



ANNOUNCEMENT

from the Copyright Office, Library of Congress,
101 Independence Avenue, S.E., Washington, D.C. 20559-6000

FINAL REGULATIONS

MECHANICAL AND DIGITAL PHONORECORD DELIVERY RATE ADJUSTMENT PROCEEDING

The following excerpt is taken from Volume 63, Number 30 of the
Federal Register for Friday, February 13, 1998 (pp. 7288-7289)

LIBRARY OF CONGRESS

Copyright Office

37 CFR Part 255

[Docket No. 96-4 CARP DPRA]

Mechanical and Digital Phonorecord Delivery Rate Adjustment Proceeding

AGENCY: Copyright Office, Library of Congress.

ACTION: Final regulations.

SUMMARY: The Copyright Office of the Library of Congress is announcing final regulations that became effective on January 1, 1998, adjusting royalty rates to be paid under the mechanical compulsory license, section 115 of the 1976 Copyright Act, as amended, for use of physical, or non-digital, phonorecords. The Office addresses rates for physical phonorecord delivery today, and will address rates for digital phonorecord delivery in the future.

EFFECTIVE DATE: January 1, 1998.

FOR FURTHER INFORMATION

CONTACT: David O. Carson, General Counsel, or Tanya Sandros, Attorney Advisor, Copyright Arbitration Royalty Panel (CARP), P.O. Box 70977, Southwest Station, Washington, D.C. 20024. Telephone: (202) 707-8380. Fax: (202) 707-8366.

SUPPLEMENTARY INFORMATION:

Background

The mechanical compulsory license, 17 U.S.C. 115, provides a mechanism outside the realm of contract for persons who want to

make and distribute phonorecords of nondramatic musical works that have been distributed in the United States by the copyright owner to obtain a compulsory license to perform that activity. A person is eligible for this compulsory license if: (1) He or she has not been able to serve a notice of intention to obtain the license on the copyright owner, and (2) a notice of intention has been filed with the Copyright Office. 17 U.S.C. 115(b)(1).

Until its demise in 1993, the Copyright Royalty Tribunal had authority to adjust the statutory rates for the making and distribution of physical phonorecords, and did so in 1987, setting the rates and terms for the mechanical compulsory license for at least the next ten years. See 52 FR 22637 (June 15, 1987). The Copyright Office currently administers the mechanical license, and responsibility for adjusting royalty rates rests with Copyright Arbitration Royalty Panels, known as CARPs. 17 U.S.C. 801(b)(1), 803. The Copyright Act provides that during the tenth calendar year following a ratesetting, any copyright owner or user whose royalty rates are specified by the statutory license may file a petition requesting an adjustment to the rates and terms. 17 U.S.C. 803(a)(1), (3).

On November 1, 1995, Congress passed the Digital Performance Right in Sound Recordings Act of 1995 (Digital Performance Act), Pub. L. 104-39, 109 Stat. 336 (1995), which amended sections 114 and 115 of the Copyright Act, and extended the mechanical license to digital phonorecord deliveries. The mechanical rate for physical, or non-digital, phonorecords can be the same as, or different from, the rate that applies to digital phonorecord deliveries.

The legislative history for the Digital Performance Act states that: "Through 1997, the royalty rate payable for digital phonorecord delivery shall be the same as for

physical phonorecords. After 1997, the rates for digital phonorecord delivery will be determined as provided by the amended provisions section 115(c)(3) [sic], and need not be the same as for the making and distribution of physical phonorecords." H.R. Rep. No. 274, 104th Cong., 1st Sess. 28 (1995). The House Report further recognizes as separate digital and physical phonorecord rates, stating: "The terms and rates shall be established [for digital use] according to the same criteria that apply to the license for making and distributing physical phonorecords * * *" Id. at 29.

The most recent royalty rate applicable under 17 U.S.C. 115 was described in Copyright Office regulations at 37 CFR 255.3(h), as follows: "For every phonorecord made and distributed on or after January 1, 1996, the royalty rate payable with respect to each work embodied in the phonorecord shall be either 6.95 cents, or 1.3 cents per minute of playing time or fraction thereof, whichever amount is larger." Id.

The year 1997 was a window year for commencing a proceeding to further adjust the mechanical phonorecord compulsory license royalty rates. The Office initiated proceedings to adjust all section 115 rates in 1997; however, modifications were made due to requests by the interested parties for extra time to negotiate terms for a new rate.

At this time the Office is announcing final regulations that adjust royalty rates for reproduction and distribution of physical phonorecords. Rate adjustment for use of digital phonorecords under section 115 will be announced in the future. The Office bifurcates this procedure in order to finalize the rate adjustment for physical phonorecords, and then to consider important legal and policy issues brought forward by interested parties that relate to application of section 115 rates for digital phonorecord delivery.

History of the Current Proceeding

On July 17, 1996, the Copyright Office published a notice which, among other things, established a schedule for convening a CARP which would have set new rates for digital phonorecord deliveries before the existing rate expired. See 61 FR 37312 (July 17, 1996). As noted *supra*, 1997 also was a window year for adjusting royalty rates for the making and distribution of physical phonorecords. The Office requested comment from interested parties on the possibility of consolidating the two proceedings, and conducting a single CARP to adjust both the physical phonorecord and the digital phonorecord delivery rates. See 61 FR 37215 (July 17, 1996).

According to the interested parties, consisting of the Recording Industry Association of America (RIAA), the National Music Publishers' Association, Inc. (NMPA), and the Harry Fox Agency, Inc. (referred to together as the Parties), the proposed schedule did not allot sufficient time for negotiating a comprehensive joint proposal. Therefore, they filed a motion with the Office on November 8, 1996, asking the Office to vacate the proposed schedule to allow them time to continue their negotiations. The Office granted the Parties' motion and rescheduled the proceeding. See 61 FR 65243 (December 11, 1996).

Although the new schedule extended the negotiation period by three months, the Parties thought the time still insufficient for conducting the necessary negotiations, and requested a meeting with the Office to discuss difficulties associated with negotiating rates and terms for use of digital technology in an evolving marketplace. The Office granted the request and met with the Parties on January 9, 1997. At that meeting, the Parties again requested more time to conduct negotiations on rates and terms for the section 115 license, having acknowledged the need to establish the mechanical rate before they attempted to negotiate the rates for the digital delivery of phonorecords. The Office agreed to vacate the schedule. See 62 FR 5057 (February 3, 1997).

On November 7, 1997, NMPA, RIAA, and the Songwriters' Guild of America (SGA) filed a joint petition with the Copyright Office outlining a proposal to adjust the physical phonorecord and digital phonorecord delivery royalty rates. The Parties to the joint petition, having duly filed a proposal concerning the 1997 physical phonorecord and digital phonorecord delivery royalty rate adjustments, asked the Copyright Office to submit their proposal to a notice-and-comment proceeding to promulgate regulations to adjust the proposed rates and terms. Accordingly, pursuant to 17 U.S.C. 803(c) and 37 CFR 251.63(b), the Copyright Office invited public comment on the proposed rates and terms for adjusting the physical phonorecord and digital

phonorecord delivery royalty rates, and on the regulatory language implementing the proposal.¹ Comments and Notices of Intent to Participate in a CARP proceeding, should it be necessary, were to be submitted to the Office by December 29, 1997.

The Office received four comments in response to its Notice of Proposed Rulemaking, including three Notices of Intent to Participate in any CARP proceeding which may be instituted in this matter. None of these filings contained comments or objections to rates proposed for the reproduction and distribution of physical phonorecords under the mechanical compulsory license. Because no comments opposing the rates for reproduction and distribution of physical phonorecords under 17 U.S.C. 115 were received, the Librarian adopted those rates, effective January 1, 1998, but not the rates concerning reproduction and distribution of digital phonorecords, as they were previously published in the Federal Register. See 62 FR 63506 (December 1, 1997).

List of Subjects in 37 CFR Part 255 Copyright, Recordings.

For the reasons set forth above, the Copyright Office amends 37 CFR part 255 as follows:

PART 255--ADJUSTMENT OF ROYALTY PAYABLE UNDER COMPULSORY LICENSE FOR MAKING AND DISTRIBUTING PHONORECORDS

1. The authority citation for part 255 continues to read as follows:

Authority: 17 U.S.C. 801(b)(1) and 803.

Sec. 255.3 [Amended]

2. In Sec. 255.3(a), the phrase "(b), (c), (d), (e), (f), (g), and (h)" is removed and the phrase "(b) through (m)" is added after the word "paragraphs".

3. In Sec. 255.3(b), the phrase "(c), (d), (e), (f), (g), and (h)" is removed and the phrase "(c) through (m)" is added after the word "paragraphs".

4. In Sec. 255.3(c), the phrase "(d), (e), (f), (g), and (h)" is removed and the phrase "(d) through (m)" is added after the word "paragraphs".

5. In Sec. 255.3(d), the phrase "(e), (f), (g), and (h)" is removed and the phrase "(e) through (m)" is added after the word "paragraphs".

6. In Sec. 255.3(e), the phrase "(f), (g), and (h)" is removed and the phrase "(f) through (m)" is added after the word "paragraphs".

7. In Sec. 255.3(f), the phrase "(g), and (h)" is removed and the phrase "(g) through (m)" is added after the word "paragraphs".

8. In Sec. 255.3(g), the phrase "paragraph (h)" is removed and the phrase "paragraphs (h) through (m)" is added after the phrase "pursuant to".

9. In Sec. 255.3(h), the phrase ", subject to further adjustment pursuant to paragraphs (i) through (m) of this section" is added after the word "larger".

10. Add new paragraphs (i), (j), (k), (l), and (m) to Sec. 255.3 to read as follows:

Sec. 255.3 Adjustment of royalty rate.

* * * * *

(i) For every phonorecord made and distributed on or after January 1, 1998, the royalty rate payable with respect to each work embodied in the phonorecord shall be either 7.1 cents, or 1.35 cents per minute of playing time or fraction thereof, whichever amount is larger, subject to further adjustment pursuant to paragraphs (j) through (m) of this section.

(j) For every phonorecord made and distributed on or after January 1, 2000, the royalty rate payable with respect to each work embodied in the phonorecord shall be either 7.55 cents, or 1.45 cents per minute of playing time or fraction thereof, whichever amount is larger, subject to further adjustment pursuant to paragraphs (k) through (m) of this section.

(k) For every phonorecord made and distributed on or after January 1, 2002, the royalty rate payable with respect to each work embodied in the phonorecord shall be either 8.0 cents, or 1.55 cents per minute of playing time or fraction thereof, whichever amount is larger, subject to further adjustment pursuant to paragraphs (l) through (m) of this section.

(l) For every phonorecord made and distributed on or after January 1, 2004, the royalty rate payable with respect to each work embodied in the phonorecord shall be either 8.5 cents, or 1.65 cents per minute of playing time or fraction thereof, whichever amount is larger, subject to further adjustment pursuant to paragraph (m) of this section.

(m) For every phonorecord made and distributed on or after January 1, 2006, the royalty rate payable with respect to each work embodied in the phonorecord shall be either 9.1 cents, or 1.75 cents per minute of playing time or fraction thereof, whichever amount is larger.

Dated: January 30, 1998.

Marybeth Peters,
Register of Copyrights.

James H. Billington,
Librarian of Congress.

[FR Doc. 98-3703 Filed 2-12-98; 8:45 am]
BILLING CODE 1410-33-P