10: The Rental Right

> **Article 11 Rental Rights**
>
> In respect of at least computer programs and cinematographic works, a Member shall provide authors and their successors in title the right to authorize or to prohibit the commercial rental to the public of originals or copies of their copyright works. A Member shall be excepted from this obligation in respect of cinematographic works unless such rental has led to widespread copying of such works which is materially impairing the exclusive right of reproduction conferred in that Member on authors and their successors in title. In respect of computer programs, this obligation does not apply to rentals where the program itself is not the essential object of the rental.

1. Introduction: terminology, definition and scope

A rental right, in general, is a subset of the right of distribution that is more commonly recognized in a variety of different forms in domestic and international agreements. Broadly speaking, the distribution right encompasses rental, lending and resale rights. Under a rental right, the copyright holder may collect royalties from third parties engaged in the commercial rental of their copyrighted works. TRIPS establishes a rental right in respect of computer programs and cinematographic works. Under the terms of the Agreement, owners of these two categories of works must be granted the right to "authorize or prohibit the commercial rental to the public of originals or copies of their copyright works." With respect to cinematographic works, a Member may choose not to grant a rental right unless commercial rental has led to widespread copying such that the exclusive right of the owner to reproduce the work is materially impaired. The rental right is also not applicable to objects that contain computer programs, where the program is not itself the essential object of the rental.

The brief history of this provision suggests that its inclusion in TRIPS was a significant, if challenging, accomplishment.

2. History of the provision

2.1 Situation pre-TRIPS

Many countries already had right of distribution in place prior to the TRIPS negotiations. For instance, the U.S. copyright law recognizes rental rights in phonorecords and computer programs notwithstanding the first sale doctrine (see Section 3, below). The prohibition of the unauthorized rental of these works is accompanied by several conditions and exceptions. With regard to phonorecords, (i) the owner of the phonorecord must have disposed of it without authorization from the owners of the copyright in the sound recording and any musical works embodied in the phonorecord; (ii) such disposition must be for the purposes of direct or indirect commercial advantage and; (iii) such disposition must be "by rental, lease, or lending, or by any other act or practice in the nature of rental, lease or lending."[122] With regard to computer programs, the prohibition on unauthorized rental is inapplicable to (i) "a computer program which is embodied in a machine or product and which cannot be copied during the ordinary operation or use of the machine or product"[123]; (ii) "a computer program embodied in or used in conjunction with a limited purpose computer that is designed for playing video games and may be designed for other purposes"[124]; (iii) "the lending of a computer program for non-profit purposes by a non-profit library."[125] Transfers by non-profit educational institutions are also exempted.

Another example is the EU, which in 1992 adopted a Rental Right and Lending Right Directive[126] ("EC Rental Right Directive") regulating the rental, lease, or lending of all types of copyrighted works. The EC Rental Right Directive establishes an exclusive right to authorize or prohibit such rental or lending of all works except buildings and works of applied art. The EC Software Directive also provides a right to control the rental of computer programs.[127]

2.2 Negotiating history

2.2.1 The Anell Draft

(Rental Rights)

"3A.2.1 [At least in the case of computer programs [, cinematographic works] [and musical works,]] PARTIES shall provide authors and their successors in title the [right to authorise or prohibit the rental of the originals or copies of their copyright works] [or, alternatively,] [the right to obtain an equitable remuneration] [corresponding to the economic value of such a use] [whenever originals or copies are rented or otherwise made available against payment]. [It is understood that granting to authors the right to authorise or prohibit the rental of their works for

[122] 17 U.S.C. § 109(b)(1)(A).

[123] 17 U.S.C. § 109(b)(1)(B)(i).

[124] *Id.* at § 109(b)(1) (B)(ii).

[125] *Id.* at § 109(b)(2)(A).

[126] EC Directive on Rental Right and Lending Right and on Certain Rights Related to Copyright in the Field of Intellectual Property, Council Directive 92/100 of 19 November 1992 O.J. (L346) 61.

[127] See EC Software Directive, Article 4(c).

a certain period of time and to claim an equitable remuneration for the remaining period is sufficient to fulfil this provision.]

3A.2.2 For the purposes of the previous point, rental shall mean the disposal [for a limited period of time] of the possession of the original or copies for [direct profit-making purposes] [direct or indirect commercial advantage].

3A.2.3 There shall be no obligation to provide for a rental right in respect of works of applied art or architecture."[128]

The Anell Draft also contained a provision dealing more generally with distribution and importation rights:

"(Right of Importation and Distribution)

3A.1 Economic rights shall include:

3A.1.1 the right to import or authorize the importation into the territory of the PARTY of lawfully made copies of the work as well as the right to prevent the importation into the territory of the PARTY of copies of the work made without the authorization of the right-holder;

3A.1.2 the right to make the first public distribution of the original or each authorized copy of a work by sale, rental, or otherwise except that the first sale of the original or such copy of, at a minimum, a computer program shall not exhaust the rental or importation right therein.1 [note]

[note] 1 It is understood that, unless expressly provided to the contrary in this agreement, nothing in this agreement shall limit the freedom of PARTIES to provide that any intellectual property rights conferred in respect of the use, sale, importation and other distribution of goods are exhausted once those goods have been put on the market by or with the consent of the right holder."

Prior to the TRIPS negotiations (see situation pre-TRIPS, above), some countries already recognized a right of distribution for copyright owners, but there had never been an explicit global agreement on such a right,[129] and countries have historically adopted a variety of approaches to the notion of a discrete distribution right. It is clear from the above draft provisions that some delegations sought to introduce, on the international level, a general right of importation and distribution of copyrighted material. This would necessarily have implied an agreement on the controversial issue of exhaustion, because the right to import and distribute certain copyrighted works is usually exhausted after the first sale of the particular product.[130] Delegations were unable to reach agreement in this respect. However, they did agree on a subset of the distribution right, i.e. the rental right; not as to copyrighted works in general, but as to two categories, namely computer programs and cinematographic works. In comparison to a general right of importation and distribution, this rental right is therefore limited. It is designed to give owners of computer programs the right to control the rental of their works and sets up a conditional obligation for Members to recognize a rental right in

[128] MTN.GNG/NG11/W/76, 23 July 1990.

[129] The WCT introduced a distribution right for literary and artistic works. See WCT, Article 6(1).

[130] See Section 3, below. For a detailed analysis of the principle of exhaustion (or "first-sale-doctrine"), see Chapter 5.

respect of audiovisual works. The Brussels Draft represented the first step into this direction.

2.2.2 The Brussels Draft

> "In respect of at least computer programs and cinematographic works, a PARTY shall provide authors and their successors in title the right to authorise or prohibit the commercial rental to the public of originals or copies of their copyright works [, or alternatively the right to obtain an equitable remuneration corresponding to the economic value of such use] [, where circumstances arise by which the commercial rental of originals or copies of copyright works has led to [unauthorised] copying of such works which is materially impairing the exclusive right of reproduction conferred in that PARTY on authors and their successors in title]."[131]

By the time of the Brussels Draft, the proposals for a general right of importation and distribution of copyrighted materials had disappeared and given way to the above provision. This was limited to the rental right in computer programs and cinematographic works and was thus very close to the current Article 11 of TRIPS.

The Brussels Draft still contained a bracketed reference to a remuneration right as an alternative to the right to prohibit or authorize the commercial rental of copyright works. This alternative was not taken over into TRIPS.

The current second sentence of Article 11, referring to the material impairment of the reproduction right through widespread copying, was already part of the Brussels Draft provision, but it was bracketed and did not seem to be limited to cinematographic works, as under TRIPS.[132]

Also, it did not refer to "widespread", but to "unauthorised" copying (in brackets). Thus, the current approach taken under TRIPS is more economic: what really causes a "material impairment" of the exclusive reproduction right is not so much the illegality of the copying but rather the economic fact that such copying is "widespread", thus preventing the right holder from selling his own copies. It is self-evident that in those cases, most of the copying will be "unauthorized". A particular reference to such term would therefore appear superfluous.

The final difference between the Brussels and the current texts is the addition under TRIPS that with respect to computer programs, the obligation to grant an exclusive rental right does not arise in case the program itself is not the essential object of the rental (see Section 3 below).

3. Possible interpretations

Countries recognize and provide different forms of protection for the different ways that an author's work could be circulated in the market. For example,

[131] See Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, Revision, Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods, MTN.TNC/W/35/Rev. 1, 3 Dec. 1990.

[132] One commentator on the negotiating history states that the current Article 11, second sentence was drafted in a manner that would exclude the United States, where a rental right with respect to cinematographic works has been contested, while at the same time imposing such right on as many countries as possible. See Gervais, at 84–85, para. 2.65.

the 1976 U.S. Copyright Act provides an exclusive right to distribute "copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending."[133] The U.S. first sale doctrine (referred to as the principle of "exhaustion" in other countries) is an important limitation to this right. This doctrine effectively terminates the author's control over the distribution of the work upon the first sale. However, there are exceptions to the first sale doctrine that preserve an author's control with respect to specific categories of works, notwithstanding the first sale doctrine. The widely divergent views and practices on when and how an author's control over a work should be regulated once the work has entered the stream of commerce, made international agreement over the doctrine of first sale/exhaustion infeasible. Consequently, both TRIPS and the WCT permit member countries to determine the scope of this exception in their respective national laws.[134]

Article 11 reflects the areas where countries have agreed to an exception to these limitations to the distribution right, namely with respect to computer programs and cinematographic works. In addition, Article 14.4, TRIPS, obligates Members to apply Article 11 with respect to computer programs to producers of phonograms and any other right holders in phonograms (see Chapter 13). For computer programs, Article 11, first sentence, grants an unconditional right to the author to authorize or prohibit the commercial rental of her/his work. With respect to cinematographic works, however, the phrasing of the second sentence of Article 11 ("A Member shall be excepted from this obligation in respect of cinematographic works unless such rental has led to widespread copying . . . ") makes clear that the obligation to grant an exclusive rental right is to be considered as an exception. The use of the term "unless" indicates a reversal of the burden of proof; it is thus up to the right holder to establish evidence that the rental by third persons of his work has resulted in "widespread copying" of his work, which is "materially impairing the exclusive right of reproduction". Unless the right holder is able to submit such proof, a WTO Member is free to choose whether or not to grant such exclusive rental right with respect to cinematographic works. This leaves open a question of interpretation as to when these conditions are met, and the criteria that might be used to determine when a specific country is obligated to grant rental rights in audiovisual works. It appears to be in the discretion of domestic legislators to determine, for instance, on which conditions the right of reproduction is materially impaired in its exclusiveness.[135] Nonetheless, evidence of widespread piracy in a particular Member is likely to trigger the obligation of that Member to grant the exclusive rental right.

Finally, with respect to computer programs, the obligation to grant an exclusive rental right does not arise in case the program itself is not the essential object of the rental.[136]

[133] 17 U.S.C. § 106(3).

[134] See TRIPS Article 6; WCT Article 6(2).

[135] Gervais, p. 85, para. 2.66, expresses the view that the right holder for the purpose of proving material impairment has to show that the copying of his works affects both his ability to authorize and to prohibit reproduction.

[136] For example, in case of the rental of a car incorporating software-operated devices such as fuel injection.

4. WTO jurisprudence

There has been no WTO panel decision on this subject.

5. Relationship with other international instruments

5.1 WTO Agreements

5.2 Other international instruments

The WCT, like TRIPS, extends commercial rental rights to "authors of (i) computer programs; (ii) cinematographic works; (iii) works embodied in phonograms, as determined in the national law of contracting parties."[137] With regard to phonograms, however, the WCT adopts a different approach than TRIPS. The WCT grants the rental right to *authors* of works embodied in the phonograms (such authorship being defined by national law) while TRIPS Article 14.4 recognizes such a rental right for "producers of phonograms and any other right holders in phonograms as determined by domestic law." One possible way to reconcile these two approaches is to provide a joint right to authors and producers with respect to the rental right for phonograms. Of course, one could simply view the author or composer of the work as the rightful owner of the right since, in the first instance, the author has rights to prohibit unauthorized duplication of the underlying work.

Like TRIPS, the WCT recognizes some limitations with regard to the rental right for computer programs. First, the rental right does not apply to cases "where the program itself is not the essential object of the rental; as for cinematographic works, a country can choose not to extend the rental right to these works unless commercial rental has led to widespread copying of such works thus "materially impairing the exclusive right of reproduction." (WCT Art. 7(2)(i)(ii).) With regard to pre-existing national practices dealing with record rentals, the WCT grandfathers[138] those practices subject to the same conditions as audiovisual works, namely that "the commercial rental of the works embodied in the phonograms is not giving rise to the material impairment of the exclusive right of reproduction of authors."[139] Again, this test is open to interpretation in terms of how it is to be applied. The grandfathering of pre-existing schemes was necessary to respond to concerns raised by Japan during the negotiations.

6. New developments

6.1 National laws

6.2 International instruments

6.3 Regional contexts

7. Comments, including economic and social implications

Article 11 leaves considerable flexibility for the establishment and implementation of rental rights. While these rights are generally recognized under continental law

[137] See WCT Article 7(1) and TRIPS Article 14.4, first sentence in conjunction with Article 11.

[138] A "grandfather clause" allows countries acceding to an agreement to maintain pre-existing domestic legislation otherwise inconsistent with the relevant agreement.

[139] *Id.* at Article 7(3).

as one component of the author's rights, it may need to be specifically spelled out in some jurisdictions. Though the rental of computer programs has not become generalized practice, and, hence, this provision has little economic impact, the rental of cinematographic works has become widespread in many countries. The control over the distribution of copies of films for individual use may add to the rents generated by other forms of exploitation of such works. However, the enforcement of rental rights often faces significant obstacles, due to the ease with which copies can be reproduced and the cost and difficulty involved in detecting and bringing legal action against infringers.

One of the most important issues with respect to the lending right is how non-profit institutions such as libraries might fare under a comprehensive rental rights system. The EC Rental Right Directive authorizes states to allow public lending so long as authors receive some compensation for the rental of their works.[140] This approach is best characterized as a "liability rule" rather than a property rule. While there is no obligation under TRIPS to grant such a right, there appears to be a definite trend in some countries outside of the EU to adopt the public lending right. Certainly, for countries that have a comprehensive rental rights system, there must be some deliberation as to how to ensure that public services that facilitate access to and use of copyrighted works are available to society. In addition, as traditional copyright works such as books and other written material are increasingly embodied in digital form, the regulation of the rental right will play an important role in balancing the interests of owners and the importance of access by members of the public to copyrighted works.

[140] See EC Rental Right Directive, Art. 5.