

G.R. No. 256091. April 12, 2023.

ICEBERGS FOOD CONCEPTS, INC. and ALLAN JOHN T. YOUNG, petitioners, vs. FILIPINO SOCIETY OF COMPOSERS, AUTHORS, AND PUBLISHERS, INC., respondent.

DECISION

SINGH, J p:

Before the Court is the Petition for Review on *Certiorari* **1** under Rule 45 of the Rules of Court, filed by petitioners Icebergs Food Concepts, Inc. (**Icebergs**) and Allan John T. Young (**Young**), assailing the Decision **2** and the Resolution **3** of the Court of Appeals (**CA**) in CA-G.R. SP No. 159124, dated February 6, 2020, and March 18, 2021, respectively, which affirmed the December 5, 2018 Decision **4** of the Regional Trial Court of Quezon City, Branch 93 (**RTC**), in Civil Case No. R-QZN-14-11876-CV. The RTC found the petitioners liable for copyright infringement.

The Facts

Icebergs is a corporation, duly organized under Philippine laws, engaged in the business of operating several branches of restaurants within the country. **5** On the other hand, Young is the President and General Supervisor of Icebergs. Respondent Filipino Society of Composers, Authors, and Publishers, Inc. (**FILSCAP**) is a non-stock, non-profit association of composers, and is likewise a government-accredited Collective Management Organization (**CMO**), which is authorized to acquire, administer, license, and enforce the public performance rights over copyrighted musical works or compositions of its members and affiliate foreign societies. FILSCAP is also a member of the International Confederation of Societies of Authors and Composers (**CISAC**), which entered into reciprocal agreements with FILSCAP for the licensing of public performance rights. **6**

As a CMO, FILSCAP has the right to collect royalties and license fees for the public performance of local or foreign copyrighted musical works. **7** As to foreign copyrighted musical works, FILSCAP derives its right to issue licenses and collect license fees from the Deeds of Assignment executed by its members, as well as the reciprocal agreements it entered into with its affiliate foreign societies. **8**

From 2010 through 2014, FILSCAP monitored several Icebergs restaurants. FILSCAP discovered that Icebergs publicly played in its restaurants copyrighted musical works found in FILSCAP's musical repertoire without the required public performance license. FILSCAP found that Icebergs played around 324 songs in its musical repertoire without such license. **9**

FILSCAP sent Icebergs and Young a total of five letters, from 2009 to 2010, requiring them to secure a public performance license, as well as to pay the corresponding license fees. **10** However, Icebergs failed to respond, which prompted FILSCAP to send two more demand letters on July 2, 2010 and on August 6, 2014. **11** Subsequently, FILSCAP sent a Final Demand Letter on September 30, 2014. **12**

As the letters remained unheeded, FILSCAP was constrained to file a Complaint for Copyright Infringement **13** on December 1, 2014, before the RTC, docketed as Civil Case No. R-QZN-14-11876-CV. In its Complaint, FILSCAP alleged that Icebergs' continuous and regular unauthorized public performances of FILSCAP's musical works clearly constituted copyright infringement under Section 216, in relation to Section 177, of Republic Act No. 8293, **14** as amended, or the Intellectual Property Code (**IP Code**). **15** Thus, FILSCAP claimed that Icebergs should pay the amount of P627,200.00,

representing license fees for the years 2010 to 2014, P500,000.00 each for moral and exemplary damages, as well as attorney's fees in the amount of P100,000.00. **16**

In its Answer with Counterclaim, **17** Icebergs denied committing copyright infringement, and claimed that FILSCAP had no substantial proof that it had the authority to collect and receive royalties or license fees in behalf of the owners of the songs under its musical repertoire. **18** Icebergs likewise alleged that FILSCAP was not the real party-in-interest to institute the complaint, as the Complaint failed to attach any proof of authority to file the same. **19** In its counterclaim, Icebergs prayed for attorney's fees and litigation expenses. **20**

FILSCAP replied that it had the authority to file the case by virtue of the Deeds of Assignment executed by its members, as well as the Reciprocal Agreements it entered into with its affiliate foreign societies. **21** The Deeds of Assignment and Reciprocal Agreements have been deposited with the Copyright Office of the National Library of the Philippines. **22**

During trial, Icebergs presented Young, its Chairman, as its lone witness. Young insisted that there were no public musical performances in their restaurants, and that whatever musical sounds were heard in the restaurants were due to the occasional tuning in to the local FM radio broadcast from radio networks made available to the public. **23** Young likewise asserted that the subject Icebergs restaurants did not need music for its operations and that the tuning in to local radio stations was not done to entice customers or generate patronage in the concept of public performance or for commercial gain. **24** Young also claimed that Icebergs did not advertise the musical works or charge a fee for playing the same, as the customers were billed only for food and drinks consumed. **25**

The Ruling of the RTC

In a Decision, **26** dated December 5, 2018, the RTC found Icebergs guilty of copyright infringement. The RTC ruled:

FILSCAP derives its right or authority to license and to collect license fees for the public performance of local musical compositions from the Deeds of Assignments executed by its members. Under the said Deeds of Assignments, the members of FILSCAP assigned to FILSCAP their public performance right over all the musical compositions created or acquired by them at the time they signed the Deeds of Assignment and during the continuance of their membership with FILSCAP. Accordingly, FILSCAP is effectively the copyright owner of those musical compositions insofar as the public performance aspect of copyright is concerned. x x x.

On the other hand, FILSCAP has executed Reciprocal Agreements with its affiliate foreign societies for the licensing of the public performance rights of the foreign musical compositions under their respective repertoire in the Philippines. Under the Reciprocal Agreements, FILSCAP was granted by its foreign affiliates the right to authorize the public performance in the Philippines of the copyrighted musical compositions under the repertoire of the said affiliates. Accordingly, FILSCAP is effectively the copyright owner or holder in the Philippines of the works under the repertoire of its foreign affiliates insofar as the public performance aspect of copyright is concerned. x x x.

The public performance right over the musical compositions that were publicly played in various branches of Icebergs Restaurants have been assigned to and are owned, controlled or held by FILSCAP pursuant to the Deeds of Assignment and Reciprocal Agreements between FILSCAP and its affiliate foreign societies. The Reciprocal Agreements

executed by the said foreign affiliate societies in favor of FILSCAP gave the latter authority to license their copyrighted songs. x x x.

Consequently, FILSCAP owns, controls and holds the public performance right over the copyrighted musical compositions of its members and the members of its affiliate performing right societies. Thus, if the public performance right of its member or the member of its affiliate performing right societies was infringed, FILSCAP is entitled to take legal action to enforce such right in the Philippines. x x x.

It was established during trial that defendants publicly played FILSCAP Musical Compositions for at least 324 times via mechanical background music in the various branches of their Icebergs Restaurants by examining the *Monitoring Reports* and *Judicial Affidavits* executed by FILSCAP employees and the *Fiche Internationales* retrieved from the CIS network database." **27** (Citations omitted)

The RTC likewise held that when Icebergs played background music in its restaurants by means of any device or process, it is considered a public performance of that music. Thus, by playing such background music without FILSCAP's permission, Icebergs committed copyright infringement. **28** The dispositive portion of the RTC Decision states:

WHEREFORE, in view of the foregoing, judgment is hereby rendered:

1. Declaring Defendants Iceberg Food Concepts, Inc. and Allan John T. Young to have committed copyright infringement against Plaintiff Filipino Society of Composers, Authors and Publishers, Inc. (FILSCAP);
2. Finding Defendants Icebergs Food Concepts, Inc. and Allan John T. Young solidarily liable to FILSCAP for their copyright infringement and to pay FILSCAP the following:
 - a. SIX HUNDRED TWENTY-SEVEN THOUSAND TWO HUNDRED (Php627,200.00) PESOS as actual or compensatory damages; CAIHTE
 - b. THREE HUNDRED THOUSAND (Php300,000.00) PESOS as moral damages;
 - c. THREE HUNDRED THOUSAND (Php300,000.00) PESOS as exemplary damages; and
 - d. ONE HUNDRED THOUSAND (Php100,000.00) PESOS as attorney's fees plus cost of litigation, including monitoring expense, which as of 7 April 2015, amounted to SIXTY-SIX THOUSAND THREE HUNDRED EIGHTYSIX (*sic*) and 58/100 (Php66,386.58) PESOS; and
3. Enjoining or ordering Defendants to cease and desist from publicly performing FILSCAP Musical Compositions unless and until they secure a public performance license from FILSCAP.

SO ORDERED. 29

Aggrieved, Icebergs filed a Petition for Review under Rule 43 of the Rules of Court before the CA.

The Ruling of the CA

In the assailed Decision and Resolution, the CA upheld the ruling of the RTC in full. The CA held:

[A] plain reading of Section 171.6 **30** of the Intellectual Property Code, anyone who plays a sound recording, through any device or process, and makes such sound recording audible in a place where other people "outside the normal circle of a family and that family's closes [*sic*] social acquaintances are or can be present" is considered to be engaged in the public performance of the same. Moreover, the said provision does not qualify that the sound recording should be at the disposal or subject to the will of the one making the same audible in the places aforementioned. And neither does Section 171.6 require that the person or entity making a sound recording audible derive any profit therefrom x x x. **31**

The CA ruled that Icebergs, by playing in its restaurants, more or less, 324 copyrighted musical compositions under FILSCAP's repertoire without the necessary license, committed copyright infringement. **32** The CA likewise ruled that it is immaterial that Icebergs had no control over the songs played on the radio, as Section 171.6 does not distinguish. **33**

The CA likewise held that the RTC correctly ruled that the application of Section 110 of the U.S. Copyright Act and the case of *Twentieth Century Music Corp. v. Aiken*, as raised by Icebergs, should be disregarded as the same "were not duly pleaded and proved during trial." **34**

Finally, the CA noted that the petitioners availed of an improper remedy in appealing the Decision of the RTC. Instead of filing an ordinary appeal under Rule 41 to assail the Decision, which was rendered by the RTC in the exercise of its original jurisdiction, the petitioners erroneously filed a petition for review under Rule 43 of the Rules of Court. **35**

Icebergs filed a Motion for Reconsideration, which was denied by the CA in its Resolution, **36** dated March 18, 2021.

Thus, Icebergs filed the present Petition for Review on *Certiorari* under Rule 45 of the Rules of Court.

The Issue

The sole issue for the Court's resolution is whether Icebergs committed copyright infringement by playing radio broadcasts as background music in its establishments without a license from FILSCAP.

The Arguments of Icebergs

Icebergs claims that it was not engaged in "public performance" under Section 171.6 of the IP Code, as it did not play a sound recording, but merely switched on a radio transmitter, which, for Icebergs, connotes two different ideas. **37** Icebergs asserts that "switching on a radio transmitter" is merely a mechanical act which does not involve any discretion on the part of the person playing the same, while "playing of a sound recording" entails a conscious effort to determine what kind of musical composition is to be played and in what platform. **38**

In addition, Icebergs argues that the application of foreign laws and jurisprudence is warranted by the dearth of domestic jurisprudence on the matter and the principle of reciprocity under Section 3 of the IP Code. Icebergs insists that pursuant to the principle of reciprocity, FILSCAP cannot collect license fees from Icebergs in behalf of United States-based copyright holders in view of the limitations provided for in Section 110 of the United States Copyright Act.

Icebergs likewise assails the award of actual or compensatory damages, moral damages, exemplary damages, attorney's fees, costs of litigation, and monitoring expense, for lack of factual and legal basis and for being arbitrary, unconscionable, and excessive. **39**

The Arguments of FILSCAP

FILSCAP avers that the IP Code provision on what constitutes public performance is clear, as it includes the "making audible of recorded sounds in a setting outside the immediate family circle and the playing, either directly or by means of any device or process of any work that is not a recorded sound or audio-visual work. In either case, the public playing of copyrighted works through the radio falls squarely within these definitions." **40** Thus, FILSCAP claims that there is no ambiguity in Section 171.6 of the IP Code and as such, no other meaning or interpretation should be ascribed to the same. **41**

The Ruling of the Court

The Petition should be denied.

Petitioners availed of the wrong remedy before the CA

At the outset, the Court rules that the CA did not err in holding that the petitioners availed of the wrong remedy when they filed a Petition for Review under Rule 43 of the Rules of Court to assail the RTC Decision. Under Rule 41 of the Rules of Court, the appeal to the CA in cases decided by the RTC in the exercise of its original jurisdiction, such as this case, must be done by way of filing a notice of appeal with the said court.

It is axiomatic that the right to appeal is not a constitutional right but a mere statutory privilege. **42** Thus, parties who seek to appeal must comply with the statutes or rules allowing the said remedy. **43**

Nevertheless, even if this Court were to delve into the merits of this Petition, the same must still be denied.

Applicability of United States Copyright Act and Jurisprudence

Intellectual property right, being primarily a private right, is governed by the law of the country where its enforcement is being sought. **44** Thus, the law applicable to the present case, which involves the enforcement of copyright in the country, is Philippine law, particularly, the IP Code, as well as the treaties on intellectual property rights, to which the Philippines is a party, **45** such as the Berne Convention for the Protection of Literary and Artistic Works (**Berne Convention**).

However, in view of the fact that our copyright laws were patterned after those of the United States, the Court has previously resorted to the decisions of the United States courts to resolve cases involving copyright. **46** This is consistent with the rule in statutory construction that in case of laws adopted from the laws of another country, the judicial construction attached to the source statutes is of authoritative value in the interpretation of the local laws. **47**

In *Carolina Industries, Inc. v. CMS Stock Brokerage, Inc.*, **48** the Court explained that "when a statute has been adopted from another State and such statute has previously been construed by the courts of such State or country, this statute is deemed to have been adopted with the construction so given it." **49**

Icebergs committed copyright infringement

Copyright infringement is a trespass on a private domain owned by the owner of the copyright and, therefore, protected by law. Infringement of copyright consists in the doing by any person, without the consent of the owner of the copyright, of anything the sole right to do belongs to the owner of the copyright. **50**

In *NBI-Microsoft Corporation v. Hwang*, **51** the Court held:

The gravamen of copyright infringement is not merely the unauthorized "manufacturing" of intellectual works but rather the unauthorized performance of any of the acts covered by Sec. 5. Hence, any person who performs any of the acts under Section 5 without obtaining the copyright owner's prior consent renders himself civilly and criminally liable for copyright infringement.

Stated simply, 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 the latter's economic rights. **52** Section 177 of the IP Code enumerates the economic rights of copyright owners:

SECTION 177. Copyright or Economic rights. — Subject to the provisions of Chapter VIII, copyright or economic rights shall consist of the exclusive right to carry out, authorize or prevent the following acts:

177.1 Reproduction of the work or substantial portion of the work;

177.2 Dramatization, translation, adaptation, abridgment, arrangement or other transformation of the work;

177.3 The first public distribution of the original and each copy of the work by sale or other forms of transfer of ownership;

177.4 Rental of the original or a copy of an audiovisual or cinematographic work, a work embodied in a sound recording, a computer program, a compilation of data and other materials or a musical work in graphic form, irrespective of the ownership of the original or the copy which is the subject of the rental;

177.5 Public display of the original or a copy of the work;

177.6 Public performance of the work; and

177.7. Other communication to the public of the work.

These acts, when carried out by another person without the consent of the copyright owner, amount to copyright infringement. However, to constitute infringement, the usurper must have copied or appropriated the original work of the copyright owner; absent such copying, there can be no infringement. **53**

In this case, Icebergs committed copyright infringement when it played in its restaurants FILSCAP's copyrighted musical works without the latter's consent. Through FILSCAP's monitoring operations from 2010 through 2014, it found that Icebergs played more or less 324 songs from its repertoire without a public performance license. **54**

Playing radio broadcast over speakers amounts to public performance

The crux of the controversy is whether playing a radio broadcast over a loudspeaker as background music in a restaurant amounts to copyright infringement.

Icebergs claims that it did not actually play a sound recording under the context of Section 171.6 of the IP Code, but that it only "switched on" a radio transmitter in its

restaurants. **55** Meanwhile, FILSCAP insists that the act of "switching on" radio transmitters falls under the IP Code provision on what constitutes public performance. **56**

In finding Icebergs guilty of copyright infringement, the CA found that Icebergs was engaged in public performance when it made audible through radio devices 324 copyrighted musical compositions which are part of FILSCAP's repertoire, absent the latter's consent. **57**

The Court agrees with the CA's conclusion that Icebergs infringed on the copyright assigned to FILSCAP, specifically, that the right violated by Icebergs was the copyright holder's right to "public performance."

In the recently decided case of *Filipino Society of Composers, Authors, and Publishers, Inc. v. Anrey, Inc.* **58 (Anrey)**, the Court ruled that the act of playing radio broadcasts containing copyrighted music through the use of loudspeakers amounted to public performance, thus:

A "public performance" means:

171.6 "Public performance," in the case of a work other than an audiovisual work, is the recitation, playing, dancing, acting or otherwise performing the work, either directly or by means of any device or process; in the case of an audiovisual work, the showing of its images in sequence and the making of the sounds accompanying it audible, and, **in the case of a sound recording**, making the recorded sounds audible at a place or at places where persons outside the normal circle of a family and that family's closest social acquaintance are or can be present, irrespective of whether they are or can be present at the same place and at the same time, or at different places and/or at different times, and where the performance can be perceived without the need for communication within the meaning of Subsection 171.3. (emphasis not ours)

A "sound recording" means the fixation of sounds of a performance or of other sounds, or representation of sound, other than in the form of a fixation incorporated in a cinematographic or other audiovisual work; while a "fixation" is defined as the embodiment of sounds, or of the representations thereof, from which they can be perceived, reproduced or communicated through a device.

Following a run-down of the above definitions, a sound recording is publicly performed if it is made audible enough at a place or at places where persons outside the normal circle of a family, and that family's closest social acquaintance, are or can be present. The sound recording in this case, is the copyrighted music broadcasted over the radio which Anrey played through speakers loud enough for most of its patrons to hear. But the big question is whether radio reception, is, to begin with, a performance.

We believe that the act of playing radio broadcasts containing copyrighted music through the use of loudspeakers (radio-over-loudspeakers) is in itself, a performance.

In the American case of *Buck v. Jewell-LaSalle Realty Co. (Jewell)*, the respondent, a hotel proprietor, played copyrighted musical compositions received from a radio broadcast throughout the hotel by using public speakers for the entertainment of its guests. ASCAP notified

the hotel of its copyrights and advised that unless a license is obtained, performance of any of its copyrighted musical composition of its members is forbidden. Suits for injunction and damages were brought against the hotel. The hotel argued that radio receiving cannot be held to be performing. The federal court denied relief against ASCAP, but on appeal, the SCOTUS ruled that the act of respondent in playing copyrighted musical compositions received from a radio broadcast throughout the hotel by means of a public speaker system was a "performance" within the meaning of the US Copyright Act of 1909. The court reasoned that a reception of radio broadcast and its translation into audible sound was not a mere playing of the original program, but was a reproduction, since complicated electrical instrumentalities were necessary for its reception and distribution.

Then came the case of *Twentieth Century Music Corp. v. Aiken* (*Aiken*), which temporarily abandoned the concept that radio reception is a performance. In *Aiken*, a restaurant received songs broadcasted in the radio and this was heard all throughout the area using four speakers. The station that broadcasted the songs is licensed by ASCAP but the restaurant did not hold such a license, thus it was sued for copyright infringement. On the question on whether radio reception constituted copyright infringement, the SCOTUS ruled in the negative. It stated that those who listen do not perform, therefore do not infringe. The said court used the analogy that if a radio station "performs" a musical composition when it broadcasts it, then it would require the conclusion that those who listen to the broadcast through the use of radio receivers do not perform the composition.

Finally, the case of *Broadcast Music, Inc. v. Claire's Boutiques, Inc. (Claire's)*, reverted back to the same rationale laid down in *Jewell*. As it stands now, an establishment that plays radio-over-loudspeakers is said to have publicly performed them. In rejecting the conclusions reached in *Aiken*, the SCOTUS ruled in this wise:

Most relevant to the present case, the Supreme Court in *Twentieth Century Music Corp. v. Aiken*, dealt with a restaurant owner who played a radio with four speakers in his restaurant. Defendant Aiken owned a fast-food restaurant where customers usually stayed no more than ten or fifteen minutes. Following *Fortnightly*, the Court considered that the only performance in this situation is initiated by the radio station, and Aiken's largely passive act of turning on a radio was held not to be a performance. Since Aiken did not perform, he did not infringe anyone's copyright by playing his radio in his restaurant. The Court reasoned that a contrary ruling would result in practical problems because of the large number of small business establishments in the United States. As an economic matter, the Court felt that a copyright owner was adequately compensated for his work through his license fee with the radio station.

If *Aiken's* rationale were to apply in our case, the radio playing by Claire's store managers would not be performances and BMI would have no case. Congress, however, rejected *Aiken's* rationale, if not its result, in the Copyright Act of 1976. The drafters defined "perform" and "perform publicly" broadly in 17 U.S.C. § 101:

To "perform" a work means to recite, render, play, dance, or act it, either directly or by means of any device or process x-x-x

To perform or display a work "publicly" means —

- (1) to perform or display it at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered; or
- (2) to transmit or otherwise communicate a performance or display of the work to a place specified by clause (1) or to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times.

Under these particular definitions, the restaurant owner in *Aiken* "performed" the works in question by "playing" them on a device — the radio receiver. Furthermore, the performances were "public" because they took place at a restaurant "open to the public." For the same reasons, *Claire's*, through the actions of its employees, engages in public performances of copyrighted works when it plays the radio during normal business hours.

It should be noted that *Claire's* was decided based on how the present US copyright law defines the term public performance, which is similarly worded to our own definition of the said term. Thus, the intention really is to treat a reception of a radio broadcast containing copyrighted music as a performance.

In the above case, the Court, in citing as basis the 1991 United States Court of Appeals case of *Broadcast Music, Inc. v. Claire's Boutiques* **59 (Claire's Boutiques)**, held that the said case was decided based on how the present United States Copyright Act defines the term public performance, which is similarly worded to our own definition of the said term. Thus, the Court in *Anrey* stated that the intention was to treat a reception of a radio broadcast containing copyrighted music as a performance. **60**

By contrast, Section 171.6 of the IP Code defines "public performance" as follows:

SECTION 171.6. "Public performance," in the case of a work other than an audiovisual work, is the recitation, playing, dancing, acting or otherwise performing the work, either directly or by means of any device or process; in the case of an audiovisual work, the showing of its images in sequence and the making of the sounds accompanying it audible; and, in the case of a sound recording, making the recorded sounds audible at a place or at places where persons outside the normal circle of a family and that family's closest social acquaintances are or can be present, irrespective of whether they are or can be present at the same place and at the same time, or at different places and/or at different times, and where the performance can be perceived without the need for communication within the meaning of Subsection 171.3. (Emphasis supplied)

Meanwhile, Section 202.2 of the IP Code defines a "sound recording" as the fixation of sounds of a performance or of other sounds, or representation of sound, other than in the form of a fixation incorporated in a cinematographic or other audiovisual work.

Following the Court's ruling in *Anrey*, the Court finds that Icebergs' act of playing copyrighted music, albeit through a radio, in its restaurants amounted to a public performance of the said copyrighted music.

FILSCAP's right to communicate to the public

In *Anrey*, the *ponente* filed a Separate Concurring and Dissenting Opinion, to underscore the distinction between public performance and communication to the public. The position of the *ponente* is that the playing of radio receptions of copyrighted musical works *via* a loudspeaker, without the copyright holder's consent, amounts to a violation of the copyright holder's right to communicate the protected musical works to the public.

It must be noted that the United States Copyright Act, which was the basis of the conclusion in the *Anrey* case, does not distinguish public performance from communication to the public, thus:

To "perform" a work means to recite, render, play, dance, or act it, either directly or by means of any device or process or, in the case of a motion picture or other audiovisual work, to show its images in any sequence or to make the sounds accompanying it audible.

xxx xxx xxx

To perform or display a work "publicly" means —

(1) to perform or display it at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered; or

(2) to transmit or otherwise communicate a performance or display of the work to a place specified by clause (1) or to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times.

To repeat, Section 171.6 of the IP Code defines "public performance," in the case of a sound recording, as "making the recorded sounds audible at a place or at places where persons outside the normal circle of a family and that family's closest social acquaintances are or can be present, irrespective of whether they are or can be present at the same place and at the same time, or at different places and/or at different times, and where the performance can be perceived without the need for communication within the meaning of Subsection 171.3."

On the other hand, under Section 171.3 of the IP Code, as amended by Republic Act No. 10372, **61** "communication to the public" is characterized as:

[A]ny communication to the public, including broadcasting, rebroadcasting, retransmitting by cable, broadcasting and retransmitting by satellite, and includes the making of a work available to the public 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. (Emphasis supplied)

Moreover, Section 202.7 of the IP Code defines broadcasting as a means of communication to the public by wireless means:

SECTION 202.7. "Broadcasting" means the transmission by wireless means for the public reception of sounds or of images or of representations thereof; such transmission by satellite is also "broadcasting" where the means for decrypting are provided to the public by the broadcasting organization or with its consent.

As can be gleaned from the above, unlike the United States Copyright Act, our own IP Code treats "public performance" and "communication to the public" separately. Thus, 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. This distinction was not accounted for in *Claire's Boutiques*, which was the basis for the conclusion in *Anrey*.

In the same vein, the IP Code recognizes the following rights of performers, producers of sounds recordings, and broadcasting organizations:

SECTION 209. *Communication to the Public.* — If a sound recording published for commercial purposes, or a reproduction of such sound recording, is used directly for broadcasting or for other communication to the public, or is publicly performed with the intention of making and enhancing profit, a single equitable remuneration for the performer or performers, and the producer of the sound recording shall be paid by the user to both the performers and the producer, who, in the absence of any agreement shall share equally.

Thus, as aptly pointed out by Associate Justice Alfredo Benjamin S. Caguioa (**Associate Justice Caguioa**) in his Separate Concurring Opinion in *Anrey*, under the aforementioned provision, performers and producers of sound recordings are entitled to remuneration for three distinct acts: (1) when the sound recording is published for commercial purposes; or (2) when the reproductions of such sound recordings are (a) used directly for broadcasting or for other communication to the public (right to communicate to the public); or (b) when the sound recording is publicly performed with the intention of making and enhancing profit (right to public performance). This bolsters the position that "public performance" and "communication to the public" pertain to two distinct and separate acts. The key distinction between the two acts lies in the **method** that the copyrighted music are made available to the public. **62** Under Section 171.6 of the IP Code, in order to constitute "public performance," the same must be "perceivable without the need for communication within the meaning of Subsection 171.3." On the other hand, if the performance can be perceived through the use of "wire or any wireless means," then the performance would be a "communication to the public."

Moreover, the Berne Convention likewise distinguishes public performance from communication to the public:

Article 11

I. Right of Public Performance and of communication to the public of a performance x x x.

- (1) Authors of dramatic, dramatico-musical and musical works shall enjoy the exclusive right of authorizing:
 - i. The public performance of their works, including such public performance by any means or process;
 - ii. Any communication to the public of the performance of their works. x x x.

Article 11bis

I. Broadcasting and other wireless communications, public communication of broadcast by wire or rebroadcast, public communication of broadcast by loudspeaker or analogous instruments x x x.

(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.

Adopted in 1886, the Berne Convention deals with the protection of works and the rights of their authors, and also gives the creators a degree of control with regard to how their works are used, by whom, and on what terms. **63** The Philippines became a party to the Berne Convention in 1951. **64**

Icebergs made the copyrighted music audible to its customers through radios in its restaurants. This act falls squarely within Subsection 171.3 of the IP Code on "communication to the public," as it constitutes playing sound recordings "by wire or wireless means." Under this method of making music audible to the public, Section 171.6 can no longer apply as the latter specifies that "the performance can be perceived *without the need for communication within the meaning of Subsection 171.3.*" Thus, the playing of a radio broadcast through loudspeakers cannot be considered a "public performance."

However, applying the Court's ruling in *Anrey*, and pursuant to the time-honored principle of *stare decisis*, the Court rules that the playing of radio receptions of musical works through a loudspeaker amounts to public performance. Thus, Icebergs committed copyright infringement.

Having settled the key issue of copyright infringement, there appears a need to further discuss the concept of fair use as applied in this case, even if the same was not raised as an issue by the parties, in order to arrive at a just decision. A strict application of the provisions on fair use in our IP Code may hinder or even defeat a core purpose to its institution. The Court must not only look at the potential injuries to the copyright owner, but must likewise balance this with the inherent social purpose of our laws.

Fair use

Iceberg's use of FILSCAP's copyrighted songs do not constitute fair use. To repeat, copyright is primarily concerned with the advancement of a common social good. **65** To this end, copyright protection is not absolute. The IP Code provides the limitations on copyright, one of which is the doctrine of fair use as embodied in Section 185:

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. Decompilation, which is understood here to be the reproduction of the code and translation of the forms of the computer program to achieve the inter-operability of an independently created computer program with other

programs may also constitute fair use. 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.

In *ABS-CBN Corporation v. Gozon (Gozon)*, **66** the Court defined fair use as follows:

Fair use is a privilege to use the copyrighted material in a reasonable manner without the consent of the copyright owner or as copying the theme or ideas rather than their expression. Fair use is an exception to the copyright owner's monopoly of the use of the work to avoid stifling "the very creativity which that law is designed to foster." (Citations omitted)

The doctrine of fair use was first recognized in the case of *Folsom v. Marsh*, **67** which was decided by the United States Circuit Court for the District of Massachusetts in 1841. In that case, it was held that in resolving questions of fair use, the court must "look to the nature and objects of the selections made, the quantity and value of the materials used, and the degree in which the use may prejudice the sale, or diminish the profits, or supersede the objects of the original work." **68** The fair use doctrine was then codified in the U.S. Copyright Act of 1976. **69**

Section 107 of the U.S. Copyright Act enumerates four factors that courts must use in evaluating whether fair use applies:

Section 107. Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include —

- (1) The purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) The nature of the copyrighted work;
- (3) The amount and substantiality of the portion used in relation to the copyrighted work; and
- (4) The effect of the use upon the potential market for or value of the copyrighted work.

Similarly, the Court in *Gozon*, **70** had occasion to discuss the four factors to be considered in determining fair use:

Determining fair use requires application of the four-factor test. Section 185 of the Intellectual Property Code lists four (4) factors to determine if there was fair use of a copyrighted work:

- 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.

First, the purpose and character of the use of the copyrighted material must fall under those listed in Section 185, thus: "criticism, comment, news reporting, teaching including multiple copies for classroom use, scholarship, research, and similar purposes." The purpose and character requirement is important in view of copyright's goal to promote creativity and encourage creation of works. Hence, commercial use of the copyrighted work can be weighed against fair use.

The "transformative test" is generally used in reviewing the purpose and character of the usage of the copyrighted work. This court must look into whether the copy of the work adds "new expression, meaning or message" to transform it into something else. "Meta-use" can also occur without necessarily transforming the copyrighted work used.

Second, the nature of the copyrighted work is significant in deciding whether its use was fair. If the nature of the work is more factual than creative, then fair use will be weighed in favor of the user.

Third, the amount and substantiality of the portion used is important to determine whether usage falls under fair use. An exact reproduction of a copyrighted work, compared to a small portion of it, can result in the conclusion that its use is not fair. x x x.

Lastly, the effect of the use on the copyrighted work's market is also weighed for or against the user. If this court finds that the use had or will have a negative impact on the copyrighted work's market, then the use is deemed unfair. aDSIHc

Based on the above considerations, the presence of profit does not automatically negate the application of the fair use doctrine. There are other factors that must be looked into in deciding whether the fair use doctrine applies. Nevertheless, the presence of profit generally presupposes the existence of harm to the potential market for the creator's copyrighted work under the fourth factor in determining fair use. This was elaborated by the United States Court of Appeals in *Sony Corp. of America v. Universal City Studios, Inc.*, **71** where it was held that "every commercial use of copyrighted material is presumptively an unfair exploitation of the monopoly privilege." **72**

However, in the United States Supreme Court case of *Harper & Row, Publishers, Inc. v. Nation Enterprises*, **73** the Court tempered the heavy assumption of exploitation and held that "[t]he fact a publication was commercial as opposed to nonprofit is a separate factor that *tends to weigh against a finding of fair use.*" **74** Further, in the same case, it was held that the fourth factor, or the factor of harm to the potential market, is "undoubtedly the single most important" of all the factors. **75** This is because copyright was developed from the need to protect the moral and economic rights of creators.

In our IP Code, the fourth factor in determining fair use, *i.e.*, the effect of use upon the potential market for or the value of the copyrighted work, considers the economic or commercial benefits or disadvantages brought about by the alleged

infringement to the original owner of the work. This concept was illustrated by the United States Court of Appeals in *Ty, Inc. v. Publications International*, **76** in this wise:

We may say that copying that is complementary to the copyrighted work (in the sense that nails are complements of hammers) is fair use, but copying that is a substitute for the copyrighted work (in the sense that nails are substitutes for pegs or screws), or for derivative works from the copyrighted work x x x is not fair use.

xxx xxx xxx

Complementary copying does not impair the potential market or value of the copyrighted work insofar as it criticizes the work, which is the opposite of taking a free ride on its value.

Where the profit generated by the alleged infringement is what the copyright owner or original creator could have made, there can be no fair use. But where the benefits are merely complementary or incidental, fair use may properly be considered.

Based on the foregoing disquisitions, using copyrighted music *via* radio broadcast played through loudspeakers, as background music in restaurants for the entertainment of customers and for the enhancement of their dining experience, falls outside the ambit of fair use, and thus amounts to copyright infringement. Allowing these businesses to profit from the copyrighted works of artists without compensating them or their assignees would seriously injure the market of the copyright holders.

The small business exemption

Be that as it may, a distinction should be made between the big businesses, such as the Icebergs restaurants, and the small businesses such as small eateries, canteens, *carinderias*, food carts, and the like. The Court should not ignore the far-reaching consequences that the Court's ruling in this case may have on these small businesses if no such distinction is made. If the Court makes a sweeping ruling that all those in the position of Icebergs are copyright infringers, there would be a ripple effect such that all businesses, including small ones, where it could hardly be said that ambience is a consideration for customers, which play music through radios, would also be subject to suit for copyright infringement.

The "small business exemption rule" finds basis in Section 110 (5) of the United States Copyright Act, as amended by the Fairness in Music Licensing Act of 1998 (**FMLA**), which provides:

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

xxx xxx xxx

(5)

(A) Except as provided in subparagraph (B), communication of a transmission embodying a performance or display of a work by the public reception of the transmission on a single receiving apparatus of a kind commonly used in private homes, unless —

(i) A direct charge is made to see or hear the transmission; or

(ii) The transmission thus received is further transmitted to the public;

(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 audiovisual devices, of which not more than 1 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 transmissions 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. **77**

The above-quoted provision allows owners of "Mom and Pop" establishments to play music without incurring liability for copyright infringement. **78** This exemption excludes from liability for infringement those transmissions received by a single apparatus of a kind commonly used in the confines of a private home, provided there is no direct charge to see or hear the transmission, and that the transmission is not further transmitted to the public. **79**

To come under the "small business exemption" rule, an establishment must meet the following criteria: (1) the establishment must be a small commercial establishment; (2) the establishment must not make a "direct charge" to hear the music; (3) the establishment must employ a "single receiving apparatus of a kind commonly used in private homes"; and (4) "the performances must not be further transmitted to the public." **80** (Citations omitted)

The United States Congress explained the rationale behind the small business exemption rule:

Its purpose is to exempt from copyright liability anyone who merely turns on, in a public place, an ordinary radio or television receiving apparatus of a kind commonly sold to members of the public for private use.

The basic rationale of this clause is that the secondary use of the transmission by turning on an ordinary receiver in public is so remote and minimal that no further liability should be imposed. In the vast majority of these cases no royalties are collected today, and the exemption should be made explicit in the statute. **81**

The importance of the small business exemption rule was further explained in the responses to the Written Questions of the World Trade Organization (**WTO**) Panel in connection with the dispute between European Communities and the United States with regard to the alleged inconsistencies of the United States Copyright Act with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights:

With respect to 110(5)(A), the record is clear that Congress was concerned with small 'mom and pop' businesses. Small businesses play a particularly important role in the American social fabric. They foster local values and innovation and experimentation in the economy. Small businesses also create a disproportionately greater number of economic opportunities for women, minorities, immigrants, and those formerly on public assistance, and thus are an essential mechanism by which millions enter the economic and social mainstream. **82** ATICcS

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. **83** 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. **84**

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. **85** 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. **86**

The third requirement is that the establishment must use a single receiving apparatus of a kind commonly used in private homes. **87** 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. **88**

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. **89**

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

In light of the foregoing, a similar set of exemptions for small businesses in the Philippines should be considered, following the "three-step test" as proposed by Associate Justice Caguioa. **90** The three-step test is a clause that provides for three conditions to the limitations and exceptions of a copyright holder's rights, establishing the legal parameters for reproducing work. **91** Thus, the three-step test provides the following exemptions to the copyright holders' rights, which 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.

The three-step test first emerged at the 1967 Stockholm Berne Convention Revision Conference, and was codified in Article 9.2 of the Berne Convention. **92** It later on became an integral part of several international agreements, particularly in Article 13 of the Agreement on Trade-Related Aspects of International Property Rights (**TRIPS**), and Article 10 of the WIPO Copyright Treaty (**WCT**).

Article 9 (2) of the Berne Convention provides:

Article 9 (2). 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.

On the other hand, Article 13 of the TRIPS states:

Article 13. 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.

Finally, Article 10 of the WCT states:

- (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.

Based on the foregoing, member states, in imposing limitations on the rights of copyright holders and allowing small businesses to exploit their creations, must adhere to the three-step test. As succinctly discussed by Justice Caguioa in his Concurring Opinion, the proposed small business exemption pertains to smaller commercial establishments that are unlikely to significantly impact the market for copyrighted work, and thus, the small business exemption must concentrate on the establishment's size, type, usage, and the manner in which the 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). **93** Thus, the small business exemption should carefully balance the interests of the copyright holders as well as the small business establishments.

Ultimately, the objective of the three-step test is to ensure that the right of the copyright holders are protected, and, at the same time, the right of small businesses to use their creations in accordance with the limitations set forth in the three-step test. As the three-step test was meant to serve as a guide to national legislators when it was first formulated in 1967, **94** the Congress, in its bid to fill the gap in our current copyright laws, should consider the three-step test in order 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." **95** ETHIDa

Remedies for infringement

As an assignee of copyright, FILSCAP is entitled to all the rights and remedies which the assignor had with respect to the same. Thus, FILSCAP has the right to be compensated for the communication to the public of copyrighted musical works under its repertoire. Section 216 of the IP Code provides for the following remedies available to copyright owners or holders in case of infringement:

SECTION 216.1. *Remedies for Infringement.* — Any person infringing a right protected under this law shall be liable:

- (a) To an injunction restraining such infringement. The court may also order the defendant to desist from an infringement, among others, to prevent the entry into the channels of commerce of imported goods that involve an infringement, immediately after customs clearance of such goods.
- (b) To pay the copyright proprietor or his assigns or heirs such actual damages, including legal costs and other expenses, as he may have incurred due to the infringement as well as the profits the infringer may have made due to such infringement, and in proving profits the plaintiff shall be required to prove sales only and the defendant shall be required to prove every element of cost which he claims, or, in lieu of actual damages and profits, such damages which to the court shall appear to be just and shall not be regarded as penalty: *Provided*, That the amount of damages to be awarded shall be doubled against any person who:

- (i) Circumvents effective technological measures; or
- (ii) Having reasonable grounds to know that it will induce, enable, facilitate or conceal the infringement, remove or alter any electronic rights management information from a copy of a work, sound recording, or fixation of a performance, or distribute, import for distribution, broadcast, or communicate to the public works or copies of works without authority, knowing that electronic rights management information has been removed or altered without authority.

The RTC directed the petitioners to pay FILSCAP P627,200.00 as actual or compensatory damages, P100,000.00 as attorney's fees plus cost of litigation, including monitoring expense in the amount of P66,386.58, as well as moral and exemplary damages in the amount of P300,000.00 each. **96**

Having established that Icebergs committed copyright infringement, FILSCAP is entitled to be compensated in the form of actual damages pursuant to Section 216.1 of the IP Code.

Article 2199 of the Civil Code of the Philippines (**Civil Code**) provides:

Article 2199. Except as provided by law or by stipulation, one is entitled to an adequate compensation only for such pecuniary loss suffered by him as duly proved. Such compensation is referred to as actual or compensatory damages.

Actual damages are compensation for an injury that will put the party in the position where it was before the injury; it pertains to the injuries or losses that are actually sustained and susceptible of measurement. **97** However, to claim actual or compensatory damages, the party must first prove the loss actually sustained. Basic is the rule that to recover actual damages, not only must the amount of loss be capable of proof; it must also be actually proven with a reasonable degree of certainty, premised upon competent proof or the best evidence obtainable. **98**

Since actual damages are awarded to compensate for a pecuniary loss, the injured party is required to prove two things: (1) the fact of injury or loss; and (2) the actual amount of loss with reasonable degree of certainty premised upon competent proof and on the best evidence obtainable. **99**

In the present case, the entitlement of FILSCAP to compensation for the use of copyrighted musical works in its repertoire and Icebergs' refusal to pay the same were duly proven. Evidently, FILSCAP was deprived of the license fees that Icebergs should have paid had it secured the necessary license from FILSCAP from 2010 to 2014.

To prove the amount of the license fees due to FILSCAP, it offered, among others, the testimony of its Licensing Manager, Ceasar M. Apostol (**Apostol**), as well as the Assessment for Public Performance License that Apostol prepared, which the RTC found to be sufficient to establish the amount of license fees that the petitioners should have paid to FILSCAP. **100**

The Court finds no reason to disturb the RTC's findings. The issue on the amount of actual damages is a factual question that, subject to recognized exceptions, none of which obtains in this case, this Court may not resolve in a Rule 45 petition. **101**

FILSCAP was likewise awarded exemplary damages in the amount of P500,000.00 by way of example or correction for the public and to deter others from publicly playing copyrighted musical works in their establishments without a public performance license. **102** The purpose of exemplary damages is to serve as a deterrent to future and subsequent parties from the commission of a similar offense. **103**

To be awarded exemplary damages, the following requisites must concur:

- (1) They may be imposed by way of example in addition to compensatory damages, and only after the claimant's right to them has been established;
- (2) That they cannot be recovered as a matter of right, their determination depending upon the amount of compensatory damages that may be awarded to the claimant; and
- (3) The act must be accompanied by bad faith or done in a wanton, fraudulent, oppressive or malevolent manner. **104**

The Court finds that the award of exemplary damages is also proper. It must be noted that FILSCAP sent Icebergs several demand letters from 2010 to 2014, which all fell on deaf ears. This demonstrates Iceberg's wanton disregard of its duty to secure a license from FILSCAP. Nevertheless, the Court reduces the amount of the exemplary damages awarded to P100,000.00.

The award of attorney's fees is also warranted, pursuant to Section 216.1 (b) of the IP Code, which entitles the copyright owner to legal costs and other expenses, as he may have incurred due to the infringement. It is clear that FILSCAP was compelled to bring suit in order to protect its rights. FILSCAP presented receipts for its legal expenses that it incurred in connection with the case. **105** Thus, the award of attorney's fees is justified.

As for the award of moral damages, the Court deletes the same for lack of basis.

Article 2217 of the Civil Code provides:

Article 2217. Moral damages include physical suffering, mental anguish, fright, serious anxiety, besmirched reputation, wounded feelings, moral shock, social humiliation, and similar injury. Though incapable of pecuniary estimation, moral damages may be recovered if they are the proximate result of the defendant's wrongful act or omission.

An award of moral damages must be anchored on a clear showing that the party claiming the same actually experienced mental anguish, besmirched reputation, sleepless nights, wounded feelings, or other similar injuries. **106**

It must be noted that a juridical person, such as FILSCAP, is generally not entitled to moral damages because, unlike a natural person, it cannot experience physical suffering or such sentiments as wounded feelings, serious anxiety, mental anguish, or moral shock. **107** It is true that the Court has previously carved out narrow exceptions to such rule, such as in cases of libel **108** or in cases of gross negligence committed against a corporation. **109** No exception is obtaining in this case.

Finally, the monetary award shall earn interest at the rate of six percent (6%) *per annum* from the finality of this judgment until its full satisfaction, in accordance with the guidelines established in *Lara's Gifts & Decors, Inc. v. Midtown Industrial Sales, Inc.* **110**

WHEREFORE, the Petition for Review on *Certiorari* is **DENIED**. The Decision, dated February 6, 2020, and Resolution, dated March 18, 2021, of the Court of Appeals in CA-G.R. SP No. 159124, are **AFFIRMED WITH MODIFICATIONS**.

Icebergs Food Concepts, Inc. is **ORDERED** to pay the Filipino Society of Composers, Authors and Publishers, Inc. the amount of P627,000.00 as actual damages representing unpaid license fees, P100,000.00 as exemplary damages, and P100,000.00 as attorney's fees. These amounts shall be subject to interest at the rate of six percent (6%) *per annum* from date of finality of this Decision until full satisfaction.

SO ORDERED.

*Inting, Zalameda, * and Gaerlan, JJ., concur.*

Caguioa, J., see concurring opinion.

Separate Opinions

CAGUIOA, J., concurring:

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 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]."**

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

xxx xxx xxx

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 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.

xxx xxx xxx

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

xxx xxx xxx

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 11bis.** For example, a broadcasting organisation broadcasts a chamber concert. Article 11bis 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 11bis, 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 TIADCC

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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 11bis — 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 11bis 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."

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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 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.

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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; cSED T
- (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 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.

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**

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. AIDSTE

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:

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- (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 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 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. SDAaTC

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

Footnotes

* Designated additional member per Raffle, dated January 18, 2023, in lieu of Justice Japar B. Dimaampao, who took no part due to prior participation in the Court of Appeals.

1. *Rollo*, Vol. 1, pp. 11-44.
2. *Id.* at 47-64. Penned by Associate Justice Louis P. Acosta and concurred in by Associate Justices Japar B. Dimaampao (now a Member of the Court) and Eduardo B. Peralta, Jr.
3. *Id.* at 66-67.
4. *Id.*, Vol. 2, pp. 590-607. Penned by Judge Arthur O. Malabaguio.
5. *Id.*, Vol. 1, pp. 47-63, CA Decision.
6. *Id.* at 48.
7. *Id.*
8. *Id.*

9. *Id.*
10. *Id.* at 49.
11. *Id.*
12. *Id.*
13. *Id.* at 190-206.
14. Approved on June 6, 1997.
15. *Rollo*, Vol. I, p. 201.
16. *Id.* at 49.
17. *Id.*, Vol. 2, at 586-589.
18. *Id.* at 587.
19. *Id.*
20. *Id.* at 588.
21. *Id.* at 615.
22. *Id.* at 627, Memorandum.
23. *Id.* at 596, RTC Decision.
24. *Id.*
25. *Id.*
26. *Id.* at 590-607.
27. *Id.* at 600, 603
28. *Id.* at 605.
29. *Id.* at 607.
30. Section 171.6. "Public performance," in the case of a work other than an audiovisual work, is the recitation, playing, dancing, acting or otherwise performing the work, either directly or by means of any device or process; in the case of an audiovisual work, the showing of its images in sequence and the making of the sounds accompanying it audible; and, in the case of a sound recording, making the recorded sounds audible at a place or at places where persons outside the normal circle of a family and that family's closest social acquaintances are or can be present at the same place and at the same time, or at different places and/or at different times, and where the performance can be perceived without the need for communication within the meaning of subsection 171.3.
31. *Rollo*, Vol. 1, p. 57.
32. *Id.*
33. *Id.* at 57-58.
34. *Id.* at 58.
35. *Id.* at 62-63.
36. *Id.* at 66-67.
37. *Id.* at 24, Petition for Review.

38. *Id.*
39. *Id.* at 39-42.
40. *Id.* at 109, Comment/Opposition.
41. *Id.*
42. *ABS-CBN Publishing, Inc. v. Director of the Bureau of Trademarks*, 833 Phil. 791, 799 (2018), citing *Bañez vs. Social Security System*, 739 Phil. 148, 154 (2014).
43. *Id.*
44. *Filipino Society of Composers, Authors and Publishers, Inc. v. Anrey, Inc.*, G.R. No. 233918, August 9, 2022.
45. See Intellectual Property Office of the Philippines, *Treaties*, <https://www.ipophil.gov.ph/reference/philippine-acceded-intellectual-property-treaties/> (visited October 25, 2022).
46. *ABS-CBN Corp. v. Gozon*, 755 Phil. 709 (2015).
47. *Wise & Co. v. Meer*, 78 Phil. 655, 670 (1947).
48. 186 Phil. 492, 522 (1980).
49. *Id.*
50. *Columbia Pictures, Inc. v. Court of Appeals*, 329 Phil. 875, 926 (1996).
51. 499 Phil. 423, 438 (2005).
52. *Olaño v. Lim Eng Co*, 783 Phil. 234, 250 (2016).
53. See 18 AM JUR 2D §101 citing *Weitzenkorn v. Lesser*, 40 Cal 2d 778, 256 P2d 947 (1953).
54. *Rollo*, Vol. 1, p. 48, CA Decision.
55. *Id.* at 27, Petition for Review.
56. *Id.* at 111, Comment/Opposition.
57. *Id.* at 57.
58. G.R. No. 233918, August 9, 2022.
59. 949 F.2d 1482 (7th Cir. 1991).
60. *Id.*
61. Entitled "AN ACT AMENDING, CERTAIN PROVISIONS OF REPUBLIC ACT NO. 8293, OTHERWISE KNOWN AS THE 'INTELLECTUAL PROPERTY CODE OF THE PHILIPPINES,' AND FOR OTHER PURPOSES," approved February 28, 2013.
62. J. Singh, Separate Concurring Opinion in *Filipino Society of Composers, Authors, and Publishers, Inc. v. Anrey*, G.R. No. 233918, August 9, 2022.
63. Berne Convention for the Protection of Literary and Artistic Works, September 8, 1886 (visited December 12, 2022).
64. *Republic v. Heirs of Tupaz IV*, G.R. No. 197335, September 7, 2020.
65. *Broadcast Music, Inc. v. Claire's Boutiques*, 754 F. Supp. 1324 (1990).

66. *Supra* note 45.
67. 9 F. Cas. 342 (C.C.D. Mass. 184).
68. *Id.*
69. 17 USC §101.
70. *Supra* note 45, at 758.
71. *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).
72. *Id.*
73. 471 U.S. 417 (1984).
74. *Id.*
75. *Id.*
76. 292 F.3d 512 (7th Cir. 2002).
77. 17 USCS § 110.
78. Peggy H. Luh, *Pay or Don't Play: Background Music and the Small Business Exemption of Copyright Law*, 16 Loy. L.A. Ent. L. Rev. 711, p. 715 (1996) <<https://digitalcommons.lmu.edu/elr/voll6/iss3/4>> (last accessed October 25, 2022).
79. *Id.*
80. *Id.*
81. H.R. Rep. No. 94-1476 (1976), p. 87.
82. Panel Report, United States — Section 110 (5) of the U.S. Copyright Act, WT/DS160/R (June 15, 2000), p. 87 <https://docs.wto.org/dol2fe/Pages/FE_Search/MultiDDFDocuments/55222/Q:WT/DS/160R-00.pdf;Q:WT/DS/160R-01.pdf> [hereinafter, Panel Report] (visited October 25, 2022).
83. H.R. Rep. No. 1733, 94th Cong., 2d Sess. 75 (1976).
84. *Pay or Don't Play: Background Music and the Small Business Exemption of Copyright Law*, *supra* note 77, at 719-720.
85. *Cass County Music Co. v. Muedini*, 55 F.3d 263 (7th Cir. 1995).
86. *Pay or Don't Play: Background Music and the Small Business Exemption of Copyright Law*, *supra* note 77, at 724-725.
87. *Id.*
88. *Id.*
89. *Id.* at 730.
90. J. Caguioa, Concurring Opinion, dated April 10, 2023.
91. Rachel Marusak Hermann. "IP Experts Focus on 3-Step Test In Copyright, Discuss Way Forward" Intellectual Property Watch (December 2011) <<https://www.ip-watch.org/2011/12/21/ip-experts-focus-on-3-step-test-in-copyright-debate-way-forward/>> (visited April 11, 2023).
92. Geiger, Senftleben, and Gervais. "Understanding the 'Three-Step Test'" (January 2015)

<https://www.researchgate.net/publication/298519957_Understanding_the_three-step_test> (visited April 11, 2023).

93. J. Caguioa, Concurring Opinion, p. 11.
94. *Id.* at 7.
95. *Id.* at 15.
96. *Rollo*, Vol. 2, p. 607, RTC Decision.
97. *International Container Terminal Services, Inc. v. Chua*, 730 Phil. 475, 489 (2014).
98. *Id.*
99. *Yamauchi v. Suñiga*, 830 Phil. 122, 134 (2018).
100. *Rollo*, Vol. 2, p. 605, RTC Decision.
101. *City of Dagupan v. Maramba*, 738 Phil. 71, 96 (2014).
102. *Rollo*, Vol. 1, p. 202, Complaint.
103. *Tankeh v. Development Bank of the Philippines*, 720 Phil. 641, 692 (2013).
104. *Francisco v. Ferrer, Jr.*, 405 Phil. 741, 750 (2001).
105. *Rollo*, Vol. 1, pp. 381-382, Formal Offer of Evidence.
106. *De Guzman v. Tumolva*, 675 Phil. 808, 820 (2011).
107. *Filipinas Broadcasting Network, Inc. v. Ago Medical and Educational Center-Bicol Christian College of Medicine*, 489 Phil. 380, 399 (2005).
108. *Id.*
109. *Simex International Incorporated v. Court of Appeals*, 262 Phil. 387 (1990).
110. G.R. No. 225433, Decision dated August 28, 2019, and Resolution dated September 20, 2022.

CAGUIOA, J., concurring:

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.
5. *Id.*
6. G.R. No. 222537, *COSAC, Inc. v. FILSCAP*, *supra* note 3 at 34.
7. *Ponencia*, p. 16.
8. J. Caguioa, Separate Concurring Opinion in *FILSCAP v. Anrey*, *supra* note 2 at 44-51. Citations omitted.
9. See *ponencia*, p. 7.
10. J. Caguioa, Separate Concurring Opinion in *FILSCAP v. Anrey*, *supra* note 2 at 32. Citations omitted.
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.
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=53&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.
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.
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.

23. See *id.* at 55.

24. See *id.* at 67.