The WTO's Dispute Resolution Mechanism: Does the United States Take it Seriously? A TRIPS Analysis

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By Alain J. Lapter*

“[w]ithout the threat of adjudication, it is unlikely that most of what we think of as civil disputes would lead to any agreements.”1 Professor Herbert Kritzer

Introduction

In 1998, the United States Congress (“Congress”) passed a seemingly innocuous amendment to the 1976 Copyright Act (“Act”), the Fairness in Music Licensing Act (“FMLA”). The amendment broadened the scope of 17 U.S.C. § 110(5), the provision known as the “homestyle exemption”.2 As it turned out, this provision was anything but innocent to songwriters, either American or foreign. Unlike the Americans, however, the foreign songwriters had a weapon at their disposal - the newly adopted dispute settlement procedures of the World Trade Organization (“WTO”).

Widely known as the “Sensenbrenner Amendment”, for Representative James Sensenbrenner of Wisconsin its chief architect and proponent, the FMLA’s main objective was to widen the scope of business establishments exempt from liability for their use of over-the-air audio or audiovisual public performances of non-dramatic

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* Alain Lapter: B.S. in Broadcast Journalism, University of Colorado - Boulder; J.D., University of Connecticut; L.L.M. in Intellectual Property, The George Washington University. The author would like to thank Professor Ralph Oman for his continual assistance on this project. The author would also like to thank his parents, brother, and Ana Bostan for their unwavering support. This paper is dedicated to Arthur Adler & Frieda Baum.
1 Herbert M. Kritzer, Let’s Make a Deal: Understanding the Negotiation Process in Ordinary Litigation 130 (1991)
musical works.\textsuperscript{3} Adopted as a measure to appease the restaurant and hospitality industry, which were seeking a safe haven from having to pay licensing fees for broadcast music played within their establishments,\textsuperscript{4} the FMLA has had an unexpectedly far-reaching and costly consequence to the United States government and U.S. taxpayers.

In response to the FMLA’s ratification, an international court under the auspices of the WTO, found that the United States had violated sections of the Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPs”).\textsuperscript{5} The panel held that the FMLA violated international law and found the United States liable for lost royalties. As a result, the United States was, and still is, obliged to pay the European Community millions of dollars to compensate foreign authors affected by the FMLA,\textsuperscript{6} with no clear resolution in sight.

This decision highlighted the new international regime of intellectual property rights that the United States willingly embraced when it joined the Berne Convention (“Berne”) in 1989. Out of Berne, highly criticized for its ineffectiveness in judicially protecting such rights, TRIPs was borne with a structured enforcement mechanism.\textsuperscript{7} The United States’ decision to join Berne and thereafter TRIPs stemmed precisely from its desire to have IP rights of U.S. authors protected abroad.\textsuperscript{8} However, as evidenced through the actions of the WTO court, this expectation is reciprocal in nature, and the

\textsuperscript{4} Id. at 418.
\textsuperscript{5} Id. at 419-421.
\textsuperscript{6} Id. at 422. On November 9, 2001, the arbitration panel awarded the European Community $1,219,900 per year in royalties.
\textsuperscript{7} See, Oliver supra note 5, at 134.
United States is not immune from liability for infringements to the rights of foreign authors.

The case also clearly demonstrated the contours of the international system within which the U.S. and all member-states of TRIPs now operate. These multilateral agreements have complicated the balancing of IP interests – copyright owners v. copyright users - normally harmonized on the domestic level. The WTO decision highlights the fact that domestic legislation must now also be tested against international agreements and the rights of foreign authors.

The WTO dispute resolution mechanism furthers this assertion. Instead of disregarding an essentially non-binding decision under Berne, the member-states must acquiesce to the WTO tribunal’s decision if they wish to remain within the organization. However, as this article discusses, national interests may continue to outweigh possible economic sanctions under TRIPs. With the FMLA’s enactment and eventual WTO decision as a backdrop, this article will examine the effects the WTO’s judicial system has had on US IP legislation…if any.

Part I will discuss historical international IP regimes which laid the groundwork for the current system. Next, the article will contrast the dispute resolution mechanisms of these systems, including an in-depth examination of the WTO framework and TRIPs’ incorporation of Berne rights and obligations. Part III will discuss the “homestyle exemption” and the FMLA, as well as the policy decisions regarding their enactment. Part IV will analyze the WTO decision finding the FMLA violative of TRIPs. Finally, the article will examine the likelihood of the United States acquiescing to the FMLA decision, as well as US proposals to review WTO decisions and possibly disassociate
itself from the organization altogether. The article concludes with arguments for continued association with the WTO.

**Part I: The Run-up to GATT and TRIPs**

In order to understand the ascendancy of TRIPs to the forefront of international IP protection, it is necessary to discuss Berne, its predecessor, as the first regime designed to afford authors protection on a global scale. This discussion will highlight Berne’s fallibility in affording a broad safeguard for IP works, as well as its minimal ability to enforce infringement decisions. Arguably, it was for these reasons that Berne signatories felt compelled to promulgate a new and more binding international IP scheme.

**A. The Berne Convention of 1886**

In response to a pressing need of international copyright protection, a group of nations ratified the agreements known as the Berne Convention in 1886. Berne was developed out of an overwhelming lack of security to creative works once they crossed borders into foreign lands. For example, a work protected in one European country would not be granted reciprocal protection once shipped to another country, even under existing local IP laws. According to Sam Ricketson, it was considered “honorable” and therefore condoned to have your work copied in foreign lands, even if such actions constituted an illegal infringement on an author’s economic and moral rights to control the dissemination of his work.

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10 Id.
11 Id. at 389 (citing SAM RICKETSON, THE BERNE CONVENTION FOR THE PROTECTION OF LITERARY AND ARTISTIC WORKS: 1886-1986, 18 (1987)
The growing frustration prompted a group of nations to enact Berne. Their main objective was to form a viable and reciprocal copyright protection regime.12 The United States, reluctant for over a hundred years to join Berne, finally entered in 1989 and made its national law Berne-compatible with the Berne Convention Implementation Act of 1988.13 However, as is normally the case with treaties, the House of Representatives made clear that Berne was not a self-executing treaty,14 and, therefore, its provisions would only be enforced through the application of domestic law.15 The Senate Subcommittee on Patents, Copyrights and Trademarks Report on S. 2904 explicitly precluded direct legal application of Berne as controlling law.16 Consequently, the U.S. was obliged to follow Berne “only pursuant to appropriate domestic law.”17

**B. The World Trade Organization and TRIPs**

**i. The World Trade Organization: A New World “Trading” Order**

Berne’s implementation into national law arguably became a non-issue in 1993 when then-President Bill Clinton sent Congress the implementing legislation for The Uruguay Round Agreements,18 amending the 1947 General Agreement on Tariffs and Trade ("GATT"). President Clinton’s decision culminated an eight-year negotiation

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12 Id. at 389 (citing, Ricketson supra note 10, at 19, 23, and 40.)
13 Pub. L. No. 100-568, 102 Stat. 2853 (1988); S. 2904, 99th Cong., 2d Sess (1986) (by Sen. Mathias) (“I agree with the President that 100 years on the sidelines is long enough. It is time for the United States to join the rest of the world copyright community by adhering to the Berne Convention.”).
15 Oman, supra note 13, at 106. “[I]n order for a treaty to be self-executing, it must contain stipulations to that effect.”
16 See Senate Berne Hearings S. 2904, 99th Cong., 2d Sess. (1986) (by Sen. Mathias) (“Section 2 is intended to preclude the direct legal application of the Berne Convention in U.S. Courts as the controlling law in copyright cases...I agree with the President that Berne ought not to be self-executing...To this end...the Bill declares that Berne obligations are performed exclusively through legislation and that the amendments adopted, along with the existing law, completely implement our obligations under the Berne Convention.”)
17 Yin, supra note 8, at 389.
launched and moved to successful conclusion by his two predecessors Presidents Ronald Reagan and George H.W. Bush. The Uruguay Round Agreements essentially restructured GATT in an effort to improve the global trading system. As I will discuss, the Uruguay Round Agreements also formulated an innovative dispute resolution mechanism used in adjudicating WTO disputes between member-states, known as the Understanding on Rules and Procedures Governing the Settlement of Disputes (“DSU”).

In addition to the DSU, the Uruguay Round Agreements consisted primarily of 4 other agreements: the Agreement Establishing the World Trade Organization (“WTO Agreement”), the Multilateral Trade Agreements, the Trade Policy Review Mechanism, and the Plurilateral Trade Agreements. Most relevant to this paper, the WTO Agreement provided the “common institutional framework for the conduct of international trade as set forth in the Uruguay Round Agreements...and establishes a structured, expeditious, and binding dispute settlement process.”

In the United States, President Clinton, perceived the Uruguay Round Agreements with caution and recognized the separation of powers concern that the President should not bind the United States to international agreements without the advice and consent of Congress. Akin to the United States’ reluctance of Berne having direct applicability in national law, President Clinton stated that the Uruguay Round Agreements would not bind the U.S. and have no domestic effect absent an act of Congress to that effect.

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20 Id. at 431.
21 Aceves, supra note 19, at 428; World Trade Organization website, Marrakesh Agreement Establishing the World Trade Organization, available at http://www.wto.org/english/docs_e/legal_e/04-wto_e.htm. WTO’s stated purpose, as declared in the preamble, is “[t]o develop an integrated, more viable and durable multilateral trading system encompassing the General Agreement on Tariffs and Trade, the results of past trade liberalization efforts, and all of the results of the Uruguay Round of Multilateral Trade Negotiations.”
22 Aceves, supra note 19, at 444 (citing 59 Fed. Reg. 67263-67267 (1993)).
response, Congress passed the implementing legislation, the Uruguay Round Agreements Implementation Act ("URIA") pursuant to section 1103 of the Omnibus Trade and Competitiveness Act of 1988 and section 151 of the Trade Act of 1974,\textsuperscript{23} while simultaneously the Senate ratified the treaty itself.

Weary of over-reaching international law, Congress in § 102(a) of the URIA explicitly states that no provision of the Agreements shall have local or federal effect if it is inconsistent with any law of the U.S.\textsuperscript{24} In addition, § 123(G) of the URIA provides that if a dispute settlement panel under the DSU finds that a regulation or practice in the United States violates the Agreements, such regulation or practice may not be amended, rescinded, or otherwise modified without a congressional inquiry and approval.\textsuperscript{25} Although Congress believed that § 123(G) was necessary to control the effects of multilateral agreements on domestic law, it is precisely this elaborate procedure which is costing the U.S. government millions of dollars a year due to the WTO’s FMLA decision. Absent § 123(G), WTO decisions would arguably have direct applicability on national law. Therefore, the FMLA decision would have become immediately effective and the provision struck down regarding its effects on internationally protected works.

\textit{ii. Trade Related Aspects of Intellectual Property Rights Agreement}

\textsuperscript{23} H.R. 5110, \textit{supra} note 18.
\textsuperscript{24} Aceves, \textit{supra} note 19, at 447; Uruguay Round Agreements Act 102(a)(1), 19 U.S.C. 3512 (Bender 2004).
\textsuperscript{25} Uruguay Round Agreements Act 123(g)(1), 19 U.S.C. 3533(g)(1)(A) (Bender 2004). The provision stipulates specific steps that Congress must take before a U.S. regulation or practice is amended or declared invalid. In essence, the Uruguay Agreements were to simply add to the existing national law, not substitute it. Finally, § 123(G) stated that any DSB panel decision declaring a U.S. regulation violative of the Uruguay Agreement would not have direct effect on U.S. law.
The Uruguay Round Agreements also promulgated TRIPs, administered under the auspices of the WTO. Briefly, TRIPs sets minimum standards of IP protection which member-states agree to afford foreign works within their borders. Recognizing the needs of lesser developed countries, as well as copyright holders, the agreement’s stated purpose is to “reduce distortions and impediments to international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights, and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade.” All signatories agree to engage in a cooperative effort to eliminate international trade of IP-infringing goods by “establishing and notifying contact points in their governments, exchanging information on trade-infringing goods, and promoting cooperation between their customs authorities.” Any purported violations of TRIPs are brought before the WTO and the claims will proceed in accordance with the DSU’s dispute resolution procedures.

In recognition of Berne’s beneficial intent, a principal component of TRIPs is its incorporation of Articles 1 through 21 of the Berne Convention. The signatories’ decision to include these provisions in TRIPs is significant for two seemingly diametric reasons. First, it clearly demonstrates the positive sentiments member-states retained regarding Berne’s theoretical ability to afford IP protection. Second, it demonstrates the negative feelings member-states had regarding the ability of Berne to judicially enforce

27 Oliver, supra note 5, at 121.
29 Yu, supra note 7, at 640.
these rights and hand down enforceable sanctions. Consequently, it is evident that the Uruguay Round signatories felt that TRIPs, as incorporated into the WTO, would provide the judicial impetus unavailable under Berne.

C. The World Intellectual Property Organization

As a matter of inclusion, it is also necessary to briefly discuss the World Intellectual Property Organization (“WIPO”) Copyright Treaty and its provisions as incorporated in Berne. Based in Geneva, Switzerland, WIPO has operated since 1996 as a specialized agency of the United Nations (“UN”). WIPO administers intellectual property treaties, including Berne; it serves as a forum for treaty drafting, conclusion, and revision; and it provides technical assistance for the drafting of domestic IP legislation.\(^3\) Most interestingly, the Treaty was incorporated as a “special agreement” into Article 20 of Berne and therefore, as a matter of circumstance or poor drafting, is part of TRIPs.\(^3\)

David Nimmer stated that “the Achilles’ heel of all the Great Conventions is that they uniformly lack enforcement tools.”\(^3\) In context, Mr. Nimmer was referring to the Berne Convention. Other prominent scholars have described Berne’s dispute resolution mechanism as “effectively worthless”\(^3\) because it did not permit private party suits.

Since the WIPO administers Berne, a private party must petition its State Department to file suit on their behalf in the UN’s International Court of Justice (“ICJ”), located in De Hague.\(^3\) Theoretically a viable option, the ICJ has never heard a copyright

\[\text{\footnotesize 32 Neil W. Netanel, Comment, The Next Round: The Impact of the WIPO Copyright Treaty on TRIPs Dispute Settlement, 37 VA. J. INT’L L. 441, 442 (1997).}\]
\[\text{\footnotesize 33 Oliver, supra note 5, at 136.}\]
\[\text{\footnotesize 35 Id.}\]
\[\text{\footnotesize 36 Id.}\]
There are essentially two main reasons for this lack of judicial recourse. First, even if a case is brought and adjudicated, the ICJ can only enforce a judgment if the losing member-state accedes to it. The winning party would most likely have to seek enforcement through the UN Security Council via a threat of possible economic sanctions. Considering that a violation of copyright is considered benign on the international spectrum, a sanction is highly unlikely. Second, as Monique Cordray argues, no State would ever sue in De Hague “because the sued state would interpret the action as an unfriendly act.” In short, member-states have obviously decided that there were “bigger fish to fry” than copyright infringement.

Part II: The TRIPs Dispute Resolution Mechanism

The lack of a viable enforcement mechanism both under Berne and the GATT arguably led to the enactment of TRIPs and the DSU during the Uruguay Round Agreements. Ratified under Annex 2 of the WTO Agreement, the DSU applies to disputes brought pursuant to any provisions of the WTO Agreement. Consequently, any claimed violation of TRIPs are adjudicated in accordance with the DSU’s guidelines.

A. The Understanding on Rules and Procedures Governing the Settlement of Disputes

i. Establishment and Procedures of a DSB Panel

38 Id. at 1393.
40 Aceves, supra note 19, at 436-437.
Under the DSU, a member-state can request consultation with another member-state to discuss alleged violations of TRIPs. If these consultations fail to provide adequate remedial measures, the member-state may either seek mediation within the WTO or alternatively request the Dispute Settlement Body (“DSB”), the body which administers the DSU, to institute a panel and hear the claim.41

Once the DSB establishes a panel in an IP-related matter, the latter’s primary purpose is to make an objective assessment of the facts in relation to the parties TRIPs’ obligations.42 Unlike in the U.S. where the court plays a primarily passive role, the panel has broad powers to seek any information relevant to the dispute, including independently consulting experts. Each party may offer written submissions and have two opportunities for oral arguments. They also have the right to present rebuttal arguments.43 Thereafter, the panel will issue a report of its findings to the DSB. The DSB will adopt the decision unless either a consensus decision is made against adoption or if one of the parties to the claim appeals the panel’s decision to the DSB’s independent Appellate Body which will hear the case and issue its own decision. If the decision is appealed, the Appellate Body’s ruling is submitted to the DSB which may either automatically adopt the decision or reject it via a consensus vote.44

There are two additional intricacies of a panel proceeding which differ significantly from the U.S. system. First, the system is designed to advocate an amicable and cooperative resolution without the intervention of the DSB. Prior to issuing its final report, the panel will disseminate the descriptive sections of a draft report to the parties

41 Yu, supra note 7, at 583.
42 Aceves, supra note 19, at 439.
43 Id. at 440.
44 Yu, supra note 7, at 583.
who may comment on the factual findings.\textsuperscript{45} Thereafter, the panel circulates an interim report to the parties which include the panel’s legal findings and ruling. The panel will recommend certain steps necessary for the member-state to come into compliance with TRIPs. Again, the parties have a chance to comment on the panel’s report. If no comments are made, that report is submitted to the DSB for approval.\textsuperscript{46} The panel works directly with the parties at multiple stages of the judicial process in order to arrive at an appropriate and amicable resolution.

Second, and understandably troubling to some who expect unfettered access to the courts, the panel deliberations are held behind closed doors.\textsuperscript{47} The parties themselves are present at panel meetings only when invited. Notwithstanding understandable criticism, one could argue that due to the absence of the public scrutiny, associated with unlimited access to the panels, politics and grand-standing could play less of a role in a party’s stance. Consequently, they would be more willing to make concessions, thereby coming to a harmonious resolution without posturing.

\textbf{ii. Enforcement of a DSB Panel Decision}

If the DSB ratifies the Appellate Body’s report the parties to the dispute must adopt the ruling. The breaching party is given a “reasonable period of time” within which to implement the DSB’s recommendations or rulings.\textsuperscript{48} If they fail to meet these objectives, the winning party has the right to seek compensation through negotiations and may request the DSB to grant the suspension of that party’s obligations under the treaty.\textsuperscript{49}

For example, if China is found to have infringed on the copyright of U.S. authors by not

\textsuperscript{45} Aceves, \textit{supra} note 19, at 439.
\textsuperscript{46} \textit{Id.} at 440-443.
\textsuperscript{47} \textit{Id.}
\textsuperscript{48} Yu, \textit{supra} note 7, at 583-584.
\textsuperscript{49} \textit{Id.} at 584.
protecting works from illegal copying and China refuses to take certain steps to ensure such protection, the DSB could authorize the U.S. government to forgo its obligations under TRIPs in protecting imported Chinese works. As this article discusses, protection of U.S. works in China, or lack thereof, was a clear catalyst in the creation of the DSU.

Interestingly, since forgoing protection of Chinese copyrighted works may not provide sufficient economic concessions for the U.S. the WTO permits “cross-sectional retaliation”. Therefore, if the United States prevailed on a claim against China and the Chinese government persisted in their refusal to protected U.S. originating works, the United States could petition the WTO for permission to institute a punitive tariff on Chinese goods wholly unrelated to IP works, including sanctions on cars and textile goods. Although seemingly heavy-handed, cross-sectional retaliation further serves to demonstrate the desire of Uruguay Round negotiators to promulgate a truly effective dispute resolution mechanism which would compel member-states - through sword or shield - to fully comply with international agreements. The threat of crippling economic consequences will theoretically provide strong incentives for full adherence to TRIPs.

According to the DSU’s declaration of purpose, “[t]he dispute settlement system of the WTO is a central element in providing security and predictability to the multilateral trading systems.” Furthermore, DSU Article 3(7) proclaims that the aim of the dispute settlement mechanism is to secure positive solutions to disputes. The Articles of the DSU clearly prefer an amicable resolution to a dispute without resorting to

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52 Id. at art. 3(7).
the establishment of a panel, giving the member-states several opportunities to resolve their disputes without the establishment of a panel and certainly prior to a suspension of treaty obligations, which is considered a last resort.

B. The United States Bears its Teeth

As previously noted, the United States was highly influential in promulgating the DSU. Its fingerprints are clearly evident on the rules and procedures regarding the DSB, the complaint panels, and the Appellate Body. Joost Pauwelyn notes, the official right to a panel under the DSU was included within the WTO agreements as a strong reaction by the U.S. to the GATT’s dispute resolution mechanism.

Under GATT, any member-state party to a claim could unilaterally veto the establishment of a panel. “The United States was fed up with the European Community’s (EC) exercise of its veto power...and therefore wanted to have an automatic system in place.” On the other hand, the EC and others wanted a process which would require the U.S. to resolve disputes on a multilateral level instead of historical tendency to act unilaterally. As discussed in Part IV, it was the United States’ desire to abolish a member-state’s veto power which proved a self-fulfilling prophecy since they could no longer ignore a claim by the European Community alleging that the FMLA violated TRIPs.

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53 See Generally, Id. at art. 3 (“...it is understood that the use of the dispute settlement process should not be considered a contentious act and that, if a dispute arises, all Members will, in good faith, engage in the procedures to in an effort to resolve the dispute.”)
54 Joost Pauwelyn, The Limits of Litigation: “Americanization” and Negotiation in the Settlement of WTO Disputes, 19 OHIO ST. J. ON DISP. RESOL. 121 (2003). Pauwelyn, a former attorney with the WTO’s Appellate Body Secretariat, partially attributes the “Americanization” of the WTO’s dispute resolution mechanism to three reasons: 1) the United States influence, as economic leader of the world, in drafting the WTO; 2) the United States involvement in a high majority of global trade dispute under the WTO, and; 3) the United States legal training of a majority of lawyers within the WTO.
55 Pauwelyn, supra note 66, at 122.
56 Id.
Part III: The Fairness in Music Licensing Act

A. Prelude to the FMLA: The Original “homestyle exemption”

Section 110 of the Copyright Act of 1976 (“Act”), as originally enacted, contains several provisions granting users of protected works immunity from claims of copyright infringement.57 Specifically relating to this article, § 110(5)(A) created a safe harbor known as the “homestyle exemption”. The original provision provided:

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

(5) Communication of a transmission embodying a performance or display of a work by the public reception 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.58

The “homestyle exemption” was inserted into the Act in reaction to the Supreme Court’s holding in Twentieth Century Music Corp. v. Aiken.59 In Aiken, the plaintiff—music producer sued the owner of a small fried chicken fast food restaurant, for copyright infringement because he equipped his restaurant with a transmitter which played the radio for customers. The plaintiff argued that since the patrons paid and consumed the food in the restaurant, the playing of the music constituted a public performance for which a license was required.60

The Court, relying on its own precedent, held that the defendant’s actions did not amount to an unauthorized public performance for two main reasons. First, Aiken would have no sure way of ever protecting himself because he lacked control over the broadcast

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59 Twentieth Century Music Corp. v. Aiken, 422 U.S. 151 (1975).
60 Id. at 152-153.
itself. The only sure way would be to keep his radio turned off.\textsuperscript{61} Second, “to hold that all in Aiken’s position “performed” these musical compositions would be to authorize the sale of an untold number of licenses for what is basically a single public rendition of a copyrighted work.”\textsuperscript{62}

Although agreeing in principle with the Aiken decision Congress found the ruling overly broad. Congress was concerned that the Aiken decision would unfairly erode a copyright owner’s economic interest in his work.\textsuperscript{63} However, they remained vigilant with protecting the public from claims of infringement which the copyright laws were never intended to afford.\textsuperscript{64} Consequently, Congress overruled Aiken by enacting § 110 and stating that although the presentation of a radio broadcast is in fact a “public performance”, under the Act, it would not necessarily infringe on a owner’s copyright in the work.\textsuperscript{65} Consequently, qualifying establishments were not required to obtain the normally-required licenses performing-rights associations - ASCAP, BMI or SESAC. The provision provides for ten safe harbor provisions, including the “homestyle exemption”.

The House of Representatives described § 110(5) as immunizing “small commercial establishments whose proprietors merely bring onto the premises standard radio or television equipment…but it would impose liability where the proprietor has a commercial “sound system” installed or converts a standard home receiving apparatus…into the equivalent of a commercial sound system.”\textsuperscript{66} The House Report

\textsuperscript{61} LaFrance, supra note 1, at 399.
\textsuperscript{62} LaFrance, supra note 1, at 399.
\textsuperscript{63} See Id. at 400-401.
\textsuperscript{64} See Id. at 400-402.
\textsuperscript{65} Id.
added that ad hoc factors to consider included: size, physical arrangement, and noise level of the areas within the establishment where the transmissions are made.\textsuperscript{67} The Senate Report noted, as a mere illustration and not an exhaustive list, that \textsection 110(5) “will allow the use of ordinary radios and television sets for the incidental entertainment of patrons in small businesses and other establishments, such as taverns, lunch counters, hairdressers, dry cleaners, doctors’ offices, etc.”\textsuperscript{68}

The main problem with the “homestyle exemption”, evident in the vague statutory language, as well as the House and Senate Reports was the extent of establishments that qualified for the safe harbor.\textsuperscript{69} The Senate stated that the provision was intended for “small businesses” but never laid out definitive spatial guidelines. Furthermore, courts grappled with the proper definition of “receiving apparatus of a kind commonly used in private homes”, as stipulated in the statute.\textsuperscript{70} The tremendous expanse of powerful home theater systems was problematic because if such systems were deemed as commonplace, the exemption would conceivably cover this receiving and transmitting equipment. Furthermore, the statute doesn’t stipulate the number of speakers an establishment can wire to the apparatus. Consequently, in direct contradiction of the House and Senate Reports and legislative intent, large establishments would have the right to install elaborate systems with multiple speakers and still fall within the exemption.

\textsuperscript{67} Id. Additionally, the “extent to which the receiving apparatus is altered or augmented for purposes of improving the aural or visual quality of the performance” is equally important.

\textsuperscript{68} S. Rep. No. 93-983, at 130, 93d Cong., 2d (1974)

\textsuperscript{69} LaFrance, supra note 1, at 405-406.

\textsuperscript{70} Id. (citing NFL v. McBee & Bruno’s, Inc., 792 F.2d 726, 731 (8th Cir. 1986) (finding bar not exempt because satellite dishes were not, at that time, "commonly found in private homes"); National Football League v. Ellicottville Gin Mill, Inc., 1995 WL 737935, 3, 6 (W.D.N.Y. 1995) (refusing to issue injunction against establishment that received locally blacked-out broadcast from a distant location using a common roof-top antenna); National Football League v. Rondor, Inc., 840 F. Supp. 1160 (N.D. Ohio 1993) (finding bar not exempt because "deep fringe antennas with preamplifiers and rotors are not commonly used in private homes").
B. Out with the Old, In with the New: The “homestyle exemption” gives way to the Fairness In Music Licensing Act

i. Caving Under Pressure?: Congress enacts the FMLA

The lack of consistent jurisprudence, coupled with pressure from powerful lobbying groups representing small businesses, bars, and restaurants, ultimately led to the promulgation of the FMLA under 17 U.S.C. 110(5)(B) of the Copyright Act. The FMLA, introduced by Rep. Sensenbrenner to the House in 1997, addressed these interests by creating an additional provision to the “homestyle exemption” with explicit spatial and technical language. Representative Sensenbrenner stated, “[t]his bill is a victory for small business and a tribute to the commitment of its supporters... [The Amendment] had the strong endorsement of groups, including the National Federation of Independent Business and the National Restaurant Association.” The FMLA, as articulated under § 110(5)(B), provides that:

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

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

(i) in the case of an establishment other than a food service or drinking establishment, either the establishment in which the communication occurs has less than 2,000 gross square feet of space (excluding space used for customer parking and for no other purpose), or the establishment in which the communication occurs has 2,000 or more gross square feet of space (excluding space used for customer parking and for no other purpose) and--

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

(II) if the performance or display is by audiovisual means, any visual portion of the performance or display is communicated by means of a total of not more than 4

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71 Id. at 415.
audiovisual devices, of which not more than 1 audiovisual device is located in any 1 room, and no such audiovisual device has a diagonal screen size greater than 55 inches, and any audio portion of the performance or display is communicated by means of a total of not more than 6 loudspeakers, of which not more than 4 loudspeakers are located in any 1 room or adjoining outdoor space;

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

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

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

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

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

(v) the transmission or retransmission is licensed by the copyright owner of the work so publicly performed or displayed. 73 (emphasis added)

In essence, the FMLA “has the effect of exempting the majority of bars and restaurants in the United States from liability for such performances.” 74 It creates a safe harbor for the audio and audiovisual public performances of non-dramatic musical works at commercial establishments conforming to the provision’s broad spatial and equipment requirements, as well as its “no direct admission fee” and “further transmission” obligations. The FMLA exempts “smaller establishments” (bars and restaurants under 3,750 square feet and other stores under 2,000 square feet) regardless of the equipment used. Meanwhile, establishments which did not conform size-wise could nonetheless garner immunity if they installed a system that uses “no more than 6 loudspeakers, of

73 United States Copyright Act, 17 U.S.C. 110(5)(B) (Bender 2004)
74 LaFrance, supra note 1, at 415-416.
which not more than 4 loudspeakers are located in any 1 room”. As to audiovisual works, the only requirement is that establishments employ no more than four devices, with a maximum screen size of 55 inches and that not more than one device is installed per room.

Several issues regarding the provision’s language and ambiguity persist. First, the provision does not define “room”. Although neither jurisprudence nor legislative history exist interpreting “room”, the statutory language is problematic when considering an open-style store that is sectioned off but not explicitly via four walls and an entry-way. Is each section of the store itself (i.e. men’s clothing, women’s clothing, kid’s clothing) considered a “room”? Domestically, a house commonly has a living room, dining room and kitchen – all three considered individual rooms – on the same floor and not separated with walls and a door. Second, the statute does not nor does legislative history define the types of audio equipment an establishment can install. This obviously constitutes a serious departure from the “homestyle exemption” which confined the exclusion to an “apparatus of a kind commonly used in private homes”. This ambiguity would arguably permit establishments larger than 3,750 square feet to install even concert-size speakers - so long as it’s under 6 speakers - and remain within the safe harbor, thereby further broadening the exemption.

ii. Warnings Abound of Possible TRIPs Violations and EC Retaliation

Even with the provision’s spatial and technological limitations, unlike the “homestyle exemption”, many experts expressed concern that the FMLA’s sheer broadness was problematic vis-à-vis TRIPs and other international obligations. In a letter
to Congresswoman Mary Bono of California, then-acting U.S. Trade Representative Richard W. Fischer stated

...we would expect that our trading partners might pursue action in the World Trade Organization (WTO) in the United States enacted legislation that those countries believed violated our WTO obligations and impaired their interests... One of our most important trading partners, the European Union (EU) has already expressed significant concern over the pending legislation... the EU is currently threatening to bring dispute settlement proceedings in the WTO challenging the existing ‘home style’ exception in the U.S. copyright law as overly broad. The pending legislation... would expand that exception, and thus would likely elicit a strong reaction.

Representative Joe Scarborough of Florida echoed Mr. Fischer’s apprehensions and opposed the FMLA because “it violates our multilateral treaty obligations which is likely to result in trade sanctions of property of songwriters.” This concern was also voiced to Congress by Secretary of Commerce Williams Daley, as well as Bruce Lehman, Assistant Secretary of Commerce and Commissioner of Patents and Trademarks.

In perhaps the most prophetic statement of potential consequences on the international stage, Marybeth Peters, the Register of Copyrights, wrote to the Honorable William J. Hughes, Chairman of the House subcommittee on IP and Judicial Administration, that Berne allows only narrow exemptions to the author’s exclusive right to authorize public performance. Thus, only in rare instances may third parties use a broadcast without a license and without remuneration to the author. Article 11 bis (1)(iii)

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77 144 Cong. Rec. H9946-01, H9952, 105th Cong., 2d Sess. (Oct. 7th, 1998) (by Mr. Daley). “If the amendment were adopted, we know that our trading partners will claim that it is an overly broad exception that violates our obligations under the Berne Convention and [TRIPS]...the enactment could sacrifice the interests of U.S. music copyright owners abroad to satisfy the demands of those domestic interests that seek uncompensated use of their music... other countries may use that [FMLA] as an excuse to adopt this and other exemptions in their copyright law, thereby leading to economic losses to U.S. music copyright owners in the hundreds of millions of dollars.” (emphasis added)
78 144 Cong. Rec. H9946-01, H9952, 105th Cong., 2d Sess. (Oct. 7th, 1998) (by Mr. Lehman). “Creating in our own copyright law anything more than a de minimus exception to the public performance right will be used against us internationally...”
establishes the exclusive right of the author to authorize the ‘public communication by loudspeaker or any other analogous instrument transmitting by signs, sounds, or images, the broadcast of the work.’ \(^{79}\)

Even in the face of such expert opinions warning of significant international repercussions, the Republican majority in Congress arguably seeking to help their national constituency – small business owners - ratified the FMLA as part of the Sonny Bono Term Extension Act. \(^{80}\)

**Part IV: EC v. US: The European Community Lowers the Hammer**

**A. The European Community Alleges Infringement**

As any good self-fulfilling prophecy, Ms. Peters and Mr. Fischer were dead-on accurate over the EC’s reaction. Soon after the FMLA’s enactment, the Irish Music Rights Organization, on behalf of its right-holders, filed a complaint with the European Union asserting that § 110(5) of the U.S. Copyright Act violated TRIPs. \(^{81}\)

In response, the European Community brought a claim against the United States in the WTO alleging that the “homestyle exemption” and FMLA violated Article 9(2), as incorporated in Article 13 of TRIPs, and Article 11[‘bis’] of Berne. The former grants authors reproduction right in their works, while the latter confers the right to control

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\(^{80}\) LaFrance, *supra* note 1, at 419. To achieve some balance and consensus “across the aisle” however, Congress included the measure within the Sonny Bono Term Extension Act which added twenty years to copyright term limits. Therefore, even though the copyright owners and their assignees would lose revenue via the FMLA they would gain an extra 20 years of royalties under the Sonny Bono Term Extension Act.

\(^{81}\) *ld.* at 419-420.
public performances.\textsuperscript{82} The European Community contended that § 110(5) created too broad an exception to the public performance rights in musical compositions.\textsuperscript{83}

\textbf{i. Scope of Article 9(2) of Berne}

However, these rights are not absolute. Article 9(2) provides for state promulgated exceptions to an author’s exclusive right in controlling dissemination of his work.\textsuperscript{84} Although Article 13 is arguably identical to Berne Article 9(2) its exact language contains subtle differences which narrow its effect.\textsuperscript{85} “Article 13 appears to limit an individual state’s ability to provide for exceptions, in contrast to Article 9(2), which was designed to accommodate existing differences.”\textsuperscript{86} While Article 9(2) was only concerned with the right of reproduction, Article 13 applies to all exceptions of exclusive rights.\textsuperscript{87} This distinction was crucial in the panel’s analysis of the FMLA.

As required under the DSU, the European Community initially requested a consultation with the United States in order to resolve the dispute without resorting to a DSB panel. However, the consultations failed and thus a panel was established.

\textbf{ii. Scope and Applicability of Article 11 of Berne}

The EC argued that § 110(5), the “homestyle exemption” and the FMLA, contravened TRIPs for two reasons:

1) it impinges on the rights guaranteed by Articles 11(1)(ii) and 11[su’bis’](1)(iii) of the Berne Convention; and

\textsuperscript{82} See Oliver, supra note 5, at 125, 134.
\textsuperscript{83} Id. at 420.
\textsuperscript{84} Id. at 134.
\textsuperscript{85} Id. at 135.
\textsuperscript{86} Oliver, supra note 5, at 135. Article 13 took its form from Article 9(2) of the Berne. One major difference is that the former applies to all exceptions of exclusive rights whereas the latter was only concerned with reproduction rights. Therefore, and highly relevant to this case, Article 13 further limits an individual State’s right to provide exceptions to author’s rights under Article 11, as discussed above.
\textsuperscript{87} Id.
2) therefore it breaches Article (9)(1) of TRIPs, which provides that “members shall comply with Articles 1 through 21 of the Berne Convention...”

It is perhaps important to recall that Marybeth Peters warned the House that the FMLA breached the exact Articles of Berne claimed by the European Community.

Article 11(1)(ii) of Berne grants to authors of dramatic, dramatico-musical and musical works the exclusive right to authorize “any communication to the public of the performance of their works.” Article 11[su’bis’](1)(iii) grants to authors of artistic works, including non-dramatic and other musical works, the exclusive right to authorize “the public communication by loudspeaker or other analogous instrument transmitting by signs, sounds or images, the broadcast of the work.”

While Article 11[su’bis’](1)(iii) applies to a wider class of works than Article 11(1)(ii), the right of Article 11(1)(ii) is a general public communication right whereas the right in Article 11[su’bis’](1)(iii) applies to performances of works when included in a broadcast and publicly communicated through a radio or television set.

The panel stated that the underlying principle of Article 11[su’bis’](1)(iii) is that a broadcast creates an additional audience from that of the original public performance of the work. Consequently, that author deserves the right to both control such broadcasts and to monetary compensation.

Meanwhile, the United States proclaimed that § 110(5) was a permissible limitation on Article 11’s exclusive rights because the panel was required to analyze any Article 11 exception under Article 13 of TRIPs. It provides that “members shall confine

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90 Id. at art. 11[su’bis’](1)(iii).
91 Oliver, supra note 5, at 125.
92 Id.
limitations or expectations 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,”93 (emphasis added) The United States argued that Article 13 promulgated the applicable standard and consequently under the article’s language, § 110(5) was a permissible exception to Article 11.94

Deconstructed, the provision promulgated a three-step test for a valid exception to any TRIPs-protected rights: “certain special cases”, “no conflict with normal exploitation”, and “no unreasonably prejudice to legitimate interests”.95 Conjunctive in nature, a State has to comply with all three parts of the test in order to avoid liability for infringing on an author’s rights to control the exploitation of his work. Conversely, one can argue that a State is liable if it fails to comply with any one of the Article’s requirements. If the panel finds a violation of any of the prongs, theoretically, it does not have to analyze the other prongs.

iii. The Panel’s Initial Inquiry: Applicability of Article 13

The panel’s inquiry was reduced to two broad questions. First, which standard applied in deciding whether the exceptions in § 110(5) were legitimate? Second, if the panel was to apply Article 13’s three-part test, were the 110(5) exceptions acceptable?96

The panel approached the first question in three stages:

1) the legal status and scope of the minor exceptions doctrine under Berne, as incorporation into TRIPs ;
2) the scope of Article 13; and
3) the relevance of Article 11[su’bis’](2) of Berne.97

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94 Id.
95 Oliver, supra note 5, at 122.
96 Id. at 126.
The “minor exceptions doctrine” grants countries exceptions to control the public performances of works for which the author normally has exclusive rights. The European Community argued that the doctrine only applies to public performances in the context of “religious ceremonies, military bands and the needs of child and adult education.” Furthermore, they contended that the doctrine does not apply to purely commercial purposes. The panel rejected the argument because the European Community could not produce explicit information from IP Conventions that the doctrine applied only to noncommercial uses. The panel went on to determine that since Article 13 wholly incorporated Berne Articles 1-21 into TRIPs, the “minor exceptions doctrine” was also integrated. Consequently, the panel decided that not only did the “minor exceptions doctrine” survive under TRIPs but that it did not solely encompass noncommercial uses.

Regarding the scope of Article 13, the European Community, applying Article 20 of Berne, argued that “countries may enter into special agreements between themselves, but only in so far as those agreements grant to authors more extensive rights than are given under Berne.” They contended that parties to Berne could not reduce the level of protection in a subsequent Treaty. The United States countered by arguing that Article 13 simply clarifies the standards applicable to minor exceptions under TRIPs and that nothing in Article 13 suggests the EC’s argument of extending rights. The panel “accepted this argument with virtually no explanation” except through a contextual

97 Id. at 140.
98 Id. at 141-142 (citing Panel Decision, supra note 95, at para. 6.36).
99 Id. at 142 (citing Panel Decision, supra note 95, at para. 6.56).
100 Panel Decision, supra note 95, at para. 6.59.
101 Panel Decision, supra note 95, at para. 6.63.
102 Oliver, supra note 5, at 144 (citing Panel Decision, supra note 95, at para. 6.76).
103 Id. at 145.
examination of Article 13. Others have argued that the “contextual guidance” of TRIPs perhaps works directly against the panel’s understanding of the text.

Finally the European Community argued that all exceptions to Article 11 must meet the conditions of Article 11 which provides:

> It shall be a matter for legislation in the countries of the Union to determine the conditions under which the rights mentioned in the preceding paragraph may be exercised...They shall not in any circumstance be prejudicial to the moral rights of the author, nor to his right to obtain equitable remunerations...

The European Community argued that TRIPs could achieve these requirements via a system of compulsory licensing. Meanwhile, the United States contended, and the panel agreed, that Article 11 is not applicable to exceptions that allow use of the work free of charge, as is the case with § 110(5). The panel held that “it is sufficient that a limitation or exception to the exclusive rights provided under Article 11 meets the three conditions contained [in] Article 13 to be permissible.”

Therefore, a national provision may provide a free use exception so long as it meets the three-step test. The panel also stated that “if a use could not meet the three-step test, a national legislature could not justify an exception by means of Article 13, but could justifiably provide a compulsory license or similar scheme that meets the requirements of Article 11.”

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104 Id. at 145.
105 David Brennan, The Three-Step Frenzy: Why the TRIPS Panel Decision might be considered Per Incuriam, INTELLECTUAL PROPERTY QUARTERLY, No. 2, 2002. (arguing that there is evidence in TRIPs drafting history that the minor exceptions doctrine was to be considered in conjunction with Article 11[1][2], and never judged solely by the general test in Article 13.).
106 Berne Convention, supra note 95, at art. 11[1].
107 Oliver, supra note 5, at 146.
108 Panel Decision, supra note 95, at para. 6.88.
109 Id. at para. 6.89.
Since the panel concluded that Article 13 was the standard by which to analyze exceptions, the panel went on to apply the three-steps to § 110(5).110 This decision required the United States to demonstrate that the “homestyle exemption” and the FMLA could be justified under each prong: “certain special cases”, “no conflict with normal exploitation”, and “no unreasonably prejudice to legitimate interests”.

B. The Panel Decision

i. “Certain Special Cases”

The panel’s first inquiry under Article 13’s three-part test centered on an interpretation and application of “certain special cases” whereby a national statute could derogate from Article 11[su’bis’](1)’s exclusive right for author’s to control the exploitation of their work. According to Professor Sam Ricketson, an expert on Berne, “certain special cases” is composed of two distinguishable elements; 1) the exception must be for a specific and narrow purpose, and; 2) the exception must be justified by some “clear reason of public policy or some other exceptional circumstance.”111

The United States and the European Community agreed with Professor Ricketson that “certain special cases” requires a well-defined and limited exception to Article 11.112 The panel agreed, in part, stating that while an exception in national legislation must be clearly defined, “there is no need to identify explicitly each and every possible situation to which the exception could apply.”113

Professor Ricketson’s second element presented a clear disconnect between the parties. While the European Community argued that “certain special cases” requires

110 See Oliver, supra note 5.
112 Id. at 148.
113 Panel Decision, supra note 95, at para. 6.108.
legitimate and narrow policy purposes for granting an exception, the United States disagreed with such an inflexible approach. They contended that “special” permits signatories to decide for themselves whether a particular case warrants an exception and that member-states have the discretion to evaluate the legitimacy of the exception. The panel, however, stated that “a limitation or exception may be compatible with the first condition even if it pursues a special purpose whose legitimacy in a normative sense cannot be discerned.” It appears that the panel wished to defer to national legislative concerns and grant a certain amount of discretion and latitude to the member-states without having to pass judgment on the legitimacy of internal public policy.

The panel held that the deference was not absolute, particularly, in light of the step “special” requirement. The United States had argued that the number of establishments taking advantage of the exception is determinative instead of those potentially falling within the statute’s safe harbor. The panel disagreed with this narrow quantitative determination of “certain special cases”. Adopting the European Community’s assertion, the panel stated that the scope of potential users, those eligible for exemption under § 110(5), is the most appropriate methodology for determining whether an exception is a “certain special case”. (emphasis added)

The European Community demonstrated that under the FMLA, 65% of eating establishments, 71% of drinking establishments, and 27% of retail establishments were eligible for immunity. Based on this approach, the panel quickly dismissed the FMLA

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114 Id. at 6.103.
115 Id. at 6.112.
116 See Oliver, supra note 5, at 149-150.
117 Id. at 152.
118 Panel Decision, supra note 95, at para. 6.127.
as not within “certain special cases”. It held that although the statute’s provision was
clearly defined, its scope was unreasonably wide to count as “special”.120 (9(18))

Interestingly, despite the homestyle exemption’s ambiguous statutory language,
the panel found that caselaw was “sufficiently consistent and clearly delineated” for the
safe harbor to be deemed as a “certain special case”.121 The exemption’s limitation to
works other than non-dramatic works also demonstrated the provision’s narrow focus.
Furthermore, the panel favorably considered Congress’ intent in drafting the provision;
immunize small establishments “which [are] not of a sufficient size to justify, as a
practical matter, a subscription to a commercial background music service.”122

Consequently, the statute’s narrow focus was permissible under the three-part test.

ii. “No Conflict with a Normal Exploitation of the Work”

Next, the panel analyzed § 110(5) in relation to the second part of Article 13’s
three-part test: “no conflict with a normal exploitation of the work”. The panel’s
interpretation of “normal exploitation” was key not only to this prong but, arguably, to
the entire three-step test.123 The panel had to determine whether § 110(5) unfairly
restricted an area where an author would normally expect to exploit his work. The panel
stated that it was important to consider current forms of exploitation that generate
revenue, as well as “those forms of exploitation which, with a certain degree of likelihood
and plausibility, could acquire considerable economic or practical importance.”124

120 Id. at 6.131 (“We fail to see how a law that exempts a major part of the users that were specifically
intended to be covered by the provisions Article 11bis(1)(iii) could be considered as a special case in the
sense of the first condition of Article 13 of the TRIPs Agreement.”)
121 Panel Decision, supra note 95, at para. 6.144.
122 Id. at 6.155 (quoting Conference Report of the House Committee on the Judiciary, Subcommittee on
123 Oliver, supra note 5, at 155. Professor Ricketson interpreted “normal exploitation” as “the way in
which an author might reasonably be expected to exploit his work in the normal course of events.”
124 Panel Decision, supra note 95, at para. 6.180.
It held that “normal” must be measured in the context of the U.S. market and that each right of expected exploitation is protected in isolation from other rights. It agreed with the European Community that “possible conflict with a normal exploitation of a particular exclusive right cannot be counterbalanced or justified by a mere fact of the absence of conflict with a normal exploitation of another exclusive right…even if the exploitation of the latter right would generate more income.”\textsuperscript{125} Specifically, Article 11[su’bis’](1) explicitly recognizes the premise that re-broadcasting of a work is a protected right because it creates an additional audience to that originally contemplated.\textsuperscript{126} The panel expressed no sympathy for U.S. establishments falling under § 110(5) and held that “the establishments re-broadcasting the music do so for (indirect) commercial benefit – to attract customers with a view to enhancing turnover and profit.”\textsuperscript{127} Furthermore, it concluded that “normal exploitation” is affected both by current and potential establishments immunized under the exemption.\textsuperscript{128}

From the panel’s broad interpretation of “normal exploitation” it was inevitable that the FMLA violated this element of Article 13. Examining the individual exploitative rights, the panel differentiated between broadcast music and recorded music in light of the FMLA. The panel believed that since the FMLA protects establishments from performing broadcasted music, businesses would be tempted to avoid recorded songs, which required a license. Therefore, for no other reason than convenience, authors would lose revenue for their work.\textsuperscript{129}

\textsuperscript{125} Id. at 6.172.
\textsuperscript{126} Oliver, supra note 5, at 160 (citing First EC Submission, at P 63 & n. 40.)
\textsuperscript{127} Panel Decision, supra note 95, at para. 6.175.
\textsuperscript{128} Id. at 6.185.
\textsuperscript{129} Oliver, supra note 5, at 164.
In regards to the “homestyle exemption” the panel noted that the establishments covered would not have entered into a license, regardless of the statute. It agreed with the U.S. that the exception was limited to such small establishments that requiring them to purchase a broadcasting license was not justified. The panel concluded that authors did not expect either to have control over their work or expect financial remuneration from the work’s broadcast in such establishments. Unlike with the FMLA, the panel disregarded the fact that even these establishments garner indirect commercial benefit through enhanced turnover and profit. They focused almost wholly on the fact that it would contravene public policy to make such small establishments pay for a license which would work to wholly offset a commercial benefit.

iii. “Unreasonable Prejudice to the Legitimate Interests of the Right-holder”

Lastly, the panel considered whether § 110(5) would “unreasonably prejudice the legitimate interests of the right-holder”. The panel agreed with the United States that the “legitimate interests” were limited to the economic impact of the use because the European Community only claimed a deprivation of such interests. Noting Professor Ricketson and the WIPO, the panel agreed that “in cases where there would be serious loss of profit for the copyright owner, the law should provide him with some compensation, such as a system of compulsory licensing or equitable remuneration.”

Thereafter, the panel promulgated the following test: “prejudice to the legitimate interests

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130 Id. (citing Panel Decision, supra note 95, at 6.218).
131 Id. at 164-165.
132 Id. at 166.
133 Oliver, supra note 5, at 167 (MASOUYE, GUIDE TO THE BERNE CONVENTION FOR THE PROTECTION OF LITERARY AND ARTISTIC WORKS, PP 9.7 to 9.13 (1978)).
of right-holders reaches an unreasonable level if an exception or limitation causes or has the potential to cause an unreasonable loss of income to the copyright owner.”

Application of the test to the FMLA did not bode well for the United States. The European Community submitted an analysis of potential economic losses based on the number of establishments which would fall under the safe harbor. Meanwhile, the United States calculated actual loss based on the number of establishment which would take advantage of the provisions. They excluded establishments that technically fall under the provision but would otherwise not employ audio or audiovisual devices. The panel dismissed this calculation as too narrow because many establishments may become tempted to begin broadcasting music since they would no longer fear having to pay for a license. Consequently, the panel concluded that the FMLA unreasonably prejudiced the legitimate interests of the right-holders.

Thereafter, the panel held that the “homestyle exemption” did not unreasonably prejudice the legitimate interests of the right-holders. “The panel noted that where no licenses would be sought or issued in the absence of the exception...there is literally no economic detriment to the right-holder.” In short, since these small establishments would probably never purchase a license, right-holders did not have a legitimate expectation of remuneration for the performance of their work.

Although not discussed by the panel, requiring a license for such small establishments may negatively impact the public in two additional ways. First, it may lead to higher prices for goods if an owner, required to purchase a license, passed that

134 Panel Decision, supra note 95, at para. 6.229.
135 Id. at paras. 6.237, 6.238.
136 Id. at paras. 6.241, 6.242.
137 Id. at para 6.265.
138 Oliver, supra note 5, at 169.
cost onto his customers. Second, small business, which would normally never pay for a license, would simply no longer broadcast music and customers would lose the enjoyment of listening to these broadcasts.

iv. Conclusion

Based on an Article 13 analysis, the panel found that the United States only violated Article 11 of TRIPs in promulgating the FMLA, while the “homestyle exemption” did not violate the agreement. This decision is important because it represented the first time that any international panel had interpreted and applied the three-step test. It established authoritative precedent for a national legislature to utilize when promulgating IP statutes affecting TRIPs protected works.

C. The United States Continuous Failure to Comply with the Decision

The panel’s decision was submitted to the DSB and a WTO arbitration panel imposed a July 27, 2001 deadline as a “reasonable time” for the United States to amend the FMLA and come into full compliance with TRIPs. However, the United States notified the WTO that it would not meet the deadline. Thus, in order to avoid a suspension of obligations, the parties proceeded to arbitration in order to determine the level of compensation for the “nullification and impairment of benefits” to EC right-

139 Panel Decision, supra note 95, at para. 6.270.
140 Oliver, supra note 5, at 124.
141 Id. at 169. “the three-step test is to be used as an interpretation tool in defining the scope of traditionally recognized exceptions, as well as developing new exceptions.”
holders. On November 9, 2001, the arbitration panel awarded the European Community $1,219,900 per year in royalties.\textsuperscript{144}

Although the United States was still required to amend the FMLA, nothing to this day indicates that it is moving towards full compliance. On June 13, 2003, three years after the panel’s decision, the United States informed the WTO that it had “made good progress with the US Congress on this issue with a view to concluding a mutually acceptable arrangement consistent with WTO rules.”\textsuperscript{145} Later that month, the parties issued a statement that they had reached a temporary arrangement whereby the

“U.S. shall make a lump-sum payment in the amount of $3.3 million (the "Payment") to a fund to be set up by performing rights societies in the European Communities for the provision of general assistance to their members and the promotion of authors' rights (the "Fund"). The Payment served as a mutually satisfactory temporary arrangement regarding the dispute, for the three-year period commencing 21 December 2001.”\textsuperscript{146}

However, just recently, European Union officials met with WTO DSB representatives to express their concern over the United States’ continued unwillingness to comply with the panel decision. They explained to the WTO that they were not aware of any legislative initiative to ensure compliance by the end of 2004, as the United States is required under the terms of the temporary arrangement.\textsuperscript{147} With the lame-duck session of Congress currently in Washington, it is highly unlikely that the legislature will resolve this issue on time.


\textsuperscript{145} WTO, United States - Section 110(5) of the US Copyright Act - Status Report by the United States - Addendum, WT/DS160/18/Add.16 (June 13, 2003).

\textsuperscript{146} WTO, United States - Section 110(5) of the US Copyright Act - Notification of a Mutually Satisfactory Temporary Arrangement, WT/DS160/23 (June 26, 2003), available at http://www.wto.org/english/tratop_e/dispu_e/dispu_subjects_index_e.htm.

\textsuperscript{147} Ralph Oman excerpt article he gave me in class.
Part V: Does the United States take the DSU Seriously?

A. The U.S. is the torch-bearer of TRIPs-related WTO claims

Based on the United States’ lump-sum Payment into the Fund and its renewed vow to comply with the panel decision, it is clear that the United States takes the WTO’s dispute resolution mechanism seriously. Moreover, it is important to note that the United States remains at the fore-front in utilizing the DSU in protecting IP rights of U.S. authors. According to the WTO website, the United States has initiated 17 out of 24 TRIPs-related claims brought to date.\footnote{WTO website, Dispute Settlement: The Disputes, Index of Dispute Issues, available at http://www.wto.org/english/tratop_e/dispu_e/dispu_subjects_index_e.htm. This figure represents only a small fraction of the claims the United States has initiated in the WTO regarding trade-related matters.} These U.S.-initiated disputes demonstrate its desires to use the system and work within its confines in protecting IP interests abroad.

Of the 17, only three have either led to or are anticipating the establishment of a panel.\footnote{Id.} In the other 14, the United States requested consultations with the alleged offending State and the dispute was resolved in a “mutually agreed solution”.\footnote{Id.} Based on the DSU’s procedures, it is no surprise that a bilateral settlement is not only encouraged but also the preferred method of resolution. These figures also demonstrate that the WTO’s dispute resolution mechanism is effective in providing member-states a viable platform on which to seek an enforceable resolution. It is truly the beauty of the system. Unlike Berne’s lack of a judicial mechanism permitting signatories to disregard their obligations, as well as any claims of infringement, the WTO revokes that luxury.

B. Skepticism of the WTO’s DSU Remains Deep-seated

Aside from its utilization of the DSU, the United States has continuously proposed an internal mechanism by which it could disassociate itself from DSB panel
decisions and the WTO. The following sections will discuss this proposed mechanism and the likelihood of its enactment. However, I will argue that the U.S. has significant policy and economic reasons to either continue to pay the fine or amend the FMLA and come into full compliance with Article 11.

i. No Direct Effect or Applicability on U.S. law

As discussed in Part III, the President and legislature incorporated several measures, within the Uruguay Act, to guard against the Uruguay Agreement’s potential conflict with U.S. law. Notably, § 102(a)(1) states that provisions of the Uruguay Agreements inconsistent with federal or state laws shall have no effect on the latter. In essence, the Uruguay Agreements were to simply add to the existing national law, not substitute it. In addition, section 123(G) insulates U.S. law against a panel decision declaring a national law violative. The provision stipulates specific steps that Congress must take before a U.S. regulation or practice is amended or declared invalid.

ii. WTO Dispute Settlement Review Commission

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151 Aceves, supra note 19, at 447; Uruguay Round Agreements Act 102(a)(1), 19 U.S.C. 3512 (Bender 2004). The Uruguay Act was not intended to amend or modify existing national law.

152 Uruguay Round Agreements Act 123(g)(1), 19 U.S.C. 3533(g)(1) (Bender 2004). Requirements for agency action. (1) Changes in agency regulations or practice. In any case in which a dispute settlement panel or the Appellate Body finds in its report that a regulation or practice of a department or agency of the United States is inconsistent with any of the Uruguay Round Agreements, that regulation or practice may not be amended, rescinded, or otherwise modified in the implementation of such report unless and until--

(A) the appropriate congressional committees have been consulted under subsection (f);

(B) the Trade Representative has sought advice regarding the modification from relevant private sector advisory committees established under section 135 of the Trade Act of 1974 (19 U.S.C. 2155);

(C) the head of the relevant department or agency has provided an opportunity for public comment by publishing in the Federal Register the proposed modification and the explanation for the modification;

(D) the Trade Representative has submitted to the appropriate congressional committees a report describing the proposed modification, the reasons for the modification, and a summary of the advice obtained under subparagraph (B) with respect to the modification;

(E) the Trade Representative and the head of the relevant department or agency have consulted with the appropriate congressional committees on the proposed contents of the final rule or other modification; and

(F) the final rule or other modification has been published in the Federal Register.
Furthermore, President Clinton and Congress, concerned over transparency within the DSU procedure and an unrelenting number of lawsuits against the United States, proposed to create a WTO Dispute Settlement Review Commission ("Commission").\(^{153}\) The Commission would consist of five federal appellate court judges and empowered to review all WTO DSB panel and Appellate body reports “to determine whether the final report is adverse to the United States.”\(^{154}\) According to President Clinton, the goals of the Commission were to: 1) assure that the dispute resolution mechanism is accountable, 2) the process is fair, and 3) the DSU process works as intended when promulgated.\(^{155}\)

Specifically, the Commission would have the authority to determine whether a panel or Appellate Body decision interpreting TRIPs, in relevant part:

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2) Added to the obligations or diminished the rights the United States assumed under the pertinent Uruguay Round Agreement;

3) Acted arbitrarily or capriciously, engaged in misconduct, or demonstrably departed from the procedures specified for panels or the appellate body in the agreements.\(^{156}\)

If the Commission concluded that the DSB decision was improper or overreaching, a member of Congress would have the right to introduce a Joint Resolution incorporating the Commission’s decision. The resolution would require the President to renegotiate DSU policies in the hopes of correcting the perceived problems.\(^{157}\) Furthermore, if “the Commission issues three affirmative determinations in any five-year period, any Member of Congress would be able to introduce a Joint Resolution to

\(^{153}\) Documents Relating to the Clinton Administration’s Agreement with Sen. Robert Dole Concerning the Uruguay Round Agreement, 11 Int’l Trade Rep. (BNA) 1865 (1994) (including a proposed plan and letter to Sen. Dole from Michael Kantor, United States Trade Representative).

\(^{154}\) Id. See Letter from Michael Kantor, United States Trade Representative, to Sen. Robert Dole (Nov. 23, 1994).

\(^{155}\) Id. The President and Congress declared the Commission was imperative to U.S. sovereignty.

\(^{156}\) Id.

\(^{157}\) Id. See Letter from Michael Kantor, United States Trade Representative, to Sen. Robert Dole (Nov. 23, 1994).
disapprove U.S. participation in the WTO...If the resolution is enacted by Congress and signed by the President, the United States would commence withdrawal from the WTO Agreement.”

Senate minority leader Bob Dole of Kansas contended that the Commission was necessary to protect the nation’s trade-related interests against an uncontrollable dispute resolution mechanism. He stated that the Commission’s right-of-review and Congressional Joint Resolution rights “provides a clear, quick exit if our rights are being trampled in the WTO. It provides Congress with a decisive role in determining whether the interests of the U.S. are being (more) served by continued membership in the WTO...[the Commission] provides real and effective protection against abuses of U.S. sovereignty in the World Trade Organization.”

However, almost ten years after Sen. Dole first introduced the bill proposing the formation of the Commission, Congress has yet to ratify any such resolution. Most recently, in June 2003, Senator Evan Bayh introduced the so-called “Stand with American Workers Act”, within which he again proposed formation of the Commission. According to the Library of Congress, the bill was referred to the Committee on Finance and awaits further action.

C. Arguments in Favor of Continued Association with the WTO

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158 Id.

159 Aceves, supra note 19, at 471 (quoting Senator Robert Dole, GATT Not Perfect But Sees Improvement, Congressional Press Releases (Nov. 23, 1994).

160 Stand with American Workers Act, S. 1258, 108th Cong. 1st Sess. (June 12, 2003) (by Sen. Bayh), available at http://thomas.loc.gov. The Bill states that due to the “unanticipated and unwarranted series of attacks against United States trade laws” made possible through the WTO’s dispute resolution mechanism, the bill’s stated purpose is to “improve United States litigation efforts at the WTO, establish a WTO Dispute Settlement Review Commission, promote reform of the WTO dispute settlement process, and for other purposes.”

161 S. 1258, Bill Status, available at http://thomas.loc.gov/cgi-bin/bdquery/z?d108:s.01258:
Whether Congress ever enacts the bill and forms a Commission, or the bill gets forever lost in the abyss that is legislative committee review, the United States will be hard-pressed to disassociate itself from the WTO. Even if United States’ concerns of DSB over-reaching and unrelenting attacks from member-states are warranted, national economic interests are as, if not more, compelling to keep the United States in the WTO.

The United States’ IP-related dispute with the People’s Republic of China (“China”) highlights one of the major reasons for continued membership in the WTO. The United States has accused China of turning a blind-eye and thereby impliedly condoning rampant piracy and counterfeiting of U.S.-originating IP work. Consequently, U.S. authors are losing in upwards of $2 billion per year in China.\textsuperscript{162} According to David Nimmer, as early as 1995, the U.S. wanted to “impose $1.08 billion in punitive tariff’s on goods from [China] because of copyright violations.”\textsuperscript{163} However, since China became a WTO member in 2001, the United States now possesses a powerful weapon,\textsuperscript{164} the DSU. Instead of a unilateral and aggressive measure of punitive tariffs on Chinese imports, the United States could work within the multilateral agreement whereby signatories are aware of possible sanctions if obligations or panel decisions are disregarded. Again, the cross-sectional retaliation would arguably provide China a strong impetus to fully enforce TRIPs since a tariff on textiles, for instance, could cripple Chinese exports and global market share.

\textsuperscript{162} Yu, supra note 7, at 643-644 (citing Seth Faison, China Turns Blind Eye to Pirated Disks, N.Y. Times, Mar. 28, 1998, at D-1).

\textsuperscript{163} Nimmer, supra note 43, at 1386.

\textsuperscript{164} WTO website, available at www.wto.org.
As Professor Ralph Oman observed, the United States has several broader reasons for continued adherence to international IP agreements. First, observance would help the U.S. “secure dynamic leadership in international copyright relations.” As previously discussed, the United States is the largest exporter of copyrighted work. Therefore, an international IP platform is the only viable method to protect its economic interests abroad. The United States has already seen the DSU’s advantages both in effective enforcement and in the establishment of bright line protection obligations.

Second, continued observance “will enhance the United States’ political credibility and strengthen its position for negotiating multilateral and bilateral trade agreements involving intellectual property.” If the United States were to walk away from the WTO, other States could interpret the move as protectionist and isolationist in nature. These “trading partners” would have little incentive to continue the domestic protection of U.S.-originating IP works. The move would render the United States’ negotiating position null and void. On the other hand, the DSU procedure provides a platform on which the U.S. can work with its trading partners in resolving disputes amicably.

Third, continued membership in the WTO will provide a sense of security for U.S. authors. TRIPs provide these authors effective judicial intervention unavailable under Berne. It creates the “stronger copyright laws and better universal copyright

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165 See Oman, supra note 13, at 110-113. Although Professor Oman was writing in support of the U.S. adherence to Berne, I would argue that his rationale continues to resonate in the contemporary age of TRIPs and perhaps even more so with the DSU.
166 Oman, supra note 13, at 110.
167 Oman, supra note 13, at 111.
168 See Id.
169 See Id at 112.
170 See Id. at 112.
enforcement” that Professor Oman envisioned with Berne, not only through its provisions but through eventual dispositive caselaw interpreting the agreement.171

In addition to Professor Oman’s arguments, a more contemporary rationale also exists. In relation to the global political climate in which the United States operates, disassociation from the WTO would produce overwhelming negative sentiment throughout the world. In the last several years, the United States has embarked on a quasi-unilateral course of action regarding global trade and the war on terrorism. This platform has alienated long-standing allies and has established a virtually non-existent coalition. Consequently, the United States is walking on eggshells, and, therefore, can ill-afford to further isolate itself from the global community. It is conceivable that any decision of disassociation would irreversible alienate the United States. The United States would be perceived as incapable of working on a global scale. Its status as the world’s economic leader would be diminished significantly and would provide sufficient incentive for our trading partners to seek new markets, thereby negatively affecting American businessmen and consumers.

C. Implementation of the Panel’s Decision: Options, Lobbyists, and Consequences

The question remains as to how the United States will implement the panel’s FMLA decision. Although Congress has found ways to avoid amending § 110(5), WTO dispute resolution provisions require compliance with the decision or face trading sanctions, including cross-sectional retaliation. To date, the United States has had over four years to amend the statute, without a resolution, and one can only assume the impatience growing within the WTO and the European Community.

171 Oman, supra note 13, at 113.
Compliance could come in several forms. Congress could simply repeal the FMLA and require these large establishments to obtain a license for the broadcast of copyrighted works, domestic and foreign. Congress could also amend the provision to require licensing only for the performance of foreign works. This decision would require establishments currently exempt under the FMLA to either obtain compulsory licenses from international performing rights societies or make certain that they only perform U.S.-originating works. As previously noted, there is nothing in the Congressional pipeline to indicate a repeal or amendment to the FMLA.

Pressure to pass an amendment would occur if more countries bring identical claims against the United States. At some point, systematically paying an annual fine, which will undoubtedly increase annually, is no longer economically efficient. Furthermore, the arbitration decision requiring an annual payment to the European Community is not perpetual. If the European Community is no longer satisfied with a payment into the Fund, they have the authority to seek direct or cross-sectional retaliatory sanctions against the United States.

Congress will have to weigh several competing interests in repealing the FMLA. First, with the European Community’s approval, the United States could leave the FMLA in its present form and continue to make payments into the Fund. This decision would directly shift the burden of paying royalties onto taxpayers. It would also invite other TRIPs signatories to bring identical claims against the United States. The decision not to amend the FMLA would also highlight an incredible disparate treatment to U.S. copyright holders. While international holders would receive compensation for the performance of their works, their U.S. counterparts would continue to receive nothing for
identical performances. They would continue to suffer the economic ramifications of a Congress more interested in protecting small businesses and the hospitality industry than copyright holders.

Secondly, if the United States were to repeal or amend the statute, thereby requiring these establishments to obtain compulsory licenses, the price of goods would almost certainly increase as businesses will undoubtedly pass on the cost to the consumers. One benefit of this solution, however, is that only customers who patronize these establishments and, therefore, benefit from the performance of the works would help offset the price of the licenses. On the other hand, if the United States were to leave the FMLA unchanged, taxpayers across the board will feel the economic consequences.

Conclusion

The Uruguay Round Agreement was instrumental in finally devising a direct and effective dispute resolution mechanism for protecting intellectual property rights on a global scale. The fact that 148 countries are signatories to the WTO is a true testament of the agreement’s economic benefit and protection devises. Furthermore, it assures that copyright owners, under TRIPs, will have a viable mechanism to protect their rights on the international level.

Although the United States has expressed a certain amount of skepticism and discontent with the dispute resolution mechanism, they have continuously passed on the establishment of the Commission, demonstrating a reluctance to enact a system of disassociation from the WTO. This hesitancy validates their willingness to work
multilaterally with other WTO signatories and within the WTO framework. Notably, Congress’ decision to pay the $3.3 million dollars into the Fund, in accordance with the FMLA decision, clearly demonstrates the seriousness with which they accept the DSU.