

## WTO PANEL REPORT ON SECTION 110(5) OF THE U.S. COPYRIGHT ACT

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A World Trade Organization (“WTO”) panel regarding the validity of the exceptions clause to the United States Copyright Act,<sup>1</sup> found that section 110(5)(B) conflicted with both the Agreement on Trade Related Aspects of Intellectual Property Rights (“TRIPS”)<sup>2</sup> and the Berne Convention for the Protection of Literary and Artistic Works (“Berne Convention”).<sup>3</sup> Rather than appealing the decision or taking some other action, the United States agreed to amend section 110(5)(B) to comport with these international agreements.<sup>4</sup> This sequence of events raises interesting questions about whether the WTO panel correctly interpreted the TRIPS agreement and whether the United States responded correctly.

This Note will discuss the WTO decision and conclude that it interpreted the TRIPS agreement so narrowly that it created a standard that invalidates the laws of many countries. Further, it will be argued that the United States therefore should have appealed the WTO decision; if this appeal failed, the United States should have negotiated with other potential violators of the TRIPS agreement and Berne Convention in order to create a uniform amendment and preserve international consistency. The Note will conclude that the WTO decision and the subsequent reaction by the United States to amend section 110(5)(B) did not serve TRIPS’ purpose or bolster the United States’ ability to get other nations to comply with TRIPS. This is crucial given China’s recent admittance to the WTO.<sup>5</sup> The United States should have considered these overriding objectives in making its decision.

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1. WTO Dispute Panel Report on Section 110(5) of the U.S. Copyright Act, WT/DS160/R § 7.1, at 69 (June 15, 2000), at [http://www.wto.org/english/tratop\\_e/dispu\\_e/dispu\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm) [hereinafter WTO Panel Report].

2. Agreement on Trade Related Aspects of Intellectual Property Rights, Apr. 15, 1994, 108 Stat. 4809, 33 I.L.M. 81 [hereinafter TRIPS agreement].

3. Berne Convention for the Protection of Literary and Artistic Works, Paris Act of July 24, 1971 (as amended on Sept. 28, 1979), arts. 11(1)(ii), 11<sup>bis</sup>(1)(ii), at <http://www.wipo.int/treaties/ip/berne/> [hereinafter Berne Convention].

4. *U.S. Told to Alter its Music Law*, Bloomberg News, Jan. 16, 2001, at <http://seattlep-I-nwsourc.com/business/msic16.shtml>

5. WTO Decision on the Accession of the People’s Republic of China, WT/L/432, (Nov. 23, 2001), at [http://www.wto.org/english/thewto\\_e/acc\\_e/completeacc\\_e.htm](http://www.wto.org/english/thewto_e/acc_e/completeacc_e.htm).

## I. BACKGROUND

### A. Berne Convention and TRIPS Agreement

#### 1. Overview

The Berne Convention came into force on September 9, 1886, to protect copyright holders across national borders; since then, it has been revised approximately once every twenty years.<sup>6</sup> While member states can bring disputes before the International Court of Justice (“ICJ”), there is no formal process to enforce ICJ decisions. Although the Berne Convention still exists, most of its substantive provisions were incorporated into the TRIPS agreement in 1994.<sup>7</sup>

The General Agreement on Tariffs and Trade (“GATT”)<sup>8</sup> was formed after the Second World War to prevent the exorbitant tariffs of the 1930s from occurring again. As a nonlegal entity, GATT had little power.<sup>9</sup> In an effort to strengthen it, its members formed the World Trade Organization.<sup>10</sup> The WTO is a legal entity whose members are required to ensure the conformity of their laws with international obligations.<sup>11</sup> TRIPS codified the rules of trade enforced by the WTO.

To ensure member states’ compliance with WTO and TRIPS provisions, the WTO instituted the Dispute Settlement Understanding (“DSU”).<sup>12</sup> Under the DSU, disputing states parties are required to attempt to negotiate a settlement.<sup>13</sup> If that fails, they are then required to submit

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6. 8 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT, § 17.01[B][1], at 5-6 (2000).

7. H.R. REP. NO. 100-609, at 5 (1988).

8. General Agreement on Tariffs and Trade, Oct. 30, 1947, 61 Stat. A-3, 55 U.N.T.S. 187 (annexed to the Final Act Adopted at the Conclusion of the Second Session of the Preparatory Committee of the United Nations conference on Trade and Employment, as subsequently rectified, amended or modified). GATT was further modified and supplemented and was adopted as Annex 1A of the WTO Charter. 33 I.L.M. 1125, 1127 (1994).

9. Agreement Establishing the World Trade Organization, art. I, *reprinted in* General Agreement on Tariffs and Trade: Multilateral Trade Negotiations Final Act Embodying the Results of the Uruguay Round of Trade Negotiations, Apr. 15, 1994, 33 I.L.M. 1125, 1226-47 [hereinafter WTO Charter].

10. *See generally* WTO Charter, *supra*, note 9, at art. IX:3.

11. *Id.* art. XVI:4.

12. Understanding on Rules and Procedures Governing the Settlement of Disputes, Marrakesh, Apr. 15, 1994, Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, art. 22, 33 I.L.M. 1143 Annex 2, 1233 (1994), *available at* [http://www.wto.org/english/docs\\_e/legal\\_e/final\\_e.htm](http://www.wto.org/english/docs_e/legal_e/final_e.htm) [hereinafter DSU].

13. *Id.* art. 3.7.

the dispute to mediation with a WTO moderator.<sup>14</sup> Should this also fail, the Director General of the WTO, in consultation with the parties, establishes a panel to hear the dispute.<sup>15</sup> After reviewing oral arguments, the panel issues a report.<sup>16</sup> This decision is subject to appeal before the standing WTO appellate body.<sup>17</sup> If the appellate body finds the complaint valid, it instructs the offending state to cease violating TRIPS rules.<sup>18</sup> If the state does not comply, sanctions can be imposed.<sup>19</sup>

## 2. *United States Participation*

Until the United States joined the Berne Convention in 1989, United States copyright law developed independently of international law. “[C]hanges in American law and in Berne standards . . . narrowed the gap” between the two bodies of law, thereby making it possible for the United States to ratify the Convention.<sup>20</sup> The United States ratified the Berne Convention as non self-executing so it “is not directly enforceable in United States courts.”<sup>21</sup> However, should United States law not comport with the Berne Convention, member states can bring suits before the International Court of Justice.

Once most substantive sections of the Berne Convention were subsumed into the TRIPS agreement, the United States ratified the TRIPS agreement in order to create a broader framework for regulating world trade.<sup>22</sup> This agreement was also signed as non self-executing and has no force in United States courts, but member states can bring claims against the United States before a WTO panel under the DSU.

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14. *Id.*

15. *Id.*

16. *Id.*

17. *Id.*

18. *Id.*

19. *Id.*

20. Senate Report on Berne Convention Implementation Act of 1988, S. REP. NO. 100-352, at 1-51 (1988) (“New technologies like satellites, photocopiers, computers, and video and audio recorders have ‘internationalized’ intellectual property to an unprecedented extent.”); *see also* NIMMER, *supra* note 6, § 17.01[C][1][b], at 15.

21. Senate Report on Berne Convention Implementation Act of 1988, *supra* note 20, at 9 (“Rights and responsibilities of authors, copyright owners, users of copyrighted materials, and other parties must be resolved under appropriate domestic law not under Berne itself.”).

22. NIMMER, *supra* note 6, § 17.01[C][3], at 18.

## B. Specific Provisions of the TRIPS Agreement Related to Broadcasting

Article 9.1 of the TRIPS agreement states that WTO members are required to comply with Articles 1-21 of the Berne Convention.<sup>23</sup> Article 11<sup>bis</sup> of the Berne Convention gives authors of literary and artistic works the exclusive right to authorize "public communication by loudspeaker or any other analogous instrument transmitting, by signs, sounds or images, the broadcast of the work."<sup>24</sup> Every broadcast is considered to be a new public performance and therefore requires authorization from the license holder.

Whereas Article 11<sup>bis</sup>(1) of the Berne Convention addresses broadcasting to the public, Article 11 addresses public performances. Article 11 gives authors of dramatic, dramatico-musical and musical works the exclusive right to authorize "any communication to the public of the performance of their works."<sup>25</sup> Public performance includes both "communication to the public of the performance of a work" and as "performance by any means or process, such as performance by means of recordings."<sup>26</sup>

Article 13, the exceptions clause to the TRIPS agreement, describes the circumstances under which member states can provide exceptions to authors' exclusive rights.<sup>27</sup> In its decision related to section 110(5) of the United States Copyright Act, the WTO panel considered whether Article 13 applies to the incorporated Berne articles and defined the breadth of Article 13's scope.

### Section 110(5)

The precise meaning of the terminology in section 110(5) of the Copyright Act of 1976<sup>28</sup> is ambiguous. In 1998, Congress passed the Fairness in Music Licensing Act ("FMLA") in response to inconsistent court deci-

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23. TRIPS agreement, *supra* note 2, art. 9.1.

24. Berne Convention, *supra* note 3, art. 11<sup>bis</sup>.

25. *Id.* art. 11(1)(ii), at 13.

26. *Id.* art. 11(1).

27. TRIPS agreement, *supra* note 22, art. 13. Article 13 states that "[m]embers shall confine limitations or exceptions to exclusive rights to certain special cases which do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the right holder." *Id.*

28. Copyright Act of 1976, Pub. L. No. 94-533, § 110(5), 90 Stat. 2541 (codified at 17 U.S.C. § 110(5) (1994)) ("[C]ommunication of a transmission embodying a performance or display of a work by the public reception of the transmission on a single receiving apparatus of a kind commonly used in private homes unless (A) a direct charge is made to see or hear the transmission; or (B) the transmission thus received is further transmitted to the public.").

sions regarding the meaning of section 110(5).<sup>29</sup> Throughout the amendment process, Congress received pressure from interest groups regarding how broad to make the exception. Two such competing groups were establishment owners who wanted a broadly construed exceptions clause so that they could provide entertainment to their customers, and music producers and copyright holders who wanted to be paid royalties for the use of their works. Even though the FMLA was passed, this conflict between establishment owners and music producers and copyright holders still exists.<sup>30</sup> The establishment lobby is arguably pleased with the current scope of section 110(5) while the music lobby wants the United States to narrow the scope of the exception.

Currently, section 110(5)(A) carves out an exception for transmissions by a “single receiving apparatus of a kind commonly used in private homes” as long as no fee is charged or the transmission is not further broadcast to the public.<sup>31</sup> This “homestyle” exemption<sup>32</sup> is essentially the same text that was included in the Copyright Act of 1976. The House Report accompanying the Copyright Act of 1976 states that its purpose “is to exempt from liability anyone who merely turns on, in a public place, an ordinary radio or television . . . of a kind normally sold to members of the public for private use.”<sup>33</sup>

Section 110(5)(B), the “business” exemption, was added by the FMLA to protect businesses that transmit or retransmit nondramatic works.<sup>34</sup> This section carves out an exception that applies to business establishments; the scope of the exception depends on how big the establishment is and whether it serves food or drink.<sup>35</sup> This exemption applies only if no fee is imposed for seeing or hearing the transmission, and the transmission does not extend beyond the establishment.<sup>36</sup> During the debates on the amend-

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29. Laura A. McCluggage, *Section 110(5) of the Fairness in Music Licensing Act: Will the WTO Decide the United States Must Pay to Play?*, 40 IDEA 1, \*6-\*8 (2000).

30. *Id.*

31. 17 U.S.C. § 110(5)(A) (1994).

32. WTO Panel Report, *supra* note 1, at 4.

33. H.R. REP. NO. 94-1476 (1976). The current section 110(5)(A) provides more details than its predecessor in the 1976 act by specifying that no fee may be charged and that the transmission cannot be broadcast to the public.

34. 17 U.S.C. §110(5)(B).

35. *Id.* at § 110(5)(B). For both the second and fourth exceptions, the transmission must be solely by audio means by no more than six loudspeakers, no more than four of which are located in one room, or, if the performance is by audiovisual means by no more than four audiovisual devices, of which not more than one has a diagonal screen size of more than 55 inches, and not more than six audio devices of which no more than four are located in one room.

36. *Id.* at § 110(5)(B).

ment, the House Judiciary Subcommittee on Courts and Intellectual Property heard testimony regarding how this proposed amendment would violate the TRIPS agreement and Berne Convention.<sup>37</sup> Congress passed the bill despite the warning, and one and one half years later, the European Communities ("EC") brought a case before the WTO challenging the legality of section 110(5) as amended by the FMLA.

## II. WTO PANEL REPORT

### A. History of the Dispute

Proceedings against the United States began at a DSU meeting<sup>38</sup> on January 26, 1999. The EC alleged that sections 110(5)(A) and (B) of the United States Copyright Act, as amended by the FMLA, violated Article 9.1 of the TRIPS agreement and Articles 11(1)(ii) and 11<sup>bis</sup>(1)(iii) of the Berne Convention.<sup>39</sup> In accordance with the requirements set forth by the DSU, the EC and the United States met to negotiate a settlement regarding section 110(5).<sup>40</sup> No settlement was reached.<sup>41</sup> On April 15, 1999, a panel was formed to mediate the dispute.<sup>42</sup> The panel met with the parties and submitted its final report on May 5, 2000, in which it found that section 110(5) violated the TRIPS agreement and Berne Convention.<sup>43</sup>

### B. Panel Decision

The panel began its analysis by first determining whether Article 13 of the TRIPS agreement, the exceptions clause, applied to the articles that were incorporated from the Berne Convention. The panel then went on to flesh out the scope of the article's application to section 110(5) to deter-

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37. *Music Licensing in Restaurants and Retail and Other Establishments, 1997: Hearings on H.R. 789 Before the Subcomm. on Courts and Intellectual Property of the House Comm. on the Judiciary*, 105th Cong. (1997) (statement of Bruce A. Lehman, Assistant Comm'r of Commerce and Comm'r of Patents and Trademarks, statement of Rep. Henry Hyde, letter from Richard W. Fisher, Deputy U.S. Trade Representative to Rep. Mary Bono). See also Laura A. McCluggage, *supra* note 29, at \*17-\*18.

38. WTO Panel Report, *supra* note 1, § 1.1, at 1. The EC initiated the meeting pursuant to Article 64.1 of the TRIPS agreement and Article 4 of the DSU.

39. *Id.* § 3.1, at 7

40. *Id.* § 1.2, at 1.

41. *Id.*

42. WTO Dispute Panel Report on Section 110(5) of the U.S. Copyright Act, WT/DS160/5, p. 1, (April 16, 1999), available at [http://www.wto.org/english/tratop\\_e/dispu\\_e/dispu\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm).

43. WTO Panel Report, *supra* note 1.

mine if this provision of the United States Copyright Act violated the TRIPS agreement.

*1. The Scope of Article 13*

In deciding whether Article 13 of the TRIPS agreement also applied to the incorporated rights granted by Articles 11 and 11<sup>bis</sup>, the panel first had to determine whether the exceptions were permitted by the Berne Convention.

The revision conference reports of the Berne Convention indicated that the members approved limited exceptions in states' laws.<sup>44</sup> At the 1948 revision conference in Brussels, there was a motion to add a provision allowing states parties to the Convention to maintain the minor exceptions already existing in their national laws.<sup>45</sup> Although the motion did not pass<sup>46</sup>, it was noted in the 1948 General Report that the "[c]onference did not question the very existence and maintenance of minor exceptions in national laws."<sup>47</sup> Having determined that exceptions were permitted at the 1948 conference, the panel began to define the breadth of the exceptions at the 1967 conference.

The United States and EC disagreed about what minor exceptions should be permitted.<sup>48</sup> Given these reports, the members of the WTO panel decided that the Berne Convention should be interpreted as permitting minor exceptions.<sup>49</sup> In reading the General Reports of the Berne Convention revision conferences of 1948 and 1967, the panel found that the examples given by the states parties were merely intended as examples of types of minor exceptions that would be permitted.<sup>50</sup> They were not intended to be an exhaustive list.<sup>51</sup>

The panel then addressed the issue of whether the Berne minor exceptions doctrine was incorporated into the TRIPS agreement by virtue of Article 9.1. The wording of Article 9.1 did not expressly exclude the minor exceptions doctrine when Articles 11 and 11<sup>bis</sup> of the Berne Convention were incorporated into the TRIPS agreement.<sup>52</sup> According to the panel, this fact indicated that the states intended to incorporate the minor excep-

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44. *Id.* § 6.48, at 18-19.

45. *Id.* § 6.52, at 19.

46 The motion did not pass because the states parties feared it would broaden the number of minor exceptions.

47. WTO Panel Report, *supra* note 1, §6.52, at 19.

48. *Id.* § 6.56, at 21-22.

49. *Id.*

50. *Id.* § 6.57, at 22.

51. *Id.*

52. *Id.* § 6.61, at 23.

tions doctrine.<sup>53</sup> The panel cited as support several TRIPS Negotiating Group documents which stated that this principle is a general tenet of international law.<sup>54</sup>

Finally, the panel compared the text of Article 13 to Article 9(2) of the Berne Convention.<sup>55</sup> The two articles are virtually identical except that Article 9(2) applies only to the reproduction right and Article 13 applies to all categories of copyright rights.<sup>56</sup> Given the similarity of the two articles, along with the fact that there are no provisions that limit the application of Article 13 only to the TRIPS agreement, the panel decided that Article 13 also applied to the incorporated sections of the Berne Convention.<sup>57</sup>

## 2. *Application to Section 110(5)*

The three-prong test of Article 13 permits exceptions if they: (1) are confined to certain special cases; (2) do not conflict with a normal exploitation of the work; and (3) do not unreasonably prejudice the legitimate interests of the right holder.<sup>58</sup> The panel fleshed out the meaning of each prong of the test,<sup>59</sup> beginning with the first prong (“certain special cases”). The panel found that “certain” means that the exception has to be clearly defined by the national legislation.<sup>60</sup> Although not every exception must be accounted for, the first prong of the test requires “a sufficient degree of legal certainty.”<sup>61</sup> The term “special” means that the exception has to be the opposite of the normal situation.<sup>62</sup>

The panel then moved to the second prong (“do not conflict with a normal exploitation of the work”) and defined normal exploitation as

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53. *Id.* § 6.63, at 23.

54. *Id.* § 6.64-6.65, at 23-24.

55. Berne Convention, *supra* note 3, art. 9(2), at 381 (“[I]t shall be a matter for legislation in the countries of the Union to permit the reproduction of such works in certain special cases, provided that such reproduction does not conflict with a normal exploitation of the work and does not unreasonably prejudice the legitimate interests of the author.”)

56. The Article 13 test is described in more detail and applied to section 110(5) in Part II.B.2 *infra*.

57. WTO Panel Report, *supra* note 1, § 6.94, at 31.

58. *Id.* § 6.97, at 31.

59. See generally Jane C. Ginsburg, “Towards a Supranational Copyright Law? The WTO Panel Decision and the ‘Three Step’ Test for Copyright Exceptions,” (Columbia Law Sch., The Ctr. for Law and Econ. Studies Working Paper No. 181, 2001) at [http://papers.ssrn.com/paper.taf?abstract\\_id=253867](http://papers.ssrn.com/paper.taf?abstract_id=253867).

60. WTO Panel Report, *supra* note 1, § 6.108, at 33.

61. *Id.*

62. *Id.* § 6.109, at 33.

“something less than the full exclusive right.”<sup>63</sup> It agreed with the United States that there is a hierarchy between primary and secondary broadcasts, even though this distinction might not be economically significant.<sup>64</sup> It also agreed with the EC that copyright holders should equally benefit from broadcasts and rebroadcasts.<sup>65</sup> Ultimately the panel sided with the United States because the establishments covered by the “homestyle” exemption were not likely to purchase licenses. Since they were not likely to purchase licenses, broadcasting the nondramatic works would not “conflict with the expectation of right holders concerning the normal exploitation of their works.”<sup>66</sup>

In defining the terms composing the third prong (“do not unreasonably prejudice the legitimate interests of the right holder”), the panel identified the key issue as drawing a line between reasonable and unreasonable prejudice. They determined that prejudice “reaches an unreasonable level if an exception or limitation causes or has the potential to cause an unreasonable loss of income to the copyright holder.”<sup>67</sup> After an extensive economic analysis, the panel agreed with the United States that the loss caused by the homestyle exception was not great enough to unreasonably prejudice the legitimate interests of the right holder.<sup>68</sup>

In order to be valid under Article 13, section 110(5) needed to comply with all three of these requirements.<sup>69</sup> The panel began its analysis by determining whether sections 110(5)(A) and (B) met the first prong of the test. A Congressional Research Service study showed that 16 percent of United States eating establishments, 13.5 percent of United States drinking establishments, and 18 percent of United States retail establishments fall within the parameters described in section 110(5)(A).<sup>70</sup> Since this was clearly not the norm, the panel found that section 110(5)(A) met the requirement that the circumstances be “special.” The panel also determined that section 110(5)(A) did not need to be more specific in defining homestyle equipment in order to meet the “certain” requirement.<sup>71</sup>

The panel found that section 110(5)(B) clearly defined the size of the establishments and the kinds of equipment that can be used to qualify for

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63. *Id.* § 6.167, at 44.

64. *Id.* § 6.170, at 45.

65. *Id.*

66. *Id.* § 6.216, at 56.

67. *Id.* § 6.229, at 59.

68. *Id.* §§ 6.230-6.272, at 59-68.

69. *Id.* § 6.97, at 31; *see also supra* notes 28, 31-32.

70. *Id.* § 6.142, at 39-40.

71. *Id.* § 6.145, at 40.

the exception. It, therefore, met the "certain" requirement. It was not as clear, however, if it fell within the acceptable scope of "special."<sup>72</sup> A Congressional Research Service study showed that 65.2 percent of all establishments, 71.8 percent of all drinking establishments, and 27 percent of all retail establishments met the size requirements of subparagraph B.<sup>73</sup> These statistics showed that this was the norm as opposed to a special case. Thus, the United States failed to prove that section 110(5)(B) of the United States Copyright Act met the requirements of Article 13 of the TRIPS agreement.<sup>74</sup>

Upon finding that section 110(5)(B) violated sections 11(1)(ii) and 11<sup>bis</sup>(1)(iii) of the Berne Convention and Article 9.1 of the TRIPS agreement, the panel recommended that the United States bring section 110(5)(B) into conformance with international law.

### C. Criticism of the Panel Decision

The panel's narrow application could potentially invalidate exceptions clauses in other nations.<sup>75</sup> This, in turn, could harm the TRIPS agreement goal of creating a uniform copyright standard.

#### 1. Canada

Article 69(2) of the Canadian Copyright Law states:

In respect of public performances by means of any radio receiving set in any place other than a theatre that is ordinarily and regularly used for entertainment to which an admission charge is made, no royalties shall be collectable from the owner or user of the radio receiving set, but the Board shall, in so far as possible, provide for the collection in advance from radio broadcasting stations of royalties appropriate to the conditions produced by the provisions of this subsection and shall fix the amount of the same that royalties cannot be collected for the public perform-

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72. *Id.*

73. *Id.* § 6.118, at 35; *see also supra* note 34.

74. Since the panel found section 110(B) invalid based upon the first prong and did not focus as much on the second two prongs, they will not be discussed here.

75. Exceptions clauses in Australia, Belgium, Finland, Denmark, New Zealand, Philippines, Canada, South Africa, Japan, and Brazil could potentially violate the Berne Convention and TRIPS agreement. WTO Panel Report, *supra* note 1, at 21, n. 67. It is beyond the scope of this note to analyze the copyright exception clauses of many nations. The analysis of the laws in the following countries is intended to be a representative example of the problem.

ance of a song played on the radio within an establishment other than a theater.<sup>76</sup>

This exemption, which states that royalties *cannot* be collected if a song is played in a venue other than a theater, is broader than the United States exception.<sup>77</sup> This seems to be incompatible with the spirit of Article 11<sup>bis</sup>(1)(iii) of the Berne Convention, and therefore, with Article 13 of the TRIPS Agreement.<sup>78</sup>

## 2. Japan

The language in article 38(3) of the Japanese Copyright Code, which is virtually identical to the language in section 110(5) of the United States Copyright Code, states:

It shall be permissible to communicate publicly, by means of a receiving apparatus, a work already broadcast or diffused by wire, for nonprofit-making purposes and without charging any fees to audiences or spectators. The same shall apply to such public communication made by means of a receiving apparatus of a kind commonly used in private homes.<sup>79</sup>

Article 14 of the Supplemental Provisions to the Japanese Copyright Act creates an exemption for playing sound recordings in public.<sup>80</sup> Establishments that use the sound recordings to obtain a profit are not exempt under Article 14.<sup>81</sup> The exemption also does not apply to establishments which: (1) serve food or drinks but advertise music entertainment; (2) permit customers to dance; or (3) show other performances that accompany the music.<sup>82</sup> Given the similarity between Japanese and United States law, it is likely that Japan's law would be found to violate Articles 11 and 11<sup>bis</sup> of the Berne Convention and Article 13 of the TRIPS Agreement.

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76. Copyright Act, R.S., c. C-30 (as updated to Jan. 1, 1994—Chapter C-42 An Act respecting copyright) art. 69(2) (Can.), *reprinted in* COPYRIGHT AND NEIGHBORING RIGHTS LAWS AND TREATIES, Canada Text 1-01, at 23 (WIPO 1998).

77. McCluggage, *supra* note 29, at \*37.

78. *Id.*

79. Japanese Copyright Act, Law No. 48 of 1970, art. 38(3), (as amended by Laws No. 49 of 1978, No. 45 of 1981, No. 78 of 1983, No. 23 of 1984, No. 46 of 1984, No. 62 of 1985, No. 64 of 1986, No. 65 of 1986, No. 87 of 1988, No. 43 of 1989, No. 112 of 1994, and No. 91 of 1995), *reprinted in* COPYRIGHT AND NEIGHBORING RIGHTS LAWS AND TREATIES, Japan Text 1-01, at 9 (Agency for Cultural Affairs, Copyright Division of Japan trans., WIPO 1995).

80. *Id.* art. 14.

81. *Id.*

82. *Id.*

### 3. *Austria*

Article 56d(1) of the Austrian Copyright Law states that hotels can play films for their guests if: (1) at least two years have passed since the film was first performed in Austria or in a Germanic language; (2) the performance is legally communicated and distributed; and (3) the guests do not have to pay for the movie.<sup>83</sup> Austrian law requires hotels to pay filmmakers for uses that do not meet these requirements,<sup>84</sup> however, like United States law, it does not require the hotels to obtain the permission of filmmakers before showing the films.<sup>85</sup> Austrian law is therefore likely to be held to violate Articles 11 and 11<sup>bis</sup> of the Berne Convention and Article 13 of the TRIPS Agreement.

The panel should not have construed the prongs of Article 13 in the way it did, since the construction is likely to invalidate the copyright exceptions clauses of many countries. The goal of the TRIPS agreement is to create a uniform international standard of copyright protection.<sup>86</sup> Adopting the broader application of the "are confined to certain special cases" prong of the article would reinforce the seemingly consistent standard that already exists.

Furthermore, adopting the strict standard will decrease the legitimacy of and compliance with the TRIPS agreement. Many countries might be required to change their laws under this interpretation of the TRIPS agreement. An international treaty which overrules a seemingly consistent standard is not likely to be seen as legitimate. This lack of legitimacy is not likely to foster compliance which could, in turn, defeat the TRIPS agreement goal of creating a more uniform standard of copyright protection. Nonetheless, the panel adopted the stricter application of the standard.

## III. REMEDY

In order to rectify the potential problems with the panel's decision and prevent international inconsistency, this Part addresses how the DSU should be interpreted and how the United States should have resolved the situation. The existing literature on the subject and the relevant sections of

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83. Section 56d(1), Copyright Amendment Law 1996, Federal Law to Amend the Copyright Law and the Copyright Amending Law of 1980, No. 151 (1996), *reprinted in* COPYRIGHT AND NEIGHBORING RIGHTS LAWS AND TREATIES, Austria Text 1-05, at 4 (WIPO trans., WIPO 1997).

84. *Id.*

85. *Id.*

86. DSU, *supra* note 12, art. 3.

the DSU will be presented before arguing that the United States should have appealed the decision. This section will go on to argue that had this appeal failed, the United States should have negotiated a sweeping change of national laws with other potential violators of the TRIPS agreement to set an example of compliance which would enable it to force offending nations, such as China, to comply with TRIPS.

#### A. Scholarly Interpretations of the DSU

Commentators writing on WTO remedies generally agree that the DSU mandates that an offending state first unilaterally change its laws and, only if this is not done, that compensation be made to the harmed parties. John Jackson, writing on remedies in general, stated “the DSU clearly establishes a preference for an *obligation to perform* the recommendation” and “that compensation shall be resorted to only if the immediate withdrawal of the measure is impracticable . . . .”<sup>87</sup> Applying his interpretation of the DSU to this case, he would likely agree with the United States’ decisions not to appeal the decision and to amend section 110(5)(B) to conform with TRIPS and the Berne Convention.

Judith Hippler Bello, writing on the DSU, argues that members have three options once panel hearings have begun. They may change the offending law or omission, retain the law and provide compensation, or retain the law, make no compensation and suffer likely economic sanctions against their exports.<sup>88</sup> Applying her argument to this case, she would likely agree with Jackson that it was preferable for the United States to amend section 110(5)(B), and, if it did not do that, it should compensate the EC.

Laura McCluggage argues the United States “needs to be a good sport and accept defeat gracefully by amending or repealing section 110(5) of the United States Copyright Act.”<sup>89</sup> She interprets the DSU as stating that “an offending measure should be removed, and that compensation is only temporary relief while the measure is remedied.”<sup>90</sup> She proposes two ways that the United States could change the law. First, it could repeal the amendment and use the old language of the Copyright Act of 1976.<sup>91</sup> The language of the 1976 Act would, however, have to fit within the panel’s

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87. John H. Jackson, *The WTO Dispute Settlement Understanding—Misunderstandings on the Nature of Legal Obligation*, 91 AM. J. INT’L L. 60, 62 (1997).

88. Judith Hippler Bello, *The WTO Dispute Settlement Understanding; Less is More*, 90 AM. J. INT’L L. 416, 417 (1996).

89. McCluggage, *supra* note 29, at \*45.

90. *Id.* at \*26.

91. *Id.* at \*27.

interpretation of Article 13.<sup>92</sup> Second, it could adopt United States Senate Bill 1628 proposed in the 104th Congress since it would meet the three-part test of Article 13.<sup>93</sup> Should the United States choose neither of these options, it could compensate the EC.

United States Senate Bill 1628 stated that in order to qualify for the exemption, an establishment must be less than 5,000 square feet, have a gross annual income not exceeding 20 percent of the gross annual income of small businesses, and broadcast with ten or fewer loudspeakers.<sup>94</sup> This bill would meet the "certain special cases" exception clause that section 110(5)(B) violates because, McCluggage argues, it would allow only a limited number of establishments to qualify for the exception. Furthermore, more than 92 percent of business owners supported Senate Bill 1628.<sup>95</sup> She acknowledges that in a newly introduced bill the ten speaker limit would have to be decreased in order to meet the Article 13 requirements.<sup>96</sup>

Alternatively, McCluggage discusses her interpretation of Article 22. She focuses on the portion of the provision that states:

The suspension of concessions or other obligations shall be temporary and shall only be applied until such time as the measure found to be inconsistent with a covered agreement has been removed, or the Member that must implement recommendations or rulings provides a solution to the nullification or impairment of benefits, or a *mutually satisfactory solution* is reached.<sup>97</sup>

McCluggage interprets "mutually satisfactory solution" to mean "that if the United States and EC mutually agree on a level of compensation, the case would be settled without amending United States law."<sup>98</sup> McCluggage argues that the United States should first change its law but, if it does not do that, compensating the EC would be a mutually satisfactory solution.

## B. Remedy Provisions of the DSU

A careful analysis of Article 22 of the DSU indicates the United States is not required to unilaterally amend section 110(5). Article 22 states:

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92. *Id.* McCluggage wrote this piece before the panel rendered its decision, and, as such, did not fully develop this analysis.

93. *Id.* at 28. Senate Bill 1628 was defeated after publication of her article. She would likely argue that a bill similar to this should now be passed.

94. *Id.*

95. *Id.*

96. *Id.*

97. DSU, *supra* note 12, art. 22. (emphasis added).

98. McCluggage, *supra* note 29, at \*42.

Compensation and the suspension of concessions or other obligations are temporary measures available in the event that the recommendations and rulings are not implemented within a reasonable period of time. However, neither compensation nor the suspension of concessions or other obligations is preferred to full implementation of a recommendation to bring a measure into conformity with the covered agreements.<sup>99</sup>

Article 22 states that changing a law that violates TRIPS is preferred if a mutually satisfactory agreement is not reached. This seems significantly different from requiring a state to unilaterally withdraw its measures.

Furthermore, the phrase “mutually satisfactory solution” should not be narrowly interpreted to involve universal change - as McCluggage argues. The primary aim of the DSU is to achieve a mutually satisfactory solution. Article 3(7), titled General Provisions, states:

A solution mutually acceptable to the parties to a dispute and consistent with the covered agreements is clearly to be preferred. In the absence of a mutually agreed solution, the first objective of the dispute settlement mechanism is usually to secure the withdrawal of the measures concerned. . . . The Provision of compensation should be resorted to only if the immediate withdrawal of the measure is impracticable. . . . The last resort . . . is the possibility of suspending the application of concessions or other obligations.<sup>100</sup>

It is only if the parties cannot agree upon a mutually satisfactory solution that changing the law and compensation are suggested as possible means of solving the dispute.

This is also seen in the latter part of Article 22.<sup>101</sup> The Article discusses the options of changing the law or compensating injured countries but concludes that these are only temporary measures that are in force until “a mutually satisfactory solution is reached.”<sup>102</sup> Again, it is only if the parties cannot mutually come to a solution that these two options are imposed. A mutually satisfactory solution is preferable.

### C. A Mutually Satisfactory Solution

As stated before, the United States should have appealed the decision because the construction was too narrow and invalidated the laws of many

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99. DSU, *supra* note 12, art. 22.

100. *Id.* art. 3.

101. *Id.* art. 22.

102. *Id.*

countries. Had the United States appealed the decision and lost its appeal, it would have been within its best interest to then negotiate with other countries which have laws that arguably violate the TRIPS agreement<sup>103</sup> to achieve a mutually satisfactory solution. A mutual solution in which many change their laws is better than a unilateral decision in which only the United States changes its laws, because the rights of United States copyright holders will be afforded greater protection.

Further, the United States has historically been a strong proponent of compliance with international treaties and has strongly criticized other nations for not complying with them.<sup>104</sup> For example, in the United States dispute with the EC over banana trade, which the EC lost, the United States was stalwart in insuring EC compliance with the panel decision.<sup>105</sup> If the United States does not make an effort to find a mutually satisfactory solution, it will set a bad precedent, and the United States will be less effective in getting other countries to comply with TRIPS standards.

Now that China has become a party to the TRIPS agreement, it has become important for the United States to be able to enforce the TRIPS agreement against China in order to protect United States copyright holders. Although software piracy slowly began to decline or level off in most regions during the 1990s, piracy is continuing to increase in China.<sup>106</sup> The software piracy rate in China was 90 percent in 1999 and 94 percent in 2000.<sup>107</sup> Worldwide, there was a loss of approximately 10.1 billion dollars in retail software sales because of piracy in China in 2000 alone.<sup>108</sup> The United States is most strongly affected as approximately 70 percent of the worldwide market for software is served by the United States.<sup>109</sup>

The financial losses from piracy have become so severe that some businesses will no longer release software in China and the rest of Asia. It was recently reported that Adobe Acrobat systems may abandon the Chinese and Asian markets because of software piracy in China.<sup>110</sup> Adobe CEO Bruce Chizen stated, "It is a simple business decision. . . It costs

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103. See *supra* note 75.

104. McCluggage, *supra* note 29, at \*43.

105. *Id.*

106. Business Software Alliance, "Sixth Annual BSA Software Piracy Study" 4 (May 2001), at <http://www.bsa.org/>.

107. *Id.* at 3.

108. *Id.* at 6.

109. Business Software Alliance, "Software Piracy: The Facts," (last updated Dec. 29, 2001), at [http://www.info.gov.hk/ipd/eng/information/studyaid/software\\_piracy\\_fact.htm](http://www.info.gov.hk/ipd/eng/information/studyaid/software_piracy_fact.htm).

110. Kurt Foss, "Will software piracy fears keep Adobe out of China?," Planet PDF (Feb. 4, 2002), at <http://www.planetpdf.com/mainpage.asp?webpageid=1891>.

US\$750,000 to localise [sic] an application for the Chinese language and if we are only going to make US\$500,000 in revenue it does not make sense for us to go ahead.”<sup>111</sup>

The United States can use China’s membership in the WTO to combat this piracy. Changing section 110(5) as well as the laws of other countries to comply with the TRIPS agreement would result in a more consistent international standard for copyright. This in turn would make WTO rules easier to enforce against China.

#### IV. CONCLUSION

The panel applied its interpretation of the prongs of Article 13 too narrowly. The United States should have appealed this decision and argued for a broader application of the Article to maintain legitimacy and compliance with the TRIPS agreement. If the United States had appealed and lost its appeal with respect to this, it should have negotiated with other countries whose laws also violate this new interpretation of Article 13 to change their laws for the purpose of maintaining a consistent international standard. Scholars interpret the DSU too narrowly in limiting offending states options to 1) amending the law contrary to the TRIPS agreement, 2) compensating the damaged nations, or 3) doing nothing and incurring penalties. The main purpose of the DSU is to obtain a mutually satisfactory agreement.

The United States should have negotiated with other potentially offending countries to uniformly change their laws. This would have not only afforded United States copyright holders greater protection but would have also given the United States more clout in compelling China to comport with TRIPS.

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111. *Id.*

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