

Subject: Law

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Paper : Intellectual Property
Module : Copyright- Statutory and Compulsory Licensing



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Module Detail	
Subject name	Law
Paper name	Intellectual Property
Module name/ Title	Copyright- Statutory and Compulsory Licensing
Module Id	Law/IP/# 33
Pre- requisites	Basics of copyright law, licensing and assignment, public interest in copyright law, fair dealing
Objectives	To offer an analysis of statutory and compulsory licensing provisions in Indian copyright law and the changes made by the Copyright (Amendment) Act, 2012
Key words	Statutory licensing, compulsory licensing, disability and copyright law, public interest

Introduction:

A major inroad into the conception of copyright as a property right, exclusive to the owner and within his autonomy to deal with as he pleases, is the scheme of compulsory and statutory licenses found in the Copyright Act, 1957. Under certain conditions, the Act either forces the copyright owner to deal with licensees at a rate fixed *ex post* (ie. after the arising of) any dispute between the parties (as with compulsory licenses) or at rates fixed *ex ante* (ie. prior to any dispute itself, and on a generally applicable basis) to completely remove the possibility of any negotiations whatsoever (as with statutory licenses). In a manner of speaking, this could be considered a form of socialisation of copyright because the State is facilitating the compulsory expropriation or use of a private property through a licensing mechanism. The primary rationale for such measures is to lower the transaction costs for end users. Any monopoly can lead to potential holdout problems, and the same is the case with copyright as well. If the owner of the exclusive right were to refuse dealing with potential users, or insist on astronomical royalties for use of his work, it could lead to a gridlock from which there is no escape. It is to provide an escape hatch from such



gridlock and to enhance the accessibility of works to the public that compulsory and statutory licenses were introduced. This rationale may be kept in mind while understanding the detailed manner in which these mechanisms work, as unravelled through the various parts of this module.

Learning Objectives

In this module, we understand: i) the international framework which authorises such power and its exercise by the State; ii) the nuances of compulsory licensing in India; and iii) the nature of statutory licenses in India. While negotiating this chapter, it is important to constantly bear in mind that the word “compulsory” is used in contrast with “voluntary”. The compulsory character of these licenses could go to two different things: i) the identity of the licensee itself, thus restricting the copyright owner’s autonomy to pick and choose the licensees with whom he wishes to enter into licensing arrangements, and ii) the rates of royalty, removing the possibility of price negotiations between the copyright owner and the licensee in question. Most compulsory and statutory licenses

PART I

India’s International Commitments in Copyright and the Framework for Compulsory Licenses

Any enquiry into the possible restrictions on the exclusivity of copyright has to necessarily commence with the Berne Convention and the three-step test in



Article 9(2) therein. This provision authorises Member countries to provide for reproduction of copyrighted literary and artistic works, by way of legislation, in certain special cases so long as such reproduction does not conflict with a normal exploitation of the work and does not unreasonably prejudice the legitimate interests of the author.

Apart from this provision relating to the reproduction right, the Convention also stipulates the possibility of exceptions to the broadcasting right, making a specific reference to the equitable remuneration aspect too. Article 11*bis* of the Convention provides, in its second para, that Member countries are free to determine the conditions under which broadcasting rights may be exercised in respect of literary and artistic works. Such conditions are subject, however, to the right of authors to equitable remuneration which, *in the absence of agreement*, shall be fixed by a competent authority.

Coming to sound recordings, Article 13 provides that Member countries can impose reservations and conditions on the exclusive rights of the authors of the underlying musical and literary works to authorise the making of such sound recordings. Such restrictions, again, cannot be prejudicial to the rights of these authors to obtain equitable remuneration which, *in the absence of agreement*, shall be fixed by a competent authority.

Apart from this, there are special provisions that developing countries can avail of, provided in the form of an Appendix to the Convention. India has opted in for both the faculties mentioned in Articles II and III in this Appendix. Article II explicitly permits the Member country to replace the exclusive right of translation in respect of published works with a *system of non-exclusive and non-transferable licenses*. Such licenses can be granted, in accordance with the terms of this provision, in situations where the translation has not been published or authorised by the owner of the right of translation in a language in general use in the opting Member country, within a period of three years from the date of first publication of the work in question. Article III provides for similar intervention by the Member country in respect of the exclusive reproduction right, in situations where the published work has not been made available at prices



reasonable on a comparable scale for similar works. Article IV stipulates additional pre-conditions that have to be satisfied by applicants for licenses under Articles II and III.

The Universal Copyright Convention, to which India is a signatory, also provides for licenses in respect of translation of published works, and reproduction of those unavailable in the country, upon payment of *just compensation* consistent with the royalties normally operating in the case of voluntary licenses, and in accordance with the other pre-conditions stipulated in Articles *Vter* and *Vquater*. The Agreement on Trade-Related Aspects of Intellectual Property Rights, 1994 (TRIPS) does not break any new ground in the field of copyright protection and only emulates the three-step test stipulated by the Berne Convention, *vide* Article 13 of TRIPS.

India's primary treaty obligation for the protection of sound recordings (referred to broadly as "phonograms" by the treaty) is the Geneva Phonograms Convention, 1971, with the long title, Convention For The Protection Of Producers Of Phonograms Against Unauthorized Duplication Of Their Phonograms. This treaty permits Member countries (referred to as Contracting States) to limit the copyright protection afforded to phonograms, including by way of compulsory licenses. Article 6 of this treaty however fetters the discretion to provide for such licenses, by confining the purpose of duplication pursuant to such a license solely to teaching or scientific research, and mandating payment of equitable remuneration as fixed by a competent authority after taking into account the number of duplicates made.

It is seen from the above that the international framework of protection to which India is a party does permit the imposition of compulsory licenses on copyright owners, provided the principle of just or equitable remuneration is broadly adhered to. Now, we will examine the different ways in which the Indian Copyright Act, 1957, has operationalised these principles and tailored the mechanism of statutory and compulsory licenses to meet the concerns of the Indian public.



PART II

Compulsory Licenses

As emphasised in the beginning of this module, compulsory and statutory licenses can impact both the identity of the licensee who the owner chooses to deal with and the terms, including rates of royalty, that the owner may stipulate for such dealing. Viewed from this perspective, compulsory licenses are less of an infraction on owner autonomy, on both these counts. The owner does retain a fair bit of autonomy to enter into appropriate licensing arrangements with those who he may deem fit, and he is also permitted to negotiate on the terms of the license within the zone of reasonableness. Normally, it is an unreasonable refusal to deal with a person that gives rise to a compulsory license. This brings us to the third important distinction between a compulsory and statutory license. The former is always granted upon specific application by an individual to the competent authority. The latter, on the other hand, is a blanket fixation of rates of royalty by the authority and a grant of standardised licenses to all those who are interested in availing the same. The owner, as a necessary corollary, has no autonomy on the identity of those who obtain the license, or what they pay as royalty for the same.

Categories of Compulsory Licenses

There are five main categories of compulsory licenses currently operating in India. These are:

1. Licenses in respect of works unreasonably withheld from the public;
2. Licenses in respect of orphan works;
3. Licenses in respect of works for the differently abled;
4. Licenses in respect of translations;
5. Licenses in respect of reproduction and sale of works unavailable in India

Works unreasonably withheld



These licenses, available under Section 31 of the Act, have been the most controversial set of licenses. Before surveying the controversy, a breakdown of the provision is in order. The first pre-condition for this provision, applicable to *any work*, to stand attracted is that the work must already have been published or performed in public. The second is the requirement of a complaint alleging that the copyright owner has (i) refused to allow the republication of the work, resulting in it being withheld from the public, or (ii) refused to allow *broadcasting* of the work on terms that the complainant considers reasonable. The third is a reasonable opportunity of hearing to the copyright owner, and the fourth, satisfaction on the part of the adjudicating Copyright Board that the grounds for refusal are not reasonable. Once the Board is so satisfied, it can direct the Registrar of Copyrights to grant a license to the complainant to republish or broadcast the work, subject to payment of *compensation* to the copyright owner.

Three major controversies have arisen in the past in connection with this provision. All arose in the context of radio broadcasting rights, post the expansion of the FM industry. One was a consequence of the wording of the statute prior to the Copyright (Amendment) Act, 2012, which confined the grant of license in cases where there were two or more applicants for the same, to the licensee who would best serve the public interest. When several FM radio stations owned by multiple entities were awarded compulsory licenses for use of the same repertoire of sound recordings, copyright owners took the issue right up to the Supreme Court, where they lost in a decision that almost rewrote the provision.¹ In any case, post the 2012 amendment, discussing this controversy is redundant as multiple applicants can now, on the terms of the provision itself, be awarded broadcasting licenses.

The second controversy relates to the meaning of the word *compensation* as used in this provision. How does the Board fix an appropriate rate of compensation payable to the copyright owner? In the earliest set of complaints filed before the

¹ *Entertainment Network (India) Limited v. Super Cassette Industries Limited*, (2008) 13 SCC 30.



Board in 2001-02, the Board had used a best judgment assessment to fix rates of royalty for each needle hour (ie. the actual time in an hour when music is played on an FM radio station after discounting the radio jockey's presentation, advertisements etc.) and made a distinction between i) cities based on their population and the captive radio listener group, and ii) peak and non-peak hours of radio time. After long drawn out litigation which ended in the Supreme Court setting aside this measure and remanding the matter to the Copyright Board for trial,² the Board passed a controversial order based on the expert and other evidence led before it. In this order dated 25.08.2010,³ the Board held that each radio broadcaster will have to earmark 2% of its net advertisement revenue, post deduction of commission expenses, for payment of *compensation* on a proportionate basis to all the copyright owners whose sound recordings were aired on its various stations. This decision is currently under appeal before the Madras High Court. Post this decision, there is no certainty whatsoever on the principles based on which the Board shall fix the compensation payable to owners of the rights in sound recordings.

The third controversy has arisen as a direct consequence of the delays in the system of grant of compulsory licenses. The Copyright Board is understaffed and does not hear complaints on a day to day basis all through the year. As a consequence, complainants often seek an interim license pending the disposal of the main complaint. The Board's jurisdiction to grant such licenses came under challenge, finally going way up to the Supreme Court. The Court, in *Super Cassettes Industries Ltd v. Music Broadcast Pvt. Ltd.*,⁴ has held that the Board does not have the jurisdiction to grant such interim licenses. This being the current legal position, it is a moot question whether compulsory licenses under Section 31 will be put to use any more by the broadcasting industry. This is especially so because the 2012 amendment has introduced a slew of statutory licenses, some

² *Id.*

³ *Music Broadcast Pvt. Ltd. v. Phonographic Performance Ltd.*, 2010 (44) PTC 107.

⁴ (2012) 5 SCC 488.



of which meant to benefit the broadcasting industry, thus possibly rendering redundant the need to resort any longer to such compulsory licenses.

Orphan Works

Orphan works is a term of art to denote situations where the author of the work is dead, unknown or untraceable, or the copyright owner cannot be found (in the case of published works). In such instances, any person can apply to the Board under Section 31-A for a licence to publish, or communicate to the public, such work or a translation thereof in any language. The main pre-conditions for such application and consequential grant are: (i) publication of the applicant's proposal to publish or translate the work in question in an English daily newspaper and a newspaper in the language to which the translation is proposed to take place; and (ii) deposit of royalty by the applicant to the public account of India or any other account specified by the Board. Though this provision has not been put to use much, it may assume renewed significance in the light of the Google Books project, where several of the books sought to be digitised are indeed orphan works. A huge concern with orphan works is the inordinate delay and the mounting transaction costs arising from the absence of the author from the scene. Section 31-A is a welcome measure to address this. However, it is better to simplify the process even further by removing the requirement of an express license from the Copyright Board, and permitting any individual to publish such orphan works upon advertisement in the newspaper and the deposit of a statutorily prescribed fixed fee.

Works for the Benefit of the Differently Abled

This is a laudable provision (Sec. 31B) because it facilitates the path for a business model that makes works accessible for the differently abled. Persons working for their benefit on a profit basis can apply for compulsory licenses to publish *any work* in which copyright subsists, and there are very little pre-conditions too. The applicant has to first serve the copyright owner or the



publisher with a copy of the application.⁵ The Board, after being satisfied with the credentials and good faith conduct of the applicant, has to grant such licenses expeditiously and preferably within an outer limit of two months from the date of such application. The license shall specify the means and format of publication, the period during which the compulsory licence may be exercised and, in the case of issue of copies, the number of copies that may be issued including the rate or royalty. Royalty is determined by the Board after taking into consideration (a) the proposed price at which a copy of such work shall be made available to disabled persons; (b) the prevailing standards of royalties in regard to such works taking into consideration the cost involved in making the accessible formats for the disabled person; and (c) other relevant factors.⁶

Licenses for Translations and Reproductions of Works Unavailable in India

Sections 32 (1-A) and 32A, which provide for these compulsory licenses, are nothing but India's avilment of the special exceptions granted *vide* Articles II and III of the Appendix to the Berne Convention, discussed in Part I of this module. Translation licenses under Sec. 32 (1-A) are available only for teaching, scholarship or research purposes, and in respect of *literary or dramatic works in non-Indian languages*. Such licenses will not ensue in cases where, pursuant to authorisation by the copyright owner, copies of the translated work are already in circulation. In addition, the applicant has to establish that he had requested and been denied authorisation by the copyright owner to produce and publish such translation, or that he was, after due diligence on his part, unable to find the copyright owner. The Board must also be satisfied that the applicant is competent to produce and publish a correct translation of the work, and possesses the means to pay royalties due to the copyright owner. Broadcasting organisations can also avail of translation licenses for strictly non-commercial use and in furtherance of the purpose of teaching or for the dissemination of the

⁵ Rule 29(1) of the Copyright Rules, 2012.

⁶ Rule 30 of the Copyright Rules, 2012.



results of specialised, technical or scientific research to the experts in any particular field.

Reproduction licenses under Section 32A are available for *any literary, scientific or artistic works* unavailable in the country. In the case of works used as part of systematic instructional activity, the copyright owner also has to ensure availability of copies at prices reasonably comparable with that of similar works in India, failing which the applicant can seek a license to reproduce and publish such works at a price lower than that at which the edition is sold outside the country. These licenses cannot be granted unless the applicant satisfies the Board that he had requested and been denied authorisation by the owner of the copyright in the work to reproduce and publish such work or that he was, after due diligence on his part, unable to find such owner. The Board must also be satisfied that the applicant is competent to reproduce and publish an accurate reproduction of the work, and possesses the means to pay royalties due to the copyright owner. The Board will also normally fix a price reasonably related to the price normally charged in India for works of the same standard on the same or similar subjects, and the licensee has to sell within this price. The Board takes into account factors such as (a) the proposed retail price of a copy of the work; and (b) the prevailing standards of royalties in regard to such works, while determining the royalty payable by the applicant to the copyright owner both in the case of translation and reproduction licenses.⁷

That some level of owner autonomy is retained even after the grant of such licenses is evident from Section 32-B, which provides that the translation or reproduction licenses shall stand terminated once the owner makes the work available at prices reasonably related to the price normally charged in India for comparable works.

PART III

⁷ Rule 19 of the Copyright Rules, 2012.



Statutory Licenses

As seen from the above discussion of compulsory licenses, such licenses can be understood as a particularised expropriation of owner autonomy in respect of the copyrighted work. The need for such expropriation arises only upon acts or inaction on the part of the owner that render the work unavailable to the public or differently abled persons. Statutory licenses, on the other hand, do not require any examination into the conduct of the owner. It attempts a wholesale expropriation of owner autonomy, once the work fits within the broader class of works that can be so licensed. There are two such categories of statutory licenses, namely cover version recording licenses (Section 31C) and broadcasting licenses (Section 31D). The first has existed, though as part of the fair dealing exceptions in Section 52, from the very beginning. The second is a very recent addition to the Act *vide* the 2012 amendment.

Version Recordings

Version recordings or cover versions are nothing but subsequent independent recordings of a musical, dramatic or literary work that has already been recorded earlier under license granted by the owner. Statutory licenses can be granted under Section 31C to release version recordings of works, the first sound recording of which were made five years or more prior to the date of making such version recordings. The statutory scheme in respect of licenses for such version recordings is as follows. The Copyright Board fixes a per-copy rate of royalty that is generally applicable for version recordings of all works, after inviting suggestions from all interested persons. Factors such as the retail price of the earlier sound recording, the prevailing standards of royalties in regard to such recordings, and the nature and class of the work and the format and media in which it is to be sold, are some of the stipulated relevant factors to be accounted for by the Board while fixing these rates.⁸ Any person desirous of

⁸ Rule 38(4) of the Copyright Rules, 2012.



releasing such version recordings can then notify the owner of the musical, literary or dramatic work of his intention to make such recordings, provide in advance copies of all covers or labels with which the sound recordings are to be sold, and pay in advance, to such owner, royalties in respect of all copies to be made by him, at the rate fixed by the Copyright Board. No permission is required either from the copyright owner of the musical, literary or dramatic work, the version recording of which is sought to be made,⁹ or the owner of any earlier sound recording of such work that was authorised by the copyright owner of the musical, literary or dramatic work.¹⁰ If the version recordist were to cease making royalty payments, the copyright owner can move an application before the Board and the Board can even pass an *interim* order restraining the recordist from making further copies of the cover version.

The version recordist is prohibited from (i) making any alteration in the literary or musical work that is not technically necessary for the purpose of making the sound recordings,¹¹ (ii) using any form of packaging, cover or label that is likely to mislead or confuse the public as to the identity of the recording, and (iii) referencing any performer of an earlier sound recording of the work in question. Moreover, this provision only permits the recordist to come out with a sound recording of the earlier work, not a cinematograph film. Hence, only audio versions are permitted, and music videos require express authorisation from the copyright owner.¹² However, the owner of a validly made version recording enjoys an independent copyright in the same, and is well within his rights as an owner to proceed for infringement against anyone who makes unauthorised copies of *his* version recording.

Broadcasting Licenses

⁹ *Gramophone Co. of India Ltd v Super Cassette Industries Ltd.*, 2010 (44) PTC 541 (Del).

¹⁰ *Gramophone Co. of India Ltd v Mars Recording Pvt. Ltd.*, (2002) 2 SCC 103.

¹¹ Section 31C (3); *see also Gramophone Co. of India Ltd v Super Cassette Industries Ltd*, 1996 (16) PTC 252 (Del).

¹² *Gramophone Co. of India Ltd v Super Cassette Industries Ltd*, 2010 (44) PTC 541 (Del).



As discussed in Part II, the system of compulsory licenses had left the entire field in disarray, and was unable to address the problem of transaction costs. This is a genuine concern for radio broadcasters because they require access to several copyrighted works at the same time to run a successful radio station. If major sound recording labels were to hold out, not only would it scuttle their requirement but also lead to a domino effect where every label would wait for a better deal and not conclude the transaction. With their application for compulsory license filed in 2001-02 getting disposed off finally in 2010, and that too with extensive litigation in the intervening years, it was evident that compulsory licensing had failed to take care of their interests. This led to the statutory licensing mechanism introduced in Section 31D, *vide* the 2012 amendment.¹³

The manner in which this operates is as follows. The Copyright Board first invites suggestions from all interested persons and provides them with an opportunity to be heard and to present their evidence. Then, the Board fixes separate rates for radio and television broadcasting, taking into account (a) the time slot in which the broadcast takes place with different rates for different time slots including for repeat broadcast; (b) different rates for different types of works; (c) the normal market practice of determining advertisement rates for different time slots, including the target rating point (TRP) in the case of television broadcast; and (d) other relevant factors.¹⁴ Once the rates are fixed, different broadcasters can notify their intention to broadcast any work, stating the duration and territorial coverage of the broadcast, and after paying the owner of rights in each work royalties as fixed by the Copyright Board.

From the above provisions, it is clear that the Copyright Act, 1957, especially in its present form i.e. post the 2012 amendments, is making a straight pitch for

¹³ For a detailed discussion of the rationale for this provision and the arguments and counter-arguments advanced, please see the 227th Report of the Parliamentary Standing Committee on the Copyright (Amendment) Bill, 2010, available at <http://copyright.gov.in/Documents/227-Copyrightamendment.pdf> (accessed on 18/06/2014).

¹⁴ Rule 42(5) of the Copyright Rules, 2012.



easing the ill-effects of copyright monopoly by lowering transaction costs and identifying certain genuine cases where works must be made available to the general public at reasonably affordable rates. The entire scheme has been designed in such a way that it depends heavily on a dynamic Copyright Board. Without a fully functional and efficient Board, these provisions will remain paper tigers that at best, influence the parties to negotiate more reasonably without the provisions themselves being put to active use, and at worst, will be ignored in *toto*. The fate of these provisions is too early to predict.

