THIRD DIVISION

G.R. No. 256091 – ICEBERGS FOOD CONCEPTS, INC. and ALLAN JOHN T. YOUNG, *petitioners*, ***versus*** **FILIPINO SOCIETY OF COMPOSERS, AUTHORS, AND PUBLISHERS, INC.,** *respondent*.

Promulgated:

April 12, 2023

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CONCURRING OPINION

CAGUIOA, *J.*:

I concur in the result, and join the *ponencia*'s call for Congress to consider a possible further exemption under copyright law in addition to the existing limitations under Republic Act No. (R.A.) 8293[1] otherwise known as the Intellectual Property Code of the Philippines (IP Code).

The instant case involves issues similar to those raised in *Filipino Society of Composers, Authors, and Publishers, Inc.* (*FILSCAP*) *v. Anrey*[2] (*Anrey*), and a subsequent case, *COSAC, Inc. v. FILSCAP*[3] (*COSAC*). These cases stemmed from a commercial establishment's unauthorized use of the copyrighted music managed by FILSCAP.

Here, as observed through FILSCAP's monitoring operations from 2010 through 2014, petitioner Icebergs Food Concepts, Inc. (Icebergs) played approximately 324 songs from FILSCAP's repertoire without obtaining a license.[4] As stated in the *ponencia*, "copyright infringement is committed by any person who shall use original literary or artistic works, or derivative works, without the copyright owner's consent in such a manner as to violate

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1 AN ACT PRESCRIBING THE INTELLECTUAL PROPERTY CODE AND ESTABLISHING THE INTELLECTUAL PROPERTY OFFICE, PROVIDING FOR ITS POWERS AND FUNCTIONS, AND FOR OTHER PURPOSES, approved on June 6, 1997.

2 G.R. No. 233918, August 9, 2022. Penned by Associate Justice Rodil V. Zalameda, with Chief Justice Alexander G. Gesmundo and Associate Justices Ramon Paul L. Hernando, Samuel H. Gaerlan, Ricardo R. Rosario, Jhosep Y. Lopez, Japar B. Dimaampao, and Jose Midas P. Marquez concurring.
Associate Justice Caguioa submitted his Separate Concurring Opinion, joined in by Associate Justice Antonio T. Kho, Jr.
Senior Associate Justice Marvic M.V.F. Leonen and Associate Justice Amy C. Lazaro-Javier dissented, submitting their respective Dissenting Opinions.
Associate Justice Maria Filomena D. Singh expressed both concurrence and dissent.
Associate Justice Mario V. Lopez on official leave but left his vote to concur. Associate Justice Henri Jean Paul B. Inting took no part.

3 G.R. No. 222537, February 28, 2023. Penned by Associate Justice Ramon Paul L. Hernando, with Chief Justice Alexander G. Gesmundo and Associate Justices Marvic M.V.F. Leonen, Alfredo Benjamin S. Caguioa, Amy C. Lazaro-Javier, Rodil V. Zalameda, Samuel H. Gaerlan, Ricardo R. Rosario, Jhosep Y. Lopez, Japar B. Dimaampao, Jose Midas P. Marquez, Antonio T. Kho, Jr., and Maria Filomena D. Singh concurring. Associate Justices Henri Jean Paul B. Inting and Mario V. Lopez took no part.

4 *Ponencia*, p. 10.

the latter's economic rights."[5] Additionally, the act must not be covered by Sections 184 (Limitations on Copyrights) and 185 (Fair Use of a Copyrighted Work) of the IP Code.[6] These two exceptions, however, do not obtain in this case.

Icebergs' unauthorized exercise of authors' exclusive economic rights

Section 177 of the IP Code provides the "menu" of the author's exclusive economic rights which include, among others, the right of "public performance" and "communication to the public." The *ponencia* correctly states that the right to "public performance" and "communication to the public" are two distinct rights that the author may enforce and exploit to the exclusion of others.[7] As I maintained in my Separate Concurring Opinions in *Anrey* and in *COSAC*, the law itself distinguishes the right of "public performance" from the right of "communication to the public," *viz.*:

> The foregoing provisions suggest that the public performance right and the right to communicate to the public **are separate and distinct rights which are available to, and may separately be exploited by, the author. This is clear from first, the separate designation of these rights under the "menu" of economic rights under Section 177 of the IP Code, and second, the "exclusionary" definition of "public performance" in Section 171.6 [of the IP Code], which expressly requires that "the performance x x x be perceived without the need for communication [to the public] within the meaning of Subsection 171.3 [of the IP Code]**."
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> x x x [This] is likewise supported by the following provisions of the IP Code involving the rights of performers, producers of sound recordings, and broadcasting organizations. x x x
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> x x x x
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> Notably, under Section 209 of the IP Code, performers and producers of sound recordings are entitled to remuneration whenever **(i) a sound recording is published for commercial purposes, or (ii) when reproductions of such sound recordings are (a) "used directly for broadcasting or for other communication to the public" (*i.e.*, right to communicate to the public), or (b) "publicly performed with the intention of making and enhancing profit" (*i.e.*, right of public performance)**. In other words, performers and producers would be entitled to remuneration for three distinct activities, which is clear from the use of the conjunction "or." Otherwise stated, if the intention was to only entitle the performers and producers to one remuneration for all of these activities combined, then the conjunction "and" should have been used. This further underscores that Sections 177.6 and 177.7 in relation to Sections 171.3 and 171.6 of the IP Code x x x recognize **two separate and distinct rights** that may independently be exploited by an author or copyright owner.

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5 Id.
6 G.R. No. 222537, *COSAC, Inc. v. FILSCAP*, supra note 3 at 34.
7 *Ponencia*, p. 16.

x x x x

x x x [I]t must further be underscored that the public performance right and right to communicate to the public are not only separate and distinct — they are also ingeniously delineated or segregated by the IP Code based on the means of transmission or making available of the work, *i.e.*, whether the performance or communication is made by "wire or wireless means." x x x

I expound.

First, [as mentioned,] it should be stressed at the onset that the definition of public performance under Section 171.6 is **exclusionary** in relation to Section 171.3, *i.e.*, in order to constitute "public performance," the performance must be "perceive[able] without the need for communication within the meaning of Subsection 171.3." Conversely, **if an aspect of a performance can be perceived by the public by means of "communication" as defined under Section 171.3, *i.e.*, "by wire or wireless means in such a way that members of the public may access these works from a place and time individually chosen by them," then this aspect of the performance would only be a "communication to the public" and would not therefore constitute a "public performance."**

Second, the foregoing conclusion is also supported by the text of The Berne Convention x x x, to which the Philippines is a signatory. x x x

x x x x

x x x [U]nder the Berne Convention, public performance and any communication of such performance is covered by Article 11 thereof. However, similar to how the IP Code is worded, if the public communication is via a specific mode or means of transmission, *i.e.*, by means of broadcasting or other "wireless diffusion," by wire or rebroadcasting (if the communication is made by an organization other than the original one), or by loudspeaker or any other analogous instrument of the broadcast of the work, then the same will fall under Article 11*bis*.

In fact, the foregoing stance is made clear by the WIPO in its explanatory guide to the Berne Convention (WIPO Guide). Anent the difference of Article 11 from Article 11*bis* of the Berne Convention, the WIPO remarked as follows:

> 11.4. However, [Article 11] goes on to speak of "including such public performance by any means or process," and this covers performance by means of recordings; there is no difference for this purpose between a dance hall with an orchestra playing the latest tune and the next-door discotheque where the customers use coins to choose their own music. In both, public performance takes place. The inclusion is general and covers all recordings (discs, cassettes, tapes, videograms, etc.) though public performance by means of cinematographic works is separately covered — see Article 14(1)(ii).
>
> 11.5. **The second leg of this right is the communication to the public of a performance of the work. It covers all**

> **public communication except broadcasting which is dealt with in Article 11*bis*.** For example, a broadcasting organisation broadcasts a chamber concert. Article 11*bis* applies. But if it or some other body diffuses the music by landline to subscribers, this is a matter for Article 11. x x x

Furthermore, the WIPO Guide also states that Article 11*bis*, which covers the author's right to communicate one's work by means of broadcasting, is "the fourth of the author's exclusive rights x x x, the other three being those of translation, reproduction and public performance." Anent the "broadcasting right," the WIPO elucidates that this right includes one primary right to authorize the broadcast of one's work via wireless means, and two [secondary] rights to authorize (i) the subsequent communication of said broadcast, by wire or rebroadcast, by an organization other than the one which originally made the broadcast, and (ii) the communication of the same broadcast via loudspeaker or a television screen to "a new public." x x x

x x x x

Parsed, while the communication of a "performance" may fall under Article 11 of the Berne Convention (governing public performance), this is only true if the performance can be perceived without the need for communication within the meaning of Article 11*bis* — very much like how Section 171.6 of the IP Code is worded. On the other hand, under the Berne Convention, if the communication to the public is made either (i) via broadcast or by any other means of wireless diffusion, (ii) whether by wire or not, by an organization other than the one who originally made the broadcast, or (iii) through a broadcast of the work through a loudspeaker, television screen, or other analogous instrument, then Article 11*bis* applies. **Put simply, one clear similarity between the structure of the Berne Convention and the IP Code is that both categorically separate the concept of "public performance" [and] "broadcasting," such that a work that is conveyed to the public solely via x x x broadcast does not constitute an exercise of the author's right of "public performance," but rather of the author's right of "[b]roadcasting and other wireless communications, public communication of broadcast by wire or rebroadcast, public communication of broadcast by loudspeaker or analogous instruments[,]" or, as referred to under the IP Code, the author's right to "communicate to the public."**

Applying the foregoing principles to our jurisdiction, this means that under the IP Code, as under the Berne Convention, the single act of broadcasting of musical compositions contained in sound[/audiovisual] recordings, either by the original broadcaster or "by an organization other than the original one[,]" or by other business establishments solely "by loudspeaker or any other analogous instrument" (as worded in Article 11*bis* of the Berne Convention), is actually an exercise of the author's right to "communicate to the public" his or her work under Section 171.3 of the IP Code. This is clear from the wording of Section 171.3 of the IP Code which specifically defines "communication to the public" as the "making of a work available to the public by **wire or wireless means** x x x," and from the wording of Section 202.7 of the IP Code which defines "broadcasting" as a mode of "**transmission by wireless means** for the public reception of sounds[.]" **As well, by the wording of Section 171.6 of the IP Code, this**

may also mean that such act does not constitute an exercise of an author's public performance right.

In other words, based on the IP Code's definition of these two rights, as further clarified by the Berne Convention, broadcasting a musical composition over the [television or] radio or communicating the same in some other "wire or wireless means x x x" would simply constitute an **exercise of the right to "communicate to the public."** On the other hand, playing a sound recording of a musical composition to an audience through other dissimilar or "non-broadcast" means, *i.e.*, through a jukebox or CD player, even if the same is ultimately perceived by the audience through a loudspeaker or other analogous instrument, would only constitute "public performance." After all, the sound recording in this situation can be perceived by the public without the need of communication by "wire or wireless means in such a way that members of the public may access these works from a place and time individually chosen by them."

x x x x

To be sure, there are cases where a single performance could constitute **both** public performance and communication to the public. For instance, if a band performs a musical composition live before a studio audience, and the same performance is either simultaneously or subsequently broadcasted over the radio by a broadcasting station, then the band's performance results in **both** a public performance and communication to the public. In this example, the act of directly performing the musical composition before the audience is itself a public performance, while the act of broadcasting the performance (not the actual performance itself) is a communication to the public. Thus, while there is only one performance, there are actually two acts which respectively result in the exercise of two separate economic rights.

In other words, unless there is a showing that the music being played via radio[/television] is not simply a x x x recording [of a musical composition] but rather, being played live before a studio audience, then the playing of a radio[/television] broadcast as background music would **only** constitute a "communication to the public."[8] (Emphasis and underscoring supplied).

In the present case — despite Icebergs' claim that it did not commit copyright infringement because it did not perform the music[9] — it is clear that music was played through the radio transmitter and heard in Icebergs' establishment. Consistent with the foregoing discussion, therefore, Icebergs had clearly exercised without authority the exclusive right of the copyright owners **to communicate to the public** the musical compositions.

Icebergs' acts do not fall under the existing exceptions under the law

In my Separate Concurring Opinion in *Anrey*, I emphasized therein that to safeguard the general public from an excessively broad interpretation of the

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8 J. Caguioa, Separate Concurring Opinion in *FILSCAP v. Anrey*, supra note 2 at 44-51. Citations omitted.

9 See *ponencia*, p. 7.

scope of music copyright protection, the Court's decision must also provide a comprehensive explanation and a more precise interpretation of the existing limitations or **guardrails** already recognized under the law, namely, Sections 184 and 185 of the IP Code, which respectively read:

> SECTION 184. *Limitations on Copyright.* — 184.1. Notwithstanding the provisions of Chapter V, the following acts shall not constitute infringement of copyright:
>
> (a) The recitation or performance of a work, once it has been lawfully made accessible to the public, if done privately and free of charge or if made strictly for a charitable or religious institution or society; (Sec. 10(I), P.D. No. 49)
>
> (b) The making of quotations from a published work if they are compatible with fair use and only to the extent justified for the purpose, including quotations from newspaper articles and periodicals in the form of press summaries: *Provided*, That the source and the name of the author, if appearing on the work, are mentioned; (Sec. 11, third par., P.D. No. 49)
>
> (c) The reproduction or communication to the public by mass media of articles on current political, social, economic, scientific or religious topic, lectures, addresses and other works of the same nature, which are delivered in public if such use is for information purposes and has not been expressly reserved: *Provided*, That the source is clearly indicated; (Sec. 11, P.D. No. 49)
>
> (d) The reproduction and communication to the public of literary, scientific or artistic works as part of reports of current events by means of photography, cinematography or broadcasting to the extent necessary for the purpose; (Sec. 12, P.D. No. 49)
>
> (e) The inclusion of a work in a publication, broadcast, or other communication to the public, sound recording or film, if such inclusion is made by way of illustration for teaching purposes and is compatible with fair use: *Provided*, That the source and the name of the author, if appearing in the work, are mentioned;
>
> (f) The recording made in schools, universities, or educational institutions of a work included in a broadcast for the use of such schools, universities or educational institutions: *Provided*, That such recording must be deleted within a reasonable period after they were first broadcast: *Provided, further*, That such recording may not be made from audiovisual works which are part of the general cinema repertoire of feature films except for brief excerpts of the work;

(g) The making of ephemeral recordings by a broadcasting organization by means of its own facilities and for use in its own broadcast;

(h) The use made of a work by or under the direction or control of the Government, by the National Library or by educational, scientific or professional institutions where such use is in the public interest and is compatible with fair use;

(i) The public performance or the communication to the public of a work, in a place where no admission fee is charged in respect of such public performance or communication, by a club or institution for charitable or educational purpose only, whose aim is not profit making, subject to such other limitations as may be provided in the Regulations;

j) Public display of the original or a copy of the work not made by means of a film, slide, television image or otherwise on screen or by means of any other device or process: *Provided*, That either the work has been published, or, that the original or the copy displayed has been sold, given away or otherwise transferred to another person by the author or his successor in title; and

(k) Any use made of a work for the purpose of any judicial proceedings or for the giving of professional advice by a legal practitioner.

x x x x

SECTION 185. *Fair Use of a Copyrighted Work.* — 185.1. The fair use of a copyrighted work for criticism, comment, news reporting, teaching including multiple copies for classroom use, scholarship, research, and similar purposes is not an infringement of copyright x x x. In determining whether the use made of a work in any particular case is fair use, the factors to be considered shall include:

(a) The purpose and character of the use, including whether such use is of a commercial nature or is for non-profit educational purposes;

(b) The nature of the copyrighted work;

(c) The amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

(d) The effect of the use upon the potential market for or value of the copyrighted work.

To be sure, none of the enumerated situations under Section 184 applies in the present case. Given that the facts of this case are similar to *Anrey*, my discussion in my Separate Concurring Opinion therein applies here, *viz.*:

> The act of playing radio broadcasts containing copyright music in the dining areas of Anrey's restaurants does not fall under any of the recognized exceptions under Section 184 of the IP Code, nor is it justified by the fair use doctrine under Section 185 of the IP Code.
>
> As correctly held by the *ponencia*, none of the exceptions in Section 184 of the IP Code applies in this case. While the RTC found Anrey exempt, in particular, under paragraph (i) of Section 184, the *ponencia* astutely finds this to have been a misapplication, considering that this exemption "only applies to institutions for charitable and educational purposes." Here, while Anrey does not charge any admission fee in respect of such radio broadcasts, it is nonetheless undisputed that Anrey, being the owner and operator of three Sizzling Plate restaurants in Baguio City, is not a charitable or educational institution, nor is its aim not profit making.[10]

Similarly, since Icebergs is a corporation, duly organized under Philippine laws, engaged in the business of operating several branches of restaurants within the country, it cannot come under the exception of Section 184(a) of the IP Code.

Neither can the actions of Icebergs be excused under the fair use doctrine. While it does not appear that Icebergs raised it as a defense, nevertheless, the *ponencia* astutely observed that playing copyrighted music from a radio broadcast over loudspeakers to serve as background music in restaurants for the enhancement of the customers' dining experience falls outside the ambit of fair use.

In view of the foregoing, since (1) Icebergs had exercised the authors' exclusive economic right to communicate the copyrighted music to the public; and (2) its act of playing the radio does not fall under the existing exceptions listed in Sections 184 and 185 of the IP Code, then Icebergs' act clearly amounts to copyright infringement.

Additional limitations on copyright infringement may be considered by Congress

While this exemption is **not** applicable to this case, I also join the *ponencia*'s call for Congress' attention to the deficiency under our law for a possible "small business exemption," **in addition to Sections 184 and 185:**

> The Court is mindful that there exists no similar exemption in our IP Code. **Nevertheless, the "Mom and Pop" establishments should receive**

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10 J. Caguioa, Separate Concurring Opinion in *FILSCAP v. Anrey*, supra note 2 at 32. Citations omitted.

> **protection from liability for copyright infringement under the fair use doctrine.** To continue ignoring this gap in our law would be tantamount to sanctioning the expansion of the scope of copyright, in violation of its core objective of achieving the common good. **Thus, the Congress' attention should be drawn to this deficiency and, in the meantime, the Court, in applying the law on intellectual property, must strike a careful balance between the rights of the owners to be compensated for the use of their works and the right of the public to enjoy these creations.** However, the Court acknowledges that a comprehensive discussion on these matters at this time would be premature.[11] (Emphasis supplied)

The *ponencia* raises the following requirements for a small business exemption rule:

> The first requirement for the small business exemption rule is that the establishment must be a "small commercial establishment." The rationale for this requirement finds its roots in United States legislative history where an examination was made on whether the business was of such size that would merit a subscription to a commercial music service. In determining whether a business can be considered as a small commercial establishment, the courts must examine the physical and financial size of the establishment.
>
> The second requirement in order to qualify for the small business exemption rule is that an establishment must not directly charge its customers to hear the music. This requirement does not typically pose problems in ascertaining whether the small business exemption should apply, because it is a fairly objective criterion. Most establishments do not separately charge their patrons for background music.
>
> The third requirement is that the establishment must use a single receiving apparatus of a kind commonly used in private homes. According to the United States Supreme Court, this is the most difficult factor to analyze, as the United States Congress did not employ a hard and fast rule as to which devices qualify for such exemption.
>
> Lastly, the fourth element to qualify for the small business exemption rule requires that the transmission is not further transmitted to the public. In analyzing this requirement, the size of the establishment and the physical arrangement of the sound system must be looked into.[12]

Indeed, notwithstanding the guardrails[13] recognized under the IP Code which help mitigate an otherwise oppressive and expansive interpretation of copyright law, I acknowledge it is essential for the Court to adopt a proactive stance, rather than relying solely on the benevolence of copyright holders not to pursue cases against small businesses which currently do not have categorical protection under the law.

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11 *Ponencia*, p. 26.

12 Id. at 25-26. Citations omitted.

13 See J. Caguioa, Separate Concurring Opinion in *FILSCAP v. Anrey*, supra note 2 at 9-13.

It was, after all, *Twentieth Century Music Corporation v. Aiken*[14] that led to the formulation of the exemption for small businesses in the United States (US), which was subsequently codified in the US Copyright Act of 1976 (and later further amended by the Fairness in Music Licensing Act of 1998). Indeed, if the Court were to advocate for a similar change from Congress, it must ensure that such an amendment aligns with the Philippines' international obligations.

In considering a similar set of exemptions for small businesses in the Philippine context, it is vital for Congress to examine whether any legislation for that purpose would be compatible with the treaties the Philippines has entered into. In the context of copyright law and its exemptions, the **three-step test** is an internationally recognized legal principle designed to balance the rights of copyright holders and the interests of the public. It is also the central instrument in international copyright law to examine the legitimacy of national copyright limitations.[15] According to the three-step test, the exemptions to copyright holders' rights must:

1) cover only certain special cases;
2) not conflict with the normal exploitation of the work; and
3) not unreasonably prejudice the legitimate interests of the copyright holder.

This test originates from The Berne Convention for the Protection of Literary and Artistic Works[16] (Berne Convention), to which the Philippines is a signatory, and has been incorporated into other international agreements, such as the Agreement on Trade-Related Aspects of Intellectual Property Rights[17] (TRIPS Agreement) and the WIPO Copyright Treaty[18] (WCT).

The framers of the Berne Convention initially sought to introduce a general reproduction right into the Convention, and at the same time allow for exceptions to the right. However, this exception should be by means of a provision which would not permit contracting parties to maintain or introduce exceptions so wide as to undermine the reproduction right.[19]

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14 422 US 151 (1975).

15 Schonwetter, Tobias, *The Three-Step Test Within the Copyright System*, THE FOURTH PAN-COMMONWEALTH FORUM ON OPEN LEARNING (October 31, 2006, 4:00 PM), available at <http://pcf4.dec.uwi.edu/viewpaper.php?id=58&print=1> last accessed April 4, 2023. ***N.B.*** *While the author notes that there is a difference in the coverage of the three-step test in the Berne Convention vis-à-vis the TRIPS Agreement, it was nevertheless concluded that the three-step test may be applied to all exclusive rights of authors, including but not limited to, the reproduction right.*

16 Also known as The Paris Act of July 24, 1971.

17 As amended on January 23, 2017, available at <https://www.wipo.int/wipolex/en/text/500864>.

18 Adopted in Geneva on December 20, 1996, available at <https://www.wipo.int/wipolex/en/text/295157>.

19 Roger Knights, *Limitations and Exceptions Under the "Three-Step-Test" and in National Legislation-Differences Between the Analog and Digital Environments*, 2 (2001), available at <https://www.wipo.int/edocs/mdocs/copyright/en/wipo_cr_mow_01/wipo_cr_mow_01_2.pdf> last accessed April 7, 2023.

Paragraph (2) of Article 9 of the Berne Convention on the "Right of Reproduction" provides:

> It shall be a matter for legislation in the countries of the Union to permit the reproduction of such works in certain special cases, provided that such reproduction does not conflict with a normal exploitation of the work and does not unreasonably prejudice the legitimate interests of the author. (Underscoring supplied)

Meanwhile, Article 13 on "Limitations and Exceptions" of the TRIPS Agreement provides:

> Members shall confine limitations or exceptions to exclusive rights to certain special cases which do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the right holder. (Underscoring supplied)

Finally, Article 10 of the WCT, titled "Limitations and Exceptions," provides:

> (1) Contracting Parties may, in their national legislation, provide for limitations of or exceptions to the rights granted to authors of literary and artistic works under this Treaty in certain special cases that do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the author.
>
> (2) Contracting Parties shall, when applying the Berne Convention, confine any limitations of or exceptions to rights provided for therein to certain special cases that do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the author. (Underscoring supplied)

As can be gleaned from the cited provisions, in confining or imposing limits to the rights of copyright holders, member states have to be mindful of the three-step test. To be sure, this test provides a useful framework within which Congress may evaluate a small business exemption advocated by the *ponencia*. By doing so, the country can maintain compliance with its international obligations, while also promoting a balanced copyright system that respects the rights of creators and accommodates the needs of the public.

Analyzing the *ponencia*'s proposed small business exemption rule would suggest that it ***may*** pass the three-step test, depending on the parameters used (*e.g.*, how "small" should a business be to fall under this exemption):

1. *Covers only certain special cases*

The proposed small business exemption rule targets specific and exceptional cases by establishing four requirements for an establishment to qualify. These criteria concentrate on the establishment's size, type, and usage, as well as the manner in which music is transmitted (*i.e.*, the use of a

single receiving apparatus of a kind commonly used in private homes and physical arrangement of the sound system). Through the implementation of these prerequisites, the proposed exemption appears to address particular scenarios in which smaller commercial establishments may be permitted to utilize copyrighted music.

2. *Does not conflict with the normal exploitation of the work*

The proposed exemption appears to avoid conflicts with the normal exploitation of the work, as it pertains to smaller commercial establishments that are unlikely to significantly impact the market for copyrighted works. The stipulation that establishments do not charge customers to listen to the music and the restrictions on the type of receiving apparatus employed help guarantee that the use of copyrighted works within these establishments do not interfere with the copyright holder's standard commercial activities.

3. *Does not unreasonably prejudice the legitimate interests of the copyright holder*

The proposed small business exemption rule endeavors to balance the interests of copyright holders and small commercial establishments. To recall, the proposed rules impose restrictions such as the physical size and financial size of the establishment, the use of a single receiving apparatus of a kind commonly used in private homes. By specifying requirements for an establishment to qualify for the exemption of the rule aids in limiting the potential for unreasonable prejudice to the copyright holder's legitimate interests. Additionally, the prohibition on further transmission of the music to the public ensures that the exemption remains confined to the designated circumstances and does not allow for more extensive unauthorized use of copyrighted works.

In addition to potentially satisfying the requirements of the three-step test, a small business exemption may also satisfy the limitations of imposing conditions on authors' rights set forth in the Berne Convention specifically relating to Broadcasting and Related Rights, *viz.*:

Article 11*bis*

[*Broadcasting and Related Rights:* 1. Broadcasting and other wireless communications, public communication of broadcast by wire or rebroadcast, public communication of broadcast by loudspeaker or analogous instruments; 2. Compulsory licenses; 3. Recording; ephemeral recordings]

(1) Authors of literary and artistic works shall enjoy the exclusive right of authorizing:

> (i) the broadcasting of their works or the communication thereof to the public by any other means of wireless diffusion of signs, sounds or images;
>
> (ii) any communication to the public by wire or by rebroadcasting of the broadcast of the work, when this communication is made by an organization other than the original one;
>
> (iii) the public communication by loudspeaker or any other analogous instrument transmitting, by signs, sounds or images, the broadcast of the work.
>
> (2) **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, but these conditions shall apply only in the countries where they have been prescribed. They shall not in any circumstances be prejudicial to the moral rights of the author, nor to his right to obtain equitable remuneration which, in the absence of agreement, shall be fixed by competent authority.** (Emphasis and underscoring supplied)

As seen in the foregoing, despite the fact that all member-states must protect the rights stated in Article 11*bis*(1), the legislature of each member-state may determine the particular **conditions** under which these protected rights may be exercised. Article 11*bis*(2) further provides the limitations for the member-states' imposed conditions on the exercise of such rights, specifically that they shall not be prejudicial to: (i) the moral rights of the author; or (ii) the authors' right to obtain equitable remuneration which shall be fixed by competent authority.

The proposed small business exemption may likewise comply with the limitations in Article 11*bis*(2) because: (i) the small business exemption does not interfere with the authors' moral rights; and (ii) the authors may still obtain equitable remuneration from those who enjoy copyrighted music but are not classified as small businesses (or small-scale users, which are already protected under the IP Code). To be sure, if implemented by Congress, such change in our copyright law will more genuinely uphold the balance of rights between copyright owners and the society at large because it ensures that the authors are still remunerated and that their rights are protected **and** it allows more segments of the society to enjoy copyrighted music without fear of becoming liable for copyright infringement.

Nevertheless, if only to emphasize that **not all businesses should be exempted**, it is important to mention an example of foreign legislation found

unacceptable by the World Trade Organization (WTO). In 2000, a WTO Panel delivered a report on Section 110(5) of the US Copyright Act of 1976, which provides for the limitations on the authors' exclusive rights.[20] Pertinently, Section 110 subparagraph (5)(B), hereafter referred to as the "business" exemption, reads:

> § 110. Limitations on exclusive rights: Exemption of certain performances and displays
>
> Notwithstanding the provisions of section 106, the following are not infringements of copyright:
>
> x x x x
>
> (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

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20 WTO Document WT/DS160/R available at <https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=Q:/WT/DS/160R-00.pdf&Open=True> last accessed April 7, 2023.

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 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[.][21]

Among other findings, the Panel observed that a significant majority of eating and drinking establishments and nearly half of retail establishments were encompassed by the business exemption.[22] Consequently, the WTO Panel concluded that subparagraph (5)(B) — which sought to exempt small business establishments if the establishment has less than 2,000 square feet (in the case of an establishment other than a food service or drinking establishment) or 3,750 square feet (in the case of a food service or drinking establishment) — does **not** constitute a "certain special case" as defined in the first element of the three-step test. Moreover, the Panel asserted that such business exemption conflicts with "the normal exploitation of the work," as

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21 Id. at 3-4. Citation omitted.

22 Id. at 35. Subparagraph (B) of Section 110(5) of the US Copyright Act sought to exempt small business establishments if the establishment has less than 2,000 square feet (in the case of an establishment other than a food service or drinking establishment) or 3,750 square feet (in the case of a food service or drinking establishment). Meanwhile, the Congressional Research Service ("CRS") estimated in 1995 the percentage of the US eating and drinking establishments and retail establishments that would have fallen at that time below the size limits of 3,500 square feet and 1,500 square feet respectively. Its study found that:

> (d) 65.2 per cent of all eating establishments;
> (e) 71.8 per cent of all drinking establishments; and
> (f) 27 per cent of all retail establishments would have fallen below these size limits.

approximately 74% of US restaurants play music from various sources, yet rights holders of musical works are precluded from receiving compensation from a sizable majority of these establishments.[23] Ultimately, the Panel determined that the business exemption under subparagraph (5)(B) does not satisfy the third element, as the US, the party invoking the exception, was unable to demonstrate that the exemption does not unreasonably prejudice the legitimate interests of rights holders.[24]

In this light, while I support the *ponencia*'s call for the attention of Congress on the deficiency under the law for exempting small businesses, **this support is not unequivocal**. I emphasize that the country must still adhere to its obligations under the Berne Convention, TRIPS Agreement, and the WCT. As a result, any exemption to the rights of copyright holders introduced by Congress must comply with the three-step test. Additionally, Congress must be able to substantiate any claim for exemption with empirical evidence, ensuring that any prejudice to copyright holders is reasonable and well-defined. Failing to do so might lead to the enactment of legislation that disproportionately favors commercial establishments at the expense of copyright holders, undermining the fair compensation owed to artists for the benefits their works provide to these establishments in their pursuit of profit.

By considering a small business exemption, Congress has the opportunity to craft a more equitable copyright system that caters to the unique challenges faced by small Filipino businesses — and indeed our society in general — without undermining the rights of copyright holders. This legislative endeavor would contribute to a more balanced and just copyright regime in the Philippines, promoting creativity and innovation while also fostering an environment that accommodates the needs of the Filipino society.

In light of the foregoing, I vote to **DENY** the Petition.

ALFREDO BENJAMIN S. CAGUIOA
Associate Justice

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MISAEL DOMINGO C. BATTUNG III
Division Clerk of Court
Third Division
JAN 17 2024

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[23] See id. at 55.
[24] See id. at 67.