found that after downloading the software users only had minimal relationships with the defendants, such that the relationships did not amount to a material or substantial contribution on the part of the defendants. Thus, Grokster could not be held liable under a contributory theory. Also because the network was decentralized and independent of defendants, the district court determined that there was no obligation to police the networks and the defendants could not control the behavior of its users, thus the defendants escaped liability for copyright infringement by their end users under vicarious liability theory²⁰⁷.

to fair use defense. The Ninth Circuit Court upheld the district court’s finding that Napster might be contributory liable basing its arguments on the actual and constructive knowledge of the infringing conduct with Napster’s assistance, and its ability to prevent its users from copying and distributing infringing material, in contrast to VCR manufacturers. The Court also held Napster to be vicariously liable for copyright infringement, since it was considered to have the right and the ability to supervise the infringing activity and to have a direct financial interest in them. The Court held that the district court was correct in not applying time-shifting argument used in *Sony* (*supra* note 34) or *Diamond Multimedia* (*RIAA v. Diamond Multimedia Systems Inc.*, 180 F.3d (9th Cir. 1999)). See *A&M Records v. Napster*, *supra* note 152.. For further analysis, see online: Electronic Frontier Foundation Homepage <http://www.eff.org/IP/P2P/Napster/20010226_rgross_nap_essay.html>. Shutting down of Napster did not bring, however, P2P music trading to its end. See footnote 206, *infra*.

²⁰⁴ *Universal Music Group Recordings Inc. v. MP3.com Inc.*, 92 F.Supp.2d 349, 352 (S.D.N.Y. 2000). See also J.Ginsburg, “Copyright Use and Excuse on the Internet”, (2000) 24 Colum.VLA.J.L. & Arts 1, at 22-29 [hereinafter Ginsburg, “Copyright Use and Excuse”].

²⁰⁵ *Universal City Studios, Inc. v. Reimerdes*, 111 F.Supp.2d 346 (S.D.N.Y. 2000) (In short, the Court upheld anti-circumvention provisions of the *DMCA*: it found *prima facie* case of violation of prohibition on dissemination of devices primarily designed to circumvent access control, it held that defendants did not qualify for exemptions, dismissed fair use defense of defendants and the latter’s invocation of the First Amendment). See also Ginsburg, “Copyright Use and Excuse”. *Ibid*.

²⁰⁶ *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.* 125 S.Ct. 2764 (2005).

²⁰⁷ Napster used a specific type of P2P architecture known as a centralized framework, where request for files goes through a central server, while actual file transfers are conducted between individual peers. Second-generation P2P software, the most popular, of which is KaZaa uses a different architecture, known as a hybrid framework or a controlled decentralized framework. In a hybrid or controlled decentralized

Decision of the District Court to grant summary judgment was upheld by the Ninth Circuit Court of Appeals. However, the case was appealed to the U.S. Supreme Court, where the Court, reversing, found that “One who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression and other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties...”. In so deciding, the Court left the landmark *Betamax* case untouched, instead adopting an inducement rule, noting that *Betamax* decision does not provide shelter for promoters of copyright infringement. According to the Court, Grokster and StreamCast were both aware that users employed their software primarily to download copyrighted files. The facts revealed that when the defendants began distributing their software each company actively encouraged its users to use the products to download copyright works. “*Betamax's* rule limits imputing culpable intent, as a matter of law, from the characteristics or uses of a distributed product. But nothing in *Betamax* requires courts to ignore evidence of intent if there is such evidence, and the case was never meant to foreclose rules of fault-based liability derived from the common law.” Thus, the Supreme Court ruling in *Grokster* clears the way for movie and music companies to sue P-to-P distributors and remanded the case to the district court for a trial on the merits. Indeed, the romantic image of an author of 18th century is fading as copyright acquires as ever increasing entrepreneurial and commercial flavor. As Hugenholtz notes “fear turns to greed where right holders discover that the digital environment creates novel and potentially unlimited possibilities to extract value, down to the last half penny and the very last bit, from copyrighted works”²⁰⁸.

framework, a computer with high performance and bandwidth may be selected to be a “supernode” that contains information on what files are available for sharing on a number of connected computers. When a computer wants a file, it queries a supernode, and that supernode queries other supernodes for a file’s location. Once the location is known, the supernode relays that information back to the querying computer and then that computer sets up a P2P transfer with the computer that has the file. See Jie Lu & Jamie Callan, Content-Based Retrieval in Hybrid Peer-to-Peer Networks, Proceedings of the Twelfth International Conference on Information and Knowledge Management 199-206 (2003) online: Association for Computing Machine Digital Library at <<http://portal.acm.org/citation.cfm?id=956903&dl=ACM&coll=GUIDE>> (date accessed: 1 January 2005)..

²⁰⁸ P.B.Hugenholtz, “Fear and Greed in Copyright City”, IMPRIMATUR: Fourth Consensus Forum. *Contracts and Copyright: The Legal Framework for Future Electronic Copyright Management* (London,

Is there any remedy to cure the greed? What are fears of other stakeholders at the copyright interface? Copyright users have shown several attempts to import the existing fair use doctrine into the digital context, however they have not been successful yet. What arguments do they bring forward? What legal challenges do they face with the advent of digital technologies?

4.2. Copyright Users' Concerns: Will Fair Use Survive?

Users of copyrighted material are marching along the Information Superhighway under the slogan "Information wants to be free". They are concerned with overprotection caused by expansion of rights, the increased term of copyright protection, and by new provisions on anti-circumvention technology. For them, the long established fair use or fair dealing practice is being diminished, thereby impeding users' ability to access the information freely. The best illustration of shifting the balance of copyright owners vs. users, in favor of the former, is saga behind the extension of copyright term of protection in the United States. Much of the argument for extension was driven by copyright film industries, who worried that with expiring terms, many famous works including "Mickey Mouse", "Donald Duck" and "Goofy" would soon be in the public domain.

Following the European example, notably extension of the copyright term protection by establishing uniform period of protection for authors of 70 years pma²⁰⁹, the United States in 1998 extended the general term of copyright from 50 to 70 years following the death of the

July 2-3, 1998), online: University of Amsterdam, Faculty For Informational Law Homepage < <http://www.ivir.nl/staff/hugenholtz.html> > (date accessed: 7 July, 2004).

²⁰⁹ *EC Council Directive 93/98/EEC of 29 October 1993 harmonizing the term of protection of copyright and certain related rights*, known as EC Term Directive, provides for a uniform period of protection for authors of 70 years pma [hereinafter *EC Term Directive*]. The duration of the related rights of performers, producers of phonograms and films and broadcasting organizations were fixed at 50 years from the relevant starting point for the calculation of the term. The Directive harmonized the protection term upwards to the longest period of protection in any member state despite the fact that only three of the then 12 member states previously protected certain works for longer than life + 50y. (France, 70 years for musical works only; Germany and Spain – 70 and 60 years for literary, artistic and musical works). Apart from biological justification of longer life expectancy and the desire to protect the interests of the author's direct descendants for two successive generations, the EC Commission stressed the need to harmonize copyright and related rights at a high level of protection, whereas the principal concern of the Commission was to harmonize the period of protection throughout the Community in view of the completion of the Common Market.

author²¹⁰. However, the Copyright Term Extension Act faced a constitutional challenge. In *Eldred v. Ashcroft*²¹¹ the petitioners claimed that they were harmed because of the delay the CTEA now imposed upon works coming into public domain, which adversely affected their ability to use and build upon content²¹². The Court found that the Act neither exceeded Congress' power under the Copyright Clause, nor violated the First Amendment²¹³. It is interesting to note that both U.S. and EU supporters and lobbyists for the extension of copyright brought the same arguments, one of the strongest of which was a need for harmonization²¹⁴.

Users are particularly concerned that under modern conditions creators often have no resources or channels of distribution to disseminate their works, instead they have little choice but

²¹⁰ Public Law 105-298, The Sonny Bono Copyright Term Extension Act of 1998, online: U.S. Library of Congress < <http://thomas.loc.gov/cgi-bin/query/z?c105:s.505.enr>: > (date accessed 27 May 2004) [hereinafter *CTEA*]

²¹¹ *Eldred v. Ashcroft*, 123 S.Ct. 769, 65 USPQ 2d 1225 (2003).

²¹² They argued that the problem was not the application of the Act to newly created works, but its enlargement of the term of existing published works, especially those that were shortly to fall into public domain. The petitioners based their arguments on Copyright and Patent Clause of the U.S. Constitution. They, firstly, submitted that the Act exceeded the "limited Times" requirement with respect to the existing works, they also argued that the Act did not promote the Progress of Science and that it violated the *quid pro quo* rationale of the monopoly rights given in exchange for later public benefit. Secondly, the petitioners submitted that the Act violated the First Amendment right to free speech.

²¹³ There were, however, two strong dissents from the majority of judgment. Justice Stevens found that the Act was invalid as "it purported to extend the copyright term of unexpired copyrights" and dissented with the majority's view that the court had no role in reviewing the constitutionality of copyright and patent legislation. Justice Breyer's dissenting view went even beyond the submissions of the petitioners. He held that the *CTEA* was unconstitutional not only with respect to existing works, but also with respect to the future ones. He held that the effect of the copyright extension was to make the copyright term virtually perpetual and that it would not promote but rather inhibit the progress of Science and useful Arts. He stated: "It is easy to understand how the statute might benefit the private financial interests of corporations or heirs, who own existing copyrights. But I cannot find any constitutionally legitimate, copyright-related way in which the statute will benefit the public".

²¹⁴ In fact, disharmony between the legislation of the two countries still exists. The best example is film. Film rights today are the most valuable due to the ongoing commercial value of popular and classic films. The number and size of the markets for film mean that film back-libraries are extremely valuable to the large film companies with extensive collections. MGM recognized this in 1999, when it began buying back the video and DVD rights it had sold to Warner Brothers in 1990. The *EC Term Directive* provides expansive protection for films. The Directive introduced four-person measure whereby copyright duration is calculated from the death of the last of certain persons associated with the film: the principal director, author of the screenplay, author of the dialogue and composer of the music. In the U.S. a film is most likely to be a work for hire and the protection will be 95 years from publication or 120 years from creation. Protection of the underlying work will be life of the author plus 70. See also Comparative Chart by Dennis Karjala, online: Opposing Copyright Extension Homepage <<http://homepages.law.asu.edu/%7Edkarjala/OpposingCopyrightExtension/commentary.html> > (date accessed 22 June 2004).

to sell their copyright to corporations who then disseminate these works²¹⁵. For the most part, copyrights are not held by individuals, but by corporate entities²¹⁶. The extension of term of copyright protection is of special concern for users in developing countries, who find themselves in disadvantaged position as to the access to protected works. Thus, it is submitted that developing countries, being mainly consumers or users of copyrighted materials, will be reluctant to extend the term of protection unless they are pressed to do so by developed countries in the majority cases acting as copyright producers²¹⁷.

Finally, it should also be noted that recently the constitutionality of the U.S. Uruguay Round Agreement Act was challenged by the conductor of the University of Denver's Symphony Orchestra and other artists. Golan and other plaintiffs argued that recopyrighting works does not promote progress as required by the Copyright Clause of the U.S. Constitution, abridges free speech in violation of the First Amendment and violates Due Process by depriving the public of

²¹⁵ For example, an individual author might have a hard time financing the printing of his/her book, but even if able to do so, she/he would not be able to distribute copies to bookstores without a major publisher or distributor. So the author is forced to sell the copyright to a publisher in exchange for printing, distribution, and a small portion of the profits.

²¹⁶ It is submitted that despite the fact that both individual creators and entrepreneurs have an interest in strong copyright protection, they do not receive the same benefits from copyright extension. Entrepreneurs benefit from a longer period of the monopoly of their works, while creators benefits largely depend on the contract they sign with the third party. Users further argue that long terms of protection are contrary to the public interest and it may lead to arbitrary refusal of a copyright owner to license his/her work, to charge unreasonable royalties, or to impose restrictive conditions on publication or performance of works. The long term burdens the users with high prices, thus encouraging disrespect for copyright law, which leads to spread of piracy.

²¹⁷ As is discussed earlier Russia amended its Copyright Law in 2004. One of the amendments was extension of the term of protection to life of author plus 70. One of the motives named was harmonization of the national legislation with legislation of leading countries, such as EU member countries and U.S., as well as additional protection of Russian authors. See, Комментарий к поправкам в Закон «Об авторском праве», интервью с Председателем Федеральной службы по интеллектуальной собственности, г-ном Симоновым Б.П., Вестник Интеллектуальной собственности, № 8, 2004 [Comments on amendments to the Copyright Law, interview with the Head of Federal Service on Intellectual Property, Mr.Simonov B.P.,for Intellectual Property Bulletin, No 8, 2004] online: IPPro Law Firm Homepage: < http://www.ipprolaw.com/lib/komment_ap.shtml > (date accessed: 30 January 2004). Recently U.S. has started undertaking unilateral approach to strengthening the intellectual protection in different countries, both developing and developed, in general, and to extending copyright term of protection, in particular. However, resistance from the countries under pressure is still observed: in *U.S.-Singapore FTA* the term of protection of sound recordings and audiovisual works was compromised at 70 years (U.S. pressed for 95), the same situation is observed in *U.S.-Chile FTA*.

the free availability of public domain works²¹⁸. However, on April 20th, 2005 the U.S. District Court for the district of Colorado denied Plaintiff's motion for partial summary judgment, and granted the government's summary judgment motion on all claims. The plaintiffs now plan to appeal the order to the Tenth Circuit Court of Appeals. Thus, it is yet to be seen, whether this effort to reclaim public domain will score victory²¹⁹.

Users are equally concerned with an extra layer of copyright protection in the form of technological measures and sanctions for circumventing them²²⁰. Such anti-circumvention legislation serves as technological adjuncts to the exclusive rights granted by copyright laws, or even create a new exclusive right for the copyright owners in the form of an access right²²¹. From users' perspective, technological measures prevent access not only for potential infringers, but may additionally prevent access for those, who do have a legitimate right to access (for example under fair use or fair dealing defenses). Technological measures may also prevent access not only to copyright material, but also to other information and ideas that may not be subject to copyright, but may be protected under the same technological measures.

4.3. Intermediaries: A Choke-Point in the System?

Concerns of intermediaries vary depending on their place in the information and entertainment market. New intermediaries that were not known in the analogue world have entered the arena of copyright expecting it to accommodate their needs. Old intermediaries are also trying to reshape their business and to adapt it to the digital environment.

²¹⁸ On March 16 2004 the U.S. District Court ruled that a case could proceed despite the government insistence that the Supreme Court's decision in *Eldred* invalidated the claims.

²¹⁹ For further details and updated information, see online: Stanford Law School Center for Internet and Society Homepage < http://cyberlaw.stanford.edu/about/cases/golan_v_ashcroft.shtml > (date accessed: 17 July 2004).

²²⁰ Arts. 11, 12, and 14 of the *WCT*, arts. 18, 19, 23 of the *WPPT*, arts. 6-8 of the *Infosoc Directive*.

²²¹ J.Ginsburg, "From Having Copies to Experiencing Works: the Development of Access Right in U.S. Copyright Law", online: Social Science Research Network Homepage < http://papers.ssrn.com/sol3/papers.cfm?abstract_id=222493 > (date accessed: 17 June 2004).

One of the concerns of the “new generation” intermediaries, notably, Internet service providers, relate to their liability in placing infringing material online, acting as gatekeepers to the Internet for many users²²². A number of legislative solutions have emerged with respect to liability of Internet service providers. Though the issue was much debated at the international level, i.e. during the Diplomatic Conference on the WIPO Internet Treaties, the ultimate result was that treaties are neutral regarding the issue of ISP liability leaving it for the discretion of contracting parties²²³. The European Directive on Electronic Commerce²²⁴ contains provisions that harmonize the treatment of liability among its Member States. However, liability of service providers is not dealt with in the Infosoc Directive, which raised serious debates among the EU member states during the process of adopting the Infosoc Directive²²⁵.

ISPs remain profoundly concerned that they are bearing unrealistic burden of the requirement to respond to complaints of infringement from all and sundry. For instance, the strategy chosen by music and recording industries, at least in the U.S., seems to be in avoiding individual litigation, and rather litigating against ISPs, as the “handiest choke-point”²²⁶. Using the *Napster* decision as a test case under the EU Infosoc Directive, the situation will differ depending on the member states as the liability issue is not dealt with by EU law, but rather left to the

²²² Ch.Waelde & H.MacQueen, *The Scope of Copyright*, *supra* note 128 at 14.

²²³ There is only one reference to the ISP liability issue in an agreed statement to the WCT, providing that “it is understood that the mere provision of physical facilities for enabling or making communication does not in itself amount to communication within the meaning of this Treaty or the Berne Convention”. See Agreed statement concerning Article 8, *WCT*.

²²⁴ Article 12 of the *Directive on Electronic Commerce*. See also, Article 13 that exempts ISPs from liability for the automatic, intermediate and temporary storage of the information performed for the sole purpose of making more efficient the information’s onward transmission to other recipients of the service upon their request. According to the Directive, ISPs must comply with a number of conditions, namely obligations not to modify the information and to comply with any requirements about access or updating of the material. In case ISP obtains actual knowledge that either the information at the original source has been removed from the network, or access to it has been barred, it must act expeditiously to remove or bar access itself, or the exemption will be lost. National court and administrative agencies have the right to require ISPs to terminate or prevent infringements. Generally the same approach is used in *U.S. DMCA*. The Online Copyright Infringement Liability Limitation Act, a part of the *DMCA* establishes “safe harbors” to shelter ISPs from liability for copyright infringement in certain circumstances. However, the *Directive on Electronic Commerce* does not contain a notice-and-take-down provision like the one in the *DMCA*.

²²⁵ F.W.Grosheide, “Is the Appropriate EU Legal Framework in Place for Music Online?” (2002) 33(6) *IIC* at 711-714.

²²⁶ Litman, “War Stories”, *supra* note 202.

national laws²²⁷. However, after *Napster* decision, new Internet intermediaries, like Grokster, or even newer, like Bit Torrent have appeared in the wake of extensive use of peer-to-peer file sharing software programs, leading to the emergence of a new class of intermediaries within the ISP group, namely P2P intermediaries²²⁸. In a nutshell, the safe harbor provisions of the Directive

²²⁷ For discussion of *Napster* case, see *supra* note 207. See also, *Belgacom Skynet v. IFPI*, File no. A.R. Nr.1999/AR/3372 (Brussels Court of Appeal), summary brief available at <<http://www.article19.org/ViewArticle.asp?AreaID=42&SubAreaID=137&PageID=302&ElementID=299&ArticleID=1095&Comment=>> (last visited august, 2004). See also M.Haftke & Ph.Daniels, "Napster in the U.K.", (2001) 12 Ent.L. Rev. 4, 107-111, W.R.Shieff, "Viral Online Copyright Infringement in the United States and the United Kingdom: The End of Music or Secondary Copyright Liability Part 1 and Part 2", (2004) 15 Ent.L.R. 3, at 63-71; 4, at 107-113. While in US liability for copyright infringement depends essentially on contributory infringement, in other common law countries the issue is whether the ISP has authorized individual acts of infringement. For instance, s. 16(2) of the *UK CDPA* prohibits any person from "authorizing" unlicensed copying or authorizing any of the "restricted" acts which are the exclusive acts of the copyright holder, including communicating the work to the public (s.20) or making it available to the public (s.182CA) by electronic transmission in such a way that members of the public may access it from a place and at a time individually chosen by them. The leading case where the meaning of "authorization" was defined is *CBS Songs v. Amstrad Consumer Electronics Plc.* [1988] A.C. 1013. In *Amstrad* the defendants argued that Amstrad's sale and advertising campaign of twin-deck tape recorders amounted to "authorization". Both the Court of Appeal and the House of Lords rejected this argument on the grounds that "authorization can only come from somebody having or purporting to have authority and that an act is not authorized by somebody who merely enables or possibly assists or even encourages another to do that act, but does not purport to have any authority which he can grant to justify the doing of the act". One of the arguments of CBS Songs was that Amstrad was liable as joint tortfeasor as soon as a purchaser decided to copy a record in which copyright subsisted. The court considered the degree of control exercised by Amstrad, and stated the general rule that "joint infringers are two or more persons who act in concert with one another pursuant to a common design". In *Amstrad* the court held that it was the purchaser or operator of the machine, who decided the purpose for which the tape recorder should be used, and that there was no common design to infringe between Amstrad and customers because the tape recorders could be used both for lawful and unlawful purposes. This narrow approach to "authorization" means that the defendant must authorize not only the use of the equipment to commit the infringing act, but also authorize the copyist to do so. See also, B.Ong, "Fissures in the Façade of Dair-Dealing:Users" Rights in Works Protected by Copyright" (2004) Sing. J. Legal Stud. 150. This narrow view was also taken by the Singapore Court of Appeal in *Lotus Development Corp. v. Ong Seow Pheng* [1997] 3 S.L.R. 137, where the defendant sold one pirated copy of a software program together with 6720 pirated copies of the manual for the software to a retailing party that, in its turn, made infringing copies of the software program for sales. The Court held that the defendant did not have real control over the acts of the retailer, as it was the latter's choice to make the infringing copies. Thus, appellants had not authorized the end-infringers since they did not sanction, approve or countenance them to infringe the respondents' copyright in the software.

²²⁸ For discussion of differences between *Napster* and *Grokster*, see *supra* notes 203, 207. Currently there are 4 variations or types of P2P intermediaries: 1) the P2P intermediary provides a centralized index to all the files stored using its own web-site, and available for upload on computers of various users. This model is characterized by speedy and efficient search facilities, and was used by early *Napster*; 2) P2P intermediary not providing a centralized index, but rather the index is maintained by each individual user, and the index contains only files stored on the user's computer. A user can search for a file he wants to obtain by sending out a request which is passed from user to user of the P2P software in use, until he finds the file. Then the software negotiates the downloading of the file between the user who sent the request and the user who has the file. This model is slower in speed comparing with *Napster*. The examples of software based on this model are *KaZaa* and *Grokster*; 3) the variation of the above two models that operates under a condition of no centralized index and a number of user's computers who act as servers hosting sub-indexes.

on Electronic Commerce and DMCA that were mainly designed to address the issues of copyright infringements in the context of transmission, caching and hosting of content, can not solve the issue of copyright infringements in the context of P2P. The new P2P intermediaries do not themselves host the files of infringing material, and do not transmit those, the only thing they are doing is pointing to it. Obviously, "...the shift from the first type ("Napster" intermediaries) to the later more complex configuration has largely been driven by the desire to escape legal liability"²²⁹. Another reason is seen in the lack of appropriate legal framework for ISPs to operate. The role of ISPs will be increasing in the future, especially with development of digital rights management technology, therefore, their concerns as to appropriate legal framework for their operation are reasonable. Some scholars see the role of ISPs as digital retailers for all kinds of digital works, and subsequently as a solution to the P2P problem²³⁰.

New players on the copyright "field", which are multi-media developers and digital media industries are also concerned with the status of multimedia works. In particular, there is a complex right ownership situation in a multimedia production, involving authors' rights, performers' rights, sound recordings and film producers' rights, and *sui generis* rights in the items in the collections²³¹. Additionally, such rights may belong to or have been licensed to different persons in different countries. Thus, one of the main concerns of new stakeholders is how to clear

This model has been called as "sub-Napster"; 4) BitTorrent approach, which is not pure P2P application. It uses ordinary web-sites rather than search facilities to find a list of torrent sites, thus a particular file which is searched by a user is fetched from any other user who is sharing the file. The file is split into small independent parts, this gives a possibility to download one part of the file by user A, and to download the second part of the file by user B. "The BitTorrent approach means that it is difficult or impossible to identify any one file as having been copied directly from any particular single user, which complicates the copyright situation further." There are also variations of BitTorrent that combine BitTorrent approach and P2P technology, thus, there is not need to use the web-site to find torrent files. For detailed discussion of P2P intermediaries and copyright liability, see Ch. Waelde & L.Edwards, "Online Intermediaries and Liability", *supra* note 186.

²²⁹ *Ibid.*

²³⁰ L.S.Sobel, "DRM as an Enabler of Business Models: ISPs as Digital Retailers" (2003) 18 Berkeley Tech.L.J. 667 (views digital rights management and watermarking technologies that are legally protected under DMCA as means of resolving problems facing unauthorized distribution of copyrighted works online. ISPs can be used as distributors of DRM-protected copyrighted works and they can charge users for downloaded works at rates established by the copyright owners).

²³¹ Sterling, *World Copyright Law*, *supra* note 27 at 245.

those rights. Identification of the various rights involved coupled with finding the rightholders associated with the underlying rights is the area where proper functioning of collecting societies is required. Today, however, the situation is characterized more as “organized chaos”²³².

4.4. *Collecting Societies*

The concerns of intermediaries discussed above are directly related to the main functions of collective management organizations.²³³ Collecting societies have been traditionally representatives of right holders since the “analogue” times, and are of a special interest for this dissertation. Collective management societies started developing in France, initially in the literature area²³⁴, and gradually moving to music²³⁵. At the end of 19th century and during the first decades of the 20th century, collecting societies were formed in almost all European countries. A need for an international body to coordinate activities of collecting societies was recognized in June 1926, when delegates from 18 societies set up the International Confederation of Societies

²³² D.Gervais & A.Maurushat, “Fragmented Copyright, Fragmented Management: Proposal to Defrag Copyright Management” online: Canadian Journal of Law and Technology Homepage < http://cjlt.dal.ca/vol2_no1/pdfarticles/gervais.pdf > (date accessed: 17 July 2004 [hereinafter D.Gervais & A.Maurushat, “Fragmented Copyright”]).

²³³ There are different names of organizations engaged in collective management of economic rights of authors, here and throughout the text the term “collecting societies” will be used.

²³⁴ Beaumarchais was the first to express the idea of collective rights management. He created General Statutes of Drama in 1777 in Paris. At the meeting of 22 famous writers of the *Comedie Francaise* raised the issue of collective protection of rights. They appointed agents and laid a foundation for the French Society of Dramas' Authors. In 1838, Honore de Balzac, Victor Hugo, Alexandre Dumas and George Sand established the Society of French Writers. The Society was charged with collecting royalties from print publishers. For more information, see web-page on collective management of copyrights online: Consumer Project on Technology Homepage < <http://www.cptech.org/cm/copyrights.html> > (date accessed: 17 July 2004).

²³⁵ Often cited story of visit of Ernest Bourget, a French composer of popular musical *chansons* and *chansonnettes comiques*, to the *Café Ambassadeurs* in Paris, in 1847, where among other music, his works were played without his permission. Bourget refused to pay his bill for the drink unless he was paid for his music. He eventually won the trial before the *Tribunal de Commerce de la Seine* using the argument “you consume my music, I consume your wares”. The Tribunal upheld a revolutionary law of 1793, recognizing for the first time, a right to public performance. Later Ernest Bourget, his colleagues, Victor Parizot and Paul Henrion, as well as publisher Jules Colombier founded an *Agence Centrale*, a predecessor of the first modern collecting society, *Societe des Auteurs et Compositeurs at Editeurs de Musique* (SACEM) established in 1851. SACEM became the European model of collecting societies. M. Kretschmer, “The Failure of Property Rules in Collective Administration: Rethinking Copyright Societies as Regulatory Instruments” [2002] 24(3) E.I.P.R. at 127.

of Authors and Composers (CISAC)²³⁶. While during the past, the main purpose and function of the collecting societies was collecting and distributing royalties and negotiating licensing agreements, “over time [their role] has evolved to oversee copyright compliance, fight piracy and perform various social and cultural functions”²³⁷. Today collecting societies manage not only so-called small rights (performing rights in musical works), mechanical rights (rights to authorize the reproduction of works in the form of recordings in the widest sense of the word, including electro-acoustic and electronic procedures), and rights in dramatic works, but also joint management is exercised with respect to reprographic reproduction rights, resale rights (*droit de suite*), rights of performers and producers of phonograms, rights in respect of cable retransmission of broadcast programs, broadcasting rights, and etc.²³⁸ Historically collecting societies appear to be efficient institutions that minimize searching and contracting costs between intermediary users and copyright holders and among these groups *inter se*²³⁹. While the current milieu of collecting societies may have served both creators and users reasonably well in the past, the system must adapt to current digital realities to remain both efficient and relevant²⁴⁰.

Digital technologies pose new and pressing challenges to the collecting societies. From the viewpoint of authors (copyright owners) and their relationship with collecting societies, the collecting societies face the need to revise or clarify the scope of rights they are authorized to administer. As was discussed earlier, exploitation of a work online involves at minimum two rights, communication to the public (including making available right) and reproduction right. In the area of musical works, reproduction right (mechanical reproduction) has been historically administered by music publishers, whereas administration of performing rights has been within

²³⁶ Detailed information on CISAC, see online: CISAC Homepage < <http://www.cisac.org/web/content.nsf/Builder?ReadForm> > (date accessed: 18 September 2004).

²³⁷ D.Gervais & A.Maurushat, “Fragmented Copyright”, *supra* note 232.

²³⁸ For main fields and typical forms of collective management, as well as other forms of joint exercise of rights, see M. Ficsor, *Collective Management of Copyright and Related Rights* (Geneva: WIPO, 2002) at 37 [hereinafter Ficsor, *Collective Management*].

²³⁹ R.P.Merges, “Contracting into Liability Rules: Intellectual Property Rights and Collective Rights Organizations” (1996) Cal.Law Rev. 84(5), at 1293-1393.

²⁴⁰ D.Gervais & A.Maurushat, “Fragmented Copyright”, *supra* note 232.

the competence of performing rights societies. Which collecting society will be assigned the right to administer electronic rights of authors, especially in the context when music industries are setting up their own digital rights management companies, such as Digital World Services, a joint venture of Bertelsmann and others?²⁴¹ So far the response of collecting societies is the creation of alliances or joint-ventures between different organizations administering different rights, or more precisely between collecting societies administering performing rights and societies administering mechanical rights, like PRS/MCPS²⁴² in UK. However, only a few examples of such alliances exist today. Some collecting societies failing to create joint-ventures are trying to contact authors directly and offering them to revise their contracts on rights assignment so as to include electronic rights within those assigned. Most of the collecting societies require exclusive assignment of rights from their members. Does it mean that an author does not have a possibility to exploit his rights by himself or to have a choice in selecting a collecting society that would most efficiently, to his mind, administer his rights? Is the position of a “natural monopoly” that has been associated with collecting societies justifiable under conditions of digital exploitation of works? Should there be some control mechanism over the operation of collecting societies? These questions are easy to postulate but, as explored below, difficult to resolve.

The relationship between the author and collecting societies viz. administration of authors’ rights on the Internet requires revision of terms of assignment contracts between the two parties. This raises a myriad of issues that needs to be clarified. The first issue concerns ownership: the usual practice of collecting societies is to admit members on a declaratory basis, though the collecting society may require a prospective member to submit the evidence of his/her eligibility. However what are the guarantees that the collecting society has acquired rights from the *right* owner? Who is the *right* owner in case a work has been created online (meaning by way

²⁴¹ H.Cohen Jehoram, “The Future of Copyright Collecting Societies” [2001] 23(3) E.I.P.R. at 136.

²⁴² The alliance between UK Performing Rights Society (PRS) and Mechanical-Copyright Protection Society (MCPS) is discussed at length in Chapter 2 *infra*.

of exchanging of materials through email) by several authors residing in different countries, each having different ownership regime?

A hypothetical may illustrate some of the problems that may arise. Suppose that a script writer (US nationality and residence), an animator (French nationality and residence) and a composer (Russian nationality and residence), combine through the Internet to create an animated cartoon. Each creator/author sends his parts back and forth to the others over the Internet. When the animated cartoon is completed, the authors decide to assign the rights to a collecting society for collective management. Each author will prefer a collecting society operating and set up in his own country. But who owns the rights in the animated cartoon as a whole? Different countries and different national laws may apply different ownership rules. In common law countries the animated cartoon might be treated as a film and if so the rules will generally favor the entrepreneur who made the arrangements for the creation of the first copy of the film²⁴³. On the other hand, in civil law countries, there may be a preference for the right of the individual author/creator²⁴⁴. Where is the animated cartoon created for the purposes of deciding ownership? Copyright is essentially territorial in scope and application. The same material may enjoy copyright in several countries: does this mean that there may be different initial owners of the several copyrights for each country? These are matters that have to be addressed. Closely connected is the question of assignment of rights and collecting societies. If a Singaporean author creates a work that enjoys copyright throughout the world, what is to stop him from assigning his copyright in different countries to different persons or indeed world-wide basis. Furthermore, in the case of copyright infringement that takes place on the Internet, will a collecting society that has taken an assignment of the rights be able to effectively enforce the copyright? These issues

²⁴³ For instance, pursuant to s.98 of *Singapore Copyright Act 1987 (Rev.Ed. 2005)* the maker of a cinematographic film is the owner of any copyright subsisting in the film, where (a) a person makes, for valuable consideration, an agreement with another person for the making of a cinematograph film by the other person; and (b) the film is made in pursuance of the agreement, the first-mentioned person is, in the absence of any agreement to the contrary, the owner of any copyright subsisting in the film.

²⁴⁴ French *Intellectual Property Code*, Art. L. 113-7.

will be touched on in later chapters together with the problem of whether the internal rules of existing models for collecting societies such as their membership requirements and insistence of exclusive licenses/assignment meets demands of on-line Internet administration.

There are several issues that should be highlighted from the viewpoint of collecting societies vs. users. Licensing is perhaps the most urgent issue in this context. Digital exploitation of works requires a user-friendly licensing regime. This, in particular, relates to availability of new types of licenses (online licenses) issued by collecting societies, revision of the licensing terms and simplicity in clearing the rights. In some countries, mostly developed, collecting societies have created alliances for the purpose of issuing online licences, such as UK PRS/MCPS alliance mentioned earlier. While attempts of joint efforts are welcomed, as is discussed below, the joint online licenses do not solve the issue of obtaining licenses for creation and exploitation of multimedia works. Today, users are more interested in obtaining multi-repertoire and multi-territorial licenses. Given the territorial nature of collecting societies' operation, this can be achieved through some kind of international inter-societies agreement or a network of agreements that would facilitate issuance of such licenses. Performing rights collecting societies made an attempt to respond to users' demand by signing Santiago Agreement that was adopted at the 2000 CISAC Congress in Santiago de Chile by the five main collecting societies²⁴⁵. The Agreement served as a trial reciprocal agreement, concluded by nearly all the major European collecting societies representing authors in the area of music performing rights (lyrics writers and music composers). The agreement allowed each of the participating societies to issue multi-territorial licenses of public performance rights to be used on-line. The aim was to grant on-line commercial users "one-stop shop" copyright licenses. These licenses included the music repertoires of all the

²⁴⁵ U.S. BMI (performing rights organization, more information available online: BMI Homepage < <http://www.bmi.com/about> >), Dutch BUMA (performing rights organization, more information available online: BUMA Homepage: < <http://www.buma.nl> >), German GEMA (performing rights organization, more information available online: GEMA Homepage: < <http://www.gema.de> >), UK PRS and French SACEM performing rights organization, more information available online: SACEM Homepage < <http://www.sacem.fr> >) (date accessed: 18 September 2004).

societies and were valid in all their territories. In order to get a "one-stop shop" license, on-line users had to apply to the collecting society established in their own Member State. However, on May 3, 2004 the EU Commission opened proceedings into collective licensing of music copyrights for on-line use and warned 16 European collecting societies that the practice of Santiago Agreement could be potentially in breach of EU competition rules²⁴⁶.

One of the functions of collecting societies is enforcement of rights administered by the societies on behalf of its members. In this regard, several issues deserve to be outlined. First, the enforcement efforts of collecting societies with respect to copyright infringements on the Internet entail lots of unclear and yet-to-be resolved issues. Given the borderless nature of the Internet, the moment a work is made available on the Internet, its author or owner can no longer discriminate as to who can access it, and distribution of the work is instantaneously global. How can extra-territorial nature of the Internet be compatible with territorial nature of legislation, jurisdiction of each state to impose its own laws on events occurring within its jurisdiction and territorial operation of collecting societies? A number of approaches have been proposed to the issue of jurisdiction: some propose to unify the existing choice of law rules, harmonize substantive Internet law (either by common law or Internet treaties), others opt for recognizing new jurisdiction of the Internet, in which disputes could be handled by a specially created Internet court or tribunal²⁴⁷.

²⁴⁶ For more details, see European Commission Press-release online: European Commission Homepage < <http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/04/586&format=HTML&aged=0&language=EN&guiLanguage=en> > (date accessed: 31 August 2004). See also, complaints from other intermediaries as to difficulties in clearing rights in Europe online: The Register homepage < http://www.theregister.co.uk/2004/05/04/eu_probes_music_licensing/ > (last visited, August, 2004) (California-headquartered Apple, which is currently in legal dispute with a French collecting society over iPod royalties, recently blamed a delay in launching a European download service on the collecting societies), < <http://www.enn.ie/news.html?code=9409060> > (last visited August, 2004) (Yahoo Europe managing director, country operations Martina King referred to the lack of co-ordination in Europe on intellectual property rights policy as problem when it comes to Internet music sales). The *Santiago Agreement* is discussed at length in Chapter 3.

²⁴⁷ M.Burnstein, "A Global Network in a Compartmentalized Legal Environment, Internet" in K.Boele-Woelki, and C.Kessedjian eds., *Internet: Which Court Decides? Which Law Applies? Internet: Quel tribunal decide? Quel droit s'applique?* (The Hague, Boston: Kluwer Law International, 2000) at 23.

Another issue relating to enforcement efforts of collecting societies and the issue of jurisdiction was considered recently by the Supreme Court of Canada in *Society of Composers, Authors and Music Publishers of Canada v. Canadian Association of Internet Providers*²⁴⁸ (hereinafter *SOCAN* case). The issue concerned as to who should compensate for the downloading of foreign music and other works in Canada. The Society of Composers, Authors and Music Publishers of Canada wanted to collect royalties from local ISPs claiming that it were ISPs who infringed the right to communicate the work to the public and to authorize such communication. The Canadian Association of Internet Providers in its turn argued that they were mere conduits and did not communicate or authorize the communication of the works in question. The Court stated that “each transmission must be look at individually to determine whether in that case an intermediary merely acts as a conduit for communications by other persons, or whether it is acting as something more”²⁴⁹. Thus, the Court held that in the majority cases of transmissions only persons who post a musical work communicate, and are liable for communicating the work, but not the ISPs. The Supreme Court agreed with the Federal Appeal Court that even if ISP has knowledge that its facilities may be used for infringing purposes, that does not make the ISP liable for authorizing the infringement, unless intermediary “...sanction[ed], approve[d] or countenance[d] more than the mere use of equipment that may be used for infringement. Moreover, the ISP is entitled to presume that its facilities will be used in accordance with the law”²⁵⁰. The case is interesting from the viewpoint of enforcement efforts of collecting societies,

²⁴⁸ [2004] 2 SCR 427. Authorization of infringement being primary rather than secondary infringement of copyright is a standard of liability found in Canada, as well as in UK and Australia. The standard is equated with the U.S. contributory and vicarious liability as it seeks to place liability on a third party who may in some way be responsible in the infringement.

²⁴⁹ *Ibid.* para 111.

²⁵⁰ *Ibid.* para 124. The Court referred to *CCH v. Law Society of Upper Canada* [2004] 1 S.C.R. 339, SSC 13 where the copyright owners asserted that making available a photocopier and photocopying service by the Law Society of Upper Canada implicitly "authorized" copyright infringement. The court in *CCH* case held authorizing infringement under the *Canadian Copyright Act* is not so easily demonstrated: “. . . a person does not authorize infringement by authorizing the mere use of equipment that could be used to infringe copyright. Courts should presume that a person who authorizes an activity does so only so far as it is in accordance with the law. . . . This presumption may be rebutted if it is shown that a certain relationship or degree of control existed between the alleged authorizer and the persons who committed the copyright

as it raises the issue of whom should the collecting societies sue in case of online copyright infringements and what are the difficulties that the collecting societies may face given the extraterritorial nature of some infringements.

With the advent of digital technologies collecting societies are facing challenges that penetrate each and every area of operation of the collective management system. This raises doubts as to the necessity of its existence. The prevailing view is that collecting societies are needed, however, in a more refined and upgraded form and design²⁵¹. But what is that form and design? Agreeing on the future of collecting societies and on design of collective rights management is difficult as the views of the major stakeholders are diverse and often conflicting. Some scholars opt for central administration of rights²⁵². Such attempts are currently observed in Europe. The EU Commission has recently adopted the Communication on the Management of Copyright and Related Rights in the Internal Market, establishing the European-wide standard for collecting societies.²⁵³ However, not all European collecting societies seem to support this idea.²⁵⁴

infringement. . . . [Emphasis added].” The Court further added that liability for copyright infringement “may well attach if the activities of the Internet Service Provider cease to be content neutral, e.g. if it has notice that a content provider has posted infringing material on its system and fails to take remedial action”.

²⁵¹ The research centre i-call of the University of Lucerne Faculty of Law, organized in cooperation with the Swiss Federal Institute of Intellectual Property and with the support of the Mercator Foundation, an international symposium on this highly controversial topic under the charged title "Digital Rights Management: The End of Collecting Societies?". See also, Ch. Graber, M.Nenova, M.Girsberger, "Collecting Societies – Not Yet “Six Feet Under”", a brief review of the international symposium “Digital Rights Management: The End of Collecting Societies?” at the University of Lucerne, Switzerland, June 24 and 25, 2004, online: The Informed Dialogue About Consumer Acceptability of DRM Solutions in Europe Homepage: < http://www.indicare.org/tiki-read_article.php?articleId=41 > (date accessed: 26 February 2005) [hereinafter Graber, Nenova, Girsberger, “Not Yet ‘Six Feet Under’”].

²⁵² *Ibid.* at 137 (“The present *collective* administration will have to give way to *central* administration of rights”). See also D.Gervais and A. Maurushat, “Fragmented Copyright”, *supra* note 232 (“.. it may be that collective management societies need to re-conceptualize their role as less aligned with “collective” administration and more aligned with the “central” administration of facilitating rights management”).

²⁵³ For detailed information on consultations and hearings preceding the adoption of the Communication on the management of copyright and related rights in the Internal Market (COM(2004) 261 final, of 16 April 2004), online: Eurlex European Union < http://europa.eu.int/comm/internal_market/copyright/management/management_en.htm > (date accessed: 31 August, 2004) [hereinafter *EC Communication on the management of copyright*]. The Communication is to be discussed in details in Chapter 3 *infra*.

²⁵⁴ See speech by M.Guez, Managing Director of SCPP (French collecting society of record companies), Hearing on Collecting Societies, European Parliament, October 7th, 2003, available at < http://europa.eu.int/comm/internal_market/copyright/management/management_en.htm > (date accessed: 31 August, 2004).

Indeed the idea of having a mega or supra-national collective management system can work only under conditions when there is a harmonized copyright legislation and homogeneous collecting societies, which is currently not the fact. While the goal of harmonization of copyright legislation both at the international and regional, such as, EU, level, is recognized by all stakeholders of the “copyright camp”, as discussed above and which will be highlighted below, the current situation is far from being completely harmonized both in terms of copyright law provisions and operation of collecting societies.

Following the issues outlined above, the next Chapters of the work are specifically devoted to the challenges faced by collecting societies under conditions of digital exploitation of works of their members. Being an intermediary between the copyright holders and other intermediaries and users, collecting societies seem to be in a unique position, when they have to accommodate interests of the three parties. However, in order to have a clear picture of how collecting societies can adapt to the digital environment, i.e. how they can efficiently administer and enforce assigned rights, especially viz the Internet, the overall legal environment surrounding operation of the collecting societies should be discussed. The discussion will not be complete without touching on the issues of extraterritoriality of Internet, territoriality of copyright law and operation of collecting societies and application of private international law concepts in copyright infringement cases on the net. Therefore, the interface of private international law and copyright law is discussed in the next Chapter, and is important from the viewpoint of enforcement efforts of collecting societies.

**CHAPTER II. COLLECTIVE ADMINISTRATION, PRIVATE
INTERNATIONAL LAW ISSUES AND THE BORDERLESS NATURE OF THE
INTERNET**

1. Conflict of Laws, Copyright Law and Internet Interaction

In the Internet, copyright-protected works are exploited and available universally. The moment a work is made available on the Internet, “its author or owner can no longer discriminate as to who can access it, and distribution of the work is instantaneously global”²⁵⁵. An user can access materials at a particular site, or he/she can access copies of these materials, but located on a different server, or the user can receive these materials in cached format. Thus, physical location of Internet resources is not determined. Similarly physical location of the user is not known: an Internet user located in the U.S. can easily maintain an account on computer systems located in Singapore. Even the fact that in some instances an Internet address can indicate the location, it is the location of a machine, but not of a person, using the machine²⁵⁶. Geographic indeterminacy is one of the main features of the Internet that poses issues in the copyright law area, which is *prima-facie* territorial in nature. Ginsburg points out “two items of received wisdom: 1) Copyright is territorially-based; 2) Cyberspace is not. But copyrighted works circulate in cyberspace”²⁵⁷. Moreover, the more users use Internet, the more online interaction is taking place, the more works circulate in cyberspace, and thus, different kind of disputes may occur: “online contracts may be breached, online torts may be committed and online crimes may be perpetrated”²⁵⁸.

²⁵⁵ L.Jones, “An Artist’s Entry into Cyberspace: Intellectual Property on the Internet” [2000] 22(2) E.I.P.R. 79.

²⁵⁶ “Internet protocols were not designed to facilitate geographic documentation; in general, they ignore it. Internet machines do have “addresses”, but these locate the machine on the network, and not in real space”. D.L. Burk, “Jurisdiction in a World Without Borders” (1997) 1 Va.J.L. & Tech. 3, online: Virginia Journal of Law & Technology Homepage < http://vjolt.student.virginia.edu/graphics/vol1/home_art3.html > (date accessed: 18 September 2004) [hereinafter Burk, “Jurisdiction Without Borders”].

²⁵⁷ J.Ginsburg, “The Cyberian Captivity of Copyright: Territoriality and Authors’ Rights in a Networked World” (2003) 20 Santa Clara Computer & High Tech. L.J. 185.

²⁵⁸ Burk, “Jurisdiction Without Borders”, *supra* note 256.

When copyrighted works enter the Internet milieu, they arguably fall under the laws of different countries. In case of copyright infringement across borders, a number of international copyright issues arise: where to look for foundation of any claim, which court is competent to decide copyright case, and what laws should the court apply? The court also has to consider several issues, in particular, whether it has personal jurisdiction over the defendant, in case the defendant is a foreigner; if yes, whether the court has subject matter jurisdiction over the claim; if yes, whether the court has a discretion to decline hearing the action on the basis of *forum non conveniens* doctrine; in case the court does decide to hear the claim, whose law should govern the case. Patry singles out 4 elements of *prima facie* case of copyright infringement that include “(1) an original work of authorship; (2) protected subject matter (i.e. literary or musical composition); (3) owned by the plaintiff either (a) as the author or (b) by assignment, and (4) from which defendant has, without permission, appropriated a material amount of expression”²⁵⁹. As is discussed later, the court, considering the above elements, may apply different rules, at least in case of ownership element and infringement element. For instance, the English court has to decide whether there is a double actionability rule²⁶⁰, or whether the infringement should be decided by reference to *lex loci delicti*, or to *lex fori*, to the law of place with most substantial

²⁵⁹ W. Patry, “Choice of Law and International Copyright” (2000) 28 Am.J.Comp. 383 [hereinafter Patry, “Choice of Law”].

²⁶⁰ The double actionability rule is derived from the 1968 House of Lords decision in *Boys v. Chaplin* [1971] A.C. 356, where it was decided that an act done in a foreign country is an actionable tort in England only if it is both a tort according to English law and the law of the foreign country where the act was done. This rule has been applied, in particular, to intellectual property disputes. The 1986 case *Def Lepp Music v Stuart-Brown* [1986] R.P.C. 273, concerned copyright and involved pirate copies of recordings of the rock group Def Leppard. The infringing acts were carried out in Luxembourg and Holland but not in England. The English court decided that it did not have jurisdiction because there was no infringing act in England. Since statutory intellectual property rights are territorial by nature, no action in England for infringement of foreign intellectual property rights would, on this basis, satisfy the double actionability rule. This particular barrier, however, was removed by s.10 of the Private International Law (Miscellaneous Provisions) Act 1995. Section 11 of the 1995 Act provides that in determining whether a foreign tort is actionable in England the applicable law is ‘the law of the country in which the events constituting the tort in question occur’. In principle, therefore, bringing an action in England for infringement of an intellectual property right in another country is actionable in the English courts, assuming that service of the defendant can be properly effected and that subject-matter jurisdiction is accepted. However, the fact that the infringement is actionable under English law does not necessarily mean that the courts will consider that they have jurisdiction to hear the action.

connection with the parties, or the law of the place where the infringement chain started. Finally, if the court finds liability after hearing the case, the issue is whether the foreign court will recognize and enforce the judgment. This is a general framework for private international law issues that can arise from copyright infringement on the Internet. Given the complexity of the issues and uncertainty as to which law governs elements of the copyright infringement case, claimants, who are trying to enforce rights in the Internet naturally prefer a single approach: single court in a single jurisdiction has the right to decide the case by reference to a single governing law. However, the major disadvantage of the single governing law approach is existence of copyright havens, where the governing law provides weak protection for claimants²⁶¹.

Dinwoodie notes that international intellectual property law, being public by virtue of extensive public international agreements²⁶² among states, “has the capacity to reduce the importance of private international law”²⁶³. Indeed if most countries have national intellectual property legislation consistent with the requirements of a set of common standards stipulated in international intellectual property agreements, “fewer conflicts questions [w]ould arise”²⁶⁴. However, the terms of such international agreements are usually set out in broad fashion, thus allowing considerable room for variances and interpretation at the national level. The cornerstone of the Berne Convention is national treatment principle, meaning that a Russian work should be

²⁶¹ Dinwoodie notes that single governing law approach may better protect copyright owners’ economic interests on a global scale. Some users of copyrighted material may also appreciate the single governing law approach with respect to cross-border licensing of copyright material. However, he further notes that efficient protection and licensing are not the only copyright purposes, therefore the single governing law approach should be analyzed not only from the position of efficient gains for copyright industries and/or licensees of copyright material, but also from the position of social policies, i.e. “costs of allowing domestic copyright laws to be overridden by the copyright laws of other nations. It is copyright’s role in domestic information policy that is out most at risk by choice of law strategies that would allow copyright laws to apply extraterritorially”. G.Dinwoodie. “Social Policy Choices and Choice of Law for Copyright Infringement in Cyberspace” (2000) 79 Or.L.Rev. 575.

²⁶² Such as *Berne Convention*, *WCT*, and *WPPT* in the area of copyright law, Paris Convention for the Protection of Industrial Property in the area of industrial property, to name a few.

²⁶³ G.Dinwoodie, “International Intellectual Property Litigation: A Vehicle for Resurgent Comparativist Thought?” (2001) 49 Am. J.Comp. L. 429.

²⁶⁴ *Ibid.*

protected in Singapore under the Singapore Copyright Act as if it was a Singapore work. However, Berne does not bring forward a requirement that both Russia and Singapore should have the same detailed copyright law. Therefore, the national treatment principle in essence accepts that important differences can exist in the copyright law of member states. Another example could be the concept of “authorship” that member states of Berne can define in different ways reflecting divergent philosophical approach to copyright given that there is no definition of “authorship” in the Convention. In the United States, employers are recognized as authors of works that were created by employees within the scope of their employment, whereas in France employees are considered to be authors except for development of software²⁶⁵, where the employer is deemed to be copyright owner²⁶⁶. Thus, it is exactly because of such differences the issue of choice of law becomes important.

Increased global exploitation of copyrighted works “forced courts and scholars to reconsider the apparent simplicity of choice of law issues in intellectual property cases”²⁶⁷. Legal scholars being more inventive and more flexible offered several proposals as to interaction of intellectual property law and private international law in the context of digital exploitation of works. Some scholars undertake cyberlaw approach: they propose to replace territorial copyright laws by a separate law of cyberspace with the aim of balancing interests of rightholders and users²⁶⁸. Others propose to apply the most protective copyright law out of several copyright laws of the countries that have access to the infringing materials²⁶⁹. Views have been expressed that the courts should apply *lex fori*-based choice of law rules to copyright infringement cases on

²⁶⁵ French *Intellectual Property Code*, Art. L. 113-7.

²⁶⁶ U.S. 1976 Copyright Act, 101, 201(b).

²⁶⁷ *Ibid.*

²⁶⁸ D.Johnson & D. Post, “Law and Borders”, *supra* note 13 (expressing the opinion that cyberspace should be self-regulated resulting into a separate law of cyberspace similar to the development of *lex mercatoria*).

²⁶⁹ P.E. Geller, “Conflicts of Laws in Cyberspace: Rethinking International Copyright” (1996) 44 *J.Copyright .Soc’y U.S.A.* 103 [hereinafter Geller, “Conflict of Laws”].

Internet²⁷⁰, however, as was mentioned earlier, this rule opens possibilities for forum-shopping. More resistant to forum-shopping practices is to apply the law of the country of origin. Another potential candidate for applicable law is *lex loci delicti*: supporters of this approach justify their position by the fact that copyright infringement is by nature a tort or delict, and traditionally the *lex loci delicti* rule was applied in non-contractual wrongdoings. Yet another view is that the law of the country of upload, i.e. the country in which the defendant uploaded the work on the Internet without authorization can be applied as a law governing cross-border copyright infringement cases. Some other candidates include the law of the defendant's domicile or place of business, the law of the country of the allegedly infringing party "cyber-domicile". All these proposals having their advantages and disadvantages contain valuable elements that should be taken into account in analyzing the conflict of laws issue in multinational copyright infringement cases. However, there is not yet "a grand unified conflict-of-laws theory, and courts have yet to agree on a set of choice-of-law rules that apply to all international copyright cases"²⁷¹.

Perhaps what complicates the whole conflict of laws situation is presence of different parties in the "copyright camp", who are trying to lobby their own interests. As was mentioned earlier, there are authors, copyright owners and collective management organizations who are interested in the utmost protection of the works and the possibility of participation in their exploitation; there are users, who are interested in being able to gather more information from the Internet in the easiest possible way, and there is industry that is specifically interested in the commercial exploitation of the works. The paradox is that all these parties have one common interest that is to be secure in their endeavors. Feeling secure also means predictability, which in the context of conflict of laws means clear choice of law rules that can be applied by the judiciary

²⁷⁰ J.Ginsburg, "Global Use/Territorial Rights: Private International Law Questions of the Global Information Infrastructure" (1995) 42 J.Copyright Soc'y U.S.A. 318 [hereinafter, Ginsburg, Global Use/Territorial Rights].

²⁷¹ P.Yu, "Conflicts of Laws Issues in International Copyright Cases", online: Doug Isenberg's "Legal Information for Internet Professionals" Homepage
< <http://www.gigalaw.com/articles/2001-all/yu-2001-04-all.html> > (date accessed: 17 September, 2004) [hereinafter Yu, "Conflicts of Laws"].

in international copyright infringement cases. As is discussed later one of the reasons for no bright line rules in choice of law approach to ownership and infringement issues of the copyright infringement on the Internet is the yet-to-harmonize international copyright regime and sparse caselaw. Thus, the courts play and will play an essential role in developing the applicable choice of law rules.

The goal of the present Chapter is not to elaborate one possible solution to the issues above, but rather to set out an overview on the issues of jurisdiction, infringement and ownership with respect to copyright infringements on Internet. While the overall topic of the thesis is operation of collective management organizations in digital environment, the issue of choice of law rules is one of the most important elements that contribute to efficient protection and enforcement of rights by collective management organizations.

2. Briefly on Jurisdiction

The issue of international jurisdiction is undoubtedly a complex issue. The international legal framework of jurisdictional rules is a portal for users, commercial and non-commercial, of digital copyrighted works to predict and foresee their rights, obligations and responsibilities. Major developments in the area of jurisdictional rules at national and international level are briefly discussed below.

2.1. U.S. Caselaw

Let's consider the following hypothetical: U.S. publisher brings an action against Russian online library that offers works of *inter alia* several authors, represented by the publisher through their web-site without authorization of the latter. The web-site is hosted on Russian server and not restricted to Russia. Users can download the stories against credit card payment. The first issue the court has to decide is whether it has jurisdiction over the matter. In general, U.S. law recognizes two grounds for personal jurisdiction over the parties. U.S. courts exercise general jurisdiction over the parties, known as "doing business" jurisdiction if the defendant "does

business” or resides in the forum²⁷². Specific jurisdiction is exercised “when the claim arises out of the defendant’s contacts with the forum²⁷³. “A minimum contacts” alternative has been added to the personal jurisdiction requirements that has been transformed into a three-prong test in the U.S. caselaw. First, the court is to inquire whether the defendant has purposefully availed himself of the benefits of the forum state. Purposeful availment is to include both deliberate conduct of the defendant and the effect of his conduct²⁷⁴. Second, the claim must arise out of or result from forum-related activities, and third, exercise of personal jurisdiction must be reasonable in consideration of a number of factors²⁷⁵. Application of this three-prong test to defendant’s activities on Internet raises some problems.

In *Zippo Mfg. Co v. Zippo Dot Com* the federal district court distinguished between passive and interactive web-sites²⁷⁶. Thus, a passive web-site, providing only information, is not sufficient for exercising general jurisdiction, whereas interactive web-site may entail sufficient contacts with the forum to claim jurisdiction. U.S. courts have been applying both the tests above sometimes with slight modifications. Going back to the hypothetical, the U.S. court using the *Zippo* sliding scale test and *Calder* effects test can assert personal jurisdiction over the matter. The Russian online library was offering users works of U.S. authors without authorization of the latter for a certain fee. Given the fact that the U.S. Supreme court has not defined the exact

²⁷² General jurisdiction is assertion of jurisdiction over a defendant when the defendant’s contacts are unrelated to the lawsuit or unrelated to the forum state. Burk, “Jurisdiction Without Borders”, *supra* note 256. See also, *International Shoe Co. v. Washington* 326 U.S. 310 (1945) (the landmark decision of the U.S. Supreme Court, where the Court held that an individual could not be subjected to personal jurisdiction by the courts of a state unless that individual had certain minimum contacts with that states).

²⁷³ Specific jurisdiction is assertion of jurisdiction over a defendant when the defendant’s contacts directly give rise to a suit. Burk, “Jurisdiction Without Borders”, *supra* note 256.

²⁷⁴ Known as the “*Calder* effects test”, *Calder v. Jones* 465 U.S. 783 (1984) (the court held that defamatory speech about a California actress was enough to give jurisdiction where the publication was sold in that state).

²⁷⁵ Five jurisdictional “fairness factors: offered by the Supreme Court include: inconvenience to the defendant of defending in that forum, the forum state’s interest in adjudicating the dispute, the plaintiff’s interest in obtaining convenient and effective relief, the interstate judicial system’s interest in efficient resolution of interstate conflicts, and the shared interest of the states in furthering substantive social policies. In case jurisdiction over a foreign nationals is at issue, the potential interference with the procedural and substantive policies of other nations, and impact on the foreign relations policies of the U.S. may be additional fairness factors”. Burk, “Jurisdiction Without Borders”, *supra* note 256.

²⁷⁶ Known as sliding scale test. *Zippo Mfg. Co. v. Zip Dot Com* 952 F.Supp. 1119, (W.D.Pa 1997).

amount of minimum contacts, does it matter whether U.S. users actually accessed the web-site and how many “hits” should be made to satisfy the minimum contacts requirement? In fact, it shouldn’t as long as the Russian online library offered unauthorized downloading of the stories, the courts can have specific jurisdiction “on the basis of single forum download as making available is generally considered to effect a distribution of copies of the work”²⁷⁷.

2.2. Jurisdiction Rules Under EU Law

The Brussels Convention of September 27, 1968, Lugano Convention of September 16, 1988 and EU Regulation 44/2001 of December 22, 2000 set common rules for jurisdiction for EU member countries²⁷⁸. The Brussels Convention and EU regulation deal only with jurisdiction for civil and commercial issues, and these jurisdictional rules apply whenever the defendant is domiciled in a Member state²⁷⁹. Art. 16 of the Brussels Convention contains specific provision

²⁷⁷ J.Ginsburg, “Private International Law Aspects of the Protection of Works and Objects of Related Rights Transmitted Through Digital Networks”, WIPO, GCPIC/2, November 30, 1998, online: World Intellectual Property Organization Homepage < http://www.wipo.int/documents/en/meetings/1998/gcpic/doc/gcpic_2.doc > (date accessed: 7 October 2004). [hereinafter, J.Ginsburg, Private International Law]. Let’s assume for comparative purposes that it is Singapore music publisher, who brought a suit against the Russian online library. Will Singapore Supreme Court have personal jurisdiction over defendant? The answer is yes. Pursuant to s.16 of the *Supreme Court of Judicature Act* (Cap.322) the High Court shall have jurisdiction to hear and try any action *in personam* where (a) defendant is served with a writ or other originating process – (i) in Singapore in the manner prescribed by the *Rules of Court*; or (ii) outside Singapore in the circumstances authorized by and in the manner prescribed by the *Rules of Court*; or (iii) the defendant submits to the jurisdiction of the High Court. According to *Order 11 r1(f)* of the *Rules of the Supreme Court*, the Court shall have personal jurisdiction of defendant in case when (i) the claim is founded on a tort, wherever committed, which is constituted, at least in part, by an act or omission occurring in Singapore; or (ii) the claim is wholly or partly founded on, or is in respect of, damage suffered in Singapore caused by a tortious act or omission wherever occurring. The Supreme Court of Singapore will not have difficulties in asserting personal jurisdiction over the Russian online library as long as the claim of Singapore music publisher is partly or wholly founded on damage suffered in Singapore caused by the tortious act committed by the Russian online library.

²⁷⁸ 1968 *Brussels Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters*, September 27, 1968, O.J. (L 299), 32, online: Eurlex < http://www.europa.eu.int/eurlex/en/lif/dat/1968/en_468A0927_01.html > (date accessed: 7 September 2004) [hereinafter *Brussels Convention*]; *Lugano Convention (88/592/EEC) of September 16, 1988 on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters*, O.J. (L 319), 9, online: Eurlex < http://www.europa.eu.int/eurlex/en/lif/dat/1988/en_488A0592.html > (date accessed: 7 September 2004) [hereinafter *Lugano Convention*]; *Council Regulation 44/2001 of December 22, 2001 on Jurisdiction and the Recognition and Enforcement of Judgments in Civil and Commercial Matters*, 2001 O.J. (L 012), online: Eurlex at < http://www.europa.eu.int/eurolex/en/lif/dat/2001/en_301R0044.html > (date accessed: 7 September 2004) [hereinafter *EC Regulation 44/2001*].

²⁷⁹ Art.2, *Brussels Convention*, art. 2.1 *EC Regulation 44/2001*.

with respect to intellectual property rights. It states that the courts will have exclusive jurisdiction regardless of domicile in litigation concerned with the registration or validity of patents, trade marks, designs or other similar rights required to be registered²⁸⁰. Copyrighted works do not fall under this rule of exclusive jurisdiction, however, the general and special rules of jurisdiction stipulated in Brussels Convention and EU Regulation can be applied. Pursuant to art. 2 of the Brussels Convention, the general rule is that persons domiciled in a member state shall be sued in the courts of that member state regardless of their nationality. According to art. 17 of the Brussels Convention the parties may choose another forum explicitly. The parties may also choose another forum implicitly, when the defendant appears in the court chosen by the claimants²⁸¹. Special jurisdiction can be exercised with respect to contracts²⁸² and torts:²⁸³ a person domiciled in a member state may be sued in matters relating to a contract in the courts for the place of performance of the obligation, and in matters relating to tort, delict or quasi-delict, in the courts for the place where the harmful event occurred or may occur.

Torremans notes that in Internet context, art.2 of the Brussels Convention “works well in those cases, where a single unauthorized copy of a copyright work is made or downloaded over the Net”²⁸⁴. However, more often are situations when unauthorized copies are disseminated over the Net without any restrictions to a certain country or area. In this case, according to the general jurisdiction rule the forum of the place where the server is located and of the place of the residence of the web-site operator will consider the case. But what if the server is located in one country, whereas the web-site operator posts the infringement material from another country? According to specific jurisdiction rule relating to torts, the *lex loci delicti* is to be applied. Thus, the forum of the country of residence of the plaintiff, where the injury was felt can exercise

²⁸⁰ Art. 16(4), *Brussels Convention*, art. 22.4 *EC Regulation 44/2001*.

²⁸¹ Art. 17, *Brussels Convention*.

²⁸² Art. 5.1 *Brussels Convention*, art. 5.1 *EC Regulation 44/2001*.

²⁸³ Art. 5.3. *Brussels Convention*, art. 5.3 *EC Regulation 44/2001*.

²⁸⁴ P.Torremans, “Private International Law Aspects of IP – Internet Disputes” in *Law and the Internet: A Framework for Electronic Commerce*, 2ed. L.Edwards and Ch. Waelde, (Oxford-Portland-Oregon, 2000) at 228. [hereinafter, Torremans, “Internet Disputes”].

specific jurisdiction, or an even more complicated situation can occur, when the forum of each country, where the infringing material was downloaded, i.e. the country of reception will have jurisdiction on the basis of occurrence of the harmful event. The European Court of Justice in *Shevill* case states that only the forum of the country of domicile of the defendant has jurisdiction over the entire case. Otherwise, in case the infringement taking place in several countries, the court in each country will have jurisdiction to deal with damages occurring in their territories²⁸⁵, which “will lead to the fragmentation of internet-related claims...”²⁸⁶.

Leaving aside the personal jurisdiction issue, the court has to have subject matter jurisdiction over the case, namely, whether foreign copyright dispute is a proper subject matter for a domestic forum, otherwise the action can not be heard. The Brussels Convention deals only with the personal jurisdiction and leaves the conditions governing the admissibility of the act for the national laws of each forum. In *Pearce v. Ove Arup Partnership Ltd and Others*²⁸⁷ the defendants raised two issues against actionability, the issue of subject matter jurisdiction and the rule on double actionability. The judge found that as long as the court had personal jurisdiction over the defendants under arts. 2 & 6 of the Brussels Convention, conditions of admissibility laid down by the national laws would have the effect of restricting the application of the rules of jurisdiction laid down by the Convention and subsequently can not be applied by the court. The trial judge also found that application of the *Mocambique Rule* would be inconsistent with and impair the effectiveness of the Convention²⁸⁸. The *Mocambique Rule* was established in *British*

²⁸⁵ *Fiona Shevill v. Presse Alliance* [1995] ECR I-415, Case 68/93.

²⁸⁶ Torremans, “Internet Disputes”, *supra* note 284 at 229.

²⁸⁷ [2000] 3 WLR 332. The facts of the case are as follows: the plaintiff, Gareth Pearce, a virtually unemployed architect, claimed that world-renowned Dutch architect Rem Koolhaas, his project architect (Fuminori Hoshino) and others had plagiarised and misappropriated concepts he had developed as a student for a town hall in the London Docklands. Mr. Pearce claimed that Mr. Koolhaas used those concepts when he designed the much-celebrated Kunsthal in Rotterdam. The first defendants were civil engineers domiciled in UK, the second defendant was architect domiciled in the Netherlands. The third and fourth defendants’ domicile was the Netherlands, too.

²⁸⁸ The same conclusion was drawn by the European Court of Justice in *Duijnstee v. Goderbauer* [1983] ECR 3663, Case 288/82, and *Kongress Agentur Hagen GmbH v. Zeehage BV* [1990] ECR I-1846, Case C-365/88.

*South Africa Co. v. Companhia de Mocambique*²⁸⁹. According to the Rule, English courts can not deal with actions in relation to title to foreign land or right of possession to immovables, including actions concerning trespass or infringement to immovables²⁹⁰. The rationale of the Rule lies in the distinction between local and transitory actions found in English law²⁹¹. In copyright infringement case, because of the analogy with actions in relation to foreign land, the Rule should lead the court not to admit an action for the infringement of a foreign copyright. However, the Court in the *Pearce* case held that an English court does not have to refuse an application which sought to apply a foreign copyright law in a claim based on acts committed abroad on the basis that it is not actionable in UK: “Such restrictions applicable to land actions only”²⁹². Thus, now the UK courts appear to accept that even if the rule applies by analogy to copyright, the *Mocambique Rule* has no application unless the existence of validity of copyright is in dispute²⁹³. It is submitted that from the position of copyright infringements on the Internet, under conditions

²⁸⁹ [1893] AC 602 (HL). The facts of the case are as follows: two companies, Portuguese and British were in dispute about a territory called Manica. The Portuguese company complained that it owned lands and mineral rights in Manica. The British company invaded the territory with a military force and seized the lands and minerals, having damaged the business of the Portuguese company. The House of Lords held that the Portuguese company was not entitled to maintain its claims in the English court as it would be to try a question of title to foreign land. In *Tyburn Productions Ltd. v. Conan Doyle* [1991] Ch 75, the rule was extended to all intellectual property rights. In this case the defendant argued that her U.S. intellectual property rights, including copyright, would be infringed by the claimant’s intention to release a film in which the characters of Sherlock Holmes and Dr. Watson were used, though the screenplay was original in other respects.

²⁹⁰ S.30 of the *UK Civil Jurisdiction and Judgments Act 1982* abrogated the second element of the *Mocambique Rule* and provides that an English court has jurisdiction to try a trespass action or other tort affecting foreign immoveable property regardless of its location unless the “proceedings are principally concerned with a question of title to, or the right to possession of, that property”.

²⁹¹ An action for trespass to land was considered to be local, the land was outside the UK, therefore, the English court had no jurisdiction over the case. Behind the distinction between local and transitory actions lies the idea of comity of nations. According to Vinelott J in recent case *R Griggs Group Limited v. Ross Evans and Others* [2004] EWHC 1088 (Ch) “the only rationale which survives today [in justification of the *Mocambique Rule*] ... is that it would be a breach of international comity to try questions of title to foreign land *in rem*, save incidentally.” The case is discussed in note 346 *infra*.

²⁹² if the validity of copyright is not in issue. *Pearce v. Ove Arup Partnership Ltd and Others* [2000] 3 WLR 332. In the *Pearce* case the court held that S.30 of the *UK Civil Jurisdiction and Judgments Act 1982* is subject to the Brussels Convention (art. 16(4)). In cases governed by the *Brussels Convention*, if the UK court has personal jurisdiction under arts. 2 & 5 and it falls outside art. 16(4), there is no reason why UK court should find that the matter is non-justiciable.

²⁹³ In the United State, copyright infringement is considered to be transitory action that can be heard before the courts in a country other than the one in which the infringement allegedly occurred. See Ginsburg, “Private International Law”, *supra* note 280.

when the infringing act can take place in several jurisdictions, the application of the *Mocambique Rule* to copyright infringements is not justifiable as it might lead to the situation where in respect of a single chain of infringement crossing the borders of several countries, different actions will have to be brought in each of those countries in respect of the damage suffered in that country.

Once the court accepts that it has personal and subject matter jurisdiction over the claim, the next question to decide is whether the local forum is a *forum non conveniens*. Under the doctrine of *forum non conveniens*, court may justify the dismissal of all or part of an action when it concludes that another forum will be most convenient and will best serve the interests of justice²⁹⁴. There are of course different approaches to *forum non conveniens* doctrine in common law and civil law countries. The Brussels Convention does not permit a *forum non conveniens* defense, thus British court will not apply the doctrine in cases subject to the Convention if the alternative forum is another European Member Country²⁹⁵. In the U.S. the *forum non conveniens* doctrine is more flexible comparing with other common law countries in a sense that the U.S. court has a presumption in favor of its national choice of forum²⁹⁶. Arguably such application of the doctrine conflicts with the national treatment principle in a copyright infringement litigation: when a copyright is infringed in the U.S., the national treatment requires that the rightholder has a right to pursue the remedy in the U.S., while the doctrine of *forum non conveniens* may authorize

²⁹⁴ The leading U.S. case is *Gulf Oil Corp. v. Gilbert* 330 U.S. 501 (1947). In that case Gilbert, a resident of Virginia, sued Gulf in New York federal court for damage, for a fire allegedly caused by Gulf's negligence in delivery of gasoline to Gilbert's warehouse in Virginia. New York was a proper venue because Gulf was a corporation qualified to do business in New York. The Supreme Court looked beyond the technical propriety of the venue and found virtually no connection between New York and the facts of the case. The injury complained of occurred in Virginia, all potential trial witnesses lived in Virginia and Virginia law would applied to determine liability. Therefore, the court held that New York district court should dismiss the action.

²⁹⁵ P. Goldstein, *International Copyright: Principles, Law, and Practice* (Oxford University Press, 2001), at 95 [hereinafter Goldstein, *International Copyright*] (referring to the leading British case, *Spiliada Maritime Corp. v. Cansulex Ltd.* [1987] AC 460, where the court ruled the *forum non conveniens* doctrine could apply only if there is some other available forum, having competent jurisdiction, in which case may be tried for the best interests of all parties and the goal of reaching justice). The U.S. *forum non convenience* doctrine has two requirements: the party moving for dismissal must demonstrate (1) that an adequate alternative forum to adjudicate the claim exists, and (2) that the balance of relevant private and public interests favors dismissal.

²⁹⁶ *Ibid.*, at 96.

the court to dismiss the case to be litigated outside the U.S. This was the case in *Creative Technology, Ltd. v. Aztec System PTE Ltd.*²⁹⁷, where the U.S. court applied the doctrine to copyright case with a foreign element and granted motion to dismiss to Aztech in favor of a parallel suit in Singapore. The decision of the court was much criticized for erroneous analysis of the elements of the doctrine²⁹⁸.

Given the discussion above it is evident that there are different approaches to jurisdiction issues employed in different courts around the world, which is quite logical taking into account different legal systems and traditions. However, such diverse approaches and absence of clearly-formulated rules and principles is not to the advantage of authors, copyright owners, their representatives and users which expect to see more harmonized approach and thus be certain that their rights will be protected. At the international level, the Hague Conference on International Private Law²⁹⁹ is developing a new draft of the Hague Convention³⁰⁰. However it does not contain specific jurisdictional rules for copyright infringement cases. At academic level, Ginsburg and Dreyfuss proposed another draft Hague Convention that deals specifically with jurisdiction and recognition of judgments in intellectual property matters. In a nutshell, the convention is proposed to be adopted under auspices of WIPO or WTO. For copyright infringements, the plaintiff may bring an action in the courts of a) any state where defendant substantially acted (including preparatory acts) in furtherance of the alleged infringement; or b) any state to which the alleged infringement was intentionally directed, including those states for which defendant

²⁹⁷ 61 F.3d 696 (9th Cir. 1995). This copyright infringement case was brought by a Singapore-based holder of several U.S. copyrights against another Singapore-based company, alleging acts of infringement occurring solely in the United States. Defendant Aztech moved to dismiss under the *forum non conveniens doctrine*, and the motion was granted by both the U.S. District Court for the Northern District of California, and the U.S. Court of Appeals for the Ninth Circuit on appeal.

²⁹⁸ One of the criticisms referred to the misapplication of the national treatment principle by the Court, namely considering the national treatment to be a choice of law rule. See discussion at notes 305-309 *infra*.

²⁹⁹ See generally online: *Hague Conference on Private International Law Homepage* (online: <http://www.hcch.net/index.html>) (date accessed: 7 November, 2004).

³⁰⁰ Interim Text of the Draft Hague Convention on International Jurisdiction and Foreign Judgments in Civil and Commercial Matters, Summary of the Outcome of the Discussion in Commission II of the First Part of the Diplomatic Conference, June 6-20, prepared by the Permanent Bureau of the Hague Conference and the Co-reporters, (online: <http://pub.bna.com/eclr/Hague20010802.pdf>) (date accessed: 7 November, 2004).

took no reasonable steps to avoid acting in or directing activity to that state, or c) any state in which the alleged infringement foreseeably occurred unless the defendant took reasonable steps to avoid acting in or directing activity to that state. In case of b) and c) the respective courts of the state shall have jurisdiction only in respect of unauthorized use occurring in that state. It is yet to be seen whether this proposal will be taken up, however there is no doubt that efforts for harmonization in the jurisdiction area are more than needed. The issue of jurisdiction is only a small part of a set of issues in the interface of intellectual property and private international law. The next issue that courts face in considering copyright infringement cases is whose law should govern the case. This is discussed in the next section of the work.

3. Territoriality, National Treatment, and *Lex Loci Protectionis*

The Berne Convention contains two principles for the protection of authors' rights: national treatment principle and the principle of universal copyright norms. According to Ginsburg the former "preserves the integrity of domestic legislation", while the latter "guarantee[s] international uniformity and predictability, and thus enhance[s] the international dissemination of works of authorship"³⁰¹.

The national treatment principle stipulated in art. 5(1) of the Berne requires member states to grant copyright owners from other Berne countries the same protection that is accorded to their own citizens. Thus, "the non-discrimination rule of national treatment" that has been the cornerstone of the Convention since its first elaboration in 1886 reinforces the principle of

³⁰¹ J.Ginsburg, "International Copyright: From A "Bundle" of National Copyright Laws to a Supranational Code?" (2000) 47 J.Copyright Soc'y U.S.A. 265 [hereinafter, Ginsburg, "Supranational Code"]. However, as was discussed earlier, predictability and uniformity at the international level exist in a form far from their fullest meaning. In other words, although Berne Convention establishes universal copyright norms, they are a set of minimum standards and the countries are free to provide higher protection than is required under the Convention. Thus, despite the established minimum of rights, differences still exist at the national legislation level. There are also some crucial areas where countries have discretion as to tailoring those areas to their social, cultural and even economic policies and philosophies: one of the examples is definition of "author" of works or application of three-step test regarding exceptions and limitations to copyright, discussed above.

territoriality of copyright law, which has become blurred with the advent of Internet³⁰². As long ago as in 1995, Ginsburg noted that this rule may be ripe for reconsideration³⁰³. There are views, however, that national treatment principle is to be considered as a choice of law rule, and thus be applicable to all elements of international copyright infringement action. Ulmer states that “the question of who is the first owner of copyright is also decided in accordance with the law of the country where protection is claimed”³⁰⁴. Melvill and David Nimmer share the same opinion. According to them the copyright law of the nation where infringement is being claimed is the law that should be applied for all of the elements of the copyright claim: “[t]hus, a German author is entitled to protection against the infringement of his work in France, under the terms of the French copyright law, not that of the German copyright law”³⁰⁵. However, if the national treatment principle is a choice of law rule, it is obviously incomplete as it does not solve the issue of which law should be applied in case protection is sought by an author from a non-forum country³⁰⁶. Let’s assume that Russian citizen brings an action in Singapore for copyright infringement that took place in U.S, and that Singapore court has jurisdiction. Whose law will govern in this case? The forum is Singapore, the *lex loci delicti* is U.S. and the claimant is Russian. The work originates in Russia as the author is Russian citizen and the work was first published in Russia. Which law should apply? Suppose art.5(2) of the Berne Convention applies³⁰⁷, then the law of the country, where protection is claimed, should apply. But which is that country? Singapore, where the action was brought or U.S. where the infringement took place?

³⁰² Ginsburg, “Global Use/Territorial Rights”, *supra* note 270.

³⁰³ *Ibid.*

³⁰⁴ E.Ulmer, *Intellectual Property Rights and the Conflict of Laws* (Deventer: Kluwer, 1978) at 11, 36-37.

³⁰⁵ M.B. Nimmer and D. Nimmer, *Nimmer on Copyright*, (New York: M.Bender, 2000) para 17.05 [hereinafter, *Nimmer on Copyright*]

³⁰⁶ Goldstein, *International Copyright*, *supra* note 295 at 89.

³⁰⁷ Art. 5(2) of the Berne states: “The enjoyment and the exercise of these rights shall not be subject to any formality; such enjoyment and such exercise shall be independent of the existence of protection in the country of origin of the work. Consequently, apart from the provisions of this Convention, the extent of protection, as well as the means of redress afforded to the author to protect his rights, shall be governed exclusively by the laws of the country where protection is claimed.”

Furthermore, art. 5(2) of the Berne applies only to subject matter and rights. It is a choice of law rule that leads to the application of the law of the Berne member country where protection is claimed. Different interpretations of art. 5(2) of the Convention have been expressed³⁰⁸. Some commentators believe that “the country where protection is claimed” denotes the *lex fori*; others state that this provision denotes the law of the place for which protection is claimed, implying *lex loci* approach. Ricketson argues that the purpose of art. 5(2) is independence of protection: protection of a copyrighted work from another Berne country is independent from the protection in the country of origin; literal application of art. 5(2) will lead to questionable results, and *lex loci delicti* is equally compatible with art. 5(2) as the *lex fori*³⁰⁹. However, this choice of law does not necessarily result in application of *lex fori*. The law to be applied may be that of a foreign country regardless of which forum is seized.³¹⁰ Referring to the example above, Singapore court is the *lex fori*, however it does not prevent Singapore court under its conflicts of law rules from applying the law of U.S. as being the *lex loci delicti* under art. 5(2) of the Berne³¹¹.

The Berne Convention is silent on the issue of authorship, as well as any other copyright treaty, including the TRIPS Agreement and WCT. Ricketson notes that the reason for no definition of the expression “author” in the Berne Convention lies in the fact that the main focus of the Berne was on the protection given to authors rather than on the issue of authorship.³¹² One might argue that the Berne does state that authors “are entitled to institute infringement proceedings in the countries of the Union” and that when a person’s name appears as the author’s

³⁰⁸ A.Reindl, “Choosing Law in Cyberspace: Copyright Conflicts on Global Networks” (1998) 19 Mich.J.Int’l L. 799.

³⁰⁹ Ricketson, *Berne Convention*, *supra* note 30 at 225-226.

³¹⁰ R.Xalabarder, “Copyright: Choice of Law and Jurisdiction in the Digital Age” (2002) 8 Ann.Surv. Int’l & Comp.L. 79.

³¹¹ There are two arguments in support of this statement. One refers to the fact that art.5(2) of the Berne Convention was drafted a long time ago based on territoriality concept of copyrights. Thus, if the infringing act takes place in U.S., the only copyright that is infringed is U.S. The protection that is claimed is granted according to the U.S. law, thus Singapore-based forum must apply U.S. copyright law, otherwise, it could come to a conclusion that no infringement took place. For instance, if the court applies Singapore Act, it is limited strictly to acts done in Singapore. Another justification of this view lies in the fact that the law of the forum also includes forum’s private international law. Thus, Singapore court will be allowed under art.5(2) of the Berne Convention to apply the law of the United States.

³¹² Ricketson, *Berne Convention*, *supra* note 30 at 39.

on a “work in the usual manner” that person is presumed to be that author with standing to sue³¹³. However, according to the WIPO Guide to the Berne Convention “[t]he courts are left to give precise meaning to this general expression. If an alleged infringer wishes to show that the author is not the copyright owner, he must prove it.”³¹⁴ “[I]f a court treats standing and ownership indiscriminately, it risks riding roughshod over the ‘needs of international system’ that these Berne presumptions of standing help to meet.”³¹⁵ Moreover, the Berne does not stipulate for actual creator’s name appear in the work in the usual manner, thus, it provides only partial coverage of authorship and ownership.³¹⁶

The only exception to the Berne’s silence on the authorship and ownership issue is found in art. 14*bis*, “the most obscure and least useful in the whole Convention,”³¹⁷ which was added at Stockholm Conference in 1967. Pursuant to art.14(1) “the owner of the copyright in a cinematographic work shall enjoy the same rights as the author of an original work”, however, “ownership of copyright in a cinematographic work shall be a matter for legislation in the country where protection is claimed”(art.14*bis* (2)(a))³¹⁸. This, in its turn, raises a number of issues. As is

³¹³ Art. 15(1) of the Berne Convention states: In order that the author of a literary or artistic work protected by this Convention shall, in the absence of proof to the contrary, be regarded as such, and consequently be entitled to institute infringement proceedings in the countries of the Union, it shall be sufficient for his name to appear on the work in the usual manner”.

³¹⁴ WIPO, Guide to the Berne Convention for the Protection of Literary and Artistic Works (Paris Act, 1971) 93 (1978).

³¹⁵ P.E. Geller, “Conflicts of Laws in Copyright Cases: Infringement and Ownership Issues”, online: P.Geller’s Homepage < <http://www-rcf.usc.edu/~pgeller/copconflits.pdf> > (date accessed: 7 November, 2004) [hereinafter Geller, “Infringement and Ownership Issues”].

(criticizing the methodology applied by the court in *Itar-Tass News Agency vs. Russian Kurier, Inc.*, 153 F.3d 82 (2d Cir.1998) that led to the situation when “the Second Circuit effectively denied standing to a Russian publisher to sue for the infringement of U.S. copyright because, under a convoluted conflicts analysis the publisher did not prove copyright ownership”). [hereinafter, Geller, “Conflict of Laws”].

³¹⁶ J.Ginsburg, “Supranational Code”, *supra* note 301.

³¹⁷ Ricketson, *Berne Convention*, *supra* note 30 at 582.

³¹⁸ Art. 14*bis* (2)(b) of the Berne Convention further adds that “in the countries of the Union, which, by legislation, include among the owners of copyright in a cinematographic work authors who have brought contributions to the making of the work, such authors, if they have undertaken to bring such contributions, may not, in the absence of any contrary or special stipulation, object to the reproduction, distribution, public performance, communication to the public by wire, broadcasting or any other communication to the public to the subtitling or dubbing of text, of the work”. It is equally a matter of national legislation whether the author’s “undertaking” is to be in writing (art.14*bis*(2)(c)) where the maker of the cinematographic work has his headquarters or habitual residence. The latter, as also defined in art. 4 of the Berne, represent two connecting factors for qualification of works under the Berne.

discussed earlier, it is not clear which is the country where protection is claimed. Should it be *lex fori* or *lexi loci delicti*? Ricketson notes that the law of the forum application under Berne was formulated due to different approaches to ownership in audiovisual works, but art. 14bis(2)(a) serves to ensure that the forum is free to maintain whichever system it protects...³¹⁹. Thus, if the place where infringement is claimed is the *lex fori*, the law of the forum may choose to apply the place where the infringement took place or some other place. According to the WIPO Guide to the Berne Convention "...the presumption is governed by the fact that the author has consented, which is why it is not called a presumption of assignment, but simply one of legitimation, since it in no way interfered with the contractual relations between contributors and film-makers, but merely deems the latter to have acquired the permission necessary to exploit the film"³²⁰. Art. 14bis(3) limits the class of authors to which the presumption applies, it does not apply to the film's director, screenwriters or composers of the soundtrack. According to Ginsburg, there are two contrary and unpersuasive interpretations that art. 14bis lends with respect to the treaty as a whole: either the application of the law of the place of infringement is confirmed, or "specification of the applicable law was necessary because the treaty's default rule implicitly refers to the ownership rules of the country of origin"³²¹. Yet both interpretations do not work neatly with respect to the determination of initial ownership. "In other words, there is no mandatory approach to authorship/ownership of cinematographic works"³²².

If one considers national treatment as a choice of law provision, consequences of such interpretation in the Internet would result in multiple ownership laws and a change of ownership every time the work is transmitted through the Net and crosses non-existing borders. Similarly the strict application of the *lex loci protectionis* stipulated in art. 5(2) of the Berne may lead to application of as many laws, as there are countries into which the work can be uploaded. In case

³¹⁹ Ricketson, *Berne Convention*, *supra* note 30 at 582 (1987).

³²⁰ WIPO, Guide to the Berne Convention for the Protection of Literary and Artistic Works (Paris Act, 1971) 86 (1978).

³²¹ J.Ginsburg, "Global Use/Territorial Rights", *supra* note 270.

³²² W.Patry, "Choice of Law", *supra* note 259.

the infringement has occurred on the Internet simultaneously in several countries, this can lead to application of as many national copyright laws as there are countries, where the work maybe received or accessed. For authors and copyright owners it means that for each territorially distinct claim, there will be territorially distinct litigation. If “a plaintiff chooses to plead before one court the laws of every place of alleged infringement... it would not be surprising if some courts proved reluctant to entertain the extra-territorial portions of the action...”³²³ and dismiss the claim on *forum non conveniens* grounds³²⁴. Single governing law approach also disregards the fact that ownership rules reflect mandatory policy of the country that confers rights on the work in question. As was mentioned earlier, the ownership rules are formulated according to the social, cultural and even economic policies and reflect diverse philosophical approaches to copyright. This leads to the differences in the scope of ownership rules in different countries thus making it impossible and inappropriate to strictly apply one choice of law solution.

4. Choice of Law in Determining Initial Ownership

4.1. Itar-Tass: National Treatment Redefined. What’s Next?

“The Berne Convention's silence on how to decide ownership implies that the appropriate law might not be that of the country where protection is claimed.”³²⁵ Ginsburg names two categories of issues in this regard: “issues as to which the Berne Convention poses no choice of law rule: copyright ownership in general” and “issues to which the Berne Convention does pose a choice of law rule, but the choice is problematic for GII [Global Information Infrastructure].”³²⁶ “Caselaw on the issue is sparse.”³²⁷ Prior to decision of the court in *Itar-Tass*,³²⁸ the issue of

³²³ J.Ginsburg, “Global Use/Territorial Rights”, *supra* note 270.

³²⁴ In *Creative Technology, Ltd. v. Aztec System PTE Ltd.* 61 F 3d. (9th Cir. 1995) the U.S. court applied the *forum non conveniens* doctrine dismissing the case despite the fact that all claimed acts of infringement had taken place in the United States.

³²⁵ B.Kaplan, “Determining Ownership of Foreign Copyright: a Three-Tier Proposal” (2000) 21 Cardozo L.Rev. 2045 [hereinafter Kaplan, “Determining Ownership”].

³²⁶ J.Ginsburg, “Global Use/Territorial Rights”, *supra* note 270. See also, Ricketson, Berne Convention, *supra* note 30 at 208-210, 904-905; Yu, “Conflict of Laws”, *supra* note 271.

³²⁷ P.Goldstein, *International Copyright*, *supra* note 295 at 102.

³²⁸ *Itar-Tass Russian News Agency v. Russian Kurier Inc.* 153 F 3d. 82 (2d Cir. 1998).

ownership was considered in *London Film Prods. Ltd. v. Intercontinental Communications, Inc*³²⁹. The court noted that the Berne requirement of national treatment means applying the law of the country where the infringement occurred to decide whether the copyright was infringed, however, the court specifically stated that it was not deciding subject matter or ownership issues of copyright. The issue of ownership was also indirectly considered by the court in *Murray v. British Broadcasting Corp*³³⁰, where the court separated ownership rights from substantive right stating that “[n]ational treatment ensures that the substantive law of the country in which infringement is alleged will govern a claim even if the law of that country differs from the law of the country in which the work was created”³³¹.

One of the recent cases where the court faced the task of determining the initial ownership was *Itar-Tass* case, where the U.S. Court of Appeals for the Second Circuit held that in international copyright disputes, the issue of ownership should be governed by the law of the country of origin of a work, though “the court labeled it the law of the country with the ‘most significant relationship’ to the work”³³². The following are the facts of the case: Russian news agency, Itar-Tass filed a suit claiming copyright infringement against a Russian-language newspaper published in New York. The plaintiffs, comprising newspapers, news company, and union of journalists of Russia, complained that the defendant had copied materials from their newspapers. The Kurier defendants did not dispute that it had copied about 500 articles that first

³²⁹ 580 F.Supp. 47, 50 (S.D.N.Y. 1984). (A British copyright owner brought an action against a New York licensor for copyright infringement in six Latin American countries. Copyright was not infringed in the U.S.)

³³⁰ *Murray v. British Broadcasting Corp.*, 906 F.Supp. 858 (S.D.N.Y. 1995), affirmed, 81 F. 3d 287 (2d Cir. 1996). (the plaintiff, UK national brought an action against the UK British Broadcasting Corporation and BBC Lionheart Television International (U.S. corporation, a subsidiary of the BBC). The plaintiff claimed that his copyrights in the costume of a children’s show character, Mr. Blobby were infringed under U.S. and UK law. He also asserted false designation of origin and unfair competition. While the BBC began authorizing and licensing products bearing the likeness of Mr.Blobby in the UK, no Mr.Blobby products were produced for the American market on the date of the suit filed. In the U.S. only marketing activities took place, where Mr.Blobby was actively marketed at the International Licensing and Merchandising Conference and Exposition. The district court dismissed the action against BBC and Lionheart on the ground of *forum-non-conveniens*).

³³¹ *Ibid.*

³³² Torremans, “Internet Disputes”, *supra* note 284.

appeared in the plaintiff's publications or were distributed by Itar-Tass. "Since the copying was obvious and undisguised, the only issue of note in the case was plaintiff's standing to bring an action which, in turn, depended on ownership of the copyright"³³³.

As the Judge Newman noted the threshold issue of the case lay in the choice of law for resolution of the dispute. The court further noted that the "choice of law issues in international copyright cases have been largely ignored in the reported decisions and dealt with rather cursorily by most commentators"³³⁴. The court held that the national treatment requirement of the Berne Convention could be satisfied by treating all substantive issues the same. And thus, this did not require use of U.S. law to decide the ownership issue. Judge Newman expressly dismissed Nimmer's views, and drew a conclusion that national treatment is not a choice of law provision, and does not require application of any specific law for the determination of ownership of a foreign copyrightable work. Considering the issue of ownership, the court looked both to the Second Restatement of Conflict of Laws provisions and the language of art. 5(4) of the Berne Convention. Noting that "copyright is a form of property" and that the "usual rule is that the interests of the parties in property are determined by the law of the state with 'the most significant relationship' to the property and the parties", the Court held that Russian law should be applied to determine the ownership.

Another case, which is worth mentioning, and which relied on the *Itar-Tass* ruling is *Films by Jove v. Berov*. Nimmer refers to *Films by Jove* as a complex example of choice of law issues in international copyright³³⁵. The plaintiff, American company, Films by Jove, acquired copyrights in 1500 animated films produced by the Soviet state studio; it brought actions in the U.S. against Russian enterprises for infringement of copyrights in films produced or restored by Russian state film studio prior to the end of the Soviet power that took place in Russia. The

³³³ A. Tydniouk, "From *Itar-Tass* to *Films by Jove*: The Conflict of Laws Revolution in International Copyright" (2004) 29 Brook. J. Int'l L. 897 [hereinafter, A. Tydniouk, "From *Itar-Tass* to *Films by Jove*"].

³³⁴ *Itar-Tass Russian News Agency v. Russian Kurier Inc.* 153 F.3d. 82 (2d Cir. 1998).

³³⁵ *Nimmer on Copyright*, *supra* note 305 para 9.A.04.

defendants argued that under the Russian law the entity from which the plaintiffs acquired the copyrights was not legal owner; the real owner according to the defendants was another entity, a state-owned Russian company that intervened as third-party plaintiff. In 2001 the district court granted summary judgment for film company³³⁶.

The court relied primarily on the submission of the parties' Soviet law experts and in part on interpretations of the Soviet law in several decisions by commercial courts (arbitrazh courts) of the Russian Federation. Some time later the Highest Arbitrazh Court of the Russian Federation issued an opinion in a case not involving plaintiff, but overruling two decisions of the lower courts, upon which the U.S. district court relied. At the same time the Paris Court of Appeals issued a judgment between the same parties as in the American litigation, favoring the defendants and overruling prior judgment favoring plaintiffs by the highest civil court of France, the *Cour de Cassation*. Defendants in the American litigation requested the court to reconsider its earlier decision, however, the court denied the motion³³⁷.

Following *Itar-Tass* case the court applied Russian law to determine the issue of ownership. The task of the court was complicated by the fact that the court should have not only applied Russian law, but Soviet law that governed copyright regime at the moment of producing films by the Russian state film studio. The court also had to consider inconsistent decisions by Russian commercial courts, and judgment of the Paris Appeal Court. The court finally refused the defendant's motion for reconsideration, questioned the independence of the Russian judiciary having stated that the Arbitrazh Court's decision was "strongly influenced, if not coerced, by the efforts of various Russian government officials seeking to promote 'state interests'", and ruled in favor of the plaintiff.

The *Itar-Tass* approach failed the test in *Films by Jove* as it covered only the territoriality problem of national treatment, and opened up "the Pandora's box of conflict of laws problems

³³⁶ 154. F.Supp.2d 432. (S.D.N.Y. 2001).

³³⁷ *Films by Jove II*, 250 F.Supp.2d 156 (S.D.N.Y. 2003).

that have long dogged other spheres of law, such as torts and contracts.” One scholar notes that the copyright law problems inherent in *Itar-Tass* and revealed in the *Films by Jove* are “conflict of laws problems, difficulties in interpretation of foreign laws, the required degree of deference to parallel decisions of foreign courts, and the international impact of the decision, in particular its effect on international transactions”³³⁸. The conflict of laws problems relate to the fact that determining initial ownership according to the country of origin might not be the best solution. Although it was clear that the issue of initial ownership was to be determined by Russian law, in contrast to *Itar-Tass*, *Films by Jove* involved transfers of the copyright. Yet the court saw no reason in considering the transfer of rights issue because the dispositive issue was that of ownership. The court in *Itar-Tass* noted that “... ‘country of origin’ might not always be the appropriate country for purposes of choice of law concerning ownership”³³⁹. Torremans submits that pursuant to the provisions of the Berne Convention³⁴⁰ “the authorship and first ownership issue should be governed by the law of the country of origin of the work. This means that in most cases the country of first publication will see its laws applied”³⁴¹. He further states that in case the first publication took place in non-Berne Member States, reference can be made to the laws of the country of residence, domicile or nationality of the author-creator of the work. However, he also notes that historical justification of such a link between the author, his work, and the country, where the work was created can no longer have the same significance on the Internet, “where the place of uploading-first publication can almost be picked at random and where that choice is not

³³⁸ A. Tydniouk, “From *Itar-Tass* to *Films by Jove*”, *supra* note 333.

³³⁹ *Itar-Tass Russian News Agency v. Russian Kurier Inc.* 153 F.3d. 82 (2d Cir. 1998).

³⁴⁰ Art. 5(3) of the Berne Convention states that protection in the country of origin is governed by domestic law. The country of origin pursuant to art. 5(4) is the country where the work is published. In case the work is published simultaneously in several countries-Berne Union members, the country with the shortest duration for protection will be the country of origin. But if only one country is a Berne Union member, the country of origin will be the Berne Union country.

Works of authors who are nationals of a Berne Union country, but who first publish outside the Berne Union are protected based on their nationality. But if the work is unpublished, then the country of origin would be the nationality of the author. An unpublished work by a stateless author who is domiciled in a Berne Union country would also receive protection.

³⁴¹ Torremans, “Internet Disputes”, *supra* note 284 at 243.

even necessarily made by the author”³⁴². What if a work was created by authors residing or working in several different countries through online communication, and this work was later uploaded on Internet all over the world? What if nationality, domicile, place of creation, or place of first publication are dispersed among several countries?³⁴³ What country out of these countries will be considered as the country of origin? Given the fact that publication took place on the Internet, the application of the country of origin approach to determine the ownership of the work, can lead to application of the law of the country that is not related to the work. Such “hard cases” involve as a rule two or more authors, who had some sort of prior agreement before they created a joint work, audiovisual or work-for-hire. The Court in *Itar-Tass* expressly stated that the court considered only initial ownership, and did not delve into considering the choice of law issues concerning assignment of rights. Thus, the question as to applicability of what choice of law rule should be applied in such “hard cases” remains open.

Another issue that left out by *Itar-Tass* decision but encountered by the court in *Films by Jove* is the conflict between interpretation of foreign laws by courts. Should the U.S. courts take into account the decisions of the highest-level foreign court? Nimmer notes that there are two options: either to decide that a foreign court of the highest level deserves deference or refuse to follow that court’s pronouncement because they come from a civil law system, where no *stare decisis* doctrine exists³⁴⁴. With respect to *Itar-Tass*, Nimmer noted that these issues were left “unaddressed in the ruling, and hence unanswered at present”³⁴⁵. In *Films by Jove* the court refused to follow the decisions of the Russian highest court due to two reasons: no doctrine of *stare decisis* and influence of the Government on the decision of the court. “This evidence of undue influence on the Russian judiciary placed the court in a strange dilemma: it could not ignore Russian law, but neither could it give effect to the Russian judiciary’s tainted interpretation

³⁴² *Ibid.*

³⁴³ W.Patry, “Choice of Law”, *supra* note 259.

³⁴⁴ *Nimmer on Copyright*, *supra* note 305, para 17.05(3).

³⁴⁵ *Ibid.*

of the law. Such disparity of interpretation of foreign laws is particularly troublesome because it undermines the policy of comity”³⁴⁶.

4.2. *Initial Ownership in Hard Cases: Possible Choice of Law Rules*

As the court in *Itar-Tass* stated “[t]he division of issues, for conflicts purposes, between ownership and infringement issues will not always be as easily made as the above discussion implies. If the issue is the relatively straightforward one of which of two contending parties owns a copyright, the issue is unquestionably an ownership issue, and the law of the country with the closest relationship to the work will apply to settle the ownership dispute”³⁴⁷. Ginsburg discussing pros and cons of applying the law of the place of infringement and the law of the country of origin in determining initial ownership in “hard cases”, comes to a conclusion that “[t]he law

³⁴⁶ A. Tydniouk, “From *Itar-Tass* to *Films by Jove*”, *supra* note 333. The issue of copyright ownership by assignment, equitable ownership and comity was also considered in the recent English case, *R. Griggs Group Ltd. v. Ross Evans & Others* [2004] EWCH 1088 (Ch). The issue in this case was rather simple: “a client applies to the advertising agency and pays them to design a new logo. The agency employs a freelance designer to produce the design. Nothing is said about copyright. Who gets the copyright in the logo? The designer, who drew the Dr. Martens logo, Ross Evans was an independent contractor hired by the Griggs company. The Griggs company intended to use the logo for the branding of Dr. Martens footwear. Although Griggs had approached Ross Evans and sought an assignment of the copyright in the combined logo, the designer had chosen to assign the copyright to a third party competitor, Raben Footware Pty Ltd. The assignment with Raben was by deed governed by the law of New South Wales. The court held that the claimant had an equitable interest in the UK copyright subsisting in a logo. The legal title to the copyright belonged to the designer. Raben had notice of the facts that gave rise to the claimant’s equitable interest, thus the court ordered Raben to assign the copyright to the claimant. However, before the order was formally drawn, the defendants introduced a new point. They claimed that the court had no power to make an order affecting the ownership of foreign copyrights, except where a defendant had assumed an obligation to transfer ownership, for instance, for good consideration. The defendants relied on *Mocambique* Rule and on decision of the court in *Tyburn Productions Ltd. v. Conan Doyle* (see *supra* note 292). The consequences of such argument were that claimants would have to bring separate legal actions in almost all member countries of Berne, and possibly some others. The court distinguished the *Mocambique* rule (that concerned a right *in rem*) and contrasted it with a right *in personam*. Therefore, an English court could exercise its equitable jurisdiction to order specific performance to enforce an agreement, subject to English law to transfer title to land situated abroad. Such an agreement gives the buyer a right *in personam*. Thus, according to the court “even if the property in question had been foreign land, there was no reason why a claim *in personam* arising from prior contract that is governed by English law and brought against a third party with actual notice of that contract and who is otherwise properly before the court, should fail; at any rate, where the contract is governed by English law and the immovables are located in manifold jurisdictions”. With respect to international comity the court thought that it was unlikely that foreign courts would see it as a breach of comity if he were to order the assignment of all the foreign copyrights due to the fact that the only alternative was to leave the claimant with the problem of suing Raben in over 150 countries. Thus in the court’s view there was nothing to suggest that the foreign courts would see that as an invasion of their sovereignty.

³⁴⁷ *Itar-Tass Russian News Agency v. Russian Kurier Inc.* 153 F 3d. 82 (2d Cir. 1998).

chosen must ... have the most significant relationship to the work's creation or dissemination."³⁴⁸ She further proposes three points of attachment: the law of the contract on creation of the work; "the nationality, domicile or effective business establishment, and the country from which the first authorized communication of the work is made"³⁴⁹.

A three-tiered "hybrid test", combining the Berne country of origin and the most significant relationship tests is advocated by another scholar³⁵⁰. The test starts with the presumption of application of the law of the country of origin under Berne with subsequent analysis of points of attachment that leads the court to consideration of the law of only one country. The second tier involves examination of the court of the overall picture and application of the law based on principle of equity. At this stage the court checks the equitability of the first-tier solution considering expectations of the parties. If the application of the law of the country of origin changes these expectations, the third tier comes into play, which is the most significant relationship test. Application of the principles of equity is also examined by another scholar³⁵¹, who suggested an idea of a supranational body of equitable principles complementary to two approaches aimed at interaction of conflict of law rules with the national copyright laws³⁵².

Let's consider the following hypothetical and apply the discussed above choice of law proposals: script-writer, U.S. citizen, independent animator, national of France and composer,

³⁴⁸ J.Ginsburg, "Global Use/Territorial Rights", *supra* note 270.

³⁴⁹ *Ibid.* The third point of attachment can be applied only at the stage when the initiating author or organizing entity disseminates the work that has already acquired definitive form. See also J.Ginsburg, "Ownership of Electronic Rights and the Private International Law of Copyright" (1998) 22 Colum.-VLA.J.L. & Arts 165 (proposing 5 choices of law for determining the initial ownership in works-for-hire, namely: 1. the personal law of the creator; 2. the personal law of the employer; 3. the law governing the employment contract; 4. the law of the country of origin; 5. the law of the forum) [hereinafter, Ginsburg, "Ownership"].

³⁵⁰ Kaplan, "Determining Ownership", *supra* note 325.

³⁵¹ A. Tydniouk, "From *Itar-Tass* to *Films by Jove*", *supra* note 333.

³⁵² One approach is represented by the draft Convention on Jurisdiction and Recognition of Judgments in Intellectual Property Matters proposed by professors R.Dreyfuss and J.Ginsburg (the draft Convention concentrates mainly on the issues of jurisdiction and enforcement of foreign judgments). See generally R.C.Dreyfuss and J.Ginsburg, "Draft Convention on Jurisdiction and Recognition of Judgments in Intellectual Property Matters" (2002) 77 Chi-Kent. L.Rev. 1065. Another approach is offered by G.Dinwoodie, see generally G.Dinwoodie, "The Architecture of the International Intellectual Property System" (2002) 77 Chi-Kent. L.Rev. 993.

national of Russia, created an animated short cartoon. Creators communicated with each other through the Internet, sending back and forth their respective parts of the work. When the cartoon was created, collaborators opened a new Singapore-located web-site, featuring the brief about the cartoon, history of its creation, and some episodes. Users could download the cartoon for a small fee. One month later, authors discovered that their cartoon was on sale on another web-site located on U.S.-based server. However, the cartoon was presented under different title. Following the fact that the web-site selling their work was located in the U.S., creators brought an action against the web-site owners in the U.S. One of the arguments of the defendant was that script-writer, U.S. national, did not have the standing to sue as he is not considered to be the author of the work. Assume that the court qualified the work as audiovisual work, it now has to consider the ownership issue, and most importantly the law of which of the above countries should be applied.

Ownership regime in the three countries differs. French Intellectual Property code vests authorship of an audiovisual work in the natural persons or persons, who have carried out the intellectual creation of the work³⁵³. If audiovisual work is adapted from the preexisting work or script, the authors of the original work are assimilated to the authors of the new work. The Code also contains a presumption that the author of the script, adaptation, dialogue, musical composition specially composed for the work and the director are considered to be joint authors, who made audiovisual work in collaboration. In Russia, authors of audiovisual work are director, author of the scenario, and author of musical work specially created for the audiovisual work³⁵⁴. The Law further contains a presumption that authors of the audiovisual work assign economic rights to the producer of audiovisual work. The composer retains the right to get remuneration for

³⁵³ France, Intellectual Property Code Art. L. 113-7.

³⁵⁴ Arts. 13 (1), 13(2), *Russian Copyright Law*. According to the latter the right to importation is not included among the rights that authors of an audiovisual work assign to the producer by virtue of signing a contract for the making of an audiovisual work.

public performance of his music work in case of public performance of audiovisual work³⁵⁵. According to the 1976 U.S. Copyright Act the employer or other person for whom the work was prepared is considered the author of the work-for-hire³⁵⁶. An audiovisual work can be work-for-hire if parties signed an agreement stating that the work was made for hire³⁵⁷.

Following Ginsburg approach the first point of attachment is the law of the contract. However, there was no contract in writing between the parties. The parties only exchanged with letters regarding the work, which might be a decisive evidence for the court to make a decision that there was a contract between the parties. However, all the contractual relations took place on the Internet, then what law should govern the relations between the parties? The next point of attachment is nationality or domicile of authors. Three creators represent three different nationalities and live in three different countries. As the work has already acquired the definite form, the law of the country of the first authorized communication of the work can be applied. The web-site is located on a Singapore-based server. Does it mean that Singapore law should govern the issue of ownership?

Using the second approach, the country of origin under Berne is to be applied. First, it is necessary to establish whether the work in question was published. If yes, the country of the first publication is the first possible law to use. Publication of the work was made on the Internet, on a server located in Singapore. Thus, the country of the first publication is Singapore. Then, the principles of equity should be applied. However, the facts of the hypothetical show that the application of the law of Singapore is inequitable. Thus, the third tier applies, i.e. the most significant relationship test. But this test can not be possibly applied to the work in question. Perhaps the court has to take into account interests of the parties, and apply the law of the most

³⁵⁵ Art. 13(3), *Russian Copyright Law*. According to Gavrilo, this provision constitutes an optional clause and can be changed by the parties. See Э.П Гаврилов, Комментарий к Закону об авторском праве и смежных правах (Москва, Фонд правовая культура 1996) С. 71-72 [Gavrilo, *Commentary to the Law of Copyright and Related Rights* (Moscow: Fond Pravovaya Kultura, 1996) at 71-72].

³⁵⁶ U.S. 1976 Copyright Act, para 201(b)

³⁵⁷ U.S. 1976 Copyright Act, para 101.

protective country, which in this case will be French law, or the court can apply the law of the country where infringement took place, i.e. U.S. in the case under consideration. The latter links the law governing ownership of copyright with the law governing infringement. The application of the law governing the infringement to the law governing ownership is consistent with the principle of territoriality of copyright, and might be a better solution given the various approaches to ownership in various countries.

There is yet another proposal articulated by Geller, who proposes the rule of thumb for “hard cases where vesting rules conflict...However rights vest, initially allocate the rights consistently with the consensus of the parties to the transaction leading to the creation of the work”³⁵⁸. His emphasis is on the agreement between the parties. If the agreement is enforceable under the law applicable to it, then it should govern which parties initially hold which rights in the work because “this consensual solution would most reliably effectuate the parties’ expectations.” If there was no agreement between the parties, and it may not be reasonably read in the parties’ transactions, “whatever law would have properly governed such an agreement, had it existed, would reliably control the initial allocation of rights”³⁵⁹. Applying this approach to the hypothetical above, the court has to ask the parties how the consensus of the parties regarding creation of the cartoon would most reasonably control the allocation of copyright in the work. In case no decisive evidence as to allocation of rights between authors exists, the court would have to work out an appropriate allocation of rights to the case taking into account diverse laws common to the parties.

Summarizing the discussion above it, there is no single approach to the issue of ownership at present. Perhaps the most consistent with the territorial nature of the Berne Convention and copyright in general is application of the law that determines ownership by reference to the country of infringement. Approaches to ownership in copyright as a rule reflect

³⁵⁸ Geller, “Infringement and Ownership”, *supra* note 315. See also *Griggs* case, discussed at *supra* note 346.

³⁵⁹ *Ibid.*

the mandatory policy of the country that confers such rights. Thus, the ownership regime will depend on the law of each country where a work enjoys copyright, and in case of copyright infringement a foreign court will have to apply laws of each country, which is obviously not a good solution from the viewpoint of users and collecting societies. The latter might prefer single governing law approach; however as was discussed above, each candidate for the single governing law has its own advantages and disadvantages: there could be several countries of origin, countries with closest connection and countries of first communication; there could be no contract signed, thus the country of the underlying contract would be inappropriate. Thus, there is no solution at present and perhaps some more time is needed both for the courts to establish jurisprudence on the issue and for the copyright community to develop some other proposals.

5. Choice of Law and Infringement Issue

Going back to *Itar-Tass*, the court separated ownership issue from the infringement issue, thus applying different choice of law rule. The copyright infringement was characterized as a tort issue, therefore *lex loci delicti* was applied. Copying of newspaper articles took place in the U.S., thus the U.S. law governed the infringement issue. However, the application of the law of the country, where infringement took place on the Internet may lead to a situation when laws of several countries in the world might apply to the various acts of infringement taking place in the different countries. Application of the law of the country of protection is advantageous from the users' viewpoint as it gives them legal certainty. In other words, whenever the user uses the work in the territory A, he knows that this use will be assessed under the law of the country A. On the contrary commercial exploiters of the work will be very much upset with the given choice of law rule, as for them it means that they risk to be in the situation when the extent of exploitation of the work is unpredictable just because in one of the countries of their operation such an exploitation is considered copyright infringement. They will not know the applicable law before the infringement takes place. This prompts consideration of other possible choice of law rules that can be applied in copyright infringement cases on the Internet.

5.1. Law of the Country of Origin

Many scholars note that the law of the country of origin is not a good candidate to govern international copyright infringement cases. There are several reasons that justify this conclusion. First of all, according to art. 5(4) of the Berne the country of origin is the country where the work was first published. If the work is not published or published illegally, it is the law of the country of which the author is a national that should apply. However, the definition of origin of a work in Internet is unclear. The work published on Internet is not published in the traditional sense, it is only made available by uploading. Secondly, in case the law of the country of the author's residence is applied, it may conflict with the criteria used to establish jurisdiction, which is as a rule based on the residence of the defendant, rather than claimant, or on the place of infringement. Thirdly, as was discussed earlier the law of the country of origin does not give a solution to the situation when the copyrighted work has several authors, residing in different countries, or when the work is simultaneously published for the first time in several countries.

5.2. Law of the Country of Upload

The law of the country of upload may be applied when the communication to the public is initiated, i.e. the country where the server hosting the alleged infringing content is located. This approach has been adopted in the EU Directive on Satellite Broadcasting and Cable Retransmission³⁶⁰. According to art. 1.2(b) of the Directive “the act of communication to the public by satellite occurs solely in the Member State where, under the control and responsibility of the broadcasting organization, the programme-carrying signals are introduced into an uninterrupted chain of communication leading to the satellite and down towards the earth”. Similar approach was adopted by some U.S. courts, who applied U.S. law to the international

³⁶⁰ *Council Directive 93/83/EEC of 27 September 1993 on the coordination of certain rules concerning copyright and rights related to copyright applicable to satellite broadcasting and cable retransmission* in A.Christie and S. Gare, *Blackstone's Statutes of Intellectual Property*, 6th ed. (Oxford University Press, 2003) at 171 [hereinafter *EC Satellite Directive*].

copyright infringement claim when the root act of copying occurred in the U.S.³⁶¹ This rule is criticized for the possibility to create “copyright havens” for Internet servers: if the unauthorized uploading of the work in such country is not an infringement, it is not an infringement in other countries. “Perhaps, just as certain nations have become the venue of choice for entrepreneurs seeking maximum banking secrecy and minimum taxes, some nations will endeavor to enhance the local economy by attracting professional infringers to their copyright-free shores”³⁶².

5.3. *Lex Fori*

Lex fori rule invites forum shopping, as a result infringement case may be considered by the court of the country that has over-protected copyright legislation. Similarly to *lex loci delicti* the applicable law may not be known until the infringement take place. *Lex fori* rule can work well in national copyright infringement cases with application of national laws, however in international copyright infringement cases “this method, used alone, risks limiting or skewing judicial consciousness with regard to foreign laws that, though possibly quite different from forum law, may well bear on a given cross-border case”³⁶³.

5.4. *Alternative Proposals*

Ginsburg has developed an alternative proposal to the choice of law issue in the digital distribution context³⁶⁴. It is a cascade approach that is aimed at minimizing the risk of the copyright heavens taking into account compliance with the applicable law and the Berne Convention and TRIPS Agreement³⁶⁵.

³⁶¹ *Subafilms, Ltd. v. MGM-Pathe Communications Co.* 24 F. 3d. 1088 (1994).

³⁶² Ginsburg, “Global Use/Territorial Rights”, *supra* note 270.

³⁶³ Geller, “Infringement and Ownership”, *supra* note 315.

³⁶⁴ Ginsburg, “Private International Law”, *supra* note 277. See also update, comments to art. 251(g), J.Ginsburg, R.Dreyfuss, “Draft Convention on Jurisdiction and Recognition of Judgments in Intellectual Property Matters”, WIPO, PIL/01/7, January 24, 2001, online: World Intellectual Property Organization Homepage < http://www.wipo.int/pil-forum/en/documents/doc/pil_01_7.doc > (date accessed: 8 October 2004).

³⁶⁵ 1) The law of the country of residence or principal place of business of: (a) an operator of the web-site, if the allegedly infringing content is found on a web-site; (b) a person or entity who initiated the communication, if no infringing content is found on a web-site, provided the law of the country meets the requirements of the Berne Convention and the TRIPS Agreement; 2) If the law of the country above does not comply with minimal protection of the Berne and TRIPS then the law of the country, in which the

Torremans articulates a somewhat similar approach, starting from the law of the country in which the server that hosts the allegedly infringing content is located, provided the law meets the minimum standards of the Berne, TRIPS and WCT³⁶⁶. In case it does not, the law should be replaced with the law of the country in which the operator of the web-site containing the allegedly infringing material has its residence or its principal place of business, again subject to compliance with the Berne, TRIPS and WCT. In the event of non-compliance, the law of the forum should be the applicable law if the law of the forum meets the standards of the Berne, TRIPS and WCT.

While these two proposals undoubtedly represent bright line rules for the judiciary, and are very much flexible, they do not solve the problem of unpredictability. In other words, the problem of not knowing the applicable law until the infringement takes place as outlined above remains. Moreover, there are still countries, who are members of the Berne, TRIPS and WIPO Internet Treaties, but whose legislation is not compliant with the minimum requirements of these international instruments, as well as countries, who are not members of the WTO, and not signatories of WCT and WPPT.

6. Conclusion

As it was mentioned at the outset, one interest that parties of the “copyright camp” have in common is predictability. The Berne principle of universal copyright norms that guarantees international uniformity and predictability and thus promotes international dissemination of works does not work well in case of works created and used on the Internet. Full uniformity and predictability in application of choice of law rules to determine the initial ownership and to consider the infringement issue are not feasible in the short run, but remain desirable for all the parties of the copyright community. Given the possibilities of the modern technologies and of the

servers hosting the alleged infringing content is located, again subject to compliance with the Berne and TRIPS norms; 3) Either in case of 1 or 2, if a third country is shown to have a more significant relationship with the controversy, the law of this country is to be applied provided it is consistent with the Berne and TRIPS norms; 4) In the absence of Berne and TRIPS-compliant country having a significant relationship with the controversy, the law of the forum is to be applied as long as the forum is a member of the Berne or WTO.

³⁶⁶ Torremans, “Internet Disputes”, *supra* note 284.

Internet, the diverse legislative approaches and either scarcity of caselaw or inconsistent decisions on the matter, the most suitable choice of law approach in hard cases is to be sculptured on a case-by case basis. Such an approach cuts both ways: on one hand, *ad hoc* decision-making can lead to arbitrary results³⁶⁷, on the other hand, only practice makes perfect. The jurisdictional rules' uncertainty and inability to accommodate challenges posed by Internet also contribute to unpredictable legal environment for the copyright community. It seems that today the courts have to choose the least of two evils. They must also keep in mind the primary objective of international copyright as set forth in the Berne convention, which is "to protect, in as effective and uniform a manner as possible, the rights of authors in their literary and artistic works." "[T]he goal of reducing friction in cross-border movement of works of authorship should not overwhelm" this primary objective, and "[u]niformity in the choice of law approaches to copyright ownership should not lead to less effective protection of the rights of authors"³⁶⁸.

As was discussed in Chapter 1, the new exclusive rights were built into WCT and WPPT. Yet different countries have different interpretations of what is required by the WCT and WPPT. As was discussed in Chapter 2, there could be many different laws all compliant with TRIPS, WCT and WPPT and yet varying detailing. Collecting societies keen on facilitating on-line use and Internet will benefit from (a) greater harmonization of the rights applicable to the Internet, and (b) clearer private international law rules as to whose law governs infringing use where a chain of infringement through several countries takes place through the Internet. Collecting societies also are keen on acquiring by assignment or exclusive license, the world-wide rights in the various countries and whose law governs ownership/assignments can be unsettling for the societies. One way to reduce this problem, of course, is for different collecting societies in

³⁶⁷ L.Kramer, "Rethinking Choice of Law" (1990) 90 Colum. L. Rev 277. (warning from an attempt to develop comprehensive system of rules from a single choice of law theory), "Resolving true conflicts is a process of accommodating conflicting policies and overlapping concerns that are enormously varied. Any effort to articulate a single theory that encompasses this variety is likely to become so general as to be useless...."

³⁶⁸ Ginsburg, "Ownership", *supra* note 349.

different countries to cross license each other. This issue is discussed in later Chapters of the present work.

CHAPTER III. COLLECTIVE MANAGEMENT ORGANIZATIONS IN DIGITAL ENVIRONMENT

1. General Overview

The earliest form of collective management was authors' societies³⁶⁹. Following technological, communication and legislative developments, authors' societies had been gradually replaced by collective management or administration societies. "From a personal approach we slip towards pure business!"³⁷⁰ Indeed, the essence of copyright is to give authors the right to decide if, how and by whom his work can be used. The essence of collecting societies is to allow everyone to use the rights these societies administer. And all this comes down to the question of money, as what collecting societies do is collective bargaining, on one hand, between themselves, and on the other, between numerous users and/or their organizations.

Today, collecting societies operate under one of four umbrella organizations, namely, the International Confederation of Societies of Authors and Composers (CISAC), the International Federation of Reproduction rights Organization (IFRRO)³⁷¹, the Bureau International des Societes gerant les Droits d'Enregistrement et de Reproduction Mecanique (BIEM)³⁷², and the International Federation of Phonogram and Videogram Producers (IFPI)³⁷³. "Collective administration is a system whereby owners of rights authorize collective administration organizations to administer their rights, that is, to monitor the use of the works concerned,

³⁶⁹ Author's societies were initially professional unions of authors, who mainly fought for recognition of rights of authors to relevant works. Authors' societies were predecessors of collecting societies as their function of protecting authors was expanded to collecting royalties on collective basis. See discussion of Beaumarchais case in Chapter 1, around *supra* note 234.

³⁷⁰ P.Schepens, *Guide to the Collective Administration of Authors' Rights* (UNESCO, 2000), online: UNESCO Homepage: < <http://unesdoc.unesco.org/images/0012/001206/120677e.pdf> > (date accessed: 11 February 2005) [hereinafter Schepens, *Guide to Collective Administration*].

³⁷¹ Coordinates the activities of national collecting societies in administering reprographic rights. See detailed information online IFRRO Homepage: < www.ifrro.org > (date accessed: 11 February 2005).

³⁷² International organization representing mechanical rights societies. See detailed information online: BIEM Homepage < www.biem.org > (date accessed: 11 February 2005)

³⁷³ Principal trade association of phonogram and videogram producers that helps coordinate the activities of collecting societies in the fields of neighboring rights in phonograms and videograms. See detailed information online: IFPI Homepage: < www.ifpi.org > (date accessed: 12 February 2005).

negotiate with prospective users, give them licenses against appropriate fees, under appropriate conditions, collect such fees and distribute them among the owners of rights.”³⁷⁴

Collecting societies are “territorial” by nature, thus legal framework surrounding the structure and operation of collecting societies differs from one country to the other. Collecting societies differ by the level of collectivization³⁷⁵: they can act as a full collective management organizations that issue blanket licenses and distribute royalties among authors and copyright owners subject to deductions for compensation of administrative fees³⁷⁶; they can collectively represent authors and copyright owners on the basis of individualized authorization and distribute royalties directly³⁷⁷ or they can jointly exercise rights to remuneration without distribution of royalties among individual right owners³⁷⁸.

Collective management system differs by the author’s or copyright owner’s freedom of choice between individual and collective ways of administration. In most countries, authors and copyright owners may choose freely whether they want to assign their rights to collecting societies or manage those rights on an individual basis. In some countries exercise of rights is subject to condition of joint management by law³⁷⁹. Yet in others the law determines the only organization through which rights may be mandated jointly³⁸⁰. From the viewpoint of the scope of

³⁷⁴ *Collective Administration; Copyright and Neighbouring Rights*, WIPO, Geneva 1990, para 8

³⁷⁵ Ficsor, *Collective Management*, *supra* note 238 at 127-128.

³⁷⁶ For instance, collecting societies administering musical performing rights

³⁷⁷ For instance, clearance systems and collective management of rights in dramatic works. Ficsor singles out two basic systems of joint exercise of rights: collective management and rights clearance. While the basic elements of collective management are featured above, the rights clearance system or agency-type rights clearance is limited by collecting and distributing royalties as the only or nearly exclusive task. This type of joint management is preferred by corporate right owners, producers, publishers, and etc. “The most developed form of such agency-type system is where the tariffs and licensing conditions are also individualized, and, thus the only joint element of the system is that, through it, one single licensing source is offered with a significant reduction of transaction costs for both owners of rights and users”. Ficsor, *Collective Management*, *supra* note 238 at 22.

³⁷⁸ For instance, some collecting societies administering reprographic reproduction rights and societies administering performers’ rights. *Ibid.*, at 71.

³⁷⁹ For instance, in case of ‘home taping’.

³⁸⁰ For instance, Italian Society of Authors and Publishers (SIAE). According to point 180 of the Law of Italy “On Protection of Copyright and Rights Related to its Exercise” of April 22, 1941, No. 633 (as amended by Legislative Decree No. 95 of February 2, 2001). SIAE shall have an exclusive right to “act as an intermediary in any manner whether by direct or indirect intervention, mediation, agency or

rights and authors and copyright owners covered by collective administration collecting societies may be distinguished by administration of only members' rights, administration of members and non-members' rights by law³⁸¹, and extended joint management³⁸². Collecting societies apply different models in setting tariffs and other terms of licenses. Some collecting societies negotiate tariffs and other terms of licenses³⁸³. Others negotiate tariffs and other terms of licenses with users, however the outcome of these negotiations is subject to approval of a supervisory administrative body. Tariff and other license terms administered by collecting societies in some cases are stipulated by law³⁸⁴.

There are equally different fields where collecting societies operate: the area of operation can be classified by category of works represented, i.e. musical, literary, musical-dramatic works, works of visual arts, photographic works, and so on, and by categories of rights administered. In some countries administration of copyright and related rights is entrusted to a single organization in charge of a large general repertoire, in other countries there are many collecting societies, each of them dealing with a specific category of authors or performers, and whose repertoire is limited to one particular category of works or performances. Yet in some countries, the collection and distribution of royalties due to authors and performers is done by joint societies who administer as a whole all sums of money received in the name of each member association³⁸⁵.

The major role of collecting society is economic as the collection and distribution of royalties are *the raison d'être* of collective management system. Adequate performance of this role and function guarantees authors and copyright owners their legitimate remuneration.

representation, or by assignment of the exercise of the rights of performance, recitation, broadcasting, including communication to the public by satellite, and mechanical and cinematographic reproduction of protected works". It shall grant licenses and authorizations for the exploitation of protected works, for the account of and in the interests of the right holders; collect revenue from the licenses and authorizations; and distribute that revenue among the right holders.

³⁸¹ This is also called extended joint management; however non-members are free to opt out of such management under certain conditions. Ficsor, *Collective Management*, *supra* note 238 at 71.

³⁸² Members are not provided with a possibility to opt out. *Ibid.*

³⁸³ In case dispute arises, a court or an arbitration body makes a decision. *Ibid.*

³⁸⁴ For instance, Regulation On Minimum Rates of Royalties, Annex I to Resolution of the Government of the Russian Federation of 21 March 1994, № 218.

³⁸⁵ For instance, extended collective management, which is mainly employed in the Nordic countries.

Collecting societies are also said to be guardian of authors' rights:³⁸⁶ they enforce and protect rights assigned. Some collecting societies implement a number of social programs in support of their members. Most of the collecting societies around the world maintain cultural funds to promote national arts and culture, therefore, playing social and cultural roles. Ideally collecting societies should play a political role, which is expressed in preserving the balance between the right to information and the right to the effective protection of creators³⁸⁷. However, in most cases, collecting societies perceive themselves as representatives of authors only giving less or sometimes no attention to the problems and needs of users³⁸⁸. While such a perception is quite logical given the history of formation of the collective administration system, today there is a need for collecting societies to change it in the light of recent legislative developments at the international level and achievements in digital communications.

Changes in copyright legislation to accommodate new ways of exploitation of work on Internet, new business models applied for distribution works online, new technological infrastructure, like digital rights management, that can be used for a multiplicity of purposes ranging from clearing rights and securing payments to enforce those rights, to name a few, challenge the very existence of collecting societies. Could all this mean the end of collecting societies? The prevailing view is that collecting societies are still needed³⁸⁹, however they should

³⁸⁶ K.T.Ang, "Collective Management Organizations: Their Roles, Functions and Structure", presentation in Phnom Penh, Cambodia, February 26, 2004.

³⁸⁷ Schepens, *Guide to Collective Administration*, *supra* note 370.

³⁸⁸ "Collective administration societies have, wrongly it seems to me, been classed in the category of societies providing services to their users. While these societies may perhaps provide services to their members, how can a society belonging to authors provide them with services. They are in any case not providers of services vis-à-vis users, to whom they grant a license which constitutes a fraction of the exclusive right invested in the author". J-L.Tournier, President of the Board of SACEM, and President of GESAC, "The Future of Collective Administration of Authors' Rights", online: European Union web-site, Legal Advisory Board Homepage <<http://europa.eu.int/ISPO/legal/en/lab/950426/tournier.html>> (date accessed: 17 February 2005).

³⁸⁹ *Report on a Community Framework for Collecting Societies for Authors' Rights* (2002/2274/INI), rapporteur: R.A.Mercedes Echerer, FINAL A5-0478/2003, online: European Parliament Homepage at <<http://www2.europarl.eu.int/omk/sipade2?PUBREF=-//EP//NONSGML+REPORT+A5-2003-0478+0+DOC+PDF+V0//EN&L=EN&LEVEL=2&NAV=S&LSTDOC=Y>> (date accessed: 26 February 2005) [hereinafter Echerer, *Report*]. See also, Graber, Nenova, Girsberger, "Not Yet 'Six Feet Under'", *supra* note 251.

revise their structures and modes of operations taking into account new ways of exploitation of works, in particular on the Internet. The present Chapter explores the position of music collecting societies in the digital environment, the challenges that such collecting societies face today under conditions of exploitation of works in the Internet and the recent legislative reforms discussed in Chapter 1 and especially in the context of enforcement of rights and copyright infringements on the Internet, discussed in Chapter 2. Given the diversity of types and forms of collecting societies and the territorial nature of collecting societies' operation, as well as multitude of issues arising from the exploitation of musical works online, the Chapter will focus on performing rights societies' operation in UK and Singapore.

2. Legislative Framework

*2.1. EU *acquis communautaire* and Collecting Societies*

In Europe the European Commission has recently appeared to pay more attention to the issue of collective management system. The E.C. Directive on Rental Right provides that the unwaivable right of the author or performer to equitable remuneration for rental of a phonogram or film "may be entrusted to collecting societies representing authors or performers"³⁹⁰. The EC Cable and Satellite Directive confers on collecting societies the right to collect income in respect of programme retransmissions rights³⁹¹. However, the Directive does not affect the national regulation of collecting societies by Member States³⁹². The Infosoc Directive³⁹³ does not mention collective management, however, Recital (26) addresses the desirability of encouraging collecting licensing arrangements with regard to making available right for the purpose of facilitating the clearance of the rights concerned in on-demand services by broadcasters of their radio or television productions incorporating music from commercial phonograms as an integral part.

³⁹⁰ Art.4(3), *Council Directive 92/100/EEC of 19 November 1992 on rental right and lending right and on certain rights related to copyright in the field of intellectual property* in A.Christie and S. Gare, *Blackstone's Statutes of Intellectual Property*, 6th ed. (Oxford University Press, 2003) at 165 [hereinafter *EC Directive on Rental Right*].

³⁹¹ Art.9, *EC Satellite Directive*.

³⁹² Art. 13, *Ibid.*

³⁹³ See discussion under 2.1, Chapter I *supra*.

Recital (18) of the *Infosoc* Directive notes the necessity in the light of the requirements arising out of the digital environment in ensuring higher level of rationalization and transparency of collecting societies' operation with respect to compliance with competition rules. Similar appeal to ensure greater transparency and efficiency in activities of collecting societies is found in EC Directive on Resale Right³⁹⁴. The latter also refers to the possibility for Member States to provide for compulsory or optional collective management of the right for authors of an original work of art to receive royalties.

In 2004 the European Parliament accepted a report on the importance and future of collecting societies³⁹⁵. The report in particular notes that while digital rights management systems may result in an income which is more individually attributable, a larger part of collecting societies' sphere of activity cannot be replaced by digital rights management systems. A few months later the European Commission issued Communication on the Management of Copyright and Related Rights in the Internal Market³⁹⁶, one chapter of which is devoted to collective management of rights. The issue of the application of EU competition law to collecting societies is extensively discussed in the Communication, resulting in a conclusion that there is a lack of common rules regulating the activities of collecting societies and problems for commercial users to obtain community-wide license.

A particular attention to the interface of competition and collecting societies is not unexpected. Collecting societies have always been considered to be either *de jure* or *de facto* monopolies. As is stated in the EC Communication, the European Court of Justice and the European Commission traditionally addressed three broad issues in applying competition law to collecting societies, namely (1) the relationship between collecting societies and their members; (2) the relationship between collecting societies and users, and (3) the reciprocal relationship

³⁹⁴ Recital 28, *Council Directive 01/84/EC of 27 September 2001 on the resale right for the benefit of the author of an original work of arts* in A.Christie and S. Gare, *Blackstone's Statutes of Intellectual Property*, 6th ed. (Oxford University Press, 2003) at 217 [hereinafter *EC Directive on Resale Right*].

³⁹⁵ Echerer, *Report*, *supra* note 389.

³⁹⁶ *EC Communication on the management of copyright*, *supra* note 253.

between different collecting societies³⁹⁷. However, as the Commission notes further that the traditionally applied principles need be reassessed in the light of recent technological developments, such as the Internet. Each of these broad issues is discussed below.

2.2. UK Music Collecting Societies

Use of the whole work or a substantial part of it in certain ways requires permission of the copyright owner, i.e. restricted acts pursuant to s. 16 UK CPDA. There are primary and secondary restricted acts, the essential difference between them being that an infringer can only be held liable for secondary acts of infringement³⁹⁸ if he knew or had reason to believe that he was infringing copyright. The knowledge element is not a requirement for a primary infringer to be liable. The primary restricted acts under the English law include the right to reproduce a work. The 1911 Copyright Act stated that the right to copy also includes making “a record, perforated roll, cinematograph film, or other contrivance by means of which the work may be mechanically performed or delivered”. Thus, the mechanical reproduction right was given statutory recognition for the first time in 1911³⁹⁹. Public performance right, though existent in UK law from 1843 in poorly framed provisions, was updated and strengthened in the 1911 Copyright Act. The latter also had provisions on licensing schemes, having given rise to creation of collecting societies. By 1914 two mechanical organizations, Mecolico and CPS⁴⁰⁰, and performing rights organization,

³⁹⁷ There are two types of reciprocal agreements: A-agreements that involve proper exchange of data and licenses, incorporation in the international databank and reciprocal payment; and B-agreements that involve no data or license exchange, money collected remain in the country of licensing and use, and is credited to the local distribution fund. Echerer, *Report, supra* note 389.

³⁹⁸ Ss.22-26, UK CPDA.

³⁹⁹ The 1911 *Copyright Act* not only established the mechanical right, but also laid down a statutory royalty rate for copyright music on commercial records of 5.0% of the retail price, which was later (in 1928) increased to 6.25%. The reason for introduction of this statutory license was that “the British Government shared the US Government’s fear that the then all-powerful music publishers would want to strangle the infant record industry at birth...” The fixed rate existed till 1988, when it was abolished under the 1988 *CDPA*.

⁴⁰⁰ Both Mechanical-Copyright Licensers Company (Mecolico) and Copyright Protection Society (Mechanical Rights) Ltd. (CPS) were found in 1910, and in 1924 merged into Mechanical-Copyright Protection Society Limited (MCPS). MCPS is mechanical rights collecting society that authorizes on behalf of its members use of their work in the UK and abroad by recording companies, background music operators and other recording bodies and individuals. The collecting society also administers synchronization right in audiovisual works. MCPS is owned by the Music Publishers’ Association (MPA)

PRS⁴⁰¹ were functioning. Extensive provisions on licensing schemes and licensing bodies were introduced into 1988 CDPA and resulted in proliferation of different types of collecting societies in UK. The essential differences between the collecting societies lie in the repertoire of works administered by the society, the mandate of rights granted to the society by the rightholder and the type of mandate, either by assignment or license⁴⁰².

since 1976. T. Anderson, "Giving Music Its Due", London, 2004 at 25. See also brief history of MCPS available online: MCPS Homepage: < <http://www.mcps-prs-alliance.co.uk/aboutus/> > (date accessed: 26 February 2005).

⁴⁰¹ Performing Right Society, PRS is a collecting society administering performing rights in copyright music on behalf of composers and music publishers, both British and foreign. Performing rights include the right to perform music in public either "live" or by mechanical means, the right to broadcast music and the right to diffuse music (by cable). An interesting fact with the establishment of Performing Right Society is that the society was founded exclusively by publishers in contrast to other European societies that were founded by writers, and publishers were admitted to the society later. For more details see brief history of PRS, available online: PRS Homepage: < <http://www.mcps-prs-alliance.co.uk/aboutus/> > (date accessed: 26 February 2005).

⁴⁰² In addition to MCPS and PRS the following collecting societies operate in UK: Authors' Licensing and Collecting Society – administers rights for authors in the literary and dramatic fields, covering reprography, cable retransmission, the lending right overseas and off-air and private recording, more information available online: ALCS Homepage: < www.alcs.co.uk > (date accessed: 26 February 2005); Christian Copyright Licensing International – licenses churches, schools and organizations to reproduce the works of hymns and/or songs onto OHPs, electronic storage and retrieval, songsheets, and so on, issues music reproduction licenses, more information available online: CCLI Homepage: < www.ccli.com > (date accessed: 26 February 2005); The Copyright Licensing Agency Ltd. – licenses the reprographic copying of literary and artistic works from books journals and periodicals, issues blanket licenses for copying by institutions in education, government, public bodies and commerce and industry, more information available online: CLA Homepage: < www.cla.co.uk > (date accessed: 26 February 2005); Design and Artist Copyright – collecting societies for visual artists in UK, licenses reproduction of its members' works on an individual basis, administers reprographic, cable retransmission and off-air recording rights for visual artists, more information available online: DACS Homepage < www.dacs.org.uk > (date accessed: 26 February 2005); Directors' and Producers' Rights Society – represents British film and television directors, administers authorial rights payments on behalf of members under arrangements with foreign collecting societies, as well as cable retransmissions, private copying and video rentals, some information; Performing Artists' Media rights Association – collects and distributes royalties to performers, who have in the last fifty years, recorded their work on commercially produced records, CDs or cassettes, more information available online: PAMRA Homepage: < www.pamra.org.uk > (date accessed: 26 February 2005); Phonographic Performance Ltd. licenses on behalf of its members, who are mainly record companies, the public performance, broadcasting and cable programme rights in the main repertoire of sounds recordings protected in UK more information available online: PPL Homepage < www.ppluk.com > (date accessed: 26 February 2005); Video Performance Ltd. – licenses the public performance, broadcasting and cable distribution rights in music video recordings in the UK, more information available online VPL Homepage < http://www.vpluk.com/vpl/mm_design.nsf/splash?openpage > (date accessed: 26 February 2005); The Ordnance Survey – partly funded government agency that publishes maps of Great Britain and licenses their reproduction, more information available online: Ordnance Survey Homepage < www.ordsvy.gov.uk > (last visited February 2005). See Copyright Concerns. A pocket diary of organizations involved in the administration of copyright and rights in performance, published by the Copyright Licensing Agency Ltd., July 2003, available online: CLA Homepage: < <http://www.cla.co.uk/copyright/concerns.PDF> > (date accessed: 26 February 2005).

Any or all exclusive rights conferred by the UK CDPA upon the author may be exercised on a collective basis. No U.K. based collecting society enjoys a special juridical status. Most of music collecting societies in the UK are considered to be private bodies, and most are private companies limited by guarantee⁴⁰³. Collective management system in UK can be divided into 4 categories: (a) voluntary collective licensing⁴⁰⁴; (b) hybrid of legislation and voluntary licensing⁴⁰⁵; (c) certified licensing scheme in operation⁴⁰⁶; (d) statutory licensing⁴⁰⁷.

With respect to music collecting societies, the PRS is the only licensing body which provides in the UK the service of administering performing rights and film synchronization rights. It is a true collective or membership society that administers rights on behalf of composers and music publishers with royalties being distributed in appropriate shares directly to its members. In case of mechanical rights, the custom is that the composer assigns his mechanical rights to his publisher, who is further responsible for collecting the royalties and paying

⁴⁰³ F.Fine, “The Impact of EEC Competition Law on The Music Industry” (1992) 3 Ent.L.R. 1 [hereinafter Fine, “The Impact of EEC Competition Law”].

⁴⁰⁴ When a collecting society has a mandate from its members to administer their rights, i.e. when an author finds it impossible and impractical to individually license and monitor the use and has assigned his/her rights to collecting societies. For instance, PRS and CLA.

⁴⁰⁵ Rights are conferred by statute and mandated to a collecting society for administration. S.144A, *UK CDPA* provides for compulsory collective administration of cable retransmission right. See also Art. 9 of the *EC Satellite Directive*.

⁴⁰⁶ For instance, Educational Recording Agency, a collecting society that issues licenses to educational establishments for recording off-air from broadcast and cable programs for the purpose of educational instruction, more information available online: ERA Homepage: < www.era.org.uk > (date accessed: 26 February 2005); or COMPASS, Singapore performing rights society that issues broadcasting licenses and public performance licenses. Both licensing scheme developed by COMPASS were approved by the Copyright Tribunal in *Singapore Broadcasting Corporation v. The Performing Right Society Ltd. and others* (1991) 21 IPR 595 (the case concerned the grant of broadcast licenses in Singapore. The applicant, Singapore Broadcasting Corp. (SBC) claimed that the terms of the licensing scheme introduced by the Performing Right Society (PRS) in 1989 were unreasonable. After carefully examining decisions on royalty payment in a number of cases in UK and Australia, licensing scheme offered by PRS and valuation method proposed by SBC, the Tribunal concluded that there was nothing inherently unreasonable about the licensing scheme proposed by PRS and based on percentage of revenue assessment. One of the features of the PRS licensing scheme was that the percentage to be levied depended on the percentage of music use. The Tribunal reduced the rates of fees to be paid that depended on the amount of PRS controlled music used by SBC in its broadcasts). See also, G.Wei, *The Law of Copyright in Singapore*, 2ed. (SNP Editions: 2000) at 1142 – 1145 [hereinafter Wei, *Singapore Copyright Law*].

⁴⁰⁷ No establishment of a specific collecting society, but in some cases collecting societies may administer the right to remuneration.

appropriate share to the composer⁴⁰⁸. Thus, MCPS acts under agency agreement on behalf of the Music Publishers' Association with some composers as direct members⁴⁰⁹. It is a company limited by guarantee and is wholly owned by the publishers' trade association, the MPA. In 2001 the MCPS and PRS created one operating company, MCPS-PRS Alliance Limited. The main purpose of the Alliance is to administer joint (MCPS and PRS) online license on behalf of the two rights societies. However, the Alliance does not represent full amalgamation of the two companies, which is also said to be impossible despite the fact that both the societies are *de facto* monopolies⁴¹⁰ and both administer certain copyrights in music⁴¹¹. It should also be noted that in UK sound recordings enjoy their own performance right, which is to be licensed. The Phonographic Performance Limited (PPL) is a collecting society administering performance right in sound recordings. It has its birth in the *Cawardine* case⁴¹², where Maugham J. held that section 19 of the UK Copyright Act 1911 granted a performance right to record manufacturers in respect

⁴⁰⁸ There are basically two system of administering mechanical rights: in non-English speaking countries the mechanical right is administered collectively, similar to the UK PRS scheme of operation. In English-speaking countries publishers are granted all the rights by composers. R.Montgomery, "Central Licensing of Mechanical Rights in Europe: The Journey Towards The Single Copyright" [1994] 16(5) E.I.P.R. 199-203.

⁴⁰⁹ Given no provisions in the *UK CPDA* regarding the duties or constitutions of collecting societies there are diverse forms of organizational and ownership structures among UK collecting societies. For instance, ALCS acts under a licensing agreement rather than an assignment. In the literary field novelists and screenwriters tend to negotiate contractual terms individually through their agents. Publishing agreements will usually provide for royalties from translation, serialization, adaptation and other subsidiary rights, but will also contain a provision for express reservation to enable the administration by a collecting society of a right that is more amenable to collective licensing. For instance, provision on photocopying that would be administered by CLA. H. Rosenblatt, "Copyright Assignments: Rights and Wrongs – The Collecting Societies' Perspective" (2000) I.P.Q. 2, 187-200 [hereinafter Rosenblatt, *The Collecting Societies' Perspective*"].

⁴¹⁰ In general the prevailing majority of collecting societies occupy monopolistic position in the market both with respect to authors and right owners and users, mostly because relevant authors and right owners assign their rights to the collecting society so that members of the public who want to use or exploit those rights have no other choice but to deal with collecting society.

⁴¹¹ "[The PRS] is a membership society with a constitution subject to the voting membership's sanctions and approval, which takes an assignment of its members' performing rights; [the MCPS] is a commission-based agency wholly-owned by the music publishers' trade association. The constitution of one, or both, would need to be fundamentally changed to allow for a merger in a business sense." T. Anderson, *Giving Music Its Due* (London, 2004) at 163.

⁴¹² *Gramophone Company, Limited v. Stephen Cawardine and Company*, [1934], Ch.D.

of the playing records in public. PPL in effect is similar to PRS as it “exercises usage rights as principal, not agent.”⁴¹³

2.3. EU Competition Rules and Collecting Societies

EU competition rules, in particular Article 81 and 82 of the Treaty of Rome⁴¹⁴ are applicable to music industry as they are to most business sectors. Article 81(1) prohibits agreements between undertakings, decisions by associations of undertakings and concerted practices which have the object or effect of restricting competition within the Common Market, subject to the possibility of an exemption (individual or block) on public policy grounds pursuant to Article 81(3)⁴¹⁵. Not-for-profit nature of collecting societies’ operation was found to be irrelevant to the concept of “undertaking” within the meaning of article 82. Collecting societies are undertakings within the meaning of article 82 as they act “as agencies which safeguard the rights of musical composers, they perform the function of an undertaking engaged in the provision of services”⁴¹⁶. “The finding by the Court that collecting societies are pursuing economic activities, and that they are doing so irrespective of the fact that they deal with intellectual property rights and that they thus come under the concept of “undertaking”, was also confirmed some years later in the *Phil Collins* case”⁴¹⁷. As was mentioned above, in most the cases collecting societies are *de facto* monopolies, thus, they are deemed to have a dominant position in a substantial part of the Common Market.

⁴¹³ T.R.Martino, “PPL and Performance Rights Organizations: Half-Sisters in Copyright – Partners in Anti-Trust”, [1988] 10(5) E.I.P.R. 150-155.

⁴¹⁴ Treaty Establishing the European Community of 25 March 1957, online: European Union Web-site < <http://europa.eu.int/abc/obj/treaties/en/entoc05.htm> > (date accesses 17 February 2004) [hereinafter Treaty of Rome].

⁴¹⁵ “An exemption is possible under Article 85(3) [now 81(3)] where an agreement satisfies two “positive” and two “negative” criteria. The “positive” criteria are that the agreement must either contribute to improving the production or distribution of goods or to promoting technical or economic progress. The “negative” criteria are that the agreement must not impose restrictions which are not “indispensable” nor which may eliminate competition in respect of a “substantial part” of the products or services in questions.” Fine, “The Impact of EEC Competition Law”, *supra* note 403.

⁴¹⁶ *Ibid.* (referring to *BRT v. SABAM*, [1974] E.C.R. 313; [1974] 2 CMLR 238, Case 127/73, see discussion of the case *infra* at note 432).

⁴¹⁷ I.Stamatoudi, “The European Courts Love-Hate Relationship With Collecting Societies”, [1997] 19(6) E.I.P.R. 289-297 (referring to *Phil Collins v. IMTRAT Handels GmbH* [1993] 3 C.M.L.R. 773, Case C-92/92, see note 420 *infra*) [hereinafter Stamatoudi, “The European Courts”].

Article 82 prohibits the abuse of a dominant position in the Common Market or a substantial part of it, without any possible exemption. The “abuse” is not defined in the article, however, the article contains non-exhaustive list of examples of abuse⁴¹⁸. Thus, “abuse” is defined on a case-by-case basis. Abusive conduct by collecting societies can be defined into abuses in relation to their members and in relation to users. Abusive conduct in relation to members includes discrimination on grounds of nationality⁴¹⁹ and excessive obligations that the collecting societies impose on their members. The latter include clauses in constitutions of collecting societies related to full assignment of rights for all categories of work and for the entire world, membership terms, and unfair distribution of income.

3. Collecting Societies and Their Members: Acquisition of Rights and Membership

Terms

3.1. European Caselaw

“Acquisition of rights is perhaps the most important regulatory aspect of the activities of collective management organizations”⁴²⁰. There are several methods of acquisition of rights by collecting societies, namely a full assignment of rights to the collecting society, a non-exclusive license, a mixed regime, and non-voluntary license. Full assignment of rights to a collecting

⁴¹⁸ “Such abuse may, in particular, consist in: (a) directly or indirectly imposing unfair purchase or selling prices or other unfair trading condition; (b) limiting production, markets or technical development to the prejudice of consumers; (c) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage; (d) making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.” Art. 82, Treaty of Rome, *supra* note 414.

⁴¹⁹ The *Phil Collins* decision prohibits any national legislation from excluding author or their right holders, who are nationals of a Member State of the EU, from the protection granted by this legislation to its nationals merely on the grounds that they are nationals of another Member State. Joined cases C92/92 and C326/92: *Phil Collins v. Imtrat & Patricia Im- und Export v. EMI*, [1993] ECR I-5145. In the *GVL* case (*Gesellschaft zur Verwertung von Leistungsschutzrechten mbH (GVL) v. Commission of the European Communities* [1983] E.C.R. 483; [1981] 3 C.M.L.R. 645, Case 7/82) the German collecting society was refusing to represent anyone who was not a national or resident of Germany. The GVL justified its refusal by the difficulty that the secondary exploitation of rights presented in other Member states. However, the Commission found that such a refusal is an abuse based on grounds of nationality under art. 86 of the EC Treaty. The Commission came to the same decision earlier in *Gema I* case. See note 423 *infra*.

⁴²⁰ D.Gervais, “Collective Management of Copyright and Neighboring Rights in Canada: An International Perspective”, online: < http://cjlt.dal.ca/vol1_no2/pdfarticles/gervais.pdf > (date accessed: 22 February 2005) [hereinafter Gervais, “Collective Management”].

society, often referred to as the “exclusivity principle” is a method preferred by music collecting societies. It is an approach prevalent in Europe: at least 12 of the 15 EU member countries apply mandating approach: in 9 of them the license is exclusive⁴²¹. Performing rights societies usually justify the exclusivity by their desire to avoid practical difficulties in enforcement of copyright by the society, as well as negative consequences on the society’s revenue stream as administrative costs would not be reduced proportionally⁴²².

GEMA cases were early cases that challenged several internal rules of the German collecting society, GEMA. The original assignment contract of GEMA (version of June 1968) provided that the copyright holder assigns to GEMA his copyrights in musical works⁴²³. The Commission decided that GEMA imposed “unnecessary and unjustified obligations” upon its members that constitute an abuse of dominant position. The Commission required, *inter alia*, that GEMA members should have the right to assign their rights entirely to GEMA or to divide them by category among several authors’ rights societies; and that members should be given the power to withdraw their membership after due notice at the end of each year without losing membership status or incurring penalties⁴²⁴. However, in *GEMA II*⁴²⁵, GEMA sought a minimum membership of three years, arguing that such a period was necessary as otherwise important users of music,

⁴²¹ A usual comparison of such a situation is with U.S. collecting societies, ASCAP and BMI that operate on the basis of consent decrees (issuance of non-exclusive blanket licenses) as a settlement with government’s anti-trust actions against them. However it should be noted that these collecting societies nevertheless enjoy a *de facto* monopoly due to the fact that the market share is divided between a few organizations, and they rather cooperate with each other than compete.

⁴²² Monopolies and Mergers Commission: Performing Rights. A Report on the Supply in the UK of the Services Administering Performing Rights and Film Synchronization Rights, London: HMSO, para 2.39, 2.42.

⁴²³ All the rights which he holds at the time, and all the rights which may belong to him in the future, which may be assigned to him, which may be reassigned to him or which he may acquire in any manner whatsoever during the term of the contract, even if such rights are created or arise from future technical developments or changes in the law, for the whole world, in exclusivity. Commission Decision 71/224/EEC of 2 June 1971 (*GEMA*) [1971] OJ L134/151.

⁴²⁴ These categories of rights, known as *GEMA* categories were defined as follows: (1) the general performing right; (2) the broadcasting right, including the transmission right; (3) the right to film performance; (4) the right of mechanical reproduction and diffusion, including the transmission right; (5) the right of film production; (6) the right to produce, reproduce, diffuse, and transmit on optical sound base, and (7) the exploitation rights resulting from technical developments or from a future change in the law. *Ibid.* at D 49.

⁴²⁵ *Gema II*, Commission Decision 72/268/EEC of 6 July 1972 (*GEMA II*) [1972] OJ L166/22.

such as broadcasting companies and record manufacturers, would bring pressure on its members to bypass GEMA and transfer authors' rights directly to them. The Commission amended its earlier decision by allowing GEMA to increase the minimum length of membership to three years with respect to the administration of certain forms of utilization⁴²⁶ or one-year membership with respect to administration of one or more of the seven original categories of rights. Thus, "in order to ensure that the balance between the duration and the breadth of the commitment be maintained, the decision provided that GEMA grant to its members, as regards the freedom to dispose of the various forms of utilization of authors' rights in all countries of the world, a greater freedom than that provided for in the assignment contract"⁴²⁷.

Later in *BRT v. SABAM*⁴²⁸ the European Court of Justice set the framework to which every collecting society's activities should be subject to, namely, "the balance between the requirement of maximum freedom for authors to dispose of their works and that of the effective management of their rights by an undertaking which in practice they cannot avoid joining"⁴²⁹. The Court further outlined the indispensability test: in an examination of a collecting society's statutes in the light of the EEC competition rules, the decisive factor is whether they exceed the limits absolutely necessary for the attainment of its object, that is, effective protection and whether they limit the individual copyright holder's freedom to exercise his copyright⁴³⁰. The obligation at issue was compulsory assignment of all copyrights, both present and future, with no distinction between different types of exploitation. The Court held that such a conduct "may appear an unfair

⁴²⁶ In particular, 12 utilization forms similar to the original seven GEMA categories of rights: (1) the general performance right; (2) the broadcasting right; (3) the public performance right of broadcasting work; (4) the television rights; (5) the public performance right of televised works; (6) the right of cinematographic exhibition; (7) the right of mechanical reproduction and diffusion; (8) the public performance right of mechanically produced works; (9) the cinematographic production right; (10) the right to produce, reproduce and diffuse on video tape; (11) the public performance right of works reproduced on video tape; (12) the exploitation rights resulting from technical developments or future changes in the law.

⁴²⁷ Fine, "The Impact of EEC Competition Law", *supra* note 403.

⁴²⁸ Case 127/73, *Belgische Radio en Televisie and Societe des auteurs, compositeurs et editeurs v. SV SABAM and NV Fonior* [1974] E.C.R. 313; [1974] 2 CMLR 238 (*BRT v. SABAM*).

⁴²⁹ *Ibid.* at para 8.

⁴³⁰ *Ibid.* at para 11.

trading condition, especially if such assignment is required for an extended period after the members' withdrawal"⁴³¹.

In *Greenwich Films v. SACEM*⁴³², the European Court found that requirements of excessive assignment periods and assignment of future works, clauses of assignment of rights for an extended period after a member's withdrawal "unjustifiably and unfairly impeded the members' right to move to another society, and generally interfered with their freedom to dispose of their rights as they wished"⁴³³.

In a more recent decision⁴³⁴, the Commission considered that a mandatory requirement in the statute of a collecting society that all rights of an author be assigned, including their on-line exploitation amounts to an abuse of a dominant position within the meaning of Article 82(a) of the EC Treaty, given that such practice corresponds to the imposition of an unfair trading condition. In December 1996 two members of French band "Daftpunkt" applied to become members of SACEM in respect of all of their rights in France, except for two *GEMA* categories of rights, namely, the right for mechanical reproduction and diffusion, including transmission rights, and the right of exploitation resulting from technical development or a change in the law in the future, which they wished to manage individually. Only 8 months later SACEM informed the applicants that the latter needed to show that another collecting society had been appointed in respect of the excluded rights. SACEM justified this requirement by its desire to protect artists from unreasonable demands of the record industry. The Commission considered that the rule amounted to an abuse of SACEM's dominant position. Consequently, SACEM agreed to modify its rules so that non-assignment of certain rights to SACEM or to one or several other collecting

⁴³¹ *Ibid.* at para 12.

⁴³² *Greenwich Film Production v. Societe des auteurs, compositeurs et editeurs de musique (SACEM) and Societe des editions Labrador* [1979] E.C.R. 3275; [1980] 1 C.M.L.R. 629, Case 22/79.

⁴³³ Stamatoudi, "The European Courts", *supra* note 417.

⁴³⁴ *Banghalter & Homem Christo v. Sacem*, Case COMP/C2/37.219 the complaint was rejected, non-confidential version of the case is available at <<http://europa.eu.int/comm/competition/antitrust/cases/decisions/37219/fr.pdf>>, (last visited February 2005).

societies by an author may be accepted by the Administrative Council on receipt of a reasonable request and by a majority of its members. The Commission accepted this modification, pointing out that any refusal by SACEM to grant such derogation would not only have to be exceptional but also based on objective reasons.

The Commission decision basically recognizes that SACEM has the right to monitor individual rights management as the Commission accepted that SACEM may retain its rule against individual management provided derogations are granted. The Daftpunkt decision also suggests that the rules on withdrawing rights which were established in analogue times have to be revised in the light of new (online) technology. Let's assume that an author would like to withdraw his relevant rights required for exploitation of his works online. At first sight, the right to use works online fall under either *GEMA* category 7 or form of utilization 1, however, it is not the case. As was discussed in Chapter 1 these rights are at minimum the right to public performance, the right to communication to the public, including making available right, and the right to reproduction. However, let's also assume that the author would like a collecting society to administer these three rights in other, non-Internet, modes of exploitation. It is unlikely that the author will be able to withdraw the right to public performance online and leave the rest scope of the right to public performance with a collecting society as *GEMA* decisions do not require the collecting societies to permit such "partial withdrawal." Thus the author is to withdraw the general performance right or not to withdraw it at all. Analyzing the above cases it seems that the European Court does not appear to make straightforward rulings that would substantially change the conduct of collecting societies. Stamatoudi notes several reasons to this, namely, unwillingness of the Court to be considered to interfere unjustifiably with international regulations on copyright, contrary to the division of powers between Community and Member States, the principle of subsidiarity, the respect of the divergent European cultures, and the

different levels and systems of protection of authors in the Member States⁴³⁵. However, in its Communication on the management of copyright and related rights the EC Commission expressed its opinion as to a possible need to reconsider *GEMA* categories in the light of technological evolution, in particular, online services.

3.2. UK PRS: Membership and Acquisition of Rights

Most of the changes and improvements in internal operation of the UK PRS and its relationship with members were driven by recommendations of the Monopolies and Mergers Commission (MMC)⁴³⁶. In particular, MMC recommended and the PRS accepted the recommendation and changed its rules⁴³⁷ so as to include provision on self-administration of the live performance right and make it clear that members already have the right to self-administer the categories of performing rights specified in the *GEMA* decision⁴³⁸. However, inclusion of *GEMA* categories of rights and forms of utilization did not prevent the society from requiring global assignment of rights to both present and future works. Article 7 (c) of the Articles of Association (AA) of the UK PRS requires administration of the performing right, the film

⁴³⁵ *Ibid.* See also P.Torremans, I.Stamatoudi, “Collecting Society: Sorry, The Community Is No Longer Interested” (1997) E.L.Rev. 22(4), 352-359 [hereinafter Torremans & Stamatoudi, “Collecting Society”].

⁴³⁶ Under s. 78(1) of *UK Fair Trading Act 1973* the Government has the right to request the Monopolies and Mergers Commission (MMC) to examine the practice of collecting societies. So far there have been two investigations by MMC of collecting societies, namely of the PPL in 1988 and of the PRS in 1996.

⁴³⁷ Rules include Memorandum and Articles of Association of the PRS (AA of the PRS), as amended on 10th July 2003; Rules and Regulations of the PRS (PRS Rules) as amended on 12th July 2001, online: PRS-MCPS Alliance Homepage < <http://www.mcps-prs-alliance.co.uk/aboutus/> > (date accessed: 14 February 2005) [hereinafter PRS Rules].

⁴³⁸ Art. 7 of the Articles of Association of the PRS was amended to include point (cc): each member may on admission reserve to himself (subject to the Rules) and may at any time after admission require (subject to Article 9(f) and the Rules) the Society to assign to him one or more of the following categories of rights in all of his works: (i) the general performing right; (ii) the broadcasting right, including the public performing rights of broadcast work (transmission right); (iii) the right of cinematographic exhibition; (iv) the right of mechanical reproduction and diffusion, including the public performing right of mechanically reproduced works (transmission right); (v) the cinematographic production right; (vi) the exploitation rights resulting from technical developments or future change in the law; and (cd): each member may on admission reserve to himself (subject to the Rules) and may at any time after admission require (subject to Article 9(f) and the Rules) the Society to assign him one or more of the following forms of utilization of rights in all of his works: (i) the general performing right; (ii) the broadcasting right; (iii) the public performing right of broadcast work; (iv) the televising right; (v) the public performing right of televised work; (vi) the right of cinematographic exhibition; (vii) the public performing right of mechanically reproduced works; (viii) the cinematographic production right. [hereinafter AA of the PRS], *Ibid.*

synchronization right⁴³⁹, and “other rights or parts of the rights as the Board may direct, for the whole world or such part or parts of the whole world as the Board may direct, in all or any works, present and future, of which the Member is the writer⁴⁴⁰, publisher or proprietor”. Pursuant to art. 9(f)(i)(c) of the AA PRS with effect from January 1st 2000 any member may require the Society to assign to him one or more of the categories and/or forms of utilization of rights listed in Article 7(cc) and (cd) subject to three-month written notice. The same three-month notice is required to terminate membership in the Society⁴⁴¹. However, according to art. 9(f)(ii) of the AA PRS, the Board has absolute discretion in resolving that such requests for assignment of rights or termination of membership to take effect from December 31 of the year, in which the notice has been given⁴⁴². In case such a decision is made by the Board, it is obliged to provide written explanation to the member. Such a provision basically means that there is one-year condition for terminating the membership in general and in particular with respect to re-assignment of certain rights.

Following recommendations of the MMC voting rules of members were amended: writer members were allowed to send representatives to speak and vote for them at PRS general meetings⁴⁴³. Another change in PRS management rules was establishment of Appeals Panel to resolve disputes which members may have from time to time with the society with respect to internal procedures⁴⁴⁴. Changes were also made as to the corporate governance structure of the PRS.

3.3. Singapore COMPASS: Membership and Acquisition of Rights

⁴³⁹ The film synchronization right assignment applies only to writer members and covers every work composed or written by the Member primarily for the purpose of being recorded on the soundtrack of a particular film or films in contemplation when such work was commissioned. Art. 7(c)(ii), AA of the PRS

⁴⁴⁰ Writer means a composer or author, Art.1(a) (xxxii), AA of the PRS.

⁴⁴¹ Art.9(f)(ii), AA of the PRS.

⁴⁴² Art. 9(f)(iii), AA of the PRS.

⁴⁴³ Art. 34A, AA of the PRS.

⁴⁴⁴ Art. 54B, AA PRS, see also. Rule 6A, Rules of the PRS.

Outside Europe⁴⁴⁵ collecting societies still operate without much reform in their management structure, internal rules and membership requirements. COMPASS⁴⁴⁶, a successor of PRS, and the only performing rights organization operating in Singapore, still requires assignment of rights on an exclusive basis: according to art. 7(a) of the COMPASS Articles of Association (AA)⁴⁴⁷ “the society *may* require every member, on admission, or at any time thereafter, to assign or cause to be assigned to the Society all rights in any Works to be administered on his behalf by the Society [emphasis is added]”. Further pursuant to art.7(d), the Society shall have the sole power and authority to authorize or permit or forbid the exercise of the rights, to grant licenses, to collect fees, subscriptions or monies either for the authorized use of the works administered or by way of damages or compensation for the unauthorized use. Thus, assignment of rights is on an exclusive basis. Presumably the society will start contacting its members with the request to reconsider the current contracts on assignment of rights so as to obtain the right to administer member’s respective rights in the online environment. However, it is unclear whether the electronic rights will be assigned on an exclusive basis as is the situation with public performance and broadcast rights.

⁴⁴⁵ Perhaps excepts for Canada, Australia and U.S. where the collecting societies have already conducted some reforms as to their organizational structure, internal rules and re-adjustment of their services to Internet reality.

⁴⁴⁶ Composers & Authors Society of Singapore Ltd. was formed in 1987 and took over the functions of PRS in Singapore. More information is available online: COMPASS Homepage at < www.compass.org.sg > (date accessed: 18 February 2005). See also *Singapore Broadcasting Corporation v. Performing Right Society Ltd.* (1991) 21 IPR 595. Apart from COMPASS, the following collecting societies operate in Singapore: The Recording Industry Performance Singapore Pte Ltd., a collective licensing body representing several record companies, grants licenses for the public performance of all music videos and karaoke videos controlled or owned by its record companies (more information is available online: RIPS Homepage: < www.rips.com.sg > (date accessed: 18 February 2005); Music Publishers (Singapore) Ltd., non-commercial and non-profit organizations, representing music publishers, grants licenses for reproduction of works, more information is available online: MPS Homepage < www.mps.org.sg > (date accessed: 18 February 2005); the Copyright Licensing and Administration Society of Singapore Ltd., non-profit organization established by book publishers and authors (more information is available online: Intellectual Property Office of Singapore Homepage < <http://www.ipos.gov.sg/main/aboutip/copyright/ipassoc.html#class> > (date accessed: 18 February 2005).

⁴⁴⁷ Of December 19 1989, online: COMPASS Homepage < <http://www.compass.org.sg/website/download/1.1%20Memorandum%20and%20Articles%20of%20Association.pdf> > (date accessed: 18 February 2005).

COMPASS AA does not stipulate for the list of rights administered by the society. It may be assumed that the scope of rights assigned is negotiated with every assignment contract signed. Assumptions aside, clearly-defined provisions, especially concerning scope of rights administered should be set out in constitutions of collecting societies as it gives more transparency and certainty both for members and users.

Pursuant to art.9(e) of AA COMPASS, any member may terminate his membership by giving three months' notice in writing three years after his first admission to membership at the end of the month in that third year corresponding to the month in which he was first admitted to membership. Presumably three-year membership requirement is a period of time required for COMPASS to cover the expenses it incurred in administering rights of the member. COMPASS AA also stipulates for a minimum three-year membership requirement⁴⁴⁸.

COMPASS does not represent non-members. However, in accordance with art.7.1 of the Performing Royalties Distribution Rules⁴⁴⁹ (DR) in case a composer or lyricist is not a member, his share of royalty collected is placed in the Non-member Special Account; if a publisher is not a member, its share will be equally divided between the composer and lyricist. In case of joint authorship, where one of the co-writers is not a member of COMPASS, the same procedure is observed. COMPASS presumes that at least one of the authors is a member of COMPASS, who can encourage the other one to become member of COMPASS and thus will be eligible for the royalties collected. In case a non-member does not become COMPASS's member by the time of the next Distribution, his royalties are placed into the Undistributable Royalties Special Account (SU). The latter is used for performances, which were missed in previous distributions⁴⁵⁰.

3.4. Conclusion: More Reform Is Needed

⁴⁴⁸ Art.9, AA COMPASS.

⁴⁴⁹ Last updated in October 2003, online: COMPASS Homepage at < <http://www.compass.org.sg/website/download/1.3%20Distribution%20rules.pdf> > (date accessed: 18 February 2005).

⁴⁵⁰ Art. 11.4. *Ibid.* There is a procedure established for allocation of royalties in case of foreign-originated works of non-member publisher or non-member writer, See art. 7.4. *Ibid.* However, it is unclear whether there is a procedure in place for royalties' distribution in case both authors are local and non-members.

The scope of rights assigned, conferred or otherwise transferred through contracts by authors or performers to the collecting society, which represents them constitutes one of the main aspects of the legal relationship involved in the collective administration of copyrights or related rights. The usual situation is when agreements on assignment of copyrights apply to all authors' works, whether present or future, usually for the entire world and often for an undetermined period of time. Such scheme has many drawbacks in case of exploitation of works online. While UK PRS counterbalanced the requirement of assignment of all rights on an exclusive basis with a possibility to self-administer some rights upon his choice, the assignment of copyrights still covers unknown uses that are to be discovered in future. And this is taking place notwithstanding the fact that the modes of collecting royalties are not yet perfected with regard to new reproduction and execution techniques. The scope of rights to be assigned under Singapore COMPASS AA is really wide in scope as it contains no list of rights administered by COMPASS. Thus, it is unclear whether the rights assigned cover only present works or works to be created in future. It is submitted that especially in the light of exploitation of works on the Internet the fact that societies give their members the possibility to make reservations as to the exploitation of their works, to exercise some of their copyrights individually, and to some extent, to entrust partial administration to another society, constitutes a first factor, which helps to preserve a certain level of competition in the market to the benefit of creators and users.

Also compulsory assignment of several categories of exploitation and for a whole range of works has to be examined in the light of whether the collecting society needs such an assignment for proper implementation of its functions from a purely management point of view. Compulsory assignment is also causing concerns with respect to multimedia works. However it is important that assignment of such rights is only taken if necessary for attainment of the main objectives of a collecting society to ensure effective protection of its members' rights. The macro issue for performing societies, such as COMPASS or PRS, is the question of the scope of objectives of these organizations. The overall objective of any collecting society is protection and

enforcement of rights. In case of COMPASS or PRS, these two collecting societies are specifically concerned with administration of public performance and broadcasting-related rights, thus, it is deemed reasonable that assignments of members should be limited to these rights. Assignment of rights that extends beyond to new multimedia rights should be justified only if this is needed to ensure effective administration of performance and broadcasting related rights. On the other hand, PRS and COMPASS and the copyright industry may benefit only if collecting societies can expand their role viz. administration of multimedia rights, especially online. There are no doubts that the collecting societies have substantial experience in administering rights, equally the majority of users and authors would prefer to deal with one organization that can administer and clear the necessary rights⁴⁵¹.

In case of UK PRS the possibility for individual management of certain categories of rights or forms of utilization and a condition for membership termination is subject to one-year requirement that the Board may establish at its absolute discretion. In Singapore COMPASS such a requirement amounts to 3 years. Requirement for a certain period of membership in collecting societies can be justified to prevent members hopping from one society to another or from one society to self-regulation. Nevertheless, 3-year requirement is quite a long period of time, given the possibilities for exploitation of work offered by Internet. It seems that the current practice is issuance of online licenses for one year⁴⁵², however, following the fact that PRS needs 3-months notice for self-regulation and assignment, the period of 3-month might be a good solution for a member to request the society to re-assign his rights to him and to terminate his membership.

Representation of non-members is another issue of concern. While PRS documents do not contain any rules as to non-members, COMPASS DR provide for non-member royalties distribution procedure. Presence of such a procedure in internal rules of the collecting society is welcomed; however, it also gives rise to a possibility for a collecting society to manipulate non-

⁴⁵¹ See discussion of licensing and multimedia *infra* under 4.3, Chapter III *infra*.

⁴⁵² Some collecting societies that offer music distribution online licenses launched these licenses as a pilot project and limited its term of validity. Online licensing is discussed *infra* under point 4, Chapter III *infra*.

members in joining the society. It is true that as a rule a collecting society invests its own resources and time and efforts in collecting the royalty and thus it is eligible for a certain compensation for the resources spent. However, it is submitted that getting royalties should not be a requirement for a non-member to become a member of the society.

4. Collecting Societies and Users: Online Licenses

4.1. General

There are different views as to the need for exclusivity for different types of works administered by collecting societies. Rosenblatt states that “[n]on-exclusivity in the field of performing rights implies uncertainty about the collecting society’s repertoire which makes licensing and enforcement activities more difficult and drives administration costs upwards,”⁴⁵³ whereas collecting societies administering rights for secondary exploitation of works, like reprography, cable retransmission and rental, do not need the exclusive assignment of rights. For performing rights societies, exclusivity allows cross-territorial licensing with its sister societies in other countries by way of traditional models of reciprocal representation agreements⁴⁵⁴.

Exclusivity also allows performing right society to issue blanket licenses for users⁴⁵⁵. The latter has certain advantages both for users and members of collecting societies: blanket licenses

⁴⁵³ Rosenblatt, “The Collecting Societies’ Perspective”, *supra* note 409.

⁴⁵⁴ Collecting societies and their reciprocal agreement are discussed below under point 5. “Under the traditional system of reciprocal agreements collecting societies are contractually restricted from granting licenses to users that wish to use the rights outside of the society’s home country.” A.Capobianco, “Licensing of Music Rights: Media Convergence, Technological Developments and EEC Competition Law”, [2004] 26(3) E.I.P.R. 113-122 [hereinafter Capobianco, “Licensing of Music Rights”].

⁴⁵⁵ In the area of collective management the term ‘blanket license’ is used by many organizations in many contexts to describe licenses, which although sharing some common characteristics, may vary substantially. Sinacore-Guinn distinguishes three types of blanket licenses, namely, bilateral blanket licenses, unilateral or “tariff” blanket licenses, and statutory blanket licenses. He further singles out general characteristics of blanket licensing, i.e. (1) party in interest: a collecting society is “the party in interest that is legally empowered to and does confer upon the user the rights being licenses.... In most cases, the collective will have acquired its rights, by whatever method of affiliation it uses, on an exclusive basis”; (2) full repertoire rights: the blanket license grants the user the immediate right to use any or all of the works in the repertoire of a collecting society without separate or specific authorization; (3) equality of works: blanket license does not distinguish between competing works of the same type within its repertoire as to their differing values to users; (4) proportional sharing of interest: the right owner received royalties on a proportional basis rather than upon specifically identified licensed uses”. D.Sinacore-Guinn, *Collective Administration of*

allow collecting societies to negotiate favorable price of the license especially with users-large companies that have substantial commercial clout. Blanket licenses also reduce administration costs due to the enforcement of licenses and monitoring of unauthorized use by collecting societies. For the user the use of blanket license is beneficial as there is a marked reduction in transaction costs⁴⁵⁶.

Licensing is becoming even more important in a digital world. In the old analogue world, authors and collecting societies, licensed concerts, shops, restaurants, radio stations that are located in one particular place and which use the music in one particular country. Similarly, in the new digital world every person, having a computer is able to copy, distribute and transmit music to anyone else connected to the Internet. Thus, every person has become a potential user of the repertoire, and the use is taking place not only in one country, but in several countries simultaneously. The traditional territorial nature of the use of musical works and of agreements between collecting societies, was complemented by the national structures of collecting societies that monitored the use of the worldwide repertoire on a national basis. However, such a traditional system worked well in the twentieth century; it is not working under conditions of the fast-emerging technologies that allow exploitation of works internationally. “One would therefore expect all international broadcasters to be looking for licenses covering transnational usage of music rights (so called “centralized services”), if only the collecting societies would change their current licensing structure and make those services available.”⁴⁵⁷

However, is the exclusivity requirement still justifiable in issuing blanket licenses for online exploitation of works when an author has a potential to negotiate favorable price of the worldwide license individually without incurring any substantial administration costs, except for

Copyrights and Neighboring Rights: International Practices, Procedures and Organizations (Boston: Little, Brown, 1993) at 384-387. See also, generally para 8. Licensing Procedures and the Blanket License.

⁴⁵⁶ E.Lui, “The Eurovision Song Contest: A Proposal For Reconciling the National Regulation of Music Collecting Societies and the Single European Market” (2003) Ent.L.R. 14(4), 67-84 [hereinafter Lui, The Eurovision Song Contest”].

⁴⁵⁷ Capobianco, “Licensing of Music Rights”, *supra* note 454.

paying for the purchase of computer and Internet connection? It seems that advantages of blanket licenses are disappearing under conditions of exploitation of a work on the Internet. It is submitted that under such terms it is more reasonable to provide an option to the author as to exclusive or non exclusive nature of the rights assignment: an author may assign rights for online exploitation of works on an exclusive basis or on non-exclusive basis. The latter can be expressed in granting the author the right to self-administer certain rights upon his wish. This is in fact the circumstances under which PRS and MCPS issue joint online licenses that are discussed in detail below.

4.2. PRS-MCPS Alliance: Joint Online Licenses

In the UK context, a person, who wants to distribute a music work online has to seek several licenses. MCPS and PRS apply two approaches to clearing music online: issuance of blanket licenses and prior approval. The MCPS & PRS Board offers a combined licensing approach to UK-based online music providers, that is issuance of MCPS-PRS Joint Online license (JOL) that enables online music providers to clear the mechanical and performing rights administered by MCPS and PRS in a one-stop procedure⁴⁵⁸. The issuance of JOL is subject to credit check, i.e. eligibility for receiving license is checked and approved by the Alliance's Board based on the nature of the business of an applicant. There is also a fixed-fee quarterly advance payment, which is non-returnable, but is recoupable against the royalties which accrue within that quarter⁴⁵⁹, and each individual application will be assessed by the Board for final approval.

The JOL covers audio-only distribution of music online, namely, downloads both permanent and temporary, webcasts both live and archived, and individual streams of individual

⁴⁵⁸ More information on MCPS-PRS Joint Online License is available online: MCPS-PRS Alliance Homepage at < <http://www.mcps-prs-alliance.co.uk/redirect.asp?targetitem=1946&subjectId=836> > (date accessed: 18 February 2005). The JOL was preliminary valid till December 31 2004, however, the license has been renewed until December 31 2005 at the current royalty rate. As of the moment of writing the full terms and conditions of the JOL for 2005 were in the process of being finalized [hereinafter MCPS-PRS JOL].

⁴⁵⁹ MCPS and PRS have set a joint royalty rate at 12% of gross revenue for the online exploitation of musical work. For the first year of the license operation this rate has been discounted to 8%.

works. It also covers certain types of audio-visual usage, such as promo music videos, live concert performances, combination of musical work with photographs or other images relating to the performer or composer of the work, and use of a musical work with an interview with an artist, composer, producer or other person involved in the creation of music, where the word used is associated with the interviewee. The license does not cover music used with advertising or sponsorship of any product or service, supply of mobile ringtones, simulcasting of traditional scheduled broadcast services. Moral rights, graphic rights and the right to adapt musical work are outside the scope of the JOL. Separate clearances must be obtained from the sound recording copyright owners. Licensees have certain reporting obligations, namely, report information on a line-by-line basis, including analysis of the different types of exploitation. According to pp. 2.1. and 2.2 of the Licensing Scheme for the Provision of Online Music Services to the Public MCPS and PRS, respectively, grant right to reproduce and communicate to the public on a non-exclusive basis.

MCPS & PRS also issue Limited Online Exploitation License, which is intended for small scale online operations and covers limited use of MCPS & PRS members' musical works in the form of "streamed" 30 second clips and/or audio-only "streamed" programming on a website.

User can also propose a form of blanket license for online music exploitation in case he/she intends to use a substantial number of musical works that fall outside the existing JOL. In this case, the user can file net business proposal form with MCPS and his proposal will be considered. Prior approvals are issued in case musical works are to be used in a context which falls outside of a blanket license. For instance, this may apply if a website wishes to use a work as background to a home page, in an online advertisement or in an online programme⁴⁶⁰. Such user

⁴⁶⁰ More information is available online: PRS Homepage < <http://www.prs.co.uk/redirect.asp?targetitem=1946&subjectId=836> > (date accessed: 18 February 2005).

then is requested to fill in the online clearance request form. Issuance of prior approval depends on whether the MCPS is able to represent the copyright owner in this particular area of licensing.

Currently Singapore COMPASS issues online music licenses only for streaming.⁴⁶¹ The main reason for issuance of license only for streaming is in the fact that there are only some music publishers, who are members of COMPASS, and the main bulk of reproduction right is administered by music publishers individually or by Music Publishers (Singapore) Ltd., association comprising twelve music publishing companies in Singapore, who collectively control a large number of music copyrights in the country⁴⁶². Thus, for a user, who wants to get license for streaming and downloading the music, he needs to seek separate license from COMPASS and from MPS and/or from record companies.

4.3. Licensing and Multimedia

Issuance of joint online licenses, like the one issued by MCPS & PRS Alliance, is surely welcomed. Flexibility as to types of licenses is also a good step to become more user-friendly. However, there is yet one area where absence of flexibility leaves much to be desired, in particular, in the area of multimedia. For multimedia content suppliers and producers, the situation has not been changing much as depending on the type of multimedia, the user still has to contact various collecting societies and/or record companies, and/or book publishers. What prevents the existing collecting societies and other copyright owners from taking more pragmatic views and from consolidating their powers for the good of users? Perhaps there are two reasons for this: one is in the lack of certainty as what is multimedia and what are the rights involved in

⁴⁶¹ Streaming is a technique for transferring data such that it can be processed as a steady and continuous stream. With streaming, the client browser or plug-in can start displaying the data before the entire file has been transmitted. See also, F.A.Q. under Songwriters & Music Publishers' heading at COMPASS web-site, online: COMPASS Homepage < <http://www.compass.org.sg/website/> > (date accessed: 18 February 2005). However, no information is available on the web-site as to terms and conditions of the music online license issued by COMPASS.

⁴⁶² More information on MPS, online: MPS Homepage: < <http://www.mps.org.sg> > (date accessed: 18 February 2005).

different countries⁴⁶³. Another reason lies in simple rivalry between national collecting societies *inter se* and between collecting societies and other intermediaries, such as music publishers. Perhaps a solution can be found in cooperation on the issue of multimedia licensing at the international level, for instance, by developing a Model Licensing Agreement between CISAC and IFPI.

Today, there are however, a few examples of one-stop clearance centers for multimedia use, one of which is SESAM, a non-profit collecting society organized by several collecting societies⁴⁶⁴. SESAM operates on the basis of SDRM, the mechanical right organization. SESAM has at its disposal different repertoires of the member societies and extends the scope of the repertoire by including other repertoires usually handled outside the collective management system, such as book publishers and photographic agencies. According to article 6 of SESAM By-laws, multimedia refers to a situation when at least two different types of elements likely to be covered by copyright, incurring payment of authors' rights (music, still pictures, moving pictures and text) are included in any one program featuring interactivity. SESAM does not replace its members; instead it acts as a tool for all multimedia uses. "In short, SESAM is the negotiating party for multimedia content suppliers and producers, who intend to use a digital medium or network to convey to the public an interactive multimedia program including reproductions of works from repertoires represented by SESAM"⁴⁶⁵. SESAM has access to the existing databases of member societies, which allows identification of works and right-owners. It relies on the expertise and systems already developed for collecting and distributing rights. This enables it to

⁴⁶³ See discussion of multimedia as copyright subject matter in Chapter 1 *supra*.

⁴⁶⁴ ADAGP – collecting society of visual artists, more information is available online: ADAGP Homepage < <http://www.adagp.fr> (date accessed: 20 February 2005); SACD – society of drama writers and composers, more information is available online: SACD Homepage < <http://www.sacd.fr> > (date accessed: 20 February 2005); SACEM – society of music authors, composers and publishers, more information is available online: SACEM Homepage < <http://www.sacem.fr> > (date accessed: 20 February 2005); SCAM – society of multimedia authors, more information is available online: SCAM Homepage < <http://www.scam.fr> > (date accessed: 20 February 2005); SDRM – society administering mechanical reproduction right of authors, composers and publishers, more information is available online: SDRM Homepage < <http://www.sdrm.fr> > (date accessed: 20 February 2005).

⁴⁶⁵ More information is available online: SESAM Homepage < <http://www.sesam.org/english/missions/index.html> > (date accessed: 20 February 2005).

implement appropriate rates and to organize collection and distribution of monies to the right owners. It offers different types of licenses depending on the intended use of works.

Another example of a national clearing service is the German CMMV founded by nine collecting societies⁴⁶⁶. According to para 2 of the CMMV partnership agreement the subject of the partnership is to promote and facilitate the negotiations between multimedia producers and consumers on the one hand, and rightholders on the other. The activity of this multimedia clearing house is divided into two phases: first, CMMV functions as an information broker passing the requests of multimedia producers to respective member collecting societies and providing the information regarding the work back to the producer. Secondly, the CMMV plans to serve as a licensing center for both users and collecting societies.

The idea of one rights clearance center is a good step forward for collecting societies' to simplify their licensing procedures and to become more user-friendly. However there are only a few examples of the existing multimedia clearing centers whose operation is in its early stage, and most of them have been created on the basis of long-established and experienced collecting societies. Such a delay in offering comprehensive multimedia clearing services is surely explained by technical problems of linking together the different national clearing systems. From the viewpoint of legal issues the reason for delay lies in reconciling contractual terms of different collecting societies, issues of applicable law, and, more importantly, how characteristics of collective rights management, elements of individual negotiation and licensing can be brought into line.

At EU level, the possibility of creation of European Rights Clearance center was at one point very popular. The European Commission in its Green Paper encouraged the establishment of new mechanisms for the use of copyright works in multimedia productions by creation of

⁴⁶⁶ More information is available online: CMMV Homepage < <http://www.cmmv.de/cmmve-indexe.htm> > (date accessed: 20 February 2005).

‘clearing houses’ as central shelters for common organizations⁴⁶⁷. However, in the “Follow-up to the Green Paper on Copyright and Related Rights in the Information Society”⁴⁶⁸ the Commission stated that the creation of central shelters and the question of facilitated individual licensing or of collective licensing “should be left, at least for the time being, to the market.”⁴⁶⁹ The market, however, has showed only a few results, and only at the national level. Creation of such a pan-European right clearance center is quite a difficult task due to the reasons named above and due to different regulatory approaches of Member states and the roles of collecting societies in these countries. As was discussed earlier European harmonization program though completed did not result in a coherent, harmonized copyright legislation across Europe: there are still different regimes as to the types of protectable subject matter, ownership of rights, and rules on rights transfer. The task is also complicated by bureaucracy and delays endemic to the setting up of such kind of forum subject to approval of all member states. Finally concerns arise as to who will supervise and regulate such a clearance center?

However, all these difficulties should not prevent creation of such clearance centers in countries outside Europe, for instance, in Singapore. Given a relatively small number of collecting societies operating in Singapore establishment of such multimedia center should not be a problem. COMPASS can surely take a lead in providing technical support given its experience in developing a musical rights management information system, known as Mis@Asia. The latter is a common and integrated documentation and distribution system aimed at ensuring accurate and efficient management of musical copyrights that was developed in collaboration with 6 collecting societies in the South-East Asian region⁴⁷⁰. Operation of such clearance center can be subject to supervision and regulation by both Copyright Tribunal and relevant committee under the anti-trust legislation. The problem in Singapore context, however, lies in disassociation of

⁴⁶⁷ *EC Green Paper, supra* note 129.

⁴⁶⁸ *EC Green Paper Follow-up, supra* note 132.

⁴⁶⁹ *Ibid.*

⁴⁷⁰ More information available online: COMPASS Homepage <
<http://www.compass.org.sg/website/download/p9.pdf>> (date accessed: 23 February 2005).

different collecting societies and more importantly music publishers. Establishment of such clearance center will also require signing relevant reciprocal agreements with other collecting societies and/or clearance centers all over the world as otherwise the clearance center will be limited to clearing only Singapore multimedia rights. Perhaps IPOS can conduct a study on advantages and disadvantages of the creation of such rights clearance center?

5. Reciprocal Relations Between Collecting Societies

5.1. The Simulcast Decision

As was mentioned earlier, collecting societies offer a licensee the worldwide repertoire of music by way of signing reciprocal agreements with sister organizations. Under the traditional reciprocal agreement, a collecting society transfers, for example, its members' repertoire to a foreign sister society for exploitation in that society's administrative area. However, this system no longer satisfies the requirements of the Internet where protected works of music are used across national and administrative boundaries. The collecting societies have made an attempt to revise the existing reciprocal agreements with respect to exploitation of music online by adoption of Simulcast⁴⁷¹, Santiago⁴⁷² and Barcelona⁴⁷³ model agreements.

On October 8, 2002 the European Commission issued its first decision in the area of collective management and licensing of rights for commercial use of musical works over the

⁴⁷¹ A model reciprocal agreement between record producers' rights administration societies for the licensing of simulcasting developed by IFPI. Simulcasting is defined in the agreement as the simultaneous transmission by radio and TV stations via the Internet of sound recordings included in their single channel and free-of-air broadcasts of radio and/or TV signals, in compliance with the respective regulations of broadcasting services. See Commission Decision of October 8, 2002, relating to a proceeding under Article 81 of the EC Treaty and Article 53 of the EEA Agreement (COMP/C2/38.014 – IFPI “*Simulcast*”), OJ. L 107/58, April 30, 2003. See also, Major Step Forward for Internet Licensing, IFPI press-release of October 8, 2002, online: IFPI Homepage < <http://www.ifpi.org/site-content/press/20021008b.html> > (date accessed: 23 February 2005).

⁴⁷² *Santiago Agreement* is bilateral reciprocal representation agreements initially signed between BUMA, GEMA, PRS and SACEM that allows licensing of public performance of music on the Internet. The Agreement was signed in September 2000 around the time of the CISAC congress meeting in Santiago (Chile). Later over 40 collecting societies all over the world joined the Agreement.

⁴⁷³ *Barcelona Agreement* is a standard bilateral agreement between member collecting societies of the BIEM, signed in September 2001 at BIEM congress in Barcelona (Spain).

Internet (the Simulcast decision)⁴⁷⁴. The Commission granted an individual exemption from the competition rules to the model reciprocal agreement between phonogram record producers' rights societies - members of the IFPI. The purpose of the Simulcast agreement was to facilitate the granting of international licenses to audiovisual companies that seek to broadcast the sound recordings that they play as part of their radio and/or television programming simultaneously over the Internet, i.e. simulcasting. The exemption was granted subject to two amendments. The rationale for amendments lies in the acknowledgement of the changes brought to the industry by the Internet: absence of national boundaries for transmitting works through the global digital network of the Internet. Thus, the so-called "'customer allocation clause' under which a collecting society was empowered to grant a multi-territorial license only to users whose signals originated in its territory"⁴⁷⁵ was eliminated thereby changing the traditional territorial mode of operation of collecting societies. The second amendment related to more transparency in the method for setting royalties, thereby aiming at intensification of price competition. Therefore, the Simulcast Agreement attempted to address "a loophole resulting from the emergence of the Internet and the globalization of works on a worldwide basis... The Agreement ...is designed to establish a framework guaranteeing effective management and protection of rights of producers of recordings by allowing societies to grant single multi-repertoire, multi-territorial licenses, with a 'one-stop shop' approach."⁴⁷⁶

Pursuant to the Simulcast Agreement, each collecting society grants to the other societies-members of the Agreement the right to authorize simulcast transmission (for the repertoire of its members) or to require equitable remuneration in its territory (as appropriate) on

⁴⁷⁴ Commission Decision of October 8, 2002, relating to a proceeding under Article 81 of the EC Treaty and Article 53 of the EEA Agreement (COMP/C2/38.014 – IFPI "*Simulcast*"), OJ. L 107/58, April 30, 2003.

⁴⁷⁵ Capobianco, "Licensing of Music Rights", *supra* note 454.

⁴⁷⁶ P.Boiron, "The *Simulcast* Decision. Toward A Competitive Environment For Collective Administration Societies", online: International Association of Entertainment Lawyers Homepage <http://www.iael.org/publications/IAEL_article_Boiron.pdf> (date accessed: 23 February 2005) [hereinafter Boiron, "The *Simulcast* Decision"].

a non-exclusive basis. Each party to the Agreement enters into bilateral contracts with each of the other parties which restates the model agreements' terms.⁴⁷⁷ The Agreement institutes a hybrid system of a single authorization, but composite compensation⁴⁷⁸. The general principle of remuneration of rights is the country-of-destination principle: "royalties are calculated by totaling the royalties due from each of the territories where the license is granted subject to the existence in the country involved of a right to receive a royalty for this type of situation."⁴⁷⁹

The Simulcast decision laid down basic principles, namely, (i) the principle of competition between one-stop shopping arrangements built on reciprocal rights agreements; (ii) banning of territorial customer allocation, where no longer justified by requirements; and (iii) transparency requirements, such as transparency in accounting and separation of administrative from royalty fees.⁴⁸⁰ Most probably the Commission will rely on these principles in considering Santiago Agreement.

5.2. Santiago Agreement

On May 3 2004 the Commission sent a Statement of Objections to 16 organizations which collect royalties on behalf of music authors, stating that their cooperation agreement, known as Santiago Agreement, was potentially contrary to the EC competition rules⁴⁸¹. Under the

⁴⁷⁷ More specifically the Agreement enables each participating collecting society: "(a) in case of an exclusive right, to authorize, whether in its own name, or in the name of the right holder concerned, simulcasting of sound recordings pertaining to the repertoire of the other contracting party and, where claiming equitable remuneration, to collect all remuneration, to receive all sums due as indemnification or damages or to give due and valid receipt for the aforementioned collections; (b) to collect all license fees required in return for the authorizations, and to receive all sums due as indemnification or damages for unauthorized simulcasts; (c) to commence and pursue, either in its own name or in that of the right holder concerned, upon request and with explicit consent, any legal action against any person or corporate body and any administrative or other authority responsible for an illegal simulcast." Commission Decision of October 8, 2002, relating to a proceeding under Article 81 of the EC Treaty and Article 53 of the EEA Agreement (COMP/C2/38.014 – IFPI "*Simulcast*"), OJ. L 107/58, April 30, 2003.

⁴⁷⁸ Boiron, The *Simulcast* Decision, *supra* note 476.

⁴⁷⁹ *Ibid.*

⁴⁸⁰ H.Ungerer, "Competition Law and Rights Management", speech at the Regulatory Forum organized by European Cable Communication Association, Brussels, June 23, 2004, COMP/C2/HU, online: European Union Web-site < http://europa.eu.int/comm/competition/speeches/text/sp2004_010_en.pdf > (last visited March 2005).

⁴⁸¹ Commission opens proceedings into collective licensing of music copyrights for online use, press-release, IP/04/586, May 3, 2004, online: European Union Web-site <

terms of Santiago Agreement, a national collecting society A authorizes another collecting society B to license providers of music content on the Internet to perform and copy musical compositions contained in its repertoire on a worldwide basis, including in the collecting society A territory, in return for a reciprocal authorization from society B. The Santiago Agreement is based on 5 important principles: the license is granted to the content provider; the license is to be granted by the collecting society of the country in which the content provider has its usual place of business; the content provider is granted the license worldwide and on a non-exclusive basis; the Agreement contains provisions for the prompt distribution of the collected royalties; and the Agreement assumes that in case of the transmission of contents on demand the licensing society will use the royalty rate applicable in its administrative area and in case of offers by a content provider across national boundaries, the royalty rate applicable in the country of destination accessed, either by means of download or streaming. The license covers webcasting, streaming, online music on demand, as well as music included in video (TV, motion, pictures, etc.) transmitted online⁴⁸².

“All societies will be able to license the worldwide repertoire (the aggregate of their repertoires) as a package to content providers worldwide for online distribution on the internet and on similar networks.”⁴⁸³ Once a content provider is granted such license, there is no need to obtain any further licenses from any other musical collecting society.

However, the license granted under the Santiago terms is subject to limitation that each society may only license content providers, whose economic residence is located in its “home” territory. Each user is allocated to one collecting society on the following criteria: the URL of the content provider; the national language of the web-site, and the center of economic interest of the content provider. The latter is defined in agreement as the place where at least two of these places

<http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/04/586&format=HTML&aged=0&language=EN&guiLanguage=en> > (last visited March 2005).

⁴⁸² Notification of cooperation agreements, Case COMP/C2?38.126 – BUMA, GEMA, PRS, SACEM, OJ. 2001/C 145/02, May 17, 2001.

⁴⁸³ Capobianco, “Licensing of Music Rights”, *supra* note 454.

are: (1) principal/main office; (2) country where content provider employs majority of persons; and (3) country of control of accounts (i.e. country of incorporation).

“As a basic rule the license will be granted: (a) by the society operating in the country corresponding to the URL (uniform resource locator) used by the content provider, where the primary language used at the site of the content provider is the primary language of that country; or (b) otherwise by the society operating in the country where the content provider is incorporated.”⁴⁸⁴ In case content provider has its economic residence in a different country from the countries above, the license will be granted by the society operating in that country. As was mentioned earlier presently Santiago agreement is under the scrutiny of the European Commission as the practice of Santiago agreement could be in breach with EU competition law.

5.3. Possible Implications of the Simulcast Decision on Santiago Agreement: Competition Law Concerns

Following the basic principles of the Simulcast decision⁴⁸⁵, Santiago Agreement violates the principle of competition between one-stop shopping arrangements based on reciprocal rights agreements as it prevents the content provider from obtaining worldwide license from any collecting society other than the collecting society of the country where it is deemed to be established under the terms of the Santiago Agreement⁴⁸⁶. Thus, there is a territorial customer allocation requirement in place⁴⁸⁷. Such clause appears to restrict competition as it basically gives the collecting society exclusive rights over a particular group of customers. In other words, customer allocation clause replaces the present territorial exclusivity and lead to no competition between the collecting societies in granting online licenses.

⁴⁸⁴ Notification of cooperation agreements, Case COMP/C2?38.126 – BUMA, GEMA, PRS, SACEM, OJ. 2001/C 145/02, May 17, 2001.

⁴⁸⁵ See supra note 480.

⁴⁸⁶ Art. II of *Santiago Agreement*.

⁴⁸⁷ This clause provided in the *Santiago Agreement* essentially repeats the clause that IFPI agreed to amend in order to get exemption under EC competition rules.

Moreover, the customer allocation clause is particularly harmful for online music companies with subsidiaries established in different Member States as article II.8 of the Santiago provides that, for purposes of determining which collecting society has the authority to license, each company of a multinational group of companies is to be considered (and licensed) separately, regardless of where the web-site's content is hosted or distributed from. Thus, each member of a multinational group, which wants to use music online, has to obtain a separate license from the collecting society operating in its own country. Whereas it is yet to be seen what decision the Commission will take with respect to the Agreement, collecting societies state that competition among collecting societies is impossible due to a possibility of reduction of royalties and thus, leading to detriment to the mission of collecting societies⁴⁸⁸. Arguably another justification of the customer allocation clause that the collecting societies – signatories of the Santiago Agreement will bring forward is the fact that the collecting society closest to the content supplier will be better as such collecting societies will have better knowledge of the sites operating in its country. This will make it possible to define the license conditions better and monitor its use. Signatories of the Agreement may also justify the choice of jurisdiction by the possibility to take economic realities into consideration and avoid upsetting existing economic relations and financial flows. However, such justification is not persuasive, as anti-competitive clauses of the Santiago Agreement are aggravated by exclusivity requirements and rigid membership termination terms favored and widely used by collecting societies. It seems that the resistance to new changes and competition among collecting societies comes from unwillingness of collecting societies to give the right to others to manage their repertoires on conditions that would not be in their best interests.

⁴⁸⁸ R.Kreile, J.Becker, "The Internet and Digital Rights Management from the Viewpoint of Gema", online: GEMA Homepage < <http://www.gema.de/engl/copyright/fachaufsaetze/internet.shtml> > (date accessed: 16 March 2005).

6. National Regulation: Copyright Tribunal

Regulation of collecting societies' activities typically performs two functions: the first being the regulation of the relationship between the collecting societies and their users, i.e. the market; the second being the regulation of the activities of the collecting societies in relation to both the relationship between the collecting societies and their users and the collecting societies and their members. Therefore music collecting societies in Europe are regulated in two ways: regulation by the exercise of EC competition law, and regulation by national law⁴⁸⁹.

At the national regulation level, there has been an increasing tendency from the governments' side to introduce legislative measures under which certain aspects of operation of collecting societies, namely, setting tariffs, are subject either to some form of government supervision and/or to the jurisdiction of specially established tribunals or arbitration commissions⁴⁹⁰. The latter performs two major and interlinked functions: tribunals or arbitration bodies "serve as a means of ensuring that monopoly powers necessarily and usefully granted to collective licensing bodies cannot be abused... [and they also]... provide a means whereby disputes between such bodies and their would-be licensees can be resolved without recourse to the court."⁴⁹¹

As long as there are different models of operation of collecting societies throughout the world, there is also different treatment of collecting societies by their respective governments. There is no universal approach as to the model of establishing a special arbitration body or tribunal. In general, three models of supervision of collecting societies' operation and management of copyright disputes may be singled out: regulation by civil courts; adjudication by

⁴⁸⁹ U.Suthersanen, "The Future of Rights Management in the EU", in *Oxford Yearbook of Copyright and Media Law*, 2000, at 22-23 [hereinafter Suthersanen, "The Future of Rights Management"].

⁴⁹⁰ There are several strands of control over collecting societies. The first strand is represented by its members; the second – by anti-trust legislation; the third one – by copyright tribunals or some other arbitration body.

⁴⁹¹ M.Freegard, "Quis Custodiet? The Role of Copyright Tribunals" [1994] 16(7) E.I.P.R. 286-292 [hereinafter Freegard, "Quis Custodiet?"].

a special body; and official supervision⁴⁹². Some countries employ a combination of two of the models⁴⁹³. All three models are employed at the European level. In Belgium, Greece, Italy, Portugal, Spain and France no special copyright tribunal or arbitration body exists, challenges to the tariffs of the collecting societies are usually resolved in ordinary civil courts⁴⁹⁴. In other countries official supervision of tariffs is employed⁴⁹⁵. Copyright tribunals in common law countries originate from the findings of a Parliamentary Select Committee, which was established in the United Kingdom in 1929 to consider “Tuppenny Bill”, a proposal by a group of influential music users to introduce compulsory license with a maximum fee of two pence per music copy to cover the performing rights, in perpetuity, of any music composition⁴⁹⁶. That was the first time that the idea of having arbitration or some other tribunal was spelled out. Today copyright tribunals operate in most common law countries following the precedent of UK Performing Right Tribunal⁴⁹⁷ and its successor the Copyright Tribunal⁴⁹⁸.

⁴⁹² More information on each of the models can be found in the report of Australian Copyright Law Review Committee “Jurisdiction and Procedures of the Copyright Tribunal” of December 2000, online: Australian Attorney-General’s Department Web-site, <
[http://www.ag.gov.au/agd/WWW/rwpattach.nsf/viewasattachmentPersonal/\(A0E22772974CC5513F69378CCFF57C2\)~Final+Report.pdf/\\$file/Final+Report.pdf](http://www.ag.gov.au/agd/WWW/rwpattach.nsf/viewasattachmentPersonal/(A0E22772974CC5513F69378CCFF57C2)~Final+Report.pdf/$file/Final+Report.pdf)> (date accessed: 8 March 2005) [hereinafter Australian Report on Copyright Tribunal].

⁴⁹³ For instance, in U.S. disputes concerning the rate of a license agreement by performing rights organizations may in some cases be brought before the courts. ASCAP and BMI entered in consent decree with the U.S. Department of Justice as a result of anti-trust actions. A mechanism, known as federal “rate court”, for fixing the license fee in case a licensee and a performing right organization fail to agree is provided through the consent decrees. There is also a system of *ad hoc* Copyright Arbitration Royalty Panels established by the Librarian of Congress. Through this system compulsory license royalty fees are adjusted. See *Ibid.* at 23-25.

⁴⁹⁴ *Ibid.*

⁴⁹⁵ In the Netherlands the Dutch performing right society (BUMA) operates by virtue of a specific decree by the Ministry of Justice. It is also subject to general decree that particularly provides for the appointment of a Commissioner who exercises general supervision over the way the society conducts its business. Freegard, “Quis Custodiet?” *supra* note 491. However according to the Australian Report on Copyright Tribunal, the Dutch Ministry of Justice was considering introduction of other models, including the creation of copyright tribunal. See Australian Report on Copyright Tribunal, *supra* note 492.

⁴⁹⁶ Freegard M., J.Black, *The Decisions of the UK Performing Right and Copyright Tribunal* (London: Butterworths, 1997) at 1.

⁴⁹⁷ UK Performing Right Tribunal was established with the adoption of UK Copyright Act 1956 with the jurisdiction limited to determine disputes concerning “licenses and license schemes for the public performance, broadcasting or cable diffusion of literary, dramatic or music works and sound recordings to the extent that such licenses were offered or license scheme operated by licensing bodies”. *UK CPDA 1956*, s. 26 (1)-(4), and s 27A (1)-(4).

While the jurisdiction and powers of such specialist bodies differs from country to country, copyright tribunals in common law countries share common powers. The most important function of copyright tribunals in the context of online exploitation of works is its jurisdiction to investigate disputes involving terms of licenses and setting tariffs⁴⁹⁸. Usually when making decisions the tribunals are required to adjudge as to what they consider reasonable in the circumstances. This means that these specialist bodies have to strike a balance between the interests of the copyright owners and the users. There are some views that guidelines as to what is reasonable should be formulated for tribunals. However, given the fast-changing modes of exploitation of works online it is important for the tribunals to establish reasonableness depending on the circumstances of the case in dispute. Another critic of tribunals' activities is that they as a rule lack jurisdiction over disputes between members and collecting societies. For instance, the UK copyright legislation does not provide remedy for such internal disputes and they can only be resolved through European competition law or general courts. However, it is more reasonable for a collecting society to have clear and prompt procedure for members' complaints in place rather than burden the Copyright Tribunal with additional tasks falling outside the licensing terms. However, with regard to disputes over terms concerning on-line licenses the Copyright Tribunal may play an important role provided its statutory powers will be extended by the legislature to intervene in such disputes.

⁴⁹⁸ Copyright Tribunals operate in Australia, New Zealand, Singapore, South Africa. See Australian Report on Copyright Tribunal, *supra* note 492.

⁴⁹⁹ For instance, in Singapore, the Copyright Tribunal was set up under part VII of the *1987 Copyright Act*. The Copyright Tribunal has jurisdiction in a number of important areas that include: jurisdiction in connection with educational copying – the Tribunal has a power to determine what is an “equitable remuneration: in cases of multiple copying by educational institutions and institutions assisting handicapped readers intellectually handicapped readers (s.158); jurisdiction in respect of the recording of musical works s.59(1); jurisdiction in respect of government use of copyright (s.198); jurisdiction in respect of works and permitted broadcasts (s. 43, 68); jurisdiction in respect of compulsory translation and reproduction licenses (ss.114, 145, 146); jurisdiction over performing right licenses (ss.160-165); jurisdiction over making of copies of sound recordings for broadcasting (s.156B(3)); jurisdiction over rental licenses and computer programs and sound recordings (s.149(1)). See also, Wei, *Copyright Law of Singapore*, *supra* note 406.

At the European level logical outcome of all its efforts on harmonizing copyright legislation is a uniform legal structure for the protection of copyrights by way of setting up of an European Union-wide organization whose activities are checked and balanced by a pan-European specialist dispute resolution body⁵⁰⁰. However, given different regulatory approaches in the Member states, different regime for collecting societies' operation, and yet-to-be-harmonized legislation, the establishment of an single European Tribunal raises certain doubts. Therefore, the approach adopted by the EU Commission, namely, to establish "common grounds on certain parameters of external control and make specific bodies (e.g. specialized tribunals, administrative authorities or arbitration bodies) available in all Member States"⁵⁰¹, as well as common grounds on competencies, composition, and the binding or non-binding nature of decisions of such bodies, is reasonable.

7. Collecting Societies and Digital Rights Management Technologies

The main purpose of digital rights management systems is to control access to and use of digital content in order to ensure that content providers are paid adequate remuneration by consumers using digital content. Using more formal definition, DRM is "a way of addressing the description, identification, trading, protection, monitoring and tracking of all forms of rights usages over tangible and intangible assets, including management of rightsholders' relationship."⁵⁰² DRM systems contain two elements: the information about a protected work or performance in the digital environment, and technical protective measures designed to safeguard the work, recording and performance against unauthorized use⁵⁰³. DRM can employ different

⁵⁰⁰ There are some suggestions that such a dispute resolution body should be equivalent to UK Copyright Tribunal whose competence is to consider disputes over royalties and other license terms between collecting societies and users. See Suthersanen, "The Future of Rights Management, *supra* note 489 at 36.

⁵⁰¹ *EC Communication on the management of copyright, supra* note 253.

⁵⁰² A Guide to Digital Rights Management, What is DRM? online: Australian Government Web-site, Department of Communications, Information Technology and the Arts Homepage <http://www.dcita.gov.au/drm/1976.html#_ftnref1> (date accessed: 8 March 2005).

⁵⁰³ Y.Schweri, "Position Paper on Digital Rights Management Systems" (lecture held at the Symposium "Digital Rights Management: The End of Collecting Societies?" Lucerne, June 25, 2004, cf. www.i-

technological protection measures. The latter are encryption techniques, such as digital containers⁵⁰⁴, copy control technologies⁵⁰⁵, and etc. All DRMs are based on systematic identification and recording of information about legal copyright owners and legal rights associated with the content. This is often managed through the use of metadata⁵⁰⁶, rights management information (RMI) or digital object identifiers (DOI), all of which enable the description of digital content, its right holders and accompanying usage terms⁵⁰⁷. In a commercial digital environment DRM could be successful only if they are interoperable with other consumer devices.

Operation of analogue systems similar to DRM has been the core of collecting societies' activities: collecting societies manage databases containing information about their members. The information from the databases has been used for administering rights. There are certain benefits of deployment of DRM systems in the daily operation of collecting societies given capabilities of DRM to manage flexible fee structures for different users, prevent unauthorized copying,

http://www.suisseculture.ch/doss/urg-rev/drm/drm_ys01.htm > (date accessed: 8 March 2005) [hereinafter Schweri, "Position Paper on DRMs"].

⁵⁰⁴ Digital containers enable the durable encryption of distributed content. S.Bechtold, "From Copyright to Information Law – Implications of Digital Rights Management", online: S.Bechtold Homepage < http://www.jura.uni-tuebingen.de/bechtold/pub/2002/DRM_Information_Law.pdf > (date accessed: 8 March 2005) [hereinafter Bechtold, Implications of DRM].

⁵⁰⁵ Such as, "Copy Generation Management System" (CGMS) used in DVD players or "Serial Copy Management System" used in DAT and Minidisc players that control the number of copies of digital content a user can make. *Ibid.*

⁵⁰⁶ Metadata is information that is held about a particular piece of content. Various metadata formats have been developed, but common to all is that they are structured around a set of key words and data category description. See, A Guide to Digital Rights Management, What is DRM? online: Australian Government Web-site, Department of Communications, Information Technology and the Arts Homepage < http://www.dcita.gov.au/drm/1976.html#_ftnref1 > (last visited March 2005). Bechtold gives the following examples of use standards employed by metadata systems: DOI (DOI system is comparable to the bar code system adopted to identify items in the physical world, more information available at < www.doi.org >), ISBN (unique identification number of marking books, more information available at < www.isbn.org >), ISRC (International Standard Recording Code, international identification system for sound recordings and music videorecordings, administered by IFPI, more information at < <http://www.ifpi.org/isrc/> >), ISWC (International Standard Musical Work Code, more information available at < <http://www.iswc.org/iswc/en/html/home.html> >) enable description of digital content; CAE/IPI (CISAC number that indicates whether a collecting society is authorized to allocate an ISWC, more information available at < <http://www.iswc.org/iswc/en/html/FAQA.html> >) enable the description of its rights holders; XrML (Extensive Rights Markup Language, more information available at < www.odrl.net >) or ODRL (Open Digital Rights Initiative, more information available at < www.xml.org >) enable description of usage terms. Bechtold, Implications of DRM, *supra* note 504.

⁵⁰⁷ These are so-called usage rules defined in rights management languages. *Ibid.*

safeguard privacy, and secure sensitive material. However, such benefits are counterbalanced with drawbacks of DRM systems in their current stage of development: present DRM systems have potential to malfunction and they are not flexible enough to allow copyright exceptions. Due to the rapid development of different type of digital technologies, DRM are also characterized by technological obsolescence.

In sum, “DRM systems provide a technological infrastructure that can be used for a multiplicity of purposes, ranging from clearing rights and securing payments to enforcement of those rights. These technological means that could provide business models with low transaction costs and if deployed extensively ultimately render the existing remuneration schemes obsolete, interfere directly with the established systems of rights management and create a whole new reality.”⁵⁰⁸ This might lead to a conclusion that collecting societies would be no longer needed. However, given the early stage of development of interoperable and easy-to-use DRM systems, they can not automatically replace collecting societies in the nearest future⁵⁰⁹. Development and establishment of DRM systems, as well as their maintenance requires lots of investments in terms of costs and technology. Thus, only big corporations can afford such an investment, and not individual authors, performers or publishers. “So, the question is: who really profits from the development of DRM technology? The introduction of such systems is likely, first and foremost, to benefit DRM technology providers and developers. ...If DRM technology are to make it possible, overnight, to individualize mass uses in certain areas, it is unclear what the relationship would be between authors and performers on the one hand and DRMS providers on the other.”⁵¹⁰

It is submitted that rather than compete with DRM or contemplate whether collecting societies will end with the introduction of comprehensive DRM in the market, collecting societies should target their activities at using DRM systems in managing rights online. So far collecting societies have been developing their own DRM tools that are aimed at facilitating rights

⁵⁰⁸ Graber, Nenova, Girsberger, “Not Yet ‘Six Feet Under’”, *supra* note 251.

⁵⁰⁹ Echerer, *Report*, *supra* note 389..

⁵¹⁰ Schweri, “Position Paper on DRMs”, *supra* note 503.

administration among the societies. One of the examples is Common Information System (CIS), which is planned to be a world-wide digital rights management system based on standardized identification of creative works and linked networks of information between the CISAC societies⁵¹¹. In 2004 CISAC launched CIS-net, and agreed on adoption of the FastTrack Global Documentation and Distribution Network technology that will help to implement the CIS Net. “Once FastTrack's GDDN technology is in place, CISAC members will be able to perform real-time searches through CIS Net, allowing them to find musical information concerning any musical work, anywhere in the world, at any time of day. As a result, CIS Net will allow for faster and more accurate and efficient processing, allowing CISAC members to respond to the increasingly global diffusion of musical works.”⁵¹² Collecting societies need DRM that would not only facilitate their operation, but also benefit users.

8. Conclusion

Long-term objectives of the collecting societies reform are deployment of comprehensive DRM systems, establishment of single regional dispute resolution bodies and licensing centers or rights clearance centers. Achievement of these objectives will require technical solutions, proper consideration of the issues at the policy level, and financial investments. There are yet short-term objectives that are not dependent on the reasons above. Following the discussion above the following essential elements of collecting societies' conduct will greatly facilitate their efforts to adapt to the challenges of digital environment. Collecting societies should change their current practice of requiring exclusive assignment of rights. The breadth of assignment always depends on terms of membership, specifically on termination of membership in the collecting society. The

⁵¹¹ CIS consists of two series of tools: “(1) the first component features the integration of unique, ISO certified, standardized international identifiers of works and parties relevant to the creative process; (2) the second pertains to a network of global databases, or sub-systems relying on various centralized and increasingly decentralized technologies, that will serve as the repository of authoritative information on the creative process for all participating CISAC societies.”, more information available online: CISAC Homepage < <http://www.cisac.org/web/content.nsf/Builder?ReadForm&Page=Article&Lang=EN&Alias=ACT-CIS> > (date accessed: 17 March 2005).

⁵¹² *Ibid.*

current practice of long minimum term of membership, ranging from one to three years, is not compatible with possibilities of exploitation of works offered by the Internet. Therefore, collecting societies should further review their minimum terms of membership as is the case with UK PRS, or significantly reduce such term, in case of Singapore COMPASS.

Given *de facto* monopoly of collecting societies, it is imperative that there are certain safeguards in place so that actions of the collecting society are controlled. Such control is required to prevent abuses of the society's monopoly powers which can be of detriment to both members and users. The first strand of control over collecting societies' operation that allows reducing the risk of anti-trust activities is control by members. In particular, members should be able to have a say in exploitation of their works included in the repertoire of the society; they should be adequately represented in the governing bodies of the society, and allowed to participate in the establishment of the royalty distribution schemes and in the allocation of sums which are not paid to them. Collecting societies should not represent non-members unless the extended management system is in place. Royalties collected by the society for use of non-member should not be generated by the society, but rather distributed to non-members subject to administrative expenses deductions, otherwise, such practice might result in voluntary-compulsory membership in the collecting society.

Collecting societies should take more efforts in consolidating their licensing activities, and offer specific services for multimedia content providers and producers. This would require not only technical and financial investments from the societies and other copyright holders, but also their political will. In a situation that is observed in Singapore, namely, no cooperation between the PRS and music publishers, a solution could be in conducting study of pros and cons of multimedia rights clearing center in the country. The study can be conducted by an independent organization: possible candidates could be IP Academy of Singapore, Intellectual Property Office of Singapore or a research institution.

The second strand of control over collecting societies is application of anti-trust legislation. In Europe, though the EC Commission has some jurisdiction over disputes, it is limited by the requirement of Community interest⁵¹³. In Singapore, there is a new Competition Act that was introduced in 2004. The Act prohibits anti-competitive activities that unduly prevent, restrict or distort competition. A new statutory board, the Competition Commission of Singapore was set up on January 1, 2005 under the Ministry of Trade and Industry of Singapore. The Commission is to administer and enforce the Competition Act. The Commission has wide-ranging powers to investigate anti-competitive activities and act on complaints if there are “reasonable grounds” for suspected infringements⁵¹⁴. Thus, all three forms of control over collecting societies are in place in Singapore. However, even prior to adoption of Singapore Competition Act, collecting societies were subject to control by Singapore Copyright Tribunal.

The third strand of control over collecting societies is represented by the Copyright Tribunal or any other specialist dispute resolution body set up under the law. Current jurisdiction and powers of common law copyright tribunals are sufficient enough to tackle disputes that could arise from online licenses terms, including setting tariffs. Where the jurisdiction conferred does not already extend to licenses for on-line use/distribution, the governing legislation should be amended to cover this area. At least for the time being no reasonableness guidelines should be established for such bodies adjudication due to specificity of online exploitation of works. It is also unreasonable to burden such specialist bodies with considering disputes arising between members and their societies. Instead, each collecting society should have in place prompt and fair

⁵¹³ See *Bemim* and *Tremblay* cases where the Commission found lack of Community interest despite the fact that the question at issue was whether SACEM was infringing Articles 85 and 86 of the EC Treaty by concluding reciprocal agreements with other collecting societies of various Member States, which, according to the applicants, partitioned the market in this area by prohibiting users established in one Member State from dealing with a collecting society in another Member State. Also SACEM allegedly infringed article 86 of the EC Treaty by charging disco owners unjustifiably higher royalties in comparison to the royalties charged in equivalent cases by collecting societies in other Member States. *Bureau Europeen des Medias de l'Industrie Musicale (BEMIM) v. E.C. Commission* [1995] E.C.R. II-147, [1996] 4 C.M.L.R. 305, Case T-114/92; *Roger Tremblay and Others v. E.C. Commission* [1996] E.C.R. I-5547, [1997] 4 C.M.L.R. 211, Case C-91/95P. See also Torremans & Stamatoudi, “Collecting Society”, *supra* note 439.

⁵¹⁴ See s.6 & 7, *Singapore Competition Act* 46 of 2004.

procedure for members' complaints, where the Copyright tribunal should be only the last resort measure.

Reciprocal agreements of collecting societies, in particular Santiago and Barcelona agreements, will be most likely reviewed by the EC Commission in light of its decision regarding Simulcast agreement. The current customer allocation clause of the Santiago and Barcelona agreements leads to restricted competition between collecting societies as each collecting society is able to freely set licensing terms, including fees. Users should be granted more choice in obtaining world-wide license. Finally, the lack of competition prevents the development of innovative conditions for licenses for online rights, which are an essential element of digital rights management systems. Once collecting societies accept the legitimacy of the competition with respect to the collective management of online music rights, they will grant users an opportunity to obtain music in a more cheap and easy way without violating the law and they will efficiently implement their main function that is collection and distribution of royalties for their members.

The last, but no less important aspect of collecting societies' reforms is transparency in their activities. This can be achieved not only by way of external regulatory mechanisms, but also by the efforts of the collecting societies themselves in publicizing their activities, in fulfilling their reporting obligations not only to their members, but also to the general public. One of the proposals is to make collecting societies subject to accounting principles applicable to public undertakings. "One key principle is that the accounts should show the distinction between different activities, the cost and revenues associated with each activity and the methods of cost and revenue assignment and allocation."⁵¹⁵

Collective management system all over the world is in the transition stage of adapting to the challenges posed by the Internet. As was discussed in Chapter 1, recent legislative

⁵¹⁵ Collecting Society Practices Retard Development of On-line Music Market (7/03), available at < <http://www.mofo.com/news/print.cfm?ID=1040> > (date accessed: 7 March, 2004).

developments at the international and EU level, as well as implementing legislative acts at the national level did not contribute as much as it could have to the establishment of harmonized copyright legislation. Thus, collecting societies have to conduct its Internet-related reform under conditions of different approaches to copyright law, while taking into account new modes of exploitation of works in digital environment. The Internet challenged traditional *de facto* monopoly of collecting societies. While there is certain resistance from collecting societies against the loss of the monopolistic position, it is only a question of time when collecting societies will start competing with each other. In fact the main functions of the collecting societies should be revised. As was discussed in Chapter 2, efficient implementation of the foremost function of the societies, i.e. to protect and enforce their members' rights is challenged by conflicts of laws issues and by various approaches to ISP liability in the national legislations. The function of collecting and distributing royalties is challenged by a necessity to develop new licensing schemes and solutions for online exploitation of works. The new licensing schemes, in their turn, require review of reciprocal relations with other collecting societies that have long been tailored to the territorial operation of the societies in the analogue world. Also the perception of collecting societies as only representatives of authors and copyright owners need to be changed. Under conditions of competitive online market, the societies will have to think more of users' demands and requirements. Therefore, a comprehensive reform of collective management system is required. As was discussed in the present Chapter more advanced collecting societies, like those operating in UK, France, Germany, Singapore have already achieved some results in their efforts to adapt to the Internet challenges, however lots of issues are to be yet resolved. Countries with less developed collective management system may learn lots of useful lessons from the experience of the collecting societies in the developed countries. The next Chapter discusses the issue of collective management system in the Russian Federation, which despite its historical roots, should be considered as a rather new system as the genuine collective management system was established in the country only after the collapse of the Soviet Union,

that is over 10 years ago. What are the obstacles that the Russian Federation faces in developing its collective management system and adapting it to the digital environment? What are the lessons that Russia can learn from the best experience of other countries? What is the local specific that should be taken into account while developing its copyright legislation, collecting societies' operational rules and procedures? All these issues are discussed in the last Chapter 4.

CHAPTER IV. COLLECTIVE MANAGEMENT SYSTEM IN RUSSIA: CHALLENGES OF THE DIGITAL ERA

1. Legislative Framework

A specific feature of copyright development in Russia has been its close link with the censorship legislation⁵¹⁶. The first law that granted authors rights to use literary works was adopted in 1828 as a special chapter of the Censorship Statute rather than as a separate copyright law⁵¹⁷. Pursuant to the Statute, an author or translator of the book “had an exclusive right to use

⁵¹⁶ Due to historical reasons book publishing in Russia was considered to be state monopoly up to 18th century. Although in 1801 Emperor, Alexander I, allowed private printing houses, State still occupied the dominant position in the area of book publishing. As Sergeev notes under the conditions of no competition among book publishers, the major prerequisites for copyright law emergence were absent. Comparing with the Western perception of copyright as private privilege, in Russia, privileges were granted only to book publishers, who most frequently were represented by state institutions, scientific societies or other public legal entities. Authors received “royalties” in the form of awards and gifts, yet those were not related to the publication of their works. Only in 1877 copyright rules were moved from the Censorship Statute to the Civil Laws (vol.X, part.1, Code of Laws of the Russian Empire). It is interesting to note that even in England, early copyright was concerned with censorship and the book publishers were the main beneficiaries of United Kingdom first copyright statute: The Statute of Ann 1790. Авторское право: Учебное пособие, авторский коллектив Allpravo.Ru – 2004, online: Allpravo Homepage < <http://allpravo.ru/library/doc1972p0/instrum1987/item1989.html> > (date accessed: 22 April 2005) [Textbook, Copyright Law, authors of Allpravo.Ru]. А.П. Сергеев, Право интеллектуальной собственности Российской Федерации (Москва: Проспект 1999), С.35 [A.P.Sergeev, *Intellectual Property Law of the Russian Federation* (Moscow: Prospekt 1999) at 35].

⁵¹⁷ Initially the censorship authorities did not inquire whether book publishers have the corresponding rights to the work they intended to publish. However in the first quarter of 19th century there were lots of cases of overt fraud by certain book publishers, thus in 1816 the Ministry of Public Education issued order according to which book publishers had to submit proof of their rights when they submitted the work for censorship examination. A.P.Sergeev, *Intellectual Property Law of the Russian Federation*, *supra* note 516 at 35.

his work and sell it at his discretion as his property during author's life-time"⁵¹⁸. The term of copyright law was 25 years from the date of author's death, after that the work was transferred into public domain⁵¹⁹. Copyright protection was very much dependent on observance of censorship rules: in case the book publisher failed to observe these rules, he was deprived of all rights to the work to be published⁵²⁰. The specific copyright legislation was adopted on 20 March 1911 in the form of Regulation on Copyright Law⁵²¹. The first predecessor of collective management organization was established in the end of 20th century. The Society of Russian Dramatic Authors was created on October 21st 1874 and its first members were such famous Russian authors as Ostrovskiy, Tolstoy, Turgenev and others. A year later, composers headed by Rimsky-Korsakov joined the society. Thus, the first Russian copyright collective management society was created in 1875. Naturally the societies were still in an early form of development. According to Kalyatin, the economic interests of the Government of Russia and the weakness of the collecting societies in failing to provide efficient protection of economic interests of Russian authors were the reason for Russia's refusal to join the Berne Convention in 19th century⁵²².

⁵¹⁸ The chapter in Censorship Statute was supplemented by a more extended Regulation on Rights of Authors that related only to literary works. *Ibid.* More information about the history of copyright law and development of collective management system in the Russian Federation is available online: Russian Authors' Society Homepage < <http://rao.ru/orao/history/> > (date accessed 22 April 2005).

⁵¹⁹ A.P.Sergeev, *Intellectual Property Law of the Russian Federation*, *supra* note 516 at 35.

⁵²⁰ *Ibid.*

⁵²¹ *Ibid.* As Sergeev notes that Regulation was quite progressive, based on the best models of Western European laws, however with lower level of copyright protection that had been traditional for the Russian copyright law. *Ibid.*

⁵²² В.О. Калятин, *Интеллектуальная собственность (Исключительные права)* (Москва: Норма 2000), С. 16 [V.O.Kalyatin, *Intellectual Property (Exclusive Rights)* (Moscow: Norma 2000) at 16]. At that time Russia was not keen on strong copyright protection, especially for foreign right holders since it would not allow book publishers and others freely use the works of foreign authors. See also discussion of Russia accession to Berne and reservation on retroactive protection under 3.2, Chapter I. See also, E.Schwartz, "Recent Developments in the Copyright Regimes of the Soviet Union and Eastern Europe", (1991) 38 *J.Copyright Soc'y* at 141 [Schwartz, "Recent Developments"] (noting that the Soviet Union throughout its history afforded little if any protection for works of foreign authors until it joined the Universal Copyright Convention in February 1973. He further notes two reasons for unwillingness of the Soviet Union to provide adequate protection of foreign works, namely" ideological grounds – opposition to increasing the power of (capitalist) publishers", and desire "to freely translate Western works. The Soviet Union has consistently been one of the largest producers of translations in the world (26,700 works by foreign authors between 1946 and 1970). Since both the UCC and Berne require translation rights, adherence to these conventions was vigorously opposed within the Soviet-Union – both out of fear for lost revenues by Soviet publishers and fearing a cultural drain as well").

Nevertheless, the first step had been made, and the collective management system had established its roots in Russia.

Further development of intellectual property law in the country was impeded by attempts to abolish intellectual property *per se* during the first years of the October Socialist Revolution. In 1917, the Decree “On State Publishing Activity” was adopted. The Decree appointed a special committee that was granted a right to set state monopoly (for 5 years) over the works of certain authors. Pursuant to the Decree “On Recognition of Scientific, Literary, Musical and Art Works As State Property” adopted in 1918, works by a number of writers and composers were transferred into the state property. At the collective management plane, both the societies experienced different organizational transformations. Eventually in 1930, All-Russia Society of Dramatic Authors and Composers was established. At that time, Basics of the Copyright Law were in force, according to which the rights of authors were recognized for their life time, including transfer of copyright to their heir for 15 years after the author’s death, and the use of works was allowed only by signing contracts with authors. During the period of 1960-1980s the Soviet copyright legislation was excessively regulated and contained significant exemptions⁵²³.

⁵²³ Examples of compulsory licensing and free use provisions in the Fundamentals of Copyright Law of 1961, as amended up to October 30, 1981 are as follows: provision allowing for the expropriation by the state of copyright (art. 106); reproduction in newspapers of publicly delivered speeches, report and published works of literature, science and arts, in the original language or translation (art.103(2)); reproduction on a nonprofit basis of printed works for scientific, educational and instructive purposes (art.103(7)); public performance of a work, or for the recording on film, discs or tape for public broadcasting by radio or television without consent of the author (art.104). While most of these provisions were abolished in 1991, some of them, like reproduction on a nonprofit basis of printed works for scientific, educational and instructive purposes were left intact. Schwartz notes that “Western publishers of scientific and technical materials have complained that this provision encourages the purchasing of a single copy of a foreign work which is then photocopied without compensation to serve the needs of an entire research institution, such as a university, business or its library.” Schwartz, “Recent Developments”, *supra* note 522. Sergeev notes that such exemptions and compulsory licensing provisions were justified differently, however, the main justification was in special socialistic nature of author and the society relationship. All the provisions were abolished and/or revised in the 1993 Russian Copyright Law. However, going back to the provision allowing reproduction on a non profit basis of printed works for scientific, educational and instructive purposes, it is evident that if the Soviet Union at that time provided strong copyright protection, it would have undoubtedly impeded access to the information, which was restricted to a certain extent, and affected the development of education in the country. While such exemption can not be justified from the copyright viewpoint, it is analogous to the present situation when the Internet provides the technical means for millions of people all over the world to gain access to the information, while authors and mainly copyright owners have theoretically great potential to restrict access

There was no special copyright law, but relations arising from the use of copyrighted works were regulated by sections on copyright law in the Fundamentals of Civil Legislation⁵²⁴, standard author's contracts and numerous resolutions on authors' royalties. Copyright was mainly limited to the right of authors to a certain fixed remuneration for the use of his work. The Soviet copyright law was based on non-transference of both economic and personal rights of authors. It was considered that an author only "permits" others to use his work under an author's contract. However, the then legislation was successful in serving the centralized system existing in the USSR⁵²⁵. It was not until 1991 when All-Union Copyright Agency (known more as VAAP) was transformed into the State Agency on Copyright and Related Rights, and later in 1992 into Russian Intellectual Property Agency. The first post-Soviet Law of the Russian Federation on Copyright and Related Rights⁵²⁶ adopted in 1993 stipulated for the first time the creation of non-commercial collective management organizations. Provisions of the 1993 Russian Copyright Law gave rise to creation of collecting societies in the country.

Activities of collecting societies are regulated by Chapter IV of the Russian Copyright Law. Pursuant to article 44 of the Russian Law, collecting societies can be created solely by authors and owners of copyright and related rights. The societies are to operate within the powers transferred by authors and copyright owners according to their respective Bylaws⁵²⁷. The law allows creation of three types of the societies: (1) societies administering one category of rights and one category of right holders; (2) societies administering different rights in the interests of

to the information on the Internet by using DRMs or other technological protection measures in combination with statutorily defined liability for anti-circumventing those measures. Thus, as was discussed in Chapter 1, the proper balance between authors and copyright owners and users is more than needed. Sergeev, *Intellectual Property Law of the Russian Federation*, *supra* note 516, at 243-244.

⁵²⁴ Chapter IV, Basics of Civil Legislation of the USSR and Soviet Republics, adopted by the Supreme Council of the USSR on May 3, 1991.

⁵²⁵ Gavrilov, *Commentary to the Law of Copyright and Related Rights*, *supra* note 355 at 11.

⁵²⁶ *Law of the Russian Federation On Copyright and Related Rights* of July 9, 1993 № 5351-I, as amended by the Federal Law of the Russian Federation on July 20, 2004 № 72-Φ3 [hereinafter *Russian Copyright Law 2004*].

⁵²⁷ Art. 44.1, *Russian Copyright Law 2004*.

different categories of right holder; (3) societies administering both copyright and related rights⁵²⁸.

Collecting societies are prohibited from engaging in commercial activity⁵²⁹ and are exempted from application of anti-monopoly legislation⁵³⁰. Authors and other right holders transfer powers to administer copyright (only economic rights) in writing and on a voluntary basis⁵³¹. Collecting societies may also administer copyrights and related rights on the basis of agreements with foreign collecting societies⁵³². The Law explicitly distinguishes contracts signed by authors and other copyright owners on transfer of powers for collective management of their economic rights to collecting societies and respective agreements of Russian collecting societies with foreign societies and author's contracts. Therefore, the major types of agreements signed by collecting societies are (1) agreements on collective management signed with authors and copyright owners; (2) licensing agreements, signed with users and giving them permits (licenses) to use works; and (3) agreements on royalties' payment signed with users in cases when royalties are collected without issuance of licenses (permits) under articles 13.3, 26 and 39 of the Russian Copyright Law⁵³³. Collecting societies are not allowed to refuse administration of any of the rights transferred provided such rights are within the competence of the society⁵³⁴. Collecting societies are also not allowed to use the works and related rights objects.

Licenses issued by collecting societies should have terms similar for all users in one category⁵³⁵. This means that a collecting society, which issued license where the royalty was set to be 2% of the annual income of the user, and then later started issuing licenses to users in the

⁵²⁸ Art. 44.2, *Russian Copyright Law 2004*. Related rights under Russian Copyright Law include rights of performers, phonogram producers and broadcasting organizations. See arts. 35 -43, Russian Copyright Law.

⁵²⁹ Meaning that collecting societies can operate only as non-commercial organizations, whose activity is subject to the *Law of the Russian Federation On Non-Commercial Organizations* of January 12, 1996, № 7-Φ3, as amended on December 23, 2003 [hereinafter Russian Law on Non-Commercial Organizations].

⁵³⁰ Art. 45.1, *Russian Copyright Law 2004*. See, further discussion under p.3, Chapter IV.

⁵³¹ Art. 45.2, *Russian Copyright Law 2004*.

⁵³² *Ibid.*

⁵³³ See discussion *infra* at notes 540-541.

⁵³⁴ Art. 45.2 *Russian Copyright Law 2004*.

⁵³⁵ Art. 45.3, *Russian Copyright Law 2004*.

same category but at a lesser royalty rate, the license with 2% rate should be reviewed, or it could be automatically reconsidered by virtue of articles 168 and 180 of the Civil Code of the Russian Federation⁵³⁶. In case a collecting society discriminates between users in the same class, the users may file a complaint with the court of general jurisdiction. Similarly, refusal in issuance of license by a collecting society should be reasonably justified, otherwise an user can file a complaint with the court.

Collecting societies are allowed to represent non-members, whereas the latter have the right to claim royalties collected by a collecting society on their behalf⁵³⁷. In case an author or right holder does not want to be represented by a collecting society, he has the right to exclude his works from licenses issued by the collecting society. If no claims are brought from non-members with respect to royalties within 3 years as of the date of receiving royalties on the account of the collecting society, the latter has the right to preserve royalties, i.e. to include the amount due into the amount distributed to members or to use it for other purposes in the interests of its members⁵³⁸.

The Russian Copyright Law sets out functions and obligations of collecting societies. Collecting societies are to agree the amount of royalties and terms of licenses with users; to issue licenses; to collect and distribute royalties; to enforce the rights administered; and to perform any other activities within the powers transferred to them provided the activities are of non-commercial nature⁵³⁹. One of the functions of the collecting society is to agree the amount of

⁵³⁶ Gavrilov, *Commentary to the Law of Copyright and Related Rights*, *supra* note 355 at 210. See also *Civil Code of the Russian Federation* of November 30, 1994, as amended on June 29, 2004, [hereinafter *Russian Civil Code*] namely, art. 168 “Invalidity of Legal Transaction Not Consistent with the Law or Other Normative Acts”, art. 180 “Consequences of Invalidity of a Part of Transaction.”

⁵³⁷ Arts. 45.3, 46.4, 47.2, *Russian Copyright Law 2004*.

⁵³⁸ Art. 45.4, *Russian Copyright Law 2004*. Three-year term was set following the three-year term of general period of limitations for bringing an action.

⁵³⁹ According to art. 2 of the *Russian Law On Non-Commercial Organizations*, *supra* note 529, non-commercial organizations are organization whose major goal of the activity is not to obtain profit and not to distribute it among its members. Non-commercial organizations may be established for achieving social, charitable, cultural, educational and administration purposes, protection of public health, development of physical culture and sports, satisfaction of spiritual and other non-material needs of citizens, protection of rights and legal interests of citizens and organizations, disputes and conflicts resolution, providing legal aid,

royalties with users in cases when the collecting society collects the royalty without issuing a license. The Russian Copyright Law stipulates two cases when such function can be performed by collecting societies. According to art.26 of the Russian Copyright Law, audiovisual work or sound recording maybe reproduced without consent of the author, but with payment of royalty, and exclusively for private use. The royalty for such reproduction is paid by producers and importers of the audio and video equipment and material carriers used for such reproduction. Collection and distribution of the royalty is entrusted with the collecting society⁵⁴⁰. According to art. 39 of the Russian Copyright Law, a phonogram published for commercial purposes can be publicly performed, communicated to the public by wire and wireless means without consent of the phonogram producer and performer, but subject to royalty payment to the collecting society. In both the cases, authors can not claim royalties individually; they can exercise these rights only through the collective management system⁵⁴¹. The latest amendments to the Russian Copyright Law⁵⁴² granted collecting societies a right to bring an action to the court on their own behalf for the purpose of protecting copyrights and/or related rights of persons, whose rights the collecting societies administer⁵⁴³.

Today there are several collecting societies operating in the Russian Federation. The oldest and the largest is RAO, Russian Authors' Society (hereinafter RAO)⁵⁴⁴. RAO administers different categories of rights, including performing rights, synchronization rights, mechanical

as well as for other purposes aimed at achievement of public welfare. Non-commercial organizations may be created in the form of public or religious organizations (associations), non-commercial partnerships, institutions, autonomous non-commercial organizations, charitable and other funds, associations and unions, as well as in other forms stipulated by Federal laws.

⁵⁴⁰ The *Copyright Law* also stipulates for a royalty distribution formula, i.e. 40 percent to authors, 30 percent to performers, 30 percent to phonogram producers, however, the formula can be changed by the agreement between the collecting society and users. In case no consent is reached between the parties, a special authorized body of the Russian Federation shall make a decision. Administration of such right is specified within the competence of Russian Author's Society (RAO, see note 544 *infra*), however no factual information regarding this issue could be obtained.

⁵⁴¹ Russian Phonographic Association (RPA) upon agreement with IFPI administers these rights. See note 546 *infra*.

⁵⁴² See discussion at under 3.2, Chapter I.

⁵⁴³ Art. 49, *Russian Copyright Law 2004*.

⁵⁴⁴ More information available online: Russian Authors' Society Homepage < www.rao.ru > (date accessed: 16 April, 2005).

rights, and reprographic reproduction rights. Besides RAO, the following collecting societies that have been created not long ago, operate in Russia: Russian Collecting Society of Authors and Other Copyright Owners⁵⁴⁵ (hereinafter ROAP) administering copyrights; Russian Phonographic Association (hereinafter RPA) administering phonographic rights⁵⁴⁶; and Russian Reprographic Reproduction Collecting Society (hereinafter KOPIRUS) administering reprographic reproduction and other types of reproduction rights⁵⁴⁷. At present there is only one collecting society in Russia that offers online licenses, Russian Organization for Multimedia and Digital Networks (ROMS)⁵⁴⁸.

2. Russian Authors' Society (RAO)

2.1. Membership and Acquisition of Rights

Russian Authors' Society (RAO) was established in August 1993. It is undoubtedly the largest collecting society in Russia. As of 2003, the society administered rights of over 17000 Russian authors and other right holders⁵⁴⁹. It is a non-commercial organization, administering different categories of rights, namely, performing rights, including small and grand rights, mechanical reproduction rights, making available right, synchronization rights, reprographic reproduction rights, distribution and reproduction of works of arts and works of decorative and

⁵⁴⁵ More information available online: ROAP's Homepage < www.roap.ru > (date accessed: 17 April, 2005).

⁵⁴⁶ More information is available online: RPA's Homepage < <http://www.fonogram.ru> > (date accessed: 17 April 2005)

⁵⁴⁷ More information available online: KOPIRUS Homepage < <http://www.copyrus.org.ru/index.php?eng=1&PHPSESSID=e2a607cbdd887b7fe8e995c23b92164b> > (date accessed: 17 April 2005). It is unclear how KOPIRUS and RAO divide their powers to administer right to reprographic reproduction as no information regarding any possible agreement between the two organizations is found on their web-sites. Presumably KOPIRUS and RAO have different members who authorized them to administer their right to reprographic reproduction. However, as a rule reprographic reproduction administration is vested in one collective management organization (for instance, WORT in Germany, REPROECHT in the Netherlands, CCC in the U.S., CLA in UK). This is a specific of administration of the right to reproduction as the licensing agreements are mostly signed with large entities: universities, libraries, corporations.

⁵⁴⁸ More information on Russian Organization for Multimedia and Digital Systems (ROMS) is available online: ROMS's Homepage < <http://www.roms.ru> > (date accessed: 22 June 2005). Interesting to note that now visual arts are also included in the operation of

⁵⁴⁹ As of January 1st 2004 members of the RAO were 6852 composers, 3422 authors, 2507 screenwriters, 2406 scene designers, 717 translators, 497 choreographers, 685 artists, Report of the Russian Authors' Society for 2003.

applied arts. Membership in the society is possible only on a voluntary basis and is open to: authors or their successors in title, who transferred administration of their economic rights to the society; authors or their successors in title, who agreed to receive the society's assistance in transferring right to use works on an individual basis; legal entities – public associations operating in the copyright area; foreign authors or their successors⁵⁵⁰. Distinguishing feature of RAO is absence of music publishers in their membership. The reason is similar to the one observed in Singapore, music publishers do not want to transfer their rights to the collecting society and prefer to operate independently. However, in the Russian context the situation is aggravated by special provisions in RAO's By-Law as to the membership in the organization. According to these provisions, only legal entity operating as a public association can join the society⁵⁵¹. Thus, the current practice is signing agreements on joint control over the use of works between RAO and music publishers⁵⁵².

Any member can terminate his membership in the society in a voluntary manner. However the By-law does not set out a detailed membership termination procedure. Some clarification as to the membership termination may be found in the Agreement on Collective Management (hereinafter Membership Agreement).⁵⁵³ In accordance with point 16 of the Membership Agreement, an author has the right to terminate his membership in the society provided all taxes are paid from the royalties he received for covering RAO's expenses. RAO retains the right to demand the member to cover RAO's material expenses incurred due to changes in its database and spent for sending out notifications to users about the changes. The

⁵⁵⁰ Art. 14, By-law of the Russian Authors' Society (hereinafter RAO's By-Law), registered in the Ministry of Justice on September 30, 1993, online: RAO's Homepage <<http://rao.ru/orao/ustav/>> (date accessed: 17 April 2005).

⁵⁵¹ According to art. 6 of the *Russian Law On Non-Commercial Organizations* public association is a form of non-commercial organizations. Public associations are voluntary associations of citizens who have united into the association on the basis of common interests for satisfaction of spiritual or other non-material demands, and according to the procedure set by the Law.

⁵⁵² For instance, music publishing company "Soyuz" signed agreement on control over public use of the publisher's rights with RAO, A.Safrin, "Music Publishers Protecting Copyrights", online: First Music Publishing Homepage <<http://www.1mp.ru/rus/consult/safrin2001.html>> (date accessed: 20 April 2005).

⁵⁵³ Agreement on Collective Management of Economic Rights of the Author, online: RAO's Homepage <<http://rao.ru/autor/dogovor.htm>> (date accessed: 20 April. 2005) [hereinafter Membership Agreement].

amount of claims and their justification are considered by the Authors' Council⁵⁵⁴ of the RAO on a case-by-case basis. If an user is not satisfied with the decision of the Author's Council, he/she may file a complaint with the court of general jurisdiction.

Pursuant to point 15 of the Membership Agreement, parties may unilaterally terminate the Agreement at any time provided 6-month advance notice is filed. All licenses issued by RAO as of the date of termination of the Agreement on Collective Management shall be effective. RAO will continue collecting and paying royalties, as well as paying taxes and making deductions until the expiry date of the license. Thus, any licenses with users that RAO has already signed remain valid till their expiration. According to point 1 of the Membership Agreement, an author authorizes RAO to administer his economic rights on a collective basis when his works, created prior to signing the Agreement and during its term of validity, are used in the following way: (1) public performance; (2) mechanical reproduction; (3) inclusion of published musical works with or without text into audiovisual works; (4) reprographic reproduction of works; (5) reproduction and distribution of works of arts and applied arts. The author transfers administration of his rights in the territory of the Russian Federation and/or in all countries of the world⁵⁵⁵. The Membership Agreement is signed for indefinite period of time⁵⁵⁶ and applies to all authors' works, present and future, thus it authorizes RAO to administer both existing works as well as future works made by the author so long as he remains a member.

Pursuant to point 6 of the Membership Agreement the author shall be obliged not to authorize the administration of the above rights to any other party, in particular, with respect to issuance of permits to use works and collect royalties due for the use. The author shall also be obliged not to issue permits to use his works in the ways indicated above on an individual basis,

⁵⁵⁴ Authors' Council is one of the governing bodies of RAO. See discussion under 2.2, Chapter IV.

⁵⁵⁵ Art. 2, Membership Agreement, *supra* note 553.

⁵⁵⁶ Art. 15, *Ibid.*

not to refuse from royalties paid by users through RAO⁵⁵⁷, and not to receive royalties directly from users. In other words, as soon as the author joins RAO, he is obliged to transfer the above mentioned rights on an exclusive basis, and is expressly prohibited to self-administer his rights. In case the author fails to implement any of the five obligations stipulated in the Membership Agreement, the Author's Council of RAO can take a decision as to termination of the Agreement and payment of penalty to RAO, established by the Council⁵⁵⁸. The member can appeal to the court of general jurisdiction.

2.2. Governing, Executive and Controlling Bodies

As was discussed in Chapter 3, members are considered to be the first strand of control over the operation of collecting societies. This can be done primarily by participation of members in the activities of the society, their representation in the governing bodies, voting procedures and other internal rules. The governing bodies of RAO are General Meeting of members, Authors' Council and Presidium of the Authors' Council. The executive body of the society is the Board, whereas controlling and revision body is the Revision Commission⁵⁵⁹. The General Meeting is the highest body of the society, which convenes not less than once in 6 years⁵⁶⁰. Within the exclusive competence of the General Meeting are approval and introduction of amendments to the By-Law of the society; election of the Authors' Council and Revision Commission of the society for the term of 6 years; approval of reports of the Authors' Council and the Revision Commission; and making decision as to termination and reorganization of the society⁵⁶¹. Extraordinary General Meeting may be called either by the initiative of the Authors' Council or

⁵⁵⁷ Meaning that member author must accept payment from the royalties that RAO collects from users of his works.

⁵⁵⁸ Two other obligations of an author under the Membership Agreement are not to refuse from claims brought by RAO in the interests of the Author to the court without preliminary discussion with RAO; not to refuse from payment of actual expenses incurred by RAO in a certain case; and not to damage the business reputation of RAO.

⁵⁵⁹ Art.18, RAO's By-Law.

⁵⁶⁰ Art. 19, RAO's By-Law.

⁵⁶¹ Art.20, RAO's By-Law.

upon the demand of more than half of the members⁵⁶². Decisions of the General Meeting are adopted by simple majority of votes of representatives of the Society participating in the meeting.⁵⁶³ The Authors' Council convenes not less than once a year and is elected for 6 years⁵⁶⁴. The number of the Authors' Council members is determined at the General Meeting taking into account proportional representation of different categories of the society's members⁵⁶⁵. Currently there are 24 members of the Authors' Council. Most important functions of the Council are establishment of a procedure for distribution and payment of royalties, as well as any other use of funds collected for the purpose of implementing tasks of the society; setting out the procedure of membership admission; and approval of annual budget of the society⁵⁶⁶. The Board is responsible for daily activities of the Society⁵⁶⁷. It is elected by the Authors' Council, and convenes not less than once in two months. Members of the Board are employees of the RAO, as well as other people acting on a *pro bono* basis upon special approval of the Authors' Council as and when needed. The Revision Commission has the power to check observation of the By-Law's provisions by the society and to review its financial activity, property and reporting. Members of the Revision Commission are elected by the General Meeting. Members of the Council and the Board can not participate in the Revision Commission⁵⁶⁸. The term of office of members of the Revision Commission is 6 years.

While the internal structure of the society seems to be clearly established with strict division of powers, representation of different categories of authors, and checks and balances mechanisms, there are still some issues that draw special attention. First, the 6-year term of office of the Authors' Council and the Revision Commission is deemed to be quite long. Secondly,

⁵⁶² Art. 19, RAO's By-Law.

⁵⁶³ Art. 21, RAO's By-Law. Approval and amendment of the society's By-Law and decisions regarding termination and reorganization of the society may be adopted at the General Meeting provided over half of representatives of the structural sub-divisions of the society are present.

⁵⁶⁴ Art. 22, RAO's By-Law.

⁵⁶⁵ *Ibid.*

⁵⁶⁶ Art. 23, RAO's By-Law.

⁵⁶⁷ Art. 28, 29, RAO's By-Law.

⁵⁶⁸ Art. 31, RAO's By-Law.

composition of the Authors' Council and the Revision Commission includes only members of the society. While members of the Authors' Council, the Board and employees of the society are prohibited to be members of the Revision Commission, there is no provision indicating that special experts, like auditors can be appointed as the Commission's members. The current composition of the Revision Commission consists solely of authors and composers, who are likely to be members of the society⁵⁶⁹. It should also be noted that neither RAO's By-Law nor Membership Agreement contains clearly-formulated provisions on internal disputes resolution. According to point 17 of the Membership Agreement any disputes arising from the Membership Agreement shall be considered by the Authors' Council if the disputes relate to the exclusive competence of the Council, and by courts of general jurisdiction regarding all other issues.

Given the discussion above, there is an urgent need for RAO to revise its By-Law and Membership Agreement. Existence of comprehensive procedures for terms of rights' acquisition, membership, composition of the governing and controlling bodies, as well as procedures for internal disputes resolutions will be especially important when RAO starts issuing licenses for online exploitation of works. First of all, RAO's requirement of exclusive transfer of rights for collective administration should be counterbalanced by a possibility of its members to make reservation as to certain modes of the exploitation of their works⁵⁷⁰. Secondly, alongside the individual management of rights, members should also have a possibility to entrust partial administration of his rights to another society. Despite RAO's *de facto* monopoly, Russian Copyright Law stipulates for the creation of different types of organizations. Thus, ideally there should be certain level of competition between the societies and authors should be able to choose the society based on the terms offered by the societies and rate of royalties he can get for the use of his work. Thirdly, RAO should consider a possibility to accept music publishers as the

⁵⁶⁹ List of members of the Revision Commission and Authors' Council is available at < <http://rao.ru/orao/avsov/> > (last visited April, 2005).

⁵⁷⁰ See discussion of the issue of rights' self-administration in UK and Singapore, under 3.2-3.4, Chapter III.

society's members⁵⁷¹. Fourthly, the term of office of the governing and controlling bodies should be reviewed for better transparency in the operation of the collecting society. Attraction of external members, like in Singapore's COMPASS, is equally important in ensuring transparency of the Authors' Council and the Revision Commission. Finally, establishment of independent copyright tribunal that would consider the disputes arising between members and users along the lines of UK and Singapore Copyright Tribunals' operation is desirable⁵⁷².

2.3. Licensing Issues

Currently licensing activity of RAO is limited only to analogue-world licenses, mostly for exploitation of works on TV and radio. However, there was an attempt to organize digital licensing. In June 2000, RAO signed a General Agreement on Interaction in Collective Management of Copyright and Related Rights in Digital Networks (including Internet) (hereinafter Cooperation Agreement) with Russian Society of Multimedia and Digital Networks (hereinafter ROMS)⁵⁷³. As it was discussed in Chapter 1 the new Internet provisions of the Copyright Law will enter into force only on September 1st, 2006. Until that date, the scope of the rights conferred by Russian copyright as to temporary copying and on-line transmission may be open to question. If so, then some may even query as to whether there is a proper basis for the RAO/ROMS Agreement. Although it has to be recognized that certain Internet transmissions might already be covered by exclusive rights to broadcasting and communication to the public by cable. The issue is clearly a difficult one.

According to art. 2.2.1. of the ROMS By-law⁵⁷⁴, the area of the society's activity is collective management of all types of electronic use (Internet, any networks of mobile communication and any regional, local and other networks), including reproduction,

⁵⁷¹ This issue is discussed in detail under 4, 5, Chapter IV.

⁵⁷² See discussion of the role of Copyright Tribunal in efficient operation of collecting societies under 6, Chapter III.

⁵⁷³ Russian Society of Multimedia and Digital Networks (hereinafter ROMS), more information available online: ROMS Homepage < <http://www.roms.ru> > (date accessed: 25 April 2005) [hereinafter ROMS].

⁵⁷⁴ ROMS Bylaw, online: ROMS Homepage < <http://www.roms.ru/?fms=1&sms=5> > (date accessed: 25 April, 2005).

communication to the public by wire and wireless means of all types of copyright and related right works. However, there is no readily information as to the scope of rights transferred by authors and right holders to ROMS for collective management and no readily available information as to the repertoire of the society in the ROMS website. In any event, it is understood that the agreement between RAO and ROMS has since been terminated. In the event, it appears that RAO has decided to administer electronic rights to use works in its own repertoire on its own and is taking steps to examine the legal framework for such uses. One step will be to ensure that proper agreements are entered into with authors covering Internet use by the date when the so called Internet law provisions of the Russian Copyright Law will enter into force⁵⁷⁵.

Apart from getting respective permission to manage rights to online exploitation of works from its members, RAO faces a number of legal issues that may impede its efficient operation in digital environment. RAO needs to closely work with music publishing companies, if not accept them as members. Due to the fact that no association of music publishers exists at the moment, RAO will have to continue signing separate cooperation agreements with each of them. The situation will get complicated as not all music publishing companies are ready for cooperation, and similarly to the situation in Singapore prefer to issue their own licenses and collect royalties for reproduction of their works by their own resources. RAO will not be able to grant membership to music publishing companies as long as it is operating in the form of a non-commercial organization. As discussed in more detail below, art. 45 of the Russian Copyright Law allows representation of non-members. The Law arguably stipulates for the existence of

⁵⁷⁵ И.А. Близнец и К.В.Леонтьев, Постатейный комментарий к Закону Российской Федерации «Об авторском праве и смежных правах», Интеллектуальная собственность. Документы.Комментарии. Приложение, журнал «Интеллектуальная собственность – Авторское право и смежные права», № 1, 2005. I.A.Bliznets & K.V.Leontiev, “Article-by-Article Commentary to the Law of the Russian Federation “On Copyright and Related Rights” in “Intellectual Property. Documents. Commentaries. Consultations” Annex , Intellectual Property – Copyright and Related Rights Journal, # 1, 2005 [hereinafter Bliznets & Leontiev, “Article-by-Article Commentary”].

several collecting societies⁵⁷⁶. This leads to the risk of having several collecting societies operating in the country and all of them could represent non-members. For instance, relying on art. 45.3 of the Russian Copyright Law, a collecting society might try to justify its operation as a collecting society regardless of the existence of any relevant contracts on assignment of rights for collective management by authors. Indeed, the view might be even taken that the collecting society is entitled to represent both domestic and foreign non-members. The provision of the Russian Copyright Law on representation of non-members seems to be counter-balanced by an obligation of a collecting society to pay royalties collected to non-members with deduction of the society's expenses⁵⁷⁷. But this will in turn require clear provisions in the By-laws of the collecting society so as to govern and facilitate payments of royalties to non-member.

Deficiencies in internal rules of collecting societies and Russian Copyright Law do not contribute to the introduction of online exploitation licenses in the Russian market. Lack of cooperation between collecting societies and music publishers impede issuance of user-friendly licenses for online exploitation of works. In the case with multimedia, the situation in Russia is similar to the one in Singapore, any user who is willing to clear rights to any multimedia product he plans to produce has to go through different organizations and companies to obtain licenses. Taking into account the large territory of the country and absence of representative offices of many music publishing companies in the regions, the lack of cooperation between music publishers and collecting societies may lead to the situation when the majority number of users will not be given a possibility to clear all the rights, even if they have a desire to do so.

3. RAO: *De Facto* and *De Jure* Monopoly?

As was mentioned elsewhere art. 45 of the Russian Copyright Law exempts collecting societies from application of limitations stipulated in the anti-monopoly legislation. According to art.2.2 of the Law of the Russian Federation "On Competition and Limitations of Monopolistic

⁵⁷⁶ See discussion of unclear provisions of art. 45 of the *Russian Copyright Law 2004* stipulating for existence of several or one collecting society in Russia at notes 581-593 *infra*.

⁵⁷⁷ See art 45.3 and art. 47.2, *Russian Copyright Law 2004*.

Activity in Goods' Markets"⁵⁷⁸ (hereinafter Russian Anti-Monopoly Law), the Law shall not cover relations related to the objects of exclusive rights, except for cases, when relations arising from the use of intellectual property objects are aimed at limiting competition or in cases when acquisition, use and infringement of exclusive rights to intellectual property objects may lead to unfair competition. Collecting societies are exempted from the effect of Anti-monopoly Law due to its obligation to act in the interests of virtually all authors and right holders⁵⁷⁹. Bliznets and Leontiev note that the Law allows the existence of only one collecting society administering certain type of use of works, however the Law does not "insist" on that⁵⁸⁰.

While there are no clear provisions in the Law that would give RAO *de jure* monopoly status, in *RAO v. ROAP*⁵⁸¹ RAO claimed that it had *de jure* monopoly and requested the court to prohibit its competitor, ROAP from operating as a collecting society. However, the claim to issue injunction as to operation of ROAP as a collecting society was later changed to the claim to issue injunction prohibiting ROAP from undertaking any acts on administering economic rights of authors and other right holders, who have not granted such powers to ROAP in writing. The Arbitration Court of Moscow City⁵⁸² dismissed RAO's claim in full. Pertaining to RAO's claim of *de jure* monopoly, the court in particular noted that pursuant to art. 44 of the Russian

⁵⁷⁸ Law of the RSFSR "On Competition and Limitation of Monopolistic Activity in Goods' Markets" of March 22, 1991, # 948-I, as amended on October 9th, 2002.

⁵⁷⁹ Art. 45.3, *Russian Copyright Law 2004*.

⁵⁸⁰ Bliznets & Leontiev, "Article-by-Article Commentary", *supra* note 575.

⁵⁸¹ *Russia Authors' Society (RAO) v. Collecting Society of Authors and Other Right Holders (ROAP), All-Russian State TV and Radio Company (VGTRK)*, case # A40-34778/04-110-339, September 30, 2004.

ROAP was established in June 2002 as a result of conflict in the Authors' Council of RAO. Certain members of RAO terminated their membership and created new collecting society, ROAP, RAO's competitor. See Андрей Макаревич выиграл в суде право защищать авторские права, [A.Makarevich won the right to protect his copyrights in the court] online: Guru Ken Show online-blog < http://www.guruken.ru/job/MAKAREVICH_vyigral/ > (date accessed: 27 May, 2005).

⁵⁸² It should be noted that decisions of the courts do not traditionally refer to the sources of law in Russia. However, courts' decisions influence the market of intellectual property objects. The most important decisions of the courts are represented in the form of summary of judicial practice developed by the highest Arbitration Court of the Russian Federation and the Supreme Court of the Russian Federation. Summaries of judicial practice issued by these courts are mandatory for implementation by the lowest courts. Otherwise, sources of copyright law are as follows (in a priority order) 1) Civil Code and Federal laws; 2) sub-legal normative acts, including Decrees of the President of the Russian Federation, resolutions of the Governments of the Russian Federation, acts of ministries and state agencies; 3) international agreements.

Copyright Law, authors and other rightholders of copyright and related rights can create collecting societies that operate within the powers assigned to them by authors and right holders and in accordance with their bylaws approved according to the established procedure. “Therefore, the given provision gives a possibility to create not only one, single collecting society provided the society is created exclusively by rightholders, and this is the only requirement of the legislator to creation of such an organization”⁵⁸³. According to the Moscow Arbitration Court following the rationale of art. 44 of the Russian Copyright Law, the Law does not limit authors and other right holders in creating collecting societies. RAO appealed the Municipal Arbitration Court decision. The 9th Appellate Arbitration Court agreed with the decision of the lowest court as to this part of the claim⁵⁸⁴.

The case above raised the issue of problematic provisions of the Russian copyright legislation. Art. 138 of the Russian Civil Code⁵⁸⁵ and art. 30 of the Russian Copyright Law recognize exclusive rights of an author or any other right holder to use copyright and related rights works. Art. 30 of the Russian Copyright Law stipulate that exclusive economic rights may be transferred only under author’s contract, except for certain cases provided by the Law⁵⁸⁶. At the same time art. 45.3 of the Russian Copyright Law provides that collecting societies when issuing licenses to users represent all right holders of copyright and related rights, including those, who did not transfer powers for collective management of their rights. Furthermore, art.44 of the Russian Copyright Law in a rather confusing language provides for three different forms of collecting societies⁵⁸⁷. Both Arbitration courts referring to art. 44 of the Russian Copyright Law ruled that several collecting societies may exist with respect to one and the same rights and categories of right holders provided they have relevant contracts with authors and right holders

⁵⁸³ *Russia Authors’ Society (RAO) v. Collecting Society of Authors and Other Right Holders (ROAP), All-Russian State TV and Radio Company (VGTRK)*, case # A40-34778/04-110-339, September 30, 2004.

⁵⁸⁴ The Federal Arbitration Court of Moscow District confirmed the decision of the 9th Appellate Arbitration Court.

⁵⁸⁵ *Russian Civil Code*, *supra* note 536.

⁵⁸⁶ Art. 18-26, *Russian Copyright Law 2004*.

⁵⁸⁷ See *supra* notes 527-528.

that transferred such powers to them. But applying art. 45.3 on the right to collect royalties from non-members, the absurd situation may arise where several collecting societies administering one and the same rights may exist and all of them represent all authors and rightholders on both a contractual and non-contractual (art. 45.3) basis. The worst scenario is when several collecting societies administering one and the same rights start duplicating themselves in collecting royalties from users.

There are other views as to what the legislature meant by art. 44. of the Russian Copyright Law. For instance, Gavrilov considers that the given provision allows creation of either one, universal collecting society that would act in all cases when individual management of copyright and related rights is difficult or creation of several collecting societies administering one set of rights and one category of right holders⁵⁸⁸. Such an interpretation might seem to be more consistent with art. 45.3 of the Russian Copyright Law and leads to a conclusion that any collecting society is empowered to represent all authors and right holders from the moment of its creation. In other words, any collecting society is *de jure* monopoly as to the administered rights of members and non-members. If so, the situation resembles “first come, first served” principle. If one follows this interpretation, the first collecting society that was established by authors for administration of certain rights over certain works, should be considered to be monopoly and may represent non-members, and in essence no other collecting society may be formed. Such interpretation is extreme and opens the door to the potential abuse, especially under conditions of exemption from application of the anti-monopoly legislation. Fortunately, the court dismissed this claim.

How these problematic provisions of the Russian Copyright Law will work in the future is unclear. How will it be possible to prevent the situation when several collecting societies administering one and the same rights collect royalties from users justifying their acts by art. 45.3 of the Russian Copyright law? The Resolution of the Constitutional Court of the Russian

⁵⁸⁸ Gavrilov, *Commentary to the Law of Copyright and Related Rights*, *supra* note 355 at 203.

Federation “As to the Constitutionality of Resolution of the Presidium of the Supreme Council of the RSFSR of February 3, 1992, # 2275-1 ‘On All-Russia Agency on Copyright’”⁵⁸⁹ could be of some help. In this Resolution the Constitutional Court considered indirectly art. 45.3 of the Russian Copyright Law. On February 3, 1992 the Presidium of the Supreme Council of the Russian Federation approved Resolution # 2275-1 “On All-Russia Agency on Copyrights”. Pursuant to the Resolution, the All-Russian Agency on Copyrights (VAAP) was created due to abolishment of the State Agency of the USSR on Copyrights and Related Rights. The VAAP’s aim was defined as continuation of activity on ensuring authors’ interests in the territory of the Russian Federation, including implementation of international obligations in copyright area. The VAAP was entrusted with all material resources of the former State Agency of the USSR on Copyrights and Related Rights. The Constitutional Court ruled that the Presidium of the Supreme Council of the Russian Federation exceeded its powers stipulated in the Constitution of the RSFSR by creating such an agency and approving the By-Law of the VAAP. The Court further noted that VAAP’s By-Law contained significant restrictions of constitutional rights of authors as pursuant to its provisions VAAP implements and protects authors’ rights on collective basis in those areas of the use of works, where individual management is impossible or difficult, as well as collects and distributes authors’ royalties, and issues licenses to use the works. The By-Law had clear provision authorizing the VAAP to bring actions to all judicial bodies having rights granted by Law to the plaintiff, defendant, and third party. As the Court noted, the VAAP was assigned functions of legal representative of an author, thereby virtually depriving him of a possibility to exercise his rights individually. The Constitutional Court further noted that “protection of copyrights by the state is directly dependent on observation of one of the constitutional principles of the economic system of the Russian Federation, according to which

⁵⁸⁹ The Resolution of the Constitutional Court of the Russian Federation of April 28th, 1992, # 4-II “As to the Constitutionality of Resolution of the Presidium of the Supreme Council of the RSFSR of February 3, 1992, # 2275-1 ‘On All-Russia Agency on Copyright’”. The latter, known more as VAAP, was a predecessor of RAO.

the state ensures development of market economy and does not allow monopoly.”⁵⁹⁰ Reasons and aims of creation of VAAP stipulated in the Resolution and some provisions of the By-Law mean that this organization is called to combine state managerial and commercial functions, i.e. certain conditions for its economic activity are being created”⁵⁹¹ depriving other organizations the chance to compete with VAAP on equal terms for its clients. Therefore, a possibility of creating other collective management organizations was limited *per se*. The Court stated that absence of competition among the collecting societies may reduce quality of services offered by such organizations, increase cost of services for authors, especially when protecting their rights abroad, and mostly importantly VAAP would have a possibility to dictate terms to its client authors. According to the Court, such abuse of practice had already been observed in the activity of former All-Union Agency on Copyrights and State Agency of the USSR on Copyright and Related Rights. Unfortunately, the main issue considered by the court was legality of the Resolution of the Presidium of Supreme Council of the Russian Federation, thus the issue of monopoly of VAAP was not reflected in the findings (substantive part of the court’s decision) of the court.

Why the Arbitration courts of both the instances did not follow the reasoning of the Constitutional Court in considering *RAO v. ROAP* case is unclear. The Constitutional Court in essence had the same opinion as did the Arbitration Court, which is: RAO should not exercise monopoly in the collective management market as this will ultimately damage the interests of authors⁵⁹². Nevertheless, the Russian Copyright Law provision allowing establishment of several forms of collecting societies needs to be clarified, whereas the provision on representation of non-members should be abolished, otherwise they will complicate even more the activities of collecting societies when they start operating in digital environment, if not create chaos. There is

⁵⁹⁰ *Ibid.*

⁵⁹¹ *Ibid.*

⁵⁹² However, it should also be noted that the Constitutional Court ruling was made under the existence of the old Soviet copyright legislation. The provisions on three forms of collecting societies and non-members representation were adopted in the new Russian Copyright Law in 1993.

no guarantee that multitude of new collecting societies will not soon appear claiming to administer authors' rights in online regime and representing non-members. Bliznets and Leontiev note that art.44 of the Russian Copyright law requires revision or at least clarification containing clear criteria as to division of scope of activity of collecting societies.

It is also submitted that the collecting societies should be subject to external control regardless of its *de facto* or *de jure* monopoly. Thus, the provisions exempting collecting societies from application of anti-monopoly should be reviewed as well as intellectual property-related provisions of the Russian Anti-Monopoly Law. Alternative solution is in establishment of independent specialized body or copyright tribunal with jurisdiction of considering disputes between collecting societies and users⁵⁹³.

4. Non-commercial Nature of Collecting Societies' Activity

Aside from the problems that arise from representation of non-members, the “non-commercial” nature of collecting societies under Russian law sets up the controversial exemption of collecting societies from the anti-monopoly (competition law) legislation. Pursuant to art. 45.1 of the Russian Copyright Law collecting societies are prohibited from engaging into commercial activity. This means that collecting societies in the Russian Federation may be created only in the form of non-commercial organizations⁵⁹⁴. Anti-Monopoly Law regulates relations affecting the competition in the goods markets of Russia where *inter alia* non-commercial organizations *not* engaged in business activity participate. Thus, collecting societies are not covered by provisions of the Anti-Monopoly Law. Their operation is regulated by the Russian Law on Non-Commercial Organizations⁵⁹⁵.

However, certain issues arise pertaining to non-commercial status of collecting societies. Pursuant to art. 2 of the Russian Law on Non-Commercial Organizations, non-

⁵⁹³ See discussion of the role of Copyright Tribunals under 6, Chapter III.

⁵⁹⁴ Bliznets & Leontiev, “Article-by-Article Commentary”, *supra* note 575. See also definition of non-commercial organization in the Russian Law on Non-commercial organization, *supra* note 539.

⁵⁹⁵ Ministry of Justice of the Russian Federation is responsible for control over consistency of the activity of non-commercial organizations with their goals stipulated in By-Laws.

commercial organization is an organization that does not set profit-making as the major aim of its activity, and that does not distribute the profit received among its members. On the contrary, and as it was mentioned earlier⁵⁹⁶ *raison d'être* of collective management system is collection and distribution of royalties. The copyright market capacity in Russia must be worth several hundred of millions of US dollars and it is probable that significant sums are already being collected by RAO and other Russian collecting societies. These are likely to include significant payments covering administrative fees in respect of the collection activities. The economic value of copyrighted works and related rights objects will increase even more due to digital exploitation of works. Moreover, collecting societies do distribute the royalties, i.e. profit among its members. The current organizational form of this collecting society does not really reflect the nature of its major activities.

RAO operates as a public association. According to art.6 of the Russian Law on Non-Commercial Organizations, public organizations (associations) are voluntary associations of citizens created pursuant to the procedure established by Law and united on the basis of common interests for satisfying their spiritual and other non-material demands. Therefore, the main objective of RAO should be satisfaction of spiritual and other non-material needs of its members rather than their material needs like collection and distribution of royalties and protection of its members' rights. Moreover, the public association organizational form of RAO limits membership composition of the society. According to art. 15 of the RAO's By-Law, legal entities operating in the copyright area only in the form of public associations or their successors are eligible for membership in the organization. Such a provision, dictated by non-commercial organizational form of RAO prevents music publishers to participate in the society. This will ultimately lead to inefficient operation of RAO especially in the areas of online licensing and multimedia licensing, unless RAO finds efficient ways of cooperation with music publishers aimed at facilitation of access to the required licenses for users.

⁵⁹⁶ See discussion under 1, Chapter III.

One of the possibilities of RAO to avoid limitations brought by public association status could be reorganization of the society into non-commercial partnership. According to art. 8.1. of the Russian Law on Non-Commercial Organizations, non-commercial partnership is a non-commercial organization established by citizens and/or legal entities to assist its members in carrying out the activity aimed at achieving such goals stipulated in art.2.2. of the Law. These goals include *inter alia* protection of rights and legal interests of its members, provision of legal aid, disputes and conflicts resolution, and etc⁵⁹⁷. The Law also contains explicit provision allowing non-commercial partnership to engage into commercial activity in accordance with the goal of the organization⁵⁹⁸. However, anti-monopoly exemption would still apply to non-commercial partnerships.

Given the discussion above, a conclusion may be drawn that it is non-commercial organizational form of collecting societies that prevents them from being subject to anti-monopoly legislation. This, in its turn, leads to non-transparency in the activity of collecting societies and could be aggravated by art. 45.3 of the Russian Copyright Law allowing collecting societies to represent non-members. Thus, there is a need to amend the Russian Copyright Law, i.e. to exclude the provision granting societies anti-monopoly exemption, or exclude the provision prohibiting collecting societies to be engaged in commercial activity, i.e. requiring them to operate as non-commercial organizations.

5. Final Remarks

Today collective management system of Russia is experiencing many difficulties caused primarily by inconsistent provisions in the Russian Copyright Law. There are two “roots of evil”: requirement to operate in the form of non-commercial organization, and thus exemption from

⁵⁹⁷ Art.2.2., *Russian Law on Non-Commercial Organization* states: “Non-commercial organization can be created to achieve social, charitable, cultural, educational, scientific and managerial goals, in order to protect health of citizens, develop physical culture and sports, satisfy spiritual and other non-material demands of citizens, protect rights and legal interests of citizens and organizations, resolve disputes and conflicts, provide legal aid, as well as other goals aimed at achieving public interest.

⁵⁹⁸ Art. 8.2., *Ibid.*

anti-monopoly legislation; and provision giving collecting societies a possibility to represent non-members, which is complicated by unclear provision allowing creation of one or several collecting societies. Non-commercial status of collecting societies provides them immunity from anti-monopoly legislation and also impedes attraction of music publishers into its membership. Statutorily defined representation of non-members may lead to the duplication of collecting royalties function of the societies. Unclear provisions allowing creation of only one or several organizations administering one set of rights lead to the struggle between the long-established collecting societies and the new ones. Moreover, many pseudo-organizations appear mostly in the regions, who claim to represent interests of certain authors and surely all other non-members. Internal rules of collecting societies are not well developed and thus deprive its members of control over the activity of collecting societies. Given the current experience in Russia with collecting societies and the importance of ensuring effective administration of copyrights in the digital environment, it is suggested that as a first step, there should be reconsideration of the continuing desirability of article 45.3 of the Russian Copyright Law as well as removal of the exemption of collecting societies from anti-monopoly law.

All these factors are two-fold: on one hand, they impede the development of efficient collective management system in the country, on the other, they are indicators of a difficult development process in which Russian collecting societies find themselves. While Russian collective management system dates back to 18th century, in essence it started developing only about 10 years ago. Thus, it is not surprising that the collective management system is facing these problems at the current stage of its development. However, the collective management system in its present form will not be able to implement its major function in the digital environment, i.e. efficient management of authors' rights, even though recent amendments to the Russian Copyright Law create somewhat more favorable conditions for exploitation of works on the Internet. There are no doubts that changes at the legislative level that would take interests of authors and users into account are much needed.

CONCLUSION

The collective management system is one of the compound elements of copyright law. It emerged as a response to difficulties encountered by authors in protecting their rights. Over time the role of guardian of authors' right was complemented by the economic role of collecting societies, i.e. collection and distribution of royalties, which is currently considered to be the *raison d'être* of the collective management system. As was discussed earlier, digital technologies, and in particular Internet, posed new challenges to the copyright law, including collective management system. At first blush, the challenges seemed to be so overwhelming that doubts arose as to necessity of collecting societies *per se*. Why would an author need to assign his exclusive rights to an intermediary organization if he can manage those rights by himself, using the Internet? The only things that an author would need are computer and Internet connection? Yet the administration of rights through the Internet is not that simple. Even if an author decides to manage his rights on an individual basis, the computer and Internet connection would not be enough. The author would probably need to invest in developing his web-site; he would need to search for clients or somehow advertise his works; he would also need to employ some technological measures and digital rights management techniques to ensure that the work he offers for exploitation is used according to the specified terms; he would probably need to purchase additional software program allowing to carry out financial transactions online; he would need to monitor the proper use of the licensed works; and in case the terms of the license are not implemented he would need to have some sort of mechanism to track down the infringement and enforce his rights against the infringer.

While some authors would prefer to engage in all these activities, the majority would most probably use the traditional way, that is assign their rights to collecting societies, pay certain fee for their services, get royalties, and have plenty of time for his creative work. From the users viewpoint, the system of collective management is convenient as ideally collecting societies provide users with a possibility to clear all rights required of as many authors as possible at once

(blanket license), at a reasonable cost (which can be negotiated in some cases) and within reasonable period of time (currently the average time needed for signing licensing agreements with collecting societies is about 5-7 working days). Some discussion of a possibility for digital rights management system to replace the collective management system has been underway, however, given the early stage of development of interoperable and easy-to-use DRM systems, they can not automatically replace collecting societies in the nearest future, moreover development and maintenance of such systems would require lots of investments in terms of costs and technology. Not all authors would have an access to such systems, but rather very rich authors and most probably big corporations. Thus, the collective management system is needed, however in a different form and shape that meets the digital environment.

As a rule, implementation of any reform requires the will of the government or consensus of stakeholders as to enactment and/or amendment of the legislation, and its proper enforcement. Copyright law is currently in the stage of reforming or adaptation to the digital environment. As was discussed in Chapter 1, new treaties that for the first time regulate exploitation of works on the Internet were adopted at the international level, namely, WIPO Copyright Treaty and Performances and Phonograms Treaty, and followed by enactment of implementing regional and national legislation. However, there is no uniform and harmonized approach (in the fullest meaning) to copyright law yet, mostly due to divergent pre-Internet legislation and copyright policies in different countries. As was discussed throughout the present work, Berne Convention gives certain latitude for interpretation and implementation of its provisions to its member countries. Thus, such important concepts of copyright law, as authorship, exceptions and limitations are regulated differently depending on the country. Also some urgent and important issues relating to multimedia and database protection are not regulated yet at the international level leading to a situation when these two copyright subject matters are treated differently in different countries. Against this background, the overall position of digital copyright law is undermined by borderless nature of the Internet, leading to a multitude of unclear issues of

conflicts of laws in case copyrights are infringed online. As was discussed in Chapter 2 the absence of international legislation that would deal with the issues of jurisdiction and applicable law in case of infringement of intellectual property rights in the Internet, and scarce and yet-to-be developed judicial practice, do not contribute to the proper enforcement of copyright law provisions even though the latter are somewhat adapted to the digital environment.

All this makes it even more difficult for collecting societies to reform. Collecting societies are territorial by nature, thus legal framework surrounding the structure and operation of collecting societies differs from one country to another. Yet there are general areas, discussed in Chapter 3, where collecting societies can and should introduce changes or revise its “analogue-time” conduct. The majority of challenges encountered by collecting societies in their efforts to adapt to the digital environment are caused by territorial nature and *de facto* monopoly position of collecting societies, thus preventing creation of competitive market for their services in the Internet. Analyzing experience of reforms of musical collecting societies in United Kingdom, Singapore and Russia, the following are the major challenges of collecting societies and possible solution to overcome those in the context of their operation in digital environment.

The first major area concerns relationship of collecting societies and members. The scope of rights assigned or conferred by authors to a collecting society constitutes one of the main aspects of the legal relationship involved in the collective management of authors’ rights. The “analogue” practice of collecting societies to require from prospective members assignment of all rights (exclusive assignment) to all authors’ works, whether present or future, for the entire world and for an undetermined period of time, entails lots of problems in case of exploitation of works online. Perhaps the most problematic is the requirement of exclusivity. It is submitted that assignment of rights on an exclusive basis prevents authors both from administration of rights individually and from assigning the rights to other collecting society that offers, to author’s mind, more favorable terms. Therefore, the possible solution is to give an author a possibility to self-administer certain rights. The breadth of assignment always depends on terms of membership,

specifically on termination of membership in a collecting society. It is submitted that the current practice of long minimum term of membership, ranging from one to three years, is not compatible with possibilities of exploitation of works online. Thus, collecting societies should review their minimum terms of membership and/or significantly reduce such terms.

In some countries, the law allows collecting societies to represent non-members despite the fact that no extended management system operates in the country. It is submitted that representation of non-members infringes upon the exclusive right of an author to own and use his work. When an author creates a work, it is only he, who has the right to do with the work whatever he wishes: he may want to assign the rights to use the work to someone else, he may want to destroy the work, or he may want to use it in some other way. It is after all his property right, the right to self-determination. Musical collecting societies representing non-members would most probably justify such representation by impossibility of tracking, for instance, every single song that is publicly performed or reproduced. Thus, inevitably the user might exploit the music of a non-member without even knowing that a collecting society does not administer rights of this particular composer. In such cases the collecting society is to have a clear-formulated procedure for distribution of royalties for non-members, as well as prompt procedure for exclusion of works of a non-member from its repertoire upon request of the latter. However, in some cases of exploitation of works online, for instance, offering MP3 files for downloading, collecting societies should not represent non-members, but rather employ technical measures or software that allows tracking the repertoire of the user, who is offering song or any other copyrighted works online. The last but not least issue in the context of collecting societies viz. members relates to control over collecting societies' operation by members. In particular, members should be able to have a say in exploitation of their works included in the repertoire of the society, participate in the establishment of the royalty distribution schemes, be adequately represented in the governing bodies of the society, and have a possibility to file a complaint as to the internal rules of the society with an independent body.

The second major area for reforming collective management system relates to collecting societies vs. users relationship, i.e. licensing activities of the society. At present only a few musical collecting societies issue online licensing mostly in the developed countries and most of them are issued as pilot licenses. Traditionally the performing rights (public performance, and broadcasting rights) were within the scope of rights administered by collecting societies, whereas the right of reproduction remained with author or music publisher. Online exploitation of a work requires, at minimum both of these rights. In some countries, performing rights societies entered into alliances with mechanical rights societies. This allowed them to consolidate licensing activities and offer joint more user-friendly online licenses to users. It is yet too early to draw any conclusions regarding efficiency of such online licenses, however one aspect where licensing activities of collecting societies could be reformed relates to licensing services for multimedia content providers and producers. At present time, only a few examples of successful one-stop shop multimedia rights clearance center exist. Yet they represent a good example of cooperation between different collecting societies and music publishers. Unfortunately, in most of the countries music publishers prefer to administer the right of reproduction by their own forces, thus complicating the situation for users in their efforts to clear the required rights. The licensing activities of collecting societies directly relate to the third major area of reform, namely, relationship between collecting societies.

Collecting societies offer a licensee the worldwide repertoire of music by way of signing reciprocal agreements with sister organizations. Under the traditional reciprocal agreement, a collecting society transfers, for instance, its members' repertoire to a foreign sister society for exploitation in that society's administrative area. However, it is submitted that this system no longer satisfies the requirements of the Internet where protected works of music are used across national and administrative boundaries. The danger is that it can lead to reduced competition in the digital environment as is demonstrated by the continuing controversy over the Santiago Agreement. Reciprocal agreements signed by collecting societies with respect to online

exploitation of works should be based on the principle of competition and should not allow for customer allocation, i.e. issuance of license only to content providers whose economic residence is located in the “home” country of the collecting societies. Competitive market would also require collecting societies to pay more attention to users’ needs and demands. Control by way of competition law should also be complemented by the so called third strand of control over operation of collecting societies, namely, by an independent specialized dispute resolution body or copyright tribunal. While jurisdiction and powers of such specialist bodies differ from country to country, the most important function of copyright tribunals in the context of online exploitation of works will be a jurisdiction to investigate disputes involving terms of licenses and setting tariffs. Therefore, it is submitted that the scope of powers of such bodies should be extended to include terms of online licenses and tariffs.

Reforming the collective management system is perhaps difficult due to the existence of many stakeholders within the “copyright camp”, who are trying to lobby their own interests, whereas collecting societies occupy the intermediary position serving as a link between authors and copyright owners, and individual users and industries. Maintaining the balance is always hard and requires many efforts and compromises from all the parties. The present work was started from a statement that the copyright community is in the middle of a great debate over the proper scope of copyright and at stake is the balance of power. Collecting societies are in a unique position when they are able to maintain the balance of power between copyright owners and users by offering more efficient and adequate to the Internet environment services of collective management of exclusive rights of their members for the benefit of users.

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COLLECTIVE MANAGEMENT SYSTEM IN DIGITAL
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