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## **South by Southwest – Continuing Legal Education**

“Actions, Reactions and Class Actions: Music Business Litigation”

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### **I. Music Industry**

Download Cases:

- A. Sledge v. Warner Music Group. On January 23, 2014, U.S. District Judge Richard Seeborg granted preliminary approval to a deal struck between a group of recording artists and Warner Music Group over the treatment of monies derived from digital downloads and ringtones. The deal provides an \$11.5 million fund for pre-digital age artists to claim against for past amounts based on their download activity together with an uplift (subject to a floor and ceiling) in the royalty rate paid to artists by WMG on download activity.<sup>1</sup> The court has set a hearing for final approval in October 2014.
- B. James v. UMG Recordings, Inc. Ongoing class action litigation against UMGR over the treatment of digital licensing income brought by the estate of Rick James, Chuck D. of Public Enemy, Dave Mason, Whitesnake and others.<sup>2</sup> The court has set a hearing on plaintiffs’ motion for class certification in November 2014. (A similar case is pending in the same court against EMI/Capitol Records, now owned by UMGR, which has only just gotten underway.)
- C. Shropshire v. Sony Music Entertainment; Youngblood v. BMG Music. Plaintiffs, including The Allman Brothers, Cheap Trick, and The Youngbloods, alleged that BMG and Sony (and after a 2004 merger, Sony BMG Music Entertainment), failed to render to them and other artists accurate accounting statements and to properly account and credit royalties for digital music downloads, mobile phone ringtones, and ringback tone uses generated by Sony/BMG’s licensing of the plaintiffs’ and other class members’ master recordings to third-party licensees. In early 2012, the parties reached a settlement for Sony/BMG to pay its recording

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<sup>1</sup> <http://phillaw.com/news/index.php>

<sup>2</sup> <http://phillaw.com/casepdfs/Variety%20-%20F.B.T.pdf>

artists \$7.95 million to resolve outstanding claims together with an increase in the royalty rate.<sup>3</sup>

#### Other Cases:

- A. Flo & Eddie, Inc. v. Sirius XM Radio, Inc.<sup>4</sup> Plaintiff filed a class action complaint in the Los Angeles County Superior Court against Sirius XM Radio on behalf of itself and all other similarly situated owners of sound recordings of musical performances initially “fixed” (recorded) prior to February 15, 1972. Plaintiff alleged misappropriation, unfair competition and conversion in connection with the use of those recordings. Plaintiff alleged Sirius XM infringed older recordings from thousands of artists, dating back to 1972. Plaintiff projects damages of around \$100 million.
- B. Puckett et al. v. Sony Music Entertainment.<sup>5</sup> In March 2005, the New York State Supreme Court (DeGrasse, J.) certified a settlement class, finding that Gary Puckett (of Gary Puckett & the Union Gap) and jazz musician and composer Robert Watson were appropriate class representatives to represent a class of some 1,500 recording artists and producers who were parties to standard Sony recording or production agreements.<sup>6</sup> The complaint alleged that Sony’s policy of treating the value added tax on foreign sales of recordings improperly reduced the royalties paid or credited to the class members. Plaintiffs alleged that Sony consistently underreported foreign royalties to its recording artists and producers, and that this activity was in breach of Sony’s contracts with class members. The court granted final approval in January 2006 following notice to the class.

## II. Film/TV Industries

- A. Osmond v. SAG-AFTRA. Plaintiff filed a class action challenging the methods SAG used to collect and distribute foreign royalties to performers (a.k.a. “foreign levies”) derived from taxes on sales of blank DVDs & tapes, recording equipment, and/or cable retransmissions in foreign countries.<sup>7</sup> Beginning in the 1980s, certain European countries began to impose these kinds of royalties to compensate copyright holders (including American performers in film and TV shows) whose works were subject to home recording and other forms of reuse because such works were exhibited in those countries. Since the U.S. agreed to the terms of the Berne Convention for the Protection of Literary and Artistic

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<sup>3</sup> <http://www.hollywoodreporter.com/thr-esq/sony-digital-music-class-action-lawsuit-8-million-297761>; <http://ipandentertainmentlaw.wordpress.com/2012/03/09/allman-brothers-settle-class-action-with-sony-over-digital-downloads/>; <http://ipandentertainmentlaw.wordpress.com/2012/03/09/recording-artists-suing-for-digital-royalty-accountings/>

<sup>4</sup> *Flo & Eddie, Inc. v. Sirius XM Radio, Inc.*, No. BC 517032 (Cal. Super. Ct. L.A. Cnty. Aug. 1, 2013).

<sup>5</sup> *Puckett v. Sony Music Entertainment*, No. 108802/98 (N.Y. Sup. Ct. N.Y. Cnty. 2002).

<sup>6</sup> [http://decisions.courts.state.ny.us/fcas/FCAS\\_docs/2005MAR/300108802199810SCIV.PDF](http://decisions.courts.state.ny.us/fcas/FCAS_docs/2005MAR/300108802199810SCIV.PDF)

<sup>7</sup> [http://www.sagaftra.org/files/sag/documents/SAG\\_Plaintiffs\\_Settlement\\_Foreign\\_Roaylties\\_Litigation.pdf](http://www.sagaftra.org/files/sag/documents/SAG_Plaintiffs_Settlement_Foreign_Roaylties_Litigation.pdf); [http://www.sagaftra.org/files/sag/documents/ClassActionNotice\\_and\\_ProposedSettlement.pdf](http://www.sagaftra.org/files/sag/documents/ClassActionNotice_and_ProposedSettlement.pdf)

Works in 1988, monies from that agreement for American artists began to flow. Under the Berne Convention Implementation Act of 1988, signed by Reagan and effective 1989, SAG began collecting foreign funds on behalf of its members and nonmembers who maintained rights in films and TV programs which were exhibited and subjected to reuse in foreign countries.<sup>8</sup> Following preliminary approval, SAG mailed notices of class settlement to approximately 70,000 members. Though as a condition of settlement it admitted no wrongdoing, and though its general counsel claimed it had distributed more than \$7 million of the approximately \$16 million collected in foreign royalties to performers since 2007, Defendant SAG nonetheless agreed to conduct an independent and public audit of its foreign royalties program.<sup>9</sup> Final approval of the class settlement was granted February 18, 2011. Under the approved settlement, SAG-AFTRA will (1) continue to distribute funds to performers, (2) establish a website whereby performers will be able to determine whether they are owed more than \$10 in accrued royalties and the date on which they can expect to receive disbursement, (3) make reasonable efforts to allocate and pay to performers the approximately \$8 million in foreign royalties remaining in its possession.<sup>10</sup>

- B. Donen v. Universal Pictures, et al. Four nearly identical class actions were filed against Universal City Studios, Paramount Pictures, Twentieth Century Fox, Warner Bros., and Sony Pictures on January 16, 2013 in Los Angeles Superior Court.<sup>11</sup> Plaintiffs seek royalties owed to them as profit participants in the distribution of motion pictures on home video.<sup>12</sup> Their complaints allege Defendants systematically paid less in royalties to artists than appropriate by including only 20% of overall revenue derived from the distribution of motion pictures when calculating the amount payable to the profit participants. In other words, in divvying up the backend profits owed to artists, studios only take from a pot of 20% of the total returns derived from the distribution of home video; the studios pocket the other 80%. Plaintiffs argue this model is outdated in the digital age because the original rationale behind the payment scale was configured to cover the cost of VHS manufacturing and production in an age in which VHS was the dominant platform for distributing motion pictures on home video. Today, argues Plaintiffs, DVDs, digital downloads, streaming, and VOD are both much cheaper and much more common methods for distributing content for home video

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<sup>8</sup> <http://www.jjllplaw.com/2010/09/20/sag-preliminary-settlement-okd/>

<sup>9</sup> <http://variety.com/2010/film/news/sag-reaches-settlement-in-osmond-case-1118022937/>

<sup>10</sup> <http://www.thewrap.com/movies/column-post/judge-grants-preliminary-approval-sag-foreign-royalties-settlement-21018>

<sup>11</sup> Complaints: [http://www-deadline-com.vimg.net/wp-content/uploads/2013/01/Martindale-Sony\\_130116225237.pdf](http://www-deadline-com.vimg.net/wp-content/uploads/2013/01/Martindale-Sony_130116225237.pdf); [http://www-deadline-com.vimg.net/wp-content/uploads/2013/01/Higgins-Paramount\\_130116225126.pdf](http://www-deadline-com.vimg.net/wp-content/uploads/2013/01/Higgins-Paramount_130116225126.pdf); [http://www-deadline-com.vimg.net/wp-content/uploads/2013/01/Higgins-Universal\\_130116225150.pdf](http://www-deadline-com.vimg.net/wp-content/uploads/2013/01/Higgins-Universal_130116225150.pdf); [http://www-deadline-com.vimg.net/wp-content/uploads/2013/01/Donen-Fox-lawsuit\\_130116225300.pdf](http://www-deadline-com.vimg.net/wp-content/uploads/2013/01/Donen-Fox-lawsuit_130116225300.pdf)

<sup>12</sup> According to Complaints, “Motion pictures on home video” includes, but is not limited to, “VHS, DVD, Laser disc, Video-On-Demand [VOD], digital download, streaming, and all other methods of distribution of motion pictures.”

than VHS tapes.<sup>13</sup>

### III. Sports Industry

#### A. In Re NCAA Student-Athlete Name and Likeness Litigation.

1. Publicity Claim: Former college football players filed a right of publicity claim against Electronic Arts and the National Collegiate Athletic Association for misappropriation of the student-athletes' likenesses in its NCAA Football, Basketball and March Madness video game franchise.<sup>14</sup> In November 2013, U.S. District Judge Claudia Wilken ruled that the lawsuit would go forward as a class for similarly situated former and current college student-athletes.<sup>15</sup> In the video games, the teams are comprised of virtual players who share physical attributes of student-athletes (jersey number, height, weight, home state, skin tone and hair color). Consumers can upload rosters created by third parties that contain student-athletes' names. Plaintiffs contend Defendants violated their licensing agreement with the NCAA, which prohibits commercial licensing of a student-athlete's name, picture or likeness. While in September 2013, EA and CLC agreed to settle both the publicity and antitrust claims, NCAA refused, and the publicity claim against NCAA is ongoing.<sup>16</sup> Terms of the EA/CLC settlement will remain confidential until preliminary approval papers are filed. The settlement is estimated to affect 100,000-125,000 current and former athletes and some reports list the settlement award at more than \$40 million.<sup>17</sup> Shortly after news of the EA/CLC settlement broke, EA announced it would no longer make college football games.<sup>18</sup>
2. Antitrust Claim: Most plaintiffs involved in the publicity claim also allege, as a class, conspiracy among EA, Collegiate Licensing Company (CLC) and NCAA to restrain trade in violation of the Sherman Act. In support of Plaintiffs' antitrust claim, they also allege: (1) EA is the only NCAA licensee which uses images of current or former players; (2) in the licensing agreement with CLC, EA agreed to abide by the NCAA rules prohibiting student-athlete compensation; and (3) EA also agreed not to offer compensation to former student-athletes for use of their image, likeness, or name. Plaintiffs argued this showed EA was actively

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<sup>13</sup> <http://www.deadline.com/2013/01/universal-paramount-fox-sony-slapped-with-royalties-class-action-suits/>

<sup>14</sup> *In re NCAA Student-Athlete Name and Likeness Litigation*, No. C 09-1967 CW, 2011 WL 1642256 (N.D. Cal. 2011).

<sup>15</sup> <http://www.rawstory.com/rs/2013/11/10/student-athlete-licensing-revenue-suit-against-ncaa-moves-forward/>

<sup>16</sup> <http://www.cbssports.com/collegefootball/writer/dennis-dodd/23859858/ea-sports-settles-likeness-suits-thousands-of-current-former-players-eligible-for-money>

<sup>17</sup> <http://fkks.com/news/ea-settles-major-right-of-publicity-case-with-athletes>

<sup>18</sup> <http://www.sbnation.com/college-football/2013/9/27/4775712/obannon-ncaa-ea-settlement-clc>

participating in efforts to ensure student-athletes would not receive compensation for use of their image, likeness or name. On July 28, 2011, the Court found the antitrust plaintiffs had sufficiently alleged that EA agreed to participate in the alleged antitrust conspiracy.<sup>19</sup> In September 2013, EA and CLC settled with these plaintiffs for an amount that will remain undisclosed until preliminary approval papers are filed. On February 28, 2014, in response to NCAA's continued refusal to settle, Judge Wilken ordered the parties to schedule a settlement conference to address both the antitrust and right-of-publicity claims.

- B. In Re NCAA Concussion Litigation. Eastern Illinois wide receiver Adrian Arrington and other student-athletes filed suit against NCAA in September 2011 in the Northern District of Illinois, alleging that NCAA negligently failed to protect student-athletes from concussions.<sup>20</sup> The first filed of its kind, the Arrington suit covered athletes in 18 states dating back to 2004 and sought unspecified monetary damages and changes to the NCAA's policies regarding traumatic head injuries sustained by student athletes, including the establishment of an NCAA trust fund for the long-term medical monitoring of injured athletes and new concussion guidelines for schools and coaches. In January 2014, a judicial panel on multidistrict litigation (MDL) granted the consolidation of nine nearly identical "copycat" lawsuits with the Arrington suit, finding that the actions "involve nearly completely overlapping putative classes and claims" and that the actions "share common factual questions concerning the NCAA's knowledge of the risks of concussions [...] and its policies governing the protection of players from such injuries."<sup>21</sup> Following the judicial panel's decision, the consolidated class action covers some 70+ current and former college athletes, in all states, including prior to 2004.<sup>22</sup> A proposed settlement of approximately \$750 million was announced late last year in a similar case brought against the National Football League; a motion for preliminary approval of that settlement is pending.
- C. Senne v. Office of the Commissioner of Baseball, et al. Three minor league baseball players filed suit against Major League Baseball and three teams, including the San Francisco Giants, in February 2014 in federal court in San Francisco. Plaintiffs seek class action status on behalf of thousands of current and

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<sup>19</sup> *In re NCAA Student-Athlete Name and Likeness Litigation*, No. C 09-1967CW., 2012 WL 1745593 (N.D. Cal. 2012).

<sup>20</sup> [http://espn.go.com/college-football/story/\\_/id/6978479/former-eastern-illinois-panther-adrian-arrington-suing-ncaa-concussion-rules](http://espn.go.com/college-football/story/_/id/6978479/former-eastern-illinois-panther-adrian-arrington-suing-ncaa-concussion-rules)

<sup>21</sup> Not included in the consolidated class action is another concussion case brought against the NCAA in the Southern District of Indiana by former Washington and Oregon quarterback John DuRocher, former Washington safety Darrin Harris, and former Kent State linebacker Anthony Mirando. That case involved helmet manufacturers Riddell and Schutt Sports.

See: <http://www.usatoday.com/story/sports/college/2014/01/02/concussion-lawsuits-ncaa-consolidated-adrian-arrington/4293867/>

<sup>22</sup> [http://www.al.com/sports/index.ssf/2014/02/whos\\_suing\\_the\\_ncaa\\_alcom\\_data.html](http://www.al.com/sports/index.ssf/2014/02/whos_suing_the_ncaa_alcom_data.html)

former minor leaguers. Plaintiffs allege that minor league players are paid \$3,000 to \$75,000 per season and train for weeks without pay. Plaintiffs claim this practice violated minimum wage and labor laws under the Fair Labor Standards Act and federal minimum wage because minor-leaguers allegedly work at least 50 hours per week and are not paid anything extra for spring training, offseason instructional leagues, or year-round conditioning.<sup>23</sup>

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<sup>23</sup> <http://www.sfgate.com/giants/article/Baseball-sued-over-low-minor-league-wages-5245784.php>.

UNITED STATES DISTRICT COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

MARK PARSONS, BRANDON BRADLEY,  
SCOTT GANDY, ROBERT HELLIN,  
JOSEPH BRUCE, and JOSEPH UTSLER,

Plaintiffs,

vs.

UNITED STATES DEPARTMENT OF JUSTICE  
and FEDERAL BUREAU OF INVESTIGATION,

Defendants.

Case No.

Hon.

**COMPLAINT**

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**COMPLAINT**

Plaintiffs Mark Parsons, Brandon Bradley, Scott Gandy, Robert Hellin, Joseph Bruce and Joseph Utsler state as follows for their Complaint against Defendants United States Department of Justice and the Federal Bureau of Investigation:

**PRELIMINARY STATEMENT**

1. Plaintiffs challenge the federal government's unwarranted and unlawful decision to designate a musical band's supporters as a criminal gang, thereby subjecting them to significant harm, including repeated police harassment and denial of employment.

2. Among the supporters of almost any group – whether it be a band, sports team, university, political organization or religion – there will be some people who violate the law. Inevitably, some will do so while sporting the group's logos or symbols. However, it is wrong to designate the entire group of supporters as a criminal gang based on the acts of a few. Unfortunately, that is exactly what happened here.

3. Plaintiffs self-identify as "Juggalos," or fans of the musical group Insane Clown Posse ("ICP") and other bands on ICP's independent record label, Psychopathic Records. Some of ICP's songs, such as "Juggalo Homies," "Juggalo Island," and "Miracles," have hopeful, life-affirming themes about the wonders of life and the support that Juggalos give to one another. Other music, called "horrorcore hip hop," uses very harsh language to tell nightmare-like stories with an underlying message that horrible things happen to people who choose evil over good.

4. Many people view Juggalos as nonconformists because of their musical tastes, their practice of painting their faces to look like clowns, and the distinctive Juggalo symbols – including the "hatchetman" logo – that they often display on their clothing, jewelry, body art and bumper stickers. Yet when Juggalos come together at concerts or their annual week-long gathering every summer, they know that they are in a community where all people are equal and where they will be accepted and respected for who they are. The unifying theme for Juggalos is that no matter what one's economic status, racial

background or past problems, Juggalos are a “family” of people who love and help one another, enjoy one another’s company, and bond over the music and a philosophy of life. Organized crime is by no means part of the Juggalo culture.

5. The Defendants, the United States Department of Justice (“DOJ”) and the Federal Bureau of Investigation (“FBI”), estimate that there are over a million Juggalos in the United States. As with any large group, a relative handful engage in criminal activity, sometimes while wearing Juggalo symbols. Yet, in 2011, Defendants seized on reports of independent crimes to brand Juggalos across the country as a “loosely-organized hybrid gang” in the DOJ’s 2011 National Gang Threat Assessment (“2011 Assessment”).

6. This gang designation has caused real harm to ordinary Juggalos from coast to coast. Defendants widely published the designation to state and local police agencies through an online law enforcement database, as well as through reports and other means. As a result, state and local police routinely stop, detain, interrogate, photograph and document people like Plaintiffs, who do not have any connections to gangs, because they have exercised their First Amendment rights to express their identity as Juggalos by displaying Juggalo symbols. Other Juggalos, including plaintiff Scott Gandy, have been denied consideration for employment because of the gang designation. The designation has a chilling effect on Juggalos’ ability to express themselves and to associate with one another.

7. Defendants’ designation of the Juggalos as a “hybrid gang” violates the federal Administrative Procedure Act (APA) for three reasons. First, it infringes on Juggalos’ First Amendment freedoms and is unconstitutionally vague in violation of Due Process. Second, branding the group as a gang is arbitrary and capricious, since the DOJ

stigmatized an entire fan base of more than a million people even though it knows that only a small fraction of individuals have engaged in isolated criminal acts. Third, Defendants violated criminal intelligence collection procedures by gathering information on Juggalos without reasonable suspicion to believe that the group is involved in a “definable criminal activity or enterprise” and by gathering such information in a way that interferes with their protected activities.

8. As set forth below, Plaintiffs seek a declaration that designating the Juggalos as a gang or “hybrid gang” is unlawful. They also seek an order under the APA removing the Juggalos from the DOJ’s gang list and enjoining Defendants from taking action in the future that would brand Juggalos, as a group, as a criminal gang based on the actions of a relatively few people who may identify as Juggalos.

#### **JURISDICTION**

9. The Court has federal question jurisdiction under 28 U.S.C. § 1331 because this case arises under the United States Constitution and the federal Administrative Procedure Act (“APA”), 5 U.S.C. § 702 *et seq.*

#### **VENUE**

10. The Eastern District of Michigan is the proper venue for this case under 28 U.S.C. § 1391(e) because Plaintiffs Joseph Utsler and Joseph Bruce reside in this District, and the DOJ and the FBI are agencies of the United States government.

#### **PARTIES**

11. Plaintiff Mark Parsons is a Juggalo. He resides in Las Vegas, Nevada.
12. Plaintiff Brandon Bradley is a Juggalo. He resides in Citrus Heights, California.
13. Plaintiff Scott Gandy is a Juggalo. He resides in Concord, North Carolina.

14. Plaintiff Robert Hellin is a Juggalo. He resides in Garner, Iowa.

15. Plaintiff Joseph Utsler is a Juggalo and a member of the musical group ICP. He resides in Davisburg, Michigan.

16. Plaintiff Joseph Bruce is a Juggalo and a member of ICP. He resides in Farmington Hills, Michigan.

17. Defendant DOJ is a department of the United States government.

18. Defendant FBI is an agency within the DOJ.

19. The DOJ and the FBI are each “agencies” within the meaning of the APA.

20. The FBI is responsible for administering the National Gang Intelligence Center (“Center” or “NGIC”). The Center is a multi-agency operation of the United States government that is responsible for collecting, analyzing and disseminating information from and to federal, state and local prosecutors, law enforcement authorities and corrections officials about criminal street gangs, prison gangs and outlaw motorcycle gangs.

### **GENERAL ALLEGATIONS**

#### **ICP and the Juggalos**

21. ICP is a musical group formed in or about 1991 and based in Farmington Hills, Michigan. The group is known for its elaborate live performances. It has two certified platinum albums – that is, selling one million (1,000,000) or more copies in the U.S. – and five gold albums – that is, selling five hundred thousand (500,000) or more copies in the U.S. – to its credit. ICP can be controversial, rebellious and provocative. But the duo is an artistic venture and a musical group like other popular entertainers – whether they be

club-music artists, gangster rappers, death metal bands, folk singers or more traditional artists.

22. Some ICP songs deal with social, political or religious themes; others are counter-cultural; and others are simply artistic entertainment and expression. The songs often use harsh language and themes.

23. Juggalos are members of ICP's dedicated musical fan base. These music fans have been known as "Juggalos" since the early 1990s. They appreciate ICP's music and its other expressive art.

24. As an expression of their identity, Juggalos often obtain and display distinctive tattoos of ICP and Psychopathic Record art and icons. They also wear and otherwise display ICP art, symbols and insignia on their clothing and other personal belongings.

25. Juggalos gather and associate with each other to listen to ICP's music, to share ideas surrounding the music, to express their support of or interest in the ideas that ICP expresses through its music, to express their affiliation with ICP and the artists on its record label, and to express their affiliation with one another.

26. The expressive activities and purposes described above are primary reasons why Juggalos group together and associate with one another.

27. The primary purposes of the Juggalos – as a group – do not include engaging in criminal activity.

28. Many Juggalos embrace "Juggaloism" as a philosophy, an identity, and a way of life. ICP's lyrics, through their description of a "Dark Carnival," address themes of good and evil, heaven and hell, and acceptance and tolerance of others. Juggalos follow these

ethics and try to live by the moral code of the “Carnival.” Many Juggalos also see themselves as social outcasts and look to one another for acceptance and support. Based on these shared values, Juggalos strongly identify with one another and often refer to themselves as a “family.”

**Plaintiff Mark Parsons**

29. At all relevant times, Parsons was a Juggalo.

30. Parsons has never knowingly affiliated with any criminal gang.

31. Parsons owns and operates a small trucking business entitled “Juggalo Express LLC,” a limited liability corporation incorporated in the State of Utah.

32. Parsons drives a semi truck for Juggalo Express LLC.

33. Parsons decorates the side of his semi truck with a large, visible ICP “hatchetman” logo. Parsons placed this logo on his truck to express his affinity for ICP’s music, his identity as a Juggalo, and his affiliation with the Juggalo community.

34. On or about July 9, 2013, Parsons was riding with a driver-trainee in Parsons’s semi truck on an interstate freeway outside Knoxville, Tennessee. The trainee was properly driving and Parsons was instructing when they entered a weigh station operated by the Tennessee Department of Transportation.

35. In accordance with posted instructions, they drove in the “bypass” lane so that Parsons’s truck could be weighed while continuing to move at a slow speed.

36. As they drove in the bypass lane, a Tennessee State Trooper ordered Parsons and the trainee to stop the truck and park for a safety inspection. They complied.

37. Once they parked, the State Trooper approached Parsons and asked if he was a Juggalo.

38. The State Trooper indicated that he detained Parsons for an inspection because of the hatchetman logo on the truck.

39. The State Trooper indicated that he considered Juggalos to be a criminal gang because of the DOJ's designation.

40. The State Trooper asked Parsons if he had any axes, hatchets, or other similar chopping instruments in the truck. Parsons truthfully answered that he did not.

41. The State Trooper continued to search the truck and interrogate Parsons for about an hour, delaying Parsons' time-sensitive hauling work. During the search, the State Trooper did not find any weapons or contraband. The State Trooper did not issue a ticket or other citation to Parsons.

42. During the detention, the State Trooper never:

- a. identified a motor vehicle safety offense that might support a safety inspection;
- b. informed Parsons about any motor vehicle safety offense that might otherwise support the detention; or
- c. articulated any reasonable suspicion to believe that criminal activity might be afoot, aside from the State Trooper's perception of the hatchetman logo.

43. Parsons never consented to the detention for the purpose of questioning his Juggalo affiliation.

44. Parsons did not feel free to terminate the detention before the State Trooper released Parsons.

**Plaintiff Brandon Bradley**

45. At all relevant times, Bradley was a Juggalo.

46. Bradley has never knowingly affiliated with any criminal gang.

47. In or around September 2012, a Citrus Heights, California Police Officer in a patrol car flashed the car's lights and stopped Bradley when Bradley was biking home.

48. At the time, Bradley had visible Juggalo tattoos and was wearing a Twiztid Batman shirt, which is Juggalo merchandise.

49. At all relevant times, Bradley obtained and displayed his Juggalo tattoos in order to express his affinity for the music of Psychopathic Records artists, his affiliation with the Juggalos as music fans, and his pride in being a member of the Juggalo community.

50. At all relevant times, Bradley possessed and displayed his merchandise from ICP and other Psychopathic Records artists in order to express his affinity for the music, his affiliation with the Juggalos as music fans, and his pride in being a member of the Juggalo community.

51. Upon information and belief, the actual and primary reason that the officer stopped Bradley was because the officer saw Bradley's Juggalo tattoos and merchandise.

52. The officer detained Bradley for about fifteen minutes while interrogating Bradley about being a Juggalo and about his Juggalo tattoos.

53. The officer took notes about Bradley's answers.

54. Later, an ex-Citrus Heights Police Officer told Bradley that the ex-officer heard about the above encounter and that Bradley would have to get his Juggalo tattoos removed if he wanted to be a police officer because the tattoos are gang-affiliated.

55. In or around October 2012, Bradley was walking across a street in downtown Sacramento, California.

56. At the time, he was wearing a shirt bearing an ICP-related insignia, and some of his ICP-related tattoos were visible.

57. As he crossed the street, a uniformed deputy from the Sacramento Sheriff's Department approached Bradley.

58. The deputy asked if Bradley was a Juggalo.

59. The deputy demanded to see Bradley's identification, and Bradley complied.

60. The deputy took Bradley's identification and his ICP-themed wallet and held them throughout the encounter.

61. Bradley did not feel free to demand his wallet and identification back or to leave without them.

62. The deputy ran a background check on Bradley.

63. The deputy detained and questioned Bradley for a substantial amount of time, during which the deputy accused Bradley of being in a gang because he was a Juggalo. The deputy stated that to be a Juggalo is to be a gang member. The deputy also asked Bradley about his ICP-related tattoos.

64. One evening in January 2013, Bradley was walking alone in the bike lane on a stretch of road that did not have a sidewalk.

65. Bradley was wearing an ICP jacket with a large red "hatchetman" insignia on the back.

66. A black, unmarked police cruiser passed Bradley in the opposite direction.

67. The cruiser performed a U-turn, pulled up behind Bradley and stopped him.

68. Two male officers wearing bullet-proof vests – who appeared to be gang-squad officers – exited the cruiser and immediately told Bradley that they noticed his jacket with the "hatchetman" insignia.

69. The officers ordered Bradley to stand in front of a guardrail with his back to them so that they could take pictures of his jacket.

70. Bradley submitted while the officers also took photographs of his face and his tattoos.

71. For a lengthy time period, the officers interrogated Bradley about his status as a Juggalo and about whether he was a gang member. The officers took notes about the encounter and about Bradley's responses. Although Bradley denied being in any gang, the officers translated his answers into gang-related terms when they repeated them.

72. Upon information and belief, the officers entered this information into a gang information database that is part of or feeds information into the gang information database that the NGIC administers.

73. Bradley did not feel free to end the encounter until the officers released him.

74. Upon information and belief, each of the law enforcement officials above relied upon the DOJ's classification of the Juggalos as a gang when deciding whether to stop, question or otherwise detain or investigate Bradley.

75. Due to the incidents above, Bradley has decided on numerous occasions not to wear Juggalo-related clothing or other merchandise, not to publicly express his affinity for ICP music, and not to express his membership in the Juggalo community. He has taken these steps in order to avoid similar negative contacts with law enforcement in the future.

**Plaintiff Scott Gandy**

76. At all relevant times, Gandy was a Juggalo.

77. Gandy has never knowingly affiliated with any criminal gang.

78. In or around 2012, Gandy visited an Army recruiting office where he had become familiar with the recruiters.

79. Gandy had large ICP-related tattoos on his chest, which he obtained to express his affinity for ICP's music, his status as a Juggalo and his appreciation of other Psychopathic Records artists' music.

80. At the recruiting office, the Army's recruiting Sergeant asked Gandy if he had any tattoos. Gandy showed the Sergeant his Juggalo tattoos.

81. The Sergeant told Gandy that the Juggalos were on the federal government's gang list. The Sergeant said that he considered Gandy's Juggalo tattoos to be gang-related. Upon information and belief, the Sergeant's determination that the Juggalos were a prohibited criminal gang was based on the DOJ's Juggalo gang designation.

82. The Sergeant questioned Gandy about whether he was a gang member.

83. The Sergeant instructed Gandy that he must remove or permanently cover his Juggalo tattoos or the Army would immediately deny his recruitment application. The Sergeant said that it did not matter how virtuous a life Gandy had lived, the Army could not and would not accept him with the tattoos. The Sergeant said that to be considered by the Army, Gandy must remove or permanently cover the tattoos.

84. Upon information and belief, the Army has a policy prohibiting "gang" tattoos.

85. Although the Army has not publicly released the materials it uses to identify criminal "gangs" and their members, upon information and belief, the Army deems the Juggalos to be a criminal gang and bases that assessment on the DOJ's Juggalo gang designation.

86. As a result of the Sergeant's instructions and comments, Gandy spent hundreds of dollars to undergo a painful procedure in which his Juggalo tattoos were covered with other tattoos. Gandy underwent this procedure in order to receive consideration of his recruitment application. Gandy would not have undergone this procedure or obtained these new tattoos if the Sergeant had not indicated that it was necessary.

87. After undergoing the procedure, Gandy returned to the recruitment office and again showed the same Sergeant his new tattoos.

88. The Sergeant said that he approved and that Gandy's application would receive consideration. Ultimately, Gandy's application was denied.

**Plaintiff Robert Hellin**

89. At all relevant times, Hellin was a Juggalo.

90. Hellin has never knowingly affiliated with any criminal gang.

91. Hellin enlisted in the Army in 2008, before the Juggalo gang designation. He is a Corporal in the Army, where he has served honorably in Iraq, Afghanistan and Korea as a member of cavalry and special operations units.

92. Hellin has visible ICP-related tattoos, which he obtained and displays in order to express his identity as a Juggalo.

93. Upon information and belief, because of the Juggalo gang designation, Hellin's identity as a Juggalo places him in imminent danger of suffering discipline or an involuntary discharge from the Army.

**Plaintiffs Joseph Bruce and Joseph Utsler**

94. At all relevant times, Bruce and Utsler were Juggalos and members of the musical group ICP.

95. Bruce and Utsler do not knowingly affiliate with any criminal gang.

96. On August 20, 2012, ICP entered into a contract with AEG Live to perform at the Royal Oak Music Theater in Royal Oak, Michigan on October 31, 2012 for ICP's annual musical and artistic event known as "Hallowicked," with a possible second performance on October 30, 2012 if tickets to the October 31 performance sold out.

97. On or about October 8, 2012, the Royal Oak Music Theater cancelled the Hallowicked event without notice, initially indicating that it was the landlord's decision.

98. After discussions with AEG Live and Royal Oak Music Theater, ICP's record label discovered that the Royal Oak Police Department asked the Royal Oak Music Theater to cancel the event.

99. When asking the Royal Oak Music Theater to cancel the Hallowicked event, the Royal Oak Police Department cited the federal Juggalo gang designation.

**The DOJ and the National Gang Intelligence Center**

100. In Public Law 109-162, 119 Stat. 2960 (2005), Congress directed the Attorney General to "establish a National Gang Intelligence Center and gang information database to be housed at and administered by the [FBI] to collect, analyze, and disseminate gang activity information from" the FBI, the Bureau of Prisons, the Drug Enforcement Administration, other federal agencies, and state and local law enforcement, prosecutors, and correctional officers. In the same federal statute, Congress directed the Center:

- a. to make that same information available to "Federal, State, and local law enforcement agencies," to "Federal, State, and local corrections

agencies and penal institutions,” and to “Federal, State, and local prosecutorial agencies,” as well as to “any other entity as appropriate”; and

b. to “annually submit to Congress a report on gang activity.”

101. The DOJ promptly established the Center in response to Congress’s direction, and upon information and belief, the FBI has administered the Center since its inception.

102. Upon information and belief, the DOJ and/or the FBI promptly established a gang information database in response to Congress’s direction.

103. In an April 2008 report to Congress, the Attorney General described the Center as part of a coordinated set of “intelligence and enforcement mechanisms aimed at dismantling the most significant violent national and regional gangs.” The Attorney General said:

NGIC integrates the gang intelligence assets of all Department of Justice agencies and has established partnerships with other federal, state, and local agencies that possess gang-related information--serving as a centralized intelligence resource for gang information and analytical support. *This enables gang investigators and analysts . . . to further identify gangs and gang members . . . and to guide the appropriate officials in coordinating their investigations and prosecutions to disrupt and dismantle gangs.* The NGIC’s mission is to support law enforcement agencies through timely and accurate information sharing and strategic/tactical analysis of federal, state, and local law enforcement intelligence focusing on the growth, migration, criminal activity, and association of gangs that pose a significant threat to communities throughout the United States.

U.S. Dep’t of Justice, Attorney General’s Report to Congress on the Growth of Violent Street Gangs in Suburban Areas (2008) (emphasis added).

104. Federal statutes do not define the term “gang.”

105. According to the federally-funded “National Gang Center,” law enforcement authorities fail to agree on what a “gang” is. The National Gang Center has stated, “There is no widely or universally accepted definition of a ‘gang’ among law enforcement agencies.”

106. Federal law defines the term “criminal street gang” as a group that has at least five members; “has as one of its *primary purposes* the commission of 1 or more [specified federal felony-level] criminal offenses” involving drugs, violence, or a conspiracy to commit the same; has a membership that engaged in a continuing series of those crimes within the past five years; and engages in activities that affect interstate commerce. 18 U.S.C. § 521(a) (emphasis added).

**NGIC Online**

107. Through the Center, the DOJ and FBI publish a variety of official reports and other official materials.

108. Many of those reports and materials are made available to the general public on the Internet at <http://www.nationalgangcenter.gov>, which is funded by the DOJ. The DOJ and FBI, in turn, cite and rely upon the materials, resources and statistics that are published at <http://www.nationalgangcenter.gov>.

109. The Center created a separate online database, NGIC Online, to publish and otherwise make available its reports, findings and other information to federal, state and local prosecutors, law enforcement officials and corrections officials. The Center continues to administer and use NGIC Online for that purpose.

110. At all relevant times, the DOJ has controlled the content of what is published and/or distributed on NGIC Online.

111. Upon information and belief, NGIC Online includes the reports and materials that are published at <http://www.nationalgangcenter.gov>.

112. Upon information and belief, the DOJ has incorporated NGIC Online into the Law Enforcement Online database. According to the FBI, the Law Enforcement Online

database “is a secure, Internet-based information sharing system for agencies around the world that are involved in law enforcement, first response, criminal justice, anti-terrorism, and intelligence. With LEO, members can access or share sensitive but unclassified information anytime and anywhere. \* \* \* By using one name and password, agencies can access LEO and such resources as . . . [the] National Gang Intelligence Center . . . .”

113. The DOJ and FBI intend for federal, state and local prosecutors, law enforcement officials and corrections officials to use the information that is available on NGIC Online when they engage in governmental actions against members or affiliates of any gang that the DOJ and/or the FBI identifies.

114. The number of queries by state and local law enforcement officials to NGIC Online apparently exceeds 200,000 per year.

115. Upon information and belief, since at least 2010, federal, state and local prosecutors, law enforcement officials and corrections officials have been actively using and relying on NGIC Online when engaging in governmental actions against members or affiliates of the groups that the DOJ and/or the FBI have identified as gangs.

### **2009 National Gang Threat Assessment**

116. In 2009, the Center published its 2009 National Gang Threat Assessment, in which the Center summarized and reported about the information it had collected and analyzed to that point in relation to street gangs, prison gangs, and outlaw motorcycle gangs.

117. From in or around 2009 until the filing of this Complaint, the 2009 Assessment was available to the general public at <http://www.nationalgangcenter.gov>.

Upon information and belief, the 2009 Assessment has also been available on NGIC Online throughout roughly the same time period.

118. The 2009 Assessment does not mention the Juggalos or identify them as any kind of “gang.” Instead, it focuses on known prison gangs, outlaw motorcycle gangs, and criminal street gangs such as the Mexican Mafia, Bloods, Crips, Hells Angels, Mara Salvatrucha 13, Vice Lords, and Gangster Disciples, each of which is purportedly linked to interstate drug trafficking or distribution, and some of which are purportedly also linked to interstate human and weapons trafficking.

### **2011 National Gang Threat Assessment**

119. In or about October 2011, the Center published the 2011 Assessment, which was its third National Gang Threat Assessment.

120. According to the Center, the 2011 Assessment “enhances and builds on the gang-related trends and criminal threats identified in the 2009 assessment.”

121. According to the Center, the 2011 Assessment “supports US Department of Justice strategic objectives 2.2 (to reduce the threat, incidence, and prevalence of violent crime) and 2.4 (to reduce the threat, trafficking, use, and related violence of illegal drugs).”

122. According to the Center, the 2011 Assessment “is based on federal, state, local, and tribal law enforcement and corrections agency intelligence, including information and data provided by the National Drug Intelligence Center (NDIC) and the National Gang Center. Additionally, this assessment is supplemented by information retrieved from open source documents and data collected through April 2011.”

123. From on or about its 2011 publication through the time of the filing of this Complaint, the 2011 Assessment has been available to the general public at

<http://www.nationalgangcenter.gov>.

124. Upon information and belief, the 2011 Assessment has also been accessible through NGIC Online since its original publication.

125. Upon information and belief, the DOJ intended and still intends for federal, state and local prosecutors, law enforcement officials and corrections officials to use the 2011 Assessment when they engage in governmental actions targeting and/or against members or affiliates of any “gang” that the DOJ identifies.

126. Upon information and belief, federal, state and local prosecutors, law enforcement officials and corrections officials have been actively using or relying on the 2011 Assessment when engaging in governmental actions targeting and/or against members or affiliates of any “gang” that the DOJ identifies, including Juggalos.

### **Hybrid Gangs**

127. The 2011 Assessment contains a section about “hybrid gangs.”

128. Federal statutes do not define the term “hybrid gang.”

129. The 2011 Assessment does not specifically define the term “hybrid gang.”

130. The 2011 Assessment suggests that hybrid gangs are groups composed of people who affiliate with other known criminal street gangs.

131. The 2011 Assessment states:

- a. “The expansion of hybrid gangs—non-traditional gangs with multiple affiliations—is a continued phenomenon in many jurisdictions nationwide. Because of their multiple affiliations, ethnicities, migratory nature, and nebulous structure, hybrid gangs are difficult to track, identify, and target as they are transient and continuously evolving.”
- b. Hybrid gangs “are adopting national symbols and gang members often crossover from gang to gang.”

- c. “Hybrid Gangs . . . are fluid in size and structure, yet tend to adopt similar characteristics of larger urban gangs, including their own identifiers, rules, and recruiting methods.”

**Juggalos as a “Hybrid Gang”**

132. In the 2011 Assessment, the Center designated the “Juggalos” as “a loosely-organized hybrid gang.”

133. The nationwide Juggalo membership, believed to be over one million fans, vehemently reject the gang label they have received in recent years.

134. The 2011 Assessment does not define what a “Juggalo” is, but it states: “Juggalos are traditionally fans of the musical group the Insane Clown Posse.”

135. In fact, the vast majority of Juggalos are music fans who are not involved in any criminal gang or any gang-related activity. They liken themselves to a family.

136. There is little to no structure within the Juggalos as a group, and there is no formalized leadership.

137. In the 2011 Assessment, the DOJ’s Juggalo gang designation identifies Juggalos – simply as Juggalos – as being members of a “hybrid gang.”

138. The Juggalo gang designation refers to Juggalos as an entire group or association.

139. The Juggalo gang designation does not contain any meaningful distinction between law-abiding Juggalos and individual criminal Juggalos or criminal “subsets” of Juggalos.

140. The 2011 Assessment states:

- a. “[M]any Juggalo subsets exhibit gang-like behavior and engage in criminal activity and violence.”
- b. “Most crimes committed by Juggalos are sporadic, disorganized,

individualistic, and often involve simple assault, personal drug use and possession, petty theft, and vandalism.”

- c. “[A] small number of Juggalos are forming more organized subsets and engaging in more gang-like criminal activity, such as felony assaults, thefts, robberies, and drug sales.”
- d. “Juggalos’ disorganization and lack of structure within their groups, coupled with their transient nature, makes it difficult to classify them and identify their members and migration patterns.”

141. The DOJ, FBI and the Center use and encourage other governmental agencies to use an individual’s Juggalo tattoos to indicate that the individual is a Juggalo.

142. The DOJ, FBI and the Center use and encourage other governmental agencies to use an individual’s act of wearing, possessing or displaying ICP clothing, symbols or other merchandise to indicate that the individual is a Juggalo.

143. The DOJ, FBI and the Center use and encourage other governmental agencies to use an individual’s act of wearing, possessing or displaying the clothing, symbols or other merchandise of other Psychopathic Records artists to indicate that the individual is a Juggalo.

144. In order to avoid being subject to police scrutiny as a gang member, individual law-abiding Juggalos must:

- a. forsake their status as Juggalos (whether as music fans or as part of the “family” that shares the same philosophy);
- b. refrain from identifying themselves as Juggalos;
- c. refrain from affiliating or associating with other Juggalos;
- d. refrain from affiliating or associating with ICP and other Psychopathic Records artists;
- e. refrain from attending concerts and events of Psychopathic Records artists;
- f. refrain from obtaining or displaying Juggalo tattoos;

- g. remove Juggalo tattoos that they already have; and/or
- h. refrain from buying, possessing, wearing, donning or displaying the clothing, symbols or other merchandise of ICP or other Psychopathic Records artists.

145. Insofar as federal officials reasonably believe that individual Juggalos affiliate with other known criminal gangs – such as the Bloods or Crips – the DOJ, FBI and the Center can identify, locate and target those individuals’ criminal-gang-related activity by focusing either on their relationships with known criminal gangs or on their personal conduct.

146. In response to a request under the federal Freedom of Information Act for all information upon which the DOJ relied in making its Juggalo gang designation, the DOJ produced 102 pages of the total 156 pages that were purportedly responsive.

147. The DOJ, FBI and the Center have not provided, and upon information and belief do not have, sufficient evidence to support a reasonable basis for concluding that the Juggalos:

- a. are a nationally affiliated criminal street gang;
- b. affiliate on any significant group-wide basis with known criminal gangs;
- c. have as a primary purpose a shared criminal purpose as a group;
- d. engage in an ongoing scheme of criminal activity;
- e. commit crimes as part of any coherent, overarching criminal-gang plan;
- f. are involved as a group in interstate drug, human or weapons trafficking; or
- g. present a significant threat, as a group, to communities throughout the United States, or to public safety in those communities.

148. In the 2011 Assessment and the FOIA Production, the DOJ, FBI and the Center have not provided – and upon information and belief they do not have – sufficient evidence of a causal link between the classification of the Juggalos as a hybrid gang and the governmental interests in:

- a. reducing the threat, trafficking, use, and “related violence” of illegal drugs; and/or
- b. reducing the threat, incidence, and prevalence of violent crime.

149. As a result of Defendants’ classification of the Juggalos as a gang, Plaintiffs and other Juggalos have suffered a variety of harms at the hands of government officials. These harms not only include harms to Plaintiffs’ good names, reputations, honor and integrity, but also improper stops, detentions, interrogations, searches, denials of consideration for federal employment, and interference with existing federal employment, as well as other distinct harms. Defendants’ classification of the Juggalos as a gang also has a chilling effect on the expressive and associational activity of Plaintiffs and other Juggalos.

**COUNT 1: Administrative Procedure Act**  
**(Agency Action Contrary to the First Amendment’s Freedom of Association)**

150. Plaintiffs reallege and incorporate the allegations set forth in the preceding paragraphs of this Complaint.

151. Plaintiffs assert this claim under the federal Administrative Procedure Act, 5 U.S.C. § 551 *et seq.* (“APA”) and U.S. Const. amend. I.

152. The DOJ’s Juggalo gang designations are interpretive rules under the APA.

153. The DOJ and FBI engaged in “final agency action” under § 704 of the APA when the Center issued the 2011 Assessment and its Juggalo gang designations.

154. As Juggalos, Plaintiffs were within the zone of interests regulated by these final agency actions.

155. These final agency actions do not provide any relevant, meaningful way to differentiate between law-abiding Juggalos and individual criminal Juggalos.

156. Under § 702 of the APA, Plaintiffs suffered legal wrongs or were adversely affected or aggrieved because of the Center's classification of the Juggalos as a gang. These wrongs, adverse effects and/or aggrievements not only include harms to Plaintiffs' good names, reputations, honor and integrity, but also improper stops, detentions, interrogations, searches, improper denials of consideration for federal employment, compelled expression (in the form of a forced tattoo), and interference with existing federal employment, as well as other distinct harms.

157. Under § 706(2)(B) of the APA, this Court has authority to "hold unlawful and set aside agency action, findings, and conclusions found to be . . . contrary to constitutional right, power, privilege, or immunity."

158. The First Amendment protects individuals' right to associate for purposes of engaging in the forms of expression that the Amendment protects.

159. Juggalos associate together for the primary purposes of listening to and appreciating the music of ICP and other Psychopathic Records artists; sharing ideas about that music and expressing their support of or interest in the ideas that ICP expresses through its music; expressing their affiliation with ICP and the artists on its record label; and expressing their affiliation with other Juggalos and their identification with Juggaloism as a philosophy, a set of values, a moral code, and a way of life.

160. Plaintiffs Parsons, Hellin, Gandy and Bradley associate with other individuals as “Juggalos” in order to engage in protected expression. Plaintiffs’ protected expression includes listening to the music of Psychopathic Records artists, attending “gatherings,” concerts and other musical events by these artists, expressing Plaintiffs’ identity and affiliation as Juggalos, bearing Juggalo tattoos and other Juggalo art, and discussing political and/or moral issues with other Juggalos.

161. The group known as the “Juggalos” does not have a primary purpose of committing criminal offenses. The vast majority of individual Juggalos do not associate together to commit crimes.

162. Plaintiffs do not associate with other Juggalos in order to commit crimes.

163. By classifying the entire group of Juggalos – which is overwhelmingly composed of law-abiding music fans – as some form of criminal gang, the DOJ and FBI have directly burdened Plaintiffs’ and other Juggalos’ First Amendment freedom of association. That classification burdens the Juggalos, including Plaintiffs, *because* they are Juggalos.

164. Due to the Center’s particular role in serving as a central clearinghouse and authority about criminal street gangs, the DOJ’s use of the Center’s reports to designate the Juggalos as a gang has actually and proximately caused state and local law enforcement and correctional officers to wrongfully treat Plaintiffs and other Juggalos as if they were criminal street gang members.

165. The law enforcement and correctional actions discussed above directly burden Plaintiffs’ freedom of association.

166. The federal, state and local actions discussed above chill the freedom of association of substantial numbers of Juggalos who are not members of any criminal street gang.

167. The DOJ's classification of the Juggalos as a hybrid gang reaches a substantial amount of protected associational conduct and is unconstitutionally overbroad.

168. The Center's classification of the Juggalos as a hybrid gang is not a narrowly tailored means, the least restrictive alternative, a necessary means, or a directly and palpably connected means to further any sufficient, substantial or compelling governmental interest.

WHEREFORE, Plaintiffs request that this Court enter an order under the APA holding unlawful and setting aside the 2011 Assessment and any other classification by the DOJ, FBI or the Center of the Juggalos, as a whole, as any kind of "gang," because these governmental actions violate the First Amendment right to freedom of association. For the same reason, Plaintiffs further request that the Court enjoin Defendants from taking action in the future that would brand Juggalos, as a group, as a criminal gang based on the actions of a relatively few people who may identify as Juggalos.

**COUNT 2: Administrative Procedure Act**  
**(Agency Action Contrary to the First Amendment's Freedom of Expression)**

169. Plaintiffs reallege and incorporate the allegations set forth in the preceding paragraphs of this Complaint.

170. Plaintiffs assert this separate, additional claim of a constitutional violation under § 706(2)(B) of the APA.

171. The First Amendment to the United States Constitution provides that "Congress shall make no law . . . abridging the freedom of speech." U.S. Const. amend. I.

172. The First Amendment protects the right of individuals to speak, write, make music, make art, and otherwise engage in expressive conduct. This right to freedom of expression also protects individuals' rights to attend musical events and concerts, to create and bear tattoo art, to express their association or affiliation with other individuals or groups, and to listen to speech about artistic, political and socio-economic matters.

173. Plaintiffs intended their Juggalo tattoos, clothing, symbols and merchandise to express their identities as Juggalos and their affiliations with other Juggalos.

174. Others objectively interpret and understand Juggalo tattoos, clothing, symbols and merchandise as expressions of the bearers' identification as Juggalos and their affiliations with other Juggalos. For example, the DOJ, FBI and the Center specifically rely on and interpret these Juggalo symbols to identify individual people as Juggalos and/or as people who affiliate with other Juggalos. The DOJ, FBI and the Center actively encourage state and local authorities to do the same, which those state and local authorities do as a result of such encouragement.

175. By bearing Juggalo art, tattoos, clothing, symbols and merchandise, Plaintiffs engaged in protected expression.

176. As part of the federal classification of the Juggalos as a gang, the DOJ, FBI and the Center identify Juggalos on the basis of their Juggalo tattoos, clothing, symbols and other merchandise and other protected expression.

177. By identifying the Juggalos on the basis of their protected expression as targets for law enforcement action, the DOJ, FBI and/or the Center have engaged – and continue to engage – in content-based regulation.

178. By targeting and/or taking action against the Juggalos due to their protected expression, the DOJ, FBI and the Center directly burden the Juggalos' (including the Plaintiffs') freedom of expression under the First Amendment.

179. When identifying, targeting and/or taking action against the Juggalos due to their protected expression - including through the 2011 Assessment - the DOJ, FBI and the Center have actually and proximately caused other state and local law enforcement authorities to take actions that directly burden the Juggalos', including the Plaintiffs', freedom of expression under the First Amendment.

180. The federal, state and local actions mentioned in this Count chill the freedom of expression of substantial numbers of Juggalos who are not members of any criminal street gang. Individual Juggalos, including Plaintiffs, have refrained from engaging in constitutionally protected expression for fear that it would result in his or her classification by federal law enforcement as a criminal gang member.

181. By identifying Juggalos as criminal gang members through reference to their protected expression, the DOJ, FBI and the Center have reached a substantial amount of protected conduct. The classification is unconstitutionally overbroad.

WHEREFORE, Plaintiffs request that this Court enter an order under the APA holding unlawful and setting aside the 2011 Assessment and any other classification by the DOJ, FBI or the Center of the Juggalos, as a whole, as any kind of "gang," because these governmental actions violate the First Amendment right to freedom of expression. For the same reason, Plaintiffs further request that the Court enjoin Defendants from taking action in the future that would use Juggalo group-based symbols and expression to identify

individuals as members of a criminal gang, based on the actions of a relatively few people who may identify as Juggalos.

**COUNT 3: Administrative Procedure Act**  
**(Agency Action that Violates Due Process Under the Fifth Amendment)**

182. Plaintiffs reallege and incorporate the allegations set forth in the preceding paragraphs of this Complaint.

183. Plaintiffs assert this separate, additional claim of a constitutional violation under § 706(2)(B) of the APA.

184. The Fifth Amendment to the United States Constitution provides that “No person shall . . . be deprived of life, liberty, or property, without due process of law.” U.S. Const. amend. V.

185. Under the Due Process Clause of the Fifth Amendment, federal laws, rules, regulations, and other similar legislative and administrative measures are unconstitutionally vague if they fail to give fair notice of the conduct that is forbidden or required by either (a) failing to inform the regulated parties what is required of them so that they may act accordingly; or (b) failing to provide enough precision and guidance to limit the discretion of those enforcing the law in order to avoid arbitrary or discriminatory law enforcement.

186. Where, as here, a federal criminal law-enforcement measure concerns protected First Amendment rights, the above anti-vagueness requirements of the Due Process Clause apply with particular strictness.

187. As used by the DOJ, the FBI and the Center, the terms “gang”, “hybrid gang”, and “Juggalo” are not fairly or clearly defined.

188. The terms “gang” and “hybrid gang” do not have any settled or determined meaning, and they are strongly susceptible to subjective interpretation.

189. The term “Juggalo” is strongly susceptible to subjective interpretation.

190. The DOJ, FBI and Center’s classification of the Juggalos as a gang:

- a. has regulated Plaintiffs and other Juggalos on the basis of the Juggalos’ status as Juggalos;
- b. has failed to provide an affirmative, reasonably ascertainable standard of conduct; and
- c. has failed to identify any particular prohibited actions that an individual Juggalo can avoid in order to avoid being considered a “hybrid gang” member, aside from renouncing or concealing their identity as a Juggalo.

191. When classifying the Juggalos as a hybrid gang, the DOJ, FBI and the Center:

- a. have not provided law enforcement officers with adequate guidance about how to distinguish the vast majority of law-abiding Juggalos from the small percentage of criminal individuals or subsets;
- b. failed to meaningfully limit the discretion of law enforcement officers in deciding whether and how to take law enforcement action targeting criminal individuals or subsets of Juggalos; and
- c. granted government officials so much discretion that individual officials’ decisions to limit protected speech can rest on ambiguous and subjective reasons rather than being constrained by objective criteria.

192. The DOJ, FBI and Center’s classification of the Juggalos as a hybrid gang:

- a. is vague and ambiguous; and
- b. has a substantial chilling effect upon the exercise by Plaintiffs and other Juggalos of their rights to freedom of expression and association.

WHEREFORE, Plaintiffs request that this Court enter an order under the APA holding unlawful and setting aside the 2011 Assessment and any other classification by the DOJ, FBI or the Center of the Juggalos, as a whole, as a “gang” or “hybrid gang” because

these governmental actions violate their right to Due Process. For the same reason, Plaintiffs further request that the Court enjoin Defendants from taking action in the future that would brand Juggalos, as a group, as a “gang” or “hybrid gang.”

**COUNT 4: Administrative Procedure Act**  
**(Arbitrary and Capricious Agency Action)**

193. Plaintiffs reallege and incorporate the allegations set forth in the preceding paragraphs of this Complaint.

194. Plaintiffs assert this claim to challenge arbitrary and capricious agency action under § 706(2)(A) of the APA, which authorizes this Court to “hold unlawful and set aside agency action, findings, and conclusions found to be . . . arbitrary, capricious, [or] an abuse of discretion . . . .”

195. The DOJ, FBI and the Center have not provided – and upon information and belief they do not have – a proper basis to explain their decision to depart from, add to, and/or amend the 2009 Assessment (which did not include the Juggalos as any kind of gang) and instead to identify the Juggalos as a “gang” in the 2011 Assessment.

196. The DOJ, FBI and the Center have not provided – and upon information and belief they do not have – a proper basis to believe that the Juggalos, as a group, are a criminal street gang.

197. The DOJ, FBI and the Center are in possession of information that the vast majority of Juggalos do not constitute and are not members of a criminal street gang.

198. Insofar as the DOJ, FBI and Center have classified the Juggalos as a “criminal street gang” under federal law:

- a. that classification is – as alleged and described above – an interpretive rule and a final agency action, which has adversely affected and aggrieved the Plaintiffs within the meaning of the APA;

- b. that classification lacks a proper factual basis, is implausible, and cannot be ascribed to a difference in view or the product of agency expertise;
- c. that classification is based on a failure to adequately develop the administrative record and to gather the evidence necessary to evaluate whether a criminal street gang exists in these circumstances;
- d. the DOJ, FBI and Center failed to reasonably consider and address the alternative of identifying criminal street gang members through their affiliations with known, established criminal street gangs rather than through their status as Juggalos.

199. Insofar as the DOJ, FBI and Center have classified the Juggalos as a “criminal street gang” under federal law, that classification is arbitrary and capricious under the APA.

WHEREFORE, Plaintiffs request that this Court enter an order under the APA holding unlawful and setting aside the 2011 Assessment and any other classification by the DOJ, FBI or the Center designating the Juggalos as a criminal street gang because these governmental actions are arbitrary and capricious. For the same reason, Plaintiffs further request that the Court enjoin Defendants from taking action in the future that would brand Juggalos, as a group, as a criminal street gang based on the actions of a relatively few people who may identify as Juggalos.

**COUNT 5: Administrative Procedure Act**  
**(Agency Action that Fails to Observe Procedures Required by Law)**

200. Plaintiffs reallege and incorporate the allegations set forth in the preceding paragraphs of this Complaint.

201. Plaintiffs assert this claim under § 706(2)(D) of the APA, which authorizes this Court to “hold unlawful and set aside agency action, findings, and conclusions found to be . . . without observance of procedure required by law.”

202. The DOJ, FBI and Center must comply with the provisions in the Code of Federal Regulations that provide “operating principles” for “Criminal Intelligence Systems Operating Policies.” 28 C.F.R. § 23.20.

203. The purpose of the “operating principles” is to “assure that all criminal intelligence systems operating through support under the Omnibus Crime Control and Safe Streets Act of 1968 ... are utilized in conformance with the privacy and constitutional rights of individuals.” 28 C.F.R. § 23.1. The “operating principles” are intended to confer important procedural benefits upon individuals.

204. Under 28 C.F.R. § 23.20(b): “A project shall not collect or maintain criminal intelligence information about the political, religious, or social views, associations, or activities of any individual or any group, association, corporation, business, partnership, or other organization unless such information directly relates to criminal conduct or activity and there is reasonable suspicion that the subject of the information is or may be involved in criminal conduct or activity.”

205. Pursuant to 28 C.F.R. § 23.20(c), “Reasonable Suspicion or Criminal Predicate is established when information exists which establishes sufficient facts to give a trained law enforcement or criminal investigative agency officer, investigator, or employee a basis to believe that there is a reasonable possibility that an individual or organization is involved in a definable criminal activity or enterprise. In an interjurisdictional intelligence system, the project is responsible for establishing the existence of reasonable suspicion of criminal activity either through examination of supporting information submitted by a participating agency or by delegation of this responsibility to a properly trained

participating agency which is subject to routine inspection and audit procedures established by the project.”

206. Under 28 C.F.R. § 23.20(l): “A project shall make assurances that there will be no harassment or interference with any lawful political activities as part of the intelligence operation.”

207. The Juggalos are a “group” or “association” within the meaning of 28 C.F.R. § 23.20(b).

208. The Plaintiffs are “individuals” within the meaning of 28 C.F.R. § 23.20(b).

209. The DOJ, FBI and Center have collected and/or maintained “criminal intelligence information” about the Juggalos’ “political, religious, or social views, associations, or activities,” within the meaning of 28 C.F.R. § 23.20(b).

210. Upon information and belief, the DOJ, FBI and Center have collected and/or maintained “criminal intelligence information” about some or all of the Plaintiffs’ “political, religious, or social views, associations, or activities,” within the meaning of 28 C.F.R. § 23.20(b), because the Plaintiffs are Juggalos.

211. Upon information and belief, the DOJ, FBI and Center have collected purported “criminal intelligence information” about the Juggalos and/or the Plaintiffs that fails to properly relate to definable criminal conduct or activity.

212. The DOJ, FBI and Center have failed to provide – and upon information and belief they do not have – sufficient information to support a “reasonable suspicion” or a “reasonable possibility” that the Juggalos as a group “[are] involved in a definable criminal activity or enterprise,” within the meaning of 28 C.F.R. § 23.20(c).

213. The DOJ, FBI and Center have failed to provide – and upon information and belief they do not have – sufficient information to support a “reasonable suspicion” or a “reasonable possibility” that the Plaintiffs:

- a. “[are] involved in a definable criminal activity or enterprise,” within the meaning of 28 C.F.R. § 23.20(c); or
- b. “[are] or may be involved in criminal conduct or activity,” within the meaning of 28 C.F.R. § 23.20(b).

214. The DOJ, FBI and Center have failed to provide – and upon information and belief they do not have – sufficient information to show that they have made “assurances that there will be no harassment or interference with any lawful political activities as part of the intelligence operation,” within the meaning of 28 C.F.R. § 23.20(l).

WHEREFORE, Plaintiffs request that this Court enter an order under the APA:

(a) requiring the DOJ to expunge and eliminate purported “criminal intelligence information” concerning the Juggalos from NGIC Online, Law Enforcement Online, and any other gang intelligence database under its control;

(b) prohibiting and enjoining the DOJ, FBI or the Center from gathering purported “criminal intelligence information” about the Juggalos, as a whole group, unless and until the DOJ has sufficient facts to give a trained law enforcement or criminal investigative agency officer, investigator, or employee a basis to believe that the Juggalos, as a whole group, are involved in a definable criminal activity or enterprise; and

(c) prohibiting and enjoining the DOJ, FBI or the Center from including within its collection of criminal intelligence information any information about an individual’s status as a Juggalo, in general, unless and until the DOJ has sufficient facts to give a trained law enforcement or criminal investigative agency officer, investigator, or employee a basis to believe that the Juggalos, as a whole group, are involved in a definable criminal activity or enterprise.

**COUNT 6: Declaratory Judgment Act**

215. Plaintiffs reallege and incorporate the allegations set forth in the preceding paragraphs of this Complaint.

216. Plaintiffs assert this claim for declaratory relief under the Declaratory Judgment Act, 28 U.S.C. § 2201, which authorizes the Court to “declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought. Any such declaration shall have the force and effect of a final judgment or decree and shall be reviewable as such.”

217. Upon information and belief, the DOJ and FBI currently have collected the most complete repositories within the United States of information from international, federal, state and local governmental authorities on the subject of whether Juggalos are involved in any activity related to criminal street gangs.

218. For the reasons set forth above, the information referenced in the immediately preceding paragraph is not sufficient

- a. to overcome the First Amendment’s prohibition here on classifying the Juggalos as any kind of criminal “gang.”
- b. to overcome the Due Process Clause’s prohibition here on the vague and otherwise constitutionally deficient classification of the Juggalos as any kind of criminal “gang.”

WHEREFORE, Plaintiffs request that this Court enter a declaratory judgment holding that federal designations of the Juggalos, as a whole, as any kind of criminal “gang” are unlawful because they violate the First and Fifth Amendments.

**PRAYER FOR RELIEF**

For the reasons set forth above, Plaintiffs respectfully request that this Court:

(1) Enter an order under the APA:

- (a) holding unlawful and setting aside the 2011 Assessment and any other classification by the DOJ, FBI or the Center of the Juggalos, as a whole, as a

“gang” or a “hybrid gang” because those governmental actions are unconstitutional;

(b) holding unlawful any classifications by the DOJ, FBI or the Center of the Juggalos, as a whole, as a “criminal street gang” because those governmental actions are arbitrary and capricious;

(c) requiring the DOJ to expunge and eliminate purported “criminal intelligence information” concerning the Juggalos from NGIC Online, Law Enforcement Online, and any other gang intelligence database under its control, because such information was collected and maintained in violation of the legally required procedures;

(d) prohibiting and enjoining the DOJ, FBI and the Center from gathering purported “criminal intelligence information” about the Juggalos, as a whole, unless and until the DOJ has sufficient facts to give a trained law enforcement or criminal investigative agency officer, investigator, or employee a basis to believe that the Juggalos, as a whole, are involved in a definable criminal activity or enterprise; and

(e) prohibiting and enjoining the DOJ, FBI and the Center from including within its collection and/or database of criminal intelligence information any information about an individual’s status as a Juggalo, in general, unless and until the requirements of subparagraph (d) above are met.

(2) Declare, pursuant to the Declaratory Judgment Act, 28 U.S.C. § 2201, that the governmental designation of “Juggalos,” as a whole, as a “gang” or a “hybrid gang” is unconstitutional under the First and Fifth Amendments to the United States Constitution.

(3) Award costs and reasonable attorneys’ fees.

(4) Grant such other and further relief as the Court deems just and proper.

Respectfully submitted,

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Dated: January 8, 2014

21394489

**IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION**

<b>JOSHUA WOODARD, NEIL WESTFALL, ALEX SHELNUTT, JEREMY McKINNON, all professionally known as A DAY TO REMEMBER,</b>	)	
	)	
	)	
<b>Plaintiffs,</b>	)	<b>Case No. 11-cv-7594</b>
	)	
<b>v.</b>	)	<b>Honorable John Z. Lee</b>
	)	
<b>VICTORY RECORDS, INC. and ANOTHER VICTORY, INC.,</b>	)	
	)	
<b>Defendants.</b>	)	

**MEMORANDUM OPINION AND ORDER**

Defendants Victory Records, Inc. and Another Victory, Inc. (“Victory”) seek to preclude Plaintiffs Joshua Woodard, Neil Westfall, Alex Shelnett, and Jeremy McKinnon, members of the rock band, A Day to Remember (collectively “ADTR”), from releasing a new album on Tuesday, October 8, 2013. Victory contends that ADTR is precluded from releasing the album because it has not yet satisfied its obligations under a recording contract that requires ADTR to release five albums under the Victory label. In response, ADTR argues that it has delivered more than the five required albums to Victory and should not be precluded from releasing its new album independently. Although the ultimate issue of whether ADTR has satisfied its obligations to Victory under the recording contract is yet to be determined, Victory asks the Court to impose the extraordinary remedy of injunctive relief to preclude ADTR from releasing the album during the pendency of this case. For the reasons set forth herein, the Court concludes that such an extreme remedy is not appropriate based upon the record before it, and Victory’s motion is denied.

### **Factual Background**

On July 17, 2006, ADTR entered into a recording contract (the “Deal Memo”) with Victory. Pursuant to the terms of the Deal Memo, ADTR was to deliver five “Albums” to Victory for release. ADTR now seeks to extricate itself from its business relationship with Victory, contending that it has delivered “at least thirteen (13) Albums, as that term is defined in the Deal Memo” to Victory, thereby fulfilling its obligations under the terms of the contract. (2d Am. Compl. ¶¶ 8-9.) ADTR further alleges that Victory has engaged in certain unacceptable conduct, including, *inter alia*, attempting to copyright ADTR compositions to which Victory has no rights, failing to pay ADTR certain royalties, and improperly holding certain funds in reserve. (*Id.* ¶¶ 20-21.) Victory denies ADTR’s assertions, denies that ADTR has satisfied its end of the bargain, and asserts counterclaims against ADTR for breaching the terms of the agreement.

ADTR has now informed Victory and the Court that it intends to independently release an album of new music entitled *Common Courtesy* on Tuesday, October 8, 2013. (Opp. Mot. Prelim. Inj. 1.) Victory objects and asks the Court to issue a preliminary injunction prohibiting ADTR from self-releasing the new album until the case can be resolved. (Defs.’ Mem. Supp. Mot. Prelim. Inj. 1; Defs.’ Reply Supp. Mot. Prelim. Inj. 2.)

### **Discussion**

#### **A. Standard of Review**

A preliminary injunction is an extraordinary remedy that is “never to be indulged in except in a case clearly demanding it.” *Girl Scouts of Manitou Council, Inc. v. Girl Scouts of the USA, Inc.*, 549 F.3d 1079, 1085 (7th Cir. 2008) (internal citations and quotations omitted). The party seeking a preliminary injunction must clearly demonstrate that it is entitled to the relief it seeks. *Goodman v. Ill. Dep’t of Fin. & Prof’l Regulation*, 430 F.3d 432, 437 (7th Cir. 2005).

In order to make this showing, the movant must demonstrate as a threshold matter that (a) it will suffer irreparable harm without the injunction; (b) traditional legal remedies would be inadequate to remedy the harm; and (c) its claim has some likelihood of success on the merits. *Girl Scouts*, 549 F.3d at 1086. If the movant fails to establish these requirements, “a court’s inquiry is over and the injunction must be denied.” *E. St. Louis Laborers’ Local 100 v. Bellon Wrecking & Salvage Co.*, 414 F.3d 700, 703 (7th Cir. 2005) (internal citations and quotations omitted). On the other hand, if all three requirements are satisfied, the movant also must demonstrate that its harm in the absence of such relief outweighs any harm that may be suffered by the non-moving party if the injunction is granted. *Girl Scouts*, 549 F.3d at 1086.

In conducting this balancing of interests, the Court will use a sliding scale approach: “[t]he more likely the plaintiff is to win, the less heavily need the balance of harms weigh in his favor, the less likely he is to win, the more need it weigh in his favor.” *Id.* (quoting *Roland Mach. Co. v. Dresser Indus., Inc.*, 749 F.2d 380, 389 (7th Cir. 1984)). Additionally, where appropriate, this balancing process “should . . . encompass any effects that granting or denying the preliminary injunction would have on nonparties (something courts have termed the “public interest”).” *Id.* (quoting *Ty, Inc. v. Jones Grp., Inc.*, 237 F.3d 891, 895 (7th Cir. 2001)).

Once it takes into account all of these considerations, the Court exercises its discretion “to arrive at a decision based on a subjective evaluation of the import of the various factors and a personal, intuitive sense about the nature of the case.” *Id.* (internal citations and quotations omitted).

**B. Likelihood of Success on the Merits**

In order to obtain a preliminary injunction, Victory must establish that it has some likelihood of succeeding on the merits of its claims. *See Girl Scouts*, 549 F.3d at 1096. This is not a high burden. Generally a movant satisfies this element so long as it demonstrates a “‘better than negligible’ chance of succeeding on the merits.” *Boucher v. Sch. Bd. of Sch. Dist. of Greenfield*, 134 F.3d 821, 824 (7th Cir. 1998) (internal citations omitted). Based on the current record in the case, the Court concludes that Victory has a “better than negligible” chance of prevailing on the merits.

Here, the core dispute between the parties hinges on the definition of “Album” under the terms of the Deal Memo. The Deal Memo provides that “[a]n Album is a [sic] of reproduction, transmission or communication of Recordings, now or hereafter known, manufactured, distributed, transmitted or communicated in any format.” (2d Am. Compl. at Ex. A, p. 1.) According to ADTR, this definition of “Album” is “unambiguous and should be enforced as written.” (Pl.’ Mem. Supp. Mot. Summ. J. 21.) Using this definition, ADTR argues that all thirteen of its recordings released by Victory were “Albums,” including re-releases of previously released collections of songs with certain “bonus tracks” and a recording of a single song in two versions. (*Id.*)

For its part, Victory argues that Album “could only mean new studio or ‘commitment’ albums that are delivered in accordance with” the eighteen and twenty-four month cycle “that is the recognized custom and practice of the music recording industry.” (Defs.’ Opp. Mot. Summ. J. 24.) Accordingly, by Victory’s count, ADTR has delivered only three of the five Albums required under the Deal Memo and is obligated to provide two more.

When denying ADTR's motion for summary judgment, the Court found that the term "Album" is internally ambiguous for a number of reasons. This has not changed. First, the definition in the Deal Memo itself is vague and may have more than one reasonable construction. Indeed, taking the definition literally, ADTR could fulfill its obligations under the Deal Memo by delivering to Victory five copies of the exact same collection of songs. This could hardly be what the parties intended when entering into the Deal Memo. Moreover, the broad definition urged by ADTR is inconsistent with other provisions in the Deal Memo, including but not limited to the provisions outlining the schedule of royalty payments, publishing advances, and recording advances by Victory to ADTR.

This is not to say that the narrow definition offered by Victory will ultimately prevail. A number of factual issues remain. For example, whether the two live recordings made by the band and released by Victory constitute separate "Albums" as that term appears in the Deal Memo remains an open question. That said, for the purpose of deciding this motion, it is sufficient for the Court to find that, as between the overly broad definition offered by ADTR and the narrow one offered by Victory, the record currently before the Court supports Victory's construction at least as equally, if not more so, than that offered by ADTR. Accordingly, the Court finds that Victory has a "better than negligible" chance of prevailing in this litigation.

**C. Irreparable Harm and Adequacy of Remedy At Law**

The Court's inquiry, however, does not end there. Victory also must demonstrate that it will suffer irreparable harm without the relief it seeks. *Girl Scouts*, 549 F.3d at 1087. To establish irreparable harm, Victory must show "that irreparable injury is *likely* in the absence of an injunction." *Winter v. Natural Res. Def. Council, Inc.*, 555 U.S. 7, 22 (2008) (emphasis in original). The threat of irreparable injury necessary to justify the extraordinary remedy of

preliminary injunctive relief must be “real and “immediate,” not “conjectural or hypothetical.” *City of Los Angeles v. Lyons*, 461 U.S. 95, 102 (1983). In addition, Victory must demonstrate that traditional legal remedies, such as monetary damages, would be inadequate to remedy the harm it would suffer absent an injunction. *Girl Scouts*, 549 F.3d at 1095. See *Kreg Therapeutics, Inc. v. VitalGo, Inc.*, No. 11 CV 6771, 2011 WL 5325545, at \* 5 (N.D. Ill. Nov. 3, 2011) (“An injury is ‘irreparable’ when it is of such a nature that the injured party cannot be adequately compensated in damages or when damages cannot be measured by any pecuniary standard.”). The inquiries into the existence of irreparable harm and the availability of an adequate remedy at law often raise similar issues and are frequently conducted in combination with one another. See *Graham v. Med. Mut. of Ohio*, 130 F.3d 293, 295 (7th Cir. 1997).

As an initial matter, Victory claims that “irreparable harm is presumed in instances such as this where Victory alleges that the threatened release by ADTR will result in copyright infringement.” (Mem. Supp. Mot. Prelim. Inj. 6 (citing *Atari Inc. v. N. Am. Philips Consumer Elec. Corp.*, 672 F.2d 607, 620 (7th Cir. 1982))); Reply Supp. Mot. Prelim. Inj. 15 (same)). This is a bald misstatement of the governing law. The Seventh Circuit has repudiated the notion that irreparable harm is to be presumed in a copyright infringement case. *Flava Works, Inc. v. Gunter*, 689 F.3d 754, 755 (7th Cir. 2012).

In *Flava Works*, a video producer brought a copyright infringement action against an online bookmarking service that allowed users to find and bookmark videos online to share with other users. The video producer moved to enjoin the defendant from providing this service, alleging that it constituted a form of contributory infringement of its copyrights. Relying on *Atari*, the district court granted the motion for injunctive relief, finding that Flava Works had a likelihood of success on the merits and that “irreparable injury may normally be presumed from

a showing of copyright infringement.” *Id.* But on appeal the Seventh Circuit emphasized that the Supreme Court has done away with the presumption of irreparable harm for patent cases and found the reasoning equally applicable to copyright infringement actions. *Id.* (citing *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 392-93 (2006)). Thus, *Atari* is no longer governing law as to this point and should not have been relied upon (twice) by Victory.

That being said, assuming, *arguendo*, that ADTR owes Victory two more Albums under the Deal Memo, Victory also contends that it would suffer irreparable harm absent injunctive relief because any lost profit resulting from the release of *Common Courtesy* would be too difficult to ascertain, thereby precluding a satisfactory remedy at law. But this argument is unpersuasive for a number of reasons. First, this is not a case involving a new, unknown entity or novel business venture. ADTR is an established band with a track record of financially successful albums. To the extent that *Common Courtesy* generates profits and results in increased revenue to the band, those amounts will be readily ascertainable by Victory through discovery in this case.

Victory nevertheless contends that money damages will not be calculable because a record label, like Victory, typically contributes much to the creation, marketing and distribution of a new record to ensure its commercial success -- opportunities that it did not have here. The gist of Victory’s argument is that relying solely upon the actual financial performance of *Common Courtesy* after its release by ADTR will not provide a reasonable estimation of damages to Victory, because the profits would have been much higher if Victory had been able to participate in the record’s creation, marketing and distribution. But this then leads us to the second point.

Regardless of how “Album” is defined in the Deal Memo, it is undisputed that ADTR has released, at a minimum, three Albums (*For Those Who Have Heart*, *Homesick*, and *What Separates Me From You*) through Victory, all of which have been financially successful. Not only does Victory have the information regarding the financial performance of these Albums in its possession, but it presumably was involved in the creation, marketing, and distribution of those Albums. Accordingly, the sales and profit information from those records provide additional data from which Victory can estimate the profits that it would have made had it been given the opportunity to oversee the release of *Common Courtesy*. In this way, the facts of this case are distinguishable from the decisions upon which Victory relies. *See Mintel Int’l Grp., Ltd. v. Neergheen*, No. 08-cv-3939, 2008 WL 2782818, at \*5 (N.D. Ill. Jul. 16, 2008) (finding no adequate remedy at law where salesperson improperly took client account files including budgets and costs data, clients lists, vendor lists, and marketing strategies and that it was difficult to ascertain how the confidential information would be used and what harm would result from such use); *Gordy Co. v. Mary Jane Girls, Inc.*, Nos. 86 CIV 6814, 87 CIV 3438, 1989 WL 149290, at \*23 (S.D.N.Y. Dec. 6, 1989) (lost profits unavailable where they were based solely on “conclusory allegations about the prospects of the artists’ work”).

Victory also claims that it will suffer irreparable harm because the product is a unique piece of intellectual property, citing *Lower Cook County Mobil Dealers’ Ass’n v. Exxon Mobil Corp*, No. 06 C 3652, 2006 WL 3590080, at \*2 (N.D. Ill. Dec. 8, 2006). But the decision in that case rested on the well-worn adage that “real property is always considered unique” and hence is distinguishable. *Id.* at \*2. Furthermore, although it is true that some courts have issued negative preliminary injunctions in cases involving unique products or services, the exclusivity agreement in those cases typically contained a set term or expiration period, which circumscribes the burden

of the restriction upon the enjoined party. *See, e.g., Madison Square Garden Boxing, Inc. v. Shavers*, 434 F. Supp. 449, 452 (S.D.N.Y. 1977) (granting negative injunction preventing a boxer from fighting in competing match where contract was for a fixed duration and contained an enforceable restrictive covenant); *Am. Broad. Co., Inc. v. Wolf*, 420 N.E.2d 363, 367-68 (N.Y. 1981) (explaining that “cases permitted injunctive relief where the circumstances justified implication of a negative covenant . . . because the employee either expressly or by clear implication agreed not to work elsewhere *for the period of his contract*”) (citations omitted and emphasis added); *Zomba Recording LLC v. Williams*, 839 N.Y.S. 2d 438 (N.Y. App. Div. 2007) (temporary injunctive relief appropriate where agreement was for definite period of time and contained an enforceable restrictive covenant). Such a measured approach is consistent with Illinois’ policy to enforce restrictive covenants only where they are reasonable in scope and duration. *See, e.g., Mohanty v. St. John Heart Clinic, S.C.*, 866 N.E.2d 85, 98 (Ill. 2006) (“[T]his court has a long tradition of upholding covenants not to compete in employment contracts involving the performance of professional services when the limitations as to time and territory are not unreasonable.”). The Deal Memo contains no such limitation. *See, e.g., Curb Records, Inc. v. McGraw*, No. M2011-02762, 2012 WL 4377817, at \*6 (Tenn. Ct. App. Feb. 12, 2013) (denying injunctive relief where singer Tim McGraw’s recording contract with plaintiff did not contain a “specific durational limit”).

Finally, Victory argues that if ADTR is allowed to self-release its album, Victory may suffer irreparable harm to its reputation because the record may “be of substandard quality or even of lesser quality than the prior Victory releases.” (Mem. Supp. Mot. Prelim. Inj. 10.) But Victory offers no evidence to support this proposition, and the cases upon which Victory relies all involve products that were demonstrably inferior in quality. *See, e.g., Firma Melodiya v. ZYX*

*Music GmbH*, 882 F. Supp. 1306, 1315 (S.D.N.Y. 1995) (substandard quality compact discs); *Saban Entertainment, Inc. v. 222 World Corp.*, 865 F. Supp. 1047, 1056-57 (S.D.N.Y. 1994) (trademarks infringed by knock-off toys); *RCA Records v. All-Fast Systems, Inc.*, 594 F. Supp. 335, 338 (S.D.N.Y. 1984) (copyrights infringed by poorly-mastered tape recordings).

Furthermore, the Court notes that ADTR is an established band with numerous recordings under its belt, an experienced management team, and a substantial fan base. It is difficult to believe, in the absence of contrary evidence, that ADTR would release an album that is materially inferior in recording quality to its prior records, even if it is “self-released.” Indeed, in this age of digital music distribution through internet channels such as YouTube or iTunes, it can hardly be presumed that a “self-released” recording by a music artist would be “inferior” in terms of recording quality to one overseen by an established record company. Finally, ADTR has made it explicitly clear that it is releasing the record on its own, without the assistance or participation of Victory. As such, even assuming that *Common Courtesy* will be substandard in recording quality, any blame would likely fall upon ADTR, rather than Victory, and the value of Victory’s contributions to its artists may become manifest and even enhanced. Therefore, Victory’s “reputational” arguments fall short of establishing irreparable harm.

#### **D. Balancing of harms**

Although the Court need not undertake a balancing analysis in light of Victory’s failure to satisfy all three threshold requirements, *see E. St. Louis Laborers’ Local*, 414 F.3d at 703, the Court does so for the sake of completeness and concludes that, on balance, the harm to ADTR in the event that a preliminary injunction were to issue is greater than the harm that Victory would suffer in the absence of such injunctive relief. As noted above, Victory has an adequate remedy at law if ADTR is permitted to release its new record. Victory will be able to seek the lost

profits from the sale of *Common Courtesy* based upon information gained from the sales of ADTR's prior three Albums and the sales of *Common Courtesy* itself. Furthermore, in the event that Victory prevails in this action, it will undoubtedly seek to hold ADTR to its obligation to deliver two additional Albums to Victory pursuant to the terms of the Deal Memo. (*See* Defs.' Countercls. ¶ 49.)

In contrast, ADTR has not released a collection of new songs in quite some time. (Mem. Opp. Mot. Prelim. Inj. 7; Mercado Decl. ¶ 25.) As a pop band in a very competitive and fickle marketplace, it is likely that ADTR will experience a material erosion in popularity and fan support if it is prohibited from releasing a new record until the resolution of this case, which is likely many months away. (Mercado Decl. ¶¶ 26, 27; Childress Decl. ¶ 9.) *See also Curb*, 2012 WL 4377817 at \*4 ("an injunction would likely have an adverse and disproportionate effect on the body of musical recording work Mr. McGraw would be permitted to produce during this important period in Mr. McGraw's musical career."). This will not only harm ADTR, but also would detrimentally impact Victory's ability to benefit from ADTR's continued popularity in the event that it prevails in this action. Accordingly, the Court concludes that the balancing of harms favors ADTR, particularly in light of the very slight margin by which Victory is likely to succeed on the merits of its claims.

**Conclusion**

For the reasons set forth above, Defendants/Counter-Plaintiffs Victory Records, Inc. and Another Victory, Inc.'s Motion for Preliminary Injunction (dkt. 192) is denied.

**SO ORDERED**

**ENTER:**

A handwritten signature in black ink, appearing to read "John Z. Lee", written over a horizontal line.

**JOHN Z. LEE**  
**U.S. District Judge**

October 4, 2013

**MARVEL CHARACTERS, INCORPORATED, MARVEL WORLDWIDE, INCORPORATED,  
MVL RIGHTS, LLC, Plaintiffs-Counter-Defendants-Appellees,  
WALT DISNEY COMPANY, MARVEL ENTERTAINMENT, INCORPORATED, Counter-  
Defendants-Appellees,**

**v.**

**LISA R. KIRBY, NEAL L. KIRBY, SUSAN N. KIRBY,  
BARBARA J. KIRBY, Defendants-Counter-Claimants-Appellants.**

**Docket No. 11-3333-cv**

**UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT**

**August Term, 2012**

**Argued: October 24, 2012**

**Decided: August 8, 2013**

**Summaries:**

**Source: Justia**

Defendants, the children of the late Jack Kirby, one of the most influential comic book artists of all time, appealed the district court's grant of summary judgment to Marvel. This case concerned the property rights in 262 works published by Marvel between 1958-1963. After defendants served various Marvel entities with Termination Notices purporting to exercise statutory termination rights under section 304(c)(2) of the Copyright Act of 1976, 17 U.S.C. 304, Marvel filed suit seeking a declaration that defendants have no termination rights under section 304(c)(2). The court concluded that the district court lacked personal jurisdiction over Lisa and Neal Kirby and, therefore, vacated the district court's judgment against them; Lisa and Neal are not indispensable parties and it was appropriate for the action against Barbara and Susan Kirby to have proceeded on its merits; the district court did not err in determining as a matter of law that the works at issue were "made for hire," made at Marvel's instance and expense, and that the parties had no agreement to the contrary; and the district court properly granted Marvel's motion for summary judgment as to Susan and Barbara, who were without termination rights under section 304(c).

Before: CABRANES, SACK, and CARNEY,  
Circuit Judges.

Appeal by the defendants-counter-claimants from a judgment of the United States District Court for the Southern District of New York (Colleen McMahon, Judge) granting summary judgment in favor of the plaintiffs-counter-defendants on their claim for declaratory relief and denying the defendants-counter-claimants' cross-motion for summary judgment. Plaintiffs-counter-defendants commenced

Page 2

this lawsuit in response to notices sent by the defendants-counter-claimants, the children of comic book artist Jack Kirby, purporting to terminate alleged assignments in certain of their father's works pursuant to section 304(c)(2) of the Copyright Act of 1976. We conclude that: (1) the district court incorrectly determined that it had personal jurisdiction over Lisa and Neal Kirby; (2) Lisa and Neal Kirby were not indispensable parties to the action under Rule 19(b) of the Federal Rules of Civil Procedure; and (3) the district court correctly determined that the works at issue were "made for hire" under section 304(c), and that Marvel was therefore entitled to summary judgment.

Affirmed in part; vacated in part.

R. BRUCE RICH (James W. Quinn, Randi W. Singer, Gregory Silbert, on the brief), Weil, Gotshal & Manges LLP, New York, New York; David Fleischer, Haynes and Boone, LLP, New York, New York for Plaintiffs-Counter-

Defendants-Appellees and Counter-Defendants-Appellees.

MARC TOBEROFF, Toberoff & Associates, P.C., Malibu, California, for Defendants-Counter-Claimants-Appellants.

SACK, Circuit Judge:

This appeal requires us to revisit our case law applying the work-for-hire doctrine in the context of section 304 of the Copyright Act of 1976 (or, the "1976

Page 3

Act"), 17 U.S.C. § 304. Defendants-counter-claimants-appellants Lisa, Neal, Susan, and Barbara Kirby (collectively, the "Kirbys") are the children of the late Jack Kirby. Kirby is considered one of the most influential comic book artists of all time. At various times throughout his career, he produced drawings for Marvel Comics, a comic book publisher that has since grown into the multifaceted enterprise reflected in the case caption: Marvel Characters, Inc., Marvel Worldwide, Inc., MVL Rights, LLC, and Marvel Entertainment, Inc. (collectively, "Marvel"). At issue here are the rights to drawings Kirby allegedly created between 1958 and 1963.

The Kirbys appeal from the district court's grant of summary judgment to Marvel, which was based on the conclusion that all of the works at issue are "works made for hire" within the meaning of section 304(c), and that the Kirbys therefore have no rights to the works. Two of the Kirbys, Lisa and Neal, also challenge the district court's conclusion that it had personal jurisdiction over them under New York's long-arm statute. They further argue that they are indispensable parties under Rule 19(b) of the Federal Rules of Civil Procedure, such that their absence from this lawsuit (by virtue of the district court's lack of personal

Page 4

jurisdiction over them) requires that the suit be dismissed in its entirety.

We conclude that the district court was without personal jurisdiction over Lisa and Neal. We therefore vacate the judgment as against them. We also find, however, that Lisa and Neal are not indispensable parties to this lawsuit, and that the district court was correct in concluding that the works at issue are "works made for hire" under section 304(c). We therefore affirm the judgment as to defendants Barbara and Susan.

**BACKGROUND**

In this appeal from the grant of summary judgment, we view the evidence in the light most favorable to the nonmovants, the Kirbys for present purposes, and draw all reasonable inferences in their favor. See, e.g., Singer v. Ferro, 711 F.3d 334, 339 (2d Cir. 2013).

Jack Kirby

Jack Kirby, born Jacob Kurtzberg in New York City's Lower East Side in 1917, began his career in the comic book business in the late 1930s. In the summer of 1940, a young woman named Rosalind moved into the apartment above his with her family. The day they met, Kirby asked Rosalind if she "[w]ould like to see [his] etchings[.]" She thought he wanted "to fool around"; he only wanted to show

Page 5

her his drawings for a new comic book series called Captain America. John Morrow, "Would You Like to See My Etchings?": Rosalind Kirby Interviewed (conducted Dec. 12, 1995), THE JACK KIRBY COLLECTOR, April 1996, at 6. Kirby and "Roz" were married in 1942. After Kirby's military service in World War II, the couple had four children: Susan, Neal, Barbara, and Lisa.

Kirby's career in comic book illustration spanned more than half a century. His influence was substantial. An obituary marking his death in 1994 quoted Joe Simon, Kirby's creative partner for fifteen years: "He brought the action drawing to a new level. His style was imitated all over and still is today to a certain extent."

Jack Kirby, 76: Created Comic Book Superheroes, N.Y. TIMES, Feb. 8, 1994, at D22.

Kirby was prolific, too. In 1951 alone, 308 pages of Kirby's work appeared in published comic books. This output was typical for him in the years between 1940 and 1978.

#### Marvel Comics and Stan Lee

Marvel was founded as Timely Comics in 1939 by one Martin Goodman. In 1940, Marvel purchased the first ten issues of Captain America from Kirby and Joe Simon. But

Page 6

Kirby and Simon would soon move on to a competitor, DC Comics. To replace them, Goodman hired one Stanley Lieber.

Lieber would come to be known by his pen name, Stan Lee. Lee is in his own right a towering figure in the comic book world, and a central one in this case. He in effect directed Marvel from the early 1940s until sometime in the 1970s, serving, in his words, as "Editor," "Art Director" and "a staff writer." Deposition of Stan Lee ("Lee Dep."), May 13, 2010, at 17, Joint App'x at 2437. He continued to work for Marvel in one capacity or another at least to the day of his deposition testimony in this litigation.

But in the 1940s and 50s, Marvel, hobbled by poor business decisions, was hardly a success story.<sup>1</sup> In 1958, Kirby began producing drawings for Marvel once again. And by 1961, its fortunes began to change. That year, Marvel released the first issues of The Fantastic Four. On its heels were releases of the first issues of some of Marvel's

Page 7

most enduring and profitable titles, including The Incredible Hulk, The X-Men, and Spider-Man.

Kirby's Relationship with Marvel from 1958-1963

This litigation concerns the property rights in 262 works published by Marvel between 1958 and 1963. Who owns these rights depends upon the nature of Kirby's arrangement with Marvel during that period.

It is undisputed that Kirby was a freelancer, i.e., he was not a formal employee of Marvel, and not paid a fixed wage or salary. He did not receive benefits, and was not reimbursed for expenses or overhead in creating his drawings. He set his own hours and worked from his home. Marvel, usually in the person of Stan Lee, was free to reject Kirby's drawings or ask him to redraft them. When Marvel accepted drawings, it would pay Kirby by check at a per-page rate.

Despite the absence of a formal employment agreement, however, the record suggests that Kirby and Marvel were closely affiliated during the relevant time period. Lee assigned Kirby, whom he considered his best artist, a steady stream of work during that period. See Lee Dep. at 36, Joint App'x at 2456 ("I wanted to use Jack for everything, but I couldn't because he was just one guy.");

Page 8

id. at 37, Joint App'x at 2457 ("So I said: All right, forget it, Jack. I will give [the Spider-Man strip] to somebody else. Jack didn't care. He had so much to do."); id. at 30, Joint App'x 2450 ("He got the highest [rate] because I considered him our best artist.").

And Kirby seems to have done most of his work with Marvel projects in mind. Although the Kirby children assert that their father could and did produce and sell his work to other publishers during those years, lists of Kirby's works cited by both parties establish that the vast majority of his published work in that time frame was published by Marvel (or Atlas Comics, as part of Marvel Comics Group).

The specifics of Kirby and Marvel's creative relationship during this time period are less clear.

According to Lee, at the relevant time, artists worked using what the parties call the "Marvel Method." It was developed as a way to "keep a lot of artists busy" when Lee or another writer could not provide the artist with a completed script. Lee Dep. at 21, Joint App'x at 2441. The first step was for Lee to meet with an artist at a "plotting conference." Id. at 39-40, Joint App'x at 2459-60. Lee would provide the artist with a "brief outline" or "synopsis" of an issue; sometimes he would "just talk . . .

Page 9

with the artist" about ideas. Id. at 35, Joint App'x at 2455. The artist would then "draw it any way they wanted to." Id. at 21, Joint App'x at 2441. Then a writer, such as Lee, would "put in all the dialogue and the captions." Id. According to Lee, he "maintain[ed] the ability to edit and make changes or reject what the other writers or artists had created." Id. at 22, Joint App'x at 2442.

Lee testified that he worked this way with Kirby "for years":

And Jack Kirby and I would, let's say when we did the Fantastic Four, I first wrote a synopsis of what I thought the Fantastic Four should be, who the characters should be, what their personalities were. And I gave it to Jack, and then I told him what I thought the first story should be, how to open it, who the villain should be, and how we would end it. And that was all. Jack went home and drew the whole thing. I put the dialogue in.

Id. at 118, Joint App'x at 2538.

Other evidence in the record, including some of Lee's own deposition testimony, indicates, however, that Kirby had a freer hand within this framework than did comparable artists. For example, Lee explained that "instead

of telling [Kirby] page by page" what to draw, Lee might simply tell him to "[d]evote five pages to this, five pages to that, and three pages to that." Id. at 70, Joint

Page 10

App'x at 2490. Sometimes during plotting sessions, Kirby might "contribute something or he might say, 'Stan, let's also do this or do that.'" Id. at 41, Joint App'x at 2461.

It is beyond dispute, moreover, that Kirby made many of the creative contributions, often thinking up and drawing characters on his own, influencing plotting, or pitching fresh ideas.

#### The Termination Notices

The dispute before us began in September 2009, when the Kirbys served various Marvel entities with documents entitled "Notice of Termination of Transfer Covering Extended Renewal Term" (the "Termination Notices"). The Termination Notices purport to exercise statutory termination rights under section 304(c)(2) of the Copyright Act of 1976, 17 U.S.C. § 304, with respect to 262 works in all.

Each notice states an effective date sometime in the future, presumably between 2014 and 2019. The effective dates are calculated according to section 304(c)'s timing provision, which states in relevant part that "[t]ermination . . . may be effected at any time during a period of five years beginning at the end of fifty-six years

Page 11

from the date copyright was originally secured . . ." 17 U.S.C. § 304(c)(3).

#### Procedural History

Marvel filed this lawsuit on January 8, 2010. It sought a declaration that the Kirbys have no termination rights under section 304(c)(2), and that the Termination Notices are therefore ineffective. Marvel's claim was premised on its contention that all of the works

were "made for hire" by Jack Kirby for Marvel within the definition of section 304(c).

On March 9, 2010, the Kirbys filed a motion to dismiss the complaint. Lisa and Neal Kirby, residents of California, sought dismissal on the ground that they were not subject to personal jurisdiction in New York State. (The other Kirby siblings, Susan and Barbara, are residents of New York and do not contest personal jurisdiction.) The Kirbys also argued that Lisa and Neal are indispensable to the action under Fed. R. Civ. P. 19, and that Marvel's entire suit must therefore be dismissed as against all parties.

The district court denied the motion on April 14, 2010. Marvel Worldwide, Inc. v. Kirby, No. 10 Civ. 141, 2010 WL 1655253, 2010 U.S. Dist. LEXIS 38701 (S.D.N.Y. Apr.

Page 12

14, 2010). It concluded that it had personal jurisdiction over Lisa and Neal under New York's long-arm statute, and that the exercise of this jurisdiction was consistent with constitutional due process. Id. at \*3-\*9; 2010 U.S. Dist. LEXIS 38701, at \*7-\*25. It therefore did not reach the question of whether Lisa and Neal were indispensable parties.

The Kirbys answered Marvel's complaint and asserted several counterclaims of their own. Marvel moved to dismiss each of them. On November 22, 2010, the district court granted the motion as to all but the Kirbys' counterclaim seeking a declaration that the Termination Notices were valid. Marvel Worldwide, Inc. v. Kirby, 756 F. Supp. 2d 461 (S.D.N.Y. 2010).

In early 2011, after discovery was complete, the parties cross-moved for summary judgment. Marvel also moved to exclude some of the Kirbys' evidence, most notably the reports of the Kirbys' putative expert witnesses, John Morrow and Mark Evanier.

On July 28, 2011, the district court granted Marvel's motions to exclude Morrow and Evanier's testimony, and granted Marvel's

motion for summary judgment. Marvel Worldwide, Inc. v. Kirby, 777 F. Supp. 2d 720 (S.D.N.Y.

Page 13

2011). It relied upon case law in this Circuit applying the so-called "instance and expense test" to determine whether a work is "made for hire" under section 304(c). Id. at 738-43. The court concluded that undisputed facts in the record establish as a matter of law that the works at issue were made at Marvel's instance and expense, and were therefore works made for hire. Id. This being so, the Kirbys had no termination rights, and their Termination Notices were ineffective. The district court entered judgment accordingly on August 8, 2011.

The Kirbys appeal.

## DISCUSSION

### I. Personal Jurisdiction over Lisa and Neal Kirby

We turn first to the issue of personal jurisdiction over Lisa and Neal Kirby. Lisa and Neal are California residents. They contend that the district court erred when it determined that New York State's long-arm statute provided a basis for jurisdiction over them in the Southern District of New York. We review a district court's legal conclusions concerning its exercise of personal jurisdiction de novo, and its underlying factual findings for clear error. D.H. Blair & Co., Inc. v. Gottdiener, 462 F.3d 95, 103 (2d Cir. 2006).

Page 14

A district court must have a statutory basis for exercising personal jurisdiction. See Grand River Enterprises Six Nations, Ltd. v. Pryor, 425 F.3d 158, 165 (2d Cir. 2005). Because this is "a federal question case where a defendant resides outside the forum state, . . . [and the relevant] federal statute does not specifically provide for national service of process," PDK Labs, Inc. v. Friedlander, 103 F.3d 1105, 1108 (2d Cir. 1997)

(internal quotation marks omitted), we apply "the forum state's personal jurisdiction rules," *id.* We therefore look to New York State law.

We focus our attention on section 302(a)(1) of New York State's long-arm statute, N.Y. C.P.L.R. § 302(a)(1), upon which the district court rested its jurisdiction, and which Marvel invokes here. Section 302(a)(1) provides that "a court may exercise personal jurisdiction over any non-domiciliary . . . who in person or through an agent . . . transacts any business within the state . . ." *Id.* We have recognized that for section 302(a)(1) to apply, "it is essential . . . that there be some act by which the defendant purposefully avails [herself] of the privilege of conducting activities within the forum State, thus invoking the benefits and protections of its laws." *Beacon*

Page 15

*Enterprises, Inc. v. Menzies*, 715 F.2d 757, 766 (2d Cir. 1983) (alteration in original) (quoting *George Reiner and Co. v. Schwartz*, 41 N.Y.2d 648, 650, 363 N.E.2d 551, 553, 394 N.Y.S.2d 844, 846 (1977)).

Under the facts of this case, the only acts that could potentially give rise to section 302(a)(1) jurisdiction over Lisa and Neal are the sending of the Termination Notices to Marvel in New York. We conclude that this is an insufficient basis for personal jurisdiction.

In *Beacon Enterprises*, *supra*, we applied section 302(a)(1) in a declaratory judgment suit very similar to this one. The defendant there, Mary Menzies, thought that the plaintiff, Beacon, was infringing her trademarks and copyrights in a line of weight-loss garments designed to emulate the effects of a sauna. *Beacon Enterprises*, 715 F.2d at 760. Menzies sent a cease-and-desist letter to Beacon at its New York City headquarters, threatening litigation. *Id.* Upon receiving it, Beacon filed a suit in the United States District Court for the Southern District of New York, seeking a judgment declaring that its products did not infringe Menzies' intellectual property rights. *Id.*

We concluded that Menzies' mailing of the cease-and-desist letter into New York was insufficient to give

Page 16

rise to personal jurisdiction over her under section 302(a)(1). *Id.* at 762, 766. We pointed out that "New York courts have consistently refused to sustain section 302(a)(1) jurisdiction solely on the basis of defendant's communication from another locale with a party in New York." *Id.* at 766 (collecting cases). And we thought it "difficult to characterize Menzies' letter alleging infringement in an unspecified locale and threatening litigation in an unspecified forum as an activity invoking the 'benefits and protections' of New York law." *Id.*

In *Ehrenfeld v. Bin Mahfouz*, 9 N.Y.3d 501, 881 N.E.2d 830, 851 N.Y.S.2d 381 (2007), the New York Court of Appeals, responding to a certified question from us, confronted a somewhat analogous fact pattern. There, the defendant had obtained a default judgment against the plaintiff in English courts for the plaintiff's allegedly libelous statements. *Id.* at 505, 881 N.E.2d at 832, 851 N.Y.S.2d at 383. The plaintiff brought suit in federal court in the Southern District of New York seeking a declaration that she could not be held liable for defamation under the circumstances of that case, and that the defendant's default judgment was therefore not enforceable against her in New York. She argued that the "defendant

Page 17

ha[d] transacted business in New York because he purposefully projected himself into the state to further a 'foreign litigation scheme'" -- the libel suit in England -- "designed to chill her speech." *Id.* at 508, 881 N.E.2d at 834, 851 N.Y.S.2d at 385.

When the case came before us on appeal, we certified to the New York Court of Appeals the question whether section 302(a)(1) conferred jurisdiction in the circumstances presented. *Id.* at 504, 881 N.E.2d at 831, 851 N.Y.S.2d at 382;

see Ehrenfeld v. Bin Mahfouz, 489 F.3d 542, 551 (2d Cir. 2007). The Court of Appeals answered in the negative, reasoning:

Here, none of defendant's relevant New York contacts have invoked the privileges or protections of our State's laws. Quite to the contrary, his communications in this state were intended to further his assertion of rights under the laws of England. As defendant points out -- and plaintiff does not dispute -- his pre-filing demand letter and his service of documents were required under English procedural rules governing the prosecution of defamation actions. And in none of his letters to plaintiff did defendant seek to consummate a New York transaction or to invoke our State's laws.

Ehrenfeld, 9 N.Y.3d at 509, 881 N.E.2d at 835, 851 N.Y.S.2d at 386.

Page 18

Beacon Enterprises and Ehrenfeld point to the result of the jurisdictional inquiry here.

Like the defendants in those cases, Lisa and Neal were not "present" in New York -- whether physically or through some other continuous contact<sup>2</sup> -- in connection with the underlying dispute in this case. This factor is not alone dispositive, of course. Cf. Deutsche Bank Sec., Inc. v. Montana Bd. of Invs., 7 N.Y.3d 65, 71, 850 N.E.2d 1140, 1142, 818 N.Y.S.2d 164, 166-67 (2006) ("[P]roof of one transaction in New York is sufficient to invoke jurisdiction, even though the defendant never enters New York." (internal quotation marks omitted)). It does, however, set this action apart from those the New York Court of Appeals has described as "the clearest sort of case[s] in which [New York] courts would have 302 jurisdiction," George Reiner & Co., Inc. v. Schwartz, 41 N.Y.2d 648,

652 (1977), a notion plainly grounded in constitutional principles of due

Page 19

process developed by the federal courts in and since International Shoe Co. v. Washington, 326 U.S. 310 (1945).

Neither were Lisa and Neal's communications part, or in contemplation, of a course of business dealings with Marvel. This distinguishes them from the sort of communications we found sufficient to confer section 302(a)(1) jurisdiction in PDK Labs, a case relied upon by the district court, but distinguished in Ehrenfeld, 9 N.Y.3d at 510, 881 N.E.2d at 836, 851 N.Y.S.2d at 387. In PDK Labs, we concluded that the defendant had "purposefully availed himself of the New York forum by using [his agent] in New York and apparently elsewhere for many years to advance his interest in his unique 'product' through soliciting funds and negotiating royalty agreements." PDK Labs, 103 F.3d at 1111; see also Hoffritz for Cutlery, Inc. v. Amajac, Ltd., 763 F.2d 55, 57 (2d Cir. 1985) (concluding that contract negotiated in part in New York, signed in Georgia and New York, and containing a New York forum selection clause constituted "transaction of business" in New York under section 302(a)(1)). Here, by contrast, the Termination Notices bear no indication that the Kirbys were negotiating or cared to negotiate for or solicit Marvel's business.

Page 20

Finally, and perhaps most importantly, the Termination Notices, like the letter in Beacon Enterprises and the communications in Ehrenfeld, asserted legal rights under a body of law other than New York's. What the Kirby siblings seek to vindicate are purported termination rights under section 304(c) of the federal copyright laws; they seek no privilege or benefit conferred by New York State law. Section 304(c)(4), moreover, states that termination rights "shall be effected by serving an advance notice in writing upon the grantee

[of the initial assignment] or the grantee's successor in title." The Termination Notices thus not only seek to vindicate rights under federal law, they also are a compulsory feature of that body of law.

We think these factors foreclose the exercise of section 302(a)(1) jurisdiction in the circumstances of this case. We conclude that a communication from out-of-state, required for the exercise of rights conferred under a federal statute, cannot alone constitute a purposeful availment of "the benefits and protections of [New York's] laws," at least where the only connection to New York is that the recipient's business headquarters has a New York address.

Page 21

Marvel's principal argument to the contrary rests on the premise that the Termination Notices are self-executing, legally effective communications. They are therefore different from the cease-and-desist letter at issue in Beacon Enterprises, Marvel contends, because there the notice did no more than advise the recipient of alleged infringement and threaten future litigation.

To begin with, we doubt Marvel's is an entirely accurate characterization of the Termination Notices: They are necessary to the exercise of the termination rights, but only the additional act of filing the notices with the Copyright Office consummates the legal act of termination. See 17 U.S.C. § 304(c)(4)(A). In any event, Marvel does not explain why the notices' legal effect under federal copyright law renders the act of mailing them any more a "transaction of business" or a purposeful invocation of the benefits and protections of New York law than would be other communications.

Marvel also points to the notices' effects on Marvel in New York, characterizing them as "target[ing] the center of gravity of Marvel's publishing business," and of having been "designed to disrupt and divert license fees from

Marvel's New York-based business," leaving Marvel with

Page 22

"no option but to protect its rights and those of its licensees." Appellees' Br. at 47-48 & n.17. These statements may well be essentially true, if perhaps a bit hyperbolic. But the Court in Ehrenfeld rejected virtually identical arguments based on the alleged in-state effects of the English default judgment that the defendant had obtained in the defamation case against the plaintiff, and the in-state action that that judgment would compel. See Ehrenfeld, 9 N.Y.3d at 511, 881 N.E.2d 830, 837, 851 N.Y.S.2d 381, 388. Cf. Whitaker v. Am. Telecasting, Inc., 261 F.3d 196, 209 (2d Cir. 2001) (finding that "financial consequences in New York due to the fortuitous location of plaintiffs" are insufficient to confer jurisdiction under section 302(a)(3)). We read Ehrenfeld strongly to suggest that we reject Marvel's arguments in this regard here.

Finally, we are unpersuaded by Marvel's attempts to connect Lisa and Neal with New York through their relationship with other family members. Appellees' Br. at 51; see also Marvel Worldwide, Inc., 2010 WL 1655253, at \*4-\*5, 2010 U.S. Dist. LEXIS 38701, at \*10-\*12. The problem with these arguments -- whether they seek to endow Lisa and Neal with their father's jurisdictional status, or to analyze their contacts with New York "collectively" with

Page 23

their other siblings -- is that they identify no legal mechanism by which Jack's, Barbara's, or Susan's actions become those of Lisa or Neal. Absent a bona fide agency relationship -- the existence of which no one has asserted -- there is no basis for imputing to Lisa and Neal actions by their father half a century ago, or coincident actions by their siblings who now live in New York and for that reason are subject to personal jurisdiction here. Doing so would stretch the text of section 302 beyond the breaking point, see

N.Y. C.P.L.R. § 302(a) (referring to transaction of business "in person or through an agent").

We conclude that the district court lacked personal jurisdiction over Lisa and Neal Kirby. We therefore vacate the district court's judgment as against those two Kirbys.

## **II. Compulsory Joinder**

The Kirbys next argue that the absence of personal jurisdiction over Lisa and Neal requires vacatur of the judgment as against Barbara and Susan too. They rely on Federal Rule of Civil Procedure 19: "Required Joinder of Parties."

Page 24

### **A. Federal Rule of Civil Procedure 19**

Rule 19 recognizes exceptional circumstances in which the plaintiff's choice of parties or forum must give way because of an absent party's interest in the outcome of the action or involvement in the underlying dispute. See generally 7 CHARLES ALAN WRIGHT & ARTHUR R. MILLER, FEDERAL PRACTICE AND PROCEDURE § 1602 (3d ed. 2008). The Rule's principal provisions are divided into two subsections. Subsection (a) protects certain parties by deeming them "required"; a party who is "required" according to the factors enumerated in subsection (a) is one whose participation is so desirable or important that the party must be joined so long as she or he is "subject to service of process" and joinder "will not deprive the court of subject-matter jurisdiction." Fed. R. Civ. P. 19(a)(1).

Subsection (b) addresses situations in which a party otherwise "required" under subsection (a) cannot be joined for some reason, for example (as in this case), want of personal jurisdiction. In such circumstances, Rule 19(b) requires courts to consider whether, "in equity and good conscience," the party is one without whom the action between the remaining parties cannot proceed -- or, in the traditional terminology, whether the absent party is

Page 25

"indispensable." Fed. R. Civ. P. 19(b); see also CP Solutions PTE, Ltd. v. General Electric Co., 553 F.3d 156, 159 n.2 (2d Cir. 2009) (per curiam).

We assume, for present purposes, that Lisa and Neal are "required" parties under Rule 19(a). They are also parties whose joinder is not feasible, inasmuch as we conclude that they are not amenable to personal jurisdiction in the Southern District of New York, and they are unwilling to consent to suit within the jurisdiction. The remainder of this discussion, then, centers on the effects of Rule 19(b) on these proceedings.

### **B. Indispensability**

Because of the "flexible nature of Rule 19(b) analysis," we review a district court's decision under that rule for abuse of discretion.<sup>3</sup> Universal Reinsurance Co., Ltd. v. St. Paul Fire & Marine Ins. Co., 312 F.3d 82, 87 (2d

Page 26

Cir. 2002). Here, however, the district court decided -- mistakenly, as we have explained -- that it had personal jurisdiction over Lisa and Neal. The court therefore had no occasion to apply Rule 19(b).

It is ordinarily appropriate for us to vacate the judgment of a district court and remand the cause to it when matters committed to that court's discretion arise for the first time on appeal. See CP Solutions, 553 F.3d at 161. But where a record is fully developed and it discloses that, in our judgment, only one possible resolution of such an issue would fall "within the permissible range of choices" -- in other words, where only one determination by the district court would be within its discretion -- there is no reason to remand. Id. If we did and the court decided to the contrary, we would be duty bound to reverse in any event on the grounds of abuse of discretion.

In this case, the parties have fully briefed the Rule 19(b) issue on appeal, and the facts are straightforward and undisputed. Only one result,

we think, is permissible. We therefore resolve the issue in the first instance.<sup>4</sup>

Page 27

Rule 19(b) sets forth four considerations that will ordinarily be among those relevant to the analysis of whether a party is "indispensable." We have restated them as: "(1) whether a judgment rendered in a person's absence might prejudice that person or parties to the action, (2) the extent to which any prejudice could be alleviated, (3) whether a judgment in the person's absence would be adequate, and (4) whether the plaintiff would have an adequate remedy if the court dismissed the suit." CP Solutions, 553 F.3d at 159.

Page 28

Applying these factors requires an understanding of the legal interests at stake, here the Kirbys' termination rights under section 304(c). Central to the current discussion is paragraph (1) of section 304(c), and in particular the following provision: "In the case of a grant executed by one or more of the authors of the work, termination of the grant may be effected, . . . if such author is dead, by the person or persons who . . . own and are entitled to exercise a total of more than one-half of that author's termination interest." 17 U.S.C. § 304(c)(1) (emphasis added); see also id. § 304(c)(6)(C).

The parties interpret this to mean that at least three of the four Kirbys -- "more than one-half" -- must "effect" termination of their father's assignment in order for any of them to realize their termination rights. Appellants' Br. at 21; Appellees' Br. at 55. So, all seem to acknowledge, if Barbara and Susan Kirby are disabled by an adverse judgment in this suit from effecting termination, all four Kirbys lose.

Under this interpretation of section 304(c)(1), which we assume without deciding is correct, several of the possible Rule 19(b) considerations are irrelevant. Marvel cannot, and does not, complain that a judgment rendered in

Page 29

Lisa and Neal's absence prejudices it in any way, because it should be satisfied by a judgment against Barbara and Susan that forecloses Lisa and Neal's rights too. Nor can Barbara and Susan claim prejudice. Any judgment here stands to reflect the full and fair adjudication of their rights under section 304(c). And whatever the result, there is no risk that Barbara and Susan will somehow bear in full a legal obligation that is properly shared by their absent siblings. There is thus no prejudice to Marvel, Barbara, or Susan as "existing parties." Fed. R. Civ. P. 19(b)(1).

We also do not see how a judgment in this case could be crafted to alleviate any prejudice that may exist to absent parties Lisa and Neal. See Fed. R. Civ. P. 19(b)(2). The judgment here will declare the existence vel non of Barbara and Susan's termination rights, and whatever the practical effect of this declaration, it can do no more or less.

Finally, although we can hardly be confident that the absent parties in this case will accept a judgment as the last word in this dispute, we think that any judgment would be "adequate," Fed. R. Civ. P. 19(b)(3), in the sense of honoring the "public stake in settling disputes by wholes, whenever possible." CP Solutions, 553 F.3d at 160

Page 30

(internal quotation marks omitted). If Marvel wins against Barbara and Susan, the parties' interpretation of section 304(c)(1) implies that the issue is resolved as to all Kirbys; if Barbara and Susan prevail, principles of issue preclusion would likely bar Marvel from relitigating the issue against Lisa and Neal. See RESTATEMENT (SECOND) OF JUDGMENTS § 29 (1982).

This leaves us with two factors to consider. The first is potential prejudice to Lisa and Neal arising from their absence. Fed. R. Civ. P. 19(b)(1). They complain that by operation of section 304(c)(1)'s "more than one-half" requirement, they stand to have their legal rights finally determined in their absence. Appellants'

Br. at 21-22. This argument appeals to our "deep-rooted historic tradition that everyone should have his own day in court." See Richards v. Jefferson County, 517 U.S. 793, 798 (1996) (quoting 18 CHARLES ALAN WRIGHT, ARTHUR R. MILLER, EDWARD H. COOPER, FEDERAL PRACTICE AND PROCEDURE § 4449 (3d ed. 2008)).

But the law in this context and elsewhere "recognize[s] an exception to the general rule when, in certain limited circumstances, a person, although not a party, has his interests adequately represented by someone with the same interests who is a party." Id. (quoting

Page 31

Martin v. Wilks, 490 U.S. 755, 762 n.2 (1989)). As we recognized in CP Solutions, the potential prejudice to an absent party under Rule 19(b) is mitigated where a remaining party "could champion [his or her] interest." 553 F.3d at 160. And prejudice to absent parties approaches the vanishing point when the remaining parties are represented by the same counsel, and when the absent and remaining parties' interests are aligned in all respects. Id.; Prescription Plan Serv. Corp. v. Franco, 552 F.2d 493, 497 (2d Cir. 1977).

This lawsuit concerns a single legal issue in which Lisa's and Neal's interests are identical to Barbara's and Susan's. The Kirbys have the same lawyer -- who we are sure was "no less vigorous in [his] advocacy," Prescription Plan Serv., 552 F.2d at 497, because he represented two Kirbys instead of four. And we have been given no reason whatever to think that the proofs advanced by Barbara and Susan are materially different from those Lisa and Neal would have proffered. We therefore see no practical prejudice to Lisa and Neal as a result of adjudicating this case in their absence.

The other remaining consideration is whether Marvel "would have an adequate remedy if the action were

Page 32

dismissed for non-joinder." Fed. R. Civ. P. 19(b)(4). As Marvel points out, because Lisa and Neal are not amenable to personal jurisdiction in New York, and because Barbara and Susan -- New York residents -- are, as far as the record reveals, not amenable to personal jurisdiction in California, the Kirbys might well be able to thwart a declaratory judgment suit brought by Marvel in a forum in either state. Appellees' Br. at 56-57. In light of the nearly non-existent showing of prejudice to any of the parties involved here, we see no reason to permit the Kirbys to withhold consent to any suit in which the forum or litigation posture are not to their liking. See Provident Tradesmens Bank & Trust Co. v. Patterson, 390 U.S. 102, 109 (1968) (recognizing a plaintiff's "interest in having a forum").

We conclude, therefore, that the only determination that falls within the range of permissible decisions in the circumstances of this case is that Lisa and Neal are not indispensable parties, and that it was appropriate for the action against Barbara and Susan to have proceeded on its merits.<sup>5</sup>

Page 33

### **III. Summary Judgment**

The remaining Kirbys -- Barbara and Susan -- challenge the district court's grant of summary judgment in favor of Marvel. "We review a district court's grant of summary judgment de novo. In reviewing a summary judgment decision, we apply the same standards applied by the district court. Under this standard, summary judgment may be granted only if 'there is no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law.' [Fed. R. Civ. P. 56(a)]. In determining whether there is a genuine dispute as to a material fact, we must resolve all ambiguities and draw all inferences against the moving party." Garcia v. Hartford Police Dep't, 706

Page 34

F.3d 120, 126-27 (2d Cir. 2013) (per curiam) (alteration, some citations, and internal quotation marks omitted).

#### **A. Exclusion of Expert Testimony**

We address first the admissibility of the reports and testimony of Barbara and Susan's putative experts, John Morrow and Mark Evanier, who purported to offer historical perspective concerning the relationship between Marvel and Jack Kirby. The district court ruled that the reports and testimony were inadmissible. Marvel Worldwide, Inc., 777 F. Supp. 2d at 729-30. We review this decision for abuse of discretion. Wills v. Amerada Hess Corp., 379 F.3d 32, 41 (2d Cir. 2004).

Federal Rule of Evidence 702 governs the admissibility of expert testimony. It requires for admissibility, among other things, that "the expert's scientific, technical, or other specialized knowledge will help the trier of fact to understand the evidence or to determine a fact in issue." Fed. R. Evid. 702(a). In other words, "[e]xpert testimony must be helpful to the [trier of fact] in comprehending and deciding issues beyond the understanding of a layperson." DiBella v. Hopkins, 403 F.3d 102, 121 (2d Cir. 2005).

Page 35

We have no doubt that a historian's "specialized knowledge" could potentially aid a trier of fact in some cases. A historian could, for example, help to identify, gauge the reliability of, and interpret evidence that would otherwise elude, mislead, or remain opaque to a layperson. See generally Maxine D. Goodman, Slipping Through the Gate, 60 BAYLOR L. REV. 824, 857 (2008) (commenting that a historian's task is "to choose reliable sources, to read them reliably, and to put them together in ways that provide reliable narratives about the past" (quoting MARTHA C. HOWELL & WALTER PREVENIER, FROM RELIABLE SOURCES: AN INTRODUCTION TO HISTORICAL METHODS 2 (2001))). He or she might helpfully synthesize dense or voluminous

historical texts. Id. Or such a witness might offer background knowledge or context that illuminates or places in perspective past events. See, e.g., Int'l Soc. for Krishna Consciousness, Inc. v. Barber, 650 F.2d 430, 440 (2d Cir. 1981) ("In fact, one religious expert at trial remarked that the American movement is 'one of the most unusual examples of transfer of a cultural tradition across broad national and cultural barriers.' This evidence of historical longevity and theological consistency should not be ignored.").

Page 36

But Morrow and Evanier do not bring their expertise to bear in any such way. As the district court recognized, their reports are by and large undergirded by hearsay statements, made by freelance artists in both formal and informal settings, concerning Marvel's general practices towards its artists during the relevant time period. See, e.g., Deposition of Mark Evanier, Dec. 6, 2010, at 18-21, Joint App'x at 957-59. Drawing from these statements, they then speculate as to the motivations and intentions of certain parties, see, e.g., Expert Report of John Morrow at 9, Joint App'x at 1152 ("I do not believe that Goodman, Lee, Marvel or the freelance artists, like Jack Kirby, . . . thought that the material they created was 'work made for hire' . . . ."), or opine on the credibility of other witnesses' accounts, see, e.g., Expert Report of Mark Evanier at 14, Joint App'x at 1105 ("I have great respect and personal affection for Stan Lee, but I disagree with the accounts he has sometimes given . . . .").

Although the Rules permit experts some leeway with respect to hearsay evidence, Fed. R. Evid. 703, "a party cannot call an expert simply as a conduit for introducing hearsay under the guise that the testifying expert used the hearsay as the basis of his testimony." Malletier v. Dooney

Page 37

& Bourke, Inc., 525 F. Supp. 2d 558, 666 (S.D.N.Y. 2007). The appropriate way to adduce

factual details of specific past events is, where possible, through persons who witnessed those events. And the jobs of judging these witnesses' credibility and drawing inferences from their testimony belong to the factfinder. See Nimely v. City of New York, 414 F.3d 381, 397-98 (2d Cir. 2005). We therefore think the district court clearly did not abuse its discretion in declining to admit this evidence.

### **B. Termination Rights and Work Made for Hire**

We thus, at last, arrive at the merits of Marvel's summary judgment motion. At issue is section 304(c) of the Copyright Act of 1976, which, insofar as bears on this litigation, provides:

Termination of Transfers and Licenses Covering Extended Renewal Term. -- In the case of any copyright subsisting in either its first or renewal term on January 1, 1978, other than a copyright in a work made for hire, the exclusive or nonexclusive grant of a transfer or license of the renewal copyright or any right under it, executed before January 1, 1978 . . . is subject to termination . . .

17 U.S.C. § 304(c).<sup>6</sup>

Page 38

If the author is no longer alive, section 304(c)(2) grants his or her termination rights to specified heirs. See id. § 304(c)(2)(B). The provision "protect[s] the property rights of widows and children in copyrights" by granting them the power to undo earlier transfers and to enjoy the remainder of the copyright term.<sup>7</sup> Larry Spier, Inc. v. Bourne Co., 953 F.2d 774, 778 (2d Cir. 1992).

But section 304(c) provides that termination rights under that section do not exist with respect to "work[s] made for hire." 17

U.S.C. § 304(c). Where a work is "made for hire," copyright law deems the employer to be the "author" for purposes of copyright ownership. Copyright Act of 1909 § 62 (formerly codified at 17 U.S.C. § 26) ("[T]he word 'author' shall include an employer in the case

Page 39

of works made for hire."); see also Copyright Act of 1976 § 201(b), 17 U.S.C. § 201(b) ("In the case of a work made for hire, the employer or other person for whom the work was prepared is considered the author for purposes of this title . . ."). The hired party, although "the 'author' in the colloquial sense," Shapiro, Bernstein & Co. v. Bryan, 123 F.2d 697, 699 (2d Cir. 1941), therefore never owned the copyrights to assign. It stands to reason, then, that there are no rights the assignment of which his or her heirs may now terminate.

Marvel argues that all of the works at issue in this case fall into the category of "work made for hire."

**1. The Instance and Expense Test.** To determine whether a work is "work made for hire" within the meaning of section 304(c), we apply case law interpreting that term as used in the 1909 Act, the law in effect when the works were created. See Estate of Burne Hogarth v. Edgar Rice Burroughs, Inc., 342 F.3d 149, 156-63 (2d Cir. 2003). This requires us to apply what is known as the "instance and expense test."

#### **a. Origins.**

The origins of the instance and expense test were described at some length by Judge Newman's opinions in

Page 40

Estate of Burne Hogarth v. Edgar Rice Burroughs, Inc., supra, and Martha Graham School and Dance Foundation, Inc. v. Martha Graham Center of Contemporary Dance, Inc., 380 F.3d 624, 633-36 (2d Cir. 2004).

The test was developed from two lines of cases. one was our court-made work-for-hire jurisprudence. "Because the 1909 Act did not define 'employer' or 'works made for hire,' the task of shaping these terms fell to the courts." Community for Creative Non-Violence v. Reid, 490 U.S. 730, 744 (1989). Using Bleistein v. Donaldson Lithographing Co., 188 U.S. 239, 248 (1903) -- the Supreme Court's first encounter with the work-for-hire phenomenon - as a guidepost, our early cases focused principally on whether the work at issue was created within the scope of a traditional employment relationship. See, e.g., Tobani v. Carl Fischer, Inc., 98 F.2d 57, 59 (2d Cir. 1938); Shapiro, Bernstein & Co., Inc. v. Bryan, 123 F.2d 697, 698-700 (2d Cir. 1941). Work-for-hire doctrine thus served to identify which party within the traditional employment relationship was the statutory "author," and hence owned the copyright in the work from the time of creation.

The second doctrine developed to address what was initially considered a separate issue under the 1909 Act:

Page 41

rights in commissioned works created by independent contractors. The issue in this situation, at least in the early cases, was not who the statutory author was -- the author was the independent contractor. The issue was whether the hiring party nevertheless owned copyrights by way of the author's implied assignment of those rights; and, if so, whether the assignment applied to only the "original" copyright term, or to both the "original" term and an "expectancy" in the so-called "renewal" term.

We addressed the first half of this issue in Yardley v. Houghton Mifflin Co., 108 F.2d 28 (2d Cir. 1939). There we concluded that if a party "is solicited by a patron to execute a commission for pay, the presumption should be indulged that the patron desires to control the publication of copies and that the artist consents that he may, unless by the terms of the contract, express or implicit, the artist has reserved the copyright to himself." Id. at 31. And in later

cases, we seemed to answer the second half, limiting Yardley's presumption in favor of implied assignment to the original term. See Estate of Burne Hogarth, 342 F.3d at 159; Shapiro, Bernstein & Co. v. Jerry Vogel Music Co., 221 F.2d 569, 570 (1955).

Page 42

The two doctrines first converged in Brattleboro Publishing Co. v. Winmill Publishing Corp., 369 F.2d 565, 567 (2d Cir. 1966). That case concerned rights in the original term in an independent contractor setting -- like in Yardley -- but we nevertheless began our analysis by discussing traditional work-for-hire doctrine. Id. at 567. We relied on Professor Melville Nimmer's copyright treatise, which we described as recognizing "a presumption in the absence of an express contractual reservation to the contrary, that the copyright shall be in the person at whose instance and expense the work is done." Id. (emphasis added) (citing NIMMER ON COPYRIGHT 238 (1964)). And we could "see no sound reason why these same principles are not applicable when the parties bear the relationship of employer and independent contractor." Id. at 568.

This discussion does not appear to have been necessary to the result inasmuch as the Court went on to resolve the case on the grounds of Yardley's presumption. Id. Just as curious was the Brattleboro Court's attribution of the phrase "instance and expense" to Professor Nimmer. The phrase is apparently not to be found in the cited passage on work-for-hire doctrine. See MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 5.03 n.171b (Matthew Bender,

Page 43

Rev. Ed. 2013). It seems instead to be drawn from a Ninth Circuit opinion in an independent contractor case published the year before. See Lin-Brook Builders Hardware v. Gertler, 352 F.2d 298, 300 (9th Cir. 1965); see generally Martha Graham, 380 F.3d at 634 n.17.

But we effectively adopted the union of these two approaches in Picture Music, Inc. v. Bourne, Inc., 457 F.2d 1213, 1216 (2d Cir. 1972), relying on both work-for-hire and implied assignment cases to conclude that an independent contractor's works were "made for hire," and therefore that the hiring party owned both the original and renewal term. Id. at 1216. And when we next confronted the issue, in Playboy Enterprises, Inc. v. Dumas, 53 F.3d 549, 554 (2d Cir. 1995), we explained that "an independent contractor is an 'employee' and a hiring party an 'employer' for purposes of the [1909 Act] if the work is made at the hiring party's 'instance and expense.'"<sup>8</sup>

Page 44

### **b. General Principles**

We have stated as a general rule that "[a] work is made at the hiring party's 'instance and expense' when the employer induces the creation of the work and has the right to direct and supervise the manner in which the work is carried out." Martha Graham, 380 F.3d at 635. Our case law is, however, not so tidy. To the extent we can distill from our prior cases a set of principles applicable here, they are these:

"Instance" refers to the extent to which the hiring party provided the impetus for, participated in, or had the power to supervise the creation of the work. Actual creative contributions or direction strongly suggest that the work is made at the hiring party's instance. See, e.g., Playboy Enterprises, Inc., 53 F.3d at 556 (evidence that independent contractor "was given specific instructions for his early submissions to Playboy" suggested work for hire); Yardley, 108 F.2d at 30-31 ("[W]here a photographer takes photographs of a person who goes or is sent to him in the usual course, and is paid for the photographs and for his services in taking them, the right of copyright is in the sitter or in the person sending the sitter to be photographed, and not in the photographer . . .").

Page 45

The "right to direct and supervise the manner in which the work is carried out," Martha Graham, 380 F.3d at 635, moreover, even if not exercised, is in some circumstances enough to satisfy the "instance" requirement. It may be sufficient, for example, where the hiring party makes a particularly strong showing that the work was made at its expense, Scherr v. Universal Match Corp., 417 F.2d 497, 501 (2d Cir. 1969) (noting "the overwhelming appropriation of [the hiring party's] funds, time and facilities to the project"), or where prior dealings between the parties on similar assignments, as part of an ongoing arrangement, have rendered fine-grained supervision unnecessary, Playboy Enterprises, Inc., 53 F.3d at 556 ("right to control" and exercise of control with respect to "certain characteristics" sufficient in light of earlier "specific assignments").

But "inducement" or "control" alone can be incidental enough not to vest copyright ownership in the hiring party. For example, in Siegel v. National Periodical Publications, Inc., 508 F.2d 909, 914 (2d Cir. 1974), we concluded that it was insufficient that the independent contractor "revise[d] and expand[ed] the Superman material at the request of the [hiring party]," because "Superman had

Page 46

been spawned by the [independent contractor] four years before the relationship [with the hiring party] existed." Indeed, even in cases arising under traditional employment law, a work created "as a special job assignment" may not be a "work made for hire." Shapiro, Bernstein & Co., 221 F.2d at 570.

The "expense" component refers to the resources the hiring party invests in the creation of the work. We have, at least in some cases, continued the tradition of treating the incidents of a traditional employment relationship as relevant to the analysis. See, e.g., Martha Graham, 380 F.3d at 637-41. We have, moreover, suggested that the hiring party's provision of tools, resources, or overhead may

be controlling. Id. at 638 ("It may well be that the resources of the Center -- notably, its rehearsal space and the dancers enrolled at the School -- significantly aided Graham in her choreography, thereby arguably satisfying the 'expense' component . . ."). But cf. Playboy Enterprises, Inc., 53 F.3d at 555 (finding that factors relevant to work for hire analysis under the 1976 Act, like setting hours or providing tools, have "no bearing on whether the work was made at the hiring party's expense").

Page 47

In other cases, however, we seem to have focused mostly on the nature of payment: payment of a "sum certain" suggests a work-for-hire arrangement; but "where the creator of a work receives royalties as payment, that method of payment generally weighs against finding a work-for-hire relationship." Playboy Enterprises, Inc., 53 F.3d at 555. We note, though, that this distinction appears to be a rather inexact method of properly rewarding with ownership the party that bears the risk with respect to the work's success. See Twentieth Century Fox Film Corp. v. Entertainment Distributing, 429 F.3d 869, 881 (9th Cir. 2005) (noting that publisher took on "all the financial risk of the book's success"); see also Donaldson Publishing Co. v. Bregman, Vocco & Conn, Inc., 375 F.2d 639, 643 (2d Cir. 1967) (finding relevant employee's "freedom to engage in profitable outside activities without sharing the proceeds with [the hiring party]").

Our case law counsels against rigid application of these principles. Whether the instance and expense test is satisfied turns on the parties' creative and financial arrangement as revealed by the record in each case.

If the hiring party is able to satisfy the instance and expense test, it "is presumed to be the author

Page 48

of the work," and the independent contractor can overcome the presumption only "by evidence of

an agreement to the contrary."<sup>9</sup> Playboy Enterprises, Inc., 53 F.3d at 556.

**2. Application of the Instance and Expense Test in the Present Case.** Applying these principles to the facts in the record before us -- a challenging endeavor in some respects<sup>10</sup> - - we conclude that the works were created at Marvel's instance and expense, and that Barbara and Susan have not adduced evidence of an agreement to the contrary

Page 49

contemporaneous with the creation of the works. We therefore conclude that the district court was correct to award summary judgment in favor of Marvel.

**a. Instance.**

The evidence, construed in favor of the Kirbys, establishes beyond dispute that the works in question were made at Marvel's instance.

Although Jack Kirby was a freelancer, his working relationship with Marvel between the years of 1958 and 1963 was close and continuous. Stan Lee considered Kirby to be Marvel's best artist, Lee Dep. at 30, Joint App'x at 2450, an assessment reinforced by the admiration of Kirby by his contemporaries, see Deposition of Lawrence Lieber ("L. Lieber Dep."), Jan. 7, 2011, at 104-05, Joint App'x at 1530-31; Deposition of John Romita ("Romita Dep."), Oct. 21, 2010, at 75-76, Joint App'x at 360-61. Lee "wanted to use Jack for everything," Lee Dep. at 36, Joint App'x at 2456, and Kirby appears to have been kept busy with assignments from Marvel, id. at 37, Joint App'x at 2457.

Marvel published the great majority of Kirby's work during these years -- 1958 through 1963. There are indications in the record that artists did customarily work with more than one publisher during the relevant time

Page 50

period, see, e.g., L. Lieber Dep. at 74-75, Joint App'x at 1521-22, and a handful of Kirby's works between 1958 and 1963 were not published by Marvel, see Excerpt of JACK KIRBY CHECKLIST (Two Morrows Gold ed. 2008), Joint App'x at 1751-62. But it is beyond dispute that most of Kirby's work during this period was published by Marvel and for established Marvel titles. Id.

Understood as products of this overarching relationship, Kirby's works during this period were hardly self-directed projects in which he hoped Marvel, as one of several potential publishers, might have an interest; rather, he created the relevant works pursuant to Marvel's assignment or with Marvel specifically in mind. Kirby's ongoing partnership with Marvel, however unbalanced and under-remunerative to the artist, is therefore what induced Kirby's creation of the works.

Marvel also played at least some creative role with respect to the works. Kirby undoubtedly enjoyed more creative discretion than most artists did under the "Marvel Method," a fact Lee readily admits. Lee Dep. at 70, Joint App'x at 2490. But the only evidence on the issue indicates that he did not work on "spec" (speculation) -- that is, he worked within the scope of Marvel's assignments and titles.

Page 51

Id. at 48, Joint App'x at 2468; Deposition of Neal Kirby, June 30, 2010, at 167-68, Joint App'x at 1592-93. There is no disputing, moreover, that Marvel had the power to reject Kirby's pages and require him to redo them, or to alter them, a power it exercised from time to time. Id. at 234-35, Joint App'x at 1599-1600; Deposition of Susan Kirby, oct. 25, 2010, at 37, Joint App'x at 1607. And there is evidence that Kirby collaborated with Lee with respect to many of the works. Lee Dep. at 118, Joint App'x at 2538.

Marvel's inducement, right to supervise, exercise of that right, and creative contribution with respect to Kirby's work during the relevant

time period is more than enough to establish that the works were created at Marvel's instance.

The Kirbys' attempts to avoid this conclusion are unsuccessful. Their argument is that the "right to supervise" referred to in our case law requires a legal, presumably contractual, right. Appellants' Br. at 42-45. We find no hint of this requirement in our case law applying the instance and expense test. Nor do the Kirbys provide a principled reason why Marvel's active involvement in the creative process, coupled with its power to reject pages and request that they be redone, should not suffice.

Page 52

The Kirbys also point to factual disputes over who actually created the characters, plots, and other concepts in Marvel's comic books during the relevant time period, mostly in an attempt to discredit Lee and find fault in the district court's reading of the record. Appellants' Br. at 33-35. Questions of who created the characters are mostly beside the point. That Marvel owes many of its triumphs to Kirby is beyond question. But the hired party's ingenuity and acumen are a substantial reason for the hiring party to have enlisted him. It makes little sense to foreclose a finding that work is made for hire because the hired artist indeed put his exceptional gifts to work for the party that contracted for their benefit.

#### **b. Expense.**

Whether the Works were created at Marvel's expense presents a more difficult question. We ultimately find ourselves in agreement with the district court and in favor of Marvel here too.

The facts underlying the expense component are not in dispute. Marvel paid Kirby a flat rate per page for those pages it accepted, and no royalties. It did not pay for Kirby's supplies or provide him with office space. It was free to reject Kirby's pages and pay him nothing for

Page 53

them. The record contains anecdotal evidence that Marvel did in fact reject Kirby's work or require him to redo it on occasion, if less often than it did the work of other artists, but with what frequency is unclear.

Marvel argues that its payment of a flat rate for Kirby's pages is all that matters. It relies on our suggestion in Playboy Enterprises, 53 F.3d at 555, that "the 'expense' requirement [is] met where a hiring party simply pays an independent contractor a sum certain for his or her work." Because, Marvel argues, it paid Kirby a sum certain when it accepted his pages -- irrespective of whether the pages required edits or additions, were ultimately published, or were part of a comic book that was a commercial success -- it took on the risk of financial loss.

The Kirbys urge us to focus not on the risk Marvel took at the time it purchased the pages, but on the risk Kirby took when he set out to create them. Until Marvel purchased Kirby's pages, they point out, Kirby had undertaken all of the costs of producing the drawings -- time, tools, overhead -- and shouldered the risk that Marvel would reject them, leaving him in the lurch. Marvel's purely contingent payment, they argue, thus acted more like a royalty than a sum certain. Appellants' Br. at 36-42.

Page 54

This argument might give us pause if Kirby's relationship with Marvel comprised discrete engagements with materially uncertain prospects for payment, or, indeed, if he undertook to create the works independent of Marvel. But there is no evidence of which we are aware to either effect. The evidence suggests instead that Marvel and Kirby had a standing engagement whereby Kirby would produce drawings designed to fit within specific Marvel universes that his previously purchased pages had helped to define. When Kirby sat down to draw, then, it was not in the hope that Marvel or some other publisher might one day be interested enough in them to buy, but with the

expectation, established through their ongoing, mutually beneficial relationship, that Marvel would pay him. And the record makes clear that in the run of assignments, this expectation proved warranted.

Kirby's completed pencil drawings, moreover, were generally not free-standing creative works, marketable to any publisher as a finished or nearly finished product. They built on preexisting titles and themes that Marvel had expended resources to establish -- and in which Marvel held rights -- and they required both creative contributions and production work that Marvel supplied. That the works are

Page 55

now valuable is therefore in substantial part a function of Marvel's expenditures over and above the flat rate it paid Kirby for his drawings.

In the final analysis, then, the record suggests that both parties took on risks with respect to the works' success -- Kirby that he might occasionally not be paid for the labor and materials for certain pages, and Marvel that the pages it did pay for might not result in a successful comic book. But we think that Marvel's payment of a flat rate and its contribution of both creative and production value, in light of the parties' relationship as a whole, is enough to satisfy the expense requirement.

**c. Agreement to the Contrary.**

Because Marvel has satisfied the instance and expense test, a presumption arises that the works in question were "works made for hire" under section 304(c). This presumption can be overcome only by evidence of an agreement to the contrary contemporaneous with the creation of the works.

The Kirbys' showing in this regard consists mostly of negative or elliptical inferences concerning the parties' agreement at the time. For example, they point to a 1975 assignment executed by Jack Kirby that purported to transfer

Page 56

interests in certain works to Marvel (but also averred that all of his work was for hire), which they say suggests the parties' understanding that Marvel did not already own the rights. Appellants' Br. at 48. They also call to our attention evidence that indicates that Marvel paid Kirby during the relevant time periods with checks that contained a legend with assignment, instead of work-for-hire, language. *Id.* at 47.

This evidence is not enough to enable the Kirbys to survive the motion for summary judgment. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 252 (1986) ("The mere existence of a scintilla of evidence in support of the [non-movant's] position will be insufficient; there must be evidence on which the jury could reasonably find for the [non-movant]."); *Bickerstaff v. Vassar Coll.*, 196 F.3d 435, 448 (2d Cir. 1999) ("[A]n inference is not a suspicion or a guess." (internal quotation marks omitted)). It is all too likely that, if the parties thought about it at all, Kirby's assignments at the time he was paid or later were redundancies insisted upon by Marvel to protect its rights; we decline to infer from Marvel's suspenders that it had agreed to give Kirby its belt.

Page 57

In sum, the district court made no error, in our view, in determining as a matter of law that the works were made at Marvel's instance and expense, and that the parties had no agreement to the contrary. The remaining Kirbys, Barbara and Susan, are therefore without termination rights under section 304(c), and the district court properly granted Marvel's motion for summary judgment as to them.

## CONCLUSION

For the foregoing reasons, we vacate the district court's judgment as against Lisa and Neal Kirby and remand with instructions to the district court to dismiss the action against them for want of personal jurisdiction. We affirm the judgment in favor of Marvel as against Barbara

and Susan Kirby. Each party shall bear his, her, or its own costs.

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Notes:

<sup>1</sup> Certainly not helping matters was a mid-1950s investigation by the United States Senate into comics' alleged corrupting influence on America's youth. On April 21, 1954, a subcommittee of the Senate Judiciary Committee held a televised hearing on the topic. Louis Menand, *The Horror: Congress investigates the comics*, *THE NEW YORKER*, Mar. 31, 2008, at 124. The venue was the United States Courthouse at 40 Foley Square in New York City -- named in 2001 the "Thurgood Marshall United States Courthouse" -- in which this opinion was prepared. *Id.*

<sup>2</sup> The New York Court of Appeals has recognized that an individual, although not physically present in the state, may still be present in the relevant sense through some "direct and personal involvement" in "sustained and substantial transaction of business." *Parke-Bernet Galleries v. Franklyn*, 26 N.Y.2d 13, 18, 256 N.E.2d 506, 508, 308 N.Y.S.2d 337, 340 (1970). Participation in an auction by phone is one example. *Id.* Marvel does not allege such a connection in this case, and we do not perceive one in the record.

<sup>3</sup> The standard of review applicable to Rule 19(b) is apparently the subject of a circuit split. See *National Union Fire Ins. Co. v. Rite Aid of South Carolina, Inc.*, 210 F.3d 246, 250 n.7 (4th Cir. 2000) (recognizing the split and collecting cases); compare *Universal Reinsurance Co.*, 312 F.3d at 87 (abuse of discretion), with *Keweenaw Bay Indian Community v. Michigan*, 11 F.3d 1341, 1346 (6th Cir. 1993) (abuse of discretion for Rule 19(a), but *de novo* for Rule 19(b)). In *Republic of Philippines v. Pimentel*, 553 U.S. 851 (2008), the Supreme Court passed on an opportunity to resolve the question, although it did suggest that the Rule's "in equity and good

conscience" language "implies some degree of deference to the district court," *id.* at 864.

<sup>4</sup> There is some authority, albeit none from this Circuit, suggesting that a court of appeals may apply Rule 19 in the first instance when the issue arises for the first time on appeal. *See, e.g., Fidelity & Casualty Co. v. Reserve Ins. Co.*, 596 F.2d 914, 918 (9th Cir. 1979) (considering indispensability in the first instance on appeal in deciding applicability of Fed. R. Civ. P. 21, which permits courts to add or drop parties to avoid dismissing an action); *Anrig v. Ringsby United*, 591 F.2d 485, 489-92 (9th Cir. 1978) (faulting the district court for failing to consider the dispensability of parties prior to dismissing the entire case, and proceeding to address the question in the first instance); *see also Walsh v. Centeio*, 692 F.2d 1239, 1241-42 (9th Cir. 1982) (discussing case law in analysis of applicable standard of review of dismissals under Rule 19(b)); *Cloverleaf Standardbred Owners Ass'n, Inc. v. National Bank of Washington*, 699 F.2d 1274, 1277 n.5 (D.C. Cir. 1983) (suggesting, in dicta, that a court of appeals may apply Rule 19 itself in "cases in which Rule 19 does not figure in a district court's decision but becomes an issue on appeal in conjunction with a jurisdiction or venue challenge pursued by one or more of several defendants").

That we may (or ought to) do so is perhaps born of the notion that we have an independent equitable obligation to protect the interests of absentee parties. *See MasterCard Int'l Inc. v. Visa Int'l Service Ass'n, Inc.*, 471 F.3d 377, 382-83 (2d Cir. 2006). Inasmuch as we conclude that there is indeed only one permissible outcome here, however, we need not rest our decision on this basis.

<sup>5</sup> There is an abstract question lurking in the background: Should a court apply the Rule to present circumstances, or instead to the circumstances as they were at the time the party initially made its motion for dismissal under Rule 19(b)? *Compare Universal Reinsurance Co.*, 312 F.3d at 89 (noting, in a case in which Rule 19(b) issue did not arise until after first appeal and remand, that "[o]nce the district court

has proceeded to final judgment, considerations of finality, efficiency, and economy become overwhelming, and federal courts are directed to salvage jurisdiction where possible" (internal quotation marks and citations omitted)), *with Young v. Powell*, 179 F.2d 147, 152 (5th Cir. 1950) (reviewing district court's Rule 19(b) analysis based on the "relief asked for" rather than the "relief granted" on the merits in order to prevent prejudice to the defendant). *See generally* 7 CHARLES ALAN WRIGHT & ARTHUR R. MILLER, FEDERAL PRACTICE AND PROCEDURE § 1609 (3d ed. 2008). We need not address it, though, because we conclude that under either approach, the result would be the same: Lisa and Neal are not indispensable parties.

<sup>6</sup> The termination right in section 304(c) applies only to transfers executed by the author prior to January 1, 1978. Section 203 governs termination of transfers of the rights to works executed on or after January 1, 1978. *See* 17 U.S.C. § 203(a). We have cautioned that "Section 203 and Section 304 are different provisions involving different rights." *Larry Spier, Inc. v. Bourne Co.*, 953 F.2d 774, 779 (2d Cir. 1992).

<sup>7</sup> Thirty-nine years, to be precise. Termination rights may be effected "during a period of five years beginning at the end of fifty-six years from the date copyright was originally secured, or beginning on January 1, 1978, whichever is later." 17 U.S.C. § 304(c)(3). Under section 304, as amended by the Sonny Bono Copyright Term Extension Act, the full copyright term of the works at issue -- consisting of a 28-year initial term plus a 67-year renewal term -- is 95 years. *See* 17 U.S.C. § 304(a), (b). At stake here, then, is the 39 years that will be remaining on each of the works' copyright terms at the time they turn 56.

<sup>8</sup> Our approach has been criticized. *See* NIMMER ON COPYRIGHT § 9.03[D]. It was also called into question by language in *Community for Creative Non-Violence v. Reid*, 490 U.S. 730, 744 (1989), which discussed some of our cases as background to interpreting the

1976 Act's somewhat different "work made for hire" provisions, 17 U.S.C. § 101. We nonetheless reaffirmed our adherence to the instance and expense test in cases turning on the interpretation of the 1909 Act's work-for-hire provisions in Estate of Burne Hogarth, *supra*.

<sup>9</sup> Marvel sees this as a formal "burden shifting framework." Under that framework, as Marvel conceives of it, the hiring party must "come forward with 'some credible evidence' that the Works were created at its instance and expense," from which showing "arises an 'almost irrebuttable presumption' that the Works were works made for hire." Appellees' Br. at 22 (citations omitted). Neither the "some credible evidence" statement -- a cherry-picked comment from a Ninth Circuit opinion, *see Twentieth Century*, 429 F.3d at 877 -- nor the "almost irrebuttable presumption" language -- a Fifth Circuit opinion's description of our approach, noted in our opinion in Estate of Burne Hogarth, 342 F.3d at 158 (quoting Easter Seal Society for

Crippled Children & Adults of Louisiana, Inc. v. Playboy Enterprises, 815 F.2d 323, 327 (5th Cir. 1987)) -- is an accurate statement of our case law.

<sup>10</sup> The facts underlying this dispute took place decades ago, and Jack Kirby is, of course, no longer alive to provide an account of his working relationship with Marvel during the relevant time period. This leaves us to reconstruct the arrangement through (1) the deposition testimony of Stan Lee, whose credibility the Kirbys contest; (2) the depositions and declarations of other comic book artists who worked for Marvel at various times, but likely under different arrangements from Kirby's; (3) the depositions of the Kirby children, who have little direct knowledge; and (4) some documentary evidence concerning Kirby's contributions to or creation of some of the works.

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# **FLIPPING PUBLISHING MICRO-PENNIES INTO A BUCKET**

**SXSW CLE 2014**

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## ON-DEMAND STREAMING RIGHTS AND RATES: *HOW THEY WORK AND WHAT THEY ARE WORTH*

### PERFORMING RIGHTS ORGANIZATIONS (“PROs”) – ASCAP / BMI / SESAC

The American Society of Composers, Authors and Publishers (“ASCAP”), Broadcast Musicians Inc. (“BMI”), and the Society of European Stage Authors & Composers (“SESAC”) are the three major Performing Rights Organizations (“PROs”) in the US. These PROs collect over \$2 billion in license fees from music users like television and radio stations, restaurants, performing venues, and digital services for



performing music. Songwriters and publishing companies whose works are performed in the US typically affiliate with one of these societies to collect license fees for the use of their **public performance right in a musical composition**. In the digital space, PROs usually provide music service providers a blanket license, which allows the music service provider to use all of the works in the PRO’s repertory for one fee. PROs are generally an efficient and effective way to administer performance rights in musical compositions.

Because PROs collect license fees for their entire catalogs, and not for specific performances of each writer or publisher’s works, the amount received as a license fee needs to be translated into a royalty rate payable to the writers and publishers. PROs rely on the performance information provided by its licensees in order to divide the blanket fees. For example, because ASCAP pays writers and publishers for domestic (i.e. US) performances on a quarterly basis, ASCAP apportions the license fee received by a digital music user according to the performance data received by that music user for that quarter (after the deduction of operating expenses). This “follow the dollar” method ensures that ASCAP members receive royalties in similar proportion to the amount received by the music user as a license fee.

PROs do not pay out for every digital performance. Because the per-stream rate is so small (often in hundredths of a penny) it would not be practical to issue a payment to every songwriter or publisher who has just a few performances in a given quarter. In order to pay efficiently, PROs typically use minimum performance thresholds for titles before that title is credited with royalties. Once the credit threshold is reached, the total royalties are divided between all writers and publishers on the work (50% to writers and 50% to publishers, per industry standards) and are issued by ASCAP accordingly.

#### **HYPOTHETICAL #1 – Payment from a PRO for performances on a digital music service**

Assume Live365 pays ASCAP \$80,000 in license fees in 4Q2013 and also provides ASCAP with data showing 150,000,000 performances of ASCAP works for that same quarter. This would mean that every performance would be equivalent to about \$.000533 (\$80,000

[distributable royalties] / 150,000,000 [performances]). Accordingly, it will take approximately 14,440 performances to reach one credit (14,440 [performances] x .0533 [rate] = \$7.70).

*SCENARIO (a)* – Bob Donnelly is an ASCAP writer member and ASCAP publisher member who writes and publishes his own works—therefore he is entitled to receive 100% of all royalties attributed to his works in equal distributions as a writer and a publisher. In 4Q2013, Bob’s music is streamed on Live365 **28,880 times**. In Bob’s corresponding ASCAP writer and publisher distributions for that quarter, he will receive a total of \$14.40 for performances on Live365.

*SCENARIO (b)* – Alternatively, if Bob was published by Sony/ATV, and his work was streamed **14,440 times**, Bob would receive \$3.35 (while Sony/ATV receives the other \$3.35).

## ON-DEMAND (“INTERACTIVE”) MUSIC STREAMING – RIGHTS AND SERVICES

On-demand streaming is a term used to describe a type of music service that contains a catalog of recordings that a listener is able to browse and select to play any part of that catalog at their discretion. The key element of an on-demand service is that the listener can select any song “on-demand” and immediately hear the selected recording. On-demand streaming is also often referred to as “interactive” because the recordings will only play if the listener “interacts” with the service to select the recordings. Examples of this type of service can be found with Spotify, Rhapsody, and Rdio.

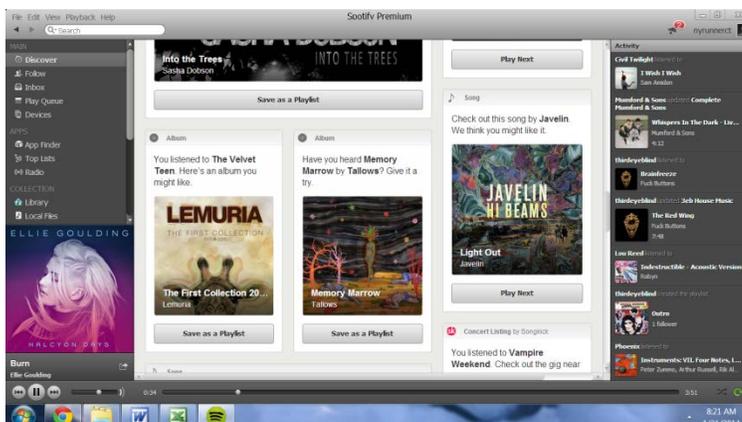
### Rights Implicated

All on-demand services implicate three distinct rights: (1) public performance right in the musical composition (i.e. words and music), which is traditionally licensed by PROs (2) the digital reproduction, or “mechanical,” right in the musical composition, which is traditionally licensed by the Harry Fox Agency (“HFA”), and (3) the public performance right in the sound recording (i.e. the actual recording of a song) by means of a digital audio transmission, which is licensed by the individual copyright holders (most often record labels).

Most on-demand services, including Rdio, Rhapsody, and Spotify, have similar “interactive” services that implicate the same basic rights. Accordingly, rates across all three platforms should—theoretically—be very similar. At the very least, the agreed upon rates are likely to be similar across the three major music rights holders (Universal, Sony, and Warner).

### Spotify

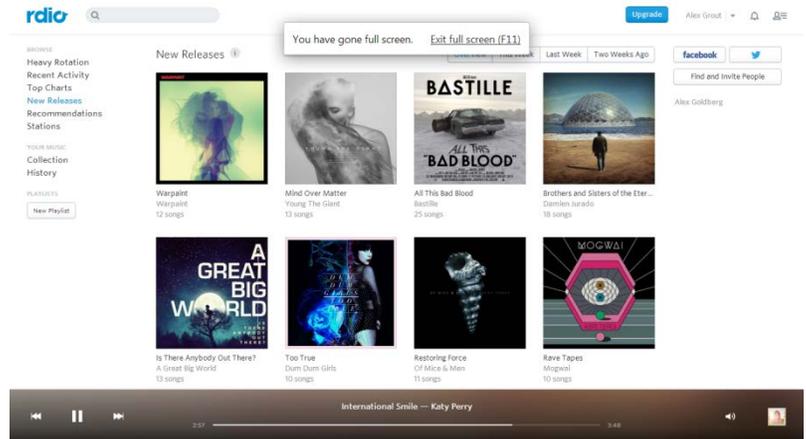
- 20,000,000 songs (although 4 million have never been played!)
- Rapidly expanding domestically and abroad;
- Currently available in 55 countries;



- In addition to the on-demand service, Spotify software can also play “local files” from your device.

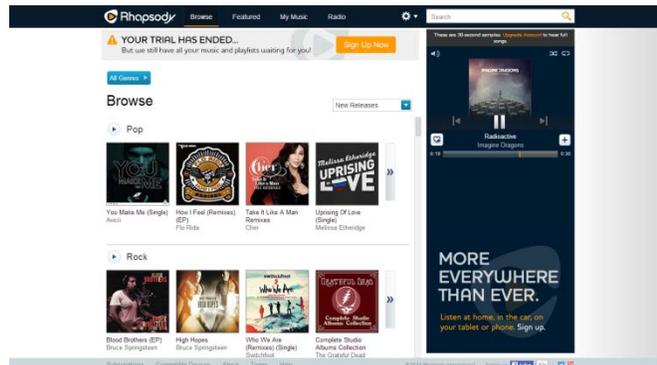
## Rdio

- Created in August 2010 by founders of Skype;
- Self-described as “a social jukebox with over 20,000,000 songs to play on your phone, the web, even offline;”
- Available in 35 countries;
- Rdio offers fully interactive streaming, where you can build your own playlist and additionally has a “stations” that can be created and curated based on taste.



## Rhapsody

- Launched December 2001 as first streaming service and re-launched in April 2010;
- Available in 17 countries;
- Rhapsody has a catalog of 11,000,000 songs;
- Offers music software that is free to non-subscribers (similar to iTunes software);
- Service can be used on mobile devices



## HYPOTHETICAL #2 – Payments from Rdio for performances on a digital music service under different record and publishing deals

### *Hypothetical #2 Facts for Rdio:*

- Total “Service Revenue” – **\$28,500,000**
- “All-In” Royalty Rate (10.5% statutory rate of “Service Revenue”) – **\$3,000,000** (appx.)
- Total Paid for Public Performance of Composition – **\$1,000,000** (appx.)
  - Total paid to ASCAP – **\$500,000**
- Total streams on service – **10,000,000,000**
  - Streams of ASCAP works – **5,000,000,000**

### Rdio Royalty Rate for Performance Right for the Musical Composition

If Rdio reported to ASCAP that it had 5 billion streams of ASCAP member’s works, then the ASCAP performing royalty rate would be **\$.0001 per stream**. Because ASCAP distributes an equal amount of royalties to the songwriter and publisher of a work, the payable royalties would be divided into 50% payable to the writer and 50% to the publisher of the work.

$$\text{Calculation: } ( 500,000 \text{ [ASCAP performance license fee received]} / 5,000,000,000 \text{ [number of ASCAP streams]} ) \times \text{[Songwriter or Publisher Share]}$$

### Rdio Royalty Rate for Mechanical Right in Musical Composition

The mechanical fees Rdio owes to HFA are calculated by reducing the amount paid for the public performance of the composition—or \$1,000,000—from the “all-in” rate 10.5% rate of \$3,000,000. Here, the \$2,000,000 for the mechanical right in the musical composition will be paid to HFA. Rdio reports to HFA that it had 10 billion streams in the same quarter that it paid \$2M to it. Assuming minimal operating expenses, the HFA mechanical rate would then be **\$.0002 per stream**. This amount would be paid to solely to the publisher of the work, which would then issue royalties to songwriters in accordance with its agreement rate.

$$\text{Calculation: } ( 2,000,000 \text{ [HFA mechanical license fee received]} / 10,000,000,000 \text{ [total number of streams]} ) \times \text{[Publishing Agreement Rate]}$$

### Rdio Royalty Rate for Performance Right for the Sound Recording

In addition to the rights afforded to the musical composition, because the right to use a sound recording in an “interactive” service is permissive, Rdio would have had to agree upon a rate with the copyright owner (typically the record label) for the right to perform its sound recording of Bob’s music digitally. Although these agreements are made at market rates with confidential terms, let’s assume that the typical copyright owner receives **\$.0023 per stream**. By law, the amount attributed to the sound recording is thereafter divided: 50% to the owner of the sound recording, 45% to the featured artist in the sound recording, and 5% to non-featured artists.

$$\text{Calculation: } \$.0023 \text{ [Rate]} \times \text{[Number of Streams]} \times \text{[Share Payable]}$$

**SCENARIO (a) – Bob and his deal with Sony** – Assume that Bob Donnelly is an up and coming ASCAP singer songwriter and enters into a full record and publishing deal with Sony Music Entertainment (“SME”) and Sony/ATV. He records as a featured performer, but SME owns the sound recordings. In addition to receiving royalties directly from ASCAP as a writer, Bob is fully published Sony/ATV, where he receives 50% of the mechanical royalties HFA issues to Sony/ATV for his music.

*Under Scenario (a) how many plays will it take for Bob to receive \$100 in Rdio royalties?*

- **About 84,390**

- \$4.22 from ASCAP
  - $\$.0001$  [Rate] X 84,390 [Number of Streams] X 50% [Songwriter Share]
- \$8.44 from Sony/ATV o/b/o HFA
  - $\$.0002$  [Rate] X 84,390 [Number of Streams] X 50% [Publishing Agreement Rate]
- \$87.34 in Sound Recording Royalties
  - $\$.0023$  [Rate] X 84,390 [Number of Streams] X 45% [Featured Artist Share]

*Under Scenario (a), total per stream rate?*

- **\$.00118** (appx.)

**SCENARIO (b) – Bob and his deal with Universal/Capitol** – Bob is now an accomplished industry-veteran who has entered into co-publishing deal with Universal Music Group and an artist-friendly record deal with Capitol Records (“Capitol”). He records as a featured performer, but Capitol owns the sound recordings. In addition to receiving royalties directly from ASCAP as a writer, Bob receives 50% of all of his publishing royalties directly from ASCAP and additionally, Bob receives 75% of the mechanical royalties HFA issues to Universal for his music.

*Under Scenario (b) how many plays will it take for Bob to receive \$100 in Radio royalties?*

- **About 79,365**
  - \$5.95 from ASCAP
    - $\$.0001$  [Rate] X 79,365 [Number of Streams] X 75% [Songwriter Share plus Co-Publisher Share]
  - \$11.90 from Universal o/b/o HFA
    - $\$.0002$  [Rate] X 79,365 [Number of Streams] X 75% [Publishing Agreement Rate]
  - \$82.14 in Sound Recording Royalties
    - $\$.0023$  [Rate] X 79,365 [Number of Streams] X 45% [Featured Artist Share]

*Under Scenario (b), total per stream rate?*

- **\$.00126** (appx.)

**SCENARIO (c) – Bob is an independent** – Bob is wildly successful and now writes, records, performs, and publishes all of his own music. He also owns all of his own sound recordings and was the sole performer. Bob is affiliated with ASCAP as a writer and as a publisher, receives distributions as a publisher directly from HFA.

*Under Scenario (b) how many plays will it take for Bob to receive \$100 in Radio royalties?*

- **About 38,460**
  - \$5.95 from ASCAP
    - $\$.0001$  [Rate] X 79,365 [Number of Streams] X 100% [Songwriter Share and Publisher Share]
  - \$7.69 from HFA directly

- \$.0002 [Rate] X 79,365 [Number of Streams] X 100% [Self-Published]
- \$88.46 in Sound Recording Royalties
  - \$.0023 [Rate] X 79,365 [Number of Streams] X 100% [Featured Artist, Non-Featured Artist, and Sound Recording Owner combined]

*Under Scenario (c), total per stream rate?*

- **\$.0026** (appx.)

### **A Note about International Royalties**

The rates and royalties received by a songwriter, performer, or other copyright owner for the use of their music by a digital music user abroad will depend on a number of factors including the copyright law of that country, the ability of the licensing agent (often a publishing company, record label, or collecting society like PROs, HFA, or SoundExchange in the US) to extract a competitive licensing rate, and the amount that is determined by the collecting agent to be owed to the writer, performer, or copyright owner. Although these factors will undoubtedly cause differing rates in each country, it is safe to assume that the more prominent or used a music service is internationally, the more royalties the writer, performer, or copyright owner will receive for the use of their music abroad. For example, as Spotify is available in at least 55 countries, the use of your music on that service is more likely to result in international royalties than with Rdio or Rhapsody.

### **CLEAR CHANNEL: MULTIPLE RIGHTS DEALS**

Over the past 20 months, Clear Channel, the nation's largest owner of traditional broadcast radio stations and the owner of internet music service I <3 Radio, has entered into multi-faceted deals with certain writers and catalogs to share in a percentage of the radio giant's revenue. The first deal was struck with Big Machine Records in June 2012, and many other labels have signed on since (Glassnote, eOne, DashGo and—most notably—Warner Music Group).

These deals appear to cover a number of topics tied to digital royalties, including both the digital performance right in sound recordings (i.e. bypassing SoundExchange's statutory rate for any ClearChannel performances, like I <3 Radio [the rate in these deals is estimated at approximately \$.0012, or slightly more than half the statutory rate]) and the public performance right in a song on both digital and terrestrial radio (i.e. bypassing the licensing otherwise typically agreed upon by major PROs ASCAP, BMI, and SESAC). But perhaps the biggest splash from these deals is that the terms appear to cover the performance in a sound recording over terrestrial radio—a type of performance that the US has not yet recognized by statute.

It is estimated that the parties entering into an agreement with Clear Channel will receive some "all in" amount from Clear Channel as a portion of Clear Channel's revenue. Additionally, the labels will receive the benefit of having a direct relationship with the largest owner of the most effective music marketing tool in history. The other potential impact is that the rights holders in these deals may elect to deal directly with other music users in the space, or elect to withhold from Clear Channel's competitors in the digital space (e.g. Pandora or Spotify). However, the current legal issues impacting the public performance right in the digital space (per recent rate-

court decisions impacting the consent decrees under which ASCAP and BMI operate) makes projecting that area of performance royalties extraordinarily difficult.

### **ONLINE-ONLY COMMERCIAL ADVERTISEMENTS**

Generally, there are two rights involved with putting a song to audio/video commercial advertisements. These rights remain consistent whether the work is performed on television or the Internet. The initial permissions to synchronize music with a video, including a commercial advertisement (i.e. the “Synch” or “Sync” rights), must include explicit agreement to use:

- (a) the musical composition (i.e. words and music); and
- (b) the sound recording (only if using an original recording).

If the commercial producer is “covering” a song for the advertisement, the musical composition needs only to be cleared, but the producer must also obtain rights in the newly-recorded recording. For clearing existing compositions or recordings, each right is ‘cleared’ by the producer paying a flat fee for the “synch”-ing (the fees go to the rights holders of each, typically the publishing company and record label for the composition and sound recording, respectively). The amount of the fees can vary widely depending on the song used and the intended use (e.g. commercial to be shown on early morning Hulu or primetime NBC television broadcast?). However, the fee rate is often the same fee for the publisher [composition owner] and the label [master owner] on a Most-Favored-Nations basis (i.e. the producer must give the same rate and terms to both rights holders).

### **VEVO AND MUSIC PUBLISHING ROYALTIES**

Founded in 2009, Vevo is a music video platform co-owned by Universal Music Group, Sony Music Entertainment, Abu Dhabi Media and Google, who also hosts VEVO on YouTube. It has been publicly reported that VEVO is currently generating over \$150 million per year, primarily from advertising sales. For a long period, Universal and Sony did not directly pay music publishers or songwriters for the music works embodied in VEVO music videos. Royalty payments were instead made solely to the parent company record labels, who had in artist and producer contracts, through controlled composition clauses, defined music videos as merely promotional tools, not revenue-generating assets.

Royalties paid to music publishers and songwriters are based on ad revenue generated by the videos on VEVO. VEVO itself is not licensed, but publishers have licensed and are paid for some of the content on VEVO through either (i) direct licenses between music publishers and UMG and SME that cover one or more musical works or (ii) “blanket” digital music video licenses, called New Digital Media Agreements (“NDMAs”), including a model NDMPA negotiated between the NMPA and UMG for independent music publishers. Still, much of the content on VEVO, including videos from cover artists, original series, many indie label music videos and other videos not covered under the licensing avenues above, remains unlicensed and music publishers and songwriters are not receiving royalties from the ad revenue generated.

1. **Synch Rights:** The record labels must to secure synchronization rights to cover the synchronization of the musical work within the video.

a. *Direct Agreements:* Music Publishers may have direct licensing deals with either UMG or SME that cover a specific video or group of videos. These direct deals are usually based on royalty rates based on the revenue received by the record label generated by ads placed on the videos covered by the license. These royalties are paid by VEVO to the record label, which then pays music publishers a percentage of the revenue the label receives.

b. *UMG/NMPA Model License Agreement:* In 2012, UMG and NMPA negotiated a model New Digital Media Agreement that covered music videos. Under the agreement, music publishers provided to UMG non-exclusive rights necessary for the synchronization of their music in an audio-visual work. In exchange, each publisher receives royalties, on a pass through basis by UMG, which were reported June 19, 2012 Billboard article as fifteen percent (15%) of advertising revenue received by UMG from VEVO for the relevant videos. Billboard also reported that publishers who opted into the model license received retroactive compensation from UMG, based on a percentage of the past revenue received by UMG, for past use of publishers' works in UMG digital music videos.

**Example of royalty payment to publisher:** Let's say Universal Music makes Video X and uploads it onto VEVO, and the Video generates ad revenue → VEVO takes a percentage of revenue and a percentage of the revenue is paid to YouTube as the content host → Then VEVO pays the remainder of the ad revenue to Universal (we'll say \$100) → Under the NDMA, Universal then pays 15% or \$15 of the revenue it received to the Publisher who owns the musical work synched into Video X (assuming 100% ownership of copyright).

2. **Performance Royalties:** VEVO has performance rights licenses with ASCAP, SESAC and BMI. Under these licenses, music publishers and songwriters receive royalties directly from the performing rights organizations for the public performance of their musical works on VEVO.

## **YOUTUBE AND MUSIC PUBLISHING ROYALTIES**

YouTube is a digital video service owned by Google that has been in existence since 2005. For purposes of this music publisher royalty breakdown, there are three types of relevant video categories on YouTube: User Generated Content ("UGC"), Partner Videos, and Official Label Music Videos ("Label Videos"). For each of these video categories, there are several exclusive rights of music publishers and songwriters under the Copyright Act that may be implicated and are licensed, to varying degrees, by YouTube.

- *Mechanical Reproduction and Distribution:* To the extent necessary to host and distribute the videos that contain music on YouTube, YouTube must secure mechanical rights.
- *Synchronization:* The creator of each YouTube video that contains music should, though rarely does, license the synchronization of the song and/or lyrics with the audiovisual work.
- *Performance:* YouTube must secure the right to perform any copyrighted music contained in a video uploaded onto its website. YouTube has licenses in place with each

of the three PROs and pays performance royalties to the PROs that are then distributed to music publishers and songwriters.

- *Lyric Right*: For any YouTube video that contains the lyrics to a song, a license to display those lyrics is required. Lyrics remain primarily unlicensed on YouTube.

**How rights are (or are not) licensed in each relevant video category on YouTube:**

1. UGC: YouTube has direct licenses with over 4,000 music publishers which convey the rights necessary for YouTube to host and distribute videos containing music on its website. Most of these licenses were the product of a model license negotiated between National Music Publishers' Assoc. and YouTube that was offered for opt-in to independent music publishers. Most users who upload UGC have not secured underlying rights to synchronize the musical work with their audio-visual content. Under YouTube's UGC licenses, publishers are paid directly by YouTube and royalties are a percentage of the total advertising revenue generated by each video containing a musical work.
  - a. The royalty rate is determined by whether the video (i) contains the master sound recording of a song (i.e. A lip synch video or video where song is playing in the background) or (ii) is a "cover" of the song with no master sound recording present. Music Publishers will generally make approximately 50% of the advertising revenue for cover videos and approximately 15% of ad revenue for videos containing the master sound recording.
  - b. A chart demonstrating how royalties are paid under UGC licenses is set forth as Exhibit A.
2. Label Videos: Label Videos are the official music videos that are created by record labels and are uploaded by the label onto YouTube. For example, Warner Music has a YouTube Channel onto which the label uploads its official Label Videos. YouTube has not directly licensed these Label Videos, but in many circumstances music publishers have conveyed the right to synchronize their musical works with the video directly to the record label under a New Digital Media Agreement (NDMA), including through a model NDMA negotiated between National Music Publishers' Assoc. with Warner Music. Prior to NDMA's, most record labels relied on controlled composition clauses or not licensing the synchronization at all.
  - a. Under these agreements, royalties are generally a percentage of the advertising revenue received by the record label, meaning a publisher's royalty percentage is based on the ad revenue received by the record label and not on the total revenue generated by the music video on YouTube. By example: Let's say Label Video X generates \$100 in ad revenue. YouTube would keep approximately 45% or \$45

of that revenue and pass 55% or \$55 to the record label. Under an NDMA, the record label would then pay approximately 15% of the \$55 it receives, or \$8.25 to the music publisher.

3. *Partner Videos*: Partner Videos are videos uploaded onto the channel of video creators who have entered into partnership agreements with YouTube. These partners can take advantage of a variety of resources, features, and programs that YouTube provides to help build their video channel(s) and their audience in order to maximize monetization of videos. Partner Videos fall outside of YouTube's UGC licenses, and partners represent to YouTube that they have licensed all underlying rights (including music rights) within the videos. Despite this representation, the vast majority of partner videos containing music remain unlicensed with no revenue flowing to music publishers for use of their works, although a few direct licenses have been reported in the press (see Billboard's February 14, 2013 article on UMPG's licenses with Maker Studios and Fullscreen, both YouTube multi-channel networks).

## **DIGITAL JUKEBOXES AND MUSIC PUBLISHING ROYALTIES**

A Digital Jukebox is a digital audio or audiovisual music player that, similar to its traditional counterpart, allows users to play songs or music videos that have been downloaded and stored on the device. Music licensing for digital jukeboxes may require the licensing of a number of exclusive rights depending on the devices functionality. Digital jukeboxes require public performance, mechanical, and potentially synch and lyric display rights from music publishers. The licenses for digital jukeboxes are primarily negotiated (i) directly with publishers, (ii) through companies such as the Harry Fox Agency (HFA) or (iii) through the performance rights organization (ASCAP, BMI and SESAC).

1. **Public Performance Licenses:** The copyright owner of a song has the exclusive right to perform his or her song in public, so performances of the song through a digital jukebox require a performance license from the performing rights organizations (PROs) ASCAP, BMI and SESAC. The PRO's have fairly standardized deals for digital jukeboxes. Jukebox companies that license with the PROs pay and report based on the standardized license to each PRO in a timely fashion for each and every digital jukebox that they have operating in the marketplace. Each PRO then pays out those royalties to music publishers and songwriters.
2. **Mechanical Licenses:** To use a copyrighted work on a digital jukebox, one must usually obtain a mechanical license negotiated directly with the copyright owner. In the digital jukebox realm, mechanical copyrights apply to the digital copies of songs downloaded and stored in each jukebox.
  - a) Digital jukebox companies often hire companies, like HFA, to license some mechanical rights, track publishing rights data, report usage and pay each publisher.

b) For each song downloaded onto a digital jukebox the jukebox company must pay 9.1 cents, which is the statutory mechanical royalty rate under 17 U.S.C. 115 (Section 115). Therefore, if 20,000 songs are downloaded onto a digital jukebox, the jukebox company would have to pay a total of \$1,820 in mechanical royalties to the music publishers and songwriters that own those songs.

3. **Sync Licenses:** For digital jukeboxes that can play either karaoke or music videos, a synch license is also needed to cover the use of music synced to the music videos and karaoke. Occasionally, in the case of music videos, a record label has the ability to license the synch rights and pass through royalties to the relevant music publisher. But most times, particularly in the case of karaoke, synch rights are licensed by the jukebox company directly with the publisher.

### **KARAOKE AND MUSIC PUBLISHING ROYALTIES**

Today there are many different services and companies that offer karaoke, whether at live venues, on karaoke CDs or downloads, or through karaoke applications or websites. For this reason, many of a copyright owner's exclusive rights under the Copyright Act may be affected by karaoke uses. Because of the number of rights implicated by karaoke, karaoke companies generally reach out to publishers directly or through HFA's slingshot program (through which they can distribute a proposed license to HFA members) to negotiate licenses for the use of publisher musical works.

1. **Synchronization:** Lyrics displayed in conjunction with a sound recording constitute an "audiovisual work," so karaoke licenses must cover the right to synchronize.

a) For traditional karaoke, the synch departments within a music publisher usually work with karaoke companies and have form agreements with a specific fixed rate to start and then a royalty rate per karaoke CD distributed. These rates are generally range between \$100-250 per track plus a royalty of between 10 and 20 cents per copy sold.

b) For apps and websites, there isn't an established system in place yet for licensing, but publishers would generally ask for an advance and a percentage of revenues generated by the app or website.

2. **Lyric Display:** Karaoke requires licensing the separate right to display lyrics. A karaoke company can either license lyric display rights directly with each music publisher or potentially license rights with a lyrics aggregator, such as LyricFind or MusixMatch.

3. **Reproduction:** The creation of a copy of a musical work implicates the mechanical reproduction and distribution rights of a copyright owner. Mechanical rights are governed by a compulsory license under 17 U.S.C. 115 (Section 115).

a) Copy of musical work onto CD/server

b) Copy of musical work created by user uploading cover version

c) Under Section 115 a licensee must pay 9.1 cents to the copyright owner for each copy of a musical work. So, if a company looks to sell a karaoke CD containing 15 songs, the company would own the copyright owners of each song 9.1 cents per reproduction or \$1.36 in mechanical royalties per CD sold or downloaded.

4. **Public Performance:** when musical compositions are performed publicly, as they are for most karaoke uses, licensees must license the public performance right as well, unless the venue at which the karaoke is performed has a public performance license.

a) This right require a performance license from the performing rights organizations (PROs) ASCAP, BMI and SESAC. The PROs provide karaoke companies, or establishments that offer karaoke, with a performance license that permits the licensee to perform hundreds of thousands of songs. Royalties are then paid back to each PRO, which then pay out to music publishers and songwriters.

5. **Derivative works:** Some arrangements of works would qualify as the creation of derivative works, another exclusive right held by the copyright owner.

### **LYRIC DISPLAY LICENSING AND MUSIC PUBLISHING ROYALTIES**

The digital age has provided a chance to re-evaluate the value of song lyrics. Where lyrics were once relegated to liner notes, song lyrics and lyric videos have become some of the most sought after content on the internet, including on major websites like YouTube, and thus a noticeable new source of income for music publishers and songwriters. But, licensing and collecting royalties for the lyrics from websites has not been easy. With respect to lyric sites, only with the creation of third party aggregators, such as LyricFind, have publishers been able to tap into significant revenue. And now, with the rise of lyric videos, record labels and audiovisual digital sites are beginning to license and pay royalties for the ability to display lyrics in music videos.

1. **Lyric Sites and Lyric Aggregators:** Some of the largest online lyric sites, such as MetroLyrics.com, AZLyrics.com and lyricsfreak.com use aggregators, such as LyricFind and MusixMatch to license with music publishers to display lyrics. These aggregators handle all lyrics licensing terms between lyrics sites and publishers including (but not limited to) Warner-Chappell, Sony/ATV, , Universal and numerous independent publishers and songwriters. The aggregators collect all royalties from lyric sites and then distribute to music publishers after taking a percentage of the royalty payment.

a. Generally speaking the agreements are based on one (or a combination) of two models:

i. A revenue share model under which a site pays to the aggregator a percentage of the advertising revenue generated.

**By example:** FunLyrics.com earns \$1,000 in ad revenue □ it pays 35% (or \$350) to LyricFind. LyricFind takes 25% of the royalty (or \$87.50) and distributes the remainder (\$262.50) to publishers and songwriters.

- ii. A royalty based on a per-display basis that pays out based on the number of views of each song lyrics at a specific rate.

**By example:** Users view lyric pages on FunLyrics.com 10,000 times → FunLyrics.com pays 1 penny per page view or \$100 total to LyricFind. LyricFind takes 25% of the royalty (or \$25) and distributes the remainder (\$75) to publishers and songwriters.

- iii. A minimum guarantee royalty payment is often included to ensure payment where there is not significant monetization.

b. Most aggregator agreements permit publishers to take down certain content on a site, or to opt out of a specific deal or require pre-approval for some licenses.

2. **Lyric Videos and Licensing:** Some of the most popular videos on YouTube, VEVO, VIMEO and other audiovisual sites are music videos that display lyrics, or “lyric videos.”

a. There are very few market lyric deals for music videos. However, agreements generally provide an “uplifted” royalty rate from the rate paid by the label or service for the music video based on a percentage of revenue.

**By example:** GoGo Label has a synch license with Bob Publishing. The license provides for a 15% royalty rate for digital music videos based on the percentage of revenue. If the music video is a lyric video, the royalty rate would be uplifted to 20% (a 5% uplift) to account for the display of lyrics. So, if GoGo Label receives \$100 in revenue for a lyric video, it would pay to the publisher \$20.

### **NON-INTERACTIVE MUSIC STREAMING (INTERNET AND SATELLITE RADIO)**

As the music industry keeps evolving and tech innovators enter the marketplace by creating products and services that offer alternative ways to provide music to consumers, new revenue streams are being created. Musicians and music companies alike must learn to maximize these revenue streams and turn half pennies into real money.

Internet music streaming is divided into two different categories: 1) non-interactive streaming, (services such as Pandora, Sirius XM, iHeartradio, etc) and 2) on-demand streaming (services such as Spotify, Rhapsody, etc.). Generally, non-interactive streaming service providers stream music in the same manner as AM/FM radio plays music on our car radios. Listeners do not have the option to pick specific songs or albums to listen to, rather they are provided with a musical playlist chosen by the program or service that may or may not take into account the listener’s musical preferences. Unlike on-demand streaming, non-interactive streaming consists of temporary copies of songs typically in the form of temporary cache or buffer copies on a server or drive (also known as “ephemeral” copies) to allow listeners to stream music at the same time that the music is loading onto their computer, tablet, or smartphone.

### **RIGHTS AFFECTED BY NON-INTERACTIVE STREAMING**

Songs, as we all know, are protected under copyright law. What many do not know is that every song heard is actually the embodiment of two separate copyright works: 1) a musical

composition, and 2) a sound recording. The musical composition is made up of the underlying lyrics and musical notes written by a songwriter. A sound recording (commonly referred to as the “master recording”) is the actual recording itself embodying the recording artist’s interpretation of the musical composition as well as the work of producers, sound engineers and musicians.

In order to transmit a digital audio version of a song two distinct rights must be obtained by non-interactive streaming service providers: 1) the right to publicly perform the musical compositions (this is licensed and royalties are collected and distributed by the performing rights organizations (“PRO’s”), and 2) the right to publicly digitally perform the sound recording (most labels and/or copyright owners have signed up with SoundExchange to license, collect, and distribute these royalties on their behalf). Whereas on-demand streaming requires service providers to also obtain the right to digitally reproduce the musical composition (referred to as a “mechanical” license) in addition to the other performance licenses, non-interactive streaming does not require a mechanical license because any copies made for streaming purposes are only temporary and fleeting. As such, non-interactive streaming service providers need only seek public performance licenses from performance rights organizations and SoundExchange in order to transmit digital audio.

## **Licensing**

Public performance licenses generally always require the payment of royalties. The PRO’s collect and distribute royalties associated with the digital public performance of the musical composition and SoundExchange collects and distributes royalties associated with the digital public performance of the sound recording under Section 112 and 114.

Sections 112 and 114 of the Copyright Act provide statutory licenses for the digital audio transmission of sound recordings. Section 114 covers a public performance for sound recordings while section 112 covers “ephemeral” reproductions. Currently, the only entity authorized by Congress to administer licenses under these sections is SoundExchange.

Rates and terms for these statutory licenses are determined by the Copyright Royalty Board, a board of three judges created by the Copyright Royalty and Distribution Reform Act of 2004 that determine the royalty rates for the use of copyrighted works. Rates and terms are set through either voluntary negotiations or trial hearings before the Board. If a service elects to negotiate rates and terms, then it negotiates these rates and terms with either SoundExchange or the PROs. Once a deal is reached, this is then presented to the Board for approval. If, on the other hand, a service chooses not to opt-in or negotiate rates and terms, then it may present itself to the Board and the Board will conduct a rate setting arbitration to establish applicable rates and terms.

Non-interactive streaming licenses for musical compositions can be obtained directly from each PRO (ASCAP, BMI, or SESAC). Each PRO issues a separate license for their entire catalog of musical compositions. Fees for these licenses are largely based on a percentage of the service provider’s generated revenue. The PROs use a “follow the dollar” method to collect and distribute royalties similarly to SoundExchange.

### **SoundExchange**

As previously discussed above, SoundExchange is the designated non-profit organization that collects and distributes digital public performance royalties earned from music streaming service providers to artists and master copyright owners. More than 2,000 services currently pay royalties to SoundExchange and that number continues to grow every quarter. These services

include satellite radio providers, webcasters and digital cable music providers. In 2013, SoundExchange paid \$590.4 million in royalties to registered artists and labels.

For purposes of this panel and article, however, we will only discuss digital public performance royalties payable and distributed to the publishers and songwriters of a musical composition. For more information on SoundExchange and how performance royalties for the sound recording are collected, processed, and distributed, please see SoundExchange's website:

[www.soundexchange.com](http://www.soundexchange.com).

## **HOW DO NON-INTERACTIVE STREAMING SERVICE PROVIDERS PAY PUBLISHING ROYALTIES ON MUSICAL COMPOSITIONS TO THE PROS?**

### **“Traditional” License Fee Structure**

Though online streaming is relatively new and the music industry is still adapting to the changes, license fees for the use of sound recordings and musical compositions have generally adopted a percentage of gross revenue rate or less often, a per-performance or per-session rate. The following services are representative of typical non-interactive streaming service providers that are affected by these license fee structures.

#### **Sirius XM**

Sirius XM satellite radio is a commercial free radio service provided to the consumer for a monthly subscription fee. XM can be accessed with a digital receiver in the home or automobile, as well as online and has 72 commercial free music stations. The company derives revenue from activation fees; sale of advertising on select non-music channels; direct sale of satellite radios, accessories, and other ancillary services such as weather, traffic, data and backseat TV services. XM uses its subscription revenue to pay royalties for the music it uses.

At the end of 2013, Sirius XM had an estimated 25.6 million subscribers with an average of \$129 in revenue per subscriber. Subscription fees range from \$9.99-\$18.99 per month or \$129-\$227 per year.

#### **Pandora**

Pandora Internet Radio is an automated music recommendation and music streaming service that operates mainly in the United States with limited access in Australia and New Zealand. The service plays musical selections based on a user's selection of genre, artist, or song. Pandora derives its revenue mainly from advertising revenue and subscription services. In 2013, Pandora reported its total gross revenue for 2013 was \$427.1 million, total listening hours had grown to 4.05 billion, and had streamed music to more than 200 million users. During January 2014, Pandora's listener hours increased to 1.39 billion, a 13% increase during the same period last year. This increased its total market share to 8.75%. As of January 2014, active listeners totaled about 73.4 million.

#### **A Note About Royalty Disputes Between Pandora and ASCAP:**

Pandora is currently in the midst of a federal court trial to determine how much it should pay ASCAP for use of ASCAP's catalog. Currently, Pandora pays a total of 4.3% of its revenue to publishers and songwriters, with a portion of that percentage going towards ASCAP's catalog.

Pandora's approach to royalties has been a hot topic in the last year due to its highly publicized dispute with ASCAP and RIAA over the reduction of royalty rates. Pandora has argued that its

competitors, mostly terrestrial radio providers, do not pay as much for music as they do. Unlike terrestrial radio, Pandora has a wider library of music to stream and must pay public performance royalties for both sound recordings and the underlying musical composition.

Pandora has pushed for legislation in the last couple of years that would require the Copyright Royalty Board to lower the royalty rates for internet radio to stream music and make them equal to the rates paid by terrestrial radio. While the legislation has not been passed, Pandora has been seeking other methods to circumvent current rates including buying a terrestrial radio station in South Dakota to qualify for terrestrial radio rates per its settlement agreement with ASCAP.<sup>1</sup> On January 20, 2014, Pandora and ASCAP began formal arguments in front of the rate court federal judges.<sup>2</sup> As of February 18, 2014, the trial portion closed and the judges are in the process of making their decisions.

### **iHeartRadio**

iHeartRadio, owned by Clear Channel Communications, is a multi-platform free digital radio service that essentially works as an aggregator allowing users to listen to live stations all over the country or create their own commercial-free stations. Currently, the iHeartRadio app for smartphones and tablets has approximately 260 million downloads (a large increase from the 144 million downloads Clear Channel reported the previous year) and has attracted more than 40 million registered users. Clear Channel has previously asserted that it had no plans to monetize iHeartRadio now or in the future. However, in order to make royalty rates more favorable for its digital services, Clear Channel has struck up a deal with Warner Music Group to allow the label to collect royalties from Clear Channel's 850 terrestrial radio stations in exchange for more favorable rates for online streaming. This currently only affects public performance royalties due for sound recordings while the rates paid for musical compositions remain unchanged.

## **HOW DO PROs PAY OUT PUBLISHING ROYALTIES TO PUBLISHERS AND SONGWRITERS?**

As previously explained, publishers receive royalties for the public performance of musical composition through the PROs- ASCAP, BMI, or SESAC. Each society has different terms and fees for non-interactive service providers, but all currently issue blanket licenses for their entire catalog of musical compositions to non-interactive service providers. Licensing fees vary between the three organizations, but all three provide non-interactive streaming service providers with the ability to pay a percentage of gross revenue (between 1.85% to 1.87%). ASCAP also allows service providers to pay \$0.06 on a "per-session" basis (a "session" means a period of listening time up to an hour, i.e., one session is equal one hour of listening time).

### **"Follow the Dollar" Method**

PROs collect fees for their entire catalog and not just for specific performances of individual musical compositions. They do not pay out for each digital performance because of how small the per-stream rate is. Instead, the amount of monies received from each service provider is processed and turned into a royalty rate to be paid to publishers and songwriters.

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<sup>1</sup> See "The Pandora Problem: Royalty, Streamed or Short Changed" by *Stephanie Jones and Michael Swiebach*, *San Francisco Classical Voice*, October 2013.

<sup>2</sup> See "Showdown for Pandora" by *Hannah Karp*, *The Wall Street Journal*, January 2014.

The PROs use a variety of tools to determine what royalties and how much royalties should be paid to any one publisher or songwriter. In accordance with the applicable regulations, the PROs use performance data provided by service providers to allocate, on a pro-rata basis, royalties received from each service provider. Once allocated, the PROs takes their administration fee from the royalties collected and then distributes the remainder: 50% to the publisher(s) and 50% to the songwriter(s).

***Sample Calculations for Non-Interactive Service Providers That Pay A Percentage of Revenue for Public Performance Licenses:***

**PLEASE NOTE:** Because the majority of the major non-interactive service providers pay on a percentage of gross revenue basis, we will not concern ourselves with a per-performance or per-session calculation as the math would be very similar to the below, with less steps. **All sample calculations made herein are calculated based on fictitious licenses, fees, and dollar amounts.**

**Hypothetical #1:** Let's assume the following about Service A and PRO #1-

- Service A total gross revenue - \$950,000,000
- Total royalty rate for musical compositions- 1.85% of gross revenue for PRO #1
- Total streams reported by Service A- 20,000,000,000
  - Total streams for PRO #1 catalog- 10,000,000,000

**Royalty Rate for Performance Right for the Musical Composition**

To calculate how much royalty monies should be allocated to each musical composition (assuming all the money can be accounted to individual musical compositions and all streams are attributable to publishers and songwriters), the following calculations should be made:

1.  $\$950,000,000$  (total gross revenue) / 1.85 (royalty "rate") =  **$\$17,575,000$  (approx.)** (this is the amount paid in total to PRO #1 for distribution as royalties)
2.  $\$17,575,000$  (total paid to PRO #1) / 10,000,000,000 streams (total number of streams) =  **$\$0.00176$  per stream (approx.)**

If Service A reports to PRO#1 that it had 10 billion streams of PRO #1 catalog works and paid \$17,575,000 in performance royalties, PRO #1 performance royalty rate would be \$0.00176 per stream. Now because all PROs distribute equal royalties to the songwriter(s) and publisher(s) for the work, this per stream rate is then divided 50/50 between the songwriter and publisher so that each receives  **$\$0.00088$  per stream**. This would then be split up between multiple songwriters and publishers, if any.

Now, how much would a publisher and songwriter receive for 10,000 streams of one of their songs?

3.  $\$0.00088$  (50% of the per stream rate paid to songwriter/publisher) X 10,000 streams =  **$\$8.80$**

\$8.80 would be paid to the songwriter and another \$8.80 would be paid to the publisher for a **total of \$17.60 in royalties** paid for one musical composition.

## WHAT ARE SOME ALTERNATIVE LICENSE FEE STRUCTURES FOR NON-INTERACTIVE STREAMING SERVICE PROVIDERS?

Newer service providers like iTunes Radio are attempting to find alternative fee structures that are not only beneficial, but also provide a more realistic balance between profit margins and content acquisition expenses.

### *iTunes Radio*

Accounting for 75% of the global digital music market, iTunes is the leading provider of digital music sales. Used across multiple platforms and affiliated with a wide variety of other non-Apple services and products, the service allows users to purchase digital albums, songs, apps, videos, software, and books.

Recently, Apple decided to follow the internet radio trend by launching iTunes Radio, a radio service functioning like Pandora that allows listeners to create custom stations based on specific artists or genres. Unlike its counterparts, iTunes Radio intends for such stations to be “hand-curated” instead of relying on algorithms that may not always be accurate to provide listeners with new music recommendations and a better listening experience.

So what makes iTunes Radio so different from its established competitors? One word. Royalties. While performance royalties for musical compositions will follow the percentage of gross revenue model outlined above, on the sound recording side, iTunes is leveraging Apple’s deep pockets (and established relationships) to make direct deals with the record labels instead of using the statutory license fee structure used by Pandora. Although iTunes Radio is a non-interactive service, the direct deals look a bit different than other internet radio arrangements. One look at the iTunes Radio licensing agreements with indie labels shows that labels will be paid a healthy royalty even before the service turns a profit. Keeping in mind the specifics of the majors’ deals with iTunes Radio could be very different, below is Glenn Peoples’s breakdown of how an indie label gets paid from iTunes Radio in his June 2013 article for Billboard’s Business Matters:

*“Even if Apple generates no revenue, labels will be paid 0.142 cents per stream under the minimum royalty. The contract defines the minimum royalty as 45% of net advertising revenues or \$21.25 per 1,000 listener hours in the first year and \$22.25 in subsequent years. In this case, \$0.2125 per listener hour works out to 0.142 cents per stream, assuming iTunes Radio will stream 15 songs per hour with an average of four-minute songs.*

*The standard royalty kicks in once Apple becomes better at generating revenue. In the first year, the standard royalty is 0.13 cents plus 15% of net revenue. In subsequent years, the standard royalty is 0.14 cents plus 19% of net revenue.”<sup>3</sup>*

This is all assuming that iTunes Radio will stream 15 four-minute songs per hour and not accounting for skipped songs or songs from the user’s collection. Once these are accounted for, the royalties per listening hours are sure to dip, but have still been proven to stay slightly above

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<sup>3</sup> For a more in-depth look at how royalties may be broken down see “Business Matters: What iTunes Radio Will Actually Pay” by Glenn Peoples, *Billboard.biz*, June 2013.

Pandora's rate.

Another distinct difference from Pandora, besides the way that iTunes Radio pays out royalties (i.e. by not relying on the statutory license), is that it is actually three services in one package. The iTunes Store and the scan-and-match cloud are all part of the contract package, so when an indie label delivers an "eMaster" to iTunes, that track will then become available on all three platforms. As a result, this also means that revenue generation is not necessarily limited to a per stream basis.<sup>4</sup>

iTunes Radio was expected to hit a high note when royalties from all of its services were taken into account, particularly the digital sales via the iTunes Store. In 4Q12 alone, digital music sales accounted for roughly \$1.9 billion of iTunes' gross revenue. Because a single download generates much more revenue than a single stream, after doing the math, it was possible to predict that the royalty rate would rise significantly over that of any other internet radio provider. However, empirical evidence is showing that even though iTunes Radio provides a "buy now" button to incentive users to buy music directly from iTunes Radio, users are not actively using the button as much as Apple had hoped. There has been no sales boost as a result of the Sept. 18 launch of iTunes Radio. In fact, track sales dipped 12.9% during 4Q13 and the first 3 weeks of 2014.<sup>5</sup>

Still, while the initial optimism and hope that iTunes Radio would generate higher revenue for the industry has dwindled in the last couple of months, it may be too early to call it a failed attempt. An increase in rates paid by internet radio providers now will likely have a higher repercussion than anticipated. The Copyright Royalty Board is set to determine the statutory rates paid for 2016 to 2020 in the coming months and will be looking at the rates internet radio providers currently pay to base their ultimate decisions. In the end, the music industry may have Apple to thank for pushing royalty rates in the right direction instead of waiting for the legislative process to take its course.

### **Mobile Apps**

Payment structures for mobile apps on the publishing side, regardless of platform, vary significantly based on a multitude of factors ranging from term, use, company, and type of application. Unfortunately, because this type of media and its market are relatively new, there is no set "standard" in place unlike in other forms of media.

Basic terms for music-based apps (such as SMULE and JAMMIT) typically provide a nominal advance, anywhere from \$250 to \$2,000/side, in addition to a periodic royalty payment. The rate of such royalty will vary (normally between 20- 25% of revenue with either a \$0.005 or \$0.008 floor) and largely depends on the company seeking a license and their ability (or lack thereof) to deliver quarterly reports. There are even some apps that provide no advance and are purely royalty-based.

On the other hand, the terms for non-music based apps may include a buyout provisions depending on the nature of the use. These fees are primarily dependent on the stature of the song requested and the company requesting. Fees can range anywhere from \$500/side to as much as

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<sup>4</sup> For more information see "How Does iTunes Radio Pay Artists?" by Michelle Davis, *Future of Music Coalition*, October 2013.

<sup>5</sup> For more information see "Business Matters: The Butterfly Effect and Why iTunes Radio Hasn't Increased Track Sales" by Glenn Peoples, *Billboard.biz*, February 2014.

\$15,000/side.

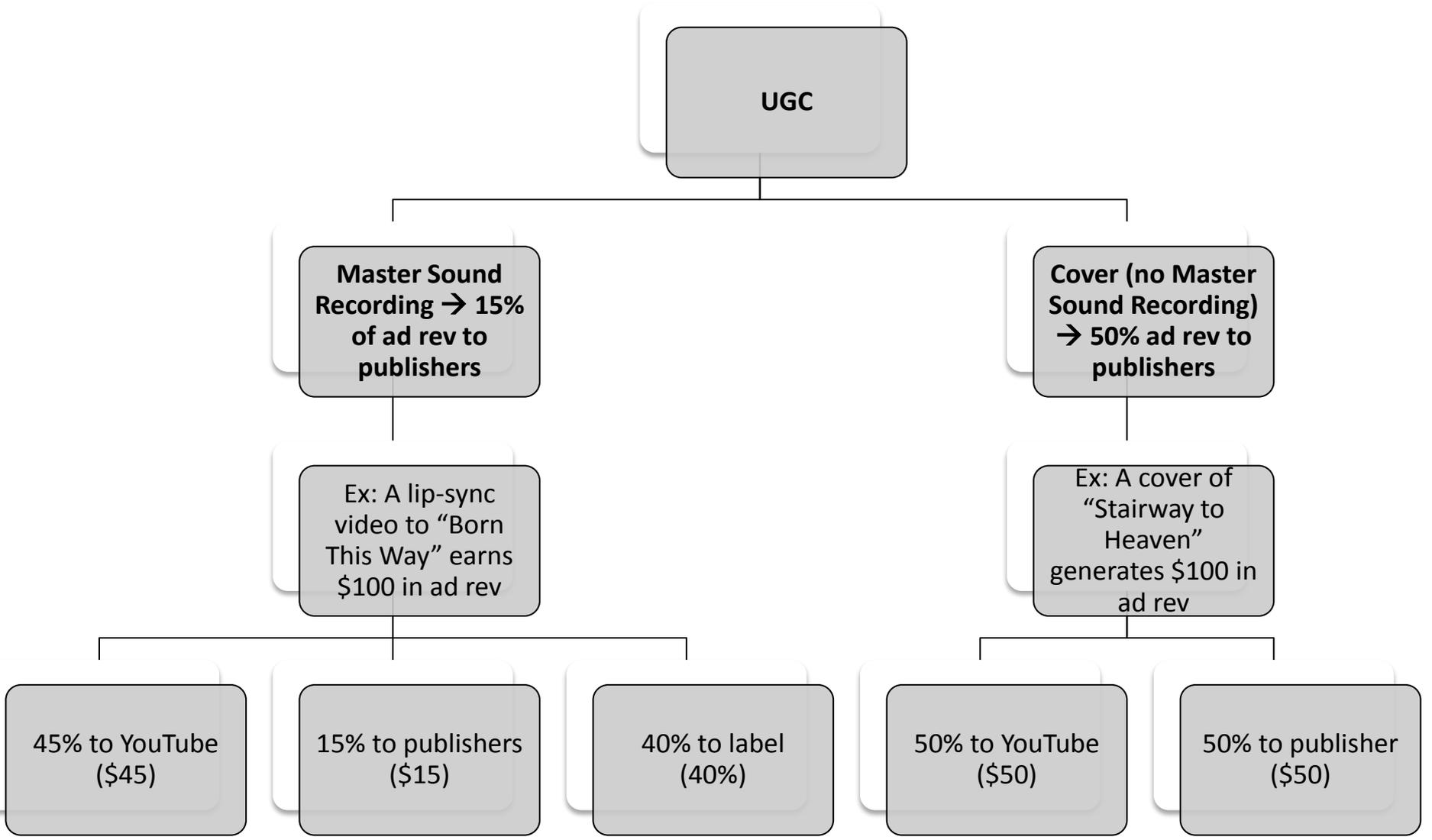
Even still, in-game fees also vary greatly and depend on how the music is used (i.e. background, menu, end credit, etc.); how much of the song is used; whether the song is available for streaming or download; content use; etc.

In general, most companies creating these apps are start-ups and will have little to no capital to invest in music licensing. As a result publishing companies need flexibility when negotiating terms and fees. All requests must be addressed and dealt with on an individual and independent basis.

### **RINGTONES AND MUSIC PUBLISHING ROYALTIES**

Since 2009, ringtones have been subject to a compulsory license under Section 115 of the Copyright Act. By extending the compulsory license to ringtones, the U.S. Copyright Office allows businesses to use copyrighted works for ringtones without obtaining permission from publishers. However, any company looking to sell ringtones is required to pay mechanical royalties for using the song. The current statutory mechanical rate for ringtones is \$.24 per unit.

**Example:** If iTunes sold 50,000 ringtones of a particular song at \$1.99, it would be responsible making a \$.24 payment for each ringtone sold, or \$12,000 in total royalty payments for that song.



**YouTube royalties are paid directly to publishers and do not pass through a music label.**

# billboardbiz

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By Glenn Peoples | February 14, 2014 2:19 PM EST

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A 1972 research paper by Edward Lorenz titled "Predictability: Does the Flap of a Butterfly's Wings in Brazil Set Off a Tornado in Texas?" introduced the term "the butterfly effect" into popular lexicon. It's generally understood to mean small events (a butterfly flapping its wings in Brazil) can have larger, unintended consequences (a tornado in Texas). Another way to say it is, "One thing leads to another."

## Business Matters: Study Shows Why iTunes Radio Lacks Big Impact on Download Sales

A new report by Music Forecasting shows why iTunes Radio isn't the boon to track sales people thought it could be. Listeners of Internet radio aren't opposed to buying music. They simply don't want to interrupt the listening experience to hit the buy button. And it could end up having unintended consequences.

Music Forecasting believes it knows the problem. A new Music Forecasting report claims that iTunes Radio listeners use the service for a "lean-back" listening experience. Like other forms of radio, iTunes Radio provides listeners a variety of music for very little effort. Such an experience is not conducive to building a music collection.

This finding should deflate the some of the optimism that originally surrounded iTunes Radio. Launched Sept. 18, Apple's answer to Pandora was thought by many in the music business to have potential for incremental track purchases. The service tightly integrates a buy button that allows the listener to buy a track from the iTunes Music Store. It got off to a quick start, attracting 20 million listeners in about a month.

But no sales boost ever materialized. As I noted in November, a dip in track sales coincided with the launch of the service. Track sales were down 12.9% in the fourth quarter and fell an equal amount in the first three weeks of 2014.

Buying music on iTunes Radio clashes with the nature of radio. Users simply don't want to lean forward to buy music when they're enjoying iTunes Radio's lean-back listening experience. The availability of free music doesn't prevent people from buying tracks, explains Sam Milkman, executive VP at Music Forecasting. The interviews revealed

that most people still buy music -- both digital and physical -- and want to own a music collection.

- Pandora Hangs Tough in Face of Competition -- Including iTunes Radio
- Morning Fix: The State of Streaming; Beats Music's Positives and Negatives, So Far; UMPG and Pandora Make Deal on BMI Repertoire
- Business Matters: iTunes Radio Starting Strong But Not Yet a Pandora Killer

iTunes Radio will result in some level of purchases. The 40 to 50 people interviewed in Philadelphia and Raleigh, North Carolina are "very aware" of the button and think it's a good idea. Other Internet radio services such as Pandora have long had buy buttons that take the listener to either iTunes or Amazon MP3. But Milkman doesn't believe iTunes Radio's buy button will result in a large increase in incremental purchases. Instead, purchases will be casual and sporadic. "It seems more like a trickle than a flood."

iTunes Radio's inability to sell tracks isn't the main problem. The butterfly that causes a storm could be the difference between actual sales and expected sales. Recall that Apple negotiated directly with record labels for iTunes Radio rather than rely on the compulsory license used by Pandora. Apple's licensing terms works out to roughly 0.13 cents per stream in the first year, according to Billboard's estimates. (Pandora currently pays 0.12 cents for advertising supported stream and 0.22 for streams derived from paying subscribers.) Apple also got concessions that reduce its royalty burden: iTunes Radio can play up to two non-royalty-bearing tracks an hour that are promotional in nature.

Why didn't labels get more from Apple? One plausible explanation is they believed iTunes Radio's buy button would result in incremental sales. Without an expectation of incremental sales, labels would have demanded higher royalties. Like the butterfly in Brazil, these licensing terms could have unintended consequences.

In years past, the Copyright Royalty Board would look to royalties paid by on-demand services when setting statutory rates, not exactly an apples-to-apples comparison. This time the CRB will use iTunes Radio licenses -- set using optimistic sales expectations -- as a point of reference when setting rates for 2016 to 2020. Anything that changes future statutory rates will have very real financial consequences. If you assume statutory royalty payouts will rise 20% a year until 2015 and then 10% until 2020, a 0.1-cent increase in the statutory rate would pay an additional \$183 million to labels and artists from 2016 to 2020. What started as a flutter ends up a multi-million tornado.

# billboardbiz

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By Glenn Peoples, Nashville | June 28, 2013 7:24 PM EDT

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A close look at the iTunes licensing agreement for indie labels shows iTunes Radio royalties have limited downside and strong upside. The minimum royalty calculation ensures labels will be paid a decent royalty until iTunes Radio becomes effective at generating revenue. iTunes Radio could be very valuable to labels if Apple can convince listeners to buy downloads at a healthy clip.

Even if Apple generates no revenue, labels will be paid 0.142 cents per stream under the minimum royalty. The contract defines the minimum royalty as 45% of net advertising revenues or \$21.25 per 1,000 listener hours in the first year and \$22.25 in subsequent years. In this case, \$0.2125 per listener hour works out to 0.142 cents per stream, assuming iTunes Radio will stream 15 songs per hour with an average of four-minute songs.

## **Apple iTunes Radio's Licensing Agreements With Indie Labels Emerge**

The standard royalty kicks in once Apple becomes better at generating revenue. In the first year, the standard royalty is 0.13 cents plus 15% of net revenue. In subsequent years, the standard royalty is 0.14 cents plus 19% of net revenue.

Once iTunes's revenue-generating ability is 39% as effective as Pandora, the standard royalty of 0.142 cents (barely) exceeds the minimum royalty. For these calculations, I use Pandora's revenue per listener hour of 0.3 cents. The company had 4.18 billion listener hours and revenue of \$125.51 million in its quarter ended April 30.

If iTunes Radio becomes extremely effective at generating revenue against its listener hours, it will share its success with labels. The minimum royalty will exceed the standard royalty when iTunes becomes 171% more effective at revenue generation than Pandora is right now. In other words, the event iTunes Radio revenues go through the roof, labels will not be stuck with a small share of the revenue. (Here I use terms applicable after the initial year because I assume iTunes Radio will not generate that much revenue in its first year.)

None of these calculations take into account skipped songs or songs that are in the user's collection. iTunes Radio can play up to two songs per listener hour royalty-free if

the song comes from the user's iCloud collection, is a Complete My Album track (a promoted track that has not yet been purchased) or a "heat-seeker play" (a track that received promotional consideration from Apple). I also ignore the fact that iTunes Radio will not pay any royalties during the initial 120-day beta period.

Adjusting for royalty-free streams reduces the effective per-stream royalty. Taking away two royalty-bearing tracks every hour would turn a minimum royalty of 0.142 cents into an effective royalty rate of 0.124 cents, or slightly above the 0.12 cents Pandora is paying this year for ad-supported streams. (Streams from its Pandora One subscription service have a royalty of 0.22 cents.)

iTunes Radio's impact really soars when download purchases are taken into account. The radio service will have a "buy now" button to allow the listener to purchase a song at iTunes while it's playing on iTunes Radio. Since a single download is worth far more than a single stream, purchases can have a huge impact. And because Apple will stream promotional tracks to encourage purchases, it makes sense to adjust the iTunes Royalty to account for these incremental revenues.

Purchases' impact on the effective royalty rate depend on how often people buy a track they hear. If listeners buy one track for every 100 songs heard on iTunes Radio (one track every six hours and 40 minutes) a 0.142-cent royalty turns into an effective royalty of 1 cent -- a 661% increase from the standard royalty rate. If listeners purchase only one out of every 1,000 tracks heard (one track every 66 hours and 40 minutes) the effective royalty would be 0.232 cents.

Labels will find iTunes Radio royalties falling within a comfortable range. The per-stream royalty won't be lower than the 0.12 statutory rate received from pureplay webcasters (as part of the Webcaster Settlement Act). If Apple can get just one download out of 1,000 streams, labels will get at least nearly twice that statutory rate.

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## How Does iTunes Radio Pay Artists?

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by Michelle Davis, FMC  
Legal Intern

For consumers, **iTunes Radio** may feel a lot like another version of the popular "predictive" radio service **Pandora**. Plug in an artist or genre, and an algorithm spits out sonically related tracks. But while the experience for listeners may be similar up to a point, the revenue flow behind the scenes isn't an exact match.

In order to break down how money gets from iTunes Radio to the artists, it's first important to remember that every song has two copyrights: one for the underlying composition (think notes and lyrics on paper), and one for the sound recording (think music on CD, tape or hard drive).

Broadcast royalty payments for the songwriters and the publishing companies that own the rights to the composition are negotiated and distributed by the Performance Rights Organizations (PROs). In the United States, that's **ASCAP**, **SESAC** and **BMI**. Keep in mind that algorithmic "radio" is still considered a "broadcast"—but instead of a DJ there's an intelligent robot that knows you secretly love **Miley Cyrus**. So, for the most part, the mechanisms that get the *songwriters* paid on Pandora and iTunes Radio are governed by the same principles: the broadcaster secures a blanket license with the PRO in exchange for unlimited access to their repertoire at a negotiated rate (overseen and enforced by a court under a consent decree established in the middle of the last century).

But when it comes to sound recordings, things look a little different. In 1995, Congress passed the Digital Performance Right in Sound Recordings Act, which created a *compulsory* license for sound recordings. (AM/FM radio continues to enjoy [an unfair exemption](#).) The upshot is that all webcasters, iTunes and Pandora included, are required to pay the owners of master recordings. Typically, these royalties are collected from the broadcaster by **SoundExchange** and then distributed to the performers and record labels who own those rights. However, it's important to note that this statutory rate is only "compulsory" in that the rightsholders can't opt out; the digital broadcasters can still choose to negotiate directly with the record labels and pursue direct licenses.

And that's what iTunes Radio has decided to do.

While Pandora continues to utilize the statutory license, iTunes is leveraging Apple's deep pockets (and established relationships) to make direct deals with the labels. Although iTunes Radio is a non-interactive service (meaning, users can't select which songs to hear when and skipping tunes is limited), the direct deals look a bit different than other internet radio arrangements.

Interestingly, because iTunes is not relying on government-mandated compulsory rates, it can move more deftly into new markets. While Pandora only operates in the U.S., Australia and New Zealand, iTunes Radio already [has plans to expand](#) to the U.K., Canada and beyond next year.

Not surprisingly, the details of iTunes' deals with the major labels have not been disclosed. However, the form contract sent to the indie labels was leaked and provides some insight into how artists will be paid.

So what's the deal?

The first line of the contract may be the most telling: "By clicking to agree to this Digital Music Download Sales Agreement... COMPANY agrees with ITUNES to the terms and conditions set forth herein..." So, essentially this is a take-it-or-leave-it offer that doesn't leave room for negotiation by the indie labels or the aggregators that represent them. It's safe to assume that the major labels had more leverage than this and were able to actively negotiate their terms. So, the specifics of the majors' deals could very well be different.

As to the substantive part of the contract, Apple will pay the indie labels a royalty of \$0.0013 per song plus

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15% of net advertising revenue for the first year. The royalty rate will subsequently increase to \$0.0014 per song play plus 19% of net advertising revenues.

What makes iTunes so different than Pandora is that it is actually three services in one. The iTunes Store and the scan-and-match cloud are all part of the contract package, so when an indie label hands over an "eMaster" to iTunes, that track is going to be available on all three platforms.

This also means that revenue generation is not necessarily confined to a per stream basis. When you stream a song on iTunes Radio, you also get a link to download the song from the store. And the payout for that stream is variable depending on if it's a "complete-my-album play" or a "heat-seeker play."

Ostensibly, the main goal of iTunes Radio is to increase downloads from the iTunes store, which does offer a better payout for the artists than a single stream (and this is true whether the service is "radio-like" or on-demand listening like Spotify). Whether this will serve to preserve Apple's dominant download market in the face of competition from on-demand streaming remains to be seen. Perhaps users will just prefer the easy, all-in-one interface iTunes offers. Maybe global positioning will keep the Cupertino, CA company at the top of the music-tech pile.

We'll be keeping our eyes on developments; in the meantime you won't want to miss our breakout panel on radio licensing (including digital) at the [Future of Music Summit](#) on Oct. 28-29 at Georgetown University in Washington, DC.

Submitted by [kevin](#) on October 17, 2013 - 4:56pm

Tags: [Artist Compensation](#), [Mechanical Royalties](#), [Performance Royalties](#), [internet radio](#), [iTunes](#), [Pandora](#)



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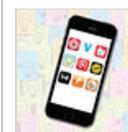


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# Showdown for Pandora

Internet-Radio Giant to Square Off in Court With Music Publisher

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By [HANNAH KARP](#) [CONNECT](#)

Jan. 20, 2014 5:05 p.m. ET

[Pandora Media Inc.](#) P +1.98% and the American Society of Composers, Authors and Publishers are expected to square off Tuesday in a long-awaited federal-court trial to determine how much the Internet-radio giant should pay for the use of their compositions for the next two years.

The outcome could have a broad effect on the growing digital-music business, which now pays more to record labels and performers than to those who write and publish songs.

Pandora pays a total of 4.3% of its revenue to publishers and songwriters represented by Ascip and other organizations that collect royalties on their behalf. By contrast, the Oakland, Calif., company pays record labels and performers roughly half of its revenue.

Pandora sued Ascip more than a year ago seeking to pay writers and publishers less. The company argues that it shouldn't have to pay Ascip's songwriters and publishers any more than terrestrial radio broadcasters do—currently about 1.7% of their revenue—since Pandora, which generates the bulk of its revenue from advertising, considers local radio stations its closest competitors.

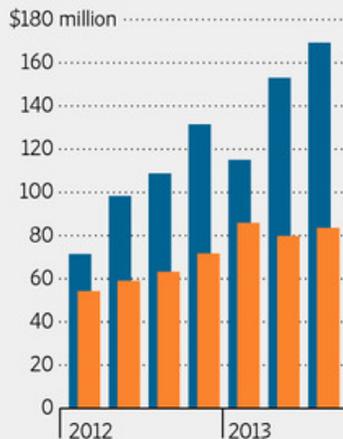
Until now, Ascip has charged Internet-radio services either 1.85% of their gross revenue or 0.06 cent each time a user tunes in for a listening session, whichever sum is greater. Pandora has been paying an interim rate along those lines since 2011, in the absence of a deal with Ascip over what it should pay through 2015.

Terrestrial radio stations in the U.S. have long paid royalties for airplay to songwriters and the publishers who represent them, but they have never paid record companies or performers, save for a few recent, isolated deals between Clear Channel Communications Inc. and a handful of smaller labels. The terms of those deals weren't

## Paying Out

Pandora's latest legal battle involves one of its content-acquisition costs.

■ Total revenue  
■ Content-acquisition costs



Source: the company  
The Wall Street Journal



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disclosed.

Historically radio stations weren't required to pay record companies for the use of their recordings, on the theory that airplay promoted sales. As sales have declined in recent years, labels have sought to begin collecting royalties of their own for airplay, with limited success. Record labels started collecting royalties for digital-radio play in 1995; the rates they command are set by the Copyright Royalty Board in Washington.

Ascap, for its part, contends that it should earn an even bigger slice of Pandora's revenue than it does now. Its legal team is expected to argue that music is more valuable to Pandora than to terrestrial radio, since Pandora lacks sports and talk programs and plays far fewer audio ads.

Meanwhile, Pandora and new digital rivals, such as [Apple Inc.](#) AAPL -1.04%'s iTunes Radio, have agreed in recent years to license music directly from individual publishers at substantially higher rates than what Ascap has been charging Internet-radio companies for blanket licenses.

Apple, for example, has agreed to pay publishers about 10% of the revenue their catalogs generate on iTunes Radio, more than twice the share Pandora spends on publishing royalties.

Ascap cites that higher rate as an argument in favor of raising its rate.

U.S. District Judge Denise Cote, one of two U.S. judges who preside over song-licensing disputes, is tasked with determining the rate Pandora would hypothetically pay Ascap in a free market. It is a difficult job, given that the government has regulated the price of music-publishing licenses since 1941, originally in an effort to shield Ascap licensees from price discrimination.

A decision in Pandora's favor could lead to a growing challenge for Ascap, which celebrates its 100th anniversary this year. Some of the biggest music publishers are already considering pulling out of the organization altogether, after unsuccessfully attempting to partially withdraw their catalogs from Ascap so they could negotiate directly with new media services.

Judge Cote ruled in September that the law requires Ascap to provide Pandora with a license to play all of the works in its repertoire.

Write to Hannah Karp at [hannah.karp@wsj.com](mailto:hannah.karp@wsj.com)

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113TH CONGRESS  
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# H. R. 4079

To amend title 17, United States Code, to ensure fairness in the establishment of certain rates and fees under sections 114 and 115 of such title, and for other purposes.

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## IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 25, 2014

Mr. COLLINS of Georgia (for himself and Mrs. BLACKBURN) introduced the following bill; which was referred to the Committee on the Judiciary

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## A BILL

To amend title 17, United States Code, to ensure fairness in the establishment of certain rates and fees under sections 114 and 115 of such title, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Songwriter Equity Act  
5 of 2014”.

6 **SEC. 2. EFFECT ON ROYALTIES FOR UNDERLYING WORKS.**

7 Section 114(i) of title 17, United States Code, is  
8 amended to read as follows:

1       “(i) EFFECT ON ROYALTIES FOR UNDERLYING  
2 WORKS.—It is the intent of Congress that royalties pay-  
3 able to copyright owners of musical works for the public  
4 performance of their works shall not be diminished in any  
5 respect as a result of the rights granted in section  
6 106(6).”.

7 **SEC. 3. APPLICATION TO SECTIONS 112(e) AND 114(f) SOUND**  
8 **RECORDING PROCEEDINGS.**

9       (a) PROCEEDINGS NOT AFFECTED.—Neither section  
10 2 of this Act nor the amendment made to section 114(i)  
11 of title 17, United States Code, by such section 2 shall  
12 be taken into account in any proceeding to set or adjust  
13 the rates and fees payable for the use of sound recordings  
14 under section 112(e) or section 114(f) of such title that  
15 is pending on, or commenced on or after, the date of the  
16 enactment of this Act.

17       (b) DECISIONS AND PRECEDENTS NOT AFFECTED.—  
18 Neither section 2 of this Act nor the amendment made  
19 to section 114(i) of title 17, United States Code, by such  
20 section 2 shall have any effect upon the decisions, or the  
21 precedents established or relied upon, in any proceeding  
22 to set or adjust the rates and fees payable for the use  
23 of sound recordings under section 112(e) or section 114(f)  
24 of such title before the date of the enactment of this Act.

1 **SEC. 4. FUNCTIONS OF COPYRIGHT ROYALTY JUDGES.**

2 (a) IN GENERAL.—Section 801(b)(1) of title 17,  
3 United States Code, is amended by striking “The rates  
4 applicable under sections 114(f)(1)(B), 115, and 116 shall  
5 be calculated to achieve the following objectives” and in-  
6 serting “The rates applicable under sections 114(f)(1)(B)  
7 and 116 shall be calculated to achieve the following objec-  
8 tives”.

9 (b) EFFECTIVE DATE.—The amendment made by  
10 subsection (a) shall apply to any proceeding that is pend-  
11 ing on, or commenced on or after, the date of the enact-  
12 ment of this Act.

13 **SEC. 5. ROYALTY PAYABLE UNDER COMPULSORY LICENSE.**

14 (a) IN GENERAL.—Section 115(c)(3)(D) of title 17,  
15 United States Code, is amended by striking “In addition  
16 to the objectives set forth in section 801(b)(1), in estab-  
17 lishing such rates and terms, the Copyright Royalty  
18 Judges may consider rates and terms under voluntary li-  
19 cense agreements described in subparagraphs (B) and  
20 (C).” and inserting the following: “The Copyright Royalty  
21 Judges shall establish rates and terms that most clearly  
22 represent the rates and terms that would have been nego-  
23 tiated in the marketplace between a willing buyer and a  
24 willing seller. In establishing such rates and terms, the  
25 Copyright Royalty Judges shall base their decision on  
26 marketplace, economic, and use information presented by

1 the participants. In establishing such rates and terms, the  
2 Copyright Royalty Judges may consider the rates and  
3 terms for comparable uses and comparable circumstances  
4 under voluntary license agreements.”.

5 (b) EFFECTIVE DATE.—The amendment made by  
6 subsection (a) shall apply to any proceeding that is pend-  
7 ing on, or commenced on or after, the date of the enact-  
8 ment of this Act.

○

## **Fact Sheet: Internet Growth and Investment**

**Both within the network and at its edges, where companies use the network to deliver goods and services, investment and innovation have flourished under the Open Internet rules.**

- Venture capital financing of “Internet-specific” businesses has doubled in the past four years, from \$3.5 billion in 2009 to \$7.1 billion in 2013 (National Venture Capital Assoc.)
- Venture capital financing of the telecommunications industry has risen from \$582 million in 2009 to \$643 million in 2013 (National Venture Capital Assoc.)
- Broadband capital expenditures have risen steadily, from \$64 billion in 2009 to \$68 billion in 2012 (U.S. Telecom)
- The Progressive Policy Institute identified the telecommunications/cable industry as one of its “Investment Heroes of 2013,” investing \$50.5 billion in 2013
- Traffic on the Internet has more than doubled from the equivalent of 17 billion DVDs worth of data per year in 2010 to 36 billion DVDs per year in 2012 (U.S. Telecom)

**Mobile investment in particular has grown during that time.**

- Annual investment in U.S. wireless networks grew more than 40% between 2009 and 2012, from \$21 billion to \$30 billion, and exceeds investment by the major oil and gas or auto companies (White House Office of Science and Technology)
- A total of \$8.33 billion has been raised since 2007 on mobile media ventures (SNL Kagan Media Trends)
- Private investment in wireless infrastructure over the next 5 years will generate \$1.2 trillion in economic growth and create 1.2 million jobs (PCIA)

**Whole new product markets have blossomed, and the app market has exploded.**

- The number of tablet users in the United States has increased from 2.6 million in the second quarter of 2010 to almost 70 million by the end of 2012. Overall app use in 2013 posted 115% year-over-year growth (SNL Kagan Media Trends)
- Over 20 independent non-carrier mobile apps stores offered over 3.5 million apps for 14 different operating systems by 2012 (CTIA)
- The Wall Street Journal reported in March 2013 that app sales were approaching \$25 billion
- The “App Economy” had created 752,000 jobs in the U.S. as of July 2013, the fifth anniversary of Apple’s App Store (Michael Mandel, Progressive Policy Institute)

**Finally, we have seen tremendous growth in the online video market.**

- The number of hours Americans spend watching video over the Internet has grown 70% since June 2010 (Nielsen)
- Revenues from online video services grew by 175% between 2010-2012, from \$1.86 billion to \$5.12 billion (SNL Kagan)
- Real-time streaming of entertainment in prime time grew from 42.7% of downloads in 2010 to 67% by Sept. 2013 (Sandvine Global Internet Phenomena Report)

*February 19, 2014*

February 10, 2014

Commerce Committee, Task Force  
Office of Policy and External Affairs  
United States Patent and Trademark Office  
Mail Stop External Affairs, P.O. Box 1450  
Alexandria, VA 22313-1450  
Attn: Shira Perlmutter

***RE: Request for Comments on Department of Commerce's Green Paper on Copyright Policy, Creativity, and Innovation in the Digital Economy***

Thank you for this opportunity to submit a response to the Request for Comments on Department of Commerce's Green Paper on Copyright Policy, Creativity, and Innovation in the Digital Economy (the "Green Paper").<sup>1</sup> We are submitting this paper to express our opposition to the creation of a compulsory license for derivative works including remixes, mash-ups, and sampling.

**I. Introduction**

My name is Dina LaPolt and I am a music attorney in West Hollywood, California at the law firm of LaPolt Law, P.C. We represent creators. For more than 15 years I have represented artists, songwriters, producers, and other owners and controllers of intellectual property. I started in the music industry as a musician and songwriter. Thus, I have built my practice from the creator's perspective. I have also taught a course titled "Legal and Practical Aspects of the Music Business" for the UCLA Extension Program since 2001, and I teach and lecture all over the United States, Canada and Europe on issues that affect artists' rights. Protecting artists and songwriters and representing their interests has always been my main focus and my passion. I am submitting these comments on behalf of recording artists and songwriters, as I felt compelled to represent their interests in this ongoing debate.

Joining me in this comment paper is my client and close friend, the legendary recording artist and songwriter, Steven Tyler. Steven is one of Rolling Stone's "100 Greatest Singers" and a Rock and Roll Hall of Fame inductee with his band, Aerosmith, the sixth most certified group in music history with 21 top 40 singles on the Billboard Hot 100 charts, 150 million records sold worldwide, and 31 awards—including multiple Grammys, American Music Awards, Billboard Music Awards, and MTV Video Music Awards—from 78 nominations. Steven has written and co-written hundreds of songs, an achievement for which he received the ASCAP Founders Award and was inducted into the Songwriters Hall of Fame in 2013.

---

<sup>1</sup> 78 Fed. Reg. 61337.

The artists and songwriters' perspective should carry a lot of weight in this discussion since, ultimately, this is an issue that affects artists and songwriters first and foremost. As the Register of Copyrights, Maria A. Pallante, stated in her article, "The Next Great Copyright Act":

*"Congress has a duty to keep authors in its mind's eye, including songwriters, book authors, filmmakers, photographers, and visual artists. Indeed, '[a] rich culture demands contributions from authors and artists who devote thousands of hours to a work and a lifetime to their craft.' A law that does not provide for authors would be illogical — hardly a copyright law at all. And it would not deserve the respect of the public."*<sup>2</sup>

And in fact, in addition to Steven's support, other artists have signed letters in support of this comment paper, attached to this document as Exhibit A.

## **II. Our Perspective on the Legal Framework for Remixes**

In this comment paper, we would like to address the Department of Commerce Task Force's questions regarding the legal framework for remixes. Specifically, we are opposed to a compulsory license for remixes, mash-ups, and sampling.

As a preface, we would like to echo the comments of The National Music Publishers' Association ("NMPA"), the Nashville Songwriters Association International ("NSAI"), SESAC, Inc. ("SESAC"), and the Church Music Publishers Association ("CMPA") regarding the Green Paper's definition of "remix".<sup>3</sup> The Green Paper uses "remix" interchangeably to refer to what are known in the industry as remixes, mash-ups, and sampling. A more precise term would be "derivative works", as remixes are only one of the types of works that the Green Paper addresses. It is important to clarify exactly what we are talking about by using the proper industry terminology. Artists and songwriters do not usually equate "remixing" with mash-ups or sampling.

### **A. Recording Artists and Songwriters Want and Deserve Approval Over Uses of Their Work**

Approval is by far the most important right that an artist possesses. In my experience, approvals are paramount to anything else on an artist's agenda during negotiations—the money is always

---

<sup>2</sup> Maria A. Pallante, *The Next Great Copyright Act*, 36 COLUMBIA J.L. & ARTS 315, 340 (2013), quoting Scott Turow, Paul Aiken, and James Shapiro, *Would the Bard Have Survived the Web?*, N.Y. TIMES at A29 (Feb. 14, 2012).

<sup>3</sup> National Music Publishers Association et. al. Comments, [http://www.ntia.doc.gov/files/ntia/national\\_music\\_publishers\\_association\\_et\\_al\\_comments.pdf](http://www.ntia.doc.gov/files/ntia/national_music_publishers_association_et_al_comments.pdf).

secondary. If an artist or songwriter does not want his or her music used in a certain way, no amount of money will change his or her mind.

Artists can, and should continue to be able to, deny a use that they do not agree with. For one, an artist should be able to turn down uses in connection with messages that the artist finds objectionable. A prime example is a song mashed-up, remixed, or sampled in a way that implies endorsement of a particular cause or ideology. For instance, there have been several past instances of performing artists and songwriters expressing frustration with political uses of their music. In 2010, former Congressman Joe Walsh remixed “Walk Away”, a song written by another Joe Walsh, the well-known songwriter and guitarist for The Eagles. Congressman Walsh changed the song’s lyrics to create “Lead the Way”, a song promoting his political campaign. Walsh the songwriter took issue with Walsh the politician’s derivative work because the usage implied the songwriter’s endorsement of Congressman Walsh—a potential trademark infringement in addition to a copyright claim for an unauthorized derivative work.<sup>4</sup>

A compulsory license for derivative works amplifies these concerns tenfold. For example, Melissa Etheridge is a known lesbian and animal rights activist. A compulsory license would allow someone to remix or sample her music into a new work filled with homophobic epithets, and she could not say “no”. In the same way, a compulsory license would allow someone to remix or sample music by Ted Nugent, noted gun ownership advocate, for a song promoting stricter gun control without Nugent’s permission. One could imagine countless instances of compulsory licensing working to an artist’s detriment—think of a white supremacist using black artists’ music in a way that promotes the supremacist’s hateful views. These examples illustrate the potentially perverse results of a compulsory license. It is not hard to see that a compulsory license for derivative works could easily be abused in a way that negatively impacts creators.

Further, sometimes an artist simply does not want his or her music altered in any capacity. Music is very personal to the creator, so many creators staunchly oppose any derivative creations whatsoever. We saw an example of this in the first prominent litigation regarding sampling. Rapper Biz Markie was sued over his unauthorized sampling of Gilbert O’Sullivan’s “Alone Again (Naturally)”.<sup>5</sup> The source material is an introspective ballad about the singer’s plans to commit suicide after being left at the altar and the death of his parents. While the song was not autobiographical, O’Sullivan objected to the use of his song which was still very personal to him.

More recently, hip hop group the Beastie Boys objected to toy company GoldieBlox’s remix of the group’s 1987 song, “Girls”, in an advertisement. The group did not disagree with the message of the GoldieBlox remix. Rather, they wanted to honor the wishes of late Beastie Boys

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<sup>4</sup> Daniel Kreps, *Joe Walsh Vs. Joe Walsh: Rocker Battles Politician Over "Walk Away"*, ROLLING STONE, Jan. 28, 2010, <http://www.rollingstone.com/music/news/joe-walsh-vs-joe-walsh-rocker-battles-politician-over-walk-away-20100128>.

<sup>5</sup> *Grand Upright Music, Ltd v. Warner Bros. Records Inc.*, 780 F. Supp. 182 (S.D.N.Y. 1991).

member Adam Yauch, who specified in his will that his music may not be used in advertisements after his death, preserving the group’s long established ideals. Remaining Beastie Boy members Mike Diamond and Adam Horowitz issued a statement explaining that, while they were “very impressed by the creativity and the message behind [the] ad”, the video “is an advertisement that is designed to sell a product, and long ago, [they] made a conscious decision not to permit [their] music and/or name to be used in product ads”.<sup>6</sup>

These examples relating to derivative works that artists find objectionable have a common thread: recording artists and songwriters are at great risk of losing their right to approve uses of their works, a right that they find extremely important. In this regard, we would also like to echo the comments made by NMPA, NSAI, SESAC, CMPA, the American Society of Composers, Authors and Publishers (“ASCAP”), Broadcast Music, Inc. (“BMI”), and the Recording Industry Association of America (“RIAA”)<sup>7</sup> in opposition to the expansion of fair use. Expanding the doctrine to encompass political uses or derivative works—by example, for finding such uses to be “transformative”—would devastate creators by taking away their approval. If recording artists or songwriters do not want their music associated with a cause, message, or ideology, forcing them to allow these uses would be extremely unfair and potentially harmful to their brands and reputations.

#### **B. Requiring a Compulsory License Would Have a Chilling Effect on the Release of Music**

Without a doubt, requiring a compulsory license for derivatives would discourage many artists from releasing their work in the first place. Steven and the other artists who have expressed support for our comments have stated that they probably would have withheld some of their work if they knew that one day they would be required to give up their right to approve derivative uses.

Copyright law is supposed to encourage creation. This is not for the benefit of the artist, but for the benefit of society. It is Congress’s constitutional mandate from the Copyright Clause, “[t]o promote the Progress of Science and useful Arts”.<sup>8</sup> The Copyright Clause acknowledges that society benefits from the dissemination of art. As stated by Ms. Pallante:

*“The issues of authors are intertwined with the interests of the public. As the first beneficiaries of the copyright law, authors are not a counterweight to the public interest*

<sup>6</sup> Sara Gates, *Beastie Boys vs. GoldieBlox: Viral Video Sparks Legal Battle Over Copyright Infringement*, THE HUFFINGTON POST, Nov. 25, 2013, [http://www.huffingtonpost.com/2013/11/24/beastie-boys-goldieblox-girls-copyright-infringement-\\_n\\_4330583.html](http://www.huffingtonpost.com/2013/11/24/beastie-boys-goldieblox-girls-copyright-infringement-_n_4330583.html).

<sup>7</sup> ASCAP BMI CMPA NSAI NMPA RIAA SESAC post-meeting comments, [http://www.uspto.gov/ip/global/copyrights/comments/ascap\\_bmi\\_cmpa\\_nsai\\_nmpa\\_riaa\\_sesac\\_post-meeting\\_comments.pdf](http://www.uspto.gov/ip/global/copyrights/comments/ascap_bmi_cmpa_nsai_nmpa_riaa_sesac_post-meeting_comments.pdf).

<sup>8</sup> U.S. CONST. art. I, § 8, cl. 8.

*but are instead at the very center of the equation. In the words of the Supreme Court, “[t]he immediate effect of our copyright law is to secure a fair return for an “author’s” creative labor. But the ultimate aim is, by this incentive, to stimulate artistic creativity for the general public good.”*<sup>9</sup>

We need to encourage artists to release their music—and the essential element is approval over how artists’ music is used. Discouraging the creation and dissemination of music would be an undeniably terrible consequence of requiring a compulsory license. And as discussed above, it would be completely adverse to Congress’s constitutional mandate.

### **C. The Current System Does Not Need Fixing**

There is absolutely no need to impose a compulsory license to allow derivative works. The current marketplace is working—and if it ain’t broke, don’t fix it! This is a position supported by several commentators who have already submitted responses to the Green Paper, including the NMPA, NSAI, SESAC, CMPA, ASCAP, BMI, and the RIAA.<sup>10</sup> By allowing rights holders to say “no”, both sides of a negotiation come away satisfied—as opposed to a compulsory license, which would often leave the rights holder frustrated, as discussed above.

Currently, many artists do freely allow derivative works of their music. But this is, and should remain, the artist’s prerogative to make this decision. For example, Radiohead has encouraged its fans to remix two of its recordings, releasing song “stems” (i.e. files containing each instrument in isolation) and providing a web space for users to upload their new creations.<sup>11</sup> Similarly, Trent Reznor of Nine Inch Nails released stems to the public for five of his songs from the soundtrack to the film *The Girl with the Dragon Tattoo*.<sup>12</sup> Further, Creative Commons allows artists to release their music under a license granting users permission to freely use works in whatever capacity the artist determines.<sup>13</sup> While these are excellent methods of encouraging derivative works for artists who choose to utilize them, again, the essential element is an artist’s ability to approve how others use their work.

My firm’s clients have certainly participated in a robust, well-functioning marketplace for derivative works under the current, permission-based licensing system. When a third party wants to remix, mash-up, or sample a client’s work, and the client approves creatively of the use, there are many factors that go into the negotiation. The client will usually receive a share of the copyright ownership in the new work, a royalty for use of the master recording, and sometimes

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<sup>9</sup> Pallante, *supra* note 2, at 340.

<sup>10</sup> See *supra* note 7.

<sup>11</sup> *Reckoner Re /Mix*, RADIOHEADREMIX.COM, <http://www.radioheadremix.com/information/>.

<sup>12</sup> Carrie Battan, *Trent Reznor Shares Stems of Songs From Dragon Tattoo*, PITCHFORK, Jan. 27, 2012, <http://pitchfork.com/news/45255-trent-reznor-shares-stems-of-songs-from-dragon-tattoo/>

<sup>13</sup> *About the Licenses*, CREATIVE COMMONS, <https://creativecommons.org/licenses/>.

an advance against future royalties. These deal points are considered on a case-by-case basis, depending on the prominence of the artist whose work is being used as the basis for a derivative. A compulsory license would upset this existing balance that considers a multitude of factors and the individual needs of each artist.

In 1986, legendary hip hop group Run-D.M.C. recorded a version of Aerosmith's hit song "Walk This Way" for a genre-bending smash hit. While it may have been appropriate for Run-D.M.C. to request a compulsory "mechanical" license to create their version, instead, by involving Steven and guitarist Joe Perry directly in the recording process, they created one of the most famous derivative works of our modern times. By getting both Run-D.M.C. and Steven and Joe on the same recording, and in the same music video—in which Steven literally breaks down a wall separating the two groups—Run-D.M.C.'s "Walk This Way" figuratively broke down the wall separating hip hop from mainstream genres such as rock. The song reached number four on the Billboard Hot 100 chart<sup>14</sup> and is often credited for helping to bring hip hop into the mainstream and establishing the "rap rock" crossover genre. Since then, as several other comment papers have discussed, the genre of hip hop has become heavily reliant on sampling and has thrived in the current, permission-based marketplace.

Steven has licensed his work for sampling purposes as well. For example, rapper Eminem sampled Aerosmith's "Dream On" for his 2003 song "Sing for the Moment", featured on the ten times platinum album "The Eminem Show".<sup>15</sup> On the other hand, Steven has denied countless other requests for permission to create derivative works based on his songs. This is a great illustration of how the current licensing system for derivatives is already thriving—it allows someone like Steven to license his work where he thinks it is appropriate while allowing him to turn down uses he does not agree with and avoid diluting his brand.

In the realm of sampling, there are countless examples of a well-functioning marketplace working to create derivative works with the permission of rights holders. Britney Spears, who has signed a letter supporting this comment paper, sampled the Eurythmics' "Sweet Dreams (Are Made of This)" for her song "Everybody", featured as a bonus track on the Japanese release of her album "Blackout". In another example, Joel Zimmerman, professionally known as deadmau5, licensed his work "Brazil (2nd Edit)" to recording artist Alexis Jordan for her 2010 song "Happiness". Although deadmau5 does not usually agree to allow others to sample or remix his work, he approved this use. In exchange, deadmau5 was able to negotiate for a percentage of the copyright in "Happiness" in addition to a record royalty for the sampled use of his recording. The song was an international hit: it topped the Hot Dance Club Songs in the

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<sup>14</sup> *Run-D.M.C. Chart History*, BILLBOARD.COM, <http://www.billboard.com/artist/369290/run-dmc/chart>.

<sup>15</sup> *The Eminem Show*, RIAA GOLD & PLATINUM SEARCHABLE DATABASE, <http://www.riaa.com/goldandplatinumdata.php?artist=%22The+Eminem+Show%22>.

United States,<sup>16</sup> reached number three on the Australian Recording Industry Association Singles Chart,<sup>17</sup> peaked at number four in the United Kingdom,<sup>18</sup> and spent seventeen weeks in the Irish Top 50.<sup>19</sup>

Further, creating a compulsory license for derivative works would create a “slippery slope” whereby recording artists and songwriters will be at risk of losing even more approval rights. A compulsory license for derivatives could lead to an effort to implement a compulsory synchronization license, the type of license required to pair music with visual media such as scenes in movies, television and games. When Steven heard about the idea of a compulsory license for derivatives, he asked, what’s next—will they force him to allow a filmmaker to, for example, exploit his first hit “Dream On”, a song which has great personal meaning to him, over a scene that denigrates women? The possibilities are endless, and it is easy to see how a compulsory license would lead to offensive situations that could greatly impact the integrity and reputation of an artist and his or her work.

Compulsory mechanical licenses already exist for musical compositions<sup>20</sup>, by which anyone can create a cover song for a nominal fee, regardless of whether or not an artist approves. This is a fair compromise which addresses free speech concerns while not impinging upon an artist’s right to approve uses of his or her actual recordings. Admittedly, this is a limited right for a cover artist, as the cover version must conform to certain requirements including that it maintain the same fundamental character as the original work. But allowing a compulsory license for remixes, mash-ups, and sampling is a step too far which surpasses the appropriate compromise reached by the compulsory mechanical license.

There is no compelling need to make the process for licensing derivative works any easier. As stated by many response papers, the system is already easy enough. Further, there is no real harm to free speech or other constitutional concerns to grant an artist the right to deny a use of their work. If an artist wants to utilize another artist’s original work for a remix, mash-up, or sampling, and is denied permission, that artist can always look for another original work and negotiate with that rights holder. There is already a robust marketplace for remixing, mash-ups, and sampling that gives these artists huge creative freedom.

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<sup>16</sup> *Dance Club Songs*, BILLBOARD.COM, Jul. 17, 2010, <http://www.billboard.com/charts/2010-07-17/dance-club-play-songs>.

<sup>17</sup> *Alexis Jordan – Happiness (Song)*, AUSTRALIAN-CHARTS.COM, <http://australian-charts.com/showitem.asp?interpret=Alexis+Jordan&title=Happiness&cat=s>.

<sup>18</sup> *Top 40 Scottish Singles Archive*, OFFICIAL CHARTS COMPANY, Nov. 13, 2010, [http://www.officialcharts.com/archive-chart/\\_/22/2010-11-13](http://www.officialcharts.com/archive-chart/_/22/2010-11-13).

<sup>19</sup> *Top 50 Singles*, IRISH MUSIC CHARTS ARCHIVE, Mar. 10, 2011, [http://www.chart-track.co.uk/index.jsp?c=p%2Fmusicvideo%2Fmusic%2Farchive%2Findex\\_test.jsp&ct=240001&arch=t&lyr=2011&year=2011&week=10](http://www.chart-track.co.uk/index.jsp?c=p%2Fmusicvideo%2Fmusic%2Farchive%2Findex_test.jsp&ct=240001&arch=t&lyr=2011&year=2011&week=10).

<sup>20</sup> 17 U.S.C. § 115.

It is also worth noting that the idea of a compulsory license for derivative works is completely absent from many countries' intellectual property laws. Moral rights laws in foreign countries give creators absolute control over derivative works and allow creators to object to others' uses of their work. For example, France<sup>21</sup>, the United Kingdom<sup>22</sup>, the People's Republic of China<sup>23</sup>, Australia<sup>24</sup>, and Belgium<sup>25</sup>, among others, all have moral rights provisions in their intellectual property statutes.

#### **D. Any Effort to Streamline the Licensing Process Must Maintain the Artist's Right to Approval**

Some comment papers have set forth the idea that there should be a centralized intermediary to streamline the licensing process for derivative works. If such a system were created, it cannot mandate compulsory licensing—it should only be for the purpose of facilitating transactions where the artist gives permission to do so. An artist must have the right to say “no”. Further, the artist must have the right to determine the conditions under which any intermediary grants permission to use his or her work. The approval concerns set forth in this paper are amplified where an intermediary, who may not intimately know the concerns of a specific artist, is negotiating on that artist's behalf. Some deals that seem good in a vacuum are not actually in the best interest of an artist due to a multitude of factors that are individually considered by each artist during a negotiation.

Further, deals negotiated solely by intermediaries could unintentionally create bad precedent for an artist. An attorney's role in negotiations is essential because an artist's biggest bargaining chip is precedent—deal terms are affected by what an artist has previously agreed to in prior negotiations. Thus, a concession in one deal opens the door for future deals to demand this concession as well. Quite simply, we just cannot have intermediaries inadvertently creating bad precedent for artists that adversely affects their future dealings.

### **III. Our Perspective on the Public Performance Right for Sound Recordings**

Although the Commerce Department did not solicit input on this issue, we would like to take a moment to praise the Task Force for its support of the creation of sound recording royalties for radio broadcast.

Radio stations in the United States pay royalties to songwriters but not performers. This means that a performer who does not write his or her own song does not see a penny of revenue from

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<sup>21</sup> Intellectual Property Code, Art. L121-1.

<sup>22</sup> Copyright, Designs and Patents Act 1988 (C. 48), Chapter IV, Art. 80.

<sup>23</sup> Copyright Law of the People's Republic of China, Art. 10.

<sup>24</sup> Copyright Act 1968, s. 195AM.

<sup>25</sup> Law on Copyright and Neighboring Rights, Art. 1 (of June 30, 1994, as amended by the Law of April 3, 1995).

radio broadcasts of that song. The vast majority of countries—excluding a short list that includes Iran, North Korea, and China—do require radio stations to pay performance royalties. The end result is that American performers are doubly disadvantaged. Not only do they not receive royalties from radio stations in the US, but foreign countries do not pay out royalties to American performers either because of the lack of reciprocity. We do not pay their artists so they do not pay ours.

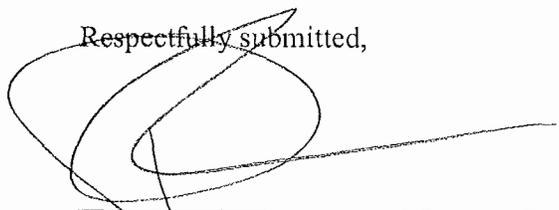
We applaud the Task Force for its support of performance royalties as set forth in the Green Paper. We hope that Congress will address this issue during the 113th United States Congress. Implementing performance royalties would put the United States on par with most of the world's nations, bringing substantial revenue to our artists and the United States economy.

#### IV. Conclusion

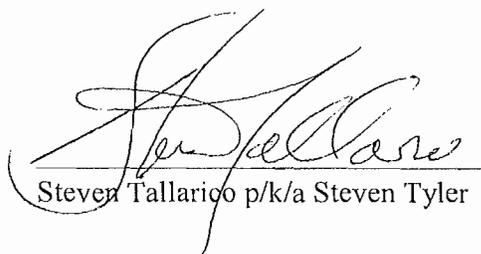
In conclusion, we urge Congress not to implement a compulsory license for remixing, mash-ups, and sampling. Approval is the most important right that a recording artist or songwriter has and they need to retain the ability to approve how their works are used. An artist should be able to deny a use where they disagree with the message of that derivative work or simply do not want their work altered. Music is very personal to the creator and the law cannot treat it as a simple commodity. Requiring a compulsory right for derivatives would discourage many artists and songwriters from releasing their music in the first place, an undeniably terrible consequence that would be at odds with Congress's constitutional mandate. Further, the current system does not need reform—the marketplace is already thriving while allowing artists to approve uses.

Thank you for your time and consideration.

Respectfully submitted,



Dina LaPolt, Esq.  
c/o LaPolt Law, P.C.  
9000 Sunset Blvd., Suite 800  
West Hollywood, CA 90069  
(310) 858-0922



Steven Tallarico p/k/a Steven Tyler

cc: Chairman Bob Goodlatte, House Judiciary Committee  
Ranking Member John Conyers, Jr., House Judiciary Committee

February 3, 2014

Commerce Committee, Task Force  
Office of Policy and External Affairs  
United States Patent and Trademark Office

**RE: Request for Comments on Department of Commerce's Green Paper on Copyright Policy, Creativity, and Innovation in the Digital Economy**

To Whom It May Concern:

My name is *Don Henley*. I am a songwriter and recording artist. I am writing in support of the comments submitted by copyright stakeholders such as the Copyright Alliance, ASCAP, BMI, CMPA, NSAI, NMPA, RIAA and SESAC, the MPAA, the Association of American Publishers, the Directors Guild, the Writers Guild of America West, Dina LaPolt and Steven Tyler, among others. I am writing to give voice to just one of the subjects before the Task Force.

As a creator and copyright owner, I strongly disagree that any legislative changes to the Copyright Act governing remixes, sampling and mash-ups are necessary, and I oppose the introduction of compulsory licensing for such uses in the United States. As you are aware, this proposed addition to the U.S. Copyright Act would force me to allow anyone to remix, sample and/or make a derivative work of my music without my permission. It denies my rights under the Copyright Act to engage in fair market negotiation with respect to the exploitation of my work, to enter into private license agreements on terms acceptable to me in each instance, and to be assured of just and proper compensation for the use of my work. It would compel me by law to license my work in a manner that fundamentally alters my songs and recordings in a "one-size fits all" manner in a market that is anything but standardized.

Most importantly, it strips me of the right to say "no," and I fear it is a harbinger to the dissolution of copyright protection in the United States, rendering copyright more an economic utility rather than a true property right.

As a songwriter and recording artist, I can tell you that approval over how my music is used is very important to me and the other artists I know. Every song I write is personal and has meaning to me. A sample or a remix takes a piece of art, cuts it up, and then either re-assembles it into something different, or combines some of those pieces with another person's work. I already have to allow other artists to record my songs without permission through the current compulsory mechanical license. Allowing them to materially change my songs or recordings without my permission is taking it a step too far.

Along with losing approval over the use of remixing, sampling and mash-ups, enacting a remix right would have a chilling effect on the creation of new music. As an artist who has been recording for more than forty years, had I anticipated that, in the future, the songs and recordings I crafted so deliberately and carefully could be altered by anyone, without my express permission, in any way that diluted the integrity of my work, I question whether the creative path is one I would have chosen for myself. I also have to question, then, what impact the erosion of copyright will have on our culture.

There are many other artists who feel the same way. Why create something when, ultimately, it could be legal for somebody else to destroy it? Copyright exists to encourage artists to create – not dissuade them from doing so.

Artists and songwriters who do not mind others remixing their work are happy to give permission and work out a licensing fee or new copyright splits. But for those of us who would prefer to keep our music in its original form, or who would rather that certain individuals not remix or sample our tracks, no dollar amount can change our minds. For these reasons, I am opposed to a compulsory license for creating remixes, samples and mash ups. Thank you for your time and consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Don Henley". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

DON HENLEY

February 3, 2014

Commerce Committee, Task Force  
Office of Policy and External Affairs  
United States Patent and Trademark Office

*RE: Request for Comments on Department of Commerce's Green Paper on Copyright Policy, Creativity, and Innovation in the Digital Economy*

To Whom It May Concern:

My name is *Joe Walsh*. I am a songwriter and recording artist. I am writing in support of the comments submitted by copyright stakeholders such as the Copyright Alliance, ASCAP, BMI, CMPA, NSAI, NMPA, RIAA and SESAC, the MPAA, the Association of American Publishers, the Directors Guild, the Writers Guild of America West, Dina LaPolt and Steven Tyler, among others. I am writing to give voice to just one of the subjects before the Task Force.

As a creator and copyright owner, I strongly disagree that any legislative changes to the Copyright Act governing remixes, sampling and mash-ups are necessary, and I oppose the introduction of compulsory licensing for such uses in the United States. As you are aware, this proposed addition to the U.S. Copyright Act would force me to allow anyone to remix, sample and/or make a derivative work of my music without my permission. It denies my rights under the Copyright Act to engage in fair market negotiation with respect to the exploitation of my work, to enter into private license agreements on terms acceptable to me in each instance, and to be assured of just and proper compensation for the use of my work. It would compel me by law to license my work in a manner that fundamentally alters my songs and recordings in a "one-size fits all" manner in a market that is anything but standardized.

Most importantly, it strips me of the right to say "no," and I fear it is a harbinger to the dissolution of copyright protection in the United States, rendering copyright more an economic utility rather than a true property right.

As a songwriter and recording artist, I can tell you that approval over how my music is used is very important to me and the other artists I know. Every song I write is personal and has meaning to me. A sample or a remix takes a piece of art, cuts it up, and then either re-assembles it into something different, or combines some of those pieces with another person's work. I already have to allow other artists to record my songs without permission through the current compulsory mechanical license. Allowing them to materially change my songs or recordings without my permission is taking it a step too far.

Along with losing approval over the use of remixing, sampling and mash-ups, enacting a remix right would have a chilling effect on the creation of new music. As an artist that has been recording for more than forty years, had I anticipated that, in the future, the songs and recordings I crafted so deliberately and carefully could be altered by anyone, without my express permission, in any way that diluted the integrity of my work, I question whether the creative path is one I would have chosen for myself. I also have to question, then, what impact the erosion of copyright will have on our culture. There are others that feel

the same way. Why create something when, ultimately, it could be legal for somebody else to destroy it? Copyright exists to encourage artists to create – not dissuade them from doing so.

Artists and songwriters who do not mind others remixing their work are happy to give permission and work out a licensing fee or new copyright splits. But for those of us who would prefer to keep their music in its original form, or who would rather that certain individuals not remix or sample their tracks, no dollar amount can change our minds. For these reasons, I am opposed to a compulsory license for creating remixes, samples and mash ups. Thank you for your time and consideration.

Sincerely,

A handwritten signature in black ink, appearing to read 'Joe Walsh', written in a cursive style.

JOE WALSH

February 3, 2014

Commerce Committee, Task Force  
Office of Policy and External Affairs  
United States Patent and Trademark Office

**RE: *Request for Comments on Department of Commerce's Green Paper on Copyright Policy, Creativity, and Innovation in the Digital Economy***

To Whom It May Concern:

My name is *Andre Young*. I am a songwriter and recording artist. I am writing in support of the comments submitted by Dina LaPolt and Steven Tyler opposing compulsory licensing for remixes in the United States. As you know, this proposed addition to the U.S. Copyright Act would force me to allow anyone to remix or sample my music without my permission.

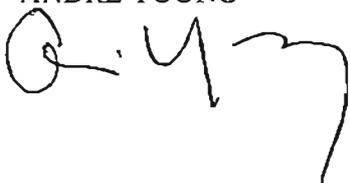
As a songwriter and recording artist, I can tell you that approval over how my music is used is very important to me and the other artists I know. Every song I write is personal and has meaning to me. A remix takes a piece of art, cuts it up, and then either re-assembles it into something different, or combines some of those pieces with another person's work. I already have to allow other artists to record my songs without permission through the compulsory mechanical license. Allowing them to materially change my songs or recordings without my permission is taking it a step too far. Further, if I approve of a remix of my music, I should be able to negotiate my own deal points, not have pre-set licensing rates govern what I am paid.

Along with losing approval over the use of remixing, sampling and mash-ups, enacting a remix right would have a chilling effect on the creation of new music. I know that I wouldn't have released some of my own songs had I known that, in the future, anyone could remix or alter them without my permission. There are others that feel the same way. Why create something when, ultimately, it could be legal for somebody else to destroy it? Copyright exists to encourage artists to create – not dissuade them from doing so.

I have the right to say "no" if someone wants to remix my music. The current law in the United States for remixes, mash-ups, and sampling does not need to be changed. Right now, I have the right to deny the use if I want to. Artists and songwriters who do not mind others remixing their work are happy to give permission and work out a licensing fee or new copyright splits. But for those of us who would prefer to keep their music in its original form, or who would rather that certain individuals not remix or sample their tracks, no dollar amount can change our minds. For these reasons, I am opposed to a compulsory license for creating remixes, samples and mash ups. Thank you for your time and consideration.

Sincerely,

ANDRE YOUNG

A handwritten signature in black ink, appearing to read "A. Young", written over the printed name "ANDRE YOUNG".

February 3, 2014

Commerce Committee, Task Force  
Office of Policy and External Affairs  
United States Patent and Trademark Office

***RE: Request for Comments on Department of Commerce's Green Paper on Copyright Policy, Creativity, and Innovation in the Digital Economy***

To Whom It May Concern:

My name is *Sting*. I am a songwriter and recording artist. I am writing in support of the comments submitted by copyright stakeholders such as the Copyright Alliance, ASCAP, BMI, CMPA, NSAI, NMPA, RIAA and SESAC, the MPAA, the Association of American Publishers, the Directors Guild, the Writers Guild of America West, Dina LaPolit and Steven Tyler, among others. I am writing to give voice to just one of the subjects before the Task Force.

As a creator and copyright owner, I strongly disagree that any legislative changes to the Copyright Act governing remixes, sampling and mash-ups are necessary, and I oppose the introduction of compulsory licensing for such uses in the United States. As you are aware, this proposed addition to the U.S. Copyright Act would force me to allow anyone to remix, sample and/or make a derivative work of my music without my permission. It denies my rights under the Copyright Act to engage in fair market negotiation with respect to the exploitation of my work, to enter into private license agreements on terms acceptable to me in each instance, and to be assured of just and proper compensation for the use of my work. It would compel me by law to license my work in a manner that fundamentally alters my songs and recordings in a "one-size fits all" manner in a market that is anything but standardized.

Most importantly, it strips me of the right to say "no," and I fear it is a harbinger to the dissolution of copyright protection in the United States, rendering copyright more an economic utility rather than a true property right.

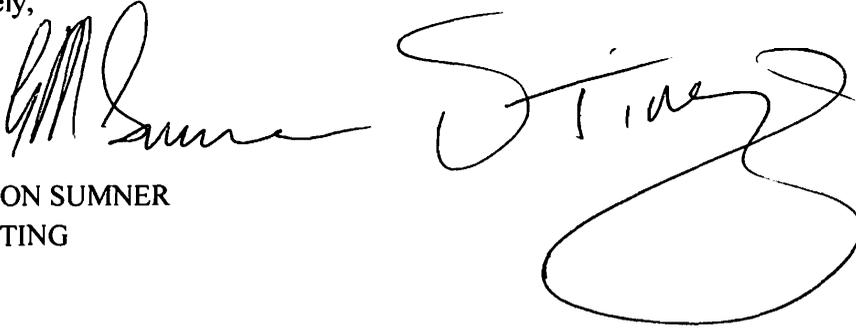
As a songwriter and recording artist, I can tell you that approval over how my music is used is very important to me and the other artists I know. Every song I write is personal and has meaning to me. A sample or a remix takes a piece of art, cuts it up, and then either re-assembles it into something different, or combines some of those pieces with another person's work. I already have to allow other artists to record my songs without permission through the current compulsory mechanical license. Allowing them to materially change my songs or recordings without my permission is taking it a step too far.

Along with losing approval over the use of remixing, sampling and mash-ups, enacting a remix right would have a chilling effect on the creation of new music. As an artist that has been recording for more than forty years, had I anticipated that, in the future, the songs and recordings I crafted so deliberately and carefully could be altered by anyone, without my express permission, in any way that diluted the integrity of my work, I question whether the creative path is one I would have chosen for myself. I also have to question, then, what impact the erosion of copyright will have on our culture. There are others that feel the same way. Why create something when, ultimately, it could be legal for somebody else to destroy it?

Copyright exists to encourage artists to create – not dissuade them from doing so.

Artists and songwriters who do not mind others remixing their work are happy to give permission and work out a licensing fee or new copyright splits. But for those of us who would prefer to keep their music in its original form, or who would rather that certain individuals not remix or sample their tracks, no dollar amount can change our minds. For these reasons, I am opposed to a compulsory license for creating remixes, samples and mash ups. Thank you for your time and consideration.

Sincerely,

The image shows two handwritten signatures in black ink. The first signature on the left is 'Gordon Sumner', written in a cursive style with a large 'G' and 'S'. The second signature on the right is 'Sting', written in a more stylized, flowing cursive script.

GORDON SUMNER  
p/k/a STING

February 3, 2014

Commerce Committee, Task Force  
Office of Policy and External Affairs  
United States Patent and Trademark Office

***RE: Request for Comments on Department of Commerce's Green Paper on Copyright Policy, Creativity, and Innovation in the Digital Economy***

To Whom It May Concern:

My name is Joel Zimmerman, professionally known as *deadmau5*. I am a world renowned music producer, songwriter and recording artist. I am writing in support of the comments submitted by Dina LaPolit and Steven Tyler opposing compulsory licensing for remixes in the United States. As you know, this proposed addition to the U.S. Copyright Act would force me to allow anyone to remix or sample my music without my permission.

As a songwriter, producer, and recording artist, I can tell you that approval over how my music is used is very important to me and the other artists I know. Every song I write is personal and has meaning to me. A remix takes a piece of art, cuts it up, and then either re-assembles it into something different, or combines some of those pieces with another person's work. I already have to allow other artists to record my songs without permission through the compulsory mechanical license. Allowing them to materially change my songs or recordings without my permission is taking it a step too far. Further, if I approve of a remix of my music, I should be able to negotiate my own deal points, not have pre-set licensing rates govern what I am paid.

Along with losing approval over the use of remixing, sampling and mash-ups, enacting a remix right would have a chilling effect on the creation of new music. I know that I wouldn't have released some of my own songs had I known that, in the future, anyone could remix or alter them without my permission. There are others that feel the same way. Why create something when, ultimately, it could be legal for somebody else to destroy it? Copyright exists to encourage artists to create – not dissuade them from doing so.

I have the right to say "no" if someone wants to remix my music. The current law in the United States for remixes, mash-ups, and sampling does not need to be changed. Right now, I have the right to deny the use if I want to. Artists and songwriters who do not mind others remixing their work are happy to give permission and work out a licensing fee or new copyright splits. But for those of us who would prefer to keep their music in its original form, or who would rather that certain individuals not remix or sample their tracks, no dollar amount can change our minds. For these reasons, I am opposed to a compulsory license for creating remixes, samples and mash ups. Thank you for your time and consideration.

Sincerely,



deadmau5

# OZZY OSBOURNE

February 7, 2014

Commerce Committee, Task Force  
Office of Policy and External Affairs  
United States Patent and Trademark Office

***RE: Request for Comments on Department of Commerce's Green Paper on Copyright Policy, Creativity, and Innovation in the Digital Economy***

To Whom It May Concern:

My name is ***Ozzy Osbourne***. I am a songwriter and recording artist. I am writing in support of the comments submitted by Dina LaPolit and Steven Tyler opposing compulsory licensing for remixes in the United States. As you know, this proposed addition to the U.S. Copyright Act would force me to allow anyone to remix or sample my music without my permission.

As a songwriter and recording artist, I can tell you that approval over how my music is used is very important to me and the other artists I know. Every song I write is personal and has meaning to me. A remix takes a piece of art, cuts it up, and then either re-assembles it into something different, or combines some of those pieces with another person's work. I already have to allow other artists to record my songs without permission through the compulsory mechanical license. Allowing them to materially change my songs or recordings without my permission is taking it a step too far. Further, if I approve of a remix of my music, I should be able to negotiate my own deal points and not have pre-set licensing rates govern what I am paid.

Along with losing approval over the use of remixing, sampling and mash-ups, enacting a remix right would have a chilling effect on the creation of new music. I know that I wouldn't have released some of my own songs had I known that, in the future, anyone could remix or alter them without my permission. There are others that feel the same way. Why create something when, ultimately, it could be legal for somebody else to destroy it? Copyright exists to encourage artists to create – not dissuade them from doing so.

I have the right to say "no" if someone wants to remix my music. The current law in the United States for remixes, mash-ups, and sampling does not need to be changed. Right now, I have the right to deny the use if I want to. Artists and songwriters who do not mind others remixing their work are happy to give permission and work out a licensing fee or new copyright splits. But for those of us who would prefer to keep their music in its original form, or who would rather that certain individuals not remix or sample their tracks, no dollar amount can change our minds. For these reasons, I am opposed to a compulsory license for creating remixes, samples and mash ups. Thank you for your time and consideration.

Sincerely,



Ozzy Osbourne



February 3, 2014

Commerce Committee, Task Force  
Office of Policy and External Affairs  
United States Patent and Trademark Office

**RE: Request for Comments on Department of Commerce's Green Paper on Copyright Policy,  
Creativity, and Innovation in the Digital Economy**

To Whom It May Concern:

My name is *Mick Fleetwood*. I am a recording artist and a member of the world renowned musical group, *Fleetwood Mac*. I am writing in support of the comments submitted by Dina LaPolt and Steven Tyler opposing compulsory licensing for remixes in the United States. As you know, this proposed addition to the U.S. Copyright Act would force me to allow anyone to remix or sample my music without my permission.

As a recording artist, I can tell you that approval over how my music is used is very important to me and the other artists I know. Every song I perform on is personal and has meaning to me. A remix takes a piece of art, cuts it up, and then either re-assembles it into something different, or combines some of those pieces with another person's work. Allowing people just remix, sample, or remix my recordings into a new song without my permission is taking it a step too far. Further, if I approve of a remix of my music, I should be able to negotiate my own deal points, not have pre-set licensing rates govern what I am paid.

Along with losing approval over the use of remixing, sampling and mash-ups, enacting a remix right would have a chilling effect on the creation of new music. I know that I wouldn't have released some of my own recordings had I known that, in the future, anyone could remix or alter them without my permission. There are others that feel the same way. Why create something when, ultimately, it could be legal for somebody else to destroy it? Copyright exists to encourage artists to create – not dissuade them from doing so.

I have the right to say "no" if someone wants to remix my music. The current law in the United States for remixes, mash-ups, and sampling does not need to be changed. Right now, I have the right to deny the use if I want to. Artists and songwriters who do not mind others remixing their work are happy to give permission and work out a licensing fee if they wish. But for those of us who would prefer to keep their music in its original form, or who would rather that certain individuals not remix or sample their tracks, no dollar amount can change our minds. For these reasons, I am opposed to a compulsory license for creating remixes, samples and mash ups. Thank you for your time and consideration.

Sincerely,

  
Mick Fleetwood

February 4, 2014

Commerce Committee, Task Force  
Office of Policy and External Affairs  
United States Patent and Trademark Office

**RE: *Request for Comments on Department of Commerce's Green Paper on Copyright Policy, Creativity, and Innovation in the Digital Economy***

To Whom It May Concern:

My name is **Britney Spears**. I am a songwriter and recording artist. I am writing in support of the comments submitted by Dina LaPolit and Steven Tyler opposing compulsory licensing for remixes in the United States. As you know, this proposed addition to the U.S. Copyright Act would force me to allow anyone to remix or sample my music without my permission.

As a songwriter and recording artist, I can tell you that approval over how my music is used is very important to me and the other artists I know. Every song I write is personal and has meaning to me. A remix takes a piece of art, cuts it up, and then either re-assembles it into something different, or combines some of those pieces with another person's work. I already have to allow other artists to record my songs without permission through the compulsory mechanical license. Allowing them to materially change my songs or recordings without my permission is taking it a step too far. Further, if I approve of a remix of my music, I should be able to negotiate my own deal points, not have pre-set licensing rates govern what I am paid.

Along with losing approval over the use of remixing, sampling and mash-ups, enacting a remix right would have a chilling effect on the creation of new music. I know that I wouldn't have released some of my own songs had I known that, in the future, anyone could remix or alter them without my permission. There are others that feel the same way. Why create something when, ultimately, it could be legal for somebody else to destroy it? Copyright exists to encourage artists to create – not dissuade them from doing so.

I have the right to say “no” if someone wants to remix my music. The current law in the United States for remixes, mash-ups, and sampling does not need to be changed. Right now, I have the right to deny the use if I want to. Artists and songwriters who do not mind others remixing their work are happy to give permission and work out a licensing fee or new copyright splits. But for those of us who would prefer to keep their music in its original form, or who would rather that certain individuals not remix or sample their tracks, no dollar amount can change our minds. For these reasons, I am opposed to a compulsory license for creating remixes, samples and mash ups. Thank you for your time and consideration.

Sincerely,

A handwritten signature in black ink, appearing to read 'Britney Spears', with a long horizontal line extending to the right.

Britney Spears

113TH CONGRESS  
1ST SESSION

# H. R. 3219

To amend title 17, United States Code, to provide copyright owners in sound recordings with the exclusive right to negotiate in the marketplace the performance of their works to the public by means of an audio transmission, and for other purposes.

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## IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 30, 2013

Mr. WATT introduced the following bill; which was referred to the Committee on the Judiciary

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## A BILL

To amend title 17, United States Code, to provide copyright owners in sound recordings with the exclusive right to negotiate in the marketplace the performance of their works to the public by means of an audio transmission, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Free Market Royalty  
5 Act”.

1 **SEC. 2. BROADCAST PERFORMANCE RIGHT IN SOUND RE-**  
2 **CORDINGS.**

3 Section 106(6) of title 17, United States Code, is  
4 amended by striking “a digital audio” and inserting “an  
5 audio”.

6 **SEC. 3. FREE MARKET FOR LICENSING OF PUBLIC PER-**  
7 **FORMANCES.**

8 Section 114 of title 17, United States Code, is  
9 amended as follows:

10 (1) Subsection (d) is amended—

11 (A) in paragraph (1)—

12 (i) in the matter preceding subpara-  
13 graph (A), by striking “a digital audio”  
14 and inserting “an audio”;

15 (ii) by striking subparagraph (A); and

16 (iii) by redesignating subparagraphs  
17 (B) and (C) as subparagraphs (A) and  
18 (B), respectively;

19 (B) by striking paragraph (2);

20 (C) in paragraph (3)—

21 (i) in subparagraphs (A) and (B)(i),  
22 by striking “of digital audio” and inserting  
23 “of an audio”; and

24 (ii) in subparagraph (D), by striking  
25 “a digital audio” and inserting “an audio”;

1 (D) in paragraph (4), in subparagraphs  
2 (A) and (B)(i), by striking “a digital audio”  
3 and inserting “an audio”; and

4 (E) by redesignating paragraphs (3) and  
5 (4) as paragraphs (2) and (3), respectively.

6 (2) Section 114 of title 17, United States Code,  
7 is amended by striking subsections (e), (f), and (g),  
8 and inserting the following:

9 “(e) EFFICIENCY OF LICENSING.—

10 “(1) COLLECTIVE NEGOTIATION FOR NON-  
11 INTERACTIVE SERVICES.—Pursuant to section  
12 106(6), and notwithstanding any other provision of  
13 law, any noninteractive services performing sound  
14 recordings publicly by means of an audio trans-  
15 mission may collectively negotiate and agree to roy-  
16 alty rates and license terms and conditions for the  
17 performance of such sound recordings.

18 “(2) ONE-STOP LICENSING FOR NONINTER-  
19 ACTIVE SERVICES.—

20 “(A) NEGOTIATION OF LICENSES BY COM-  
21 MON AGENT.—Pursuant to section 106(6), and  
22 notwithstanding any other provision of law, for  
23 licenses for noninteractive audio transmissions,  
24 SoundExchange, Inc., or any successor entity is  
25 designated as the sole common agent to nego-

1           tiate, agree to, pay, and receive payments under  
2           this section. If a license for noninteractive audio  
3           transmissions is agreed to by such common  
4           agent, copyright owners of sound recordings  
5           may subsequently negotiate and agree to roy-  
6           alty rates and license terms and conditions with  
7           any noninteractive services performing sound  
8           recordings publicly by means of an audio trans-  
9           mission for the performance of such sound re-  
10          cordings.

11           “(B) DIRECT PAYMENT AND EQUAL COM-  
12          PENSATION.—The common agent under sub-  
13          paragraph (A) shall make distributions directly  
14          to the following recipients from payments col-  
15          lected under this section as follows:

16                   “(i) 50 percent shall be paid to the  
17                   copyright owner.

18                   “(ii) 45 percent shall be paid to fea-  
19                   tured recording artists.

20                   “(iii) 5 percent shall be paid to non-  
21                   featured musicians and vocalists (through  
22                   the American Federation of Musicians and  
23                   Screen Actors Guild-American Federation  
24                   of Television and Radio Artists Intellectual

1                   Property Rights Distribution Fund, or  
2                   their successors).

3           “(f) PAYMENTS FROM INDIVIDUAL LICENSES FOR  
4 NONINTERACTIVE AUDIO TRANSMISSIONS.—In the case  
5 of a license granted by the copyright owner of a sound  
6 recording to a noninteractive service performing sound re-  
7 cordings publicly by means of an audio transmission, such  
8 service shall pay to the common agent described in sub-  
9 section (e) receipts from the licensing of such trans-  
10 missions in an amount equal to 50 percent of the total  
11 royalties and other compensation that the service is re-  
12 quired to pay for such transmissions under the applicable  
13 license agreement. Such common agent shall distribute  
14 such payments in proportion to the distributions provided  
15 in clauses (ii) and (iii) of subsection (e)(2)(B), and such  
16 payments shall be the sole payments to which featured and  
17 nonfeatured artists are entitled by reason of such trans-  
18 missions under the license with that service.

19           “(g) BACKSTOP FOR PUBLIC AND NONCOMMERCIAL  
20 STATIONS.—

21           “(1) ESTABLISHMENT OF RATES AND TERMS.—  
22           If royalty rates and license terms and conditions for  
23           the audio transmission or retransmission of a non-  
24           subscription broadcast consisting solely of non-  
25           commercial educational and cultural radio programs

1 are not negotiated and agreed upon collectively  
2 under subsection (e) between the common agent and  
3 a noncommercial educational broadcast station fund-  
4 ed on or after January 1, 1995, under section  
5 396(k) of the Communications Act of 1934 (47  
6 U.S.C. 396(k)), a proceeding under chapter 8 of this  
7 title shall determine the rates and terms for such  
8 transmissions and retransmissions. The Copyright  
9 Royalty Judges shall establish such rates and terms  
10 that most clearly represent the rates and terms that  
11 would have been negotiated in the marketplace be-  
12 tween a willing buyer and a willing seller. In deter-  
13 mining such rates and terms, the Copyright Royalty  
14 Judges shall base their decision on economic, com-  
15 petitive, and programming information presented by  
16 the parties.

17 “(2) PAYMENT OF ROYALTIES.—All royalty  
18 payments under this subsection for over-the-air non-  
19 subscription broadcast transmissions required to be  
20 paid by public broadcasting entities that are eligible  
21 to receive funding on the basis of the formula set  
22 forth in section 396(k)(6)(B) of the Communications  
23 Act of 1934 (47 U.S.C. 396(k)(6)(B)) or that are  
24 authorized to transmit over-the-air nonsubscription  
25 broadcast performances of nondramatic musical

1 works pursuant to arrangements negotiated or oth-  
2 erwise made by the Corporation for Public Broad-  
3 casting under section 118, shall first be made using  
4 funds made available pursuant to section  
5 396(k)(3)(A)(I)(II) of the Communications Act of  
6 1934.”.

7 (3) Subsection (h)(1) is amended by striking “a  
8 digital audio” and inserting “an audio”.

9 (4) Subsection (j) is amended—

10 (A) in paragraph (1), by striking “digital  
11 audio” and inserting “audio”;

12 (B) by striking paragraphs (2), (4), (5),  
13 (6), (8), (10), and (11);

14 (C) by inserting after paragraph (1) the  
15 following:

16 “(2) An ‘audio transmission’ is a transmission  
17 that embodies the transmission of a sound recording,  
18 and does not include the transmission of any audio-  
19 visual work.”;

20 (D) by redesignating paragraph (7) as  
21 paragraph (4);

22 (E) by inserting after paragraph (4), as re-  
23 designated, the following:

24 “(5) A ‘noninteractive service’ is a service that  
25 would have been eligible for statutory licensing

1 under subsection (d)(2) of this section, as such sub-  
2 section was in effect on September 1, 2013”; and

3 (F) by redesignating paragraphs (9), (12),  
4 (13), (14), and (15) as paragraphs (6), (7), (8),  
5 (9), and (10) respectively.

6 **SEC. 4. EPHEMERAL RECORDINGS.**

7 Section 112 of title 17, United States Code, is  
8 amended—

9 (1) in subsection (a)(1), by striking “including  
10 a statutory license under section 114(f)” and insert-  
11 ing “including a license to perform a sound record-  
12 ing under section 114”; and

13 (2) by striking subsection (e) and inserting the  
14 following:

15 “(e) EFFICIENCY OF LICENSING.—The provisions of  
16 subsections (e)(1), (e)(2)(A), and (g) of section 114 shall  
17 apply to licensing of the right to reproduce phonorecords  
18 of a sound recording under section 106(1)—

19 “(1) for use solely to make noninteractive audio  
20 transmissions licensable under such subsections of  
21 section 114, or

22 “(2) for use solely under the limitation on ex-  
23 clusive rights specified by section 114(d)(1)(B)(iv),  
24 under circumstances in which such reproductions would  
25 have been eligible for statutory licensing under this sub-

1 section, as this subsection was in effect on September 1,  
2 2013.”.

3 **SEC. 5. CHAPTER 8 PROCEEDINGS OF COPYRIGHT ROY-**  
4 **ALTY JUDGES; TECHNICAL AMENDMENTS.**

5 (a) FUNCTIONS.—Section 801(b) of title 17, United  
6 States Code, is amended—

7 (1) in paragraph (1)—

8 (A) by striking “112(e), 114,”; and

9 (B) by striking “sections 114(f)(1)(B),  
10 115,” and inserting “sections 115”;

11 (2) in paragraph (3)(C), by striking  
12 “804(b)(8)” and inserting “804(b)(7)”;

13 (3) in paragraph (7)(B), by striking “112(e)(5),  
14 114(f)(3),”;

15 (4) by redesignating paragraph (8) as para-  
16 graph (9); and

17 (5) by inserting after paragraph (7) the fol-  
18 lowing:

19 “(8) To determine the rates and terms for  
20 transmissions under section 114(g) and reproduc-  
21 tions under section 112(e).”.

22 (b) PROCEEDINGS.—Section 803 of title 17, United  
23 States Code, is amended—

24 (1) in subsection (b)(1)(A)(i)—

25 (A) by striking subclauses (II) and (III);

1 (B) in subclause (IV), by striking  
2 “804(b)(8)” and inserting “804(b)(7)”; and

3 (C) by redesignating subclauses (IV) and  
4 (V) as subclauses (II) and (III), respectively;  
5 and

6 (2) in subsection (c)(2)(E)(i), by striking “on a  
7 specified date, then—” and all that follows through  
8 “as of the date of that determination.” and inserting  
9 “on a specified date, then the initial determination  
10 of the Copyright Royalty Judges that is the subject  
11 of the rehearing motion shall be effective as of the  
12 day following the date on which the rates and terms  
13 that were previously in effect expire.”.

14 (c) JUDICIAL REVIEW.—Section 803(d)(2)(C)(ii) of  
15 title 17, United States Code, is amended by striking “by  
16 the Copyright Royalty Judges” and inserting “under sec-  
17 tion 114(e)(2) or 112(e), or, in any other case, by the  
18 Copyright Royalty Judges,”.

19 (d) INSTITUTION OF PROCEEDINGS.—Section 804 of  
20 title 17, United States Code, is amended—

21 (1) in subsection (a)—

22 (A) in the first sentence, by striking “112,  
23 114,”; and

24 (B) by striking the last sentence; and

25 (2) in subsection (b)—

1 (A) by striking paragraph (2);

2 (B) by striking paragraph (3) and insert-  
3 ing the following:

4 “(2) CERTAIN SECTIONS 114 AND 112 PRO-  
5 CEEDINGS.—Proceedings under this chapter to de-  
6 termine terms and rates of royalty payments under  
7 section 114(g) or 112(e) may be commenced only  
8 pursuant to petitions filed after the end of the 6-  
9 month period beginning on the effective date of the  
10 Free Market Royalty Act. Thereafter, proceedings  
11 described in the preceding sentence may be com-  
12 menced only pursuant to a petition filed at any time  
13 within 1 year after negotiated licenses authorized by  
14 section 114 or 112(e) (as the case may be) expire  
15 and are not replaced by subsequent agreements. For  
16 purposes of proceedings to determine terms and  
17 rates under this paragraph, the Copyright Royalty  
18 Judges shall make a determination as to whether the  
19 petitioner has a significant interest in the terms and  
20 rates in which a determination by the Judges is re-  
21 quested. If the Copyright Royalty Judges determine  
22 that the petitioner has such a significant interest,  
23 the Copyright Royalty Judges shall cause notice of  
24 this determination, with the reasons for such deter-  
25 mination, to be published in the Federal Register,

1 together with the notice of commencement of pro-  
2 ceedings under this chapter.”; and

3 (C) by redesignating paragraphs (4)  
4 through (8) as paragraphs (3) through (7), re-  
5 spectively.

6 (e) TECHNICAL AMENDMENTS.—Section 114 of title  
7 17, United States Code, is amended as follows:

8 (1) Subsection (a) is amended by striking  
9 “clauses” and inserting “paragraphs”.

10 (2) Subsection (b) is amended—

11 (A) by striking “clause” each place it ap-  
12 pears and inserting “paragraph”;

13 (B) by striking “clauses” each place it ap-  
14 pears and inserting “paragraphs”; and

15 (C) by striking “section 397 of title 47”  
16 and inserting “section 397 of the Communica-  
17 tions Act of 1934 (47 U.S.C. 397)”.

18 **SEC. 6. STUDY BY COPYRIGHT OFFICE.**

19 The Register of Copyrights shall—

20 (1) conduct a study on the protection of making  
21 available to the public copyrighted works under  
22 paragraph (3) of section 106 of title 17, United  
23 States Code, and communicating to the public copy-  
24 righted works under paragraph (4) of such section,  
25 and recommend any amendments to such para-

1 graphs necessary to so protect the rights of making  
2 available to the public copyrighted works and com-  
3 municating to the public copyrighted works; and

4 (2) not later than 9 months after the date of  
5 the enactment of this Act, submit to the Committees  
6 on the Judiciary of the House of Representatives  
7 and the Senate a report on the results of the studies  
8 conducted under paragraph (1), including any rec-  
9 ommendations under such paragraph.

10 **SEC. 7. EFFECTIVE DATE.**

11 (a) PHASE-OUT OF STATUTORY LICENSES.—The  
12 amendments made by sections 2, 3, 4, and 5—

13 (1) shall take effect upon the expiration of the  
14 1-year period beginning on the date of the enact-  
15 ment of this Act; and

16 (2) shall apply with respect to audio trans-  
17 missions of sound recordings that are made on or  
18 after the effective date under paragraph (1).

19 (b) OTHER PROVISIONS.—Sections 1 and 6 shall take  
20 effect on the date of the enactment of this Act.

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# **COPYRIGHT SMALL CLAIMS**

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A REPORT OF THE REGISTER OF COPYRIGHTS

SEPTEMBER 2013



# **COPYRIGHT SMALL CLAIMS**

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A REPORT OF THE REGISTER OF COPYRIGHTS

SEPTEMBER 2013



**The Register of Copyrights of the United States of America**

United States Copyright Office · 101 Independence Avenue SE · Washington, DC 20559-6000 · (202) 707-8359

September 30, 2013

Dear Chairman Goodlatte and Ranking Member Conyers:

On behalf of the United States Copyright Office, I am pleased to deliver this Report to the House Committee on the Judiciary, which by the terms of the Committee's request is due today. The Report documents the challenges of resolving small copyright claims in the current legal system, and recommends the creation of a voluntary system of adjudication to be administered by the Copyright Office.

The Copyright Office appreciates the Committee's dedication to copyright matters generally and to the small claims issue in particular. In requesting the Report, former Chairman Lamar Smith wrote of the increasingly prohibitive cost of federal court and the "immeasurable contribution that American authors and other copyright owners make to the strength of our nation." He also made reference to the Committee's previous interest in these issues, including its 2006 hearing on small claims remedies. That hearing, an outgrowth of Congressional deliberations on orphan works, provided an early forum for creators to voice their frustrations about the challenges of the federal court system.

As reflected in the details of the study, small claims issues are anything but small. On the contrary, they present a range of complex considerations, from constitutional constraints to procedural concerns to questions of what claims should be eligible for alternative treatment. While the conclusions in the Report are our own, we are grateful to those who participated in our public process. The Office conducted four days of public hearings in New York and Los Angeles, and received written comments from individual authors, industry associations, public interest groups, technology companies, publishers, and scholars. The perspectives of these parties appear everywhere in the Report and are further reflected in the Office's legislative proposal.

Thank you for the opportunity to prepare this Report.

Respectfully,

Maria A. Pallante  
Register of Copyrights and Director  
U.S. Copyright Office

Enclosure

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U.S. House of Representatives, Committee on the Judiciary  
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Washington, DC 20515

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U.S. House of Representatives  
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ONE HUNDRED TWELFTH CONGRESS

# Congress of the United States

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October 11, 2011

The Honorable Maria A. Pallante  
Register of Copyrights  
United States Copyright Office  
Library of Congress  
Washington, D.C. 20540

Dear Ms. Pallante,

I enjoyed our meeting last month to exchange views on copyright policy. Following our discussion, I wanted to take a moment to raise an issue that has needed to be addressed for some time. As we near the introduction of legislation in the U.S. House of Representatives that is designed to provide meaningful and effective new tools to authors and other copyright owners who are victims of large-scale online copyright infringement, I'm reminded of the need to revisit and address the opposite end of the spectrum. Specifically, I am referring to our responsibility to ensure that authors, photographers and other copyright owners - many of whom rely upon the promise of exclusive rights associated with the grant of copyright to earn a living and provide for their families - have a realistic ability to enforce those rights when they have a comparatively modest claim for damages.

As background, while serving as Chairman of the former Subcommittee on Courts, the Internet and Intellectual Property in 2006, I conducted a hearing to consider the need for new remedies to address small copyright claims. At that hearing, several witnesses testified that the costs of obtaining counsel and maintaining an action in federal court effectively precluded many authors whose works were clearly infringed from being able to vindicate their rights and deter continuing violations.

On an individual level, the inability to enforce one's rights undermines the economic incentive to continue investing in the creation of new works. On a collective level, the inability to enforce rights corrodes respect for the rule of law and deprives society of the benefit of new and expressive works of authorship. Witnesses suggested that Congress should consider providing new and more efficient processes to enable the resolution of small claims. In testimony submitted for the record, the Office indicated a willingness to undertake such a study and suggested possible solutions that could include permitting state court adjudication, providing for administrative resolution, establishing streamlined procedures in federal court or facilitating alternative dispute resolution procedures such as arbitration and mediation.

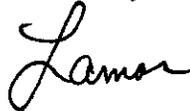
The Honorable Maria A. Pallante  
October 11, 2011  
Page 2

Following the hearing, I included a requirement that the Office conduct a study in H.R. 5439, the "Orphan Works Act of 2006". Similar language was also included in H.R. 5889, a bill introduced in the following Congress.

Given the importance of this matter to many individual copyright owners and the realization that the costs of litigating in federal court have become increasingly prohibitive over the past five years, I request the Office evaluate this matter and undertake a study to assess: 1) the extent to which authors and other copyright owners are effectively prevented from seeking relief from infringements due to constraints in the current system; and 2) furnish specific recommendations, as appropriate, for changes in administrative, regulatory and statutory authority that will improve the adjudication of small copyright claims and thereby enable all copyright owners to more fully realize the promise of exclusive rights enshrined in our Constitution. In undertaking this study, I request the Office solicit the input of an array of copyright owners and stakeholders who might be impacted by proposed improvements and that the report be completed no later than September 30, 2013.

American authors and other copyright owners make an immeasurable contribution to the strength of our nation. I would appreciate your invaluable assistance in committing to undertake this study.

Sincerely,



Lamar Smith  
Chairman  
U.S. House Judiciary Committee

## ACKNOWLEDGMENTS

This Report reflects the efforts of a dedicated team of experts at the U.S. Copyright Office. Jacqueline C. Charlesworth, General Counsel and Associate Register, oversaw the public hearings, analysis, writing, and recommendations. She and Senior Counsel Catherine Rowland are the Report's principal authors, and I am grateful to both of them for their leadership and expertise from beginning to end. Also staffing the project were Attorney-Advisors Chris Weston and John Riley, each of whom made numerous and important contributions.

Karyn Temple Claggett, Associate Register and Director of Policy and International Affairs, reviewed the report in various iterations and offered invaluable guidance along the way. Attorney-Advisor Katie Alvarez provided timely and useful drafting assistance. The Report also benefited greatly from the research and citation skills of Counsel Kevin Amer, Attorney-Advisors Rick Marshall, Frank Muller, Steve Ruwe, Aaron Watson, and Andrea Zizzi, and Law Clerks Connie Boutsikaris, Philippa Dewey, Erica Larocque, Dawn Leung, Leo Lichtman, Jordan Reth, Michael Todd, Erik Turkman, Skyler Walker, and Susan Zucco.

I am grateful to Professors June Besek and Philippa Loengard of the Columbia School of Law for facilitating the New York City public hearings, and to Professor Doug Lichtman and Leigh Iwanaga of the UCLA School of Law for helping to arrange the hearings in Los Angeles. Early in our process, Professor Robert Brauneis of George Washington University Law School hosted a roundtable discussion about small claims that generated a number of useful insights for both the copyright and patent systems, including in the area of constitutional law.

Finally, I would like to thank the diverse and numerous commenting parties and hearing participants, whose observations were crucial in the shaping of our recommendations.

Maria A. Pallante  
Register of Copyrights and Director  
U.S. Copyright Office

## TABLE OF CONTENTS

INTRODUCTION .....	1
I. EXECUTIVE SUMMARY .....	3
II. STUDY HISTORY .....	5
III. THE CURRENT SYSTEM .....	8
A. Exclusive Federal Jurisdiction .....	9
B. Proceeding <i>Pro Se</i> in Federal Court.....	10
C. Federal Court Procedure .....	12
1. Initiating a Lawsuit .....	12
2. Discovery .....	12
3. Dispositive Motions and Trials .....	14
4. Magistrate Judges.....	14
5. Special Patent Procedures .....	15
D. Specific Challenges in Copyright Cases .....	16
1. Registration Requirement .....	16
2. Identification of Online Infringers .....	18
3. Potential Bars to Recovery.....	19
4. Remedies.....	20
a. Damages.....	20
b. Injunctive Relief.....	22
c. Attorneys’ Fees and Costs .....	23
5. Costs and Burden of Litigation .....	24
6. Time to Trial .....	26
IV. CONSTITUTIONAL ISSUES.....	27
A. The Seventh Amendment.....	27
B. Article III Considerations .....	29
1. From <i>Murray’s Lessee</i> to <i>Northern Pipeline</i> .....	29
2. Administrative Proceedings: <i>Thomas</i> and <i>Schor</i> .....	32
3. The Federal Magistrates Act.....	35
4. Bankruptcy Courts Revisited .....	36
C. Relationship to a Copyright Small Claims Court .....	39
1. General Observations.....	39
2. Copyright-Specific Considerations .....	40
D. The Appointments Clause.....	42
E. Due Process Considerations.....	43
1. Personal Jurisdiction .....	44
2. Service of Process .....	46
3. Conduct of Proceedings .....	47

V. STATE COURTS .....51

    A. Courts of General Jurisdiction .....51

    B. Small Claims Courts .....52

        1. Jurisdiction .....53

            a. Monetary Limits.....53

            b. Permissible Claims and Parties.....54

        2. Attorney Representation .....55

        3. Small Claims Procedures .....55

            a. Filing Fees.....55

            b. Assistance to Litigants .....56

            c. Commencement and Service of Action .....56

            d. Mediation .....57

            e. Pretrial Practice.....57

            f. Conduct of Trial.....58

            g. Right to Jury.....58

            h. Available Relief .....59

            i. Decisions and Review.....59

            j. Enforcement of Judgments .....60

VI. OTHER ILLUSTRATIVE MODELS AND APPROACHES.....62

    A. Copyright Royalty Board.....62

    B. Patent Courts and Procedures .....64

        1. Patent Trial and Appeal Board.....64

        2. Specialized Federal Procedures .....66

        3. Small Claims Review.....67

    C. Trademark Trial and Appeal Board .....67

    D. United States Tax Court.....71

    E. Uniform Domain Name Dispute Resolution Policy .....73

    F. Federal Court Procedures.....78

        1. The Federal Arbitration Act.....78

        2. Federal Court Alternative Dispute Resolution Processes .....80

        3. Programs to Assist Small Copyright Litigants .....82

    G. International Models .....83

        1. United Kingdom.....83

        2. Scotland.....87

        3. Canada.....87

        4. Mexico .....88

        5. Korea .....90

VII. KEY FINDINGS AND RECOMMENDATIONS .....92

    A. Forum.....92

        1. Federal Courts.....92

        2. State Courts.....94

        3. Administrative Tribunal.....97

    B. Nature of Tribunal.....97

        1. Voluntary Versus Mandatory.....97

        2. Decisionmakers.....99

        3. Format and Location.....102

    C. Subject Matter and Remedies .....103

        1. Eligible Claims.....103

        2. Defenses and Counterclaims.....105

        3. Registration Requirement .....107

        4. Remedies.....109

            a. Overall Damages Limitation.....109

            b. Actual and Statutory Damages.....110

            c. Injunctive and Other Equitable Relief .....112

            d. Attorneys’ Fees and Costs .....115

        5. Eligible Works .....117

    D. Practice and Procedure.....119

        1. Role of Attorneys.....119

        2. Assistance to Litigants .....120

        3. Initiation of Proceeding.....121

        4. Multiple Claims and Parties.....122

        5. Unknown Infringers .....123

        6. Discovery .....124

        7. Motion Practice.....125

        8. Evidence.....126

        9. Frivolous Claims.....127

        10. Enforcement.....128

        11. Review .....129

        12. Effect of Decisions.....130

        13. Settlement and Alternative Dispute Resolution.....131

    E. Implementation and Additional Study .....132

VIII. LEGISLATIVE PROPOSAL .....133

    A. Discussion Draft.....133

    B. Section-by-Section Summary .....155

APPENDICES

- Appendix A: U.S. Copyright Office Statement on Small Copyright Claims (2006)
- Appendix B: Federal Register Notices
- Appendix C: Commenting Parties and Roundtable Participants
- Appendix D: Summary of State Small Claims Procedures

## INTRODUCTION

The Constitution empowers, and the Copyright Act conveys, a system of exclusive rights for authors, for the benefit of their livelihoods, the livelihoods of other actors in the chain of commerce, and the overall public good.<sup>1</sup> To protect and promote these rights, the law has always included a corresponding set of enforcement provisions allowing copyright owners to redress the unauthorized use of their works. While infringement is nothing new when it comes to the world of creative works, there is no question that it has proliferated with the ascendance of digital culture and the unprecedented desire for content. Today it is not only easy to make unauthorized copies, but to do so at virtually no cost, much to the detriment of authors and the market for their works.

As provided in the Constitution, the rights granted to authors are not merely to be articulated, but also “secur[ed].”<sup>2</sup> Unfortunately, and perhaps ironically, as the rate of infringement has increased, so too have the barriers to pursuing copyright claims in the federal courts. These barriers are largely practical: federal litigation is expensive and time-consuming, and therefore out of reach for many copyright owners. The problem is especially vexing in the context of small claims, where the injury may be limited or difficult to measure. If exclusive rights are unenforceable, they are weakened as the pillars of the copyright law, and public respect for our nation’s creativity is eroded in turn.<sup>3</sup>

The problem of modest-sized copyright claims, on the one hand, and costly enforcement, on the other, appears to be especially acute for individual creators. In comments submitted to the Copyright Office in the course of this study, the Graphic Artists Guild wrote that “[a]s a practical matter, except for large corporate copyright owners, our current copyright laws are virtually unenforceable when it comes to the infringement of visual works.”<sup>4</sup> In a similar vein, American Photographic Artists explained that “the current system deters authors from asserting their rights, renders these cases difficult for any attorney to take on, and encourages copyright infringement by all phases of society.”<sup>5</sup> The Alliance for Visual Artists pointed out that “[t]he traditional method of protecting copyrights ... is simply impracticable for a small business photographer with limited income.”<sup>6</sup> Observing that “[w]e weaken markets for valuable goods at our collective peril,” the Authors Guild reported that a majority of authors surveyed saw the need for

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<sup>1</sup> See U.S. CONST. art. I, § 8, cl. 8 (Congress empowered “[t]o promote the Progress of Science ... by securing for limited Times to Authors ... the exclusive Right to their respective Writings....”); 17 U.S.C. §§ 101 *et seq.*

<sup>2</sup> U.S. CONST. art. I, § 8, cl. 8.

<sup>3</sup> See Letter from Hon. Lamar Smith, Chairman of the U.S. House of Representatives Judiciary Committee, to Hon. Maria A. Pallante, Register of Copyrights and Director, U.S. Copyright Office (Oct. 11, 2011) (“Smith Letter”).

<sup>4</sup> Graphic Artists Guild (“GAG”), Comments Submitted in Response to U.S. Copyright Office’s Oct. 27, 2011 Notice of Inquiry at 3 (Jan. 16, 2012) (“GAG First Notice Comments”).

<sup>5</sup> American Photographic Artists (“APA”), Comments Submitted in Response to U.S. Copyright Office’s Oct. 27, 2011 Notice of Inquiry at 3 (Jan. 17, 2012) (“APA First Notice Comments”).

<sup>6</sup> Alliance of Visual Artists (“AVA”), Comments Submitted in Response to U.S. Copyright Office’s Aug. 23, 2012 Notice of Inquiry at 2 (Oct. 19, 2012) (“AVA Second Notice Comments”).

a copyright small claims tribunal.<sup>7</sup> A representative of the Songwriters Guild of America opined that while “[s]uch small claims and random infringements may seem unimportant, ... taken in the aggregate, they have an effect on the livelihoods of individual creators akin to the infamous torture ‘death by a thousand cuts.’”<sup>8</sup>

Creators are not alone in voicing these concerns. Citing the “hindrances that currently exist in preventing copyright owners from pursuing copyright claims of relatively small economic value,” the American Bar Association’s Section of Intellectual Property Law offered recommendations in support of “a much needed avenue for small copyright claims adjudication.”<sup>9</sup> Organizations that provide *pro bono* assistance to lower-income artists, such as California Lawyers for the Arts and the New York-based Volunteer Lawyers for the Arts, emphasized what they saw as a pressing need for alternatives to federal litigation.<sup>10</sup>

Finally, the frustrations of those seeking to defend against claims of infringement – who themselves may be smaller actors and who also face high litigation costs – cannot be overlooked.

The Copyright Office trusts that the findings and recommendations of this Report will be helpful to Congress as it continues to explore the issue of small copyright claims.

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<sup>7</sup> Authors Guild, Comments Submitted in Response to U.S. Copyright Office’s Oct. 27, 2011 Notice of Inquiry at 2-3 (undated) (“Authors Guild First Notice Comments”) (citing survey showing 55% of authors favor small claims court).

<sup>8</sup> Songwriters Guild of America (“SGA”) & Nashville Songwriters Association International (“NSAI”), Comments Submitted in Response to U.S. Copyright Office’s Oct. 27, 2011 Notice of Inquiry at 1 (undated) (“SGA & NSAI First Notice Comments”).

<sup>9</sup> See American Bar Association (“ABA”) Section of Intellectual Property Law (“ABA IP Section”), Comments Submitted in Response to U.S. Copyright Office’s Aug. 23, 2012 Notice of Inquiry at 1, 10 (Oct. 19, 2012) (“ABA IP Section Second Notice Comments”).

<sup>10</sup> See California Lawyers for the Arts (“CLA”), Comments Submitted in Response to U.S. Copyright Office’s Oct. 27, 2011 Notice of Inquiry (undated) (“CLA First Notice Comments”); Volunteer Lawyers for the Arts, Inc. (“VLA”), Comments Submitted in Response to U.S. Copyright Office’s Feb. 26, 2013 Notice of Inquiry (Apr. 12, 2013) (“VLA Third Notice Comments”).

## I. EXECUTIVE SUMMARY

It appears beyond dispute that under the current federal system small copyright claimants face formidable challenges in seeking to enforce the exclusive rights to which they are entitled. The Copyright Office therefore recommends that Congress consider the creation of an alternative forum that will enable copyright owners to pursue small infringement matters and related claims arising under the Copyright Act.

In light of the state court tradition of referring to claims of modest economic value as “small claims,” many have adopted that term to reference the nature of the claims that are the focus of this Report, as does the Report itself. Such claims, however, are not small to the individual creators who are deprived of income or opportunity due to the misuse of their works, and the problem of addressing lower-value infringements is not a small one for our copyright system.

But how would we structure an alternative process? Concerns of pragmatism and efficiency are core considerations, but they are not the only ones, and they must be viewed in the larger context of federal powers. Our Constitution protects both the role of the federal judiciary and the rights of those who participate in adjudicatory proceedings. These principles are enshrined in Article III and the Fifth and Seventh Amendments, and in judicial interpretations of these and other constitutional provisions. Any alternative process must fit comfortably within the constitutional parameters.

In light of the existing constitutional landscape, the challenges of the current system, and the views and insights of those who participated in this study, it appears that the most promising option to address small copyright claims would be a streamlined adjudication process in which parties would participate by consent. Perhaps not surprisingly, a number of the commenting parties viewed the Copyright Office as the logical and appropriate home for such a small claims system.

In recent years, many have emphasized the potential of voluntary solutions to certain problems of copyright enforcement.<sup>11</sup> In this case, a voluntary approach necessarily will fall short of a full-fledged judicial process, offering the complete panoply of copyright remedies, to which small copyright claimants could turn reliably and affordably to pursue infringers. Such a process is what our legal system would provide in an ideal world. But in the real world of constitutional and institutional limitations, a voluntary system with strong incentives for participation on both sides seems more attainable, at least in the near term. Importantly, such a voluntary approach would retain a mandatory backstop; parties who declined to consent to the alternative small

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<sup>11</sup> See *The Role of Voluntary Agreements in the U.S. Intellectual Property System Before the Subcomm. on Courts, Intellectual Property, and the Internet of the H. Comm. on the Judiciary*, 113th Cong. (2013) (discussing various voluntary initiatives to combat copyright infringement); Center for Copyright Information, *The Copyright Alert System*, <http://www.copyrightinformation.org/the-copyright-alert-system/> (click on embedded video) (explaining recently implemented U.S. Copyright Alert System, a voluntary system established by content owners and internet service providers (“ISPs”) by which consumers are warned against infringing conduct through participating ISPs); see also THE DEPARTMENT OF COMMERCE INTERNET POLICY TASK FORCE, COPYRIGHT POLICY, CREATIVITY, AND INNOVATION IN THE DIGITAL ECONOMY App. A at 102-03 (July 2013) (noting Task Force’s desire to support development of voluntary enforcement initiatives).

claims proceeding could still be summoned to federal district court by a claimant who was able to take that path.

In brief summary, the Report makes the following recommendations:

- Congress should create a centralized tribunal within the Copyright Office, which would administer proceedings through online and teleconferencing facilities without the requirement of personal appearances. The tribunal would be staffed by three adjudicators, two of whom would have significant experience in copyright law – together having represented or presided over the interests of both owners and users of copyrighted works – with the third to have a background in alternative dispute resolution.
- The tribunal would be a voluntary alternative to federal court. Its focus would be on small infringement cases valued at no more than \$30,000 in damages. Copyright owners would be required to have registered their works or filed an application before bringing an action. They would be eligible to recover either actual or statutory damages up to the \$30,000 cap, but statutory damages would be limited to \$15,000 per work (or \$7,500 for a work not registered by the normally applicable deadline for statutory damages).
- Claimants who initiated a proceeding would provide notice of the claim to responding parties, who would need to agree to the process, either through an opt-out mechanism or by affirmative written consent. Respondents would be permitted to assert all relevant defenses, including fair use, as well as limited counterclaims arising from the infringing conduct at issue. Certain DMCA-related matters relating to takedown notices, including claims of misrepresentation, could also be considered, and parties threatened with an infringement action could seek a declaration of noninfringement.
- Parties would provide written submissions and hearings would be conducted through telecommunications facilities. Proceedings would be streamlined, with limited discovery and no formal motion practice. A responding party's agreement to cease infringing activity could be considered by the tribunal and reflected in its determination. The tribunal would retain the discretion to dismiss without prejudice any claim that it did not believe could fairly be adjudicated through the small claims process.
- Determinations of the small claims tribunal would be binding only with respect to the parties and claims at issue and would have no precedential effect. They would be subject to limited administrative review for error and could be challenged in federal district court for fraud, misconduct, or other improprieties. Final determinations could be filed in federal court, if necessary, to ensure their enforceability.

## II. STUDY HISTORY

Congress identified the problem of small copyright claims in 2006 as an outgrowth of its consideration of orphan works.<sup>12</sup> As Congress considered potential solutions to the problem of orphan works, it became clear that certain claims for copyright infringement – in particular, those involving lesser amounts of damages – could not practically be pursued within the existing federal court structure. Recognizing that this concern was not limited to orphan works, in March 2006, the House of Representatives’ Subcommittee on Courts, the Internet, and Intellectual Property held a separate hearing on the question of small copyright claims.<sup>13</sup> The hearing focused on possible alternative dispute resolution systems such as a copyright “small claims court.”<sup>14</sup> At the hearing, witnesses, including representatives of authors, musicians, illustrators, photographers, and graphic artists, testified about the challenges of the current system and the inability to address smaller infringement matters. The Copyright Office submitted a statement to the Subcommittee in which it also observed these difficulties and suggested possible avenues to be considered.<sup>15</sup>

In October 2011, the House Judiciary Committee revisited the question of small copyright claims, requesting that the Copyright Office conduct a study to evaluate the issue.<sup>16</sup> In a letter to the Register, then-Chairman Lamar Smith asked the Office to review “the extent to which authors and other copyright owners are effectively prevented from seeking relief from infringement due to constraints in the current system.”<sup>17</sup> Additionally, the Office was tasked to “furnish specific recommendations, as appropriate, for changes in administrative, regulatory and statutory authority that will improve the adjudication of small copyright claims and thereby enable all copyright owners to more fully realize the promise of exclusive rights enshrined in our Constitution.”<sup>18</sup>

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<sup>12</sup> “Orphan works” is a term used to describe the situation where the owner of a copyrighted work cannot be identified or located by someone who wishes to make use of the work in a manner that requires permission of the copyright owner. U.S. COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS (2006), available at <http://www.copyright.gov/orphan/orphan-report-full.pdf> (“Orphan Works Report”).

<sup>13</sup> See *Remedies for Small Copyright Claims, Before the Subcomm. on Courts, the Internet, and Intellectual Property of the H. Comm. on the Judiciary*, 109th Cong. (2006), available at <http://www.gpo.gov/fdsys/pkg/CHRG-109hhrg26767/pdf/CHRG-109hhrg26767.pdf> (“2006 Hearing”). The statement submitted by Register of Copyrights Marybeth Peters on behalf of the Copyright Office is attached as Appendix A.

<sup>14</sup> 2006 Hearing at 2.

<sup>15</sup> *Id.* at 45 (statement of the United States Copyright Office). The Office also identified “small claims” challenges in its Orphan Works Report, and proposed orphan works legislation in 2006 and 2008 included provisions that specifically directed the Copyright Office to conduct a study addressing remedies for small claims. See Orphan Works Report at 114; Shawn Bentley Orphan Works Act of 2008, S. 2913, § 5, 110th Cong. (2008); Orphan Works Act of 2008, H.R. 5889, § 6, 110th Cong. (2008); Orphan Works Act of 2006, H.R. 5439, § 4, 109th Cong. (2006).

<sup>16</sup> See Smith Letter.

<sup>17</sup> *Id.*

<sup>18</sup> *Id.*

In response to the October 2011 request, the Office published an initial Notice of Inquiry in the Federal Register (“First Notice of Inquiry”).<sup>19</sup> There, the Office requested public comment on how copyright owners have handled small copyright claims and the obstacles they have encountered, as well as potential alternatives to the current legal system that might better accommodate such claims. The Office received fifty-five substantive responses to its notice from a broad spectrum of interested parties, including industry associations, public interest groups, technology companies, publisher representatives, legal scholars, and individual creators.<sup>20</sup> Commenting parties expressed frustration with the inaccessibility of the current system, as well as concern over defendants’ rights in any alternative system.

In May 2012, the Copyright Office, along with the U.S. Patent and Trademark Office (“PTO”), participated in a roundtable event sponsored by the George Washington University School of Law regarding small claims.<sup>21</sup> There, legal scholars and other interested parties helped to frame the issues and debated the merits of potential small claims solutions in both the copyright and patent contexts. The PTO, which is conducting its own inquiry into the area of patent small claims, has been supportive of the Copyright Office study and followed it with close interest.

The Office published a second Notice of Inquiry in August 2012 (“Second Notice of Inquiry”).<sup>22</sup> This additional notice focused on potential alternatives to federal court litigation and identified a host of issues raised by commenting parties and the Office’s own research. The Second Notice of Inquiry asked for public comment on the nature of an alternative tribunal or process, qualifications of the adjudicators, discovery parameters, available relief, treatment of frivolous claims, appeal mechanisms, and constitutional concerns, among other topics. The Office received twenty-five additional comments addressed to these issues, which provided helpful guidance as the Office continued to contemplate alternatives to federal court litigation.<sup>23</sup>

In November 2012, the Office held two two-day public hearings regarding the copyright small claims issue at Columbia Law School in New York City and UCLA School of Law in Los Angeles. Each hearing was divided into seven panels addressed to the following broad topics: forum, jurisdiction, and decisionmakers; subject matter, claims, and defenses; practice and procedure; litigation alternatives; relief and appeals; constitutional issues; and moving forward (which included empirical data, funding considerations, and future assessments). At each

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<sup>19</sup> Remedies for Small Copyright Claims, 76 Fed. Reg. 66,758 (Oct. 27, 2011). This Notice of Inquiry is attached, along with the Office’s two additional Federal Register notices, as Appendix B.

<sup>20</sup> These comments are posted on the Office’s website at <http://www.copyright.gov/docs/smallclaims/comments/>. Additionally, lists of the parties who responded to each of the Office’s Notices of Inquiry, as well as the participants in the Office’s public hearings, can be found in Appendix C.

<sup>21</sup> See The George Washington University Law School, *Event Videos*, <http://www.law.gwu.edu/Academics/FocusAreas/IP/Pages/Videos.aspx> (hyperlinks for videos of the proceedings are under the heading “The IP Small Claims Roundtable, May 20, 2012”).

<sup>22</sup> Remedies for Small Copyright Claims: Additional Comments, 77 Fed. Reg. 51,068 (Aug. 23, 2012) (included in Appendix B).

<sup>23</sup> These comments are posted on the Office’s website at [http://www.copyright.gov/docs/smallclaims/comments/noi\\_10112012/index.html](http://www.copyright.gov/docs/smallclaims/comments/noi_10112012/index.html). A list of parties who responded to the Second Notice of Inquiry is included in Appendix C.

hearing, participants representing a range of views and interests participated in lively discussions regarding potential alternative systems.<sup>24</sup>

Finally, the Office published a third Notice of Inquiry in February 2013 (“Third Notice of Inquiry”)<sup>25</sup> which requested additional comments on some of the subjects raised in earlier comments and at the hearings. This Notice focused on whether an alternative system should be voluntary or mandatory, the types of copyrighted works that should be covered, the types of claims that would be appropriate, whether injunctive relief should be available, the role of attorneys, the enforceability of judgments, and other pertinent issues. The Office received twenty-seven further comments, again representing a wide variety of viewpoints, on these subjects.<sup>26</sup>

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<sup>24</sup> Transcripts of the hearings are available on the Office’s website at <http://www.copyright.gov/docs/smallclaims/transcripts/>. A list of participants in the public hearings is included in Appendix C.

<sup>25</sup> Remedies for Small Copyright Claims: Third Request for Comments, 78 Fed. Reg. 13,094 (Feb. 26, 2013) (included in Appendix B).

<sup>26</sup> These comments are posted on the Office’s website at [http://www.copyright.gov/docs/smallclaims/comments/noi\\_02263013/](http://www.copyright.gov/docs/smallclaims/comments/noi_02263013/). A list of parties who responded to the Third Notice of Inquiry is included in Appendix C.

### III. THE CURRENT SYSTEM

Copyright disputes are governed by federal law and, by statute, must be brought in federal district court.<sup>27</sup> United States district courts capably serve a multitude of claimants, presiding over a wide range of disputes, including highly complex litigations with significant rights and millions of dollars at stake. In many cases, federal courts offer distinct advantages over other venues. Federal judges tend to be highly skilled and are more likely to have experience in the interpretation and application of federal law, including the Copyright Act.

In recent years, the number of copyright complaints filed in the U.S. district courts has ranged from slightly above 2,000 to something over 3,000, currently representing about one out of every 100 cases initiated in the federal system.<sup>28</sup> But, as is discussed in more detail throughout this Report, federal court is effectively inaccessible to copyright owners seeking redress for claims of relatively low economic value, especially individual creators who are of limited resources.<sup>29</sup> It has been estimated that the median cost for a party to litigate a copyright infringement lawsuit with less than \$1 million at stake through appeal is \$350,000.<sup>30</sup> Such costs, of course, are not only completely disproportionate to what most individuals could invest in a lawsuit, but also to what a copyright claimant could ever hope to recover in a relatively modest infringement case.

Small copyright owners, who frequently lack experience with federal courts, often find federal litigation too difficult or expensive to pursue<sup>31</sup> and may be unable to navigate “the often complex

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<sup>27</sup> See 17 U.S.C. § 301; 28 U.S.C. § 1338.

<sup>28</sup> See ADMINISTRATIVE OFFICE OF THE UNITED STATES COURTS, STATISTICAL TABLES FOR THE FEDERAL JUDICIARY, TABLE C-2: U.S. DISTRICT COURTS-CIVIL CASES COMMENCED, BY BASIS OF JURISDICTION AND NATURE OF SUIT, DURING THE 12-MONTH PERIODS ENDING DECEMBER 31, 2011 AND 2012, *available at* <http://www.uscourts.gov/uscourts/Statistics/StatisticalTablesForTheFederalJudiciary/2012/december/C02Dec12.pdf>. The 3,266 copyright claims filed in federal district courts in 2012 – a number which appears to be on the rise – comprised approximately 1.2% of the 267,990 civil cases filed overall. *Id.* In 2011, the number of federal district court copyright filings was 2,375. *Id.* In 2010, there were 2,033 copyright cases, and in 2009, the number was 2,018. See ADMINISTRATIVE OFFICE OF THE UNITED STATES COURTS, STATISTICAL TABLES FOR THE FEDERAL JUDICIARY, TABLE C-2: U.S. DISTRICT COURTS-CIVIL CASES COMMENCED, BY BASIS OF JURISDICTION AND NATURE OF SUIT, DURING THE 12-MONTH PERIODS ENDING DECEMBER 31, 2009 AND 2010, *available at* <http://www.uscourts.gov/uscourts/Statistics/StatisticalTablesForTheFederalJudiciary/2010/dec10/C02Dec10.pdf>.

<sup>29</sup> For example, on average, most individual professional photographers earn \$50,000 or less per year. See APA First Notice Comments at 3. Similarly, the median pay for writers and authors in 2010 was \$55,420 annually. See BUREAU OF LABOR STATISTICS, OCCUPATIONAL OUTLOOK HANDBOOK: WRITERS AND AUTHORS (2012), *available at* <http://www.bls.gov/ooh/media-and-communication/writers-and-authors.htm>.

<sup>30</sup> See AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION (“AIPLA”), REPORT OF THE ECONOMIC SURVEY 2011, at 35 (2011) (“AIPLA Report”).

<sup>31</sup> See GAG, Comments Submitted in Response to Third Notice of Inquiry at 2 (Apr. 10, 2013) (“GAG Third Notice Comments”) (“[The] existing court system is unaffordable and impractical for most occurrences of typical infringement. The result is a significant and seriously detrimental loss of income to American visual creators . . .”); VLA Third Notice Comments at 3 (“The cost, time and resources that need to be devoted to federal court litigation often exceed the amount in controversy in a small copyright matter, which discourages authors and artists from bringing such claims.”).

procedural rules that govern federal litigation, leading to resentment and frustration.”<sup>32</sup> Stakeholders described federal court litigation as a “very daunting task [where] it is virtually impossible to have *pro se* representation.”<sup>33</sup> A number expressed the view that “most [infringements] will never be prosecuted because it is economically unfeasible for the creators to commence an action in federal court.”<sup>34</sup> Moreover, because the potential for recovery of damages is limited, small claimants have less ability to retain counsel, as most attorneys are unwilling to take copyright cases that are unlikely to yield a certain level of damages.<sup>35</sup> Accordingly, even meritorious claims can effectively be shut out of court. For these reasons, the number of infringement actions actually filed in federal court likely significantly underrepresents the number of cases that copyright owners would choose to bring if they were able.

#### A. Exclusive Federal Jurisdiction

Copyright infringement claims are governed by federal law and are required to be brought in federal – not state – court.<sup>36</sup> In considering a case under the Copyright Act, a federal court may also exercise supplemental jurisdiction over a related state court claim,<sup>37</sup> such as a breach of contract action, in appropriate circumstances.<sup>38</sup>

In their limitation to the federal courts, copyright cases resemble patent actions, which also must be brought in federal court. But while patent cases initially are filed and heard by federal district courts, unlike copyright cases, they are appealed from the district courts to a specialized appellate court, the Court of Appeals for the Federal Circuit, which is responsible for appeals in

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<sup>32</sup> PUBLIC COUNSEL, THE PUBLIC COUNSEL FEDERAL PRO SE CLINIC ANNUAL REPORT FEBRUARY 2009-FEBRUARY 2010, at 1, available at <http://www.publiccounsel.org/tools/publications/files/Public-Counsel-Federal-Pro-Se-Clinic-Annual-Report-2009-2010.pdf>.

<sup>33</sup> Tr. at 26:08-11 (Nov. 15, 2012) (Bruce Lehman, Former Asst. Sec’y of Commerce and Comm’r of Patents & Trademarks). Throughout this Report, transcripts of the Office’s public hearings are cited with the abbreviation “Tr.” along with the page and line numbers, and date, of the cited material. These citations also include the name of the speaker and organization (if any) with which the speaker is affiliated.

<sup>34</sup> National Press Photographers Association (“NPPA”), Comments Submitted in Response to First Notice of Inquiry at 7 (Jan. 16, 2012) (“NPPA First Notice Comments”).

<sup>35</sup> See ABA IP Section Second Notice Comments at 7 (survey results indicating that less than one-third of surveyed copyright attorneys would accept an uncomplicated copyright infringement case with under \$30,000 at stake).

<sup>36</sup> 28 U.S.C. § 1338(a). Additionally, the Copyright Act preempts all state law claims that “are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103 ....” 17 U.S.C. § 301(a). Nevertheless, states can provide for claims that protect rights that fall *outside* of the Copyright Act, including some claims that are somewhat similar to copyright matters. For example, some states protect unfixed works, moral rights (beyond the limited rights set forth in 17 U.S.C. § 106A), and pre-1972 sound recordings.

<sup>37</sup> 28 U.S.C. § 1367.

<sup>38</sup> See 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.01[B][2] (rev. ed., 2013) (“NIMMER”) (“When federal jurisdiction exists over at least one count of a complaint, the district court may entertain other pendent counts (as to which federal jurisdiction would be lacking were they brought independently) involving the same parties and arising ‘from the same nucleus of operative facts.’ For example, supplemental jurisdiction will lie as to a contract action for breach of a publishing agreement where the facts of such breach also give rise to a claim for copyright infringement.”).

patent cases and other specific types of matters.<sup>39</sup> Copyright cases, by contrast, are appealed to the courts of appeals for the circuits in which the matters are initially decided.<sup>40</sup>

The limitation to federal jurisdiction for copyright and patent matters differs from the treatment of trademark cases. Unlike patents and copyrights, trademarks are governed by both federal and state statutes and caselaw.<sup>41</sup> The federal law regarding trademarks, the Lanham Act, does not preempt all state law claims.<sup>42</sup> States therefore are able to provide additional protections against the misuse of unregistered marks, unfair competition, and similar wrongdoing.

Additionally, the Lanham Act allows for concurrent federal and state jurisdiction so that both federal and state courts can adjudicate federal trademark cases.<sup>43</sup> Conversely, federal courts often hear state law trademark claims either as a matter of supplemental jurisdiction or on diversity grounds.<sup>44</sup> But despite the availability of both federal and state courts to enforce trademark rights, given the option, trademark owners tend to prefer the federal system, evidently because federal judges are perceived as more knowledgeable about trademark law.<sup>45</sup>

## B. Proceeding *Pro Se* in Federal Court

Although, in theory, they can proceed *pro se*, federal court litigants typically hire attorneys to help them navigate federal procedural rules as well as the substantive law that applies in their case. When parties do proceed *pro se*, they encounter significant challenges. A recent Federal Judicial Center report on *pro se* civil litigants (the “2011 FJC Report”) identified the following major issues in *pro se* cases: unnecessary or illegible submissions; problems with responses to

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<sup>39</sup> 28 U.S.C. § 1295. In addition to patent appeals, the Federal Circuit hears appeals from various other tribunals, including certain matters from the Trademark Trial and Appeal Board and the Patent Trial and Appeal Board.

<sup>40</sup> 28 U.S.C. § 1291. But note that “[o]ccasionally, the Federal Circuit will hear copyright infringement claims brought as part of patent appeals.” WILLIAM F. PATRY, 3 PATRY ON COPYRIGHT § 9:278 (2013) (“PATRY”).

<sup>41</sup> While the Constitution specifically provides that Congress can enact laws regarding patents and copyrights in Article I, Section 8, Clause 8, federal trademark law is grounded in Congress’ more general authority under the Commerce Clause. U.S. CONST. art. I, § 8, cl. 3; 1-1 ANNE GILSON LALONDE, GILSON ON TRADEMARKS § 1.04[2][b] (3d ed. 2013) (“GILSON”).

<sup>42</sup> 2-7 GILSON § 7.04 (noting that Lanham Act does not occupy the field of trademark infringement entirely, as states may themselves regulate trademark activity “in the absence of a clear conflict with the Act or the attributes of federal trademark registration.”).

<sup>43</sup> 6 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 32:1 (4th ed. 2013) (“MCCARTHY”) (“[A] plaintiff wishing to file suit for violation of a provision of the Lanham Act has a choice to sue on the claim in either federal or state court”).

<sup>44</sup> *Id.* §§ 32:20, 32:33.

<sup>45</sup> *Id.* § 32:1 (“As a matter of litigation strategy, however, most plaintiffs appear to bring such cases in the federal courts, perhaps on the assumption that federal judges are more likely to be familiar with problems of trademark infringement under a federal statute.”); see also Aurelio Lopez-Tarruella Martinez & Fabrizio Miazetto, *The Community Trade Mark and Design Court of Alicante and Forum Shopping Regarding European Community Intellectual Property Rights Litigation*, 95 TRADEMARK REP. 1308, 1316 n.21 (2005) (“Taking the example of the United States: it is reported that the great majority of litigants prefer to file trade mark cases in the federal courts instead of state courts because the former ‘have far more experience in adjudicating trademark cases than do the state courts.’”) (citation omitted).

motions; lack of knowledge about the law; failure to know when to object; and failure to understand the legal consequences of their actions or inactions.<sup>46</sup> Similarly, a self-help center for *pro se* litigants established by the Northern District of California notes that *pro se* litigants are less likely to succeed in federal court “because they lack the [necessary] legal knowledge, training and experience.”<sup>47</sup> Needless to say, such fundamental limitations can have significant consequences for the outcome of an action.<sup>48</sup>

In light of these concerns, *pro se* litigants often receive more leeway from courts than parties represented by attorneys. For example, *pro se* pleadings generally are held to less stringent standards than those applied to attorney-drafted pleadings.<sup>49</sup> Courts typically review *pro se* pleadings “carefully and liberally and interpret such pleadings to raise the strongest arguments that they suggest.”<sup>50</sup> Some districts also have local court rules designed to help *pro se* parties.<sup>51</sup>

The 2011 FJC Report specifically noted that effective ways to assist *pro se* litigants included the provision of “clear orders and instructions, standardized forms, prompt decisions on matters submitted to the court, and use of hearings and conferences to better understand the case and let litigants know the court has heard their case.”<sup>52</sup> Additionally, the study identified two practices that were “especially helpful” in helping *pro se* litigants: dedicated court staff to provide specially tailored information to *pro se* litigants, including forms and instructions,<sup>53</sup> and *pro bono* programs, including mediation/settlement procedures and *pro se* help centers.<sup>54</sup>

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<sup>46</sup> DONNA STIENSTRA, JARED BATAILLON & JASON A. CANTONE, FED. JUDICIAL CTR., ASSISTANCE TO PRO SE LITIGANTS IN U.S. DISTRICT COURTS: A REPORT ON SURVEYS OF CLERKS OF COURT AND CHIEF JUDGES vii (2011), available at [www.fjc.gov/public/pdf.nsf/lookup/proseusdc.pdf/\\$file/proseusdc.pdf](http://www.fjc.gov/public/pdf.nsf/lookup/proseusdc.pdf/$file/proseusdc.pdf) (“STIENSTRA ET AL.”).

<sup>47</sup> Federal Legal Assistance Self Help Center (“FLASH”), Comments Submitted in Response to Third Notice of Inquiry at 1-2 (Apr. 1, 2013) (“FLASH Third Notice Comments”).

<sup>48</sup> For example, despite noting that “the right to a jury trial is constitutionally protected and casual waivers are not to be presumed,” a court held that a *pro se* defendant had waived his right to a jury trial when he participated in a bench trial without objection. *CoxCom, Inc. v. Chaffee*, 536 F.3d 101, 110-11 (1st Cir. 2008); see also Tr. at 75:12-20 (Nov. 15, 2012) (Jay Rosenthal, National Music Publishers’ Association (“NMPA”)) (“[W]e were very concerned about the idea that a plaintiff in *pro se* represent themselves [in a music-related matter], as well as a defendant going *pro se*, not really understanding the complexities of the compulsory license or the complexities of the consent decree with BMI or ASCAP or authorship claims against each other, fair use, first use, rights of termination, on and on and on.”).

<sup>49</sup> See *Haines v. Kerner*, 404 U.S. 519, 520 (1972) (per curiam).

<sup>50</sup> *Bauer v. Yellen*, 548 F. Supp. 2d 88, 92 (S.D.N.Y. 2008).

<sup>51</sup> For example, the Southern and Eastern Districts of New York require opposing counsel to provide *pro se* parties with unreported cases cited in submissions to the court as well as special notices in connection with motions to dismiss or for summary judgment. See S.D.N.Y. & E.D.N.Y. L.R. 7.2, 12.1, 56.2.

<sup>52</sup> STIENSTRA ET AL., at 34.

<sup>53</sup> *Id.* at vi.

<sup>54</sup> *Id.* at 17.

*Pro se* copyright litigants occasionally find success managing the federal court system on their own.<sup>55</sup> Nevertheless, proceeding *pro se* in the procedurally complex federal courts can be a risky endeavor in which rights or defenses may inadvertently be waived or otherwise jeopardized due to a lack of familiarity with the court system or substantive law.

### C. Federal Court Procedure

The Federal Rules of Civil Procedure (“Federal Rules”) govern federal district court litigation, with the goal of “secur[ing] the just, speedy, and inexpensive determination of every action and proceeding.”<sup>56</sup> The Federal Rules apply to a wide variety of procedural issues – from how to serve a complaint to the amount and types of permissible discovery to how to request injunctive relief. In addition to the Federal Rules, federal court litigants typically also must abide by local court rules and specific rules of the presiding judge. The Federal Rules, while helpful in laying a comprehensive logistical framework for a wide range of lawsuits, can be difficult to navigate even for experienced litigators, much less *pro se* litigants. Unlike in state court systems, there is no streamlined federal “small claims” procedure for lower-stakes disputes.

#### 1. Initiating a Lawsuit

The Federal Rules and principles of constitutional law constrain a plaintiff’s choice of forum. When initiating a lawsuit, the plaintiff must determine which court has personal jurisdiction over the parties, the proper venue for the action, and the correct method to serve notice of the lawsuit.<sup>57</sup> Depending upon the defendant’s conduct and location, the plaintiff may not be able to hale the defendant into the preferred court. Such decisions can be complicated, especially for an inexperienced plaintiff. Additionally, service of process – to ensure that the defendant is properly notified of the action – may be costly depending on the type of service required. There are no shortcuts for copyright claimants or those with small claims – all litigants must follow the same procedures. Once a plaintiff undertakes this analysis, he or she initiates a case by filing a complaint and paying the federal court filing and administrative fees, which currently total \$400.<sup>58</sup>

#### 2. Discovery

After a lawsuit is initiated, parties normally engage in discovery. Under the Federal Rules, this process typically entails mandatory initial disclosures,<sup>59</sup> as well as depositions (including of

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<sup>55</sup> See, e.g., *Macklin v. Mueck*, 373 F. Supp. 2d 1334 (S.D. Fla. 2005) (awarding *pro se* plaintiff a \$300,000 default judgment that represented the maximum statutory damages for infringement of his poetry).

<sup>56</sup> FED. R. CIV. P. 1.

<sup>57</sup> Personal jurisdiction and service of process are discussed further in Part IV.E, *infra*.

<sup>58</sup> See 28 U.S.C. § 1914 (providing for \$350 filing fee); ADMINISTRATIVE OFFICE OF THE U.S. COURT MISCELLANEOUS FEE SCHEDULE (May 1, 2013) (additional \$50 administrative fee to be charged by district court for filing of civil action), available at <http://www.uscourts.gov/FormsAndFees/Fees/DistrictCourtMiscellaneousFeeSchedule.aspx>.

<sup>59</sup> FED. R. CIV. P. 26(a).

potential experts),<sup>60</sup> up to twenty-five written interrogatories per party<sup>61</sup> (unless more are permitted by the court),<sup>62</sup> and potentially unlimited requests for both production of documents<sup>63</sup> and party admissions.<sup>64</sup> Document requests almost always include requests for electronically stored information, which may require extensive search and review of document files, email, and other records.

Civil litigation attorneys cite the discovery process as the primary reason for the length of federal court litigation.<sup>65</sup> In addition to the time it takes to respond to written discovery requests and take depositions, the parties may have discovery disputes that require motions to compel and associated hearings, adding still more time and expense to the proceeding. The discovery process provokes significant frustration due to its often substantial costs and potential for abuse by exploitative litigants.<sup>66</sup>

Estimates put the cost of discovery at 50% to 90% of the total cost of litigation.<sup>67</sup> The current state of discovery, including the forbidding cost of electronic discovery, may well persuade a party to forego bringing a lawsuit or cause a party to settle on less than ideal terms.<sup>68</sup> As the Supreme Court has observed, “the threat of discovery expense will push cost-conscious defendants to settle even anemic cases before reaching [even summary judgment] proceedings.”<sup>69</sup> While sanctions for discovery abuse are available at the discretion of the court,<sup>70</sup>

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<sup>60</sup> *Id.* 27.

<sup>61</sup> *Id.* 33.

<sup>62</sup> *Id.* 26(b)(2).

<sup>63</sup> *Id.* 34.

<sup>64</sup> *Id.* 36.

<sup>65</sup> See ABA SECTION OF LITIGATION, MEMBER SURVEY ON CIVIL PRACTICE: FULL REPORT 12 (2009) (“ABA 2009 SURVEY”), available at [http://www.americanbar.org/content/dam/aba/migrated/litigation/survey/docs/report\\_aba\\_report\\_authcheckdam.pdf](http://www.americanbar.org/content/dam/aba/migrated/litigation/survey/docs/report_aba_report_authcheckdam.pdf) (“Discovery is the reason most often picked by respondents as the primary cause of delay. 48% picked that reason, while the next most popular reason (delayed rulings on motions) garnered only 25%.”).

<sup>66</sup> See Hon. Frank H. Easterbrook, *Discovery as Abuse*, 69 B.U. L. REV. 635, 637 (1989) (outlining both the frustration parties have over discovery and the perspective that some litigators value discovery “not by its contribution to an anticipated judgment but by its contribution to an anticipated settlement”).

<sup>67</sup> Administrative Office of the U.S. Courts, *Judicial Conference Adopts Rules Changes - Confronts Projected Budget Shortfalls* (Sept. 15, 1999), available at [http://www.uscourts.gov/News/NewsView/99-09-15/Judicial\\_Conference\\_Adopts\\_Rules\\_Changes\\_-\\_Confronts\\_Projected\\_Budget\\_Shortfalls.aspx](http://www.uscourts.gov/News/NewsView/99-09-15/Judicial_Conference_Adopts_Rules_Changes_-_Confronts_Projected_Budget_Shortfalls.aspx); see also T. WILLGING ET. AL., FED. JUDICIAL CTR. DISCOVERY AND DISCLOSURE PRACTICE, PROBLEMS AND PROPOSALS FOR CHANGE: A CASE-BASED NATIONAL SURVEY OF COUNSEL IN CLOSED FEDERAL CIVIL CASES, 15 (Table 4) (1997) (even before the rise of electronic discovery, the median percentage of clients’ total litigation expenses accounted for by discovery was 50%), available at [http://www.fjc.gov/public/pdf\\_nsf/lookup/discovry.pdf/\\$file/discovry.pdf](http://www.fjc.gov/public/pdf_nsf/lookup/discovry.pdf/$file/discovry.pdf).

<sup>68</sup> See JOHN H. BEISNER, U.S. CHAMBER INSTITUTE FOR LEGAL REFORM, THE CENTRE CANNOT HOLD: THE NEED FOR EFFECTIVE REFORM OF THE U.S. CIVIL DISCOVERY PROCESS 2 (2010) (“BEISNER”) (“[T]he effort and expense associated with electronic discovery are so excessive that settlement is often the most fiscally prudent course – regardless of the merits of the case.”), available at <http://www.uscourts.gov/uscourts/RulesAndPolicies/rules/Duke%20Materials/Library/John%20Beisner,%20The%20Centre%20Cannot%20Hold.pdf>.

<sup>69</sup> *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 559 (2007).

<sup>70</sup> See FED. R. CIV. P. 16(f), 37(b)(2).

some believe that “courts have been reluctant to take a strong hand in managing the discovery process or to impose meaningful sanctions for abuses.”<sup>71</sup>

### 3. Dispositive Motions and Trials

Parties may try to end a case expeditiously through a dispositive motion, such as a motion for a default judgment, a motion to dismiss,<sup>72</sup> a motion for judgment on the pleadings,<sup>73</sup> or a summary judgment motion.<sup>74</sup> Such motions – especially summary judgment motions – may themselves be costly and time-consuming. Apart from default motions, most dispositive motions are contested, and parties may file cross-motions that further complicate the proceedings and drive up litigation costs. While these motions can remove vexatious claims from court, at least some lawyers believe that dispositive motions – such as those for summary judgment, which are frequently denied so that the litigation continues on – are not proportionately beneficial compared to their cost.<sup>75</sup>

If the parties forego dispositive motions or the motions are denied, and the case is not settled, the parties proceed to trial, adding another layer of expense. Trial can be a daunting experience for lawyers, much less inexperienced litigants. Before the trial begins, parties typically must exchange exhibit and witness lists, prepare proposed exhibits, furnish evidentiary objections and replies, prepare to examine and cross-examine witnesses, prepare and object to opposing jury instructions if a jury is involved, and create demonstrative exhibits, among many other things. Trial materials and testimony generally must abide by the Federal Rules of Evidence,<sup>76</sup> with which litigants must be familiar in order to lodge and respond to objections during the proceedings. Litigants also must be prepared to offer procedural and substantive legal arguments in response to the plethora of issues that inevitably arise during a trial.

### 4. Magistrate Judges

Federal district courts rely on federal magistrate judges to ease burdens on both the district judges and the court system generally.<sup>77</sup> The Federal Magistrates Act<sup>78</sup> allows federal district

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<sup>71</sup> BEISNER, at 3. This sentiment appears to be echoed by practitioners. See ABA 2009 SURVEY, at 67 (“86.5% of all lawyers agree ... that sanctions allowed by the discovery rules are seldom imposed.”), available at [http://www.americanbar.org/content/dam/aba/migrated/litigation/survey/docs/report\\_aba\\_report.authcheckdam.pdf](http://www.americanbar.org/content/dam/aba/migrated/litigation/survey/docs/report_aba_report.authcheckdam.pdf).

<sup>72</sup> FED. R. CIV. P. 12(b).

<sup>73</sup> *Id.* 12(c).

<sup>74</sup> *Id.* 56.

<sup>75</sup> See ABA 2009 SURVEY, at 114 (“62.2% of plaintiffs’ lawyers believe that summary judgment increases costs and delays without proportionate benefit, while defense lawyers agree only 10.9% of the time”); Tr. at 158:20-159:05 (Nov. 26, 2012) (Lorin Brennan, Linde Law Firm) (“There’s always a motion for summary judgment that says, ‘My gosh. The plaintiff made a tiny error in the registration certificate. This is fraud on the Copyright Office. Bands must play. Dirges must sound. The solar system must stop. And the plaintiff must be kicked out’ for what turns out to be essentially trivial claims.”).

<sup>76</sup> FED. R. EVID. 101, 1101.

<sup>77</sup> In addition to magistrate judges, courts sometimes also appoint special masters to assist the court in exceptional situations. FED. R. CIV. P. 53(a). A special master can hold trial proceedings in a nonjury matter or handle complex findings of fact or difficult damages computations. *Id.* 53(a)(1)(B).

courts to delegate certain pretrial matters to magistrate judges without the consent of the parties, including the ability to draft proposed findings of fact and recommendations for the resolution of nondispositive matters.<sup>79</sup> The magistrate judge's recommended decision stands unless a party lodges an objection within fourteen days. If there is an objection, the referring district judge will review the matter *de novo*.<sup>80</sup>

In addition, with the consent of the parties, magistrate judges can conduct civil trials and enter judgments in particular matters.<sup>81</sup> In such cases, magistrate judges, like district court judges, abide by both the Federal Rules and the Rules of Evidence.<sup>82</sup> Thus, while a decision may be rendered more promptly if the magistrate judge's schedule permits an earlier trial, referral to a magistrate judge may not yield any actual savings in terms of the overall complexity or cost of litigation.

## 5. Special Patent Procedures

Patent cases present formidable challenges for the judicial system because of the considerable resources required to construe complex patent claims and render determinations on prior art and obviousness, evaluate highly involved scientific and technological evidence, and ascertain economically appropriate damages if infringement is established. For these reasons, some federal courts have adopted specialized procedural rules to govern patent infringement cases. Courts that have taken this approach include the Southern District of New York and the Western District of Pennsylvania, both of which are also participating in a pilot program established by Congress for patent cases.<sup>83</sup> The modified patent rules adjust the Federal Rules to address the specific complexities of patent litigation by altering procedures for the initial scheduling conference, initial disclosures, and claim construction proceedings.<sup>84</sup> Another court, the Eastern District of Texas, has adopted special patent rules that are notoriously challenging but have shortened trial timelines in such a manner as to make that district a magnet for patent plaintiffs.<sup>85</sup> Some have expressed concern that the Eastern District of Texas's local patent rules unfairly

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<sup>78</sup> Pub. L. No. 90-578, 82 Stat. 1113 (1968) (codified as amended at 28 U.S.C. §§ 631-39). For further discussion of the role of federal magistrates, *see* Part III.C.4, *infra*.

<sup>79</sup> 28 U.S.C. § 636(b)(1)(B).

<sup>80</sup> *Id.* § 636(b)(1)(C).

<sup>81</sup> 28 U.S.C. § 636(c)(1).

<sup>82</sup> *See, e.g.*, FED. R. CIV. P. 72 (Magistrate judges: pretrial order); *id.* 73 (Magistrate judges: trial by consent; appeal); FED. R. EVID. 1101(a) ("These rules apply to proceedings before ... magistrate judges").

<sup>83</sup> *See* Pub. L. No. 111-349, 124 Stat. 3674 (2011).

<sup>84</sup> *See, e.g.*, S.D.N.Y. PATENT L.R. 2 (initial scheduling conference), 6-8 & 10-12 (initial disclosures), 12 (claim construction hearing).

<sup>85</sup> *See generally* E.D. TEX. P.R. (local rules for patent cases in the Eastern District of Texas); *see also* Michael C. Smith, *Feature: Rocket Docket: Marshall Court Leads Nation in Hearing Patent Cases*, 69 TEX. B.J. 1045, 1046 (2006).

favor plaintiffs by compressing the period in which defendants must respond even though plaintiffs may have spent significant time preparing the case before filing.<sup>86</sup>

#### D. Specific Challenges in Copyright Cases

Unlike in the patent context (at least in some jurisdictions), federal court procedural rules are not tuned to the specific needs of copyright litigants. At the same time, the Copyright Act and decisional law impose additional requirements on those seeking to pursue copyright infringement claims, which can add to the legal complexity of a case.

##### 1. Registration Requirement

The Copyright Act states, with certain limited exceptions, that “no action for infringement of the copyright in any work shall be instituted until registration of the copyright claim has been made in accordance with this title.”<sup>87</sup> This means that owners of United States works<sup>88</sup> must either register or receive a refusal of registration for the subject work prior to bringing a copyright infringement lawsuit.<sup>89</sup> While this requirement may impose a procedural hurdle for copyright claimants, it helps to produce a valuable public record of American creativity as well as material information to parties in litigation.<sup>90</sup>

The registration requirement, however, is not as straightforward as it may appear. There is a circuit court split concerning whether the copyright owner can satisfy this obligation merely by

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<sup>86</sup> See Yan Leychkis, *Of Fire Ants and Claim Construction: An Empirical Study of the Meteoric Rise of the Eastern District of Texas as a Preeminent Forum for Patent Litigation*, 9 YALE J.L. & TECH. 193, 219 (2007).

<sup>87</sup> 17 U.S.C. § 411(a). Although the registration requirement is not jurisdictional, it is a precondition to a suit. See *Reed Elsevier, Inc. v. Muchnick*, 559 U.S. 154, 163-66 (2010).

<sup>88</sup> Non-U.S. works need not be registered prior to bringing a lawsuit, but they must be timely registered if the copyright owner wishes to seek statutory damages, attorneys’ fees, and/or costs. See, e.g., *Football Ass’n Premier League Ltd. v. YouTube, Inc.*, 633 F. Supp. 2d 159, 162 (S.D.N.Y. 2009) (“[Section 411(a)] allows suits to be brought upon foreign works without registration of them; but it does not impair the operation of Section 412, which forbids the recovery of statutory damages in *any* infringement action (except, among others, those under Section 411(c) concerning live broadcasts) unless the work has been registered.”).

<sup>89</sup> See 17 U.S.C. § 411(a).

<sup>90</sup> See AVA Second Notice Comments at 4 (“As means of preserving the mission of the Copyright Office and Library Congress, access to this alternative body, like the federal courts, should be contingent upon registration of the infringed photograph(s).”); see also Motion Picture Association of America, Inc. (“MPAA”), Comments Submitted in Response to Third Notice of Inquiry at 5 (Apr. 12, 2013) (“MPPA Third Notice Comments”) (“Generally speaking, a fully-populated registration system aids in searches by potential users of others’ copyrighted works. A small claims system should not be designed in such a way as to lessen the incentive to register, which would lead to various negative outcomes, including an increase in the volume of potential orphan works. Moreover, in the litigation context, it is vitally important for a defendant to know exactly what it is he is accused of infringing.”). Because the registration process requires that claimants deposit copies of the works for which registration is sought, the registration requirement also contributes substantially to the unequaled collection of the U.S. Library of Congress. U.S. COPYRIGHT OFFICE, ANNUAL REPORT OF THE REGISTER OF COPYRIGHTS: FISCAL YEAR ENDING SEPT. 30, 2011 29-30 (2011) (showing that the average annual value of materials transferred from the Copyright Office to the Library of Congress from 2007 through 2011 was \$33 million).

applying to register, or whether the owner instead must wait to receive the Office’s registration decision before bringing suit.<sup>91</sup>

Regardless of whether a completed application will suffice for purposes of filing a lawsuit, a copyright plaintiff may only recover statutory damages and attorneys’ fees – as opposed to actual damages and profits – if the work at issue was registered within a statutorily prescribed time frame.<sup>92</sup> Generally speaking, to qualify for statutory damages and attorneys’ fees, the work must have been registered within three months of its publication or, if unpublished, before the act of infringement.<sup>93</sup> The registration requirement can be problematic for small copyright claimants, who may not be aware of the repercussions of not registering in a timely manner. Moreover, while online registration fees are relatively modest (currently \$35 for a simple online application), a claimant in a hurry to go to court must pay a significantly higher fee (currently \$760) to expedite the registration process.<sup>94</sup>

When deciding whether to register a work, individual artists and smaller entities face a difficult choice in weighing the costs of registration against the possibility of infringement and future ability to proceed in court. Individual photographers, for example, who tend to produce numerous works, may lack the administrative or financial resources to register their works within the statutory deadline.<sup>95</sup> Yet the inability to recover statutory damages can effectively preclude legal action against an infringer.<sup>96</sup>

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<sup>91</sup> Compare *La Resolana Architects, PA v. Clay Realtors Angel Fire*, 416 F.3d 1195, 1205 (10th Cir. 2005), *abrogated on other grounds by Reed Elsevier, Inc.*, 559 U.S. 154 (“[W]e reject the proposition that § 411 confers federal court jurisdiction for an infringement action upon mere submission of a copyright application to the Copyright Office. In our view, the statute requires more: actual registration by the Register of Copyrights. Until that happens, an infringement action will not lie in the federal courts.”) with *Apple Barrel Prods., Inc. v. R.D. Beard*, 730 F.2d 384, 386-87 (5th Cir.1984) (allowing suit to proceed upon Copyright Office’s receipt of application, payment of required fee, and deposit of work in question).

<sup>92</sup> See 17 U.S.C. § 412.

<sup>93</sup> See *id.*

<sup>94</sup> See 37 C.F.R. § 201.3.

<sup>95</sup> See AVA, Comments Submitted in Response to First Notice of Inquiry at Attachment A (Jan. 17, 2012) (“AVA First Notice Comments”) (noting that in a survey of photographers, 84% never register their works and of those who do not register, 25% said they never heard about it, 24% said it was too time consuming, and 13% said it was too expensive); Kernochan Center for Law, Media and the Arts (“Kernochan Center”), Comments Submitted in Response to Second Notice of Inquiry at 3 (Oct. 19, 2012) (“Kernochan Second Notice Comments”) (“Requiring that a plaintiff wait for a registration certificate to be issued or denied before bringing an action ... would seem to run counter to the goals of a small claims proceeding. Many potential plaintiffs would have to choose between a significant delay or a significant payment (for faster processing of its application) before commencing an action.”); Tr. at 40:22-41:04 (Nov. 15, 2012) (Nancy Wolff, PACA) (noting that photographers have difficulty registering because they produce photographs in large numbers).

<sup>96</sup> American Society of Media Photographers (“ASMP”), Comments Submitted in Response to First Notice of Inquiry at 5 (Jan. 16, 2012) (“ASMP First Notice Comments”) (“[O]ne of the impediments to professional photographers’ access to the current copyright enforcement system is the requirement of copyright registration before litigation can be instituted (and earlier, for eligibility for an award of attorney fees and/or statutory damages.)”; Tr. at 141:07-09 (Nov. 15, 2012) (Randy Taylor, Copyright Defense League, LLC (“CDL”)) (“[S]tatutory damages are an essential and major element in getting the other side to actually talk to you.”); Tr. at 272:10-17 (Nov. 16, 2012) (Lisa Wilmer, Getty Images) (noting that untimely registration eliminates the option of

During the course of the study, photographers and others pointed out that in some cases, actual damages for an infringement – as measured by a typical licensing fee for use a work, for example – could be several thousand dollars or less.<sup>97</sup> Given the costs of litigation, “[u]nless actual damages are truly substantial, the copyright holder will be without an effective remedy in federal court.”<sup>98</sup> As one sole proprietor explained: “I had failed to register my work before the infringement occurred and was forced to decide whether to spend my hard-earned capital fighting with the infringer in court, knowing full well that my attorney’s [sic] fees would not be recouped. Ultimately, after consulting with an attorney, it became clear that I simply could not afford to defend [sic] myself, even if I was on the right side of the law. The infringer got away with it and went on to win several awards with my artwork, claiming it as his own.”<sup>99</sup>

## 2. Identification of Online Infringers

Before filing a federal lawsuit, a copyright owner seeking to pursue an infringement claim must first identify and locate the alleged infringer. In the internet age – where wrongdoers can act anonymously – this can be difficult. While not unique to the copyright context, the prevalence of online infringement makes this a particular concern for creators. For example, the copyright owner may want to bring a lawsuit to stop unlawful conduct on a website, but might not know who operates the website or where the operator is located.<sup>100</sup> Thus, the small copyright claimant might need to turn to the court for a subpoena requiring an internet service provider to identify

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statutory damages and leaves the challenging option of seeking only actual damages, which are not a deterrent to defendants).

<sup>97</sup> Tr. at 255:24-256:06 (Nov. 16, 2012) (Nancy Wolff, PACA) (noting that even though an exclusive license may only cost a few thousand dollars, widely distributing that image online is an infringement can affect the market for that image and should be subject to some sort of damages multiplier); Tr. at 261:02-07 (Nov. 16, 2012) (Bruce Lehman, Former Asst. Sec’y of Commerce and Comm’r of Patents & Trademarks) (“I think if the damages are \$300, if an illustrator, photographer licenses a work for some kind of a use for \$300 or \$500, which wouldn’t be totally uncommon for particularly a secondary use, you know, that’s hardly worth their time.”).

<sup>98</sup> Alma Robinson, *Small Copyright Claimants Need Access to Justice*, CALIFORNIA ARTS BLOG (Feb. 20, 2013), [http://www.calawyersforthearts.org/california\\_arts\\_blog?mode=PostView&bmi=1213811](http://www.calawyersforthearts.org/california_arts_blog?mode=PostView&bmi=1213811).

<sup>99</sup> Sheana Firth, Comments Submitted in Response to Third Notice of Inquiry at 1. Another commenter noted that “[i]n many instances, works created by individuals or other small copyright owners will not have been registered until the infringement is found, eliminating any statutory damages or attorney’s fees.” Copyright Alliance, Comments Submitted in Response to First Notice of Inquiry at 2 (Jan. 17, 2012) (“Copyright Alliance First Notice Comments”).

<sup>100</sup> See Getty Images, Comments Submitted in Response to Third Notice of Inquiry at 2 (Apr. 12, 2012) (“Getty Images Third Notice Comments”) (“We frequently encounter infringement of images on websites where the infringer’s identity is unknown, often because the domain name has been registered through a proxy and there is no valid contact information.”); National Writers Union (“NWU”), Comments Submitted in Response to First Notice of Inquiry at 11 (Jan. 16, 2012) (“NWU First Notice Comments”) (“[I]nfringers...may be located in cyberspace rather than at any readily identifiable geographic location”); Tr. at 54:10-18 (Nov. 15, 2012) (Christos Badavas, Harry Fox Agency, Inc. (“HFA”)) (noting that even when a plaintiff finds an infringing company, sometimes that plaintiff still cannot identify any owners of that company); Tr. at 143:20-24 (Nov 15, 2012) (Randy Taylor, CDL) (estimating that 15% of unauthorized users on the internet are using private online systems and are “going out of their way to make it very difficult to find who the infringer actually is”); Tr. at 204:18-205:07 (Nov. 26, 2012) (Carolyn Wright, Law Offices of Carolyn E. Wright, LLC) (noting that infringers on the internet are hard to find).

the unknown operator.<sup>101</sup> Some courts, however, have been reluctant to order subpoenas to identify unknown defendants.<sup>102</sup> For example, while the Digital Millennium Copyright Act (“DMCA”) includes an expedited process for a copyright owner to obtain a subpoena requiring an internet service provider to identify an alleged infringer, courts have construed that provision narrowly so as to preclude issuance of a subpoena in many cases.<sup>103</sup>

### 3. Potential Bars to Recovery

Potential copyright plaintiffs also must analyze whether their infringement claims will withstand the defenses to infringement available under the Copyright Act. A primary consideration is whether the three-year statute of limitations for copyright claims has expired.<sup>104</sup> In cases where the infringement commenced more than three years ago, but has continued, this analysis may present challenges.<sup>105</sup>

In addition, a number of important limitations and exceptions to copyright protection – some of which are legally complex – may preclude a lawsuit, including: the safe harbors for qualifying online service providers available under the DMCA;<sup>106</sup> the applicability of a statutory license;<sup>107</sup> and exceptions for libraries and archives, for certain educational, religious and charitable uses, and to benefit the print disabled.<sup>108</sup> Additionally and apart from these exceptions, in many cases a plaintiff must assess whether the defendant may have a credible claim for fair use.<sup>109</sup> The fair

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<sup>101</sup> FED. R. CIV. P. 45 (subpoenas generally); 17 U.S.C. § 512(h) (specific provision relating to online service providers).

<sup>102</sup> See *Art of Living Found. v. Does 1-10*, No. 10-CV-05022-LHK, 2011 WL 5444622, at \*8-10 (N.D. Cal. Nov. 9, 2011) (granting motion to quash a subpoena to protect defendant’s right to “anonymous speech”); *LaFace Records, LLC v. Does 1-38*, No. 5:07-CV-298-BR, 2008 WL 544992, at \*3 (E.D.N.C. Feb. 27, 2008) (quashing all but one of thirty-eight subpoenas to identify unknown defendants allegedly using a peer-to-peer network); *Millenium TGA Inc. v. Does 1-800*, No. 10-C-5603, 2011 WL 10468128, at \*2 (N.D. Ill. Mar. 31, 2011) (severing 800 defendants as being improperly joined, then granting single remaining defendant’s motion to quash subpoena due to lack of personal jurisdiction). *But see Maverick Entm’t Grp., Inc. v. Does 1-2,115*, 810 F.Supp.2d 1, 7-9 (D.D.C. 2011) (denying fifty-two motions to quash subpoenas issued to ISPs for the purpose of identifying defendants accused of infringing plaintiff’s copyrighted works).

<sup>103</sup> See 17 U.S.C. § 512(h); *Recording Indus. Ass’n of Am. v. Verizon Internet Servs.*, 351 F.3d 1229, 1233 (D.C. Cir. 2003) (finding that “a subpoena may be issued only to an ISP engaged in storing on its servers material that is infringing or the subject of infringing activity,” and not to an ISP that is a mere conduit for infringing material); *Recording Indus. Ass’n of Am. v. Charter Commc’ns, Inc.*, 393 F.3d 771, 777 (8th Cir. 2005) (adopting reasoning of *Verizon* court).

<sup>104</sup> 17 U.S.C. § 507.

<sup>105</sup> *Compare Taylor v. Meirick*, 712 F.2d 1112, 1118 (7th Cir. 1983) (allowing a copyright infringement suit arising from acts outside the statute of limitations to proceed because the infringing activities continued) *with Roley v. New World Pictures*, 19 F.3d 479, 481 (9th Cir. 1994) (affirming the district court’s summary judgment order and rejecting the theory that a continuing wrong tolls the statute of limitations).

<sup>106</sup> See 17 U.S.C. § 512.

<sup>107</sup> See, e.g., *id.* §§ 114, 115, 118.

<sup>108</sup> See *id.* §§ 108, 110, 121.

<sup>109</sup> See 17 U.S.C. § 107; Tr. at 171:07-08 (Nov. 15, 2012) (Randy Taylor, CDL) (“The [defendant’s] initial response [to a claim of copyright infringement] ... always includes fair use.”).

use doctrine, embodied in section 107 of the Copyright Act, serves to protect legitimate uses of copyrighted works for purposes such as criticism, comment, teaching and research.<sup>110</sup>

#### 4. Remedies

Parties may seek a variety of remedies in copyright infringement lawsuits, including monetary relief, declaratory judgments, preliminary and permanent injunctions, impoundment and destruction of infringing articles, and recovery of costs and attorneys' fees. Each of these remedies presents unique challenges for copyright litigants.

##### a. Damages

A plaintiff who is successful in a copyright infringement claim has the option of electing to recover either statutory damages or actual damages and profits of the defendant.<sup>111</sup>

Actual damages can be difficult to prove and measure in copyright cases.<sup>112</sup> First, information about the extent of infringement and resulting profits is unlikely to be known, or fully known, to a plaintiff and may be difficult to obtain from a defendant who did not keep records of infringing activities or is reluctant to produce them in discovery.<sup>113</sup> Second, it may be difficult to assess the full value of the harm caused by an infringer's unauthorized use of a work. In some cases, the use may violate not just the owner's rights but an exclusive licensing arrangement for the work,

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<sup>110</sup> Section 107 provides that the fair use of a copyrighted work

for purposes such as criticism, comment, news reporting, teaching ..., 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 as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.

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17 U.S.C. § 107.

<sup>111</sup> *Id.* § 504.

<sup>112</sup> See *Sony BMG Music Entm't v. Tenenbaum*, No. 07-11446, 2012 WL 3639053, at \*4 (D. Mass. 2012) (“Congress gave a Copyright Act plaintiff the right to elect statutory in lieu of actual damages, in part because it recognized that actual damages are extremely difficult to measure and prove in a copyright case.”) (citations omitted); Tr. at 37:11-12 (Nov. 15, 2012) (Charles Sanders, SGA) (“[P]roving actual damages is really, really expensive.”).

<sup>113</sup> See, e.g., 2 PAUL GOLDSTEIN, GOLDSTEIN ON COPYRIGHT §14.0 at 14:1 (3d ed. 2006 Supp.) (Copyright Act “anticipates that copyright owners will sometimes encounter difficulty in establishing actual damages and profits, and so entitles the copyright owner to elect statutory damages instead”); 6 PATRY § 22:153 (2013) (statutory damages were adopted “to give the owner of a copyright some recompense for injury done him, in a case where the rules of law render difficult or impossible proof of damages or discovery of profits.”) (citing *Douglas v. Cunningham* 294 U.S. 207, 209 (1935)).

thus impacting third-party interests and the relationship between the copyright owner and licensee.<sup>114</sup> In other cases, a creator may not want to have the work published or used in a manner that may be harmful to the integrity of the work, an injury that is difficult to value.<sup>115</sup>

For these reasons, statutory damages have long played an important role in the protection of copyright interests.<sup>116</sup> In addition, many view statutory damages as essential to deterring infringing conduct. If all that can be recovered from an infringer at the end of a lawsuit is what the infringer would have paid for a license in the first place, exploiters of copyrighted works have little reason not to adopt a “take now, pay later” philosophy.<sup>117</sup>

Under the Copyright Act, standard statutory damages for copyright infringement range from \$750 to \$30,000 per infringed work.<sup>118</sup> Willful infringement can increase damages to as much as \$150,000 per work, while a finding that the infringement was innocent can reduce damages to as low as \$200.<sup>119</sup> The range of possible recovery if statutory damages are elected is therefore substantial, especially in cases involving willful infringement.

Concerning the amount of damages to be awarded, the Copyright Act mandates only that within the prescribed range, statutory damages are to be assessed “as the court considers just.”<sup>120</sup> When a jury trial is requested, it is up to the jury to decide the amount of statutory damages.<sup>121</sup> Typically, in assessing statutory damages, the jury (or judge if a jury is waived) considers the range of possible damages under the law, whether the infringement was willful or innocent, and other factors such as “the nature of the infringement; the defendant’s purpose and intent, the profit that the defendant reaped, if any, and/or the expense that the defendant saved; the revenue lost by the plaintiff as a result of the infringement; the value of the copyright; the duration of the infringement; the defendant’s continuation of infringement after notice or knowledge of copyright claims; and the need to deter this defendant and other potential infringers.”<sup>122</sup>

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<sup>114</sup> Tr. at 121:19-22 (Nov. 15, 2012) (Lisa Shaftel, GAG).

<sup>115</sup> See Tr. at 46:06-19 (Nov. 27, 2012) (Alicia Calzada, NPPA) (“For artists who produce work, the ability to control their work is not just about money. It is about how their work is used. . . . [T]he ability to control your work is just as important as money for some situations.”).

<sup>116</sup> Great Britain’s first copyright act, the 1710 Statute of Anne, provided for statutory damages of “one Penny for every Sheet which shall be found in [the infringer’s] custody.” *Feltner v. Columbia Pictures Television, Inc.*, 523 U.S. 340, 349 (1998) (quoting 8 Anne ch. 19 (1710)). The amount and availability of statutory damages are topics of longstanding debate among copyright stakeholders. See, e.g., THE DEPARTMENT OF COMMERCE INTERNET POLICY TASK FORCE, COPYRIGHT POLICY, CREATIVITY, AND INNOVATION IN THE DIGITAL ECONOMY App. A at 102 (July 2013) (Task Force will seek to conduct dialogue regarding application of statutory damages in certain contexts).

<sup>117</sup> See Tr. at 263:2-6 (Nov. 16, 2012) (Charles Sanders, SGA) (asking whether adopting a “reasonable compensation” damages regime would “set up a situation where you have to catch me if you can? My liability is what I would have paid . . . had I actually licensed, but otherwise I am not going to pay until you ask?”).

<sup>118</sup> 17 U.S.C. § 504(c)(1).

<sup>119</sup> *Id.* § 504(c)(2).

<sup>120</sup> *Id.* § 504(c)(1).

<sup>121</sup> *Feltner*, 523 U.S. at 342.

<sup>122</sup> *Sony BMG Music Entm’t v. Tenenbaum*, 660 F.3d 487, 503-04 (1st Cir. 2011).

In practice, statutory damages may be more likely to be awarded to larger entities because “individual authors and small firms do not typically register their copyrights within three months of publication, ... [and thus] rarely qualify for statutory damages or attorney’s fee awards.”<sup>123</sup> Several commenters concurred with the view that the registration requirement for statutory damages places individuals and smaller entities at a disadvantage because it is difficult and burdensome for them to meet the statutory requirement for timely registration.<sup>124</sup>

#### b. Injunctive Relief

Parties may try to obtain early injunctive relief in a copyright case by filing a motion for a preliminary injunction.<sup>125</sup> This process requires the expense of briefing and, typically, a separate hearing. The court may issue the preliminary relief only if the moving party posts a bond or “security” in an amount large enough to cover the costs and damages of a party wrongfully restrained.<sup>126</sup>

Parties also may seek permanent injunctive relief following a trial on the merits. The Supreme Court’s 2006 decision in *eBay Inc. v. MercExchange*,<sup>127</sup> though a patent infringement case, set a standard for injunctive relief that also applies in copyright actions.<sup>128</sup> Citing earlier copyright decisions to support its holding, the *eBay* Court rejected judicial interpretations favoring the automatic grant of an injunction upon a finding of infringement.<sup>129</sup> *eBay* thus held that, to secure an injunction, a plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a

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<sup>123</sup> Pamela Samuelson & Tara Wheatland, *Statutory Damages in Copyright Law: A Remedy in Need of Reform*, 51 WM. & MARY L. REV. 439, 454 (2009).

<sup>124</sup> NWU, Comments Submitted in Response to Third Notice of Inquiry at 3 (Apr. 12, 2013) (“NWU Third Notice Comments”) (“The lack of any means of effective redress for copyright infringement genuinely accessible and affordable to most individual writers makes the investment of time and money in the attempt to satisfy copyright registration formalities an economically unjustifiable investment of writers’ time and money, and a diversion from revenue-generating creative work.”); Tr. at 41:17-20 (Nov. 15, 2012) (Nancy Wolff, PACA) (“[O]ften the reason that an individual creator cannot afford to go to federal court is because they can’t afford to register all their work[s] as they create them.”).

<sup>125</sup> FED. R. CIV. P. 65. They may also seek a temporary restraining order. *Id.*

<sup>126</sup> *Id.* 65(c).

<sup>127</sup> *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

<sup>128</sup> Courts have adapted and applied the *eBay* test to the preliminary injunction context as well. *See, e.g., Flava Works, Inc. v. Gunter*, 689 F.3d 754, 755 (7th Cir. 2012) (though *eBay* “was a case about patents rather than copyrights and about permanent rather than preliminary injunctions, we are persuaded ... that *eBay* governs a motion for a preliminary injunction in a copyright case, as well”); *Salinger v. Colting*, 607 F.3d 68, 77 (2d Cir. 2010) (“We hold today that *eBay* applies with equal force (a) to preliminary injunctions (b) that are issued for alleged copyright infringement.”).

<sup>129</sup> *eBay*, 547 U.S. at 392-93 (noting that “this Court has consistently rejected invitations to replace traditional equitable considerations with a rule that an injunction automatically follows a determination that a copyright has been infringed.”) (citations omitted).

remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.<sup>130</sup>

### c. Attorneys' Fees and Costs

The Copyright Act provides that a prevailing party in a copyright lawsuit may recover his or her costs and reasonable attorneys' fees.<sup>131</sup> Such fee-shifting, however, is at the discretion of a court and, if the prevailing party is a copyright owner, only if the work was registered in a timely fashion as provided in section 412.<sup>132</sup> One copyright law scholar has observed the importance of attorneys' fees for small claimants, stating that “[g]iven the high costs of litigation, [attorneys' fees are] crucial and indeed, for smaller litigants, may determine whether bringing an infringement action is financially viable.”<sup>133</sup>

But an attorneys' fee award is not automatic upon a finding of infringement.<sup>134</sup> Rather, in considering an application for fees, courts look to a variety of factors, including “frivolousness, motivation, objective unreasonableness (both in the factual and in the legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence.”<sup>135</sup> Thus, a court ultimately may decline to make an award even in a case where the plaintiff has successfully pursued a legitimate claim of infringement.<sup>136</sup>

<sup>130</sup> *Id.* at 391.

<sup>131</sup> 17 U.S.C. § 505 (“In any civil action under this title, the court in its discretion may allow the recovery of full costs ... the court may also award a reasonable attorney's fee to the prevailing party as part of the costs.”).

<sup>132</sup> *Id.* § 412 (registration generally must be made within three months of publication or, for unpublished works, before the commencement of infringement).

<sup>133</sup> Jane Ginsburg, *The U.S. Experience With Mandatory Copyright Formalities: A Love/Hate Relationship*, 33 COLUM. J.L. & ARTS 311, 339 (2010). Similarly, as one court explained, “[a]n award of attorney's fees helps to ensure that all litigants have equal access to the courts to vindicate their statutory rights. It also prevents copyright infringements from going unchallenged where the commercial value of the infringed work is small and there is no economic incentive to challenge an infringement through expensive litigation.” *Quinto v. Legal Times of Wash., Inc.*, 511 F. Supp. 579, 581 (D.D.C. 1981).

<sup>134</sup> *See* 5 NIMMER § 14.10[D] (“The most difficult question presented in connection with attorney's fees is when a court should exercise its discretion to make such an award. In the words of one appellate decision, ‘[a]lthough attorney's fees are awarded in the trial court's discretion, they are the rule rather than the exception and should be awarded routinely.’ Nevertheless, in view of the Supreme Court's later rejection of categorical rules in favor of the trial court's discretion, that statement should no longer be taken as prescriptive. Even where the prevailing party has in fact incurred no attorney's fees at all, as where he represents himself *pro se*, an award of reasonable attorney's fees may be justified (although some decisions tacitly assume the contrary).”).

<sup>135</sup> *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 535 n.19 (1994) (internal quotation omitted).

<sup>136</sup> *See* 5 NIMMER § 14.10[D]; *see also*, *Nat'l Football League v. Primetime 24 Joint Venture*, 131 F. Supp. 2d 458, 485 (S.D.N.Y. 2001) (declining to award a plaintiff attorneys' fees due to the novelty and complexity of the issue, the lack of bad faith on the part of defendant, and the adequacy of the statutory damages already awarded to plaintiff); *LZT/Filliung P'ship, LLP v. Cody/Braun & Assocs., Inc.*, 117 F. Supp. 2d 745, 753 (N.D. Ill. 2000) (reasoning that plaintiff should not be awarded attorneys' fees because defendant's counterclaim was not frivolous and “was motivated by sound litigation strategy,” even though it was not ultimately successful); *Alexander v. Chesapeake, Potomac, and Tidewater Books, Inc.*, 60 F. Supp. 2d 544, 551 (E.D. Va. 1999) (noting that attorneys' fees should not be awarded to plaintiff because there was no evidence of willful infringement, defendant's arguments were objectively reasonable, the facts did “not call for deterrence of future frivolous claims or infringing conduct”).

In weighing the possibility of litigation, a would-be copyright plaintiff also must consider that attorneys' fees are available to a "prevailing party,"<sup>137</sup> and that both plaintiffs and defendants in copyright suits are, under Supreme Court precedent, to be "treated alike."<sup>138</sup> That is, courts are to be "faithful to the purposes of the Copyright Act" and apply the relevant standard to prevailing plaintiffs and defendants "in an evenhanded manner."<sup>139</sup> Thus, the possibility that a defendant might collect fees if the infringement claim fails may discourage some copyright claimants from pursuing litigation.<sup>140</sup> And, even if the copyright owner prevails, his or her ability to recover attorneys' fees is far from assured.

## 5. Costs and Burden of Litigation

Copyright owners whose works are infringed often are deterred from enforcing their rights due to the burden and expense of pursuing litigation in the federal system. Especially in the case of lower-value copyright claims, the potential for monetary recovery can be quickly overcome by the costs of discovery, motion practice, and other litigation expenses. Of course the same may be true for defendants seeking to vindicate their interests in modest-sized copyright dispute.<sup>141</sup>

Litigation of a copyright claim in federal court requires substantial amounts of time, money, and effort. An aggrieved copyright owner must either hire a potentially costly attorney who understands federal court procedure and substantive copyright law, or attempt to enforce his or her rights *pro se*. The costs of filing, service, discovery, and transcripts can quickly compound. A court proceeding entails other costs as well, as it requires a creator plaintiff to forsake income-generating work to attend to the litigation. As one artist noted, faced with a choice between paying an attorney to pursue an infringer or continuing to focus on her work, "I am just going to work because that is the sure thing."<sup>142</sup>

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<sup>137</sup> Compare 17 U.S.C. § 505 ("the court in its discretion may allow the recovery of full costs ... the court may also award a reasonable attorney's fee to the prevailing party as part of the costs.") with 35 U.S.C. § 285 (for patent cases, "The court in exceptional cases may award reasonable attorney fees to the prevailing party."), and 15 U.S.C. § 1117(a) (for trademark cases, "The court in exceptional cases may award reasonable attorney [sic] fees to the prevailing party.").

<sup>138</sup> *Fogerty*, 510 U.S. at 534.

<sup>139</sup> *Id.* at 535 n.19 (internal quotation omitted). *But see* New Media Rights, Comments Submitted in Response to Second Notice of Inquiry (Oct. 19, 2012) ("New Media Rights Second Notice Comments") at 2-3 ("Despite the *Fogerty* decision, there has not been a fundamental alteration in the application of § 505. Prevailing plaintiffs are routinely able to access attorney's fees simply by having registered the copyright according to the statute, whereas a prevailing defendant often must show that a plaintiff's claims or conduct during the litigation are frivolous or brought in bad faith in order to earn attorney's fees. Although *Fogerty* has made it somewhat easier for prevailing defendants to win fee awards, defendants are not on equal footing under § 505 as currently interpreted.").

<sup>140</sup> *See, e.g.*, Tr. at 284:25-289:19 (Nov. 16, 2012) (David Leichtman, VLA).

<sup>141</sup> New Media Rights, Comments in Response to First Notice of Inquiry at 18 (undated) ("New Media Rights First Notice Comments") at 2 (noting that small-scale defendants can be "intimidated by the threat of federal litigation.").

<sup>142</sup> Tr. at 112:16-19 (Nov. 26, 2012) (Molly Knappen, designer and developer); *see also* Tr. at 92:25-93:10 (Nov. 15, 2012) (Joseph DiMona, Broadcast Music, Inc. ("BMI")) ("I suspect that even if there were a small claims court, a modestly cheaper way to do it, that songwriters would not have the wherewithal and really wouldn't want to have to spend their time bringing 10,000 small claims proceedings, even if they were cheap. That's not what songwriters want to do. They want to create, perform, and that's why they have turned to publishers, and in some cases record

The excessive cost of federal litigation relative to case value is an overarching issue for litigants with lower-value claims. Indeed, recent surveys confirm a widespread belief among attorneys that litigation costs are generally disproportionate to the value of “small” cases, though not necessarily disproportionate to “large” cases.<sup>143</sup> For example, a survey by the ABA indicated that, for attorneys representing both plaintiffs and defendants, 89% of respondents agreed that in small-value cases litigation costs were not proportional to the value of a case.<sup>144</sup>

If a copyright owner hires an attorney to enforce his or her copyrights, those costs can easily exceed the value of the work that is being infringed. In a 2011 email survey of 2,577 members of the American Intellectual Property Law Association (“AIPLA”), the median cost in 2010 for a party to litigate a copyright infringement lawsuit with less than \$1 million at risk through to appeal was \$350,000.<sup>145</sup> To reach even the close of discovery, the median cost was \$200,000.<sup>146</sup> The fact that nearly two-thirds of litigation costs accrue before parties even proceed to trial demonstrates how much case preparation, discovery, and pretrial motion practice add to the total cost of a lawsuit. While the AIPLA figures do not provide a breakdown of cases in the “below \$1 million” category, they attest to the high cost of enforcing copyrights, a great many of which do not begin to approach \$1 million in value.

Building on the AIPLA study, the ABA IP Section attempted to determine at what perceived value a copyright attorney would agree to take a case. The section asked its members: “At what value of likely recovery (and disregarding the potential for also recovering attorneys’ fees) would you consider litigation of an uncomplicated copyright claim economically justifiable . . . .”<sup>147</sup> Section members were offered a range of seven recovery amounts, from less than \$10,000 at the bottom and increasing in \$10,000 increments to over \$60,000.<sup>148</sup> The results were that 32% of the respondents indicated that they would accept a case with less than \$30,000 at stake, 29% of the respondents would only accept a case between \$30,000 and \$60,000, and 39% of respondents would only accept a case with more than \$60,000 at stake.<sup>149</sup> The median for the responses thus indicated that an attorney would not file an uncomplicated copyright case in federal court unless the value of recovery was in the \$40,000-\$49,999 range.<sup>150</sup>

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labels and PROs to manage the business side.”); *see also* *Quinto*, 511 F. Supp. at 581 (“[A] pro se litigant must forego other activities in order to prepare and pursue his case.”).

<sup>143</sup> EMERY G. LEE III & THOMAS E. WILLGING, FED. JUDICIAL CTR., ATTORNEY SATISFACTION WITH THE FEDERAL RULES OF CIVIL PROCEDURE: REPORT TO THE JUDICIAL CONFERENCE ADVISORY COMMITTEE ON CIVIL RULES, 10 (Mar. 1, 2010) (surveying members of the American College of Trial Lawyers, the ABA Section of Litigation, and the National Employment Lawyers Association), *available at* SSRN: <http://ssrn.com/abstract=1606885> or <http://dx.doi.org/10.2139/ssrn.1606885>. The survey did not define “large” versus “small” matters.

<sup>144</sup> ABA 2009 SURVEY, at 153.

<sup>145</sup> AIPLA Report, at 35 (2011).

<sup>146</sup> *Id.* App. I-163.

<sup>147</sup> ABA IP Section Second Notice Comments at 7.

<sup>148</sup> *Id.*

<sup>149</sup> *Id.* at 6-7 (noting limited sample pool of thirty-one members who responded to the survey).

<sup>150</sup> *Id.* at 7.

GAG also conducted a survey of its members concerning their efforts to enforce their copyrights. The survey found that 60.1% of Guild members believed that their works had been infringed.<sup>151</sup> Works were primarily infringed on the internet or from a printed piece<sup>152</sup> and in a commercial context.<sup>153</sup> In response to the infringement, most authors contacted the infringers themselves,<sup>154</sup> but most of the infringers did nothing in response.<sup>155</sup> Guild members offered several reasons for not hiring an attorney to pursue the infringer, including: “too much of an ordeal/I didn’t want to go through with it”; “my work was not registered, and I would not recoup attorneys’ fees and court costs (could not afford an attorney)”; and “the amount I would have been awarded or would ask for was less than the legal costs.”<sup>156</sup> For those who took their cases to court, most were successful, with only 2.2% of cases lost by Guild members and 14.1% of cases dismissed or dropped.<sup>157</sup> From this survey, it appears that most authors in the graphic arts suffer from infringement and could be successful if they were able to bring a lawsuit, but most graphic artists do not bring cases because of the prohibitive costs and inherent difficulties of the current system. Moreover, Guild members overwhelmingly indicated that they would use an alternative system for small-value copyright infringement cases that did not require them to go to federal court or hire an attorney.<sup>158</sup>

## 6. Time to Trial

In addition to costing money, litigation of a copyright case through to resolution also takes time. From 2000 to 2012, some 39,432 copyright cases were filed in U.S. federal district courts.<sup>159</sup> During that period, the two districts in which most copyright cases were filed were the Central District of California, with 6,184 cases, and the Southern District of New York, with 3,588.<sup>160</sup> In those same years, the median time to trial in the Southern District of New York was 720 days and in the Central District of California, 589 days.<sup>161</sup> In districts that see the most copyright cases, it is likely to be a year and a half before the parties can get to trial.

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<sup>151</sup> GAG, Comments Submitted in Response to Second Notice of Inquiry App. at 7 (Oct. 18, 2012) (“GAG Second Notice Comments”).

<sup>152</sup> *Id.* App. at 8 (70.7% and 49.4% respectively; responses were not mutually exclusive).

<sup>153</sup> *Id.* App. at 9 (64.3%).

<sup>154</sup> *Id.* App. at 10 (68.3%).

<sup>155</sup> *Id.* App. at 11 (51.7%).

<sup>156</sup> *Id.* App. at 13.

<sup>157</sup> *Id.* App. at 12 (21.7% of claims were won by Guild members and collected on, 14.1% of claims were won but the infringer did not pay, and 50% of claims were settled out of court).

<sup>158</sup> *Id.* App. at 14 (80.3% would use such a system, 1.3% would not, 18.5% responded “maybe”).

<sup>159</sup> LEX MACHINA, <https://lexmachina.com/> (last visited May 30, 2013).

<sup>160</sup> *Id.*

<sup>161</sup> *Id.*

#### IV. CONSTITUTIONAL ISSUES

While it is apparent that many copyright owners are effectively precluded from pursuing small claims through the existing federal court system, a workable solution will depend on constitutional considerations as much as procedural and pragmatic concerns. In contemplating potential alternatives to the current system, a number of significant constitutional issues emerge, namely: the Seventh Amendment right to a jury trial; separation of powers questions relating to the creation of non-Article III tribunals; Appointments Clause requirements; and various due process concerns, including those relating to personal jurisdiction, service of process, and the conduct of streamlined proceedings.

##### A. The Seventh Amendment

The Seventh Amendment provides that “[i]n Suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved ....”<sup>162</sup> Until 1998, when the Supreme Court decided *Feltner v. Columbia Pictures Television, Inc.*,<sup>163</sup> there was no firmly established rule that a party to a copyright infringement action seeking statutory damages was entitled to a jury trial. Indeed, the language of the Copyright Act suggests otherwise, as section 504 makes no mention of a jury or jury trial but instead provides that statutory damages shall be awarded “as the court considers just.”<sup>164</sup> Before *Feltner*, although it was understood that a party to an infringement action seeking actual damages, – a remedy at law – was entitled to a jury,<sup>165</sup> courts were divided on the question of whether statutory damages were equitable in nature and thus outside the purview of the Seventh Amendment.<sup>166</sup>

In *Feltner*, the Supreme Court laid the jury trial issue to rest. In that case, a defendant found to have infringed copyrighted television programs challenged the district court’s denial of his jury trial demand and judge-determined award of statutory damages. The Supreme Court held that even though section 504 of the Copyright Act provided no right to a jury trial, the Seventh

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<sup>162</sup> U.S. CONST. amend. VII.

<sup>163</sup> 523 U.S. 340 (1998).

<sup>164</sup> 17 U.S.C. § 504(c).

<sup>165</sup> *Video Views, Inc. v. Studio 21, Ltd.*, 925 F.2d 1010, 1014 (7th Cir.1991) (“There is little question that the right to a jury trial exists in a copyright infringement action when the copyright owner endeavors to prove and recover its actual damages ....”) (citation omitted), *overruled on other grounds by Fogerty v. Fantasy, Inc.*, 510 U.S. 517 (1994).

<sup>166</sup> *Compare Cass County Music Co. v. C.H.L.R., Inc.*, 88 F.3d 635, 642 (8th Cir. 1996) (holding that “[s]tatutory damages ... are unquestionably money damages and ... the assessment of money damages by a jury is a fundamental component of common-law trial by jury”) and *Gnossos Music v. Mitken, Inc.*, 653 F.2d 117, 119-20 (4th Cir.1981) (parties were due a jury trial as copyright infringement was similar to a claim of tortious interference with property and statutory damages analogous to civil actions for debt) with *Video Views, Inc.*, 925 F.2d at 1014 (“It is ... clear that it is for the district court and not for a jury to determine the appropriate award of statutory damages.”), *Twentieth Century Music Corp. v. Frith*, 645 F.2d 6, 7 (5th Cir. 1981) (per curiam) (after plaintiffs requested minimum statutory damages, court determined that “[t]he whole case before the Court was equitable in nature as to which the appellant had no constitutional or statutory right to a jury trial”) and *Sid & Marty Krofft Television Prods., Inc. v. McDonald’s Corp.*, 562 F.2d 1157, 1178 (9th Cir. 1977) (finding that an award of statutory damages is within the sole discretion of the court).

Amendment did, with respect to “all issues pertinent to an award of statutory damages,” including the amount.<sup>167</sup>

The Court’s opinion in *Feltner* is notable for its examination of the historical roots of U.S. copyright law. Although copyright law, including its rights and remedies, has long been a creature of federal statute, the Court explained that “[b]efore the adoption of the Seventh Amendment, the common law and statutes of England and this country granted copyright owners causes of action for infringement . . . . [C]opyright suits for monetary damages were tried in courts of law, and thus before juries.”<sup>168</sup> Having reviewed the historical record, the Court concluded that the statutory damages provisions found in copyright laws – from Great Britain’s 1710 Statute of Anne to their modern-day embodiment in title 17 – were legal, rather than equitable, in nature, as were infringement actions for damages generally.<sup>169</sup>

Interestingly for purposes of this report, although looking to copyright law as it stood at the time of adoption of the Seventh Amendment – which was approved by Congress in 1789 and ratified as part of the Bill of Rights in 1791<sup>170</sup> – the *Feltner* Court did not consider that certain cases seeking statutory damages would have been exempt from the jury trial right in that era. The first federal copyright act, enacted in 1790, provided for statutory damages of fifty cents “per sheet,” far below the twenty-dollar threshold of the Seventh Amendment.<sup>171</sup> Thus, it would appear that the first Congress may well have been comfortable leaving certain “small” copyright claims to be decided without a jury.

While the Supreme Court’s holding in *Feltner* confirms the Seventh Amendment right to a jury trial in a copyright infringement action for damages, the law is equally clear that a party can choose to waive that right. Although constitutional in stature, the right to a jury trial is considered an individual right that can be voluntarily relinquished.<sup>172</sup> Accordingly, while *Feltner* poses an obstacle to the creation of a mandatory forum for small copyright claims that

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<sup>167</sup> *Feltner*, 523 U.S. at 355.

<sup>168</sup> *Id.* at 348-49.

<sup>169</sup> *Id.* at 350-53. The Statute of Anne provided for damages of one penny for every “Sheet” in the infringer’s custody, half of which were to be paid to the Crown, and half to the copyright owner. *Id.* at 349 (citing 8 Anne ch. 19 (1710)).

<sup>170</sup> See U.S. NATIONAL ARCHIVES & RECORDS ADMINISTRATION, A MORE PERFECT UNION: THE CREATION OF THE U.S. CONSTITUTION (2013), [http://www.archives.gov/exhibits/charters/constitution\\_history.html](http://www.archives.gov/exhibits/charters/constitution_history.html).

<sup>171</sup> Half of the statutory damages were payable to the copyright owner, and half to the United States. Act of May 31, 1790, ch. 15, §§ 2, 6, 1 Stat. 124, 125; see also *Feltner*, 523 U.S. at 351. With the passage of the 1831 Copyright Act, Congress increased statutory damages to one dollar per sheet. Act of Feb. 3, 1831, ch. 16, § 7, 4 Stat. 436, 438; see also *Feltner*, 523 U.S. at 352 (citing mid-nineteenth century cases with jury-awarded damages ranging from \$200 to over \$2,000).

<sup>172</sup> *Commodity Futures Trading Comm’n v. Schor*, 478 U.S. 833, 848-49 (1986) (explaining that personal constitutional rights can be waived, including the right of trial by jury in civil cases); *Seaboard Lumber Co. v. U.S.*, 903 F.2d 1560, 1563 (Fed. Cir. 1990) (“The Supreme Court has long recognized that a private litigant may waive its right to a jury and to an Article III court in civil cases.”); *Civil v. Waterman S.S. Corp.*, 217 F.2d 94, 97 (2d Cir. 1954) (“[T]he right of jury trial is personal to the litigant, who may waive it by his action or nonaction.”) (citations omitted).

does not include juries, it would not appear to bar a voluntary system where parties consented to proceed without a jury.<sup>173</sup>

## B. Article III Considerations

While the Supreme Court’s views concerning the right to a jury trial in a copyright damages action, and a party’s ability to waive that right, seem relatively settled, its decisions concerning the constitutional parameters of non-Article III courts are less so. Although a comprehensive review of the Court’s treatment of this subject is beyond the scope of this Report, a basic understanding of the jurisprudential terrain – inauspiciously referred to by one Justice as “‘a darkling plain’ where ignorant armies have clashed by night”<sup>174</sup> – is essential to any consideration of a streamlined resolution process for small copyright claims that would rely on non-Article III decisionmakers.

### 1. From *Murray’s Lessee* to *Northern Pipeline*

Article III of the Constitution provides that “[t]he judicial Power of the United States, shall be vested in one supreme Court, and in such inferior Courts as the Congress may from time ordain and establish. The Judges, both of the supreme and inferior Courts, shall hold their Offices during good Behaviour, and shall, at stated Times, receive for their Services, a Compensation, which shall not be diminished during their Continuance in Office.”<sup>175</sup> The Framers believed that an independent judiciary – with judges not removable at will and salaries that could not be reduced – was essential to maintain the checks and balances of their constitutional design.<sup>176</sup> Article III thus “serves both to protect ‘the role of the independent judiciary within the constitutional scheme of tripartite government ... and to safeguard litigants’ ‘right to have claims decided before judges who are free from potential domination by other branches of government.’”<sup>177</sup>

In 1855 the Supreme Court was called upon to interpret Article III in the case *Murray’s Lessee v. The Hoboken Land & Improvement Co.*<sup>178</sup> The case concerned the constitutionality of a nonjudicial proceeding to seize property from a customs collector who owed a significant sum of money to the U.S. government. In that case, the Court recognized that not every dispute had to be decided by an Article III court, and that Congress could withhold from Article III courts certain matters “involving public rights” – such as a government action to recover public funds.<sup>179</sup> But at the same time the Court also observed that Congress should not be able to

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<sup>173</sup> Kernochan Center, Comments Submitted in Response to First Notice of Inquiry at 5 (Jan. 17, 2012) (“Kernochan First Notice Comments”) (“One way of preserving jury trial rights is to have the small claims system be completely voluntary.”).

<sup>174</sup> *Northern Pipeline Constr. Co. v. Marathon Pipeline Co.*, 458 U.S. 50, 91 (1982) (Rehnquist, J., concurring).

<sup>175</sup> U.S. CONST. art. III, § 1.

<sup>176</sup> See *Stern v. Marshall*, 131 S. Ct. 2594, 2608-09 (2011); *Northern Pipeline Constr. Co.*, 458 U.S. at 57-60.

<sup>177</sup> *Schor*, 478 U.S. at 848 (quoting *Thomas v. Union Carbide Agric. Prods. Co.*, 473 U.S. 568, 583 (1985), and *United States v. Will*, 449 U.S. 200, 218 (1980)).

<sup>178</sup> 59 U.S. (18 How.) 272.

<sup>179</sup> *Id.* at 284.

“withdraw from judicial cognizance” matters subject to suits at common law, in equity, or in admiralty.<sup>180</sup>

Over time, as the nation’s governmental functions grew more complex, Congress began to create specialized tribunals with adjudicators who did not enjoy lifetime tenure or protected salaries to resolve certain types of disputes more practically or efficiently addressed outside of an Article III court. Perhaps most notable among non-Article III tribunals have been the bankruptcy courts, which perform a wide range of duties to carry out the provisions of the U.S. Bankruptcy Code. Others include the Tax Court,<sup>181</sup> Social Security Appeals Council,<sup>182</sup> Court of Appeals for Veterans Claims,<sup>183</sup> and Court of Federal Claims.<sup>184</sup> In the copyright realm, Congress has created the Copyright Royalty Board to set rates and terms and distribute royalties payable under government-established licensing schemes.<sup>185</sup>

The fundamental question that arises in connection with Congress’ creation of such courts is whether they violate the separation of powers principle embodied in Article III. Since the time of *Murray’s Lessee*, the Supreme Court has approached this issue in varying ways. As was aptly stated by Justice Rehnquist, “[t]he cases dealing with the authority of Congress to create courts other than by use of its power under Art. III do not admit of easy synthesis.”<sup>186</sup>

In the significant 1932 case *Crowell v. Benson*, the Supreme Court considered Congress’ authority to create an agency-administered process to award compensation for injuries sustained in navigable waters.<sup>187</sup> Departing from a strict interpretation of *Murray’s Lessee*, the Court instead adopted a more flexible reading of the Constitution to uphold the congressional scheme. Even though the disputes being adjudicated involved a “private right” – that is, “the liability of one individual to another” – and thus did not fall within the narrow public rights exception articulated in *Murray’s Lessee*, in light of Congress’ general authority over maritime law, the Court believed that Congress could constitutionally assign the task of determining compensation awards to a specialized agency.<sup>188</sup>

Several decades later, in 1978, Congress enacted the Bankruptcy Reform Act, replacing the older system of bankruptcy referees with bankruptcy courts.<sup>189</sup> The newly formed bankruptcy courts

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<sup>180</sup> *Id.*

<sup>181</sup> *See* 26 U.S.C. § 7441.

<sup>182</sup> *See* 42 U.S.C. § 405.

<sup>183</sup> *See* 38 U.S.C. §§ 7251-52.

<sup>184</sup> *See* 28 U.S.C. § 171.

<sup>185</sup> *See* 17 U.S.C. § 801 *et seq.* The Copyright Royalty Board, established in 2004, was preceded by the Copyright Arbitration Royalty Panels, in effect from 1993 to 2004, and the Copyright Royalty Tribunal, in effect from 1976 to 1993. *See* Copyright Royalty and Distribution Act of 2004, Pub. L. No. 108-419; Copyright Royalty Tribunal Reform Act of 1993, Pub. L. No. 103-198, 107 Stat. 2304; 118 Stat. 2341; H.R. REP. No. 94-1733, at 60 (1976).

<sup>186</sup> *Northern Pipeline*, 458 U.S. at 91 (Rehnquist, J., concurring).

<sup>187</sup> 285 U.S. 22, 49-54 (1932).

<sup>188</sup> *Id.* at 51-53.

<sup>189</sup> *Northern Pipeline*, 458 U.S. at 52-53.

were bestowed with expansive powers of equity, law and admiralty; they could conduct jury trials and issue any order, process, or judgment necessary to carry out the provisions of the Bankruptcy Code.<sup>190</sup> Because they had authority over all civil proceedings arising under title 11 and matters related to cases under title 11, they were authorized to decide claims based on state as well as federal law.<sup>191</sup> Their orders and judgments were reviewable by Article III courts under a clearly erroneous standard on appeal.<sup>192</sup>

In 1982, in the case *Northern Pipeline Construction Co. v. Marathon Pipeline Co.*, the Supreme Court confronted the constitutionality of the new bankruptcy courts.<sup>193</sup> The specific issue in *Northern Pipeline* was whether the non-Article III bankruptcy judges could constitutionally adjudicate state law claims for breach of contract and tortious conduct asserted in the course of a bankruptcy proceeding.<sup>194</sup> In a plurality opinion joined by three other members of the Court, Justice Brennan took an expansive approach to the question, concluding that the courts could not adjudicate such claims and that in fact, Congress' broad grant of jurisdiction to the bankruptcy courts was unconstitutional.<sup>195</sup> Justice Brennan expressed the view that only three types of courts should be recognized as exempt from the constraints of Article III: territorial courts; military tribunals; and administrative tribunals falling under the public rights doctrine.<sup>196</sup> Drawing upon *Murray's Lessee*, Justice Brennan further suggested that the public rights doctrine should apply only to disputes between the "government and others."<sup>197</sup>

Justice Brennan acknowledged that "when Congress creates a statutory right ... it may also provide that persons seeking to vindicate that right must do so before particularized tribunals created to perform the specialized adjudicative tasks related to that right."<sup>198</sup> But even if the "restructuring of debtor-creditor relations" could be considered a "public right," because many of the rights subject to adjudication by the bankruptcy courts – including the state law claims at issue in the case – were "not of Congress' creation," Justice Brennan concluded that the entire scheme was unconstitutional.<sup>199</sup>

Justice Brennan did not command a majority for his reading of Article III or broad invalidation of the bankruptcy courts. While two other Justices concurred in the judgment, they would have decided only the narrower question of whether the state-law based action initiated by Northern Pipeline could be adjudicated by a non-Article III court.<sup>200</sup> The three other Justices dissented.<sup>201</sup>

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<sup>190</sup> *Id.* at 55.

<sup>191</sup> *Id.* at 54.

<sup>192</sup> *Id.* at 55 & n.5.

<sup>193</sup> *Id.* 50.

<sup>194</sup> *Id.* at 56-57.

<sup>195</sup> *Id.* at 87.

<sup>196</sup> *Id.* at 63-70.

<sup>197</sup> *Id.* at 69 (quoting *Ex parte Bakelite Corp.*, 279 U.S. 438, 451 (1929)).

<sup>198</sup> *Id.* at 83.

<sup>199</sup> *Id.* at 71, 84.

<sup>200</sup> 458 U.S. at 91-92 (Rehnquist, J., concurring).

## 2. Administrative Proceedings: *Thomas* and *Schor*

Following *Northern Pipeline*, the Supreme Court continued to grapple with Article III but declined to adhere to the formalistic stance advocated by Justice Brennan, instead adopting a more pragmatic approach in subsequent cases challenging the constitutionality of non-Article III tribunals.

In the 1985 case *Thomas v. Union Carbide*, the Court was called upon to consider a mechanism adopted by Congress to resolve compensation disputes among parties who shared research data pursuant to the Federal Insecticide, Fungicide, and Rodenticide Act (“FIFRA”).<sup>202</sup> When a party wished to rely on another party’s research data to support registration of a pesticide, the relevant statutory provision required the two to negotiate and, if necessary, submit to binding arbitration to determine appropriate compensation as between them. Similar to the standard set forth in the Federal Arbitration Act,<sup>203</sup> the arbitrator’s decision was subject to judicial review only for “fraud, misrepresentation, or other misconduct.”<sup>204</sup>

Despite the seeming retreat by some Justices from *Crowell* in *Northern Pipeline*, all nine Justices (three in concurring opinions) agreed that the Environmental Protection Agency’s arbitration scheme was compatible with Article III. Writing for the majority, Justice O’Connor expressed a considerably more flexible view of Article III than had Justice Brennan: “[T]he Court has long recognized that Congress is not barred from acting pursuant to its powers under Article I to vest decisionmaking authority in tribunals that lack the attributes of Article III courts .... Many matters that involve the application of legal standards to facts and affect private interests are routinely decided by agency action with limited or no review by Article III courts.”<sup>205</sup>

The *Thomas* opinion was careful to limit the plurality decision in *Northern Pipeline*, explaining that the case established “only that Congress may not vest in a non-Article III court the power to adjudicate, render final judgment, and issue binding orders in a traditional contract action arising under state law, without consent of the litigants, and subject only to ordinary appellate review.”<sup>206</sup> Moreover, the *Thomas* Court expressly rejected Justice Brennan’s brightline test requiring that the federal government be a party to an action before the “public rights” exception

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<sup>201</sup> In his dissent, Chief Justice Burger observed that the Court’s holding should be understood not as a declaration that the bankruptcy courts were inherently unconstitutional, but rather as a more limited determination that “a ‘traditional’ state common-law action, not made subject to a federal rule of decision, and related only peripherally to an adjudication of bankruptcy under federal law, must, absent the consent of the litigants, be heard by an ‘Art. III court’ if it is to be heard by any court or agency of the United States.” *Id.* at 92 (Burger, C.J., dissenting).

<sup>202</sup> 473 U.S. 568.

<sup>203</sup> See 9 U.S.C. § 10(a) (arbitral awards may be vacated for corruption, fraud, undue means, evident partiality, misconduct, or exceeding the powers delegated to the arbitrators).

<sup>204</sup> *Thomas*, 473 U.S. 568 (quoting FIFRA, § 3(c)(1)(D)(ii)).

<sup>205</sup> *Id.* at 583.

<sup>206</sup> *Id.* at 584.

could apply, opining instead that “practical attention to substance rather than doctrinaire reliance on formal categories should inform application of Article III.”<sup>207</sup>

Turning to the substance of the FIFRA provision, the Court was persuaded that, in light of its relationship to the pesticide registration program, the right created by FIFRA was not purely a “private” right, but bore many characteristics of a “public” right.<sup>208</sup> Even though arguably akin to a state law property claim, the Court found it significant that the compensation right at issue did not in fact arise from state law.<sup>209</sup> The Court also pointed to Congress’ desire to overcome the litigation “logjam” in the courts that was holding up the pesticide registration process, as well as the fact that the compensation decisions rendered through the agency arbitration process were subject to a limited form of Article III review.<sup>210</sup> Weighing all of these factors together, the Court concluded that the administrative compensation scheme at issue did not contravene Article III.<sup>211</sup>

In 1986, in *Commodities Futures Trading Commission v. Schor*, the Supreme Court addressed another agency-administered compensation process.<sup>212</sup> Under the Commodity Exchange Act (“CEA”),<sup>213</sup> the Commodities Futures Trading Commission (“CFTC”) administered a reparations procedure through which disgruntled customers of professional commodity brokers could seek redress for brokers’ violations of the CEA or of CFTC regulations. Any person so injured could apply for a reparations order from the CFTC and could enforce that order in federal district court.<sup>214</sup> To further the congressional goal of promoting efficient dispute resolution, the CFTC adopted a regulation that allowed it to adjudicate counterclaims “aris[ing] out of the transaction or occurrence or series of transactions or occurrences set forth in the complaint.”<sup>215</sup>

In the case, Schor had filed a complaint with the CFTC for reparations against a broker employed by ContiCommodity Services, Inc. (“Conti”). Conti asserted a state law counterclaim to recover a debit balance in Schor’s account.<sup>216</sup> After discovery, briefing and a hearing, an administrative law judge ruled in Conti’s favor on both Schor’s reparations claim and Conti’s counterclaim.<sup>217</sup> Schor appealed the ruling to the Court of Appeals for the District of Columbia Circuit, which *sua sponte* raised the question of whether the CFTC could adjudicate Conti’s

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<sup>207</sup> *Id.* at 585-87.

<sup>208</sup> *Id.* at 589.

<sup>209</sup> *Id.* at 584-85.

<sup>210</sup> *Id.* at 573, 590, 592-93.

<sup>211</sup> *Id.* at 589, 594.

<sup>212</sup> 478 U.S. at 833.

<sup>213</sup> 7 U.S.C. § 1 *et seq.*

<sup>214</sup> *Schor*, 478 U.S. at 836.

<sup>215</sup> *Id.* at 837 (quoting 17 C.F.R. § 12.23(b)(2) (1983)).

<sup>216</sup> *Schor v. Commodity Futures Trading Comm’n*, 740 F.2d 1262, 1265 (1984).

<sup>217</sup> *Schor*, 478 U.S. at 838.

common law counterclaim in light of *Northern Pipeline*, ultimately concluding it could not.<sup>218</sup> A majority of the Supreme Court, again led by Justice O'Connor, disagreed.

Finding that the CFTC process designed by Congress was dependent upon the ability to resolve related counterclaims, the Court again took a pragmatic, rather than formalistic, approach to the Article III analysis. Observing that “Article III does not confer on litigants an absolute right to plenary consideration of every nature of claim by an Article III court,” the Court explained that Article III served to protect “primarily personal, rather than structural interests,” and further that, “as a personal right, Article III’s guarantee of an impartial and independent federal adjudication is subject to waiver, just as are other personal constitutional rights that dictate the procedures by which civil and criminal matters must be tried.”<sup>219</sup> Here, Schor had “indisputably” waived his right to have Conti’s common law counterclaim decided by a federal district court, and “with full knowledge that the CFTC would exercise jurisdiction over that claim, chose to avail himself of the quicker and less expensive procedure Congress had provided him.”<sup>220</sup>

While emphasizing Schor’s consent to the jurisdiction of a non-Article III court as a significant factor in its analysis, the Court at the same time paid heed to the separate institutional interest served by Article III of safeguarding against encroachment upon the judicial branch. “To the extent that this structural principle is implicated in a given case, the parties cannot by consent cure the constitutional difficulty for the same reason that the parties by consent cannot confer on the federal courts subject-matter jurisdiction beyond the limitations imposed by Article III, § 2.”<sup>221</sup> Thus, the Court proceeded to consider whether the CFTC process threatened the institutional integrity of the judicial branch, identifying several factors to be weighed: “the extent to which the ‘essential attributes of judicial power’ are reserved to Article III courts, and conversely, the extent to which the non-Article III forum exercised the range of jurisdiction and powers normally vested only in Article III courts, the origins and importance of the right to be adjudicated, and the concerns that drove Congress to depart from the requirements of Article III.”<sup>222</sup>

Against this backdrop, the Court determined that the CEA’s adjudication of related common law counterclaims was not fatal to the congressional scheme, as the statute left “far more of the ‘essential attributes of judicial power’ to Article III courts” than the portion of the Bankruptcy Act invalidated by *Northern Pipeline*.<sup>223</sup> Unlike the bankruptcy courts, the CFTC dealt with “one particularized area of law,” its orders were enforceable only by order of the district court, and its orders were reviewable by the district court.<sup>224</sup> Even though Conti’s counterclaim was

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<sup>218</sup> *Id.* at 838-39.

<sup>219</sup> *Id.* at 848-49.

<sup>220</sup> *Id.* at 849-50. Schor had unsuccessfully sought to stay or dismiss Conti’s separately pending action in federal district court in favor of the administrative proceeding. The action was subsequently dismissed by Conti. *Id.* at 837-38.

<sup>221</sup> *Id.* at 850-51.

<sup>222</sup> *Id.* at 851.

<sup>223</sup> *Id.* at 852.

<sup>224</sup> *Id.* at 853.

“private” in nature, Congress had not withdrawn it from “judicial cognizance.” Rather, Congress “gave the CFTC the authority to adjudicate such matters, but the decision to invoke th[e] forum [was] left entirely to the parties and the power of the federal judiciary to take jurisdiction of these matters [was] left unaffected. In such circumstances, separation of powers concerns are diminished, for it seems self-evident that just as Congress may encourage parties to settle a dispute out of court or resort to arbitration without impermissible incursions on the separation of powers, Congress may make available a quasi-judicial mechanism through which willing parties may, at their option, elect to resolve their differences.”<sup>225</sup>

### 3. The Federal Magistrates Act

Another context in which the Supreme Court has considered the assignment of duties to non-Article III decisionmakers is the Federal Magistrates Act, which, as noted above, permits the assignment of certain matters by district courts to non-Article III magistrate judges.<sup>226</sup> The Court has upheld the ability of Article III judges to delegate responsibilities to magistrate judges under the Act on a number of occasions.<sup>227</sup>

In one of the Court’s recent decisions considering the Act, the 2003 case *Roell v. Withrow*, a magistrate judge had presided over the trial and entered judgment in a state prisoner’s section 1983 action.<sup>228</sup> Section 636(c)(1) of the Act provides that “[u]pon consent of the parties, a full-time United States magistrate judge . . . may conduct any or all proceedings in a jury or nonjury civil matter and order the entry of judgment in the case, when specially designated to exercise such jurisdiction by the district court.”<sup>229</sup> Unlike nonconsensual referral of a pretrial matter under section 636(b) to a magistrate judge for findings and recommendations – which are reviewable *de novo* by the referring district court<sup>230</sup> – section 636(c)(1) gives the magistrate judge full authority over dispositive motions, conduct of the trial and the entry of final judgment, without district court review and appealable directly to a court of appeals “in the same manner as an appeal from any other judgment of a district court.”<sup>231</sup>

The particular question before the Court in *Roell* was whether the prisoner’s implied consent to trial before the magistrate judge by participating fully in the proceedings was adequate to confer “civil jurisdiction” on the magistrate judge notwithstanding a requirement in Federal Rule 73(b)

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<sup>225</sup> *Id.* at 854-55.

<sup>226</sup> The current version of the Federal Magistrates Act is codified at 28 U.S.C. §§ 631-39.

<sup>227</sup> See, e.g., *Roell v. Withrow*, 538 U.S. 580 (2003) (holding that a magistrate judge can preside over civil trial where parties have given implied consent); *Peretz v. United States*, 501 U.S. 923 (1991) (litigant can waive the right to have a court conduct *voir dire* and instead consent to a magistrate judge-directed jury selection); *United States v. Raddatz*, 447 U.S. 667 (1980) (delegation of certain fact-finding and recommendation functions to a magistrate judge does not violate article III so long as the ultimate decision is made by the district court); see also Magistrate Judges Division of the Administrative Office of the United States Courts, *A Constitutional Analysis of Magistrate Judge Authority*, 150 F.R.D. 247 (1993) (reviewing cases).

<sup>228</sup> 538 U.S. at 580.

<sup>229</sup> 28 U.S.C. § 636(c)(1).

<sup>230</sup> *Id.* § 636(b).

<sup>231</sup> *Id.* § 636(c)(1).

that the parties' consent be in writing.<sup>232</sup> Drawing on earlier precedent upholding the constitutionality of the Federal Magistrates Act,<sup>233</sup> as well as the waiver theory articulated in *Schor*,<sup>234</sup> Justice Souter's practically oriented majority opinion held that the prisoner's implied consent sufficed, finding that judicial efficiency had been "served" and the Article III right "substantially honored."<sup>235</sup> The opinion further held that "[i]n giving magistrate judges case-dispositive civil authority, Congress hoped to relieve the district courts' 'mounting queue of civil cases' and thereby 'improve access to the courts for all groups.'"<sup>236</sup>

#### 4. Bankruptcy Courts Revisited

Congress responded to the Supreme Court's invalidation of the bankruptcy courts in *Northern Pipeline* by revising the law in 1984 to provide that bankruptcy judges be appointed by the federal courts of appeals and limiting the judges' authority to enter final judgments to certain "core" bankruptcy proceedings.<sup>237</sup> In 1989 the Supreme Court returned to the bankruptcy arena in *Granfinanciera, S. A. v. Norberg*, which considered whether, notwithstanding Congress' designation of a fraudulent conveyance action as a "core" proceeding under the Bankruptcy Reform Act, noncreditors sued in bankruptcy court for a fraudulent conveyance were entitled to a jury trial.<sup>238</sup> The petitioners in *Granfinanciera*, who sought and were denied a jury trial by the bankruptcy judge, relied on the Seventh Amendment and did not invoke Article III in their constitutional challenge. In an opinion authored by Justice Brennan, however, the majority viewed the Seventh Amendment question as closely tied to the question of whether the claim could be tried in a non-Article III court: "Indeed, our decisions point to the conclusion that, if a statutory cause of action is legal in nature, the question whether the Seventh Amendment permits Congress to assign its adjudication to a tribunal that does not employ juries as fact-finders requires the same answer as the question whether Article III allows Congress to assign adjudication of that cause of action to a non-Article III tribunal."<sup>239</sup>

The Court then elaborated on the public rights doctrine, reaffirming its prior holding in *Thomas* that the federal government need not be a party for a case to come within that exception.<sup>240</sup> Rather, "[t]he crucial question, in cases not involving the Federal Government, is whether 'Congress, acting for a valid legislative purpose pursuant to its constitutional powers under

<sup>232</sup> *Roell*, 538 U.S. at 586-87; FED. R. CIV. P. 73(b).

<sup>233</sup> *Roell*, 538 U.S. at 590-91 (citing *Raddatz*, 447 U.S. at 676 n.3, a case in which the Court upheld the ability of a magistrate judge to preside over a suppression hearing against an Article III challenge, for the proposition that the Court should "eschew" an interpretation of the Federal Magistrates Act that would "frustrate the plain objective of Congress to alleviate the increasing congestion of litigation in the district courts.") (citation omitted).

<sup>234</sup> *Id.* at 590 (citing *Schor* for the proposition that a litigant can waive his right to an Article III court by seeking relief in an alternative forum).

<sup>235</sup> *Id.*

<sup>236</sup> *Id.* at 588 (citing S. REP. NO. 96-74, at 4 (1979)).

<sup>237</sup> *Stern*, 131 S. Ct. 2594 at 2610.

<sup>238</sup> 492 U.S. 33 (1989).

<sup>239</sup> *Id.* at 53.

<sup>240</sup> *Id.* at 54.

Article I, [has] create[d] a seemingly ‘private right’ that is so closely integrated into a public regulatory scheme as to be a matter appropriate for agency resolution with limited involvement by the Article III judiciary.’”<sup>241</sup> In *Granfinanciera*, the Court answered this question in the negative, concluding that the bankruptcy trustee’s right to recover a fraudulent conveyance was not integral to the proceedings in bankruptcy but instead “quintessentially [a] suit[] at common law.”<sup>242</sup> The petitioners therefore were entitled to a jury trial.<sup>243</sup>

The Supreme Court’s most recent significant opinion interpreting Article III, decided in 2011, is *Stern v. Marshall*, also emerging from the bankruptcy context.<sup>244</sup> In contrast to *Thomas* and *Schor*, the *Stern* opinion, authored by Chief Justice Roberts on behalf of a five-member majority, may suggest a less pragmatic inclination and at the very least, the Court’s continued wariness concerning the powers granted by Congress to the bankruptcy courts.

The *Stern* case, which had already made its way to the Supreme Court once before, was part of a long-running, well-publicized dispute over the estate of J. Howard Marshall (“J. Howard”), whom Vickie Lynn Marshall (known to the public as Anna Nicole Smith) (“Vickie”) had married about a year before his death.<sup>245</sup> Vickie, who was not included in her husband’s will, had sued J. Howard’s son E. Pierce Marshall (“Pierce”) in Texas probate court to set aside a living trust that she claimed Pierce had fraudulently induced his father to sign.<sup>246</sup> After J. Howard’s death, Vickie filed a petition for bankruptcy in California, and Pierce filed a complaint in the California bankruptcy proceeding contending that Vickie had defamed him by publicizing her claims of fraud, followed by a proof of claim. Vickie responded by filing a counterclaim in the bankruptcy court for tortious interference with the gift she had expected from J. Howard.<sup>247</sup> The bankruptcy court eventually issued a judgment in Vickie’s favor, awarding her over \$400 million in damages.<sup>248</sup>

Pierce contested the judgment, arguing that the court could not decide Vickie’s counterclaim because it was not a “core” proceeding under the Bankruptcy Code. When the *Stern* case reappeared in the Supreme Court, the Court rejected the determination of the court of appeals that Vickie’s counterclaim failed to qualify as a “core” proceeding, concluding that the relevant statutory provision made clear that it did.<sup>249</sup> But the Court further determined that Article III prohibited the bankruptcy court from entering final judgment on Vickie’s counterclaim.<sup>250</sup>

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<sup>241</sup> *Id.* at 54 (quoting *Thomas*, 473 U.S. at 593-94).

<sup>242</sup> *Id.* at 56, 60.

<sup>243</sup> In so concluding, the Court distinguished the bankruptcy context from the CFTC proceeding in *Schor*, where the investor could have elected to pursue his claim in an Article III forum instead. Thus there could be no “parallel” concept of waiver to apply in *Granfinanciera*. *Id.* at 59 n.14.

<sup>244</sup> 131 S. Ct. 2594.

<sup>245</sup> *Id.* at 2600.

<sup>246</sup> *Id.* at 2601.

<sup>247</sup> *Id.*

<sup>248</sup> *Id.*

<sup>249</sup> *Id.* at 2604-05. The Court additionally found that even though the statute provided that personal injury torts should be tried by a district court rather than the bankruptcy court, Pierce’s assertion that the bankruptcy court

Once again, the Court confronted the “varied formulations” of the public rights doctrine, finding that the counterclaim – a state common law claim between two private parties – did not fall within the exception. It did not “flow from a federal statutory scheme,” as in *Thomas*;<sup>251</sup> it was not “completely dependent upon adjudication of a claim created by federal law,” as in *Schor*;<sup>252</sup> the asserted authority to decide Vickie’s claim was not limited to a “particularized area of the law” as in *Crowell, Thomas and Schor*;<sup>253</sup> and it was not “a situation in which Congress devised an ‘expert and inexpensive method for dealing with a class of questions of fact which are particularly suited to examination and determination by an administrative agency specially assigned to that task.’”<sup>254</sup> Moreover, Pierce “did not truly consent to resolution of Vickie’s claim in the bankruptcy court proceedings,” because, as a creditor, he had “nowhere else to go” if he wished to recover from Vickie’s estate. Thus there was no reasoning “parallel” to *Schor* to support a waiver theory.<sup>255</sup>

Acknowledging the elusive qualities of the public rights doctrine,<sup>256</sup> the Court was careful to limit its holding in *Stern* to the bankruptcy courts: “Given the extent to which this case is so markedly distinct from the agency cases discussing the public rights exception in the context of [an agency adjudicatory] regime ... we do not in this opinion express any view on how the doctrine might apply in that different context.”<sup>257</sup>

It seems, however, that in the bankruptcy context, the last chapter is always yet to be written. Another bankruptcy case raising Article III concerns, *Executive Benefits Insurance Agency v. Arkison*, is currently pending before the Supreme Court.<sup>258</sup> *Executive Benefits*, involving a bankruptcy court’s decision in a fraudulent conveyance action, presents the question whether bankruptcy courts may exercise jurisdiction based on litigant consent, and if so, whether consent can be implied based on a litigant’s conduct.<sup>259</sup> Of course, the Court’s treatment of consent in the bankruptcy arena could have implications for other non-Article III contexts as well.

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lacked the authority to enter final judgment on his defamation claim was defeated by the fact that he had consented to the bankruptcy forum. *Id.* at 2606-08.

<sup>250</sup> *Id.* at 2608.

<sup>251</sup> *Id.* at 2614.

<sup>252</sup> *Id.*

<sup>253</sup> *Id.* at 2615.

<sup>254</sup> *Id.*

<sup>255</sup> *Id.* at 2614 (citing *Thomas*, 473 U.S. at 584-85, and *Schor*, 478 U.S. at 833, 855-56).

<sup>256</sup> *Id.* at 2615.

<sup>257</sup> *Id.*

<sup>258</sup> 702 F.3d 553 (9th Cir. 2012), *cert. granted*, No. 12-1200, 133 S.Ct. 2880 (June 4, 2013).

<sup>259</sup> SCOTUSBlog, *Executive Benefits Ins. Agency v. Arkison*, <http://www.scotusblog.com/case-files/cases/executive-benefits-insurance-agency-v-arkison/>. The Ninth Circuit held that the implied consent of the insurance agency, which had failed to object to the bankruptcy forum, was a sufficient basis for the bankruptcy court’s exercise of jurisdiction in the fraudulent conveyance action. 702 F.3d at 567-70.

### C. Relationship to a Copyright Small Claims Court

Although it is true that the Article III cases described above are not easily synthesized, some themes emerge that could be helpful in framing a small copyright claims tribunal.

#### 1. General Observations

First, it seems that the Court has had the greatest difficulty with the broad mandate of the bankruptcy courts, including those courts' ability to decide state law claims that, even if related to a bankruptcy proceeding, are not essential to the process. The comparatively wide-ranging powers of bankruptcy courts makes them appear a lot more like federal district courts than the more limited administrative processes at issue in *Crowell*, *Thomas* or *Schor*. Indeed, Chief Justice Roberts was careful to distinguish these cases from the bankruptcy court context in his *Stern* opinion. It seems that the Court may view the bankruptcy courts as a greater potential threat to the Article III prerogative than more modest and specialized courts.

Second, the Supreme Court has moved away from the rigid interpretation of the "public rights" exception to Article III espoused by the *Northern Pipeline* plurality, which – drawing on the early case *Murray's Lessee* – posited that outside of territorial and military courts, public rights cases should be limited to those in which the government is a party. Since *Northern Pipeline*, the Court has generally embraced a more pragmatic approach to evaluating the public rights exception. The Court has acknowledged – most notably in *Thomas* and *Schor* – that even if a claim derives from or resembles a traditionally private cause of action, if the claim is closely tied to a federal statutory or regulatory scheme, it may nonetheless be amenable to determination by a non-Article III body. Notably, in *Schor*, the Court extended this principle to include a state law counterclaim where determination of the counterclaim was integral to the adjudication of the statutory entitlement. In sum, while the Court clearly remains troubled by the specter of relatively unfettered adjudication of traditional state common law causes of action by non-Article III tribunals, where Congress has articulated specific rights and remedies pursuant to a statutory scheme, the Court has been more deferential to Congress' decision to assign an adjudicatory role to a specialized agency.

Third, parties' consent to non-Article III processes, including consent as evidenced by their conduct, has played an increasingly significant role in the Court's consideration of these issues. Based upon the parties' consent, the Court has confirmed that district courts are able to delegate the conduct of entire civil trials, as well as other matters, to non-Article III magistrate judges. In the administrative context, the Court has considered parties' consent to non-Article III adjudication a critical factor favoring the constitutionality of the alternative process. While the Court in *Schor* observed that consent of a party is not itself sufficient to negate structural separation of powers concerns arising from Congress' assignment of adjudicatory functions to a non-Article III body, it also made clear that consent overcomes any personal right of the parties to have their matter heard by an Article III tribunal, and went on to uphold the alternative administrative process. A party's consent to an alternative forum thus substantially diminishes Article III concerns, especially where the Article III court remains available to that party in the first instance, and the alternative process is subject to at least limited Article III review. Even in *Stern*, where the Supreme Court determined that the bankruptcy court could not constitutionally

adjudicate a state law counterclaim, the Court considered it significant that Pierce had not “truly consented” to have the claim decided by that non-Article III court.

That said, the Court’s decision in *Stern* marks a departure from the more pragmatically inclined *Thomas* and *Schor*, and the Court will revisit the issue of consent in *Executive Benefits*. Depending upon the Court’s analysis, the outcome of *Executive Benefits* could have an impact on Congress’ approach to an alternative process for small copyright claims.

## 2. Copyright-Specific Considerations

As the Supreme Court has observed, “[c]opyright law is a ‘creature of statute.’”<sup>260</sup> From the earliest days of the republic, the Court has affirmed that “[n]o one can deny that [Congress has] the power to prescribe the conditions on which such right shall be enjoyed.”<sup>261</sup> More recently, the Court has reiterated that the Copyright Clause “empowers Congress to determine the intellectual property regimes that, overall, in that body’s judgment, will serve the ends of the Clause.”<sup>262</sup>

Congress has exercised its constitutional prerogative under the Clause since 1790, when it enacted the nation’s first copyright statute.<sup>263</sup> For over two centuries it has defined and adjusted the rights and remedies of copyright owners under federal law, including the term of copyright, the requirements for infringement actions, and the remedies available for infringement.<sup>264</sup> In addition, Congress has long provided for a national system to register copyrighted works and record copyright-related transactions, to the benefit of both authors and the general public.<sup>265</sup>

Because the rights and remedies for copyright are fixed by Congress pursuant to an overarching statutory scheme, it would seem that under the Supreme Court’s post-*Northern Pipeline* jurisprudence – most notably *Thomas* and *Schor* – at least some types of small copyright claims

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<sup>260</sup> *Stewart v. Abend*, 495 U.S. 207, 251 (1990); see also *Authors Guild, Inc. v. Hathitrust*, 902 F. Supp. 2d 445, 451 (S.D.N.Y. 2012) (same, citing *Stewart*).

<sup>261</sup> *Wheaton v. Peters*, 33 U.S. (8 Pet.) 591, 663-64 (1834). In *Wheaton*, the Court rejected a common law of copyright applicable to published works because Congress had created protections for such works under the Copyright Act. *Id.* at 661-62 (“Congress, then, by this act, instead of sanctioning an existing right, as contended for, created it. This seems to be the clear import of the law, connected with the circumstances under which it was enacted.”).

<sup>262</sup> *Golan v. Holder*, 132 S. Ct. 873, 876 (2012) (quoting *Eldred v. Ashcroft*, 537 U.S. 186, 222 (2003)).

<sup>263</sup> Act of May 31, 1790, ch. 15, 1 Stat. 124.

<sup>264</sup> See Act of May 31, 1790, ch. 15, 1 Stat. 124; Act of Feb. 3, 1831, ch. 16, 4 Stat. 436; Act to Amend and Consolidate the Acts Representing Copyright of 1909, Pub. L. No. 60-349, 35 Stat. 1075; Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 251; Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, 102 Stat. 2853, 2860; Digital Millennium Copyright Act of 1998, Pub. L. No. 105-304, 112 Stat. 2860, 2887; Digital Theft Deterrence and Copyright Damages Improvement Act of 1999, Pub. L. No. 106-160, 113 Stat. 1774; see also *Golan*, 132 S. Ct. 873 (affirming Congress’s authority to extend copyright protection to certain foreign works that had entered the public domain in the U.S.); *Eldred*, 537 U.S. 186 (affirming Congress’s authority to lengthen the term of copyright for existing works).

<sup>265</sup> See 17 U.S.C. §§ 205, 408; COPYRIGHT OFFICE, CIRCULAR 1A, UNITED STATES COPYRIGHT OFFICE A BRIEF INTRODUCTION & HISTORY, available at <http://www.copyright.gov/circs/circ1a.html>.

should be amenable to non-Article III resolution. In considering the applicability of the Seventh Amendment to statutory damages claims, *Feltner* emphasized the common law procedures for the assertion of copyright claims in the early days of the nation. But even at that time, rights and remedies of copyright owners were defined by Congress.<sup>266</sup>

More broadly speaking, the rights and remedies of copyright owners are statutorily created and closely tied to the national system of copyright registration and recordation. Indeed, the availability of statutory damages and attorneys' fees in cases of infringement depends upon timely registration of the work at issue,<sup>267</sup> and a U.S. author must have registered (or received a refusal to register from the Office) before a judicial remedy is available at all.<sup>268</sup> The ability and incentives to pursue infringement claims are calibrated by Congress to further the interests of the copyright system generally, and thus have a significant public dimension.

Perhaps the most fundamental question to be considered in evaluating the constitutionality of a potential small claims system is whether any such process must be based on consent, or whether it could be mandatory. Consent has been an important – and arguably determinative – factor in the Court's more recent cases addressing administrative decisionmaking. Regardless, because a process without juries would be inconsistent with *Feltner*'s holding that copyright litigants are entitled under the Seventh Amendment to a jury trial if they so choose, a mandatory approach without juries would appear to present a seemingly insuperable obstacle. For this reason, the Report need not further analyze the viability of a mandatory small claims system for purposes of Article III.

In sum, a voluntary system appears far more promising at this time. Even under a voluntary approach, however – where parties agree to waive their individual rights to an Article III forum and jury – Congress will still need to be mindful of the structural safeguards embodied in Article III and avoid undue encroachment on Article III courts. In this regard, the contrast between the bankruptcy courts' wide-ranging legal and equitable powers, and the more modest administrative schemes upheld in *Thomas* and *Schor*, is instructive. But in any event, viewing the situation in practical terms, the threat to Article III courts would appear to be substantially lessened when many of the cases that would presumably be adjudicated in an alternative system could never be practically litigated in an Article III court.

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<sup>266</sup> *Granfinanciera* suggested in dicta that the question of whether the Seventh Amendment attaches to a claim – as *Feltner* held it did with respect to copyright damages actions – is tied to whether Congress may properly assign the claim to a non-Article III tribunal. 492 U.S. at 51-52. The *Granfinanciera* Court also observed a distinction between statutorily defined “public rights” that can be determined outside of Article III courts and “quintessential” state common law causes of action. *Id.* at 56. A claim of copyright infringement arises under federal statutory law; indeed, equivalent state law claims are expressly preempted by the Copyright Act. See 17 U.S.C. § 301. Thus, it is unclear exactly how the reasoning of *Granfinanciera* would apply in the copyright context. Also noteworthy is the fact that the *Granfinanciera* Court did not have occasion to consider the role of consent in its analysis – another important element in Article III jurisprudence – as the complaining party did not agree to the forum in that case. See *supra* note 243.

<sup>267</sup> 17 U.S.C. § 412.

<sup>268</sup> *Id.* § 411 (also allowing copyright owners to bring cases based on preregistration).

#### D. The Appointments Clause

Recent experience with the Copyright Royalty Board (“CRB”), an existing administrative tribunal housed within the Library of Congress whose functions are partially overseen by the Register of Copyrights, underscores the potential significance of the Constitution’s Appointments Clause to the selection and supervision of those who might serve as decisionmakers in a copyright small claims system.

The Appointments Clause addresses the Framers’ concerns about potential diffusion of government power by limiting Congress’ authority to provide for the appointment of officers of the United States.<sup>269</sup> Embodied in Article II of the Constitution, it provides that “[the President] ... shall nominate, and by and with the Advice and Consent of the Senate, shall appoint ... Officers of the United States, whose Appointments are not herein otherwise provided for, and which shall be established by Law: but the Congress may by Law vest the Appointment of such inferior Officers, as they think proper, in the President alone, in the Courts of Law, or in the Heads of Departments.”<sup>270</sup>

As defined by the Supreme Court, an “officer of the United States” – as opposed to an “employee” – is a person who “exercis[es] significant authority pursuant to the laws of the United States.”<sup>271</sup> An inferior officer is an officer whose “work is directed and supervised at some level by others who were appointed by Presidential nomination with the advice and consent of the Senate.”<sup>272</sup> If the officer’s work is not so directed and supervised, the officer is considered a principal officer who must be appointed by the President with the advice and consent of the Senate.<sup>273</sup> Inferior officers may be appointed by heads of departments.<sup>274</sup>

The CRB, consisting of three Copyright Royalty Judges (“CRJs”) appointed by the Librarian of Congress – who is in turn appointed by the President – is an administrative body that sets the rates and terms of statutory copyright licenses and distributes the royalties collected under such licenses to copyright owners.<sup>275</sup> In *Intercollegiate Broadcasting System v. Copyright Royalty Board*,<sup>276</sup> Intercollegiate, an association of noncommercial webcasters unhappy with a royalty rate determination of the CRB, challenged the constitutionality of the Board under the Appointments Clause, arguing that the CRJs constitute principal officers who can only be appointed by the President.<sup>277</sup>

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<sup>269</sup> *Freytag v. Comm. of Internal Revenue*, 501 U.S. 868, 883-84 (1991).

<sup>270</sup> U.S. Const., art. II, § 2, cl. 2.

<sup>271</sup> *Buckley v. Valeo*, 424 U.S. 1, 125-26 (1976).

<sup>272</sup> *Intercollegiate Broad. Sys., Inc. v. Copyright Royalty Bd.*, 684 F.3d 1332, 1338 (D.C. Cir. 2012) (quoting *Edmond v. United States*, 520 U.S. 651, 663 (1997)).

<sup>273</sup> *Id.* at 1340.

<sup>274</sup> *Free Enter. Fund v. Public Co. Accounting Oversight Bd.*, 130 S. Ct. 3138, 3151-53 (2010).

<sup>275</sup> See 17 U.S.C. § 801 *et seq.*

<sup>276</sup> *Intercollegiate Broad. Sys., Inc.*, 684 F.3d 1332.

<sup>277</sup> *Id.* at 1336.

In reviewing the responsibilities and supervision of the CRJs, the Court of Appeals for the District of Columbia Circuit concluded that, while directed in certain respects by the Librarian of Congress and Register of Copyrights, the Judges still had “vast discretion” in establishing the rates and terms for statutory licenses.<sup>278</sup> Moreover, they were not removable from office except for misconduct or neglect of duty.<sup>279</sup> Finally, the CRJs’ rate determinations were not reversible or correctable by any other officer or entity within the executive branch, so their decisions – while appealable to an Article III court – were final for purposes of that branch.<sup>280</sup> Given the CRJs’ nonremovability and the finality of their decisions, the Court of Appeals held that “the Librarian’s and Register’s supervision functions [fell] short of the kind that would render the CRJs inferior officers.”<sup>281</sup>

In light of this determination, the court declared the CRB “as currently constituted” to violate the Appointments Clause, but remedied the constitutional defect by invalidating and severing the restrictions on the Librarian’s ability to remove the CRJs.<sup>282</sup> In the court’s view, with this statutory change, the Librarian – whom the court confirmed to be a head of department – could now properly appoint the CRJs. But ensuring the Librarian’s “unfettered removal power,” the Librarian would be able to “direct,” “supervise” and “exert some ‘control’” over the Judges, and they would now be proper inferior officers.<sup>283</sup>

In establishing an alternative forum for the adjudication of small copyright claims, consideration should be given to the Appointments Clause, as well as the Court of Appeals’ decision in *Intercollegiate Broadcasting*, to ensure that the decisionmakers (assuming they are not Presidential appointees) are adequately supervised and appropriately subject to removal.

#### E. Due Process Considerations

The Fifth and Fourteenth Amendments to the Constitution provide that “no person shall be . . . deprived of life, liberty, or property, without due process of law.”<sup>284</sup> Due process safeguards are essential to impartial adjudicative proceedings. Even in a voluntary system – where parties may choose to forego certain traditional rights – for example, by waiving objections to personal jurisdiction and formal service of process – the proceedings must be fundamentally fair both to those who bring claims and those who respond. It is therefore worthwhile to consider the basic precepts of due process as they might apply to a small copyright claims tribunal.

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<sup>278</sup> *Id.* at 1338-39. *Cf. Freytag*, 501 U.S. at 881-82 (special trial judges of U.S. Tax Court were inferior offices who exercised “significant discretion” in light of their ability to take testimony, conduct trials, rule on the admissibility of evidence, and enforce discovery orders).

<sup>279</sup> *Intercollegiate Broad. Sys., Inc.*, 684 F.3d at 1339-40.

<sup>280</sup> *Id.* at 1340.

<sup>281</sup> *Id.* at 1339.

<sup>282</sup> *Id.* at 1340-42.

<sup>283</sup> *Id.* at 1341-41 (quoting *Edmond*, 520 U.S. at 662-64).

<sup>284</sup> U.S. CONST. amend. V & XIV.

## 1. Personal Jurisdiction

It is clear that federal courts have subject matter jurisdiction over cases arising under the Copyright Act.<sup>285</sup> But when plaintiffs – including copyright owners alleging infringement – bring cases in federal court, they also must establish that the court has personal jurisdiction over the defendant.<sup>286</sup> In its simplest terms, personal jurisdiction refers to the idea that, as a matter of due process, a defendant can be sued only in a location where it is fair to require the defendant to appear in court. While it may be easy for a copyright owner to demonstrate personal jurisdiction if he or she files a lawsuit in the state or federal district where the defendant resides, it can become considerably more complicated if the plaintiff brings suit in a different jurisdiction.

Federal courts apply varying standards to determine whether a defendant is properly subject to the jurisdiction of the court, depending upon the context. As a general matter, guided by the 1945 Supreme Court decision in *International Shoe Co. v. Washington* and its progeny, courts assess whether a defendant has sufficient ties – or “minimum contacts” – with the jurisdiction to satisfy due process.<sup>287</sup> Under such an analysis, a court might find that it has either general or specific jurisdiction over a defendant, or both.

To establish general personal jurisdiction, a court must conclude that the defendant has had “continuous and systematic contacts” with the forum.<sup>288</sup> If so, the defendant is properly subject to suit. Alternatively, to find specific jurisdiction, courts typically apply a three-part test that considers whether the cause of action arose out of or resulted from the defendant’s forum-related activities,<sup>289</sup> or the defendant purposely directed his or her activities at the forum or availed himself or herself of the privilege of conducting activities in the forum;<sup>290</sup> and, assuming that the answer to both of these is “yes,” whether the assertion of personal jurisdiction is reasonable and does not “offend traditional notions of fair play and substantial justice.”<sup>291</sup>

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<sup>285</sup> See 28 U.S.C. § 1338.

<sup>286</sup> Only federal – and not state – courts have subject matter jurisdiction over statutory copyright infringement suits. See *id.* While subject matter jurisdiction concerns the court’s authority over the subject of the suit, personal jurisdiction addresses the court’s authority over the parties.

<sup>287</sup> See *International Shoe v. Washington*, 326 U.S. 310, 317 (1945); see also, *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 291 (1980).

<sup>288</sup> *International Shoe*, 326 U.S. at 316.

<sup>289</sup> This factor is derived from *Burger King Corp. v. Rudzewicz*, 471 U.S. 462 (1985).

<sup>290</sup> This factor is derived from *World-Wide Volkswagen Corp.*, 444 U.S. 286.

<sup>291</sup> *International Shoe*, 326 U.S. at 316. Examples of federal courts employing this three-part test include *O’Connor v. Sandy Lane Hotel*, 496 F.3d 312, 317 (3d Cir. 2007); *Panavision Int’l, L.P. v. Toeppen*, 141 F.3d 1316 (9th Cir. 1998); *Dudnikov v. Chalk & Vermillion Fine Arts, Inc.*, 514 F.3d 1063, 1071 (10th Cir. 2008). But see *Oldfield v. Pueblo De Bahia Lora, S.A.*, 558 F.3d 1210, 1221 n.28 (11th Cir. 2009) (applying a different three-factor test for intentional torts where personal jurisdiction is appropriate if the defendant “(1) committed an intentional tort (2) that was directly aimed at the forum, (3) causing an injury within the forum that the defendant should have reasonably anticipated.”); *Burlington Indus., Inc. v. Maples Indus., Inc.*, 97 F.3d 1100, 1102 (8th Cir. 1996) (applying the following five-factor test: “(1) the nature and quality of contacts with the forum state; (2) the quantity of such contacts; (3) the relation of the cause of action to the contacts; (4) the interest of the forum state in providing a forum for its residents; and (5) convenience of the parties”).

These traditional analyses of personal jurisdiction are highly fact-dependent and can become even more complicated when the case arises from online activities. If a defendant's only contact with a jurisdiction is through the internet, courts have developed additional factors to consider. In the influential case *Zippo Manufacturing Co. v. Zippo Dot Com*, the Western District of Pennsylvania announced a "sliding scale" assessment to determine when internet activity was sufficient to establish personal jurisdiction.<sup>292</sup> At one end of the scale are "active" websites where "the defendant clearly does business over the internet" and "enters into contracts with residents of a foreign jurisdiction that involve the knowing and repeated transmission of computer files over the internet"<sup>293</sup> – in which case the exercise of personal jurisdiction is proper. At the other end of the scale are "passive" websites that do "little more than make information available."<sup>294</sup> Such passive websites do not provide grounds for exercising personal jurisdiction. "Interactive" websites, "where a user can exchange information with the host computer," lie at the middle of the scale.<sup>295</sup>

Unlike a number of other federal statutes, the Copyright Act does not provide for nationwide service of process.<sup>296</sup> But as there appears to be interest in a centralized small claims process, perhaps administered by the Copyright Office in Washington, D.C., a question arises as to how parties from other jurisdictions might be brought before that tribunal (unless the infringing acts occurred where it was located) – including whether such a centrally located small claims facility could permit national service.

In considering where a party may be sued under a federal statutory regime that ostensibly permits nationwide service, one approach has been simply to ask whether the defendant has "minimum contacts" with the United States – rather than with a particular federal district – on the theory "that [because] the relevant sovereign is the United States, it does not offend traditional notions of fair play and substantial justice to exercise personal jurisdiction over a defendant residing within the United States."<sup>297</sup> This "pure minimum contacts" approach, however, has not been widely adopted. In *Republic of Panama v. BCCI Holdings*, for example,

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<sup>292</sup> *Zippo Mfg. Co. v. Zippo Dot Com*, 952 F. Supp. 1119, 1124 (W.D. Pa. 1997).

<sup>293</sup> *Id.*

<sup>294</sup> *Id.*

<sup>295</sup> *Id.* Other courts have found that while the internet may inject some novel factual elements into the personal jurisdiction question, there is no need to abandon the traditional "minimum contacts" personal jurisdiction factors derived from *International Shoe*. For example, the Seventh Circuit has explicitly rejected the *Zippo* approach, reasoning that "[u]sing a separate test for internet-based contacts would be inappropriate" when traditional personal jurisdiction analysis "remains up to this more modern task." *uBID, Inc. v. GoDaddy Group*, 623 F.3d 421, 431 n.3 (7th Cir. 2010).

<sup>296</sup> Compare 28 U.S.C. § 1338 (granting district courts original jurisdiction over civil copyright actions, but not mentioning national service of process) with 15 U.S.C. § 78aa (authorizing national service of process for violations of the Securities Exchange Act), 29 U.S.C. § 1132(e)(2) (authorizing national service of process for violations of the Employee Retirement Income Security Act) and 18 U.S.C. § 1965(a) (authorizing national service of process for violations of the Racketeer Influenced and Corrupt Organizations Act).

<sup>297</sup> *Busch v. Buchman, Buchman & O'Brien*, 11 F.3d 1255, 1258 (5th Cir. 1994) (holding that Texas district court had jurisdiction over New York law firm that allegedly violated the Securities Exchange Act of 1934 because the firm wrote a tax opinion that was included in a nationwide promotional mailing).

the Eleventh Circuit applied what has been called the “fairness approach.”<sup>298</sup> Under this standard, regardless of whether the statute permits nationwide service, the court considers not only the defendant’s minimum contacts with the United States, but also “balance[s] the burdens imposed on the individual defendant against the federal interest involved in the litigation.”<sup>299</sup>

Finally, a court needs to engage in one of the above analyses only if the defendant challenges personal jurisdiction. Unlike a case in which a court lacks subject matter jurisdiction – a defect that cannot be cured by parties’ consent to the forum<sup>300</sup> – if a nonresident defendant voluntarily submits to a court’s jurisdiction, he or she waives any objection and personal jurisdiction is proper.<sup>301</sup>

## 2. Service of Process

A court’s personal jurisdiction over a defendant is not complete until the defendant is properly served with process.<sup>302</sup> In federal court, this means that the defendant must receive notice of the lawsuit and a copy of the complaint as provided in Rule 4 of the Federal Rules. Without proper notice, the judicial proceedings are invalid as to the defendant. If service of process is defective and the defendant does not raise this defense in his answer, however, he or she is deemed to have waived the defense of insufficient service.<sup>303</sup>

Federal Rule 4 prescribes the requirements for the service of process on both individuals<sup>304</sup> and entities.<sup>305</sup> It includes procedures for formal service of process. As a general matter, formal service of an individual can be accomplished by delivering a copy of a summons and complaint personally to the defendant,<sup>306</sup> by leaving a copy of the requisite papers at the defendant’s home with a resident of suitable age and discretion,<sup>307</sup> by delivering a copy of the papers to an agent authorized by appointment or by law to receive service of process,<sup>308</sup> or by following the rules for service applicable in the forum state.<sup>309</sup> Corporate and other entities may be served according

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<sup>298</sup> 119 F.3d 935 (11th Cir. 1997); *see also* 4 CHARLES A. WRIGHT & ARTHUR R. MILLER, FED. PRAC. & PROC. § 1068.1 (3d ed. 2013) (“WRIGHT & MILLER”).

<sup>299</sup> *BCCI Holdings*, 119 F.3d at 946.

<sup>300</sup> *See, e.g., United States v. Cotton*, 535 U.S. 625, 630 (2002) (“This ... concept of subject-matter jurisdiction, because it involves a court’s power to hear a case, can never be forfeited or waived.”).

<sup>301</sup> *See* FED. R. CIV. P. 12(b)(2) (defense of lack of personal jurisdiction) and 12(h)(1) (waiver of defenses).

<sup>302</sup> 4 WRIGHT & MILLER § 1063.

<sup>303</sup> *See* FED. R. CIV. P. 12(b)(4) (defense of insufficient process); FED. R. CIV. P. 12(h)(1) (waiver of defenses); *see also Farm Credit Bank of Baltimore v. Ferrera-Goitia*, 316 F.3d 62, 68 (failure to raise deficiencies with summons in district court bars defense on appeal).

<sup>304</sup> FED. R. CIV. P. 4(e) & (f).

<sup>305</sup> *Id.* 4(h) & (i).

<sup>306</sup> *Id.* 4(e)(2)(A).

<sup>307</sup> *Id.* 4(e)(2)(B).

<sup>308</sup> *Id.* 4(e)(2)(C).

<sup>309</sup> *Id.* 4(e)(1).

to state rules or through an officer or authorized agent.<sup>310</sup> Service also may be made through an alternative process pursuant to which a defendant waives formal service by agreeing to accept notice of the action by mail or other means, in which case the defendant will benefit from additional time to respond to the complaint.<sup>311</sup> Rule 4 also provides for the service of foreign defendants, which is more complex and typically made pursuant to an international agreement such as the Hague Convention on the Service Abroad of Judicial and Extrajudicial Documents.<sup>312</sup>

### 3. Conduct of Proceedings

The Supreme Court has held that, at a minimum, due process consists of “notice and opportunity for a hearing appropriate to the nature of the case.”<sup>313</sup> In the civil arena, the Court has had the opportunity to examine many elements of judicial procedure in light of due process concerns, such as assistance of counsel, provision of evidence, and availability of appellate review.

Regarding the assistance of counsel, the Court has held that a court may not arbitrarily deny a litigant the right to furnish himself or herself with counsel.<sup>314</sup> Additionally, the Court has ruled that the rules of evidence in effect in a given proceeding must, in order to comport with due process, provide the litigant with “a reasonable opportunity” to submit facts bearing upon his or her defense.<sup>315</sup>

A significant focus of inquiry has been whether due process requires appellate review of court decisions. On this question the Court has held that, provided there has been a “full and fair trial on the merits” of a case, a state is not obligated to provide for appellate review.<sup>316</sup> This is true in both the civil and criminal contexts.<sup>317</sup>

Small claims courts, by design, generally offer considerably less in the way of procedural protections than courts of plenary jurisdiction. “The rules of small claims courts emphasize conciliation and pragmatism over winning, and many rules of evidence and civil procedure have been simplified to allow maximum access to the courts by individuals unable to afford an

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<sup>310</sup> *Id.* 4(h).

<sup>311</sup> *Id.* 4(d); *id.* 12(a)(1)(A).

<sup>312</sup> *See* FED. R. CIV. P. 4(f)(1).

<sup>313</sup> *Mullane v. Cent. Hanover Bank & Trust Co.*, 339 U.S. 306, 313 (1950).

<sup>314</sup> *Powell v. Alabama*, 287 U.S. 45, 69 (1932) (“If in any case, civil or criminal, a state or federal court were arbitrarily to refuse to hear a party by counsel, employed by and appearing for him, it reasonably may not be doubted that such a refusal would be a denial of a hearing, and, therefore, of due process in the constitutional sense.”). It also has held that, in some situations – particularly those where a defendant’s liberty interest is at stake – the court must appoint counsel for an indigent litigant. *Lassiter v. Dept. of Social Services*, 452 US 18, 25 (1981).

<sup>315</sup> *Bailey v. Alabama*, 219 U.S. 219, 239 (1911).

<sup>316</sup> *M.L.B. v. S.L.J.*, 519 U.S. 102, 114 (1996) (citing *Lindsey v. Normet*, 405 U.S. 56, 77 (1972)).

<sup>317</sup> *See, e.g., Griffin v. Illinois*, 351 U.S. 12, 18 (1956) (holding, in criminal context, that states are not constitutionally compelled to provide for appellate review).

attorney.”<sup>318</sup> To take but one example, California small claims courts do not allow discovery or, ordinarily, the assistance of counsel.<sup>319</sup>

The Supreme Court has not specifically opined on what processes and opportunities must be provided by state small claims courts to comply with due process. Numerous lower federal and state courts, however, have addressed these questions, though not in any systematic way. These courts generally have held that by choosing to litigate in small claims court, plaintiffs effectively waive any due process right that may not be provided for in the abbreviated forum.<sup>320</sup>

Caselaw in this area analyzes questions of assistance of counsel, availability of discovery, appellate review, and the ability to cross-examine witnesses. Regarding assistance of counsel, state courts in California, Nebraska and Idaho have all found that the denial of counsel in a small claims proceeding does not violate due process where counsel is allowed if the case is tried *de novo* on review.<sup>321</sup> In the Virgin Islands, there is no statutory right for trial *de novo* on review, but the U.S. district court there has held that denial of counsel at the small claims level is nonetheless consistent with due process because, *inter alia*, the small claims judge has the discretion, if counsel requests, to transfer the case to a different court.<sup>322</sup> The overriding rule in all of these cases is that “due process requires that a party have a right to be heard through counsel at some stage.”<sup>323</sup>

Litigants have also challenged the rule in some jurisdictions that no discovery is permitted in small claims proceedings. In Ohio, the state Court of Appeals found that such a rule does not violate due process because parties may request leave from the court to conduct interrogatories or take depositions, and because a defendant may request that the case be moved to the regular docket of the court, where discovery is permitted.<sup>324</sup>

Following the Supreme Court, lower federal courts and state courts are consistent in holding that appellate review of small claims verdicts is not required by due process, provided that “due process [is] accorded in the tribunal of the first instance.”<sup>325</sup>

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<sup>318</sup> Bruce Zucker & Monica Herr, *The People’s Court Examined: A Legal and Empirical Analysis of the Small Claims Court System*, 37 U.S.F. L. REV. 315, 317-18 (Winter 2003) (quoting Marc Anthony Douthit, *Humbling Experiences: Trials of Small Claims*, 27 LITIG. 27 (2000)).

<sup>319</sup> *Id.* at 347; see also Summary of State Small Claims Procedures, attached as Appendix D, at col. Attorney Representation.

<sup>320</sup> See *Fox v. Cal. Franchise Tax Board*, 443 Fed. Appx. 354, 361 (10th Cir. 2011) (choosing to be heard in a small claims forum that does not provide for appeal by plaintiff did not deprive plaintiff of his right to notice and opportunity to be heard, because he chose that forum); *Keeffe v. Tax Appeals Tribunal*, 627 N.Y.S.2d 851, 853 (1995) (“By voluntarily entering into an agreement for the resolution of a dispute in a manner which dispenses with certain constitutional rights, a party can be deemed to have waived due process requirements.”).

<sup>321</sup> *Prudential Ins. Co. v. Small Claims Court*, 76 Cal. App. 2d 379, 382 (1946); *Simon v. Lieberman*, 193 Neb. 321, 324 (1975); *Foster v. Walus*, 81 Idaho 452, 459 (1959).

<sup>322</sup> *Carr v. Pena*, 432 F. Supp. 828, 833 (D.V.I. 1977).

<sup>323</sup> *Id.*

<sup>324</sup> *Powell v. Killian*, No. 01AP-85, 2001 Ohio App. LEXIS 4154, at \*6 (Ohio Ct. App. Sept. 18, 2001).

<sup>325</sup> *Keeffe*, 627 N.Y.S.2d 851; see also *Blair v. Supreme Ct. of Wyo.*, 671 F.2d 389, 391 (11th Cir. 1982).

One due process right that some courts have held must be preserved at the small claims level is the right to cross-examine witnesses.<sup>326</sup> Furthermore, because one of the purposes of cross-examination is to make determinations based upon witness behavior, it has been held that testimony via telephone does not effectively preserve the right and cross-examination must be allowed to be conducted in person.<sup>327</sup> But notwithstanding such considerations, it is clear that the right to cross-examination, however conducted, can be waived.<sup>328</sup>

Alternative dispute resolution (“ADR”), specifically arbitration, is another way of settling legal conflicts through the use of abbreviated or specialized procedures. Of course, because most arbitration is conducted by private means and does not constitute “state action,” it is not subject to the requirements of constitutional due process.<sup>329</sup> Arbitration can, however, incorporate what has been called a kind of “private due process” to protect parties against procedural unfairness.<sup>330</sup>

One way this is achieved is through the provisions of the Federal Arbitration Act (“FAA”), a federal statutory provision that provides for the judicial enforcement of private arbitration awards.<sup>331</sup> The FAA allows parties to challenge arbitral awards on a number of procedural grounds, including: where the award was due to “corruption, fraud, or undue means”;<sup>332</sup> where there was “evident partiality”;<sup>333</sup> where the arbitrators refused to postpone a hearing, refused to hear pertinent evidence, or were guilty of “misconduct” prejudicing the rights of the parties;<sup>334</sup> and where the arbitrators exceeded their powers or imperfectly exercised them so as to preclude a “mutual, final, and definite award.”<sup>335</sup> In addition to the procedural safeguards of the FAA, courts may require arbitrators to provide a “fundamentally fair hearing,” meaning “notice, opportunity to be heard and to present relevant and material evidence and argument before the decisionmakers, and that the decisionmakers are not infected with bias.”<sup>336</sup> Courts have declined to enforce arbitral awards where an arbitral forum was not neutral,<sup>337</sup> one party had exclusive

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<sup>326</sup> *Graves v. Am. Express*, 669 N.Y.S.2d 463 (1997) (“Although the procedures in Small Claims Court are relaxed, the rules of substantive law must be followed and a person’s constitutional right to due process of law includes the basic right to cross-examine witnesses.”).

<sup>327</sup> *Hughes v. Elliott*, 768 N.Y.S.2d 74 (2003).

<sup>328</sup> See, e.g., *Lonzollo v. Weinberger*, 534 F.2d 712, 714 (7th Cir. 1976) (noting that waiver of right to cross-examine must be “clearly expressed or strongly implied from the circumstances”).

<sup>329</sup> See, e.g., Peter B. Rutledge, *Whither Arbitration?*, 6 GEO. J.L. & PUB. POL’Y 549, 563 (2008); Paul R. Verkuil, *Privatizing Due Process*, 57 ADMIN. L. REV. 963, 964 (2005).

<sup>330</sup> Verkuil, at 983.

<sup>331</sup> 9 U.S.C. § 1 *et seq.*

<sup>332</sup> 9 U.S.C. § 10(a)(1).

<sup>333</sup> *Id.* § 10(a)(2).

<sup>334</sup> *Id.* § 10(a)(3).

<sup>335</sup> *Id.* § 10(a)(4).

<sup>336</sup> *Bowles Fin. Grp., Inc. v. Stifel, Nicolaus & Co., Inc.*, 22 F.3d 1010, 1013 (10th Cir. 1994); see also Jill I. Gross, *AT&T Mobility and the Future of Small Claims Arbitration*, 42 SW. L. REV. 47, 68-69 (2012).

<sup>337</sup> *Walker v. Ryan’s Family Steak Houses, Inc.*, 400 F.3d 370, 385-86 (6th Cir. 2005).

control over arbitrator selection,<sup>338</sup> the arbitration agreement was unconscionable,<sup>339</sup> or the arbitration rules were one-sided.<sup>340</sup>

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<sup>338</sup> *McMullen v. Meijer, Inc.*, 355 F.3d 485, 494 (6th Cir. 2004).

<sup>339</sup> *Murray v. United Food and Commercial Workers Int'l Union*, 289 F.3d 297, 303-305 (4th Cir. 2002).

<sup>340</sup> *Hooters of Am., Inc. v. Phillips*, 173 F.3d 933, 938 (4th Cir. 1999).

## V. STATE COURTS

In addition to the federal court system described above, the United States has vibrant and essential state court systems serving each of the fifty states and the District of Columbia. There, parties litigate a huge variety of cases, from breaches of contract to divorces to serious criminal matters. As noted above, copyright cases are not currently within state court jurisdiction and thus state court judges lack expertise and experience in copyright matters. As discussed below, participants in the Copyright Office’s small claims study were overwhelmingly of the view that copyright cases should continue to be the exclusive domain of federal courts or, in the case of smaller claims, perhaps some other sort of federal process. But it is nonetheless important to review the role of state courts, and state small claims procedures in particular, because they offer valuable insight into established methods to address lower-value claims in relatively streamlined fashion.

### A. Courts of General Jurisdiction

The state court systems of the United States share some common characteristics. Typically, state courts have more than one level of tribunal, including trial courts and one or more appellate courts. At the trial level, states divide cases based upon monetary value and/or subject matter. Most cases are tried in state trial courts of general jurisdiction, where litigants must comply with procedural rules that can encompass significant discovery and motion practice not unlike federal court.

Many states follow a modified version of the Federal Rules,<sup>341</sup> which, as described above, help to structure litigation, but can also result in complex and expensive procedures, including extensive pretrial practice. As in federal courts, state court trials can be long and costly, with lay and expert witnesses, voluminous exhibits, evidentiary questions, motion practice, and juries. In fact, one survey estimated that, for some of the most common causes of action, total court costs can range from \$43,000 to \$122,000<sup>342</sup> – well above what many might consider to be the value of a small copyright claim.

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<sup>341</sup> See John B. Oakley & Arthur F. Coon, *The Federal Rules in State Courts: A Survey of State Court Systems of Civil Procedure*, 61 WASH. L. REV. 1367, 1425 (1984) (noting 23 jurisdictions that use near replicas of the Federal Rules, 4 jurisdictions that use rules substantially the same as the Federal Rules, and several other jurisdictions that have differing degrees of variance with the Federal Rules (such as the pleading standard), but still retain many aspects of the Federal Rules). *But see* Roger Michael Michalski, *Tremors of Things To Come: The Great Split Between Federal and State Pleading Standards*, 120 YALE L.J. ONLINE 109, 114 (2010) (noting recent trend of states creating rules of procedure that diverge from Federal Rules).

<sup>342</sup> See Paula Hannafor-Agor & Nicole L. Waters, *Estimating the Cost of Civil Litigation*, National Center for State Courts, Court Statistics Project, (2013), available at [http://www.courtstatistics.org/~/-/media/Microsites/Files/CSP/DATA%20PDF/CSPH\\_online2.ashx](http://www.courtstatistics.org/~/-/media/Microsites/Files/CSP/DATA%20PDF/CSPH_online2.ashx). This monetary range is indicative of the six causes of action that “comprise nearly 60 percent of non-domestic relations civil cases filed in state courts.” Although the data thus does not represent an average of *all* civil litigation costs, it confirms that the costs of most state court civil cases can be very high.

Because copyright cases are reserved to the federal courts – and state court rights equivalent to federal copyright protections are preempted by the Copyright Act<sup>343</sup> – state courts lack expertise and experience in copyright matters. That said, state courts do sometimes address somewhat related issues involving state common law rights that have not been preempted, such as cases involving pre-1972 sound recordings (which are not subject to federal copyright protection);<sup>344</sup> cases involving the public performance of unfixed works (also not federally protected);<sup>345</sup> and certain moral rights issues, such as misattribution.<sup>346</sup> But, as a rule, state courts are unfamiliar with infringement and other matters that arise under the Copyright Act and lack state-developed precedents to guide them.

## B. Small Claims Courts

In addition to courts of general jurisdiction, every state and the District of Columbia has a small claims process to provide better access to the legal system for citizens with low-value civil disputes.<sup>347</sup> Small claims systems avoid many of the technical procedural rules normally applied in state civil court proceedings, which can result in trial delays and increased costs.<sup>348</sup> By using simplified procedures, restricting attorney participation, and limiting the types of claims that litigants can bring, states have designed small claims systems to be accessible, low cost, and efficient.<sup>349</sup>

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<sup>343</sup> 17 U.S.C. § 301 (As of January 1, 1978, “all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 ... are governed exclusively by [the Copyright Act]. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.”).

<sup>344</sup> *Id.* § 301(c) (“With respect to sound recordings fixed before February 15, 1972, any rights or remedies under the common law or statutes of any State shall not be annulled or limited by this title until February 15, 2067.”); *see also* U.S. COPYRIGHT OFFICE, REPORT ON FEDERAL COPYRIGHT PROTECTION FOR PRE-1972 SOUND RECORDINGS (2011), available at <http://www.copyright.gov/docs/sound/pre-72-report.pdf>.

<sup>345</sup> 17 U.S.C. § 301(b)(1) (state law with respect to works of authorship not fixed in any tangible medium of expression not preempted).

<sup>346</sup> *See* H.R. REP. NO. 101-514, at 21 (1990) (“[federal] law will not preempt a cause of action for a misattribution of a reproduction of a work of visual art”).

<sup>347</sup> *See* JOHN C. RUHNKA, STEVEN WELLER & JOHN A. MARTIN, SMALL CLAIMS COURTS: A NATIONAL EXAMINATION 2 (1978); Arthur Best et al., *Peace, Wealth, Happiness, and Small Claim Courts: A Case Study*, 21 *FORDHAM URB. L.J.* 343, 343-44 (1994); Bruce Zucker & Monica Herr, *The People’s Court Examined: A Legal and Empirical Analysis of the Small Claims System*, 37 *U.S.F. L. REV.* 315, 317 (2003).

<sup>348</sup> *See* RUHNKA ET AL., at 1.

<sup>349</sup> *See id.* at 2-3 (discussing goals of small claims process in terms of accessibility, speed, low cost, simplicity, self-representation, fairness, and effectiveness); Josephine Y. King, *Small Claims Practice in the United States*, 52 *ST. JOHN’S L. REV.* 42, 43 (1977) (explaining that small claims reformers sought to avoid expense and delay caused by complex procedures while permitting self-representation); Zucker & Herr, at 317 (“Although the financial claims limits, methods of procedure, and overall structure vary from state to state, the concept is essentially the same: relatively minor disputes involving dollar amounts that are insufficient to warrant processing the case through normal court procedure justify expedited and simplistic handling.”).

While all state small claims systems serve the same fundamental purpose, they vary in terms of structure and procedure.<sup>350</sup> For example, small claims may be encompassed within the civil jurisdiction of a state magistrate court or court of limited jurisdiction, as in Georgia,<sup>351</sup> or may be heard in a different division of the court system, such as in California or Illinois.<sup>352</sup> In multilevel court systems, which include New York and Massachusetts, small claims are handled within the lowest level of the civil courts, or specialized parts of those courts.<sup>353</sup> Although the court systems differ, one theme holds constant: separate, less formal rules of procedure govern small claims proceedings.

## 1. Jurisdiction

Because they employ streamlined procedural mechanisms, small claims tribunals are limited to certain types of claims. These limits turn on the monetary value or the nature of the claim asserted, or both. In some cases, states also limit the parties who may use the small claims procedure and/or attorney participation.

### a. Monetary Limits

All small claims courts are limited to adjudication of claims of smaller economic value; only claims that fall under a certain dollar amount are eligible.<sup>354</sup> The limit varies significantly across the United States, ranging from \$2,500 in Arizona and Rhode Island to \$25,000 in Tennessee.<sup>355</sup> States sometimes also impose limits on the number of claims a single claimant may file in a given time period.<sup>356</sup>

States periodically evaluate whether to raise their small claims caps.<sup>357</sup> Supporters of higher limits principally argue that current limits are insufficient to cover basic disputes, and higher

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<sup>350</sup> See Zucker & Herr, at 317 (2003). For purposes of this Report, the Office focused primarily on small claims systems in ten different states: California, Florida, Georgia, Illinois, Massachusetts, Michigan, New York, Pennsylvania, Tennessee, and Texas. These states were selected by consulting the Lex Machina online database (<https://lexmachina.com>) to determine the states containing the federal districts that have heard the most copyright disputes during the past twelve years.

<sup>351</sup> See THOMAS E. MARTIN, JR., *CIVIL PRACTICE IN MAGISTERIAL DISTRICT COURTS* 4 (2012); WAYNE M. PURDOM, *GEORGIA MAGISTRATE COURT HANDBOOK* § 1-1 (4th ed. 2002).

<sup>352</sup> See Paula Hannaford-Agor & Nicole L. Waters, *Estimating the Cost of Civil Litigation*, National Center for State Courts, Court Statistics Project, (2013), available at [http://www.courtstatistics.org/~media/Microsites/Files/CSP/DATA%20PDF/CSPH\\_online2.ashx](http://www.courtstatistics.org/~media/Microsites/Files/CSP/DATA%20PDF/CSPH_online2.ashx).

<sup>353</sup> See Appendix D (summarizing state small claims practices).

<sup>354</sup> See *id.* (summarizing monetary limits).

<sup>355</sup> ARIZ. REV. STAT. ANN. § 22-503(A) (2013); R.I. GEN. LAWS § 10-16-1 (2012); TENN. CODE ANN. § 16-15-501(d)(1) (2013); see also Appendix D (summarizing monetary limits).

<sup>356</sup> See, e.g., CAL. CIV. PROC. CODE § 116.231(a) (2013) (limiting number of claims over \$2,500 a party may file within a calendar year); MICH. COMP. LAWS § 600.8407(2) (2012) (limiting the number of claims a party may file in one week).

<sup>357</sup> See, e.g., FLA. S. COMM. ON THE JUDICIARY, REVIEW OF THE SMALL CLAIMS PROCESS IN FLORIDA, S. REP. NO. 2009-121, Interim Rep., at 6-7 (2008), available at [http://archive.flsenate.gov/data/Publications/2009/Senate/reports/interim\\_reports/pdf/2009-121ju.pdf](http://archive.flsenate.gov/data/Publications/2009/Senate/reports/interim_reports/pdf/2009-121ju.pdf); N.Y. LOCAL COURTS ADVISORY COMM., REPORT OF THE ADVISORY

limits would help clear regular civil dockets of claims more appropriate for a small claims system.<sup>358</sup> Those opposed to raising limits fear that rising caps will overburden small claims systems,<sup>359</sup> begin to intrude on defendants' due process rights,<sup>360</sup> and create inequalities between one-time litigants and repeat corporate plaintiffs.<sup>361</sup>

b. Permissible Claims and Parties

Small claims systems adjudicate a wide variety of matters, including claims involving contracts, torts, and personal property.<sup>362</sup> Different states, however, have different restrictions on the claims that can be litigated in small claims court. For example, while most small claims courts hear claims arising from breach of contract, unpaid debts, and motor vehicle accidents, they do not necessarily address eviction cases, intentional torts, or defamation actions.<sup>363</sup> Thus, plaintiffs in different states with the same claims may have different access to their small claims courts.

Additionally, many states allow only certain types of parties to participate in small claims systems. Some states prohibit assignees, collection agencies, and/or professional lenders from bringing small claims actions.<sup>364</sup> These entities must instead file in the regular civil division of the applicable state court. The rationale for this prohibition is that, even without attorney representation, such repeat claimants may have an unfair advantage over a one-time defendant who is unfamiliar with court procedure.<sup>365</sup>

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COMMITTEE ON LOCAL COURTS, at 28 (2003), *available at* [http://www.nycourts.gov/ip/judiciarylegislative/LocalCourts\\_03.pdf](http://www.nycourts.gov/ip/judiciarylegislative/LocalCourts_03.pdf).

<sup>358</sup> *See, e.g.*, MICH. S. JUDICIARY COMM., SMALL CLAIMS COURT JURISDICTION BILL ANALYSIS, 2011-2012 Leg. Sess., at 2 (2011) ("MICH. ANALYSIS"), *available at* <http://www.legislature.mi.gov/documents/2011-2012/billanalysis/senate/pdf/2011-SFA-0269-A.pdf>.

<sup>359</sup> *See, e.g.*, FLA. S. COMM. ON THE JUDICIARY, REVIEW OF THE SMALL CLAIMS PROCESS IN FLORIDA, S. REP. NO. 2009-121, Interim Rep., at 7 (2008), *available at* [http://archive.flsenate.gov/data/Publications/2009/Senate/reports/interim\\_reports/pdf/2009-121ju.pdf](http://archive.flsenate.gov/data/Publications/2009/Senate/reports/interim_reports/pdf/2009-121ju.pdf) (in five years following Florida's increase from \$2,500 to \$5,000, small claims caseload increased 89.5 percent).

<sup>360</sup> *See, e.g.*, CAL. S. JUDICIARY COMM., S.B. 221 ANALYSIS, 2005-2006 Reg. Sess., at 7-8 (2005), *available at* [http://www.leginfo.ca.gov/pub/11-12/bill/sen/sb\\_0201-0250/sb\\_221\\_cfa\\_20110620\\_105740\\_asm\\_comm.html](http://www.leginfo.ca.gov/pub/11-12/bill/sen/sb_0201-0250/sb_221_cfa_20110620_105740_asm_comm.html).

<sup>361</sup> *See, e.g.*, MICH. ANALYSIS, at 3.

<sup>362</sup> *See, e.g.*, FLA. SM. CL. R 7.010(b) (permitting "all actions at law of a civil nature"); GA. CODE ANN. § 15-10-2(5) (2013) (permitting "[t]he trial of civil claims ... in which exclusive jurisdiction is not vested in the superior court"); N.Y. CITY CIV. CT. ACT § 1801 (Consol. 2013) (allowing "any cause of action for money only not in excess of \$5,000").

<sup>363</sup> *See, e.g.*, MICH. COMP. LAWS § 600.8424 (2012) (actions of fraud and actions of libel, slander, assault, battery, or other intentional torts may not be brought in the small claims division).

<sup>364</sup> *See* RALPH WARNER, EVERYBODY'S GUIDE TO SMALL CLAIMS COURT 138, 281 (13th ed. 2010) ("WARNER"); *see also, e.g.* CAL. CIV. PROC. CODE § 116.420(a) (2013); MICH. COMP. LAWS § 600.8407 (1) & (3) (2012); N.Y. UNIFORM DIST. CT. ACT § 1809 (Consol. 2013); N.Y. UNIFORM JUST. CT. ACT § 1809 (Consol. 2013); N.Y. UNIFORM CITY CT. ACT § 1809 (Consol. 2013).

<sup>365</sup> *See* MICH. ANALYSIS, at 2-3.

## 2. Attorney Representation

Most but not all states allow parties to use lawyers in small claims actions.<sup>366</sup> A notable exception is California, which generally prohibits attorney participation in its small claims process except when an attorney is representing himself or herself or when the suit is by or against a partnership or professional corporation of attorneys.<sup>367</sup> Litigants who appear *pro se*, however, may seek legal advice from attorneys to prepare their case.<sup>368</sup>

When attorneys are allowed to appear, small claims procedures may still limit the scope of attorney participation<sup>369</sup> or subject represented parties to discovery that otherwise would not be available.<sup>370</sup> Contrary to the usual rule requiring attorneys to represent corporations and other legal entities,<sup>371</sup> some states permit officers, directors, and/or employees of an entity to appear on behalf of that entity in small claims court.<sup>372</sup>

## 3. Small Claims Procedures

Small claims procedures tend to be far simpler and less formal than those applicable to ordinary civil litigation.<sup>373</sup> States' time-tested procedures for adjudicating lower-value claims are useful to keep in mind for a potential copyright small claims process.

### a. Filing Fees

A plaintiff must pay a filing fee to initiate a claim in small claims court.<sup>374</sup> While such fees vary across states – for example, from \$15 to \$20 in New York<sup>375</sup> up to \$150 in Massachusetts<sup>376</sup> –

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<sup>366</sup> See WARNER, at 138; see also Appendix D (summarizing several states' treatment of attorney representation).

<sup>367</sup> CAL. CIV. PROC. CODE § 116.530(b) (2013).

<sup>368</sup> See, e.g., *id.* § 116.530(c) (allowing attorneys to provide advice before or after commencement of an action, to testify to facts, or to appear in order to enforce a judgment or on appeal); WARNER, at 138 (noting that most courts allow attorney participation in a small claims proceeding, but even those courts that do not permit in-court attorney representation allow parties to consult an attorney outside of court).

<sup>369</sup> See, e.g., MASS. UNIF. SM. CL. R. 7(g) (limiting attorney participation “in a manner consistent with the simple and informal adjudication of the controversy”).

<sup>370</sup> See, e.g., FLA. SM. CL. R. 7.020(b) (subjecting represented parties to discovery pursuant to the Florida Rules of Civil Procedure, while unrepresented parties are not subject to discovery unless they seek discovery).

<sup>371</sup> This rule dates back to the common law. See *Strong Delivery Ministry Ass'n v. Bd. of Appeals*, 543 F.2d 32, 33 (7th Cir. 1976) (recognizing that “[a]t common law ‘... a plea by a corporation aggregate, which is incapable of a personal appearance, must purport to be by attorney.’”) (quoting 1 CHITTY ON PLEADING 550 (12th Am.ed.1855)).

<sup>372</sup> See, e.g., TEX. R. CIV. P. 500.4(b) (setting forth possible representatives for corporations in court actions); PA.R.C.P.D.J. NO. 207(A)(2)-(3) (same).

<sup>373</sup> See *Rosenberg v. Superior Court*, 79 Cal. Rptr. 2d 365, 368 (Cal. Ct. App. 1998) (explaining state's intent to formulate a small claims procedure that would remove the expense and delay associated with ordinary methods of litigation, which “[grew] out of the demand for more simple, less expensive, and more speedy decisions of cases involving small amounts”) (quoting *Leuschen v. Small Claims Court*, 191 Cal. 133, 138 (1923)).

<sup>374</sup> See WARNER, at 168; see also Appendix D (summarizing filing fees).

they are typically lower than those assessed by states' regular civil division counterparts, and may be graduated with respect to the amount of damages claimed.<sup>377</sup> In Florida, for example, a plaintiff is required to pay a fee of \$50 to commence an action for damages of less than \$100, but a fee of up to \$380 for garnishment actions seeking more than \$1000.<sup>378</sup>

b. Assistance to Litigants

Small claims courts typically provide information and assistance to help litigants navigate the court system and collect their judgments. Clerks may be required by statute or rule to provide materials on the small claims process to litigants.<sup>379</sup> Some small claims courts offer staff assistance with the preparation of initial filings. California, for example, has established special advisory services to help litigants prepare claims and defenses, while Massachusetts requires clerks to offer assistance with claims forms upon request.<sup>380</sup>

c. Commencement and Service of Action

In lieu of a formal pleading, a small claims plaintiff typically commences an action by filing a simple statement or using a pre-established form in which he or she provides a description of the controversy and states the amount sought in damages.<sup>381</sup>

Next, the claimant must serve the defendant. State small claims courts tend to have somewhat relaxed service of process rules. For example, although personal service may be used, many small claims systems allow parties to effect service by certified mail, with some courts even permitting service by regular first class mail.<sup>382</sup> Parties may be able to take advantage of government options such as using a sheriff, marshal, or constable to serve papers on the opposing party, or may use process servers or other disinterested adults.<sup>383</sup>

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<sup>375</sup> N.Y. UNIFORM DIST. CT. ACT § 1809 (Consol. 2013); N.Y. UNIFORM JUST. CT. ACT § 1809 (Consol. 2013); N.Y. UNIFORM CITY CT. ACT § 1809 (Consol. 2013); N.Y. CITY CIV. CT. ACT § 1809 (Consol. 2013) (filing fees based on amount of claim).

<sup>376</sup> MASS. GEN. LAWS ch. 218, § 22 (2013) (graduating fees based on the amount of the claim).

<sup>377</sup> See Appendix D (summarizing filing fees).

<sup>378</sup> FLA. STAT. § 34.041 (2013) (graduating filing fees based on the amount of claim, with additional \$85 fee for garnishment, attachment, replevin, and distress proceedings).

<sup>379</sup> See, e.g., CAL. CIV. PROC. CODE § 116.930 (2013); GA. UNIF. MAGISTRATE CT. R. 17; N.Y. UNIFORM DIST. CT. ACT § 1803(b) (Consol. 2013); N.Y. UNIFORM JUST. CT. ACT § 1803(b) (Consol. 2013); N.Y. UNIFORM CITY CT. ACT § 1803(b) (Consol. 2013); N.Y. CITY CIV. CT. ACT § 1803(b) (Consol. 2013).

<sup>380</sup> See CAL. CIV. PROC. CODE §§ 116.260, 116.940(b)(1) (2013) (statutorily established small claims advisory service helps prepare claims and defenses); MASS. UNIF. SM. CL. R. 2(a) (directing court clerk to assist small claims plaintiff in completing court's claim form, if requested); see also FLA. SM. CL. R. 7.050(c) (directing clerk to assist parties in preparing statement of claim and other papers upon request).

<sup>381</sup> See Appendix D (summarizing various simplified pleadings).

<sup>382</sup> See WARNER, at 180-85.

<sup>383</sup> See *id.* at 180.

Once served, a defendant is expected to respond to the proceeding. Some states do not require small claims defendants to file answers, but instead only to appear at a hearing to defend against the claim.<sup>384</sup> Similarly, defendants do not always need to file a counterclaim, and may instead raise a counterclaim for the first time at trial.<sup>385</sup> In many – though not all – small claims systems, if a counterclaim exceeds the jurisdictional limit, the case will be transferred to a more general court, resulting in a more expensive and complex proceeding than may have been anticipated by the plaintiff.<sup>386</sup>

#### d. Mediation

Small claims litigants are often encouraged to mediate their claims through a court-sponsored mediation process. In some states, participation in mediation is mandatory before a trial on the merits.<sup>387</sup> Many states, however, merely encourage litigants to use an optional mediation procedure available at the courthouse on the day of trial.<sup>388</sup>

#### e. Pretrial Practice

The hallmark of a small claims proceeding is that traditional rules of civil procedure are significantly relaxed in order to save litigants effort and expense.<sup>389</sup> Modified procedures for small claims actions typically preclude or limit the use of discovery.<sup>390</sup> Florida’s small claims court, for example, does not allow a party to make discovery requests of an unrepresented party unless the unrepresented party has himself or herself initiated discovery.<sup>391</sup> Other states do not permit discovery at all.<sup>392</sup>

Even where more traditional rules of procedure apply, they may be construed liberally by the court so litigants are not intimidated by the technicalities of formal court procedure. In most

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<sup>384</sup> See Appendix D (summarizing answer requirements).

<sup>385</sup> See *id.*

<sup>386</sup> See RUHNKA ET AL., at 119 (except for two courts examined in a two-year study, all courts required the case to be transferred when the counterclaim exceeded the jurisdictional limit; in the other two jurisdictions, counterclaims in excess of the limit remained in small claims court).

<sup>387</sup> See Heather Scheiwe Kulp, *Increasing Referrals to Small Claims Mediation Programs: Models To Improve Access To Justice*, 14 CARDOZO J. CONFLICT RESOL. 361 (2013).

<sup>388</sup> See *id.* at 375-80 (sampling court annexed mediation for litigants in small claims systems); see, e.g., FLA. S. COMM. ON THE JUDICIARY, REVIEW OF THE SMALL CLAIMS PROCESS IN FLORIDA, S. REP. NO. 2009-121, Interim Rep., at 7 (2011), available at [http://archive.flsenate.gov/data/Publications/2009/Senate/reports/interim\\_reports/pdf/2009-121ju.pdf](http://archive.flsenate.gov/data/Publications/2009/Senate/reports/interim_reports/pdf/2009-121ju.pdf) (some judges may highly encourage or require pretrial mediation).

<sup>389</sup> See, e.g., MASS. GEN. LAWS ch. 218, § 22 (2013) (both parties must consent to mediation); see also Appendix D (summarizing various specialized procedures).

<sup>390</sup> See Appendix D (summarizing discovery practices).

<sup>391</sup> FLA. SM. CL. R. 7.020(b).

<sup>392</sup> See, e.g., CAL. CIV. PROC. CODE § 116.310(b) (“The pretrial discovery procedures described in Section 2019.010 are not permitted in small claims actions.”); N.Y. CITY CIV. CT. ACT § 1804 (Consol. 2013) (noting that “[d]isclosure shall be unavailable in small claims procedure except upon order of the court on showing of proper circumstances”).

small claims settings, judges significantly control the manner in which a case proceeds, exercising considerable discretion concerning the application of procedural and evidentiary rules.<sup>393</sup> In some states, the judge is to decide the applicable rules and extent of discovery on an *ad hoc* basis.<sup>394</sup>

f. Conduct of Trial

At trial, parties will generally be asked to explain their “side” of the case, and the court may request them to provide documentary proof to support respective claims and defenses.<sup>395</sup> The presentation of evidence at a small claims trial, however, is generally quite curtailed in order to enable the resolution of the claim in a quick and efficient manner.<sup>396</sup> Judges presiding over small claims matters typically retain broad discretion to apply evidentiary rules in the interest of fairness.<sup>397</sup> For example, a judge may allow parties to present witness testimony telephonically<sup>398</sup> or may admit hearsay evidence.<sup>399</sup> Additionally, a judge may limit the number of witnesses or, in some states, permit an expert witness if the expert will aid the factfinder in evaluating a technical matter.<sup>400</sup>

g. Right to Jury

As discussed above, the Seventh Amendment of the U.S. Constitution guarantees the right to a jury trial in federal proceedings.<sup>401</sup> Many states, as well, have a jury trial right, and may permit litigants in a nonjury small claims proceeding to appeal to a different court for *de novo* determination of the claim before a jury.<sup>402</sup> Some states, including Florida,<sup>403</sup> Illinois,<sup>404</sup> and Texas,<sup>405</sup> allow litigants the opportunity to demand a jury in small claims court, provided they

<sup>393</sup> See, e.g., MASS. UNIF. SM. CL. R. 7(f); TEX. R. CIV. P. 500.3(e).

<sup>394</sup> See Appendix D (summarizing discovery practices).

<sup>395</sup> See WARNER, at 244.

<sup>396</sup> See *Sanderson v. Niemann*, 110 P.2d 1025, 1030 (Cal. 1941); see also Appendix D (summarizing evidentiary rules); Zucker & Herr, at 317.

<sup>397</sup> See, e.g., MASS. UNIF. SM. CL. R. 6.10 (“The court should not require strict adherence to the rules of evidence in small claims trials.”); TEX. R. CIV. P. 500.3(e) (“The other Rules of Civil Procedure and the Rules of Evidence do not apply except: (1) when the judge hearing the case determines that a particular rule must be followed to ensure that the proceedings are fair to all parties; or (2) when otherwise specifically provided by law or these rules.”).

<sup>398</sup> See, e.g., CAL. CIV. PROC. CODE § 116.520(a) (2013); FLA. SM. CL. R. 7.140(f); TEX. R. CIV. P. 502.4(d)(1)(C).

<sup>399</sup> See, e.g., *Houghtaling v. Superior Court*, 21 Cal. Rptr. 2d 855, 856 (Cal. App. 4th Dist. 1993); MASS. UNIF. SM. CL. STANDARDS § 6:10.

<sup>400</sup> See, e.g., FLA. STAT. ANN. § 90.702 (2013); TEX. R. CIV. P. 503.4(a)(4).

<sup>401</sup> 7 AM. JUR. 2D *Jury* § 5 (2013); see *supra* Part IV.A.

<sup>402</sup> See Nancy M. King, Annotation, *Small Claims: Jury Trial Rights in, and on Appeal From, Small Claims Court Proceeding*, 70 A.L.R.4th 1119, § 5 (2008); see also GA. CODE. ANN. § 15-10-41(b)(1) (2013); MASS. GEN. LAWS ch. 218, § 23 (2013) (providing defendants right to appeal to a jury); 42 PA. CONS. STAT. § 1123(4) (2013).

<sup>403</sup> FLA. SM. CL. R. 7.150.

<sup>404</sup> ILL. SUP. CT. R. 285.

<sup>405</sup> TEX. R. CIV. P. 504.1(a).

are willing to pay jury fees.<sup>406</sup> In other states, parties are considered to have waived their right to a jury trial by participating in the small claims forum.<sup>407</sup>

#### h. Available Relief

Full equitable relief, such as broad injunctive relief, is not widely available in state small claims systems.<sup>408</sup> Some states permit limited equitable relief, primarily in the form of rescission, reformation, restitution, and specific performance.<sup>409</sup> Equitable relief may be limited to instances where the statute giving rise to the cause of action specifically authorizes a small claims court to grant this type of relief.<sup>410</sup>

In many small claims courts, the prevailing party may recover reasonable costs that arise from the action, such as court fees, cost of service, and costs associated with subpoenaing a witness.<sup>411</sup> Consistent with the usual rule, however, attorneys' fees are typically not available unless a contractual provision authorizes such an award or a statute expressly permits it.<sup>412</sup>

#### i. Decisions and Review

In the typical small claims system, parties must appear on the day of trial, either on their own or through their attorney (if attorneys are permitted). A determination may be made at the hearing or mailed to the parties a few days to a few weeks after the case is heard.<sup>413</sup>

States differ in their handling of a party's failure to appear. If the plaintiff appears and the defendant does not, a default judgment may be entered for the plaintiff.<sup>414</sup> Before the court will issue a default judgment, however, the plaintiff may still be required to demonstrate the defendant's liability, or provide evidence to establish the accuracy of the requested damages.<sup>415</sup>

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<sup>406</sup> See Appendix D (summarizing the availability of jury trials); see also Ill. Sup. Ct. R. 285; MASS. GEN. LAWS ch. 218, § 23 (2013); N.Y. CITY CIV. CT. ACT § 1806 (Consol. 2013); TEX. R. CIV. P. 504.1(b).

<sup>407</sup> See Nancy M. King, Annotation, *Small Claims: Jury Trial Rights in, and on Appeal From, Small Claims Court Proceeding*, 70 A.L.R.4th 1119, § 3(b) (2008).

<sup>408</sup> See Appendix D (summarizing availability of equitable relief).

<sup>409</sup> See WARNER, at 83-85.

<sup>410</sup> See, e.g., CAL. CIV. PROC. CODE § 116.220(a)(5) (2013) (small claims court has jurisdiction “[f]or an injunction or other equitable relief only when a statute expressly authorizes a small claims court to award that relief”).

<sup>411</sup> See Appendix D (summarizing recoverable costs); WARNER, at 251-52.

<sup>412</sup> See, e.g., MASS. UNIF. SM. CL. STANDARDS § 7:05 cmt; TEX. CIV. PRAC. & REM. CODE § 38.001 (2013).

<sup>413</sup> See WARNER, at 360 (“[D]espite the fact that an occasional person may be upset, some judges are willing to announce and explain their decisions in court, on the theory that both parties are entitled to know why a particular decision was reached.”).

<sup>414</sup> See *id.* at 238.

<sup>415</sup> See, e.g., CAL. CIV. PROC. CODE § 116.520(b) (2013) (requiring plaintiff to present evidence to prove the claim); GA. CODE ANN. § 15-10-43(e)(1) (2013) (requiring plaintiff to prove unliquidated damages); TEX. R. CIV. P. 503.1(a)(2), 503.6(c) (requiring plaintiff to provide damages evidence; if plaintiff cannot prove damages, judge must render judgment for the defendant when defendant fails to file and answer).

If the plaintiff or both parties fail to appear, the case is generally dismissed without prejudice, allowing the plaintiff to refile at a later time.<sup>416</sup> Default judgments generally are not appealable, but may be set aside by the court upon a showing of good cause.<sup>417</sup>

The Supreme Court has held that the U.S. Constitution does not require states to provide appellate review as a matter of due process.<sup>418</sup> States therefore may prescribe procedures for and place conditions upon the right to appeal, or decline to provide for appellate review.<sup>419</sup> States vary greatly as to the rules and procedures that govern small claims appeals. Some states do not permit appeals in small claims actions at all because a party is considered to have waived the appeal right by participating in the forum.<sup>420</sup> Other states permit aggrieved parties to appeal to a higher court.<sup>421</sup> Many states restrict appeals to those parties present at the small claims trial and, accordingly, in those jurisdictions, a default judgment is not appealable.<sup>422</sup> The states that permit appeals also differ in whether the simplified small claims procedure is carried forward to the appellate action, or if different appellate procedures apply.<sup>423</sup> In many states, an appeal is conducted as a trial *de novo*.<sup>424</sup> Alternatively, states that eschew the *de novo* approach may permit appeals on questions of law.<sup>425</sup>

#### j. Enforcement of Judgments

Once a judgment is rendered, prevailing parties generally must take additional steps to secure payment. A persistent complaint with respect to small claims courts is the difficulty in collecting on judgments.<sup>426</sup>

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<sup>416</sup> See WARNER, at 242; see, e.g., FLA. SM. CL. R. 7.160(b) (within judges' discretion to keep open or dismiss for want of prosecution); GA. CODE. ANN. § 15-10-43(e)(3) (2013) (dismissing with or without prejudice is discretionary).

<sup>417</sup> See WARNER, at 240; see, e.g., GA. CODE. ANN. § 15-10-41(b)(2) (2013).

<sup>418</sup> *Nat'l Union of M. C. & S. v. Arnold*, 348 U.S. 37, 43 (1954) (while statutory right of review "is important and must be exercised without discrimination, such a review is not a requirement of due process") (citations omitted).

<sup>419</sup> See *Lott v. Pittman*, 243 U.S. 588, 591 (1917) (noting that the right to an appeal in a criminal case is "not essential to due process" and observing that "[i]t was, therefore, competent for the State to prescribe the procedure and conditions [to rehear the case]"); *McKane v. Durston*, 153 U.S. 684, 688 (1894) (noting, in a criminal case, that "the right of appeals may be accorded by the State ... upon such terms as in its wisdom may be deemed proper").

<sup>420</sup> See Appendix D (summarizing appeals).

<sup>421</sup> See *id.* (summarizing appeals).

<sup>422</sup> See WARNER, at 368; see, e.g., CAL. CIV. PROC. CODE § 116.710(d) (2013); GA. CODE. ANN. § 15-10-41(b)(2) (2013).

<sup>423</sup> Compare, e.g., CAL. CIV. PROC. CODE § 116.770 (2013) (small claims appeals conducted informally) with FLA. SM. CL. R. 7.230 (appeals governed by Florida Rules of Appellate Procedure).

<sup>424</sup> See, e.g., CAL. CIV. PROC. CODE § 116.770 (2013); GA. CODE. ANN. § 15-10-41(b)(1) (2013); MICH. COMP. LAWS § 600.8427 (2012); Pa. R.C.P.D.J. No. 1007 (A); TEX. R. CIV. P. 506.3.

<sup>425</sup> See WARNER, at 369-70.

<sup>426</sup> See FLA. S. COMM. ON THE JUDICIARY, REVIEW OF THE SMALL CLAIMS PROCESS IN FLORIDA, S. REP. NO. 2009-121, Interim Rep., at 10-11 (2011), available at [http://archive.flsenate.gov/data/Publications/2009/Senate/reports/interim\\_reports/pdf/2009-121ju.pdf](http://archive.flsenate.gov/data/Publications/2009/Senate/reports/interim_reports/pdf/2009-121ju.pdf).

Some states now include enforcement assistance as part of their small claims programs and make a particular effort to provide information to parties about the collections process.<sup>427</sup> Judges may be required to explain the enforcement process and advise the prevailing party that he or she is entitled to an enforcement hearing upon request.<sup>428</sup> In Massachusetts, for example, courts are encouraged to hold enforcement hearings without requiring successful plaintiffs to bring a separate action to monitor whether debtors are fulfilling judgment obligations in a timely manner.<sup>429</sup>

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<sup>427</sup> See, e.g., N.Y. UNIFORM DIST. CT. ACT § 1812(b) (Consol. 2013) (“[T]he judgment creditor shall be entitled to commence an action against said judgment debtor for treble the amount of such unsatisfied judgment, together with reasonable counsel fees, and the costs and disbursements of such action.”); MASS. UNIFORM SMALL CLAIMS RULE 9 (2013) (“[T]he court should take an active role in the enforcement of judgments.”).

<sup>428</sup> FLA. S. COMM. ON THE JUDICIARY, REVIEW OF THE SMALL CLAIMS PROCESS IN FLORIDA, S. REP. NO. 2009-121, Interim Rep., at 10-11 (2011), available at [http://archive.flsenate.gov/data/Publications/2009/Senate/reports/interim\\_reports/pdf/2009-121ju.pdf](http://archive.flsenate.gov/data/Publications/2009/Senate/reports/interim_reports/pdf/2009-121ju.pdf). (“Judges also aid in judgment collection by attempting to curb the expectations of pro se litigants who believe that they will automatically receive payment once the court enters the judgment order. Upon entry of a judgment, judges may also explain that the plaintiff may be entitled to a hearing in aid of execution of the judgment.”).

<sup>429</sup> MASS. UNIF. SM. CL. STANDARDS § 9:00-:02, available at [http://www.mass.gov/courts/admin/legal/smcstandard\\_s2002.pdf](http://www.mass.gov/courts/admin/legal/smcstandard_s2002.pdf).

## VI. OTHER ILLUSTRATIVE MODELS AND APPROACHES

To appreciate the full range of possibilities for an alternative system to resolve small copyright claims, in addition to state judicial processes, it is instructive to highlight additional models and procedures that came to the attention of the Copyright Office during the course of its study. These systems range from federal entities such as the CRB and Trademark Trials and Appeals Board, to dispute resolution programs of nongovernment organizations, to solutions implemented in foreign jurisdictions. While disparate in their approach, each facilitates the resolution of specialized issues or smaller claims, or otherwise serves to mitigate the burdens of traditional litigation.

### A. Copyright Royalty Board

The CRB comprises three full-time CRJs who are appointed by the Librarian of Congress upon consultation with the Register of Copyrights.<sup>430</sup> By statute, the chief CRJ is to be experienced in adjudications; a second CRJ is to have significant background in copyright law; and the third CRJ is to have significant experience in economics.<sup>431</sup>

Aided by two staff attorneys,<sup>432</sup> the CRJs are responsible for determining applicable rates and terms of various statutory licenses under the Copyright Act, including licenses for the use of musical works and sound recordings, and for the retransmission of broadcast television content by cable and satellite providers.<sup>433</sup> The rates and terms adopted by the CRB apply on an industry-wide basis and result in hundreds of millions of dollars in annual royalty payments.<sup>434</sup> Because the royalties paid under the cable and satellite licenses are collected by the Copyright Office, the CRB has the additional statutory duty to distribute those royalty pools equitably to copyright owner claimants.<sup>435</sup>

Because of its limited, though significant, duties to determine statutory license rates and royalty distributions, the CRB does not address the type of small copyright claims with which Congress

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<sup>430</sup> 17 U.S.C. § 801.

<sup>431</sup> *Id.* § 802(a)(1).

<sup>432</sup> *See id.* § 802 (b) & (e)(2). Three full-time staff members support the Copyright Royalty Judges in performing their functions. Although not mandated by the statute, in practice the first two staff members have been attorneys, and the third provides administrative support.

<sup>433</sup> *Id.* § 801; *see also* U.S. Copyright Royalty Board, *Copyright Royalty Judges* (Mar. 8, 2008), <http://www.loc.gov/crb/background/>.

<sup>434</sup> *See* U.S. Copyright Office, Licensing Division, Financial Statement (Nov. 2012), <http://www.copyright.gov/licensing/FIN-11-2012.pdf> (showing distributions for cable, satellite, jukebox, and digital audio recording technology royalties); *see also SoundExchange, Inc. v. Librarian of Cong.*, 571 F.3d 1220, 1226 (D.C. Cir. 2009) (Kavanaugh, J., concurring) (“[B]illions of dollars and the fates of entire industries can ride on the Copyright Royalty Board’s decisions.”).

<sup>435</sup> 17 U.S.C. §§ 801(b)(3), 803(d)(2)(C).

is concerned. But its structure and responsibilities under the Copyright Act, and relationship to the Copyright Office, make it of interest for purposes of this Report.<sup>436</sup>

Under the Copyright Act, the CRJs are afforded independence in rendering their rate and distribution determinations,<sup>437</sup> but may consult with the Register of Copyrights on matters other than a question of fact,<sup>438</sup> and are required to consult with the Register on any novel material question of law.<sup>439</sup> In addition, their decisions are subject to review by the Register for legal error, and any conclusions of substantive law by the Register are binding as precedent upon the CRB in subsequent proceedings.<sup>440</sup>

The CRB statute and related regulations set forth detailed procedures for the conduct and determination of rate and distribution proceedings, including implementation of party settlements.<sup>441</sup> Proceedings may involve numerous interested parties and often take two years or longer to complete.<sup>442</sup>

The CRB process allows for significant discovery, including document production and depositions, though it is not as broad as discovery permitted under the Federal Rules.<sup>443</sup> Trials before the CRB, relatively formal in nature, typically involve multiple expert and nonexpert witnesses and voluminous economic evidence, and can last several weeks.<sup>444</sup> The rates and

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<sup>436</sup> As noted above, the appointment process for the CRJs recently was found to be unconstitutional under the Appointments Clause – but was also cured – in a recent opinion of the D.C. Circuit Court of Appeals. *See supra* Part IV.D.

<sup>437</sup> 17 U.S.C. § 802(f)(1)(A)(i).

<sup>438</sup> *Id.*

<sup>439</sup> *Id.* § 802(f)(1)(B).

<sup>440</sup> *Id.* § 802(f)(1)(D).

<sup>441</sup> *See id.* §§ 801-05 & 37 C.F.R. §§ 350-54.

<sup>442</sup> *See* Determination of Rates and Terms for Preexisting Subscription and Satellite Digital Audio Radio Services, 76 Fed. Reg. 591 (Dec. 22, 2010) (announcing commencement of proceedings in Docket No. 2011–1 CRB PSS/Satellite II); Determination of Rates and Terms for Preexisting Subscription Services and Satellite Digital Audio Radio Services, 78 Fed. Reg. 23,054 (Apr. 17, 2013) (to be codified at 37 C.F.R. pt. 382) (“2013 Determination”) (completing entry of Final Rule over two years after commencement of proceedings were announced in Docket No. 2011–1 CRB PSS/Satellite II); *see also* Distribution of the 2004 and 2005 Cable Royalty Funds, 73 Fed. Reg. 40,623 (July 15, 2008) (announcing commencement of Phase I proceedings in Docket No. 2007–3 CRB CD 2004–2005 to distribute cable royalty funds); Distribution of the 2004 and 2005 Cable Royalty Funds, 75 Fed. Reg. 57,063 (Sept. 15, 2010) (distributing Phase I of 2004 and 2005 cable royalty funds in Docket No. 2007–3 CRB CD 2004–2005 over two years later).

<sup>443</sup> *Compare* 37 C.F.R. § 351.5(b)(1) (“A participant in a royalty rate proceeding may request of an opposing participant nonprivileged documents that are directly related to the written direct statement or written rebuttal statement of that participant.”), *and* 37 C.F.R. 351.6 (“In a distribution proceedings... parties may request of an opposing party nonprivileged underlying documents related to the written exhibits and testimony.”), *with* FED. R. CIV. P. 26(b)(1) (“Unless otherwise limited by court order, the scope of discovery is as follows: Parties may obtain discovery regarding any nonprivileged matter that is relevant to any party’s claim or defense....”).

<sup>444</sup> *See, e.g.*, 2013 Determination at 23,054 (“In all, the Judges heard evidence and oral argument for a period of 19 days. The parties presented 32 fact and expert witnesses.”).

terms for statutory licenses are determined in accordance with specific statutory criteria that vary from license to license.<sup>445</sup>

Due to the possibility that an individual copyright owner claiming a very modest sum of royalties from a particular royalty pool can hold up the CRB's distribution of millions of dollars to others, the CRB statute includes a "small claims" process for claims of \$10,000 or less, which limits the CRJs' consideration of such a claim to an abbreviated paper process.<sup>446</sup> Claimants who assert an inflated claim of more than \$10,000 in bad faith for the purpose of avoiding the paper-based determination are to be fined "in an amount not to exceed the difference between the actual amount distributed and the amount asserted by the participant."<sup>447</sup>

The rate and distribution determinations of the CRB are directly appealable to the Court of Appeals for the D.C. Circuit, and are reviewable by that court to determine whether the decision was "arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law."<sup>448</sup>

## B. Patent Courts and Procedures

### 1. Patent Trial and Appeal Board

With the goal of a more efficient and streamlined patent system that limits litigation costs,<sup>449</sup> the 2011 America Invents Act ("AIA") established the Patent Trial and Appeal Board ("PTAB") in the Patent and Trademark Office ("PTO"), replacing the Board of Patent Appeals and Interferences.<sup>450</sup> The PTAB, which became effective September 16, 2012, consists of the Director of the PTO, the Deputy Director, the Commissioner for Patents, the Commissioner for Trademarks, and administrative patent judges.<sup>451</sup> Administrative patent judges are appointed by the Secretary of Commerce in consultation with the Director of the PTO, and must have "competent legal knowledge and scientific ability."<sup>452</sup> The PTAB is expected to have 225 judges by the end of fiscal 2013, up from ninety-five at the beginning of 2012.<sup>453</sup> Each proceeding

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<sup>445</sup> See 17 U.S.C. § 801(b)(1).

<sup>446</sup> *Id.* § 803(b)(4)(A).

<sup>447</sup> *Id.* § 803(b)(4)(B).

<sup>448</sup> 5 U.S.C. § 706(2); see also 17 U.S.C. § 803(d)(3) ("Jurisdiction of court. – Section 706 of title 5 shall apply with respect to review by the court of appeals under this subsection."); *Intercollegiate Broad. Sys. v. Copyright Royalty Bd.*, 684 F.3d 1332, 1336 (D.C. Cir. 2012) (determining that challenges for lack of compliance with a statutory provision are "evaluated under the familiar APA arbitrary and capricious standard").

<sup>449</sup> Rules of Practice for Trials Before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions, Final Rule, 77 Fed. Reg. 48,612 (Aug. 14, 2012) ("PTAB Final Rule").

<sup>450</sup> America Invents Act of 2011, § 7, Pub. L. No. 112-29, 125 Stat. 284 ("AIA").

<sup>451</sup> 35 U.S.C. § 6(a).

<sup>452</sup> *Id.*

<sup>453</sup> Gene Quinn, *AIPLA 2012 Annual Meeting Begins*, IPWATCHDOG (Oct. 25, 2012), <http://www.ipwatchdog.com/2012/10/25/aip-la-2012-annual-meeting-begins/id=29280/>.

before the PTAB is heard by a panel of at least three members, as designated by the Director of the PTO.<sup>454</sup>

The AIA also established four new trial proceedings to take place before the PTAB: *inter partes* review; post grant review; a transitional program for covered business method patents (“TPCBM”); and derivation proceedings. An *inter partes* or post grant review involves a challenge by a third party to an issued patent, seeking to cancel that patent.<sup>455</sup> A TPCBM proceeding is similar to a post grant review, except a person may not file a petition for a TPCBM proceeding unless that person has been charged with infringement under the patent.<sup>456</sup> Lastly, a derivation proceeding determines whether an inventor named in an earlier application derived the claimed invention from an inventor named in the petitioner’s application and the earlier application claiming such invention was filed without authorization.<sup>457</sup> In a derivation proceeding, the PTAB may correct the naming of the inventor in the patent at issue.<sup>458</sup>

Petitions for *inter partes* or post grant reviews must be filed with the appropriate fees and include specified information.<sup>459</sup> The patent owner has the right to file a preliminary response to such a petition explaining why review should not be instituted.<sup>460</sup> The Director of the PTO must then determine whether to institute a review based on whether the petition and response show that (in *inter partes* matters) “there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition”<sup>461</sup> or that (in post grant matters) “it is more likely than not that at least 1 of the claims challenged in the petition is unpatentable.”<sup>462</sup>

In 2012, the PTO issued regulations governing rules of practice for the PTAB proceedings described above.<sup>463</sup> These rules cover filing of documents, management of the record, motion practice, testimony and production, oral argument, decision, settlement, and other matters.<sup>464</sup> As to representation by counsel, the regulations do not require it, but do require that if counsel is involved, the party must designate a lead and a back-up counsel.<sup>465</sup> The rules permit motion

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<sup>454</sup> 35 U.S.C. § 6(c).

<sup>455</sup> *Id.* §§ 311-319 (*inter partes* review); *id.* §§ 321-329 (post grant review).

<sup>456</sup> AIA, § 18(a)(1)(B).

<sup>457</sup> 35 U.S.C. § 135(a).

<sup>458</sup> *Id.* § 135(b).

<sup>459</sup> *Id.* § 312 (*inter partes* review); *id.* § 322 (post grant review). The fee for filing an *inter partes* review petition challenging up to twenty claims is \$27,200, and the fee for the same number of challenged claims in a post grant review petition is \$35,800. 37 C.F.R. § 42.15.

<sup>460</sup> 35 U.S.C. § 313 (*inter partes* review); 35 U.S.C. § 323 (post grant review).

<sup>461</sup> *Id.* § 314(a).

<sup>462</sup> *Id.* § 324(a). A petition for post grant review may also be authorized on a showing that the petition “raises a novel or unsettled legal question that is important to other patents or patent applications.” *Id.* § 324(b).

<sup>463</sup> PTAB Final Rule.

<sup>464</sup> 37 C.F.R. Part 42.

<sup>465</sup> *Id.* at § 42.10.

practice,<sup>466</sup> compulsion of testimony and production,<sup>467</sup> and depositions.<sup>468</sup> Oral argument may be requested by either party.<sup>469</sup>

A party dissatisfied with the final written decision of the PTAB following an *inter partes* or post grant review may appeal the decision only to the U.S. Court of Appeals for the Federal Circuit.<sup>470</sup>

Because the AIA-instituted PTAB proceedings are so new, the available statistics do not tell us much. Through July 2013 there have been 394 *inter partes* review petitions filed with the PTAB.<sup>471</sup> Out of these, 126 trials have been instituted, but none has proceeded to a final decision.<sup>472</sup> Only one post grant review petition has been filed, and that trial was terminated.<sup>473</sup>

## 2. Specialized Federal Procedures

Because patent infringement cases can be particularly formidable for courts and litigants, some federal courts have adopted special procedural rules for such actions. Courts that have taken this approach include the Southern District of New York and the Western District of Pennsylvania, both of which are participating in a pilot program established by Congress as the Patent Cases Pilot Program.<sup>474</sup> The modified patent rules adjust the Federal Rules to address the specific complexities of patent litigation by altering procedures for case management conferences, initial disclosures, and claim construction proceedings.<sup>475</sup>

Another court, the Eastern District of Texas, has adopted special patent rules that are notoriously daunting but have shortened trial timelines such that the district has become a magnet for patent

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<sup>466</sup> *Id.* at §§ 42.20-42.25.

<sup>467</sup> *Id.* at § 42.52. Note that the Federal Rules of Evidence generally apply. *Id.* at C.F.R. § 42.62.

<sup>468</sup> *Id.* at. § 42.53.

<sup>469</sup> *Id.* at § 42.70.

<sup>470</sup> 35 U.S.C. § 141(c).

<sup>471</sup> U.S. Patent and Trademark Office, AIA Proceeding Statistics, [http://www.uspto.gov/ip/boards/bpai/stats/aia\\_trial\\_proceedings.pdf](http://www.uspto.gov/ip/boards/bpai/stats/aia_trial_proceedings.pdf).

<sup>472</sup> *Id.*

<sup>473</sup> *Id.*

<sup>474</sup> Pub. L. No. 111-349, 124 Stat. 3674 (2011); ADMINISTRATIVE OFFICE OF THE UNITED STATES COURTS, DISTRICT COURTS SELECTED FOR PATENT PILOT PROGRAM (Jun. 7, 2011) [http://www.uscourts.gov/news/newsview/11-06-07/District\\_Courts\\_Selected\\_for\\_Patent\\_Pilot\\_Program.aspx](http://www.uscourts.gov/news/newsview/11-06-07/District_Courts_Selected_for_Patent_Pilot_Program.aspx) (selected districts included the Eastern District of New York, Southern District of New York, Western District of Pennsylvania, District of New Jersey, District of Maryland, Northern District of Illinois, Southern District of Florida, District of Nevada, Eastern District of Texas, Northern District of Texas, Western District of Tennessee, Central District of California, Northern District of California, and Southern District of California).

<sup>475</sup> *See, e.g.*, U.S. DIST. CT. FOR THE E. DIST. OF TEX. LOCAL CIV. RULES, APP. M; E.D. TEX. P.R. 1-1 through 4-6; S&E D.N.Y PATENT L.R. 2, 6-8,10-12; W.D. Pa. LPR 2.1, 2.3, 4.1-4.5.

plaintiffs.<sup>476</sup> Some have expressed concern that the Eastern District of Texas’s local patent rules unfairly favor plaintiffs by compressing the time defendants have to respond, while plaintiffs may have spent significant time preparing the case before filing it in court.<sup>477</sup>

In addition, as noted above, patent cases are appealed from the district courts to a specialized federal tribunal, the Court of Appeals for the Federal Circuit.<sup>478</sup> Congress established the Federal Circuit to handle patent appeals and certain other types of appeals in part to “increase doctrinal stability in the field of patent law,” which was important because the “uncertainty created by the lack of national law precedent was a significant problem, and ... widespread forum-shopping [was] particularly acute.”<sup>479</sup>

### 3. Small Claims Review

The PTO, in conjunction with the ABA, currently is considering whether the United States should develop a small claims process for patent disputes. In a December 2012 Federal Register notice, the PTO solicited comments on a number of issues, including whether a small claims alternative for patent enforcement is needed and what features a small patent claims process might have.<sup>480</sup> In addition, the PTO is reviewing a number of issues that parallel the issues considered in this Report, including “subject matter jurisdiction, venue, case management, appellate review, available remedies, and conformity with the U.S. constitutional framework (e.g., Seventh Amendment).”<sup>481</sup> The PTO indicated that it is continuing to evaluate comments of the public and “will provide recommendations regarding the concept in due course ... , in consultation with the ABA, the Federal judiciary, and other stakeholders.”<sup>482</sup>

#### C. Trademark Trial and Appeal Board

PTO’s Trademark Trial and Appeal Board (“TTAB”) hears cases concerning the federal registration of trademarks such as *inter partes* (third party) petitions for cancellation of marks,

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<sup>476</sup> See, e.g., E.D. TEX. P.R. 3-1 (ten days for service); P.R. 4-2 (twenty days for claim term exchange); Michael C. Smith, Feature, *Rocket Docket: Marshall Court Leads Nation in Hearing Patent Cases*, 69 TEX. B.J. 1045, 1046 (2006).

<sup>477</sup> See Yan Leychkis, *Of Fire Ants and Claim Construction: An Empirical Study of the Meteoric Rise of the Eastern District of Texas as a Preeminent Forum for Patent Litigation*, 9 YALE J.L. & TECH. 193, 219 (2007).

<sup>478</sup> 28 U.S.C. § 1295.

<sup>479</sup> S. REP. NO. 275 at 5, 97th Cong., 1st Sess. 1981, 1982 U.S.C.C.A.N. 11.

<sup>480</sup> Request for Comments on a Patent Small Claims Proceeding in the United States, 77 Fed. Reg. 74,830 (Dec. 18, 2012). Comments were due April 30, 2013. Extension of Comment Period for Request for Comments on a Patent Small Claims Proceeding in the United States, 78 Fed. Reg. 14,515, 14,516 (Mar. 6, 2013). Twenty-two comments were received. *Office of Policy and External Affairs – Patents*, U.S. PATENT & TRADEMARK OFFICE, <http://www.uspto.gov/ip/global/patents/index.jsp#heading-1>.

<sup>481</sup> Request for Comments on a Patent Small Claims Proceeding in the United States, 77 Fed. Reg. 74,830, 74,830 (Dec. 18, 2012).

<sup>482</sup> U.S. Intellectual Property Enforcement Coordinator, *2013 Joint Strategic Plan on Intellectual Property Enforcement* 25 (Jun. 2013), available at <http://www.whitehouse.gov/sites/default/files/omb/IPEC/2013-us-ipecc-joint-strategic-plan.pdf>.

oppositions to registration, and concurrent use and interference proceedings.<sup>483</sup> While the TTAB relies largely upon the Federal Rules, it is not an Article III court, and certain procedures are modified. Most notably, the TTAB offers an accelerated adjudication option that relies upon party stipulations and abbreviated procedures.<sup>484</sup>

The TTAB, which is staffed by a total of twenty-three administrative trademark judges,<sup>485</sup> the large majority of which have experience as trademark examining attorneys with the PTO,<sup>486</sup> has very limited jurisdiction: it only hears cases regarding whether the PTO should issue or cancel a federal trademark registration. The TTAB is not able to “determine the right to use [a trademark], nor may it decide broader questions of infringement or unfair competition.”<sup>487</sup> Nor may it “declare any portion of ... any ... act of Congress ... unconstitutional.”<sup>488</sup> Matters litigated before the TTAB, however, also can be litigated in federal district court.<sup>489</sup>

Though the vast majority of TTAB proceedings do not address collateral issues, they sometimes touch on other subjects necessary to reach a determination related to registration. For example, the TTAB may consider whether a settlement agreement prevents a party from bringing a TTAB action.<sup>490</sup>

The TTAB provides only limited remedies. Essentially, in *inter partes* cases, it only may order cancellation of an existing federal trademark registration or prohibit the registration of a pending

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<sup>483</sup> The TTAB also hears *ex parte* cases concerning trademark examining attorneys’ rejections of applications for the federal registration of marks. This report focuses on the TTAB’s treatment of *inter partes* cases, which involve a two-party dispute regarding a trademark application or registration, because they are most similar to traditional copyright infringement lawsuits.

<sup>484</sup> U.S. Pat. & Trademark Office, U.S. Dep’t of Commerce, *Trademark Trial & Appeal Board Manual of Procedure*, § 528.05(a)(2) (3d ed. Rev. 1, June 2012) (“TBMP”).

<sup>485</sup> The applicable statute does not provide for a set number of judges. See 15 U.S.C. § 1067(b) (“The Trademark Trial and Appeal Board shall include ... administrative trademark judges who are appointed by the Secretary of Commerce, in consultation with the Director.”). As of 2012, there were twenty-three appointed judges. See John L. Welch, *The TTABlog: Keeping Tabs on the TTAB*, “Updated Roster of TTAB Administrative Trademark Judges” (Oct. 30, 2012), <http://thettablog.blogspot.com/2012/10/updated-roster-of-ttab-administrative.html> (“Welch”).

<sup>486</sup> Of the administrative judges assigned to the TTAB as of 2012, eighteen (78%) were formerly trademark examining attorneys, fourteen (61%) were TTAB interlocutory attorneys, and fourteen (61%) had experience in private practice. Of the three TTAB judges who had no prior experience as an examining or interlocutory attorney, one was formerly an arbitrator and judge pro tem and the other two were in private practice. See Welch.

<sup>487</sup> TBMP § 102.01.

<sup>488</sup> *Id.*

<sup>489</sup> 15 U.S.C. § 1119 (“In any action involving a registered mark the court may determine the right to registration, order the cancellation of registrations, in whole or in part, restore canceled registrations, and otherwise rectify the register with respect to the registrations of any party to the action.”).

<sup>490</sup> See *Selva & Sons, Inc. v. Nina Footwear, Inc.*, 705 F.2d 1316, 1324 (Fed. Cir. 1983) (“[A]lthough other courts would be the proper tribunals in which to litigate a cause of action for enforcement or breach of the contract here involved, that is not sufficient reason for the board to decline to consider the agreement, its construction, or its validity if necessary to decide the issues properly before it in this cancellation proceeding, including the issue of estoppel.”).

application.<sup>491</sup> The TTAB cannot grant any monetary relief, including costs or attorneys' fees. Additionally, it cannot grant any injunctive relief to prevent a losing trademark applicant or registrant from using the subject trademark.<sup>492</sup>

Each TTAB case is decided by a panel of three administrative law judges.<sup>493</sup> In addition to the judges, an interlocutory attorney is assigned to each case to help expedite its progress. The interlocutory attorneys handle various logistical matters and are able to decide certain non-dispositive motions, such as uncontested motions for extensions of time. They also may conduct discovery conferences.<sup>494</sup>

In TTAB proceedings, a party may be represented by an attorney<sup>495</sup> or may proceed *pro se*.<sup>496</sup> The TTAB will not hold any person (including attorneys) in contempt or award expenses (including attorneys' fees) to any party,<sup>497</sup> but other sanctions available under Rule 37(b)(2) of the Federal Rules may be ordered.<sup>498</sup>

To initiate a case before the TTAB, a party must file either a notice of opposition<sup>499</sup> or a petition to cancel,<sup>500</sup> serve the opposing party,<sup>501</sup> and pay a filing fee.<sup>502</sup> Pretrial practice includes potentially extensive discovery – including depositions – and motion practice similar to that in federal courts.<sup>503</sup>

Unlike typical federal court litigation, the TTAB does not have live trials. Instead, the parties file written trial materials, which may include deposition and other testimony, official records, and other evidence.<sup>504</sup> Parties may provide trial briefs and can request oral argument, which can be conducted in-person or via videoconference.<sup>505</sup>

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<sup>491</sup> 15 U.S.C. § 1119.

<sup>492</sup> See *General Mills Inc. v. Fage Dairy Processing Indus. SA*, 100 U.S.P.Q.2d 1584, 1591 (TTAB 2011) (finding that the Board does not have the power to grant injunctive relief).

<sup>493</sup> See 37 C.F.R. §§ 2.129(a) & 2.142(e)(1).

<sup>494</sup> *Id.* at § 2.120(a)(2).

<sup>495</sup> *Id.* at § 2.11.

<sup>496</sup> *Id.* at § 11.14 (e).

<sup>497</sup> *Id.* at § 2.127(f).

<sup>498</sup> *Id.* at § 2.120(g)(1).

<sup>499</sup> *Id.* at § 2.101.

<sup>500</sup> *Id.* at § 2.111.

<sup>501</sup> *Id.* at § 2.119(b) & (d) (setting forth appropriate service methods that include some options similar to the Federal Rules, but with additional methods such as serving via overnight courier).

<sup>502</sup> *Id.* at § 2.6(a) (16-18) (filing fee per petition to cancel or oppose, per class, is \$300.00 and \$100 for an *ex parte* appeal).

<sup>503</sup> *Id.* at §§ 2.120 (discovery), 2.127 (motions).

<sup>504</sup> *Id.* at §§ 2.122 (matters in evidence), 2.123 (trial testimony in *inter partes* cases).

<sup>505</sup> *Id.* at §§ 2.128 (briefs at final hearing), 2.129 (oral argument); TBMP, § 802.03 (“Oral hearings are almost exclusively held at the offices of the Board. However, parties may request attendance at the hearings remotely via

Since 2008, parties have been able to submit their cases to the TTAB's Accelerated Case Resolution ("ACR") process as an alternative to a traditional TTAB hearing. ACR is designed to be a more efficient and economical form of resolution for non-complex cases and approximates a summary bench trial. Parties' agreement to use the ACR procedure allows the TTAB "to resolve issues of fact at summary judgment and to treat the parties' summary judgment motion papers and evidence as the final record and briefs on the merits of the case."<sup>506</sup> To facilitate the ACR process, parties may stipulate to abbreviated procedures regarding discovery, testimony, witnesses, and other matters.<sup>507</sup>

A party can appeal a TTAB's *inter partes* decision directly to the Court of Appeals for the Federal Circuit,<sup>508</sup> or to any federal district court.<sup>509</sup> TTAB decisions are reviewed under the deferential "substantial evidence" standard of the Administrative Procedure Act for findings of fact but *de novo* for findings of law.<sup>510</sup>

Notably, practitioners have voiced dissatisfaction over the length of time it takes for the TTAB to come to a final decision in an *inter partes* proceeding.<sup>511</sup> Statistics show that intervals between the commencement of a proceeding and final decision have increased over time.<sup>512</sup> Currently, TTAB scheduling orders and rules typically mean that a non-ACR case will take at least 550 days to submit for decision, assuming there are no oral arguments, motions to extend, or successful dispositive motions.<sup>513</sup> This would seem to be as long as or longer than some federal district court proceedings.

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video conference. A video conference will be conducted in the same manner as if conducted entirely in the hearing room.").

<sup>506</sup> TBMP, § 528.05(a)(2).

<sup>507</sup> *Id.* at § 528.05(a)(2).

<sup>508</sup> 37 C.F.R. § 2.145.

<sup>509</sup> 15 § U.S.C. 1071(b)(1).

<sup>510</sup> 5 U.S.C. § 706; *Glendale Int'l. Corp. v. USPTO*, 374 F. Supp. 2d 479, 485 (E.D. Va. 2005) ("[D]ecisions of the TTAB are reviewed de novo with respect to conclusions of law and for 'substantial evidence' with respect to findings of fact."); TBMP, § 906.01.

<sup>511</sup> James R. Robinson & Kathleen E. McCarthy, *An Introduction to the New Trademark Trial and Appeal Board Rules*, 97 TRADEMARK REP. 1380, 1381 (2007).

<sup>512</sup> A 2004 review of TTAB cases found that the median time between the start of an opposition or cancellation proceeding until a final decision of the TTAB was approximately 38.4 months. John M. Murphy, *Playing the Numbers: A Quantitative Look at Section 2(d) Cases Before the Trademark Trial and Appeal Board*, 94 TRADEMARK REP. 800, 801 (2004). Delay in the TTAB has not significantly improved since 2004 as the median total pendency for all trial cases before the TTAB in 2010, 2011, and 2012 were 46.8, 49.1, and 46.8 months respectively. U.S. PAT. & TRADEMARK OFFICE, TTAB NEW FILINGS AND PERFORMANCE MEASURES (FISCAL YEAR 2013), [http://www.uspto.gov/trademarks/process/appeal/TTAB\\_New\\_Filings\\_and\\_Performance\\_Measures.jsp](http://www.uspto.gov/trademarks/process/appeal/TTAB_New_Filings_and_Performance_Measures.jsp) (last visited Jul. 3, 2013, data on years prior to 2012 have since been removed from this page).

<sup>513</sup> Robinson & McCarthy, at 1389.

## D. United States Tax Court

The United States Tax Court (“Tax Court”) is a court formed pursuant to Article I of the Constitution and primarily is responsible for resolving taxpayer disputes concerning tax delinquency determinations of the Commissioner of Internal Revenue. Of particular note for purposes of this report is that the Tax Court has developed special rules of procedure for small tax cases.<sup>514</sup>

Today’s Tax Court has its roots in Congress’s 1925 creation of the Board of Tax Appeals<sup>515</sup> in response to perceived hardships for taxpayers in appealing tax assessments to federal district courts.<sup>516</sup> In 1969, Congress renamed this administrative body the United States Tax Court, converted it to an Article I court, and added a small case component for taxpayers with low-value disputes.<sup>517</sup>

The Tax Court has the power to adjudicate tax deficiency cases,<sup>518</sup> overpayment claims,<sup>519</sup> declaratory judgment actions,<sup>520</sup> disclosure actions,<sup>521</sup> and a variety of other actions. This responsibility to adjudicate tax disputes is not exclusive to the Tax Court, and is shared with the Court of Federal Claims and the several federal district courts.<sup>522</sup> Despite the shared jurisdiction, the Tax Court hears the vast majority of tax cases in the United States.<sup>523</sup> To invoke the Tax Court’s small tax case procedures, the amount in dispute has to be \$50,000 or less for the tax year in question and must involve income, estate, gift, or certain excise taxes.<sup>524</sup> The small case limit has been raised several times by Congress from the initial cap of \$1,000 in 1970.<sup>525</sup>

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<sup>514</sup> See 26 U.S.C. §§ 7436(c), 7463 (small tax cases are cases before the Tax Court that involve a specialized set of adjudicatory procedures which are only available for petitioners who have both certain kinds of tax disputes and also involve claims of less than \$50,000 at stake); T.C.R. PRAC. & P. 170-74.

<sup>515</sup> See Revenue Act of 1924, Pub. L. No. 68-176, 43 Stat. 253 (1924).

<sup>516</sup> S. REP. NO. 68-398 at 8-9 (1924).

<sup>517</sup> The Tax Reform Act of 1969, Pub. L. No. 91-172, 83 Stat. 487 (1969).

<sup>518</sup> 26 U.S.C. §§ 6212-14.

<sup>519</sup> *Id.* at § 6512(b).

<sup>520</sup> *Id.* at §§ 7476 (retirement plans), 7477 (certain gifts), 7478 (certain governmental obligations), 7479 (installment payments), & 7428 (status and classification of certain organizations).

<sup>521</sup> *Id.* at § 6110.

<sup>522</sup> 28 U.S.C. §§ 1330-1369 (jurisdiction of federal district courts, generally); 26 U.S.C. § 7402 (jurisdiction of district courts specifically in tax cases, which is broader than the Tax Court); 28 U.S.C. §§ 1491-1509 (jurisdiction of United States Court of Federal Claims, generally).

<sup>523</sup> Theodore Tannenwald, Jr., *The Tax Litigation Process: Where It Is and Where It Is Going*, 44 REC. ASS’N B. CITY OF N.Y. 825, 827 (1989) (by 1989, the Tax Court heard 95% of tax cases).

<sup>524</sup> 26 U.S.C. § 7463(a).

<sup>525</sup> The Tax Reform Act of 1969, Pub. L. No. 91-172, § 957(a), 83 Stat. 487, 733 (1969) (law became effective Dec. 30, 1970).

Tax Court judges are appointed by the President, with the advice and consent of the Senate,<sup>526</sup> though they serve fifteen-year terms rather than life tenure.<sup>527</sup> While the Tax Court relies to some degree on the Federal Rules, its procedures are substantially different when a petitioner elects to pursue his or her case on the small case track.<sup>528</sup> Once a petitioner chooses the small case path, proceedings are conducted by “special trial judges” appointed by the Tax Court’s Chief Judge,<sup>529</sup> and the standard procedural rules of the Tax Court are supplanted by the rules for small tax cases, which are designed to be as informal as possible.<sup>530</sup>

The principal office of the Tax Court is in the District of Columbia, but by statute the Tax Court or any of its field divisions may sit at any place within the United States.<sup>531</sup> Currently, there are field divisions in seventy-five different cities,<sup>532</sup> fifteen of which hear only small tax cases.<sup>533</sup>

To commence a case in the Tax Court, a party must file a petition and pay a filing fee.<sup>534</sup> The petitioner can request that the case be heard in Washington, D.C. or in a more convenient location.<sup>535</sup> If the amount in dispute is \$50,000 or less, a petitioner can request to use the small tax case procedure, though a case may not be adjudicated as a small case if the decision “would provide precedent for the disposition of a substantial number of cases, or if an appellate decision is sought on a significant issue,”<sup>536</sup> or if it turns out the amount in dispute is above the \$50,000 statutory limit.<sup>537</sup>

The Internal Revenue Code gives the Tax Court wide latitude over the rules of procedure and evidence and procedure to be employed in small tax cases, referred to as “S” cases.<sup>538</sup> The procedural rules state simply that trials are conducted as informally as possible and that “any

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<sup>526</sup> 26 U.S.C. § 7443(a)-(b) (the Tax Court is comprised of nineteen judges).

<sup>527</sup> *Id.* at § 7443(e).

<sup>528</sup> The small tax case procedure is optional. T.C.R. PRAC. & P. 171(a) (“A petitioner who wishes to have the proceedings in the case conducted as a small tax case may so request at the time the petition is filed.”).

<sup>529</sup> 26 U.S.C. § 7443A. Appointment of these special trial judges faced a constitutional challenge in the context of a non-small claims proceeding, but was found to not be a violation of the Appointments Clause of the Constitution. *Freytag v. Comm. of Internal Revenue*, 501 U.S. 868, 892 (1991). Further discussion of the Appointments Clause is found in section IV. D. at 42.

<sup>530</sup> T.C.R. PRAC. & P. 174(b).

<sup>531</sup> 26 U.S.C. § 7445.

<sup>532</sup> T.C.R. PRAC. & P. FORM 5.

<sup>533</sup> *Id.*

<sup>534</sup> *Id.* App. II. The fee, currently \$60, can be waived in small tax cases if the petitioner is unable to pay. *Id.* 173(a)(2).

<sup>535</sup> *Id.* Form 5.

<sup>536</sup> 26 U.S.C § 7463; T.C.R. PRAC. & P. 171.

<sup>537</sup> 26 U.S.C § 7463(d).

<sup>538</sup> *Id.* at § 7463(a) (“proceedings shall be conducted in accordance with such rules of evidence, practice, and procedure as the Tax Court may prescribe”).

evidence deemed by the Court to have probative value shall be admissible.”<sup>539</sup> Small case petitions are submitted on a standardized form with checkboxes and limited areas to present narratives.<sup>540</sup> Neither briefs nor oral arguments are required in these cases “unless the Court otherwise directs.”<sup>541</sup>

A petitioner in a small tax case may appear without representation or may be represented by any person – including a non-attorney – admitted to practice before the court.<sup>542</sup> A petitioner who prevails in a tax case in federal court, including the Tax Court, potentially can recover attorneys’ fees and court costs if certain conditions are met,<sup>543</sup> including the exhaustion of any administrative remedies.<sup>544</sup> The United States, however, may not recover fees or expenses.<sup>545</sup>

Decisions of the Tax Court are rendered either orally from the bench or as written opinions.<sup>546</sup> Standard decisions can be appealed to the various U.S. courts of appeals, but small case determinations are not appealable and may not be treated as precedent in any other proceeding.<sup>547</sup>

#### E. Uniform Domain Name Dispute Resolution Policy

Several commenters suggested that the Office look to the Uniform Domain Name Dispute Resolution Policy (“UDRP”) procedures governing domain name disputes as a potential model for an alternative copyright small claims process.<sup>548</sup> UDRP proceedings help trademark owners enforce their rights against infringing domain names in a timelier, more cost-efficient manner than they could through traditional infringement litigation.<sup>549</sup> The UDRP is internationally

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<sup>539</sup> T.C.R. PRAC. & P. Form 174(b).

<sup>540</sup> *Id.* 173(a) and Form 2 (Petition (Simplified Form)).

<sup>541</sup> *Id.* 174(c).

<sup>542</sup> *Id.* 24(a)(4-5) (the general rule for appearance and representation before the Tax Court allows non-attorneys to practice, including law students who provide assistance with cases, and incorporates Rule 200, which allows for non-attorneys to practice); *id.* 172 (“A petitioner in a small tax case may appear without representation or may be represented by any person admitted to practice before the Court. As to representation, see Rule 24.”); *id.* 200(b) (allowing for non-attorneys to practice if that person passes an examination performed by the Tax Court.).

<sup>543</sup> 26 U.S.C. § 7430.

<sup>544</sup> *Id.* § 7430(b)(1).

<sup>545</sup> *See id.* § 7430(b)(2).

<sup>546</sup> *Id.* § 7459(b); T.C.R. PRAC. & P. 152 (allowing for non-precedential, oral findings of fact except in actions for declaratory judgment or for disclosure).

<sup>547</sup> 26 U.S.C. § 7463(b) (“A decision entered in any case in which the proceedings are conducted under this section shall not be reviewed in any other court and shall not be treated as a precedent for any other case.”).

<sup>548</sup> ABA IP Section Second Notice Comments at 3; Copyright Alliance First Notice Comments at 5; Microsoft Corp., Comments Submitted in Response to First Notice of Inquiry at 4 (Jan. 17, 2012) (“Microsoft First Notice Comments”); Michael Traynor *et al.*, Comments Submitted in Response to First Notice of Inquiry at 7 (Jan. 13, 2012) (“Traynor *et al.* First Notice Comments”); PACA, Comments Submitted to Second Notice of Inquiry at 7 (Oct. 18, 2012) (“PACA Second Notice Comments”).

respected “as an expedient alternative to judicial opinions for resolving trademark disputes arising across multiple national jurisdictions.”<sup>550</sup>

The UDRP was established in 1999 by the Internet Corporation for Assigned Names and Numbers (“ICANN”), the non-profit entity created for the allocation and management of the domain name system (“DNS”).<sup>551</sup> The UDRP provides rules for handling domain name disputes, but the disputes themselves are resolved by various nongovernmental organizations (“dispute resolution providers”), including the World Intellectual Property Organization (“WIPO”).<sup>552</sup> ICANN approves dispute resolution providers that have “demonstrated [the] ability to handle proceedings in an expedited, global, online context in an orderly and fair manner.”<sup>553</sup> UDRP proceedings are conducted in writing and presided over remotely by one to three panelists – selected by the dispute resolution provider either alone or in conjunction with the parties<sup>554</sup> – who determine whether a domain name registrant has engaged in bad-faith registration of a domain name (or “cybersquatting”) in violation of a third party’s trademark rights.

Dispute resolution panels hear only limited types of claims that they are empowered to resolve by virtue of the contractual relationships between ICANN and the different domain name registrars (the companies that offer domain name registration services), and, by extension, those registrars’ contractual relationships with individual registrants. ICANN requires that domain name registrars implement the UDRP for resolution of trademark-related disputes for generic top-level domains.<sup>555</sup> Registrars therefore include the UDRP in all of those domain name

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<sup>549</sup> Prior to implementation of the UDRP procedures, the Internet Corporation for Assigned Names and Numbers, World Intellectual Property Institute, and the Department of Commerce all recognized that “[e]xisting mechanisms for resolving conflicts between trademark owners and domain name holders are often viewed as expensive, cumbersome, and ineffective.” World Intellectual Property Organization, *The Management of Internet Names and Addresses: Intellectual Property Issues, Final Report of the WIPO Internet Domain Name Process*, ¶ 131 (Apr. 30, 1999), <http://www.wipo.int/export/sites/www/amc/en/docs/report-final1.pdf>.

<sup>550</sup> Internet Corporation for Assigned Names and Numbers, *Final GNSO Issue Report on the Current State of the Uniform Dispute Resolution Policy*, 12 (Oct. 3, 2011), <http://gnso.icann.org/issues/udrp/udrp-final-issue-report-03oct11-en.pdf>.

<sup>551</sup> When drafting the UDRP, ICANN relied heavily on a report by the World Intellectual Property Organization report *The Management of Internet Names and Addresses: Intellectual Property Issues, Final Report of the WIPO Internet Domain Name Process*, 131 (Apr. 30, 1999), <http://www.wipo.int/export/sites/www/amc/en/docs/report-final1.pdf>.

<sup>552</sup> ICANN, *List of Approved Dispute Resolution Service Providers*, <http://www.icann.org/en/help/dndr/udrp/providers> (dispute resolution providers include: the Asian Domain Name Dispute Resolution Centre, Czech Arbitration Court Arbitration Center for Internet Disputes, National Arbitration Forum (“NAF”), WIPO, and starting on January 1st, 2014, the Arab Center for Domain Name Dispute Resolution).

<sup>553</sup> ICANN, *Information Concerning Approval Process for Dispute-Resolution Service Providers*, <http://www.icann.org/en/help/dndr/udrp/provider-approval-process>.

<sup>554</sup> If the parties have a single-member panel, the dispute resolution provider chooses the panelist. If there is a three-member panel, each party proposes a list of potential panelists, with the dispute resolution provider selecting one panelist from each of the complainant’s and respondent’s lists and picking the third panelist separately. ICANN, *Rules for Uniform Domain Name Dispute Resolution Policy* § 6 (Oct. 30, 2009), <http://www.icann.org/en/help/dndr/udrp/rules> (“UDRP Rules”).

<sup>555</sup> ICANN, *Registrar Accreditation Agreement*, 3.8 (May 21, 2009), <http://www.icann.org/en/resources/registrars/ra/ra-agreement-21may09-en.htm#3>.

registration agreements, which makes submission to an administrative proceeding mandatory for disputes over registrations that are identical or confusingly similar to trademarks.<sup>556</sup> Thus, registrants of generic top-level domains must abide by the UDRP and are subject to UDRP proceedings.<sup>557</sup>

UDRP panelists to which disputes are submitted are charged only with determining whether a domain name is identical or confusingly similar to a third party's trademark, the registrant lacks rights or legitimate interests in the name, and the name was registered and is being used in bad faith.<sup>558</sup> UDRP panels therefore do not generally consider issues collateral to the determination of whether a registrant violated the UDRP. There are exceptions, however. A UDRP panel may need to evaluate third-party rights, usually in the context of deciding whether to cancel a registration as opposed to transferring a domain name.<sup>559</sup> And panels have considered the infringement of copyrighted works on a website as evidence of bad faith conduct.<sup>560</sup>

UDRP disputes are governed by several layers of substantive and procedural rules. First, the UDRP itself provides general requirements, including the broad standard used to determine whether a domain name was registered and used in bad faith.<sup>561</sup> Panels thus base their decisions on the UDRP standard and not any one country's laws.<sup>562</sup> All UDRP disputes also are subject to the Rules for Uniform Domain Name Dispute Resolution Policy (the "UDRP Rules"), which

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<sup>556</sup> ICANN, Uniform Domain-Name Dispute-Resolution Policy, § 4 (Aug. 26, 1999), <http://www.icann.org/en/help/dndr/udrp/policy>. While these proceedings are mandatory for registrants, a registrant also can invoke the jurisdiction of a court to decide a domain name dispute. UDRP § 4(k) ("The mandatory administrative proceeding requirements set forth in Paragraph 4 shall not prevent either you or the complainant from submitting the dispute to a court of competent jurisdiction for independent resolution before such mandatory administrative proceeding is commenced or after such proceeding is concluded."); If the registrant invokes the jurisdiction of a court before or during a UDRP proceeding, the UDRP tribunal has "discretion to decide whether to suspend or terminate the administrative proceeding, or to proceed to a decision." UDRP Rules § 18(a).

<sup>557</sup> ICANN, *Domain Name Dispute Resolution Policies*, <http://www.icann.org/en/help/dndr> (this includes all the domain names that end in .aero, .asia, .biz, .cat, .com, .coop, .info, .jobs, .mobi, .museum, name, net, .org, .pro, .tel and .travel).

<sup>558</sup> UDRP § 4(a).

<sup>559</sup> An example of this occurred when a UDRP panel refused to transfer a domain name containing both the trademark of the claimant and its nonparty competitor because transferring the domain name to the claimant might violate the nonparty competitor's rights. See *Lilly ICOS LLC v. Tudor Burden, Burden Mktg.*, Case No. D2004-0794 (WIPO Dec. 20, 2004) (the domain name at issue was [cialis-viagra.info](http://cialis-viagra.info) and Pfizer Inc. owns the trademark to Viagra, but was not a party to the proceedings).

<sup>560</sup> See, e.g., *Wintershall Holding GMBH v. Tracey Morgan*, Case No. D2011-1456 (WIPO Oct. 20, 2011) (while the panel noted that "assessing copyright infringement is beyond the scope of the Policy," citing prior decisions that found copyright infringement to be evidence of bad faith, the panel still found that using the disputed domain name to place an infringing copy of the advertising content found on the complainant's website was evidence of bad faith).

<sup>561</sup> UDRP § 4(a).

<sup>562</sup> See, e.g., *Anomaly Action Sports S.R.L. Con Sigla AAS S.r.l. v. Kruse*, Case No. D2013-0276 at ¶ 6.22 (WIPO March 15, 2013) ("[T]his Panel is of the opinion that the importation into the Policy of local law doctrines based upon the location of the parties is both unwarranted and misconceived."); M. Scott Donahey, 1 INTERNET L. & PRACTICE § 16:6 (2013) ("While panelists' approaches to choice of law are not consistent, the general practice is, where both parties are from the same country, to apply the law of that country. Where parties are from different countries, panelists tend to rely entirely on the UDRP and the Uniform Rules and do not apply any national law.").

provide procedural rules, including specific information as to what the parties must include in their filings.<sup>563</sup> In addition to these requirements, each dispute resolution provider has its own procedural rules regarding logistics, including how to provide documents to the panels and word or page limits for pleadings.<sup>564</sup> Dispute resolution providers request that parties use an electronic submissions process, employing website forms and/or email.<sup>565</sup>

It is up to the complainant to propose the number of panelists that will hear a dispute but, if the complainant requests a one-member panel, the respondent can request that the matter be heard instead by a three-member panel.<sup>566</sup> UDRP proceedings are conducted in writing; there are no live or remotely conducted hearings other than for exceptional reasons.<sup>567</sup> The papers involved are the trademark owner's complaint, the domain name registrant's response, and, in some cases, a limited ability for the trademark owner to reply.<sup>568</sup> These pleadings contain all of the parties' factual and legal arguments, and may include extensive exhibits and, in some cases, witness declarations.<sup>569</sup> UDRP proceedings do not afford any opportunity for discovery.<sup>570</sup>

The dispute resolution provider must assemble a panel within five days of the receipt of the registrant's response,<sup>571</sup> and, barring exceptional circumstances, the panel must forward its

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<sup>563</sup> UDRP §§ 3-5 (“complaints” and “responses”).

<sup>564</sup> WIPO, *World Intellectual Property Organization Supplemental Rules for Uniform Domain Name Dispute Resolution*, § 11 (Dec. 14, 2009), <http://www.wipo.int/amc/en/domains/supplemental/eudrp/> (5,000 word limit); Arbitration Center for Internet Disputes; *CAC's UDRP Supplemental Rules of the Czech Arbitration Court*, § 13, [https://udrp.adr.eu/arbitration\\_platform/udrp\\_supplemental\\_rules.php](https://udrp.adr.eu/arbitration_platform/udrp_supplemental_rules.php) (5,000 word limit); The Asian Domain Name Dispute Resolution Centre, *Supplemental Rules to the Internet Corporation for Assigned Names and Numbers (ICANN) Uniform Domain Name Dispute Resolution Policy and the Rules for the Domain Name Dispute Resolution Policy*, art. 13.1 (Jul. 26, 2012), [https://www.adndrc.org/doc/Supplemental\\_Rules\\_26-07-2012\\_en.pdf](https://www.adndrc.org/doc/Supplemental_Rules_26-07-2012_en.pdf) (3,000 word limit); National Arbitration Forum, *The National Arbitration Forum's Supplemental Rules to ICANN's Uniform Domain Name Dispute Resolution Policy*, §§ 4(a), 5(a) (Mar. 1, 2010), <http://domains.adrforum.com/users/icann/resources/UDRP%20Supplemental%20Rules%20eff%20March%201%202010.pdf> (fifteen page limit).

<sup>565</sup> See, e.g., WIPO, *Online Complaint Filing Form Complaints under the Uniform Domain Name Dispute Resolution Policy (UDRP)*, [www.wipo.int/amc/en/domains/filing/udrp/eudrpcomplaint.jsp](http://www.wipo.int/amc/en/domains/filing/udrp/eudrpcomplaint.jsp); National Arbitration Forum, *Online Filing for Uniform Domain Dispute Resolution Policy (UDRP) Cases*, <https://secure.arbforum.com/ddfiling/default.aspx?Ruleset=UDRP>.

<sup>566</sup> UDRP Rules §§ 3(b)(iv), 5(b)(iv)-(v), 6.

<sup>567</sup> UDRP Rules § 13; *Mary's Futons, Inc. v. Texas Int'l Prop. Assocs.*, Claim Number FA0706001012059 (National Arbitration Forum) (Aug. 13, 2007) (“In the thousands of cases which have now been determined by both WIPO and NAF, there has been no occasion on which an in-person hearing has been ordered.”).

<sup>568</sup> Typically most providers do not allow submission of additional documents. However, the National Arbitration Forum allows for one additional written statement to be submitted within five days of a Response if it does not amend the Complaint or Response. See *The National Arbitration Forum's Supplemental Rules to ICANN's Uniform Domain Name Dispute Resolution Policy*, § 7 (Mar. 1, 2010), <http://domains.adrforum.com/users/icann/resources/UDRP%20Supplemental%20Rules%20eff%20March%201%202010.pdf>. While submission of additional documents is uncommon, dispute resolution providers may allow a trademark owner an additional submission in the case of new evidence.

<sup>569</sup> UDRP Rules §§ 3(b), 5(b).

<sup>570</sup> Kristan B. Burch, *Domain Name Disputes: Why Are So Many Disputes Resolved Administratively?*, 59 FED. LAWYER 20, 22 (2012) (“The parties in a UDRP proceeding cannot participate in discovery”).

<sup>571</sup> UDRP Rules § 6.

written decision to the provider within fourteen days of its appointment.<sup>572</sup> The relief available in a UDRP proceeding is very limited. Complainants can request only that the panel cancel or transfer the relevant domain name(s); the panel cannot grant monetary relief or enjoin registrants from registering additional infringing domain names in the future.<sup>573</sup>

Parties to a UDRP dispute do not need to be represented by attorneys, though complainants often are.<sup>574</sup> UDRP fees, which ordinarily are borne by the complainant,<sup>575</sup> vary among the four authorized dispute resolution providers and based upon the number of panelists and the number of domain names at issue. Current fees to challenge a domain name range from about \$670 (€500) to \$1,500 for single-panelist consideration of a single domain name.<sup>576</sup> Each party bears its own attorneys' fees.<sup>577</sup>

The UDRP rules do not contain provisions for appeals to a dispute resolution provider or to ICANN itself, but either party can appeal a determination to a traditional government court.<sup>578</sup> A respondent has ten days after losing a UDRP proceeding to file a court case before the domain name is transferred or canceled by the registrar with which the name is registered during the dispute.<sup>579</sup> Notably, in the United States, a claimant can also bring suit before, during, or after a

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<sup>572</sup> *Id.* § 15(b).

<sup>573</sup> *Id.* § 4(i) (“The remedies available to a complainant pursuant to any proceeding before an Administrative Panel shall be limited to requiring the cancellation of your domain name or the transfer of your domain name registration to the complainant.”).

<sup>574</sup> WIPO, *Guide to the Uniform Domain Name Dispute Resolution Policy (UDRP)*, <http://www.wipo.int/amc/en/domains/guide/#b6> (“While the assistance of a lawyer may be helpful, there is no requirement that the Complaint be prepared or submitted by a lawyer.”).

<sup>575</sup> UDRP § 4(g). A respondent may, however, share the costs of the proceeding if the respondent participates in the adjudicatory process and opts to have three panelists where the complainant has requested one.

<sup>576</sup> See WIPO, *Schedule of Fees under the UDRP* (Dec. 1, 2002), <http://www.wipo.int/amc/en/domains/fees/index.html>. (\$1,500 for single-panelist review of up to five domain names); National Arbitration Forum, *The National Arbitration Forum's Supplemental Rules to ICANN's Uniform Domain Name Dispute Resolution Policy*, § 17 (Mar. 1, 2010), <http://domains.adrforum.com/users/icann/resources/UDRP%20Supplemental%20Rules%20eff%20March%201%202010.pdf> (\$1,300 for single-panelist review of up to two domain names); Arbitration Center for Internet Disputes, *Fees of the Czech Arbitration Court (CAC)*, [https://udrp.adr.eu/arbitration\\_platform/fees.php](https://udrp.adr.eu/arbitration_platform/fees.php) (€500 for single-panelist review of up to five domain names); Asian Domain Name Dispute Resolution Centre, *Supplemental Rules to the Internet Corporation for Assigned Names and Numbers (ICANN) Uniform Domain Name Dispute Resolution Policy and the Rules for the Domain Name Dispute Resolution Policy*, art. 15 (Jul. 26, 2012), [https://www.adndrc.org/doc/Supplemental\\_Rules\\_26-07-2012\\_en.pdf](https://www.adndrc.org/doc/Supplemental_Rules_26-07-2012_en.pdf) (\$1,300 for single-panelist review of up to two domain names).

<sup>577</sup> See UDRP § 4(i).

<sup>578</sup> *Id.* § 4(k). The UDRP procedural rules, to which complainants agree by virtue of bringing a complaint and registrants agree pursuant to the registration agreement with the registrar, mandate that the complainant “will submit, with respect to any challenges to a decision in the administrative proceeding canceling or transferring the domain name, to the jurisdiction of the courts in at least one specified Mutual Jurisdiction.” *Id.* § 3(xiii). A “Mutual Jurisdiction” is “a court jurisdiction at the location of either (a) the principal office of the Registrar... or (b) the domain-name holder’s address as shown for the registration of the domain name in Registrar’s WhoIs database at the time the complaint is submitted to the Provider.” UDRP § 1. A “WhoIs” database reflects the registration information of the domain name registrant and typically is publicly available on the registrar’s website as well as on other websites.

<sup>579</sup> UDRP § 4(k).

dispute resolution provider's UDRP decision under traditional trademark infringement theories or under the Anticybersquatting Consumer Protection Act, codified in the Lanham Act.<sup>580</sup>

## F. Federal Court Procedures

### 1. The Federal Arbitration Act

The FAA<sup>581</sup> enacted by Congress in 1925,<sup>582</sup> provides a mechanism for the enforcement of private arbitration decisions through state and federal courts. The statute provides that written agreements to arbitrate are to be considered “valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract.”<sup>583</sup> Additionally, reflecting a broad congressional policy favoring arbitral agreements,<sup>584</sup> states cannot curtail the FAA's subject matter limitations or provisions limiting the revocability of arbitration agreements.<sup>585</sup> While parties may challenge an agreement to arbitrate under standard contract law, as reviewed above, they can only challenge an arbitration decision resulting from a valid arbitration agreement on limited procedural grounds such as fraud, evident partiality, or other misconduct.<sup>586</sup> Because the United States is a party to international conventions on arbitration, valid arbitration awards also are recognized in many countries throughout the world.<sup>587</sup>

To enforce an arbitration award under the FAA, a party may file a motion to confirm the award with the proper court, thereby reducing the award to a judgment.<sup>588</sup> This court can be a state court or a federal court as specified by the parties' arbitration agreement; if no court is specified, the award is enforceable by the U.S. district court for the district in which the award was made.<sup>589</sup> A motion to confirm an arbitration award in federal court must be accompanied by the

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<sup>580</sup> See 15 U.S.C. § 1125(d)(1) (cause of action for trademark owners seeking transfer of the domain name against the alleged cybersquatter); *id.* § 1125(d)(2) (cause of action for trademark owners against the domain name *in rem* when the domain name owner cannot be located); 15 U.S.C. § 1114(2)(D)(v) (creating a civil cause of action for domain name owners seeking to restore rights to a domain name when the domain name has been suspended, disabled, or transferred under a policy prohibiting the registration of a domain name that is identical to, confusingly similar to, or dilutive of another's mark (for example, the UDRP)).

<sup>581</sup> 9 U.S.C. §§ 1-16.

<sup>582</sup> The modern FAA derived from the United States Arbitration Act, which was in effect from 1925 until it was replaced by the current FAA in 1947. Act of Feb. 12, 1925, ch. 213, §§ 1-15, 43 Stat. 883-86 (repealed by FAA, 9 U.S.C. §§ 1-16 (1947)).

<sup>583</sup> 9 U.S.C. § 2.

<sup>584</sup> See *Southland Co. v. Keating*, 465 U.S. 1, 11 (1984) (noting “broad principle of enforceability” under FAA).

<sup>585</sup> See *Moses H. Cone Mem'l Hosp. v. Mercury Const. Corp.*, 460 U.S. 1, 24 (1983).

<sup>586</sup> 9 U.S.C. § 10.

<sup>587</sup> Inter-American Convention on International Commercial Arbitration, Jan. 30, 1975, S. TREATY DOC. No. 97-12 (1981); Convention on the Recognition and Enforcement of Foreign Arbitral Awards, art. I(3), June 10, 1958, 21 U.S.T. 2517; 9 U.S.C. § 304.

<sup>588</sup> 9 U.S.C. § 9.

<sup>589</sup> *Id.* All fifty states and the District of Columbia have provisions for the enforcement of arbitral awards. See Susan Weins & Roger Haydock, *Confirming Arbitration Awards: Taking the Mystery Out of a Summary Proceeding*, 33 WM. MITCHELL L. REV. 1293, 1294 n.5 (2007) (listing all state arbitration laws).

agreement to arbitrate and any time extensions, the arbitration award and each notice, affidavit, or other paper used upon an application to confirm, modify, or correct the award,<sup>590</sup> as well as the applicable district court filing fee.<sup>591</sup> Some federal district courts require additional documentation, such as: an affidavit listing the facts underlying the arbitration award, hearing, and arbitral agreement; a proposed order; and a memorandum of law in support of the request for confirmation.<sup>592</sup>

A party to the arbitral proceeding has one year to apply to a court to confirm the award.<sup>593</sup> A party who seeks to set aside an award, however, must petition the court within three months of its issuance.<sup>594</sup> An award can be vacated only for the reasons specified in the FAA and parties cannot expand these statutory grounds by contract.<sup>595</sup>

A party seeking to overturn an arbitral award bears a “heavy burden” under the standards specified in the FAA.<sup>596</sup> For example, to show that an arbitrator exceeded his or her powers, “[i]t is not even enough that the [arbitration] Panel may have failed to understand or apply the law . . . . An arbitrator’s decision must be upheld unless it is ‘completely irrational,’ or it constitutes a ‘manifest disregard of law.’”<sup>597</sup> If one of the statutory exceptions does not apply, a court is obligated to confirm the award.<sup>598</sup> Finally, if a party refuses to abide by a valid arbitral award “in bad faith, vexatiously, or for oppressive reasons,” a court may award attorneys’ fees to the party attempting to enforce the valid arbitral award.<sup>599</sup>

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<sup>590</sup> 9 U.S.C. § 13.

<sup>591</sup> This fee varies in federal district court. Compare United States District Court Eastern District of Pennsylvania, *District Court Miscellaneous Fee Schedule*, <http://www.paed.uscourts.gov/documents/fees/dcfes.pdf> (the Eastern District of Pennsylvania categorizes the confirmation of arbitration awards as miscellaneous actions and charges a fee of \$46), with United States District Court Southern District of New York, *District Court Fee Schedule and Related Information*, <http://www.nysd.uscourts.gov/fees> (Southern District of New York requires parties to pay the full fee for a new civil action of \$400 in order to confirm an arbitration award).

<sup>592</sup> See Weins & Haydock, at 1305.

<sup>593</sup> 9 U.S.C. § 9.

<sup>594</sup> *Id.* § 12.

<sup>595</sup> *Hall Street Assocs., L.L.C. v. Mattel, Inc.*, 552 U.S. 576, 584 (2008).

<sup>596</sup> *Oxford Health Plans LLC v. Sutter*, 133 S. Ct. 2064, 2068 (2013) (referring to the “exceeded their powers” standard specifically, but also noting generally that “[u]nder the FAA, courts may vacate an arbitrator’s decision ‘only in very unusual circumstances.’”) (citation omitted).

<sup>597</sup> *French v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 784 F.2d 902, 906 (9th Cir.1986) (citations omitted).

<sup>598</sup> See *Hall Street Assocs.*, 552 U.S. at 587 (“There is nothing malleable about ‘must grant,’ which unequivocally tells courts to grant confirmation in all cases, except when one of the ‘prescribed’ exceptions applies.”); see also *Dean Witter Reynolds, Inc. v. Byrd*, 470 U.S. 213, 218 (1985) (“By its terms, the Act leaves no place for the exercise of discretion by a district court, but instead mandates that district courts *shall* direct the parties to proceed to arbitration on issues as to which an arbitration agreement has been signed.”).

<sup>599</sup> *Int’l Union of Petrol. & Indus. Workers v. W. Indus. Maint., Inc.*, 707 F.2d 425, 428 (9th Cir.1983) (employer acted in bad faith in forcing union to go to court to enforce a valid arbitration award, and was forced to pay the union’s attorneys’ fees) (citing *Alyeska Pipeline Serv. Co. v. Wilderness Soc’y*, 421 U.S. 240, 258-59 (1975)).

## 2. Federal Court Alternative Dispute Resolution Processes

In recent decades, Congress has provided that various forms of ADR processes be made available to federal court litigants in order to promote innovative ways of resolving disputes, efficiently achieve settlements, and ease the backlog of federal cases.<sup>600</sup>

In 1988, Congress passed the Judicial Improvements and Access to Justice Act,<sup>601</sup> which created a pilot program allowing a limited number of federal district courts to create local procedural rules to facilitate the voluntary or mandatory referral of civil actions to non-binding arbitration.<sup>602</sup> The pilot program had an initial five-year term,<sup>603</sup> which was extended for several years<sup>604</sup> before the program was supplanted by The Alternative Dispute Resolution Act of 1998 (“ADRA”).<sup>605</sup> While the ADRA expanded the reach of federal ADR – adding mediation and other potential options for litigants<sup>606</sup> – it eliminated mandatorily imposed arbitration, which some believed to be in tension with the Seventh Amendment.<sup>607</sup> Accordingly, the ADRA provides that district court rules should ensure that “(1) consent to arbitration is freely and knowingly obtained; and (2) no party or attorney is prejudiced for refusing to participate in arbitration.”<sup>608</sup>

The ADRA instructs each U.S. district court to authorize by local rule the use of ADR in all civil actions, through processes such as early neutral evaluation, mediation, minitrial, and arbitration.<sup>609</sup> Local ADR rules also must require that litigants “consider” the use of ADR, and may mandate the use of mediation or early neutral evaluation in “certain cases.”<sup>610</sup> Particular

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<sup>600</sup> Alternative Dispute Resolution Act of 1998, § 2, Pub. L. 105-315, 112 Stat. 2998.

<sup>601</sup> Judicial Improvements and Access to Justice Act, Pub. L. 100-702, §§ 901-07, 102 Stat. 4642, 4659-64.

<sup>602</sup> 28 U.S.C. § 652 (a) (1988).

<sup>603</sup> Judicial Improvements and Access to Justice Act, § 906.

<sup>604</sup> See A bill to extend arbitration under the provisions of chapter 44 of title 28, United States Code, and for other purposes, Pub. L. 103-192, 107 Stat. 2292.

<sup>605</sup> Pub. L. 105-315, 112 Stat. 2998. Prior to the ADRA was the Civil Justice Reform Act of 1990, which required federal district courts to consider several case management strategies, including ADR, as a means of cost and delay reduction. Pursuant to this statute, many district courts implemented ADR procedures and hired ADR staff. DONNA STIENSTRA, FED. JUDICIAL CTR., ADR IN THE FEDERAL DISTRICT COURTS: AN INITIAL REPORT 1-2 (2011), available at [http://www.fjc.gov/public/pdf.nsf/lookup/adr2011.pdf/\\$file/adr2011.pdf](http://www.fjc.gov/public/pdf.nsf/lookup/adr2011.pdf/$file/adr2011.pdf).

<sup>606</sup> 28 U.S.C. § 651.

<sup>607</sup> The ABA, for example, explained that while it “has long supported voluntary arbitration in the federal courts, it strongly opposes mandatory arbitration programs, even if nonbinding, where involuntary participation is required before litigants are allowed a trial before a jury or federal judge.” *Alternative Dispute Resolution and Settlement Encouragement Act; Federal Courts Improvement Act, and Need for Additional Federal District Court Judges: Hearing on H.R. 2603 and H.R. 2294 Before the H. Comm. on the Judiciary*, 105th Cong. 59 (1997) (statement of Mitchell F. Dolin).

<sup>608</sup> 28 U.S.C. § 654(b).

<sup>609</sup> *Id.* at § 651.

<sup>610</sup> *Id.* at § 652(a).

cases or categories of cases may be excluded from referral to ADR as well.<sup>611</sup> The ADRA provides three instances where referral to arbitration must be barred, even if the parties otherwise consent: (1) where the action concerns the violation of a constitutional right; (2) in civil rights actions pursuant to 28 U.S.C. § 1343; and (3) where \$150,000 or more in money damages is sought.<sup>612</sup>

Every district court has implemented some form of ADR, with more than a third authorizing multiple forms of dispute resolution.<sup>613</sup> The most popular form of ADR is mediation, with 67% of the ninety-four district courts using it.<sup>614</sup> Settlement conferences are used by 38.3% of courts, and arbitration and early neutral evaluation are both employed by 24.5%.<sup>615</sup> District court rules vary as to how ADR referrals are handled. For example, while a judge may order mediation without the parties' consent in forty-six districts, eleven districts require consent by all parties before mediation.<sup>616</sup> In its 2011 review of ADR procedures the FJC garnered information on the number of ADR referrals from forty-nine district courts, and found that, for the twelve-month period ending June 30, 2011, mediation was preferred by an overwhelming amount (17,833 cases) over arbitration (2,799) and early neutral evaluation (1,320).<sup>617</sup>

One notable ADR program is that run by the Northern District of California, where appropriate civil cases are presumptively referred to the "ADR Multi-Option Program," under which the parties may choose among mediation, non-binding arbitration, or early neutral evaluation, with the additional options of private ADR or a settlement conference with a magistrate judge.<sup>618</sup> According to statistics for 2006 through 2011, mediation is consistently the most used ADR procedure in the Northern District of California, followed by settlement conferences, private ADR, and early neutral evaluation.<sup>619</sup> Arbitration typically represents less than 1% of referrals.<sup>620</sup>

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<sup>611</sup> *Id.* at § 652(b) ("Each district court may exempt from the requirements of this section specific cases or categories of cases in which use of alternative dispute resolution would not be appropriate.").

<sup>612</sup> *Id.* at § 654(a).

<sup>613</sup> DONNA STIENSTRA, FED. JUDICIAL CTR., ADR IN THE FEDERAL DISTRICT COURTS: AN INITIAL REPORT 5 (2011), available at [http://www.fjc.gov/public/pdf.nsf/lookup/adr2011.pdf/\\$file/adr2011.pdf](http://www.fjc.gov/public/pdf.nsf/lookup/adr2011.pdf/$file/adr2011.pdf).

<sup>614</sup> *Id.* at 7.

<sup>615</sup> *Id.* But see *id.* at 6 (not every district court considers the settlement conference a form of ADR, and so not every court included its usage in its ADR provisions).

<sup>616</sup> STIENSTRA, at 9.

<sup>617</sup> *Id.* at 15.

<sup>618</sup> U.S. District Ct., N.D. CAL. ADR L.R. 3. Note that private ADR proceedings are not subject to enforcement, immunity, or other provisions of the local ADR rules. N.D. CAL. ADR L.R. 3-4(b).

<sup>619</sup> U.S. District Ct., N.D. Cal., *Statistics: ADR Referrals of All Civil Cases by Calendar Year Filed* (2011), <http://www.cand.uscourts.gov/statistics>.

<sup>620</sup> *Id.*

### 3. Programs to Assist Small Copyright Litigants

Recognizing the importance and value of legal advice, some organizations provide support to unrepresented federal court litigants in the form of *pro se* education and *pro bono* representation. Examples of such organizations that assist copyright litigants that were identified in the small claims comments and hearings include California Lawyers for the Arts (“CLA”) in several California locations, the Volunteer Lawyers for the Arts, Inc. (“VLA”) in New York City, and the Federal Legal Assistance Self Help Center at the San Jose Courthouse (“FLASH”).

CLA is an organization dedicated to serving the creative communities in San Francisco, Sacramento, and Los Angeles that offers both a lawyer referral service and ADR services to parties with copyright conflicts. CLA’s lawyer referral service allows a litigant to have a thirty-minute consultation with an attorney at a nominal cost.<sup>621</sup> After the consultation, CLA provides a referral to a paid attorney; or if the party qualifies, CLA will identify an attorney offering *pro bono* services or an attorney participating in CLA’s modest means program.<sup>622</sup> The modest means program connects qualifying clients with smaller or boutique firms operating on pricing tiers that are lower than those of standard copyright attorneys. Some attorneys may be willing to give “behind the scenes” advice to clients who are proceeding *pro se*.

CLA also encourages the nonjudicial resolution of disputes through mediation, conciliation, or arbitration. CLA’s ADR services (Arts Arbitration and Mediation Services, or AAMS) can be made available in person or by phone, with a \$25 case opening fee and further sliding-scale fees based on the income of the individual or business ranging from \$25 to \$1,500.<sup>623</sup>

VLA, based in New York City, “provides *pro bono* legal representation to low-income artists and nonprofit arts and cultural organizations as well as a range of other services (legal counseling, educational programs, advocacy, and ADR services) to the entire arts community, and assists in the training of lawyers.”<sup>624</sup> From the time it was established in 1969, VLA has helped more than 265,000 low-income artists and nonprofit organizations.<sup>625</sup>

To access VLA’s *pro bono* placement service, a client first interviews with a VLA staff attorney.<sup>626</sup> Over 75% of cases are resolved through advice provided at this initial meeting, and the remainder of the matters are identified in a bimonthly email list to potential volunteer attorneys at law firms or elsewhere.<sup>627</sup> Most cases are placed within six to twelve weeks.<sup>628</sup>

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<sup>621</sup> CLA, *Certified Lawyer Referral Service*, [http://www.calawyersforthearts.org/Lawyer\\_Referral](http://www.calawyersforthearts.org/Lawyer_Referral) (the administrative fee is \$35 or \$20 for CLA members).

<sup>622</sup> Alma Robinson, *Small Copyright Claimants Need Access to Justice* (Feb. 20, 2013 1:06 PM), [http://www.calawyersforthearts.org/california\\_arts\\_blog?mode=PostView&bmi=1213811](http://www.calawyersforthearts.org/california_arts_blog?mode=PostView&bmi=1213811).

<sup>623</sup> CLA, *A.A.M.S. Fees and Services*, [http://www.calawyersforthearts.org/AAMS\\_Fees](http://www.calawyersforthearts.org/AAMS_Fees) (last visited Sept. 11, 2013).

<sup>624</sup> VLA Third Notice Comments at 1.

<sup>625</sup> *Id.*

<sup>626</sup> VLA, *Pro Bono Legal Services*, <http://www.vlany.org/legalservices/probono.php>.

<sup>627</sup> *Id.*

<sup>628</sup> *Id.*

VLA also operates the Art Law Line, where attorneys and other volunteers take over 150 calls daily seeking legal advice.<sup>629</sup>

FLASH is a service of the San Jose division of the United States District Court for the Northern District of California that offers legal research and litigation guidance to qualified parties in civil cases, including copyright cases.<sup>630</sup> To receive assistance from FLASH, a party must be proceeding *pro se*, but the service is free for those who qualify.<sup>631</sup> FLASH does not represent litigants but instead “provide[s] information about legal rights and responsibilities and about the court procedures applicable to [the] civil case, limited-scope legal advice, help preparing simple pleadings, and referrals to legal, social, and government services.”<sup>632</sup> FLASH also makes referrals to a panel consisting of experienced attorneys from large law firms who provide *pro bono* legal research and litigation guidance, but not in-court representation, to *pro se* litigants.<sup>633</sup>

Statistics maintained by FLASH indicate that parties referred to the *pro bono* assistance program have a success rate of 83%, as compared to the 39% rate of success for other *pro se* litigants.<sup>634</sup> Intellectual property claims are the third most frequent type of claim handled by FLASH’s attorneys.<sup>635</sup>

## G. International Models

A number of countries have specialized court procedures or government-sponsored ADR programs to address copyright matters. While their usefulness as models may be limited by the varying legal regimes and cultures that they serve, these international examples offer interesting points of comparison.

### 1. United Kingdom

In 1990, the UK established the Patents County Court (“PCC”) to serve the interests of small and medium-sized enterprises by “providing an affordable forum for intellectual property litigation,” including copyright, trademark, and patent cases.<sup>636</sup> Over time, however, it became apparent that

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<sup>629</sup> *Id.*

<sup>630</sup> N.D. Cal., *FLASH*, <http://www.cand.uscourts.gov/helpcentersj> (“FLASH does not provide help with: bankruptcy, habeas corpus, prisoner, appeals, state court, and/or criminal questions, or any question concerning a case not pending in the United States District Court for the Northern District of California—San Jose division.”).

<sup>631</sup> *Id.*

<sup>632</sup> *Id.*

<sup>633</sup> FLASH Third Notice Comments at 2, n.6.

<sup>634</sup> *Id.* at 2 (note that this statistic is not limited to copyright cases).

<sup>635</sup> *Id.* at 1.

<sup>636</sup> JUDICIARY OF ENG. AND WALES INTELLECTUAL PROP. COURT USERS’ COMM., WORKING GROUP’S FINAL REPORT ON PROPOSALS FOR REFORM OF THE PATENTS COUNTY COURT 6 (2009), available at [http://new.judiciary.gov.uk/NR/rdonlyres/24E06162-8F8F-4117-92D2-3446CD75ECA1/0/report\\_wgf\\_reform\\_of\\_county\\_court.pdf](http://new.judiciary.gov.uk/NR/rdonlyres/24E06162-8F8F-4117-92D2-3446CD75ECA1/0/report_wgf_reform_of_county_court.pdf).

UK intellectual property holders continued to face significant cost barriers to enforcing their rights, even in the PCC.<sup>637</sup>

In 2009 and 2011, successive reports by Lord Justice Rupert Jackson (“Jackson Report”)<sup>638</sup> and Professor Ian Hargreaves (“Hargreaves Report”)<sup>639</sup> focused attention on the problems facing UK authors, further confirming that certain intellectual property claims are not pursued in the UK due to prohibitively high litigation costs. The Jackson Report observed that because intellectual property rights played a crucial role in the UK economy, it was critical for owners of such rights to be able to “assert or defend them in the courts.”<sup>640</sup> The Hargreaves Report found that stakeholders “identified enforcement as the most serious weakness in the UK’s IP framework”<sup>641</sup> and noted Nokia’s submission that “even a £2,000 claim for copyright infringement ... can run up costs of £20-£30k ... which dissuades people from enforcing IP at low levels.”<sup>642</sup> The two reports agreed that small and medium enterprises lack a cost-effective legal environment for resolving intellectual property disputes,<sup>643</sup> and advocated for a small claims track for intellectual property disputes within the PCC.<sup>644</sup>

The UK government concurred with many of the studies’ points regarding small intellectual property claims, with the further observation that the lack of a cost-effective environment to resolve such disputes affects parties’ decisions to settle or engage in ADR.<sup>645</sup> New rules were thus adopted in October 2012 to create a small claims track of the PCC.

The PCC small claims track has jurisdiction over claims concerning copyright, trademark, passing off, and unregistered design rights<sup>646</sup> in which the value of the claim does not exceed £10,000 (or about \$15,000 U.S.).<sup>647</sup> In addition to the jurisdictional monetary limit, the PCC

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<sup>637</sup> *Id.*

<sup>638</sup> RIGHT HONOURABLE LORD JUSTICE RUPERT JACKSON, REVIEW OF CIVIL LITIGATION COSTS: FINAL REPORT (2009), available at <http://www.judiciary.gov.uk/NR/rdonlyres/8EB9F3F3-9C4A-4139-8A93-56F09672EB6A/0/jacksonfinalreport140110.pdf> (“Jackson Report”).

<sup>639</sup> IAN HARGREAVES, DIGITAL OPPORTUNITY: A REVIEW OF INTELLECTUAL PROPERTY AND GROWTH (2011), available at <http://www.ipo.gov.uk/ipreview-finalreport.pdf> (“Hargreaves Report”).

<sup>640</sup> Jackson Report, at xx.

<sup>641</sup> Hargreaves Report, at 67.

<sup>642</sup> *Id.* at 83.

<sup>643</sup> Jackson Report, at xx; Hargreaves Report, at 83.

<sup>644</sup> Jackson Report, at xx; Hargreaves Report, at 85. Despite its name, the Patents County Court does not hear patent cases in its small claims track, though it does on its multitrack.

<sup>645</sup> HM GOV’T, THE GOVERNMENT RESPONSE TO THE HARGREAVES REVIEW OF INTELLECTUAL PROPERTY AND GROWTH 12 (2011) (“access to the courts at a proportionate cost should act as an incentive to settle or arbitrate as well as being a means of resolving less tractable but straightforward disputes”), available at <http://www.ipo.gov.uk/ipresponse-full.pdf>.

<sup>646</sup> See CPR 63.28.

<sup>647</sup> *Id.* 63.27(1)(b). The original limit was £5,000, which increased to £10,000 with a proposed general increase in 2013. THE INTELLECTUAL PROP. OFFICE, GOVERNMENT RESPONSE TO THE CALL FOR EVIDENCE ON INTRODUCING A SMALL CLAIMS TRACK INTO THE PATENTS COUNTY COURT 4 (2012), available at <http://www.ipo.gov.uk/hargreaves-enforce-c4e-pcc-response.pdf> (“IPO Response”). The limit could increase to

does not assign cases to the small claims track if the case involves complex questions of fact, law, or evidence.<sup>648</sup> Within the realm of copyright cases, the UK Intellectual Property Office suggested that copyright disputes may be best suited to the small claims track when they involve instances of direct copying.<sup>649</sup> If a matter is factually complex, requires significant oral evidence, or the law or evidence is complicated, the case will not be allocated to the small claims track but can still be heard by the PCC.<sup>650</sup>

To initiate a claim in the PCC small claims track, a plaintiff may submit a complaint with a request that the case be allocated to that track.<sup>651</sup> The court then sends the defendant standardized forms and instructions on how to respond.<sup>652</sup> If a defendant objects to using the small claims track, the judge looks to the parties' submissions to determine whether the case should in fact be tried in that track regardless of the defendant's wishes.<sup>653</sup> If the plaintiff did not request the small claims track, but the defendant made the request, the judge also has the discretion to send it there.<sup>654</sup> Without a request from either party, the case is automatically assigned to a different track.<sup>655</sup>

Cases assigned to the PCC small claims track can proceed based on written evidence only, without any live hearings.<sup>656</sup> Though attorneys are permitted, the track is designed to keep costs low by allowing a party to proceed *pro se*.<sup>657</sup> The standard rules for discovery (or "disclosure and inspection") do not apply to the small claims track.<sup>658</sup> But the small claims judge has the power to issue "special directions" to parties, which may include provisions for discovery.<sup>659</sup> If a judge determines that a hearing is required, the hearing is conducted informally.<sup>660</sup> Strict rules

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£15,000 after an evaluation of the increase to £10,000, equating the monetary limit to the limit for general civil claims that may be eligible for other small claims procedures. *Id.* at 15.

<sup>648</sup> CPR 26.8(c).

<sup>649</sup> THE INTELLECTUAL PROP. OFFICE, INTRODUCING A SMALL CLAIMS TRACK INTO THE PATENTS COUNTY COURT 9 (2012), available at <http://www.ipso.gov.uk/hargreaves-enforce-c4e-pcc.pdf>.

<sup>650</sup> HM COURTS & TRIBUNALS SERV., GUIDE TO THE PATENTS COUNTY COURT SMALL CLAIMS TRACK 3 (2012), available at <http://www.justice.gov.uk/downloads/courts/patents-court/patents-court-small-claims.pdf> ("PCC Guide").

<sup>651</sup> *Id.* at 3.

<sup>652</sup> Though the Jackson Report advocated using model pleadings, this recommendation was not adopted. Jackson Report, at 254 (2009).

<sup>653</sup> PCC Guide, at 3.

<sup>654</sup> CPR 63.27(3)(b). One reason that the judge makes the ultimate decision on the appropriate track is that there was a concern that well-funded defendants would "bully" claimants out of small claims and into the multi-track. IPO Response, at 7.

<sup>655</sup> PCC Guide, at 3.

<sup>656</sup> CPR 27.10 (there is no hearing if parties agree).

<sup>657</sup> CPR Practice Direction 27 ¶ 3.2; see also PCC Guide, at 4.

<sup>658</sup> CPR 27.2(1)(b).

<sup>659</sup> See *id.* 27.4(1)(b) ("After allocation the court will ... give special directions ...."); *id.* 27.2(3) ("The court of its own initiative may order a party to provide further information if it considers it appropriate to do so.").

of evidence do not apply; the court may limit cross-examination and the court need not take evidence on oath.<sup>661</sup> In cases where trial is not based on the written evidence alone, it will be held in the judge's chambers or sometimes in open court.<sup>662</sup>

In PCC small claims cases, the court can issue both monetary and final injunctive relief.<sup>663</sup> Preliminary injunctions, however, are not available<sup>664</sup> because “interim injunctions are often complex and highly contentious matters which would significantly increase costs for litigants.”<sup>665</sup> The expectation is that the small claims track is sufficiently streamlined to alleviate the need for preliminary relief.<sup>666</sup>

In the UK, the usual rule is that the unsuccessful party pays the legal costs – including the attorneys' fees – of the successful party.<sup>667</sup> This presumption, however, is applied very restrictively in the PCC small claims context.<sup>668</sup> The small claims court may award the successful party limited costs, for fixed sums, in relation to issuing the claim, court fees, and the expenses related to attending the hearing.<sup>669</sup> Reimbursement for legal fees is limited to cases where a party is seeking an injunction or specific performance,<sup>670</sup> and even then may not exceed £260 (about \$411 U.S.).<sup>671</sup>

Appeals from a PCC decision in the small claims track can be lodged only with permission from the judge who decided the case or a circuit judge sitting in the PCC.<sup>672</sup> When an appeal is permitted, the case proceeds first to the sitting circuit judge, then to the Court of Appeal, where it is reviewed for errors of law or construction, or on points as to the application of the law to the facts as found by the trial judge.<sup>673</sup>

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<sup>660</sup> *Id.* 27.8(2).

<sup>661</sup> *Id.* 27.8.

<sup>662</sup> PCC Guide, at 6.

<sup>663</sup> CPR 27.3 (“The court may grant any final remedy in relation to a small claim which it could grant if the proceedings were on the fast track or the multi-track.”).

<sup>664</sup> *Id.* 63.27(4); PCC Guide, at 2.

<sup>665</sup> THE INTELLECTUAL PROP. OFFICE, INTRODUCING A SMALL CLAIMS TRACK INTO THE PATENTS COUNTY COURT 10 (2012), available at <http://www.ipo.gov.uk/hargreaves-enforce-c4e-pcc.pdf>.

<sup>666</sup> *See id.* at 10; *see also* IPO Response, at 19.

<sup>667</sup> *See* PCC Guide, at 4.

<sup>668</sup> CPR 27.14 (except under certain circumstances “the court may not order a party to pay a sum to another party in respect of that other party's costs, fees and expenses, including those relating to an appeal ....”).

<sup>669</sup> *See id.*; PCC Guide, at 4.

<sup>670</sup> CPR 27.14(2)(b).

<sup>671</sup> *Id.* 27 ¶ 7.2.

<sup>672</sup> PCC Guide, at 7.

<sup>673</sup> PCC Guide, at 7; Email from Philip Horswill, Copyright and Enforcement Directorate, Intellectual Property Office (U.K.), to John Riley (Sept. 23, 2013) (email on file with U.S. Copyright Office).

## 2. Scotland

Although Scotland is part of the UK and UK substantive intellectual property law governs, Scotland represents a separate jurisdiction with its own courts, court rules, procedures, and judges. Since the same substantive laws apply, parties can choose to bring suit in England or Scotland. Scottish intellectual property cases are heard in the Outer House of the Court of Session and appealed to the Inner House of the Court of Session. The Supreme Court of the UK hears appeals from the Inner House.<sup>674</sup>

Scottish procedural rules governing intellectual property cases underwent a major overhaul in 2012.<sup>675</sup> Although the revisions did not create a small copyright claims track as in the UK PCC, significant changes were made to facilitate the resolution of smaller intellectual property claims in a more efficient fashion. These included enhanced judicial discretion to manage cases and proceed quickly to a final hearing without unnecessary preliminary procedures.<sup>676</sup> Judges may require disclosure of key pleadings and facts and restrict counterclaims,<sup>677</sup> and witness statements and evidentiary submissions may be limited to written documents.<sup>678</sup> In addition, an overarching provision allows the judge to make any order he or she deems fit to promote a speedy determination.<sup>679</sup> The 2012 revisions also permit the judge to impose procedural and monetary sanctions on disobedient parties.<sup>680</sup>

## 3. Canada

Canada's court system provides low-cost and simplified options for resolving intellectual property disputes. These include summary proceedings for copyright and moral right infringement actions.<sup>681</sup> The Canadian Copyright Act explicitly states that "in the case of an application, [the proceeding will] be heard and determined without delay and in a summary way."<sup>682</sup> This opens the door for rights holders to take advantage of Canadian court rules governing simplified proceedings with less drawn-out discovery. The main benefit of these proceedings is that evidence is filed by affidavit.<sup>683</sup> Affidavits are subject to cross-

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<sup>674</sup> Court of Session Act, 1998, § 40 (Scot.), available at <http://www.legislation.gov.uk/ukpga/1988/36/contents>.

<sup>675</sup> Act of Sederunt (Rules of Court of Session Amendment No. 5) (Miscellaneous) 2012 (Scot.), available at [http://origin-www.legislation.gov.uk/ssi/2012/275/pdfs/ssi\\_20120275\\_en.pdf](http://origin-www.legislation.gov.uk/ssi/2012/275/pdfs/ssi_20120275_en.pdf).

<sup>676</sup> Rules of the Court of Session 1994, § 55.2E(2)(b)(ix) (Scot.), available at <http://www.scotcourts.gov.uk/docs/default-source/equality/chap55-causes-relating-to-intellectual-property.pdf?sfvrsn=0>.

<sup>677</sup> *Id.* § 55.2E(2)(b) & § 55.2D(5)-(7) (Scot.).

<sup>678</sup> *Id.* § 55.3(2)(e) & (g) (Scot.).

<sup>679</sup> *Id.* § 55.2E(2)(e) (Scot.).

<sup>680</sup> *Id.* § 55.5B (Scot.).

<sup>681</sup> Copyright Act, R.S.C. 1985, c. C-42 (Can.), § 34(4)(a), available at <http://laws-lois.justice.gc.ca/PDF/C-42.pdf>.

<sup>682</sup> *Id.* § 34(4).

<sup>683</sup> Federal Court Rules, SOR/98-106 (Can.) §§ 306-307, available at <http://laws-lois.justice.gc.ca/PDF/SOR-98-106.pdf>.

examination,<sup>684</sup> but live testimony generally is only authorized in special circumstances as determined by the court.<sup>685</sup>

#### 4. Mexico

In Mexico, the National Institute for Copyrights (Instituto Nacional del Derecho de Autor or “INDAUTOR”) handles registration of copyrights and related rights in Mexico, and has the administrative authority to resolve certain violations of copyright law. For example, the agency can impose fines on violations of the moral rights of paternity and integrity, or sanction an organization purporting to be a collecting society without the proper registration.<sup>686</sup>

INDAUTOR engages in both conciliation<sup>687</sup> and arbitration proceedings. First, INDAUTOR provides conciliation procedures as an alternative to judicial actions.<sup>688</sup> Conciliation proceedings take place at the request of either party and are conducted by the agency’s Legal Department of Consultations.<sup>689</sup>

To initiate the conciliation proceeding, the complainant must file a written complaint<sup>690</sup> that includes a brief account of the cause of action.<sup>691</sup> The fee for submitting a complaint is 363 Mexican pesos (about \$28 U.S.). No evidence is required at this early stage, but INDAUTOR recommends that it nonetheless be included with the complaint because there is no discovery phase in the proceeding.<sup>692</sup> INDAUTOR notifies the adverse party in person or by certified mail of the complaint within ten days of its receipt, and the respondent has ten days to respond, including in person at a hearing. INDAUTOR also schedules a confidential hearing, which must be held within twenty days from when the complaint was filed. The hearing will be held even if

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<sup>684</sup> *Id.* § 308.

<sup>685</sup> *Id.* § 316.

<sup>686</sup> Ley Federal del Derecho de Autor [LFDA] [Federal Law on Copyright], *as amended*, arts. 229-230, Diario Oficial de la Federacion [DO], 27 de Enero de 2012 (Mex.), *available at* [http://www.wipo.int/wipolex/en/text.jsp?file\\_id=254993](http://www.wipo.int/wipolex/en/text.jsp?file_id=254993) (“Mexico Federal Copyright Law”).

<sup>687</sup> Conciliation is a method of alternative dispute resolution similar to mediation, but where the conciliator “plays a relatively direct role in the actual resolution of a dispute and even advises the parties on certain solutions by making proposals for settlement.” Alessandra Sgubini, Mara Prieditis, & Andrea Marighetto, *Arbitration, Mediation and Conciliation: differences and similarities from an International and Italian business perspective*, *MEDIATE.COM* (Aug. 2004) <http://www.mediate.com/articles/sgubinia2.cfm>.

<sup>688</sup> Mexico Federal Copyright Law, art. 217.

<sup>689</sup> INDAUTOR, *Legal Department Frequently Asked Questions*, [http://www.indautor.gob.mx/ingles/preguntas/preguntas\\_juridica.html](http://www.indautor.gob.mx/ingles/preguntas/preguntas_juridica.html).

<sup>690</sup> Mexico Federal Copyright Law, art. 218(I).

<sup>691</sup> Reglamento de la Ley Federal Del Derecho de Autor [Regulations under the Federal Copyright Law], *as amended*, art. 139(IV), Diario Oficial del la Federacion, 22 de Mayo de 1998, *available at* [http://www.wipo.int/wipolex/en/text.jsp?file\\_id=255053](http://www.wipo.int/wipolex/en/text.jsp?file_id=255053) (“Mexico Copyright Regulations”).

<sup>692</sup> INDAUTOR, *Legal Department Frequently Asked Questions*, [http://www.indautor.gob.mx/ingles/preguntas/preguntas\\_juridica.html](http://www.indautor.gob.mx/ingles/preguntas/preguntas_juridica.html).

the adverse party does not respond to the agency's notification.<sup>693</sup> If the parties do not attend the hearing, they are subject to a fine.<sup>694</sup>

During the hearing, INDAUTOR mediates between the parties, but cannot make any determination on the substantive issues of the case.<sup>695</sup> If an agreement is reached, it is considered binding and enforceable.<sup>696</sup> If the parties do not reach an agreement, they are encouraged to submit to arbitration proceedings.<sup>697</sup>

INDAUTOR receives several hundred conciliation requests a year. In 2012, 759 requests were filed. One hundred twenty-three of the proceedings filed that year reached a settlement.<sup>698</sup> From 2003 to 2008, the agency was successful in resolving between 25% and 41% of requests. The percentage of resolved conciliations has dropped in recent years and currently ranges from 15% to 16%.<sup>699</sup>

Additionally, INDAUTOR provides arbitration services when the parties have previously agreed to arbitration through a contractual provision or agree after a dispute has arisen.<sup>700</sup> The proceeding is overseen by a board of three arbitrators who are selected from a list published each year by INDAUTOR. The parties each pick one arbitrator from the list and the selected arbitrators then decide on a third to act as chairman.<sup>701</sup> The maximum arbitration proceeding runs sixty days from when the parties choose their arbitrators,<sup>702</sup> but the parties can choose to extend the period.<sup>703</sup> Evidence can be submitted and witnesses called.<sup>704</sup> The proceeding ends when either the board declares an award or the parties come to an agreement before the award issues.<sup>705</sup> The award is final, not appealable, binding, and enforceable.<sup>706</sup> Arbitration expenses are borne by both parties according to rates issued each year by INDAUTOR.<sup>707</sup>

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<sup>693</sup> Mexico Copyright Regulations, art. 140.

<sup>694</sup> Mexico Federal Copyright Law, art. 218(III).

<sup>695</sup> *Id.* 218(V).

<sup>696</sup> *Id.* art. 218(IV).

<sup>697</sup> *Id.* art. 218(VI).

<sup>698</sup> INDAUTOR, *Conciliation Statistics* (2013), [http://www.indautor.gob.mx/documentos\\_oficial/Graficasavenencias.pdf](http://www.indautor.gob.mx/documentos_oficial/Graficasavenencias.pdf).

<sup>699</sup> *Id.*

<sup>700</sup> Mexico Federal Copyright Law, art. 220.

<sup>701</sup> *Id.* art. 222.

<sup>702</sup> *Id.* art. 224.

<sup>703</sup> Mexico Copyright Regulations, art. 147.

<sup>704</sup> *Id.* arts. 149, 153.

<sup>705</sup> Mexico Federal Copyright Law, art. 225.

<sup>706</sup> *Id.* art. 226.

<sup>707</sup> *Id.* art. 228.

## 5. Korea

Korea makes use of a governmental entity, the Korea Copyright Commission (“KCC”), to help resolve copyright disputes through conciliation, mediation, and arbitration.<sup>708</sup> The KCC addresses disputes arising from rights protected under Korea’s Copyright Act, including disputes over moral rights,<sup>709</sup> economic rights,<sup>710</sup> neighboring rights,<sup>711</sup> compensation,<sup>712</sup> and database producers’ rights.<sup>713</sup>

Proceedings are initiated when an individual submits an application to the KCC, at which point a conciliation division is designated and provided with the application.<sup>714</sup> The designated division prepares for a hearing (which must be held within three to four months) by reviewing the application and the submitted documents and contacting the parties beforehand to discuss the dispute.<sup>715</sup> During the hearing, the parties can make written or oral statements and submit additional evidence through witness testimony, documents, or expert opinions.<sup>716</sup> The proceedings are closed, and the participants’ statements cannot be quoted in litigation or arbitration.<sup>717</sup>

The KCC conciliation proceeding is a relatively unstructured process where a neutral person facilitates communication and assists in resolving disputes, and if a settlement is reached, it is given the same weight as a court ruling.<sup>718</sup>

The KCC’s conciliation services have become more popular over the years. The most recent conciliation statistics are from 2011, when ninety-seven applications were filed and twenty-eight cases were resolved, representing a 28.9% settlement rate. But, while applications have risen

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<sup>708</sup> Copyright Act of 1957, Act No. 432, Jan. 28, 1957, art. 112, *amended by* Act No. 9625, Apr. 22, 2009, *available at* [http://www.wipo.int/wipolex/en/text.jsp?file\\_id=190144](http://www.wipo.int/wipolex/en/text.jsp?file_id=190144); Korea Copyright Comm’n, *Service*, <http://eng.copyright.or.kr/> (follow “Service” hyperlink, then follow “Arbitration” hyperlink) (“Korea Copyright Act”).

<sup>709</sup> *Id.* arts. 11-13.

<sup>710</sup> *Id.* arts. 16-22.

<sup>711</sup> *Id.* arts. 66-74, 78-81, 84-85.

<sup>712</sup> *Id.* arts. 75, 76, 76-2, 82, 83, 83-2

<sup>713</sup> *Id.* art. 93.

<sup>714</sup> Enforcement Decree of the Copyright Act, Presidential Decree No. 1482, Apr. 22, 1959, arts. 61(1) & (3) (S. Kor.), *amended by* Presidential Decree No. 23928, July 2, 2012, *available at* [http://www.wipo.int/wipolex/en/text.jsp?file\\_id=281752](http://www.wipo.int/wipolex/en/text.jsp?file_id=281752).

<sup>715</sup> MINISTRY OF CULTURE, SPORTS AND TOURISM AND KOREA COPYRIGHT COMM’N, 2010 ANNUAL REPORT ON COPYRIGHT IN KOREA 73 (2010).

<sup>716</sup> *Id.*

<sup>717</sup> Korea Copyright Act, arts. 115-116.

<sup>718</sup> *Id.* art. 117.

over the past few years, the actual number of conciliation-aided settlements has remained roughly the same.<sup>719</sup>

In addition to its conciliation service, the KCC offers free mediation services for copyright-related disputes. A single mediator is assigned after a party submits an application to the commission.<sup>720</sup> Proceedings may be suspended if the mediator determines that a resolution is impossible or a conciliation application is submitted for the same dispute.<sup>721</sup> Assuming an agreement is reached, the letter of mediation has the same effect as a civil settlement, and failure to comply must be addressed through litigation.<sup>722</sup>

Finally, the KCC provides arbitration services for copyright-related disputes. Disputes are resolved by a group of one to three arbitrators, one of whom must be a specialist in copyright and technology.<sup>723</sup> The resolution has the same legal weight as a final judgment.<sup>724</sup>

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<sup>719</sup> Email from Soo Hyun Myung, Senior Deputy Director in Copyright Policy Division, Ministry of Culture, Sports and Tourism, to Catherine Rowland (June 18, 2013) (email on file with U.S. Copyright Office) (containing PowerPoint presentation by the Korea Copyright Comm'n, *Conciliation of Copyright Disputes*). In 2011, ninety-seven applications were submitted, and twenty-eight settlements reached. In 2010, sixty-two applications were submitted, and twenty-three resolved. In 2009, fifty-five applications were submitted in 2009 and twenty-nine resolved.

<sup>720</sup> Korea Copyright Act, art. 113-2(1).

<sup>721</sup> *Id.* art. 113-2(3)-(4).

<sup>722</sup> MINISTRY OF CULTURE, SPORTS AND TOURISM AND KOREA COPYRIGHT COMM'N, 2010 ANNUAL REPORT ON COPYRIGHT IN KOREA 72 (2010).

<sup>723</sup> Korea Copyright Comm'n, *Service*, <http://eng.copyright.or.kr/> (follow "Service" hyperlink, then follow "Arbitration" hyperlink).

<sup>724</sup> *Id.*

## VII. KEY FINDINGS AND RECOMMENDATIONS

In light of relevant constitutional and institutional considerations, the various models and approaches reviewed by the Office, and the extensive and useful comments of those who shared their views and experiences in the course of this study, the Office makes the following findings and recommendations.

### A. Forum

#### 1. Federal Courts

In theory, the existing federal court system might be able to accommodate a streamlined process for the resolution of small copyright claims. But while some commenting parties suggested modification of federal court procedures to accommodate smaller copyright claims,<sup>725</sup> most did not dwell on restructuring Article III courts or processes as promising alternatives. There is no precedent for either a small claims tier in the federal courts or specialized procedures for copyright claims. A revamping of the district courts to establish a small claims process for copyright cases therefore did not appear to be viewed as a particularly realistic option by most. As one commenter explained it: “There has traditionally been resistance in the federal judiciary to creating ‘specialized courts.’ While the copyright small claims procedure would not require a ‘specialized court’ within the existing federal system, it would require a specialized process. Judges and legislators might fairly question why small copyright claims should have access to such a process, while other small federal claims do not.”<sup>726</sup>

Interestingly, Congress and the federal judiciary have, by contrast, embraced a degree of special treatment for patent cases, which are viewed as especially challenging for both courts and litigants. Although they originate in the various district courts, patent cases are appealed to a

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<sup>725</sup> Perhaps the most ambitious suggestion for addressing the problem through the existing federal court system was submitted by Professor David Nimmer of UCLA School of Law on behalf of APA. Professor Nimmer’s proposal would implement a voluntary procedure where disputes valued at under \$80,000 would be heard by a magistrate judge. The rules of this proposal would require copyright owners and defendants to each make an offer of judgment at the outset of litigation. If the parties’ offers diverged significantly, additional rounds of offers could take place to attempt to reach a settlement. If no settlement were reached, the award of attorneys’ fees would depend upon a combination of which party prevailed and the relationship of the judgment amount to the parties’ offers. APA First Notice Comments at 4-7. Apart from its complexity, a problem with Professor Nimmer’s proposal is that in some cases, small copyright owners who “bid” too high could end up paying attorneys’ fees to a defendant who was found guilty of infringement yet assessed a damages award below the defendant’s offer. In the Office’s view, while well-intentioned, such a system could yield inequitable results.

<sup>726</sup> Kernochan Second Notice Comments at 1; *see also* NPPA, Comments Submitted in Response to Second Notice of Inquiry at 1 (Oct. 19, 2012) (“NPPA Second Notice Comments”) (“In a perfect world the NPPA would prefer a new branch of Article III courts within the federal system . . . That said the NPPA recognizes the inherent political, financial and practical difficulties in creating such a new Article III court system.”). Indeed, now might not be the ideal time to burden the federal district court system with additional responsibilities such as implementation of a small claims track for copyright cases. The judiciary is facing serious funding issues for the matters it already addresses, leading one court of appeals judge recently to warn that “[t]he federal courts are going to fall apart if [funding problems] continue[.]” *Inadequate court resources hurt access to justice, say nation’s top jurists*, ABA NEWS (Aug. 9, 2013), available at [http://www.abanow.org/2013/08/inadequate-court-resources-hurt-access-to-justice-say-nations-top-jurists/#.UgWXnB0\\_bkY.twitter](http://www.abanow.org/2013/08/inadequate-court-resources-hurt-access-to-justice-say-nations-top-jurists/#.UgWXnB0_bkY.twitter).

specialized court of appeals, the Federal Circuit, a court of national jurisdiction. This, of course, differs from copyright cases (and most other types of cases, for that matter), which are appealed to the court of appeals for the circuit encompassing the federal district of origin. In addition, some district courts, such as the Eastern District of Texas, the Western District of Pennsylvania, and the Southern District of New York, have adopted specialized rules of procedure for patent cases. Such processes – which can impose challenging burdens on litigants – are, however, aimed at improving courts’ efficiency and speed in addressing complex, high-stakes claims, rather than at the expeditious resolution of low-value claims. Moreover, the acceleration of patent cases under such rules often comes at the price of frenetic discovery and motion practice, which can be intimidating and expensive.

To address the problem of small copyright claims through modification of federal court procedures, it would seem that at least all district courts with a meaningful number of copyright cases would have to be persuaded to adopt unprecedented, specialized rules for the streamlined handling of such claims.<sup>727</sup> If the treatment of patent cases is any indication, district courts would vary in their approach – some adopting local rules and many making no adjustment at all – which would result in no improvement for many litigants and possibly forum shopping by others. Perhaps most daunting would be persuading courts to adopt such rules solely for copyright cases, when such claims are but 1% of all matters before them.<sup>728</sup>

In a related vein, the federal judiciary might attempt to rely more heavily on referrals to magistrate judges for small claims cases.<sup>729</sup> But it is important to keep in mind that parties cannot be sent to trial before a magistrate judge without their consent, and magistrate judges follow the same Federal Rules as the district courts.<sup>730</sup> Thus, absent a more general overhaul of existing procedures, the use of magistrate judges does not in itself present an obvious solution.<sup>731</sup>

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<sup>727</sup> See *supra* note 350 (listing states where most copyright cases are filed).

<sup>728</sup> See *supra* note 28 (providing statistics on copyright claims as a percentage of all federal civil claims). Indeed, other categories of claims arising under federal law – some of which result in more filings than copyright cases – might also benefit from a federal small claims court. See, e.g., ADMINISTRATIVE OFFICE OF THE UNITED STATES COURTS, STATISTICAL TABLES FOR THE FEDERAL JUDICIARY: DEC. 2012, TABLE C-2, CIVIL CASES COMMENCED, BY BASIS OF JURISDICTION AND NATURE OF SUIT, DURING THE 12-MONTH PERIODS ENDING DECEMBER 31, 2011 AND 2012, *available at* <http://www.uscourts.gov/uscourts/Statistics/StatisticalTablesForTheFederalJudiciary/2012/december/C02Dec12.pdf> (citing some of the more common federal court cases as involving prisoner petitions (54,402 or 20% of the total caseload), civil rights (37,391 or 13.9%), personal injury/product liability (33,851 or 12.6%), contract actions (28,252 or 10.5%), labor laws (18,629 or 6.9%), or social security laws (18,261 or 6.8%)).

<sup>729</sup> See, e.g., APA First Notice Comments at 4 (“Consenting parties can have their positions quickly evaluated by a Magistrate Judge sitting in the appropriate United States District Court in which the case is pending.”); NPPA Second Notice Comments at 4 (“Properly trained magistrates or staff attorneys could also be used effectively depending on their existing caseloads.”).

<sup>730</sup> See *supra* Part III.C.4 (discussing magistrate judges generally) and Part IV.B.3 (discussing the Federal Magistrates Act).

<sup>731</sup> Another idea to improve access to federal courts that was raised but only briefly discussed would be to further empower organizations such as trade associations to litigate groups of smaller claims on behalf of their members. Because an association can aggregate hundreds or thousands of individual infringement claims, such cases are not “small” – either in procedural or economic terms – and therefore may be better suited to full-scale litigation in federal court. For example, the Independent Film & Television Alliance (“IFTA”) urged that associations be allowed to act as “channeling associations” to pursue claims on behalf of a number of copyright owners. IFTA, Comments Submitted in Response to Second Notice of Inquiry at 5 (Oct. 19, 2012) (“IFTA Second Notice

The creation of a general small claims tier within the Article III courts is something that Congress may wish to consider as a broader and longer term solution to the obstacles faced by small claimants seeking to vindicate their rights through the federal system. Should the federal judiciary become interested in a small claims solution for copyright (and perhaps other) cases, the Office would be pleased to provide Congress with additional suggestions in furtherance of that goal. In the meantime, the Office recommends focusing on a solution that could be more readily implemented to address the enforcement challenges faced by small copyright claimants.

## 2. State Courts

Another possible approach to provide small copyright claimants greater access to courts would simply be to amend federal law, which currently restricts jurisdiction in copyright cases to the federal judiciary,<sup>732</sup> to provide state courts with concurrent jurisdiction in copyright disputes of low economic value. The potential benefit of this approach lies in its apparent simplicity, at least in certain respects: there would be no need to draft extensive statutory or regulatory language, or to amend the Federal Rules. Moreover, as described above, state courts already have the procedural mechanisms in place to handle smaller claims with less formality.

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Comments”). The NPPA similarly supported the idea of allowing groups of copyright owners (either alone or through an association) to bring claims against multiple alleged infringers in one proceeding. NPPA Second Notice Comments at 13.

The propriety of associational standing in copyright cases owners currently is under review in the federal courts, and recent cases have yielded mixed results. As a general matter, the Supreme Court has held that “an association has standing to bring suit on behalf of its members when: (a) its members would otherwise have standing to sue in their own right; (b) the interests it seeks to protect are germane to the organization’s purpose; and (c) neither the claim asserted nor the relief requested requires the participation of individual members in the lawsuit.” *Hunt v. Wash. State Apple Adver. Com’n*, 432 U.S. 333, 343 (1977) (summarizing *Warth v. Seldin*, 422 U.S. 490, 511 (1975)). In the copyright context, associations have tended to limit their claims to injunctive relief, which does not require individualized proof of damages. *See, e.g., Authors Guild v. Google, Inc.*, 282 F.R.D. 384 (S.D.N.Y. 2012) (organization suit seeking injunctive and declaratory relief for copyright infringement on behalf of individual members); *Author’s Guild, Inc. v. Hathitrust*, 902 F. Supp. 2d 445 (S.D.N.Y. 2012) (same). But because ownership of a copyright is an element of an infringement claim under the Copyright Act, *see* 17 U.S.C. § 501(b), courts have diverged on the question of whether an association can seek to enforce its members’ copyrights. *Compare Authors Guild v. Google*, 282 F.R.D. at 389, *vacated on other grounds and remanded*, 721 F.3d 132 (2d Cir. 2013) (in case involving mass digitization of copyrighted works, court upheld associational standing on ground that “the associations’ claims of copyright infringement and requests for injunctive relief will not require the participation of each individual association member”), *with Authors Guild, Inc. v. Hathitrust*, 902 F. Supp. 2d at 452-54 (in another case involving mass digitization of copyrighted works, associational standing denied based on standing requirements of Copyright Act, which indicated to the court that “Congress did not intend for associations to enforce the rights of their members”).

Separate and apart from an alternative small claims process, Congress may wish to consider amending the Copyright Act to clarify the nature and scope of copyright claims that associations may bring on behalf of their members. While such an amendment could be beneficial to many individual copyright owners, however, the Office does not view the possibility of associational standing as a satisfying answer to the problem of small copyright claims generally, if for no other reason than that many individual copyright owners do not belong to an association, and even if they do, the association may lack the resources or will to pursue litigation.

<sup>732</sup> 28 U.S.C. § 1338(a).

Despite the surface appeal, however, state court systems likely are not the best option for small copyright claimants. During the Office’s study, only a couple of commenting parties expressed interest in allowing state courts to hear such claims, and most of that interest was due to concern that other obstacles to alternative systems may be insurmountable.<sup>733</sup> By contrast, a wide range of stakeholders voiced significant opposition to state court jurisdiction, including the ABA IP Section, AIPLA, APA, Authors Guild, GAG, Getty Images, Google Inc., NPPA, PACA, SGA, NSAI and VLA.<sup>734</sup>

Commenter statements and the Office’s own research highlight several reasons why Congress may not wish to empower state courts to hear small copyright claims. First and foremost, perhaps, is that because cases arising under title 17 are the exclusive domain of the federal courts, state courts – and state small claims courts in particular – lack experience in copyright law.<sup>735</sup> Federal courts have generated a wealth of copyright precedent, but it is sometimes complex and perhaps not well-suited to cursory review by a judge who is looking at issues for the first time in a state small claims court setting.<sup>736</sup> State court inexperience with federal

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<sup>733</sup> See ASMP, Comments Submitted in Response to Second Notice of Inquiry at 5 (Oct. 16, 2012) (“ASMP Second Notice Comments”); Atkinson & Atkinson, Comments Submitted in Response to First Notice of Inquiry at 3; see also Tr. at 17:11-18 (Nov. 15, 2012) (Victor Perlman, ASMP) (noting that the “primary reasons” for ASMP’s support of state court jurisdiction is that it would not require “significant congressional involvement and approval and funding.”).

<sup>734</sup> ABA IP Section Second Notice Comments at 9 (noting lack of state court experience in copyright claims); AIPLA, Comments Submitted in Response to First Notice of Inquiry at 2 (Jan. 16, 2012) (“State courts ... lack expertise in adjudicating copyright matters, and state small claims courts have no experience whatsoever.”); Authors Guild First Notice Comments at 4 (“Avoid delegating these proceedings to inexperienced state courts”); Google Inc., Comments Submitted in Response to First Notice of Inquiry at 2-3 (Jan. 17, 2012) (“Google First Notice Comments”) (noting state court’s inexperience with copyright claims); GAG First Notice Comments at 8 (“State court judges don’t have extensive knowledge of copyright law or experience with copyright infringement cases.”); PACA, Comments Submitted in Response to First Notice of Inquiry at 10 (Jan. 16, 2012) (“PACA First Notice Comments”) (noting that the “amount of damages in a local small claims court is extremely limited,” the lack of copyright expertise in state courts, and the concern that decisions would be inconsistent and arbitrary); SGA & NSAI First Notice Comments at 2 (agreeing that state courts do not have the necessary experience); APA, Comments Submitted in Response to Second Notice of Inquiry at 7 (Oct. 16, 2012) (“APA Second Notice Comments”) (“APA does not believe a small infringement claims system should leave the federal court system and therefore does not believe a state court or a traditional small claims court should be incorporated.”); Getty Images, Comments Submitted in Response to Second Notice of Inquiry at 6 (Oct. 19, 2012) (“Getty Images Second Notice Comments”) (“Pursuing small claims through state court is not an adequate solution, in part due to jurisdictional issues.”); NPPA Second Notice Comments at 15 (“[S]tate courts – especially small claims courts – don’t have the resources to thoroughly research complex copyright issues. The end result could lead to conflicting decisions on important copyright issues. A copyright tribunal should have the required expertise and thus be able create appropriate and consistent caselaw.”); Tr. at 67:15-68:16 (Nov. 15, 2012) (David Leichtman, VLA) (noting the low ceiling for monetary relief, unavailability of injunctive relief, and lack of expertise in state courts).

<sup>735</sup> ABA IP Section Second Notice Comments at 9 (“As federal courts have exclusive jurisdiction over copyright issues, the state courts have not had the opportunity to develop sufficient expertise to handle these cases.”); Getty Images Second Notice Comments at 6 (“[S]tate courts do not have historical experience or expertise in copyright law”).

<sup>736</sup> Illustrators’ Partnership, Comments Submitted in Response to First Notice of Inquiry at 1 (Jan. 17, 2012) (“Illustrators’ Partnership First Notice Comments”) (“Copyright is a federal law and a small claims court would have to be administered on a local level. That means a) it’s unlikely that local judges would have the expertise to properly administer the complexities of copyright law; and b) this would inevitably lead to hundreds or thousands of contradictory rulings, all constituting different interpretations of the same federal law.”); IFTA, Comments

copyright principles thus weighs heavily against the possibility of expanding copyright jurisdiction to state courts.<sup>737</sup>

Second, state small claims systems vary significantly in both the monetary limits and subject matter of the claims that they adjudicate. The range of monetary limits for claims that can be heard in state small claim systems extends from \$2,500 to \$25,000; thus, depending upon the size of the claim, copyright owners in some states would be denied the ability to take part in a streamlined state process while similarly situated copyrighted owners in other states would be able to move forward. As noted by one hearing participant, state small claims limits can be “very, very low” and, in fact “lower than ... most of the proposals being made [by commenters] with respect to what the [proposed alternative] copyright tribunal threshold would be.”<sup>738</sup>

Additionally, some states restrict the types of claims that can be heard in small claims court – limiting them to such matters as breach of contract, unpaid debts, and motor vehicle accident disputes – and exclude more complicated matters. It would be up to the states to determine whether small copyright claims qualified for small claims treatment. As a result, many copyright owners who theoretically might avail themselves of a state small claims system could find themselves in the same position that they are in now because they would be forced into a more costly court of general jurisdiction.

Additionally, state small claims systems differ enormously in their procedural rules and the relief they offer. While some go so far as to exclude attorneys<sup>739</sup> – who might be helpful or even necessary for some copyright plaintiffs – others incorporate jury trials, either at the small claims level or on appeal.<sup>740</sup> Equitable relief tends to be limited but is far from uniform across small claims systems.<sup>741</sup> The fact that state small claims courts are inconsistent in their procedures and available relief weighs strongly against consigning them the responsibility to adjudicate substantive federal rights, which should be worthy of similar treatment no matter where they are decided.

While for these reasons state small claims systems do not appear to offer a sensible solution, a question arises as to whether those seeking to pursue such claims might benefit if they could be heard by state courts of general jurisdiction. No commenting party appeared to endorse such an

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Submitted in Response to First Notice of Inquiry at 4 (Jan. 17, 2012) (“IFTA First Notice Comments”) (“copyright law is more complex than the types of cases on the docket of small claims courts”); New Media Rights First Notice Comments at 18 (noting that copyright law is “notoriously complex” and that “[w]hile the state small claims courts are well experienced in dealing with small disputes, they usually deal with contract and tort law which have clearer established doctrines and are easier to simplify into matters of equity.”).

<sup>737</sup> It should be noted, however, that federal expertise in copyright law does not extend to every district. *See* LEX MACHINA, <https://lexmachina.com/> (last visited May 30, 2013) (some federal districts hear very few copyright cases a year; for example, from 2000 to 2012, the Eastern District of Oklahoma averaged one copyright case a year, the District of Wyoming averaged 1.2 cases, and the District of Vermont averaged 2.8 cases).

<sup>738</sup> Tr. at 67:20-23 (Nov. 15, 2012) (David Leichtman, VLA).

<sup>739</sup> *See* Appendix D, at col. Attorney Representation.

<sup>740</sup> *See id.* at col. Jury Trials.

<sup>741</sup> *See id.* at col. Equitable Relief.

approach, likely because of such courts' perceived lack of expertise with copyright matters as well as the expense of litigating in state courts of plenary jurisdiction.<sup>742</sup> General state court systems share many of the disadvantages of the federal court system. Litigants are required to engage in sometimes lengthy discovery, motion practice, and a full trial on the merits – the same elements that render federal court litigation long and costly. Thus, even apart from the lack of state judicial experience with federal copyright matters, merely moving small copyright claims from the federal system to state courts of general jurisdiction may not be very helpful to small claimants.

### 3. Administrative Tribunal

Because, at least under current conditions, there appears to be no clear path by which Congress could reliably introduce a copyright small claims process into the existing federal or state court systems, the Copyright Office proposes that Congress consider instead the creation of a specialized administrative entity for this purpose. Many of the comments and suggestions offered in the course of this small claims proceeding pointed – either implicitly or explicitly – to such an alternative process and the possibility of locating it in the Copyright Office. The Office's observations and recommendations concerning such an administrative approach are reviewed below.

#### B. Nature of Tribunal

##### 1. Voluntary Versus Mandatory

While commenting parties expressed strong opinions concerning the type of tribunal they would find most useful, ultimately the range of options is constrained by what is legally supportable. For the reasons set forth above, constitutional considerations suggest that an alternative system to determine small copyright claims should be voluntary, rather than mandatory, in nature. A voluntary alternative will not impinge upon the continuing availability and authority of federal district courts to decide copyright cases. And, because neither claimants nor respondents would be required to participate in the small claims process – they could still proceed in federal court if they chose – concerns about Article III would be diminished<sup>743</sup> and the Seventh Amendment would be honored.<sup>744</sup>

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<sup>742</sup> See, e.g., NWU First Notice Comments at 13 (noting that standard state court proceeding is “much more expensive”).

<sup>743</sup> As noted above, the Supreme Court's jurisprudence concerning the constitutionality of non-Article III courts has shifted over time and undoubtedly will continue to evolve. See *supra* Part IV.B. A bankruptcy case currently pending before the Court, *Executive Benefits Insurance Agency v. Arkison*, 702 F.3d 553 (9th Cir. 2012), *cert granted*, 81 U.S.L.W. 3702 (U.S. Jun. 24, 2013) (No. 12-1200), which concerns litigants' ability to consent to a non-Article III forum, could impact Congress's analysis of a voluntary alternative tribunal such as the one proposed here.

<sup>744</sup> As discussed above, it is clear that litigants can waive both their personal right to a jury trial under the Seventh Amendment and to adjudication of a claim by an Article III court. See *supra* Part IV.A. At the same time, administrative tribunals must be appropriately limited in their jurisdiction and functions to avoid structural separation of powers issues under Article III, which are not personal in nature and cannot be waived. See *supra* Part IV.B.

Of course, a voluntary system carries its own set of challenges. By what mechanism would parties consent (or decline to consent)? Would the system be able to accommodate default judgments? And perhaps most important, what incentives would there be for responding parties to participate, especially when they may believe that the odds of being pursued in district court are low?

With respect to consent, the Office believes that Congress may wish to weigh the benefits and drawbacks of both an opt-out and opt-in model of participation.<sup>745</sup> Under an opt-out model, a claimant would be required to serve the respondent as provided under Rule 4 of the Federal Rules – that is, in the same manner as is prescribed for federal court – unless the respondent agreed to a waiver of formal service, as is also permitted under that rule.<sup>746</sup> Notice provided at the time of service would advise the respondent of the nature of the action and claim and the consequences of failing to opt out of the proceeding. A properly served respondent would have sixty days to opt out of the small claims procedure by providing written notification to the small claims tribunal. If the respondent did not opt out, he or she would be considered to have consented to participate, and thus be bound by the result.

By contrast, the opt-in model would not require formal service of process but would require an affirmative written response from the respondent that the respondent agreed to participate. Only respondents who provided such notice after receiving information about the proceeding and claim against them would be considered to have consented.

The opt-out model offers the significant advantage that parties could pursue claims against uncooperative respondents. In the comments and at the hearings, copyright owners expressed considerable frustration that their cease and desist notifications to infringers often were ignored.<sup>747</sup> Such experiences suggest that notification of a small claims proceeding might be similarly disregarded. An opt-out system would address this concern, at least with respect to infringers who could be located and served.<sup>748</sup> Moreover, an opt-out system would permit aggrieved parties to seek default determinations against nonresponsive parties based upon the

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<sup>745</sup> Of course, as suggested above, Congress may wish to keep an eye on the *Executive Benefits Insurance Agency* case currently pending before the Supreme Court, as the Court’s opinion may provide additional direction concerning the parameters of constitutionally valid consent to proceed before a non-Article III tribunal. *See supra* Part IV.B.4.

<sup>746</sup> Tr. at 204:13-206:01 (Nov. 26, 2012) (Carolyn Wright, Law Offices of Carolyn E. Wright) (attorney who represents smaller photographer clients discussed use of Rule 4 and voiced a preference for a similar procedure in a small claims court).

<sup>747</sup> Tr. at 143:24-144:02 (Nov. 15, 2012) (Randy Taylor, CDL) (“The vast majority of the infringers ignore the demand letters that are sent by the attorneys”); Tr. at 296:19-297:05 (Nov. 26, 2012) (Edward Hasbrouck, NWU) (“A common experience for us at the National Writers Union in working with our members who have grievances is that the infringer won’t even talk to the victim, won’t respond to attempts to negotiate or discuss the infringement. And they can do that now because they are confident that the infringer is impotent to sue because they aren’t rich enough to sue. So they can with some confidence just literally ignore them.”); Tr. at 300:13-17 (Nov. 26, 2012) (Michael Grecco, APA) (“I think the reality is no one takes you seriously until you file [a lawsuit]. . . . Every defendant I know in my own copyright cases are like ‘Whatever.’”).

<sup>748</sup> Tr. at 360:25-361:07 (Nov. 16, 2012) (David Leichtman, VLA) (“[I]f the goal were to be to develop a body of default judgments for this tribunal . . . you would have to make it a mandatory process, but allow for an opt-out”).

submission of appropriate proof of infringement and damages.<sup>749</sup> Because the claimant in a default case would be required to file the default determination with a district court in order to enforce it, the defaulting party would have an opportunity to set aside the default judgment before an Article III judge upon a showing of excusable neglect.

From a due process perspective, the opt-out model may be somewhat more ambitious than an opt-in model because consent would be premised not on a written agreement or affirmative conduct, but instead on the failure to respond to a properly served notice (though a respondent could subsequently demonstrate consent by participating in the proceeding). In a district court action, however, a party served in accordance with Federal Rule 4 can be held accountable and subject to a default judgment if he or she fails to respond.<sup>750</sup> Likewise, a party sued in state court on a claim that is also cognizable in federal court has a limited time to seek removal of the case to the federal forum; if the party fails to file for removal in a timely fashion, he or she forfeits the right to litigate in federal court.<sup>751</sup> Significantly, as noted, the approach proposed by the Office would provide a means to have the default determination reviewed and potentially set aside by an Article III judge, thus providing an additional safeguard for defaulting respondents.

By contrast, an opt-in model, while perhaps more appealing as a means to obtain consent, would fail to capture infringers who simply choose to ignore a claim of infringement. In some cases, this would be at the recipient's peril; a party who received notice of a proceeding and failed to respond would be taking the risk that the claimant would subsequently pursue the action in federal district court. The question is whether that risk would incentivize the named respondent to participate in the process. While the fact that the claimant took the step of filing with the small claims tribunal would presumably demonstrate some level of commitment on the claimant's part, undoubtedly in some cases this would not be enough to trigger an opt-in. On the other hand, for more risk-averse parties who would be disinclined simply to ignore a plausible claim of infringement, resolution of the matter through a small claims process might seem considerably more attractive than the possibility of a federal court action. As discussed below, however, the relative appeal of the small claims option probably would depend largely on how the respondent viewed his or her damages exposure, and the benefits of a streamlined adjudicative process, as compared to what might be expected in federal court.

## 2. Decisionmakers

Throughout the Office's review, commenting parties have emphasized the importance of copyright expertise to an alternative small copyright claims system. Almost universally, commenters and hearing participants voiced a preference for a tribunal or other system

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<sup>749</sup> FED. R. CIV. P. 55(b).

<sup>750</sup> FED. R. CIV. P. 55.

<sup>751</sup> 28 U.S.C. § 1446(b)(1) ("The notice of removal of a civil action or proceeding shall be filed within 30 days after the receipt by the defendant, through service or otherwise, of a copy of the initial pleading setting forth the claim for relief upon which such action or proceeding is based, or within 30 days after the service of summons upon the defendant if such initial pleading has then been filed in court and is not required to be served on the defendant, whichever period is shorter.").

administered by lawyers or judges who were knowledgeable about copyright law.<sup>752</sup> Copyright law is perceived by some to be “amazingly complex”<sup>753</sup> and “complicated”<sup>754</sup>; one hearing participant observed that the requirement of copyright expertise was “critical” because copyright “issues ... can quickly get beyond the everyday knowledge of even the plaintiff to know what rights they may or may not have.”<sup>755</sup> The need for knowledgeable decisionmakers presumably would be accentuated in a streamlined proceeding, which would not typically involve extensive legal research or briefing by the parties. Moreover, the participants in such a proceeding – particularly if acting *pro se* – might need guidance in focusing their claims and defenses, making the adjudicators’ knowledge of applicable law that much more important.<sup>756</sup>

In light of this, the Office recommends that any alternative small claims system avail itself of experienced copyright lawyers. The Office proposes that it be administered by a panel of three attorneys, two of whom would be experienced in copyright infringement matters as attorneys or adjudicators. In addition, these two panel members would have between them handled matters involving both enforcement and permissible uses, and counseled clients in protecting their rights as well as in defending against allegations of copyright infringement. Such qualifications could help ensure a balanced system sensitive to both sides of infringement claims. In the Office’s view, the panel also would benefit from an attorney with meaningful experience in mediation or other forms of ADR.<sup>757</sup> A panel that combined both copyright and ADR expertise should be able

<sup>752</sup> ABA IP Section Second Notice Comments at 2 (“Parties could mutually elect or the Copyright Office may assign an adjudicator from a roster of experts in copyright law, one who is knowledgeable about the types of works in question.”); AVA, Comments Submitted in Response to Second Notice of Inquiry at 4 (Oct. 19, 2012) (“The tribunal should be composed of individuals who are knowledgeable in this highly specialized area of the law and also have familiarity of the industry from which the claim results.”); Getty Images Second Notice Comments at 3 (“the adjudicators could be administrative law judges or attorneys with specialized training and/or experience in copyright law”); IFTA Second Notice Comments at 3 (the judges should be a “panel of experts in copyright law”); NPPA Second Notice Comments at 4 (“The adjudicators should be attorneys well-versed in copyright law.”); ASMP, Comments Submitted in Response to Third Notice of Inquiry at 3 (Apr. 10, 2012) (“ASMP Third Notice Comments”) (any adjudicator is “ideally... knowledgeable about copyright”); VLA Third Notice Comments at 2 (“VLA envisions regional administrative panels of attorneys with copyright expertise... administered by the Copyright Office.”); Tr. at 25:19-26:08 (Nov. 26, 2012) (Edward Hasbrouck, NWU).

<sup>753</sup> Tr. at 51:10 (Nov. 15, 2012) (Jay Rosenthal, NMPA) (referring to music copyright issues)

<sup>754</sup> Tr. at 97:08-11 (Nov. 26, 2012) (Michael Traynor, Cobalt LLP) (referring to fair use); *see also* 4 WEST’S FED. ADMIN. PRAC. § 4001 (“Current United States copyright law is quite complex, and the general practitioner has in essence two choices when confronted with all but the most basic and straight forward of copyright problems. He can seek help from competent copyright counsel at the outset, or he can plan to devote a substantial number of hours to reading through the 1976 Act, relevant portions of its legislative history, and cases interpreting the statutory provisions so that an understanding of the various sections of the Act and their interrelation is obtained. Any lesser effort exposes the practitioner to a minefield of hidden problems, and potentially exposes the client either to a loss of rights or to liability.”).

<sup>755</sup> Tr. at 24:15-21 (Nov. 26, 2012) (Timothy Cohan, Peermusic).

<sup>756</sup> Tr. at 145:19-146:05 (Nov. 27, 2012) (Alicia Calzada, NPPA) (“If we have *pro se* plaintiffs, or maybe even *pro se* defendants, and there are these complicated questions about fair use and other issues, you really need a panel – one of the roles of attorneys is to educate the judges on the law. And if we don’t have attorneys educating judges on the law, I think [the judges] need to be well versed [in copyright law].”).

<sup>757</sup> This approach is similar to the CRB, which requires the separate judges to have experience in copyright law, economics, or adjudications, arbitrations, or court trials. 17 U.S.C. § 802(a). Similarly, panelists in UDRP proceedings usually have lengthy experience in intellectual property and related areas, rendering their somewhat

to undertake a holistic analysis of infringement claims with an eye toward the resourceful resolution of disputes.

Because the adjudicators in any such system would have significant responsibilities in administering U.S. copyright law, the Office recommends that they be appointed and supervised by a principal officer of the United States in a manner similar to the CRJs (following the changes implemented by the Court of Appeals for the D.C. Circuit in *Intercollegiate Broadcasting System* described above<sup>758</sup>). While the day-to-day administration of their offices would be overseen by the Register of Copyrights, for constitutional purposes, they would be appointed and removable at will, and ultimately supervised, by the Librarian of Congress.

A copyright small claims system also would benefit from the efforts of knowledgeable staff attorneys who could both assist the adjudicators and provide information to parties concerning logistical matters. Participants at the public hearings expressed support for this concept, including for purposes of identifying faulty filings.<sup>759</sup> For example, staff attorneys could explain tribunal requirements and rules, assist with the completion of forms, and so forth. This is not a novel idea but similar to existing models, including the FLASH program described above, which provides support to *pro se* litigants in the San Jose courthouse in the Northern District of California, and the practices of some state small claims courts, where individuals can seek help from administrative staff.<sup>760</sup> In addition to their public-facing duties, copyright small claims attorneys also would act as law clerks to the adjudicators by providing legal research and analysis and helping to keep cases on track.<sup>761</sup> As in many adjudicative systems – including the CRB – staff attorneys presumably would play a vital role in the operation of a copyright small claims system.

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brief review of sparse records more fruitful. For example, WIPO states that its panelists “come from different regions of the world and are well-reputed for their impartiality, sound judgment and experience as decision-makers, as well as their substantive experience in the areas of intellectual property law, electronic commerce and the Internet.” WIPO Arbitration and Mediation Center, *WIPO Domain Name Panelists*, <http://www.wipo.int/amc/en/domains/panel.html>.

<sup>758</sup> See *supra* at Part IV.D.

<sup>759</sup> Tr. at 126:10-20 (Nov. 26, 2012) (Alma Robinson, CLA); Tr. at 131:10-15 (Nov. 26, 2012) (George Clinton, musician) (raising possibility of Copyright Office-appointed attorney); Tr. at 41:02-43:04 (Nov. 27, 2012) (Art Neill, New Media Rights) (describing benefits of FLASH system).

<sup>760</sup> See N.D. Cal., *FLASH*, <http://www.cand.uscourts.gov/helpcentersj>; see also S.D.N.Y., *Role of the Pro Se Office*, [http://www.nysd.uscourts.gov/courtrules\\_prose.php?prose=office](http://www.nysd.uscourts.gov/courtrules_prose.php?prose=office); DONNA STIENSTRA, ET AL., FED. JUDICIAL CTR., ASSISTANCE TO PRO SE LITIGANTS IN U.S. DISTRICT COURTS: A REPORT ON SURVEYS OF CLERKS OF COURT AND CHIEF JUDGES (2011), available at [http://www.fjc.gov/public/pdf.nsf/lookup/proseusdc.pdf/\\$file/proseusdc.pdf](http://www.fjc.gov/public/pdf.nsf/lookup/proseusdc.pdf/$file/proseusdc.pdf).

<sup>761</sup> See Federal Judicial Center, “*Who Does What, Chambers Staff: Judge’s Law Clerk and Judicial Assistant*,” <http://www.fjc.gov/federal/courts.nsf/autoframe?OpenForm&nav=menu5b&page=/federal/courts.nsf/page/351?open> document (“Although the specific duties of judicial staff vary from judge to judge, the law clerks’ duties usually include conducting legal research; preparing memoranda (including bench memos, which appellate judges use during oral argument); preparing draft orders and opinions; proofreading the judges’ orders and opinions; and verifying citations.”).

### 3. Format and Location

While a number of suggestions were raised and discussed, a large number of commenters expressed support for a centralized process relying primarily upon written submissions, without the requirement of personal appearances.<sup>762</sup> Under this model, proceedings would be conducted remotely via the internet, with any hearings accomplished by video or teleconference.<sup>763</sup> For many, the Copyright Office appeared to be the obvious home for such a process.<sup>764</sup>

The Office agrees that a centralized process made available by remote means probably represents the most sensible and cost-effective approach. In a non-voluntary system, a centralized system in a single location might raise concerns of personal jurisdiction. As a matter of due process, it could be problematic to subject a responding party to the mandatory jurisdiction of a faraway tribunal (though due process concerns might be substantially mitigated if all proceedings were conducted remotely). As the proposal is for a voluntary process, however, personal jurisdiction should not be an issue; parties would waive any objection to personal jurisdiction by agreeing to participate.

As in UDRP proceedings, parties' contentions and evidence would be submitted largely in written form, with suggested formats provided by the system itself. Decisions would be based primarily on documentary evidence. If necessary, the adjudicators could hold limited conferences or hearings by telephone or videoconference to address case management issues and enable the parties to elaborate on their arguments and evidence. The tribunal would be broadly accessible without elaborate procedures or the necessity of travel.

A few suggested that the CRB might be tasked with adjudicating small copyright claims in addition to its current duties.<sup>765</sup> While the CRB plays a vital role in the administration of various statutory copyright licenses, the Office does not believe it is well-suited to administer a small copyright claims system. The industry-wide royalty rate and distribution determinations for

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<sup>762</sup> See, e.g., Authors Guild First Notice Comments at 4 (“The procedures, to the extent permissible within the requirements of due process, should be conducted by mail and telephone conference. Small copyright infringement claims can generally be adjudicated largely on documentary evidence – a submission of the plaintiffs [sic] registered work and the alleged infringing work. Such procedures will allow parties to press and defend claims without traveling to the court.”); ABA IP Section Second Notice Comments at 3 (suggesting a process using electronically submitted documents, similar to the UDRP).

<sup>763</sup> See AVA Second Notice Comments at 6-7 (suggesting use of “e-mail, teleconference, fax, online videoconference platforms, or other virtual discussion forum”); Tr. at 204:03-08 (Nov. 15, 2012) (David Leichtman, VLA) (hearings should be available on a remote basis).

<sup>764</sup> Authors Guild First Notice Comments at 4 (linking a small copyright claims court to the Copyright Office “would help assure the competence of the court”); GAG First Notice Comments at 8 (“We would like to see this [proposed] system kept close to the Copyright Office.”); SGA & NSAI First Notice comments at 2 (“[A] small claims court affiliated with the Copyright Office would be the best alternative.”); ZipCourt, Comments Submitted in Response to First Notice of Inquiry at 6 (Jan. 17, 2012) (“ZipCourt First Notice Comments”) (“[A] new online copyright adjudication system] would welcome an association with the Office to assure competencies in terms of quality control, user experience, and low cost.”).

<sup>765</sup> PACA First Notice Comments at 10 (considering a new forum of decisionmakers or expanding the role of the CRB); ASMP Second Notice Comments at 6 (considering the possibility of the CRB or an entity similar to the CRB); IFTA Second Notice Comments at 4 (suggesting using the CRB as a model).

which it is responsible – and its necessary focus on complicated economic evidence and expert analysis – lie at the opposite end of the spectrum from small copyright claims. Moreover, at least at present, the CRB is not equipped to operate remotely, but rather requires multiple in-person appearances by parties and witnesses over the course of multiyear proceedings and typically lengthy trials. For these reasons, the Office believes that a small claims process would be largely incompatible with, and could thus detract from, the essential operations of the CRB, and that a separately constituted tribunal is advisable.

That said, the Office agrees with those who suggested that a small claims facility would be logically situated at the Copyright Office, as such an entity would fit well within the Office's overall responsibility of administering the nation's copyright system.

### C. Subject Matter and Remedies

#### 1. Eligible Claims

The written comments and public roundtables reflected a considerable amount of debate concerning the types of claims and defenses that should be encompassed by an alternative small copyright claims system. Participants espoused widely divergent views about these issues, which are at the heart of any alternative system. Although there was agreement that a primary purpose of such a small claims process obviously would be to hear smaller infringement cases, it was unclear at first blush what other claims might be considered or what defenses should be allowed.

As most copyright litigators know, copyright cases often involve multiple claims that can range from straightforward infringement claims to more complex matters intertwined with contract or trademark disputes or other issues. In federal court, these claims can be pursued in a single lawsuit, which can make litigation more efficient because all related claims between the parties are adjudicated at once. A unified proceeding makes sense in federal court, where there is extensive discovery and motion practice and the parties expend significant resources and time. The same rationale, however, may not hold true in an expedited process for small copyright claims.

In a copyright small claims system, the parties likely will not have access to extensive discovery and will instead be limited to presenting the most critical evidence. Cases will be developed using abbreviated procedures, in shorter time frames, in order to simplify and speed the process. Notably, other specialized tribunals, such as the UDRP and TTAB, typically refrain from considering issues outside of their primary purpose or jurisdiction. Even when these tribunals do review ancillary issues, such consideration is limited to that necessary to permit a judgment on the primary matter within the tribunal's jurisdiction. Similarly, to preserve the limited scope of their proceedings, the Tax Court and UK's Patents County Court exclude complex claims. The Office recommends that an alternative copyright small claims tribunal be similarly confined.

Most commenting parties generally concurred in this view. Groups as diverse as the American Photographic Artists, Association of American Publishers, Picture Archive Council of America, and the Independent Film and Television Association all agreed that tangential trademark, unfair

competition, and similar claims do not belong in a small copyright claims setting.<sup>766</sup> At the same time, however, some observed that related contract and ownership claims should be considered when relevant to the infringement proceeding.<sup>767</sup> Others referenced the need for coverage for DMCA claims regarding misrepresentations in takedown notices.<sup>768</sup> Additionally, while not discussed at length in the comments and at the hearings, the idea of including declaratory judgment actions was positively received.<sup>769</sup>

The Office believes that the main focus of any small claims proceeding should be on infringement matters arising under one or more of the exclusive rights set forth in section 106 of the Copyright Act. In addition to damages determinations, a small claims system should have the ability to render declaratory judgments pertaining to either the infringement or noninfringement of a copyrighted work. In some cases, such a determination may entail consideration of contract or ownership issues, but any such consideration should be limited to that required to resolve the infringement claim at hand.

Additionally, the Office recommends that any small copyright claims system include the ability to review claims of misrepresentation in DMCA takedown notices or counter notifications under section 512(f) and that proceedings before it should qualify to prevent the reposting of removed material pursuant to section 512(g). These infringement-related matters can be quite frustrating for those involved and exceptionally uneconomical to litigate in federal court.<sup>770</sup> The Office therefore believes that the ability to address takedown-related disputes through a streamlined proceeding would provide significant benefits for both copyright owners and online users.

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<sup>766</sup> APA First Notice Comments at 16 (where a complaint or counterclaim alleges something other than copyright infringement, the case “fails to qualify as an eligible small infringement claim”); IFTA Second Notice Comments at 6 (“The proposed administrative agency should be available to all copyrighted works, but limited to infringement claims . . . .”); Association of Am. Publishers (“AAP”), Comments Submitted in Response to Third Notice of Inquiry at 2-3 (Apr. 12, 2013) (“AAP Third Notice Comments”) (though suggesting contract and licensing analysis should be retained as a defense to infringement); PACA, Comments Submitted in Response to Third Notice of Inquiry at 3 (Apr. 12, 2013) (“PACA Third Notice Comments”) (though suggesting ownership claims could fall within the scope of a small claims court for the purposes of determining whether a work was a work for hire).

<sup>767</sup> AVA Second Notice Comments at 4 (favor including violations of a license or similar contractual matters); GAG Second Notice Comments at 6 (favor including claims covering trademark infringement, contractual issues, ownership, and material misrepresentations in violation of the DMCA); NPPA Second Notice Comments at 4 (favor including contractual and DMCA claims).

<sup>768</sup> Google First Notice Comments at 7; James Cannings, Comments Submitted in Response to Second Notice of Inquiry at 2 (“Cannings Second Notice Comments”); GAG Second Notice Comments at 6; IFTA Second Notice Comments at 5; NPPA Second Notice Comments at 4; VLA Third Notice Comments at 5, n.2.

<sup>769</sup> Tr. at 92:22-94:04 (Nov. 26, 2012) (Carolyn Wright, Law Offices of Carolyn E. Wright).

<sup>770</sup> Commenting parties agreed that DMCA issues should not be overlooked in considering the problem of small copyright claims. *See, e.g.*, Google First Notice Comments at 7 (“An infringement action is not the only species of action under the Copyright Act that is deterred in practice by high litigation costs. If the Office is concerned that the cost of litigation is preventing people from vindicating their rights under the Act, then the small claims court should also hear actions under Section 512(f.)”); GAG First Notice Comments at 4 (“In some instances the ISP or host does not respond to or comply with a DMCA take-down notice, or allows the image to be reposted again later.”); Eman Hegazy, Comments Submitted in Response to Second Notice of Inquiry at 1 (relating a story where in response to a DMCA takedown notice, a competitor issued allegedly fraudulent takedown notices against the author).

This means that the Office proposes to exclude trademark, unfair competition, and other similar claims from the purview of a small claims system, at least as an initial matter. To operate efficiently and within the scope of its expertise, the Office believes that the tribunal must focus on the copyright infringement claims – as well as defenses and related counterclaims, as discussed below – that are essential to its purpose. While limiting claims in this manner may prevent some small copyright claimants from pursuing every claim they might wish in an alternative forum, it offers the benefit of a quicker and less expensive option to address their chief concern. Such an approach is consistent with other specialized tribunals, such as state small claims systems, the TTAB, and UDRP panels, all of which seek to minimize by varying degrees the burden and costs of dispute resolution by limiting the scope of their jurisdiction.

Another issue is whether the Office should hear cases involving secondary liability under theories of contributory or vicarious infringement. Unfortunately, there is not much record evidence on this point,<sup>771</sup> but the Office does not see a reason for blanket exclusion of all secondary liability claims at this time. In some cases where a direct infringer is unknown or unwilling to participate in the small claims process, the claimant may be limited to proceeding against a secondary infringer who is profiting from or facilitating the infringement of the claimant's work. That said, many potential secondary liability claims involving online uses will likely be barred by one of the DMCA safe harbors set forth in section 512. To ensure against inappropriate actions, the Office therefore proposes that any claim potentially subject to a DMCA safe harbor be excluded unless it is demonstrated that a DMCA takedown notice was provided and was unsuccessful. And finally, as a more general matter, the tribunal should retain the discretion to dismiss without prejudice any secondary liability (or other) claim that cannot appropriately be adjudicated within the constraints of its streamlined process.

## 2. Defenses and Counterclaims

Although the Office is proposing a streamlined approach to small copyright claims, alleged infringers must be allowed to defend themselves vigorously. A respondent in a small claims proceeding must therefore have access to all available defenses arising under the Copyright Act or other relevant law.<sup>772</sup> For example, the Office recommends that alleged infringers be able to

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<sup>771</sup> The evidence that was received noted that secondary liability can bring an additional level of complexity to a small copyright claim. *See* Google First Notice Comments at 5 (suggesting that the judicial standards for secondary liability are too vague); PACA Third Notice Comments at 4 (suggesting that these claims are complicated, and that they could be added depending on how well a new system of litigating direct infringement works).

<sup>772</sup> Many stakeholders agreed with this concept, especially in a voluntary system that would require a defendant's consent. *See, e.g.*, ASMP Second Notice Comments at 7 ("All traditional defenses, such as fair use, should be permitted. Similarly, a defense based on a DMCA safe harbor argument would have to be allowed in order to avoid eviscerating the DMCA."); Cannings Second Notice Comments at 3 ("All defenses available to large claims must be allowed to small claims. Due Process must be the rule. In essence the Constitutional right of small claims must in no way be compromised."); Rochelle Dreyfuss, Comments Submitted in Response to Second Notice of Inquiry at 3 ("I believe any defense that could be asserted in district court should be available in this court. There is a strong possibility that the existence of this court will give right holders new opportunities to harass individuals. Disallowing important defenses would make this problem even more severe."); Getty Images Second Notice Comments at 3 ("The defendant should have an opportunity to present its defenses, including fair use, independent creation, non-infringement or any other statutory exception (including DMCA safe harbor)."); NPPA Second Notice Comments at 6 ("NPPA proposes that defendants compelled to participate in small claims court would be entitled to assert all defenses and counterclaims including fair use, independent creation or those claims arising under the

assert that they in fact are owners of or have a valid contractual right to use of a work. Such a defense, however, would only pertain to the claim of infringement before the tribunal. The construction of a licensing agreement offered as a defense to infringement, for instance, should not limit future consideration of that agreement in other contexts. Similarly, if the small claims copyright tribunal found that a respondent had rightfully purchased the copyright in a work, that finding would only lead to an order of noninfringement in that case, not a finding of ownership that the defendant could use outside of the proceedings.

This approach also would apply to the defense of fair use, typically a fact-specific defense that requires careful analysis and review. Some commenters argued that fair use is too complex to include in a small claims system.<sup>773</sup> Thus, some urged, a small claims system should not get involved in fair use determinations. But at the same time, participants observed that “[f]air use has to be the single biggest defense that we hear people make.”<sup>774</sup> Because it is so frequently invoked as a defense to infringement, to eliminate it from possible consideration likely would rule out the adjudication of many meritorious claims, as many responding parties would presumably decline to proceed with a voluntary process without the ability to have it considered. As one hearing participant noted, “it is far too easy to raise a frivolous defense of fair use or even a serious defense of fair use that would automatically take these claims out.”<sup>775</sup> Accordingly, in this participant’s view, “every defense that’s available in federal court, the contract defenses, fair use defenses and so on, ought to be subject to this proceeding.”<sup>776</sup> The Office agrees and recommends that fair use be an available defense in a small claims proceeding. Apart from the logistical concern of motivating participation in a voluntary system, the Office does not see how claims of infringement can fairly be adjudicated without consideration of legitimate claims of fair use.

In this regard, the Office believes that the proposed tribunal, which would include adjudicators, with substantial experience in copyright matters, would possess the appropriate background to review fair use claims. While fair use is fact-dependent, and requires close analysis, there is a good amount of judicial precedent in this area, and most assertions of fair use should not be

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DMCA.”); PACA Second Notice Comments at 5 (“The respondent should have the opportunity to present its defenses, such as fair use, independent creation, non-infringement or any other statutory exception.”).

<sup>773</sup> Google First Notice Comments at 4; NMPA, ASCAP, & SESAC, Comments Submitted in Response to First Notice of Inquiry at 2 (“NMPA, ASCAP, & SESAC First Notice Comments”) (“We have great concern about litigating fair use defenses in a small claims court setting.”); SGA & NSAI First Notice Comments at 3 (cases with “credible and substantial” fair use arguments should be removed to federal court); AAP, Comment Submitted in Response to Second Notice of Inquiry at 5 (“AAP Second Notice Comments”) (“AAP is opposed to allowing ... potentially complex defenses such as fair use to be raised in small claims proceedings.”).

<sup>774</sup> Tr. at 168:14-17 (Nov. 15, 2012) (Eugene Mopsik, ASMP); *see also* Tr. at 164:11-17 (Nov. 15, 2012) (Nancy Wolff, PACA) (“So I don’t think I have ever had a case where someone hasn’t at least put in a defense of fair use, whether it could be legitimate or not. So I think that that should not be sort of a threshold to avoid an alternative resolution procedure that could be in place.”).

<sup>775</sup> Tr. at 161:18-21 (Nov. 15, 2012) (David Leichtman, VLA). Other stakeholders made similar statements. *See, e.g.*, Tr. at 168:04-10 (Nov. 15, 2012) (Lisa Shaftel, GAG) (“[W]e realize that we don’t think the defenses should be limited because otherwise the defendants would be able to opt out of the alternative copyright court in a substantial number of cases, and that would just weaken the effectiveness of the alternative court.”).

<sup>776</sup> Tr. at 162:09-12 (Nov. 15, 2012) (David Leichtman, VLA).

beyond the reach of qualified decisionmakers – especially decisionmakers whose primary job it is to evaluate claims of infringement and defenses thereto. In the unusual case where, due to the streamlined process, the tribunal could not appropriately evaluate a claim of fair use – for example, because of a lack of essential evidence – the case could be dismissed without prejudice to be litigated in federal court.

Similarly, a responding party should be able to bring certain related and necessary counterclaims in a small claims proceeding.<sup>777</sup> Notably, such a practice is allowed in some state small claims courts and in other specialized proceedings such as TTAB cases.<sup>778</sup> Specifically, respondents in copyright small claims cases should be allowed to bring counterclaims based on the same transaction or occurrence as the original claim that either arises from an exclusive right set forth in section 106 or under 512(f) of the Copyright Act, or from a related contract, such as a licensing agreement, that could affect the relief the tribunal might award the claimant. Additionally, counterclaims would have to fall within the damages limitations applicable to claimants that are discussed below. But counterclaims would not be mandatory, and would be preserved for future adjudication in a different forum if the respondent wished to pursue them elsewhere.<sup>779</sup>

### 3. Registration Requirement

Title 17 currently requires most copyright owners to register their works with (or receive a refusal from) the Copyright Office before bringing an infringement lawsuit, and works must be timely registered (generally within three months of publication) to be eligible for statutory damages.<sup>780</sup> In the small claims study and other contexts, many copyright owners have expressed concern over the burden of registering works as a condition to bringing a lawsuit or the ability to seek statutory damages for infringement.<sup>781</sup>

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<sup>777</sup> Although there was no unanimity, a number of participants were of the view that respondents should be able to bring counterclaims. *See* ABA IP Section Second Notice Comments at 8 (“Counterclaims should be permitted, but should not be compulsory, especially if they exceed the jurisdictional limit.”); NPPA Second Notice Comments at 6 (“NPPA proposes that defendants compelled to participate in small claims court would be entitled to assert all defenses and counterclaims including fair use, independent creation or those claims arising under the DMCA.”).

<sup>778</sup> *See, e.g.*, 37 C.F.R. §§ 2.106(b)(2)(i) & 2.114(b)(2)(i) (defense attacking the validity of certain registrations pleaded in the opposition (§ 2.106(b)(2)(i)) or petition for cancellation (§ 2.114(b)(2)(i)) is considered a compulsory counterclaim).

<sup>779</sup> *See* Tr. at 143:11-151:08 (Nov. 26, 2012) (various participants) (discussing that while voluntary counterclaims pose less of a problem as they can be preserved for a trial in federal court, mandatory counterclaims that are over the monetary limit of the small claims court pose a tension as the small claims forum may not be suited to best handle these larger claims).

<sup>780</sup> 17 U.S.C. § 411(a). This requirement applies only to United States works. Timely registration is, however, required for *all* works if the copyright owner wants to seek statutory damages, attorneys’ fees, and/or costs. 17 U.S.C. § 412.

<sup>781</sup> *See, e.g.*, NPPA First Notice Comments at 8 (“Legal proceedings should be available to copyright holders regardless of when they registered their work. Registration as a prerequisite to bringing a claim is acceptable, but there should be no limits to a claim based on when that registration occurred.”).

For example, photographers have pointed out that they create hundreds or thousands of works in short periods of time, and often lack the resources to register all of the photographs to secure the full protections of the Copyright Act.<sup>782</sup> These frustrations are shared by graphic artists, writers, and others, many of whom view the registration requirement as an obstacle to vindicating their rights, even apart from the significant costs of litigation once one gets to court.<sup>783</sup> At the same time, registration is important to our copyright system because it enhances the public record, encourages licensing opportunities, and provides baseline information for courts and others to use in assessing a copyright owners' claims.

How should the competing values be balanced in the context of a system for the resolution of lower-value copyright claims? The Office recommends that registration be required, but that the registration may be issued any time before the tribunal renders a determination. A copyright owner who had not previously registered would need only demonstrate that he or she had filed an application, deposit, and fee prior to commencing the action. This approach was suggested by several stakeholders as a potential middle ground solution,<sup>784</sup> and is similar to the practice already followed in some federal jurisdictions.<sup>785</sup> To help ensure against unwarranted claims, if a registration certificate were not issued while the small claims proceeding remained pending

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<sup>782</sup> ASMP First Notice Comments at 5 (“[O]ne of the impediments to professional photographers’ access to the current copyright enforcement system is the requirement of copyright registration before litigation can be instituted (and earlier, for eligibility for an award of attorney fees and/or statutory damages.)”; *see also* GAG First Notice Comments at 4 (“Most visual works are not registered, and most of the business sector is aware of this.”); Tr. at 41:02-04 (Nov. 15, 2012) (Nancy Wolff, PACA) (“When you have large amounts of images, it is difficult to register, particularly when you have the published versus unpublished.”). *Cf.* Tr. at 186:21-187:03 (Nov. 15, 2012) (Mickey Osterreicher, NPPA) (“[P]hotographers are probably the worst at registering their works. And I would extend that to say that news photographers are probably the worst of all of the photographers just because the nature of their business in terms of they barely have time to bill in terms of operating the small business.”).

<sup>783</sup> APA First Notice Comments at 25 (“[T]he ideal solution to the issue of small claims would dispense with the registration requirement [as a prerequisite to bring an infringement lawsuit.]”; NWU First Notice Comments at 12 (“[T]he requirement for registration of copyright is entirely unnecessary and should be abolished. [The registration requirement] creates a perverse disincentive for first publication in the U.S. ....”); Tr. at 155:08-157:22 (Nov. 26, 2012) (Edward Hasbrouck, NWU) (summarizing various problems with the registration requirement); Tr. at 158:07-09 (Nov. 26, 2012) (Lorin Brennan, Linde Law Firm) (“[The registration requirement is] primarily a way to ... generate fees and waste time.”).

<sup>784</sup> GAG First Notice Comments at 7 (“To ensure timely access to the ACC, we recommend that U.S. plaintiffs/rights holders be eligible to file their claims as soon as they have submitted application for copyright registration, as is the practice in many jurisdictions in federal court, rather than requiring them to have an issued copyright registration before filing. (Foreign authors would be exempt under Berne). There would be no prior registration or timely registration bars to obtaining ACC statutory damages.”); Tr. at 184:04-09 (Nov. 15, 2012) (Victor Perlman, ASMP) (“So how you cut that Gordian Knot, is to do what some of the federal circuits currently do, which is to accept as the equivalent of a registration, proof of the filing of a petition for registration. And that seems, to me, to be a reasonable compromise.”).

<sup>785</sup> *See Apple Barrel Prods., Inc. v. R.D. Beard*, 730 F.2d 384, 386–87 (5th Cir.1984) (“In order to bring suit for copyright infringement, it is not necessary to prove possession of a registration certificate. One need only prove payment of the required fee, deposit of the work in question, and receipt by the Copyright Office of a registration application.”); *see also Chi. Bd. of Educ. v. Substance, Inc.*, 354 F.3d 624, 631 (7th Cir. 2003) (Posner, J.) (describing an argument that only an application had been filed, and there was thus no registration, as being “frivolous”). The Office is *not* suggesting that the mere filing of an application be sufficient for existing federal court litigation, which is much more formal than the small claims system envisioned in this Report.

(that is, before a final determination), or were refused, the action would be dismissed without prejudice.

In addition, it is clear from the record in this proceeding that individual creators are discouraged from pursuing claims of infringement when they are unable to seek statutory damages. The Office suggests that, within the small claims context, a copyright owner be allowed to pursue a limited amount of statutory damages even if registration was not made within the time frame prescribed by section 412. An ability to recover limited statutory damages without extensive discovery into an infringer's activities and profits would serve a small claims system by helping to simplify and streamline the proceedings. At the same time, the system should not wholly eliminate incentives to register within the time limits of section 412. As further discussed below, under the Office's suggested approach, while late-registered works would be eligible for statutory damages (as well as actual damages up to the small claims limit), such works would be entitled to only half of the statutory damages available to timely registrants through the small claims system.

#### 4. Remedies

##### a. Overall Damages Limitation

Perhaps the most obvious question to ask in connection with the possibility of creating an alternative tribunal to resolve small copyright claims is what in fact constitutes a "small" copyright claim. As might be predicted, participants in the Office's study expressed a range of opinions. Suggestions for what should be deemed "small" ranged from claims seeking damages of under \$10,000<sup>786</sup> to those seeking a maximum of \$80,000.<sup>787</sup> Many comments, however, suggested limits in the range of \$20,000 to \$30,000. For example: the ABA IP Section recommended a \$25-30,000 limit; ASMP suggested \$25,000; Getty Images proposed \$30,000; the Kernochan Center argued for \$20-30,000; GAG favored a \$30,000 limit; the MPAA believed \$30,000 to be reasonable; and the NPPA suggested \$10-25,000.<sup>788</sup>

It is important to consider carefully the proper claim amount because any voluntary process must provide sufficient ability for claimants to redress typical infringements while also incentivizing respondents to participate. Indeed, as one stakeholder explained, damages are "the largest thing on the table" in considering how to persuade respondents to agree to alternative adjudication.<sup>789</sup> The damages ceiling also should reflect and be proportionate to the limited discovery and streamlined proceedings of a small claims process. The higher the limit, the less likely a responding party will agree to forego a federal court proceeding with the full panoply of discovery and pretrial proceedings. On the other hand, a carefully chosen lower limit should encourage voluntary participation if it meaningfully reduces exposure for damages.

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<sup>786</sup> Cannings Second Notice Comments at 2.

<sup>787</sup> APA First Notice Comments at 4.

<sup>788</sup> ABA IP Section Second Notice Comments at 8; ASMP Second Notice Comments at 7; Getty Images Second Notice Comments at 3 ("\$30,000 at the most"); Kernochan Second Notice Comments at 4; GAG Second Notice Comments at 6-7; MPAA Third Notice Comments at 3; NPPA Second Notice Comments at 5.

<sup>789</sup> Tr. at 36:05-09 (Nov. 15, 2012) (Charles Sanders, SGA).

Also to be considered in recommending an overall monetary cap is whether the available damages will permit small copyright claimants to retain counsel to assist them in the process. While based on a small sample size, the ABA IP Section submitted evidence that suggested most lawyers are unlikely to take copyright cases with a value of under \$60,000, and only a third will take cases valued at under \$30,000.<sup>790</sup> While these findings reflect the current reality that copyright cases must be pursued in federal court, they are nonetheless informative because they indicate a breakdown in obtaining legal representation where the need for an alternative system may be the highest – in cases valued at under \$30,000.

In light of these factors, the Office suggests that, subject to future adjustment by Congress if necessary, a copyright matter be considered “small” if its overall value is no more than \$30,000. Thus, parties could not pursue a case seeking more than that amount in the small claims venue. If a claimant wished to bring multiple claims in a single proceeding, the Office proposes that the \$30,000 limit would apply to all claims together. As discussed below, in addition to this overall damages cap, the Office recommends further limitations with respect to the recovery of statutory damages.

A \$30,000 cap for small claims proceedings corresponds to what many stakeholders proposed and also coincides with the upper limit of statutory damages available under the Copyright Act in cases of nonwillful infringement. At the same time, it is only one-fifth of the highest level of statutory damages available for willful infringement, and thus should be attractive to potential respondents.

#### b. Actual and Statutory Damages

Copyright law allows copyright owners to seek different types of damages: actual damages and a defendant’s profits, or statutory damages within certain limits.<sup>791</sup> The Office recommends that there be no limit on actual damages and profits available in a small claims system other than the monetary cap applicable to the proceeding as a whole. Thus, where actual damages and profits are established for the infringement of one or more works through in a small claims proceeding, they should be recoverable up to the \$30,000 limit.

Statutory damages, however, require more nuanced consideration. Under the Copyright Act, permissible statutory damages range from \$750 to \$30,000 for the nonwillful infringement of a work (with a reduction to as low as \$200 for “innocent” infringement), and up to \$150,000 in cases where the defendant’s infringement is shown to have been willful.<sup>792</sup> Throughout the Office’s study, stakeholders debated both the availability and amount of statutory damages that might be awarded by an alternative tribunal, with some taking the position that there should be

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<sup>790</sup> ABA IP Section Second Notice Comments at 7. The same evidence indicated, however, that some cases being tried resolved for between \$50,000 and \$100,000. *Id.* at 7-8.

<sup>791</sup> 17 U.S.C. § 504(a).

<sup>792</sup> *Id.* § 504(c).

none at all.<sup>793</sup> Indeed, in recent years, statutory damages have been the subject of more general debate in the copyright community, with potential large-scale infringers and others arguing that the possibility for high awards has a chilling effect on innovation, and copyright owners asserting that statutory damages are essential to deterring infringement.<sup>794</sup> In the context of small claims, some participants were concerned that statutory damages would dissuade potential defendants from agreeing to participate in a voluntary system,<sup>795</sup> while others emphasized the importance of statutory damages in furthering settlement discussions.<sup>796</sup> Others did not believe there was much difference as to whether available damages were statutory or actual so long as they fell within the applicable monetary cap.<sup>797</sup>

The Office suggests that a small claims system include the remedy of limited statutory damages, in addition to the ability to recover actual damages and profits. In many cases, the availability of statutory damages as an alternative to establishing actual damages and profits could serve to reduce time-consuming and potentially costly wrangling over damage-related discovery issues and calculations.<sup>798</sup> In this way, statutory damages would further the objectives of a small claims system.

At the same time, however, statutory damages would need to be appropriately tailored for such a system, both to reflect the lesser value of “small” claims and also to ensure that they would not deter – but rather would encourage – participation by those notified of a claim of infringement.

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<sup>793</sup> See Public Knowledge, Electronic Frontier Foundation, & Future of Music Coalition, Comments Submitted in Response to U.S. Copyright Office’s Oct. 27, 2011 Notice of Inquiry at 7 (“Exposing defendants to [possibility of punitive and excessive statutory damages awards] in an abbreviated proceeding is likely to jeopardize their due process rights.”); AAP Second Notice Comments at 7 (removing statutory damages offers a “powerful incentive for potential defendants to work within the system instead of opting for transfer to federal court.”).

<sup>794</sup> See *Sony BMG Music Entm’t v. Tenenbaum*, 719 F.3d 67, 71 (1st Cir. 2013) (“[Defendant] Tenenbaum argues that the award of \$675,000 [for copyright infringement of thirty songs] violates due process because it is not tied to the actual injury that he caused, which he estimates to be no more than \$450, or the cost of 30 albums at \$15 each. But this argument asks us to disregard the deterrent effect of statutory damages, the inherent difficulty in proving damages in a copyright suit, and [plaintiff] Sony’s evidence of the harm that it suffered from conduct such as Tenenbaum’s.”); *Capitol Records v. Thomas-Rasset*, 692 F.3d 899, 908 (8th Cir. 2012) (“Congress no doubt was aware of the serious problem posed by online copyright infringement, and the ‘numberless opportunities for committing the offense,’ when it last revisited the Copyright Act in 1999. To provide a deterrent against such infringement, Congress amended § 504(c) to increase [statutory damages].”). But see Pamela Samuelson & Tara Wheatland, *Statutory Damages in Copyright Law: A Remedy in Need of Reform*, 51 WM. MARY L. REV. 439, 495-96 (2009) (“Excessive copyright statutory damage awards are...likely to have other negative spillover effects, such as chilling lawful...uses of copyrighted works, especially those that would promote...the development of innovative new technologies and services.”).

<sup>795</sup> Tr. at 151:23-152:22 (Nov. 15, 2012) (David Leichtman, VLA); Tr. at 262:08-15 (Nov. 16, 2012) (Rachel Fertig, AAP).

<sup>796</sup> Tr. at 144:03-09 (Nov. 15, 2012) (Randy Taylor, CDL) (“[T]he statutory damage [award] is the primary tool by which the infringer is likely settled. So if statutory damages are limited or removed from any type of alternative process, the effectiveness is going to be dramatically reduced.”).

<sup>797</sup> Tr. at 254:09-22 (Nov. 16, 2012) (Nancy Wolff, PACA); Tr. at 256:14-257:04 (Nov. 16, 2012) (Victor Perlman, ASMP).

<sup>798</sup> See Tr. at 229:22-230:3 (Nov. 26, 2012) (Edward Hasbrouck, NWU) (noting that statutory damages are relatively simple, and without statutory damages, more discovery is needed); Tr. at 144:22-23 (Nov. 15, 2012) (Randy Taylor, CDL) (asserting that the only reason infringers respond to demand letters is the threat of statutory damages).

Accordingly, while recommending that statutory damages be available in the small claims system, the Office further suggests that the available statutory damages be only half of the \$30,000 per-work maximum for nonwillful infringement applicable in federal court. Thus, for works registered within the time frame prescribed in section 412, statutory damages would be capped at \$15,000 per work.<sup>799</sup> Applying the overall \$30,000 small claims limit, a claimant could thus, for example, receive up to two \$15,000 statutory damages awards or three \$10,000 awards for related infringements of separate works in a single proceeding.

Additionally, in a significant departure from the rule applied in federal court, works registered after the time period provided under section 412 also would be eligible for statutory damages in a small claims proceeding. These damages, however, only would be recoverable at up to half of the amount permitted for timely registered works within the small claims system – that is, up to \$7,500 per work – and with the additional caveat that no more than \$15,000 in total statutory damages could be awarded for all late-registered works in any one proceeding.

Another consideration is whether the small claims court should consider willful or innocent conduct in making an award of statutory damages, as is permitted under section 504 of the Copyright Act. While there seemed to be less concern about eliminating a potential downward adjustment of awards based upon a finding of innocence,<sup>800</sup> some participants in the study noted that it could be difficult to establish the necessary factual predicate to support a finding of willfulness in an expedited proceeding.<sup>801</sup> Likewise, viewed from the opposite perspective, respondents facing a claim of willfulness might not have a full opportunity to rebut it. Picture Archive Council of America, Inc. (“PACA”) made the additional observation that the willfulness distinction could be a “distraction” in a small claims proceeding, and that willful infringers were likely to end up in federal court anyway.<sup>802</sup> Perhaps most significantly, with a per-work limit of \$15,000 and an overall cap of \$30,000, any statutory damages would be below the per-work maximum for nonwillful infringement, findings of willfulness would likely be superfluous. The Office thus concludes that while it is reasonable to consider innocence in the context of a small claim, willfulness should not be a consideration in establishing statutory damages in a small claims proceeding.

### c. Injunctive and Other Equitable Relief

The Copyright Act provides for different types of equitable relief upon a finding of infringement, including injunctions<sup>803</sup> and impoundment and destruction of infringing goods.<sup>804</sup>

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<sup>799</sup> Claimants with timely registrations who wished to seek higher amounts of statutory damages would, of course, continue to have the option of proceeding in federal court.

<sup>800</sup> VLA Third Notice Comments at 17 (“VLA sees no reason to eliminate an innocent infringer defense because it would fall well below the cap proposed and would remove an incentive for defendants who might assert such defense.”).

<sup>801</sup> Tr. at 189:22-190:20 (Nov. 26, 2012) (Lorin Brennan, Linde Law Firm) (noting that including a finding of willfulness requires submitting evidence of willfulness and that involves discovery and disclosure by the defendant, all of which can be too cumbersome for a small claims tribunal).

<sup>802</sup> PACA Third Notice Comments at 5.

<sup>803</sup> 17 U.S.C. § 502.

For some small claimants, the primary objective of bringing an infringement action is not recovery of damages but rather to halt the unauthorized use of a copyrighted work.

Unauthorized uses can dilute the value of a work, impact exclusive license relationships, or may simply be objectionable to the owner. So long as the conduct continues, the claimant continues to be harmed. As one hearing participant explained, “most of the time what artists want is ... the infringement to stop or they want to get some work back that has been taken from them.”<sup>805</sup>

Another creator emphasized that injunctive relief is “vital” as “injunctions are often essential to protect the moral rights of the author” and “infringement is [frequently] continuing.”<sup>806</sup>

Unfortunately, however, injunctive relief is not as simple as it sounds. In the wake of the Supreme Court’s 2006 *eBay* decision, copyright plaintiffs must demonstrate more than the mere fact of infringement to obtain a final injunction. Rather, they must show: that they have suffered an irreparable injury; that remedies available at law are inadequate to compensate for that injury; that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and that the public interest would not be disserved by a permanent injunction.<sup>807</sup>

Preliminary injunctions must satisfy a similar multifactor test as well.<sup>808</sup> Injunctions issued at the beginning of a case involve independent briefing and, often, a separate hearing, to ensure that the injunction is justified in light of the potential harm to the copyright and considerations of due process. Some small claims hearing participants questioned the ability to establish the appropriate evidentiary basis for injunctive relief in an abbreviated small claims proceeding.<sup>809</sup>

A related and significant concern identified by participants in the study is the potential impact of injunctive relief in certain situations, especially those involving derivative works. If an infringer simply is reproducing a work as a whole and selling it or distributing it by itself (for example, by displaying a copyrighted image on a website or selling a product incorporating a copyrighted design), it may be fairly straightforward to require the infringer to cease infringing conduct.<sup>810</sup>

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<sup>804</sup> *Id.* § 503.

<sup>805</sup> Tr. at 31:12-18 (Nov. 15, 2012) (David Leichtman, VLA); *see also* Tr. at 284:19-24 (Nov. 16, 2012) (David Leichtman, VLA) (“But I think from the standpoint of indigent artists, the injunctive relief is absolutely critical. And what we see more often than not is folks that come in to our offices who really just want their stuff back, or taken down, or the infringement to stop.”); Tr. at 59:21-60:01 (Nov. 27, 2012) (Molly Knappen, designer and developer) (“If you take injunctions out of the equation for the true small claims, you take the teeth out of it.”); Tr. at 49:05-06 (Nov. 27, 2012) (Edward Hasbrouck, NWU) (“Injunctive relief is vital for our members ....”).

<sup>806</sup> Tr. at 49:05-16 (Nov. 27, 2012) (Edward Hasbrouck, NWU).

<sup>807</sup> *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391-92 (2006) (though this case involved patents, the Court noted the same standard applies to copyright cases).

<sup>808</sup> *See, e.g., Salinger v. Colting*, 607 F.3d 68 (2d Cir. 2010) (holding that *eBay* injunction test “applies with equal force to preliminary injunctions issued on the basis of alleged copyright infringement”).

<sup>809</sup> Google First Notice Comments at 6 (“In District Court, an injunction can only be obtained after a rigorous evidentiary showing, but a small claims court will not have the ability to collect or hear such extensive evidence.”); Tr. at 58:13-19 (Nov. 27, 2012) (Lorin Brennan, Linde Law Firm) (“[T]o have small claims courts issuing preliminary injunctions ... you are probably going to want to have only an injunction after you have had the mini trial where you could have all of the evidence presented that justifies the injunction. And that is a substantial showing here.”).

<sup>810</sup> *See, e.g.,* PACA First Notice Comments at 7 (“An injunction to prevent the continued infringement or to enforce the removal of content online may be appropriate if a work is not so incorporated within another creative work that

As discussed at the hearings, however, there are more complex situations in which the infringer has incorporated the original work into another work and the financial consequences of requiring a defendant to cease the infringing use outweigh the claimant's damages claim – and perhaps the monetary limits of the small claims forum as well.<sup>811</sup> For example, to halt or delay the distribution of a film incorporating another work (perhaps a screenplay or song) could cost the distributor many thousands or, in some cases, even millions of dollars in marketing expenditures and lost revenues.<sup>812</sup> If the author of the song demands its removal from a film, the movie studio may have to spend substantial resources to edit the movie, which may not be practicable depending on timing. In such a scenario, the songwriter might be alleging damages of several thousand dollars, but an injunction would cost the studio exponentially more money to implement.

The Office believes that compromise is necessary on this point. A voluntary system needs the participation of both parties, and alleged infringers will be less likely to consent if the consequences include potentially prohibitive injunctive relief. Moreover, in many cases, the expedited nature of the proceeding might make it difficult for the adjudicators to render the factual findings necessary to support an injunction. Even if the tribunal determined that an injunction was appropriate, the claimant could have difficulty securing compliance without the enforcement powers of a federal district court.<sup>813</sup> But if claimants had to apply to the district court for review and enforcement of an injunction, as some participants suggested,<sup>814</sup> it would probably make more sense to bring the action there in the first place.

The Office is of the view that in some cases, respondents might have reason to consent to a takedown of infringing material or cessation of infringing activity upon a finding of infringement, either at the outset or during the course of the proceeding. The system could allow adjudicators to reduce a damages award that might otherwise compensate for future use of the infringed work in exchange for a respondent's promise to cease the infringing behavior. Any such agreement could, similar to a consent judgment, be memorialized in the tribunal's final

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it would cause disproportionate economic harm to a work containing the infringing was enjoined. For example if the infringing work is merely displayed on a website, in addition to damages, it would be appropriate to enjoin continued use of the infringing work by the defendant, to avoid multiple claims for the same use by a plaintiff against the same party.”).

<sup>811</sup> Tr. at 295:11-16 (Nov. 16, 2012) (Nancy Wolff, PACA) (“[I]f images are displayed on a web site, there really wouldn't be any harm to make sure it wasn't continued. But, for example, if there was one image that was in a documentary film, it may cause a lot of harm to have someone redo an entire documentary film.”); Tr. at 56:15-57:01 (Nov. 27, 2012) (Lorin Brennan, Linde Law Firm) (raising the example of the monetary damages of enjoining the release of a motion picture exceeding the small claims forum limits).

<sup>812</sup> See Tr. at 51:15-18 (Nov. 27, 2012) (Kim Tommaselli, IFTA) (“... to get an injunction to halt the production or distribution of a film would cause great financial stress on that company through such a small claims procedure”).

<sup>813</sup> FED. R. CIV. P. 65 (granting federal courts the authority to enforce injunctions); see *Grupo Mexicano de Desarrollo S.A. v. Alliance Bond Fund, Inc.*, 527 U.S. 308, 318 (1999) (“The Judiciary Act of 1789 conferred on the federal courts jurisdiction over ‘all suits ... in equity.’”).

<sup>814</sup> VLA Third Notice Comments at 16 (“[D]e novo review [of an injunction by a district court] would defeat the purpose of the Small Claims Tribunal in the first place.”); Tr. at 338:18-339:17 (Nov. 16, 2012) (Rachel Fertig, AAP) (explaining that if injunctions were allowed in this system with an appeal to district court, this would increase the probability of appeals and would create a problem that we are trying to avoid in the first place).

determination – which, in turn, as discussed below, could be filed with a federal court to secure enforcement. In this way, claimants would not be wholly precluded from seeking to end to infringing conduct, but the small claims tribunal would avoid the significant concerns inherent in the power to order injunctive relief.

In addition to injunctions, the Copyright Act allows for the impoundment and destruction of infringing goods. There was no groundswell of support for this option, which, even when sought, is usually seen as a secondary remedy by copyright claimants. In any event, for many of the same reasons as reviewed in connection with the availability of injunctions, the Office believes these additional equitable remedies exceed what can be expected from an administrative small claims process.

#### d. Attorneys' Fees and Costs

Assuming attorneys are to participate in a copyright small claims process – a matter discussed below – the question arises as to whether the system should permit recovery of attorneys' fees. The Copyright Act allows, but does not require, courts to award attorneys' fees and costs to a prevailing party.<sup>815</sup> In federal court, as discussed above, such fees and costs can be considerable, and can quickly overwhelm potential damages in a lower-value case.<sup>816</sup> The possibility of recovering (or, alternatively, having to pay) attorneys' fees may therefore be a significant factor in a plaintiff's decision whether to pursue litigation, or a defendant's evaluation of settlement options. Although the allowance for fee-shifting under the Copyright Act is generally viewed as a plaintiff-friendly rule, copyright claimants cannot be overly sanguine about recovering fees. In some cases, courts award damages to successful defendants,<sup>817</sup> and in many cases courts do not award fees at all.<sup>818</sup>

As with other issues, commenters had differing views as to whether attorneys' fees and costs should be recoverable by prevailing parties in small claims actions. In a system that allows parties to hire lawyers, there is logic to permitting recovery of attorneys' fees – not only to reimburse the winning party, but also to incentivize attorneys to take lower-value cases.<sup>819</sup> Such fees might be capped to reflect the smaller claims at issue and protect parties against deep-

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<sup>815</sup> 17 U.S.C. § 505.

<sup>816</sup> See *supra* at Part III.

<sup>817</sup> See, e.g., *Garcia-Goyco v. Law Envtl. Consultants, Inc.*, 428 F.3d 14 (1st Cir. 2005) (upholding award of attorneys' fees to prevailing defendant); Tr. at 285:09-289:13 (Nov. 16, 2012) (David Leichtman, VLA).

<sup>818</sup> See, e.g., *Thoroughbred Software Int'l, Inc. v. Dice Corp.*, 529 f. supp. 2d 800, 803 (E.D. Mich. 2007) (refusing to award attorneys' fees to plaintiffs because defendant's "position at trial was not frivolous and was objectively reasonable," they did not "act with an improper motivation," and did not profit from their activities, among other things).

<sup>819</sup> Tr. at 318:19-321:12 (Nov. 16, 2012) (Bruce Lehman, Former Asst. Sec'y of Commerce and Comm'r of Patents & Trademarks) (discussing importance of incentivizing lawyers to represent clients in a small copyright claims proceeding).

pocketed adversaries.<sup>820</sup> On one hand, the availability of fees might encourage attorneys to amplify what could otherwise be more expeditious proceedings.

A number of stakeholders expressed concern about the impact of attorneys' fees on parties' participation in a small claims system. Responding parties might be put off by the increased risk of a potential fee award.<sup>821</sup> Claimants, too, might be deterred by the prospect of having to pay fees should they lose.<sup>822</sup> As one copyright owner representative noted, "[w]e clearly do not want to scare off potential plaintiffs from using a system that's been developed specifically for them to be able to address small claims. But we do, of course, want to avoid harassment of defendants by what amounts to something more than frivolous and bordering on fraudulent claims. That's not fair either."<sup>823</sup>

A related issue is the question of what standard would apply if fee-shifting were permitted. An absolute rule awarding fees to a prevailing party could be inequitable in close cases, for example, where a responding party had a colorable but ultimately unsuccessful claim of fair use. On the other hand, a rule allowing significant discretion – as is permitted to federal judges in copyright actions under section 505 – could extend the proceeding and increase expenses by requiring independent consideration of a fee award. Moreover, as in the federal courts today, a discretionary system would offer no guarantee to a party for whom recovery of fees was critical.<sup>824</sup>

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<sup>820</sup> See Tr. at 310:01-12 (Nov. 16, 2012) (Victor Perlman, ASMP) (“[M]y concern is that you may have a corporate defendant who’s running up a significant legal bill. And I guess the way to deal with that situation is to use a sort of system that [has] attorneys’ fees, but to cap the fees at some level so that, for instance, a photographer or an artist isn’t faced with the prospect of a five figure award or more, legal bills being assessed against him if he loses.”); Tr. at 311:09-12 (Nov. 16, 2012) (Mickey Osterreicher, NPPA) (suggesting a cap on attorneys’ fees “[s]o you don’t have a corporate defendant coming in and having a fee request that dwarfs what’s looked for in terms of any recovery”).

<sup>821</sup> See Tr. at 151:03-152:22 (Nov. 15, 2012) (David Leichtman, VLA) (noting that system would have to “mak[e] sense financially from the standpoint of the defense side” and proposing damages cap with no attorneys’ fees); Tr. at 62:04-07 (Nov. 15, 2012); (Lisa Willmer, Getty Images) (defendants could be incentivized to submit to voluntary process by limiting attorneys’ fees); see also Tr. at 150:09-13 (Nov. 15, 2012) (Nancy Wolff, PACA) (“[O]nce the attorneys’ fees have to get factored in the amount, ... there’s always going to be a lot of work, and then the settlement amount and demands become much higher.”).

<sup>822</sup> Tr. at 288:21-289:13 (Nov. 16, 2012) (David Leichtman, VLA) (“And we have lots of clients in these kinds of situations where you have a close case, where there may be a fair use defense. And, you know, as a lawyer advising the client, you have no idea how that’s going to come out, and yet you have to say to the client, ‘I can bring your case in federal court for you, we have a 55 percent, 75 percent chance of winning the case, but what I have to tell you is, you are at risk. You know, you are not even asking for money, you are just looking for an injunction to get the infringement to stop, but you are at risk of – you don’t have to pay my fees because I am the pro bono lawyer, but you are at risk of having to pay the other side’s attorneys’ fees.’”).

<sup>823</sup> Tr. at 309:04-11 (Nov. 16, 2012) (Charles Sanders, SGA).

<sup>824</sup> Comments submitted by APA suggested a rather novel fee-shifting system. To incentivize settlement, parties would be required to exchange offers of judgment before trial. If the plaintiff won at trial and were awarded more than his or her demand, the plaintiff would receive attorneys’ fees. But if the plaintiff, even though prevailing, were awarded less than what the defendant had offered, the plaintiff would be required to pay attorneys’ fees to the defendant. Conversely, a defendant who offered less than what the plaintiff received would be assessed fees. APA First Notice Comments at 6-7 (comments submitted by David Nimmer on behalf of the APA). As suggested above, such a system could yield a rather harsh result for a plaintiff who is injured by an infringer and forced to pursue an action but who is overly optimistic about the ultimate award of damages. See *supra* note 725.

On the whole, while there clearly are arguments to be made on both sides, because attorneys' fees awards might upset the balance of incentives to participate in the system, and perhaps increase the length and expense of proceedings, the Office recommends against a general fee and cost-shifting provision at this time. The Office acknowledges, however, that if a small claims tribunal were to become operational, the question of fee-shifting – including how fee awards might be limited to reflect that environment – would benefit from further study.

That said, the Office does propose an exception to its general recommendation against fee-shifting in cases where it is established that a party has pursued a claim or defense in bad faith, or has summoned a respondent to the tribunal but failed to proceed with the case. In such a situation, the offending party should pay fees and costs to those adversely affected by the conduct in question. Such a rule will not only serve to compensate parties for unnecessary expense, but also help to deter the pursuit of frivolous claims. Even so, in light of the modest value of the proceedings, the Office believes that such an award should not be more than the total sum of \$5,000, or for parties appearing *pro se*, consist of costs only and not exceed \$2,500.

## 5. Eligible Works

Copyright owners with rights in all types of works may be interested in using an alternative system to seek relief. Indeed, the Office received comments from numerous creators, including photographers, graphic artists, songwriters, filmmakers, and writers, all of whom argued, sometimes passionately, for an alternative system.<sup>825</sup> In comments and at the public roundtables, there was near universal agreement that all types of copyrighted works should be eligible for protection through an alternative system, an approach that is endorsed by the Office. As one hearing participant explained, “anything that is eligible for copyright ought to be” eligible for a small claims system.<sup>826</sup>

The National Music Publishers' Association (“NMPA”) and the Harry Fox Agency, Inc. (“HFA”), however, joined by ASCAP, BMI, SESAC, the Recording Industry Association of America (“RIAA”), and the American Association of Independent Music (“A2IM”), urged that music should be excluded from any small claims system, at least in the near term.<sup>827</sup> These

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<sup>825</sup> ASMP First Notice Comments at 9 (“[V]irtually everyone in the copyright world has long recognized that photographers are uniquely disenfranchised from access to the copyright protections to which they are legally entitled. Anything that the Copyright Office and Congress can do to help correct that situation would be of great benefit to working photographers and greatly appreciated by them.”); GAG Second Notice Comments at 28 (in a survey, it was estimated that over 80% of GAG members would use a small claims copyright tribunal); IFTA First Notice Comments at 3; NWU First Notice Comments at 2 (calling the subject of this report a “vital copyright reform initiative”); SGA, Comments Submitted in Response to Second Notice of Inquiry at 1 (Oct. 19, 2012) (“[I]t would be extremely important for individual songwriters to have an alternative to the current legal system through which they could enforce their rights effectively and inexpensively when a small claim is involved.”).

<sup>826</sup> Tr. 111:04-05 (Nov. 15, 2012) (David Leichtman, VLA).

<sup>827</sup> See ASCAP, A2IM, BMI, NMPA, RIAA, and SESAC, Comments Submitted in Response to Second Notice of Inquiry. The RIAA's position is notable because it pursued some 35,000 infringement cases against individual defendants for unauthorized file-sharing during the mid-2000s in which it typically sought relatively modest damages (at least at the pretrial stage). By the end of 2008, however, the RIAA had discontinued this litigation strategy. See *Recording Industry Begins Suing P2P File Sharers Who Illegally Offer Copyrighted Music Online*,

organizations asserted that because music matters can be complex and involve ownership and contract disputes, and potentially frivolous claims of authorship,<sup>828</sup> musical works and sound recordings should not be included. NMPA and other music publisher organizations generally asserted that because they represent songwriters' interests in infringement matters, songwriters did not need access to a small claims tribunal. They also expressed concern that songwriters might invoke the small claims system to pursue breach of contract claims against their constituents.<sup>829</sup>

By contrast, both the Songwriters Guild of America (“SGA”) and the Nashville Songwriters Association International (“NSAI”) “strongly endorse the concept of establishing a forum in which individual copyright owners could pursue infringement claims that have a relatively small economic value.”<sup>830</sup> Songwriters provided an impassioned response to the music publisher organizations seeking to exclude musical works from a potential small claims forum. As one songwriter advocate bluntly opined, the “blanket exclusion of music from the small claims process would be grossly unfair to the creators of musical works.”<sup>831</sup> This representative pointed out that as songwriters reclaim their copyrights in musical works from music publishers under the termination provisions of the Copyright Act,<sup>832</sup> many more will be representing themselves and may have a need for an accessible forum in which to vindicate their rights.

Indeed, there are numerous songwriters and musicians who are self-represented and do not rely on music publishers or record labels to manage their rights.<sup>833</sup> In fact, VLA, which provides *pro bono* legal assistance to artists, reported that approximately 20% of the organization's clients seek music-related advice, including claims by both unrepresented songwriters and songwriters hoping to enforce their rights after a publisher has declined to take action.<sup>834</sup> Indeed, a music

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*Recording Industry Ass'n of America*, (Sept. 8, 2003), <http://riaa.com/newsitem.php?id=85183A9C-28F4-19CE-BDE6-F48E206CE8A1>; Sarah McBride & Ethan Smith, *Music Industry to Abandon Mass Suits*, WALL ST. J. (Dec. 19, 2008), available at <http://online.wsj.com/article/SB122966038836021137.html>.

<sup>828</sup> For example, at the hearings, participants discussed instances of frivolous claims of ownership of iconic songs like the Beatles' “Hey Jude.” See Tr. at 88:03-12 (Nov. 15, 2012) (Christos Badavas, HFA) (“‘Hey, Jude’ was written by Paul McCartney on his way to visit Julian Lennon shortly after the divorce of his father and his mother. And based on the number of letters and claims I received in my years of working at EMI, which was a Beatles distributor and now Harry Fox, related to, hey, who owns ‘Hey, Jude,’ there must have been several hundred people riding in that car with Paul McCartney.”).

<sup>829</sup> Tr. at 82:10-83:23 (Nov. 15, 2012) (Jay Rosenthal, NMPA) (discussing complexities of ownership claims regarding publishers).

<sup>830</sup> SGA & NSAI First Notice Comments at 1.

<sup>831</sup> Tr. at 91:18-20 (Nov. 15, 2012) (Charles Sanders, SGA); see also Tr. at 60:08-61:01 (George Clinton, musician) (agreeing that music owners should be able to participate in a small copyright claims procedure).

<sup>832</sup> See 17 U.S.C. §§ 203, 304 (setting forth provisions allowing copyright owners to terminate grants).

<sup>833</sup> Tr. at 73:11-20 (Nov. 26, 2012) (Alma Robinson, CLA) (“Again, on behalf of California Lawyers for the Arts, I just want to share the observation that many songwriters and musicians are now self-publishing and distributing their own work and subject to the hazards of the internet. And I think that it would really be important to allow those folks access ... to whatever potential system we're saying we're thinking about.”).

<sup>834</sup> VLA Third Notice Comments at 4.

publisher representative at the Los Angeles hearing acknowledged that music publishers decline to pursue songwriter claims that are not economically practical to litigate.<sup>835</sup>

The Office understands that each type of work has its own world of complexities, including musical works and sound recordings. In some instances such works may benefit greatly from litigation assistance provided by music publishers, performance rights organizations, or record labels. But it is clear that this is not every case; indeed, it may well be the exception rather than the rule when it comes to smaller claims of infringement. The fact that musical works and sound recordings may be managed by intermediaries does not mean that songwriters or other musicians should be deprived on a blanket basis of the opportunity to pursue an infringement matter in an alternative small claims system if they should so choose.

That said, music publisher organizations and record companies may take comfort in the small claims procedures being proposed. The system will not override private agreements, so such organizations will remain free to structure their contractual relations as they wish, which of course can address copyright enforcement responsibilities as between them and those they represent. Moreover, as explained below, the Office recommends that any small claims decisions – including with respect to ownership questions – be without preclusive effect in future proceedings. But perhaps most significantly, because the system is voluntary, music publishers and others who receive notice of a small claims action would be free to decide whether it is the appropriate forum in which to address any particular claim.

Lastly, although the Office recommends that all types of works be covered by a small copyright claims system, at least for now, it is possible that experience may show that certain types of infringement claims are too complex for a small claims system. For example, claims that involve in-depth analysis of computer software programs – should any be pursued as small claims – could require a level of technical expertise that is beyond the capacity of a small claims forum. For this reason, the Office recommends that the small claims body be allowed to dismiss *sua sponte* claims that cannot be decided due to a lack of essential witnesses, evidence, or expert analysis.

#### D. Practice and Procedure

##### 1. Role of Attorneys

The question of whether attorneys should be allowed to participate in a small copyright claims system generated considerable controversy among participating parties. Notably, some state systems, including California, do not permit attorneys to appear on behalf of small claims litigants.<sup>836</sup> While stakeholders generally acknowledged that attorneys can be helpful to copyright litigants, some expressed concern about the imbalance that could occur if individual claimants appearing *pro se* had to face off against attorneys representing large corporate interests.<sup>837</sup> Others, however, pointed out that unsophisticated parties should not be deprived of

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<sup>835</sup> Tr. at 50:22-51:02 (Nov. 26, 2012) (Timothy Cohan, Peermusic).

<sup>836</sup> Small Claims Act, CAL. CIV. PROC. CODE § 116.530.

<sup>837</sup> Tr. 302:11-303:09 (Nov. 16, 2012) (Lisa Shaftel, GAG).

the opportunity to be represented by counsel, as they are the ones who may be most in need of legal counsel.<sup>838</sup> Because aspects of copyright law can be complicated, many viewed the role of attorneys as potentially more important in copyright cases than in typical small claims-type disputes involving nonpayment or basic contract issues.<sup>839</sup>

On balance, the Office believes that, even if an alternative system is designed to enable *pro se* participation, it is preferable for parties to have access to attorneys to represent them if they wish. In the United States, there is a strong tradition – buttressed by considerations of due process – of allowing parties to be assisted by counsel if they so choose. Less sophisticated parties may need assistance in navigating copyright law and litigation procedure, and attorneys may be useful in screening out nonmeritorious claims and defenses.<sup>840</sup> Additionally, notwithstanding the practice in certain state small claims courts, the general default rule is that corporations and other types of business entities may only appear in court through an attorney.<sup>841</sup> Corporate respondents may be dissuaded from participating in an alternative system if they are deprived of representation of the attorneys who ordinarily perform this role. Finally, as a practical matter, even if attorneys were to be banned from the proceedings, it would be difficult to prevent them from preparing the written submissions that likely will be decisive in many cases.

## 2. Assistance to Litigants

A small claims process will be of little value if its procedures and requirements are not easily understood by the average litigant. During the small copyright claims study, participants exchanged ideas concerning how to make the system accessible to litigants, and especially to unrepresented parties. There was general consensus that any such tribunal should provide comprehensive information, in plain language, as to what is required of both claimants and respondents.<sup>842</sup> Such guidance might include forms with spaces to add simple narrative,

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<sup>838</sup> Tr. at 305:24-306:03 (Nov. 16, 2012) (Bruce Lehman, Former Asst. Sec’y of Commerce and Comm’r of Patents & Trademarks); Tr. at 310:19-24 (Nov. 16, 2012) (Mickey Osterreicher, NPPA) (noting importance of right to counsel). Cf. VLA Third Notice Comments at 16-17 (“VLA sees no reason to bar attorneys from the small claims process. VLA and other similar organizations throughout the country routinely provide access to either pro bono legal services or referrals to low cost legal representation, which VLA feels will only be encouraged with the addition of a streamlined, expedited small claims process.”).

<sup>839</sup> IFTA First Notice Comments at 4 (“While small claims courts typically do not allow parties to be represented by counsel, copyright law is more complex than the types of cases on the docket of small claims courts so the parties should be entitled to be represented by counsel.”); New Media Rights First Notice Comments at 18 (“If copyright law is full of issues that even fully trained attorneys struggle with, how will the average small-time plaintiff or defendant successfully represent themselves?”).

<sup>840</sup> Tr. at 233:19-25 (Nov. 15, 2012) (Nancy Wolff, PACA) (noting danger of frivolous claims by unrepresented parties).

<sup>841</sup> See 9A WILLIAM MEADE FLETCHER ET AL., FLETCHER CYCLOPEDIA OF THE LAW OF PRIVATE CORPORATIONS § 4463, (perm. ed., rev. vol. 2013) (“Generally, a corporation cannot appear in person, and hence it must appear through an attorney admitted to practice in the jurisdiction in which the action is pending.”).

<sup>842</sup> Tr. at 214:12-19 (Nov. 15, 2012) (Jay Rosenthal, NMPA) (stressing importance of making “instructions up front as clean and clear as possible”); Tr. at 133:10-16 (Nov. 26, 2012) (Alma Robinson, CLA) (suggesting “self-help guides in some of the more esoteric things we have talked about today, additional media, Copyright Act, or peer use, and so forth”).

document templates, and similar aids for those seeking to pursue and defend claims.<sup>843</sup> Good examples of such user-friendly materials include California’s extensive handbook for small claims litigants<sup>844</sup> and WIPO’s model forms setting forth basic templates for the complaint and response in UDRP proceedings.<sup>845</sup>

In addition, as noted above, staff attorneys could be made available to answer procedural questions and assist with the completion of forms. Outside organizations, too, such as California Lawyers for the Arts and Volunteer Lawyers for the Arts, presumably would become familiar with the process over time and might be available to help litigants either by representing them on a *pro bono* basis or offering behind-the-scenes advice.

### 3. Initiation of Proceeding

In any system of adjudication, due process requires that defending parties receive fair notice of the claims against them. This is no less true in a small claims setting, especially one in which the respondent must decide whether to participate.

As discussed above, the Office recommends that Congress consider the relative merits of both an opt-out process and opt-in process to initiate a proceeding. An opt-out process would require more robust notice to the responding party, who would be considered subject to the proceeding unless he or she opted out. Under this approach, service of process probably should follow a procedure analogous to that prescribed by Rule 4 of the Federal Rules. Absent a defendant’s waiver of formal service, this rule generally requires personal service of a defendant by a non-party over the age of eighteen by delivering a copy of notice of the action and claim to the individual personally; leaving a copy at the respondent’s place of abode with a suitable resident; delivering a copy to an agent authorized to receive service; or, in the case of a corporation or other entity, serving the corporation through an officer, registered agent, or by other acceptable means.<sup>846</sup> The respondent would then have a period of time – for example, sixty days – in which to file an opt-out notice with the tribunal, or be bound by the result.

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<sup>843</sup> See, e.g., IFTA First Notice Comments at 5 (“Basic information as to the responsibilities and jurisdiction of the Specialized Court as well as sample forms, including a complaint and a notice of complaint to be served on defendant, should be publicly available for ease of claim filing.”); Barry Rosen, Comments in Response to First Notice of Inquiry at 2 (“The court could function by using Magistrates specially designated to deal specifically with copyright issues and filings could be done via a set of easy to use streamlined forms that could be done by any layman.”); ABA IP Section Second Notice Comments at 3 (“Sample claim forms and responses would be useful in creating a more streamlined process.”); Tr. at 133:19-134:09 (Nov. 26, 2012) (Alicia Calzada, NPPA).

<sup>844</sup> See Cal. Dep’t of Consumer Affairs, *The Small Claims Court A Guide to Its Practical Use*, available at [http://www.dca.ca.gov/publications/small\\_claims/](http://www.dca.ca.gov/publications/small_claims/); see also Plaintiff’s Claim and Order to Go to Small Claims Court, available at <http://www.courts.ca.gov/documents/sc100.pdf>.

<sup>845</sup> See WIPO Arbitration and Mediation Center, *eUDRP Model Complaint and Filing Guidelines*, available at <http://www.wipo.int/amc/en/domains/complainant/>; WIPO Arbitration and Mediation Center, *Model Response and Filing Guidelines*, available at <http://www.wipo.int/amc/en/domains/respondent/>.

<sup>846</sup> See FED. R. CIV. P. 4.

Alternatively, under an opt-in system, the responding party could be notified less formally, but would need to submit written consent to the tribunal before he or she was considered to be participating.

Many commenters suggested that claimants be required to provide *prima facie* evidence of a claim before the respondent is forced to respond to notice of a proceeding.<sup>847</sup> The Office generally concurs with this approach and recommends that, to commence a proceeding, the complaining party be required to set forth the nature of the claim and the material facts that support it. In addition, the claimant should certify the facts alleged. As some pointed out, a certification requirement will signal to the claimant that the claim is a serious matter and should help to deter unfounded submissions.<sup>848</sup> Additionally, as discussed above, the Office believes that a copyright small claims system could benefit from a process whereby staff attorneys review incoming claims to ensure that they meet certain minimum requirements – for example, that they set forth basic ownership information and the nature of the infringement alleged.

Finally, the small claims tribunal should require filing fees. Although such fees will not cover the costs of the proceedings, they will offset some of these costs and serve to discourage spurious claims. As one commenter explained, “the filing fee is very important for staving off some of the meritless suits that would potentially be brought if this is a very streamlined time and cost efficient and easier process for bringing these small claims.”<sup>849</sup>

#### 4. Multiple Claims and Parties

A small copyright claims system should promote the efficient resolution of disputes. To this end, some stakeholders believe that a small claims system should allow multiple claims and/or parties in a single proceeding.<sup>850</sup> This is typical in federal court litigation, which in some circumstances requires parties to assert any related claims or join indispensable parties in one

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<sup>847</sup> Google First Notice Comments at 4 (agreeing that copyright owner should provide a *prima facie* case before a defendant must appear); FLASH Third Notice Comments (agreeing “that defendants should not have to engage in litigation or even submit an answer until the plaintiff has proven their *prima facie* case.”); VLA Third Notice Comments at 5-6; Tr. at 197:22-198:12 (Nov. 15, 2012) (Lisa Willmer, Getty Images); Tr. at 198:13-199:04 (Nov. 15, 2012) (Rachel Fertig, AAP).

<sup>848</sup> Tr. at 231:19-232:16 (Nov. 15, 2012) (Rachel Fertig, AAP).

<sup>849</sup> Tr. at 194:19-23 (Nov. 15, 2012) (Rachel Fertig, AAP); *see also* Microsoft First Notice Comments at 3 (“Some mechanisms that may help ensure the right incentives are in place include ... meaningful filing fees that help fund the system and discourage nuisance claims but reasonable enough for copyright owners with legitimate disputes.”); AAP Third Notice Comments, at 2 (calling filing fees a “safeguard”); NMPA, HFA, CMPA, ASCAP, BMI, & SESAC, Comments Submitted in Response to Third Notice of Inquiry at 9 (not including a filing fee “would encourage parties to bring questionable claims in a cheaper small claims court process ...”); Tr. at 186:14-16 (Nov. 25, 2012) (Alma Robinson, CLA) (“[P]eople have to have some skin in the game. It eliminates some frivolous claims if there is a filing fee.”).

<sup>850</sup> NPPA Second Notice Comments at 5 (“It should be the plaintiff’s sole prerogative whether to pursue multiple claims against the same defendant in one proceeding.”), 13 (“[W]e support permitting multiple copyright owners or entities acting on behalf of groups of copyright holders to pursue multiple claims against one or more defendants.”); Tr. at 178:03-07 (Nov. 15, 2012) (Lisa Shaftel, GAG) (“We do think that multiple copyright owners should be allowed to act together to pursue multiple infringement claims if their work was infringed by the same user for the same use.”).

action.<sup>851</sup> The failure to do so can constitute a waiver of the right to litigate the foregone claim or sue the additional party.<sup>852</sup>

In a less formal proceeding before a voluntary tribunal, however, mandatory related claims or joinder of parties would be procedurally challenging, and in some cases, not possible. Nonetheless, in some circumstances, co-owners of an infringed work might seek to bring a claim jointly. Likewise, where multiple parties are involved in the same infringing activity or course of conduct, it could be logical to pursue them together. Finally, in a situation where the same party or parties have committed a series of related infringements, it could make sense to adjudicate the claims together.

The Office sees no reason why one or more parties should not be allowed to pursue one or more claims against one or more respondents in a small claims setting, assuming all of the parties and claims are tied to the same allegedly infringing activity or a continuous course of alleged infringement.<sup>853</sup> In such a case, the same evidence would be at issue and the parties would be able to resolve their dispute in one proceeding. But to keep the matter small, the Office recommends that the overall monetary cap of \$30,000 be maintained across all claims and parties. That is, the total damages sought by all claimants for all of the claims together should not exceed \$30,000. Accordingly, if a party attempted to bring three \$15,000 claims against an alleged infringer for the infringing use of three photographs on a single web page, the claims could not proceed because the aggregate amount would exceed the Office's proposed \$30,000 limit.

## 5. Unknown Infringers

As was pointed out by participants in the small copyright claims study, in some cases – in particular, cases of online infringement – a claimant may not know the identity or location of an infringing party. Website owners can, and often do, choose to operate anonymously, and their identities may be difficult or impossible for the average citizen to ascertain. This is a vexing problem for copyright owners and others who wish to take action against online conduct. In a federal court case, upon an appropriate showing, a plaintiff may be able to obtain a subpoena against an online service provider to disclose the identity and address of a website operator.<sup>854</sup> As noted above, however, courts sometimes decline to order the production of such information by a third party.

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<sup>851</sup> FED. R. CIV. P. 13(a) (“A pleading must state as a counterclaim any claim that—at the time of its service—the pleader has against an opposing party if the claim: (A) arises out of the transaction or occurrence that is the subject matter of the opposing party’s claim; and (B) does not require adding another party over whom the court cannot acquire jurisdiction.”); *id.* 19 (Required Joinder of Parties).

<sup>852</sup> See generally, *id.* 12(b)(7) & 19; *Escamilla v. M2 Tech., Inc.*, 2013 U.S. App. LEXIS 14385 (5th Cir. 2013).

<sup>853</sup> These counterclaims are similar to those required by Rule 13(a) of the Federal Rules of Civil Procedure, although they would not be mandatory and, as discussed below, omitting them would not have any preclusive effect on future litigation.

<sup>854</sup> See, e.g., *Arista Records LLC v. Does 1-27*, 584 F.Supp. 2d 240, 247 (D. Me. 2008) (denying a motion to quash a subpoena seeking to discover the identity of unknown online infringers as the “DMCA specifically sanctions the disclosure of anonymous internet users’ identities”).

The Office believes that the question of whether a small claims court should provide a mechanism to permit identification of unknown online infringers is one that should await another day. While some sort of subpoena process might be beneficial, the current record does not provide much insight as to how it would be practically implemented in an administrative setting. In this regard, it is noteworthy that the statutory provisions governing the CRB provide for the issuance of subpoenas but the CRJs have never exercised this authority.<sup>855</sup>

Needless to say, any such procedure to determine the identity of unknown infringers would require careful analysis as to the mechanism to be employed, including the appropriate procedural safeguards to protect against unwarranted requests for disclosure. The Office therefore recommends further consideration of this issue if an alternative small claims system is adopted.

## 6. Discovery

Any system to adjudicate small claims must grapple with the nature and amount of discovery to be permitted. As suggested above, the broad availability of discovery and related frustration of discovery-related disputes are significant factors in the timing and expense of federal litigation. At the same time, it is difficult to resolve a dispute fairly without access to relevant information.

In considering the question of whether and what discovery should be permitted in an alternative system, there is no obvious model to emulate. Discovery varies enormously across different forums – from none at all in UDRP proceedings to district court-like procedures in the TTAB. State small claims courts allow differing degrees of discovery, ranging from none to discovery in limited circumstances, usually for good cause shown.<sup>856</sup>

Most stakeholders offering opinions seemed to favor a middle ground with respect to discovery.<sup>857</sup> As one hearing participant explained, “there is definitely going to be a need for the availability of limited discovery, but ... the process would benefit from having an adjudicator put limits on [it] because one of the huge obstacles and expenses in litigation is ... the discovery process.”<sup>858</sup> Discovery can be critical to actual damages claims because “overwhelmingly the

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<sup>855</sup> See 17 U.S.C. § 803(b)(6)(C)(ix); see also Copyright Royalty Judges’ Authority to Subpoena a Nonparticipant to Appear and Give Testimony or to Produce and Permit Inspection of Documents or Tangible Things, 75 Fed. Reg. 13,306 (Mar. 19, 2010) (noting in a Final Order that the issue of whether the CRJs can issue a non-party subpoena has not been determined in prior decisions, determinations, or rulings).

<sup>856</sup> See, e.g., TENN. CODE ANN. § 24-9-102(a) (“Discovery ... excluding physical and mental examinations ... may be taken in all civil cases pending in the courts of general sessions in the discretion of the court after motion showing both good cause and exceptional circumstances and pursuant to an order describing the extent and conditions of such discovery.”); see also Appendix D.

<sup>857</sup> See, e.g., AAP Second Notice Comments at 7 (including “(1) limit discovery to 90 days; (2) allow only written discovery; (3) limit interrogatories, requests for admission and document requests; and (4) allow good faith discovery motions, but require resolution through phone conference”); Getty Images Second Notice Comments at 4 (“Limited discovery should be permitted in the form of written depositions and interrogatories to allow the plaintiff to establish its infringement claim and to allow the defendant to establish its defense(s).”); IFTA Second Notice Comments at 5; Kernochan Second Notice Comments at 2 (“Discovery should be permitted to allow for those cases in which critical information resides with the opposing party, but it should be very limited in time and scope.”).

<sup>858</sup> Tr. at 228:06-11 (Nov. 26, 2012) (Alicia Calzada, NPPA).

evidence of actual damages and their amount will be in the possession of the defendant.”<sup>859</sup> Many commenters, however, believed that only certain types of discovery should be allowed, proposing written discovery<sup>860</sup> with no depositions.<sup>861</sup>

The Office agrees that litigants should be able to pursue some amount of discovery in small claims actions, including production of documents, interrogatory responses, and written admissions. The Office does not believe that depositions – which are typically conducted in person, can be intimidating for litigants, and require costly transcription services – should be necessary in a small claims system. Commenting parties tended to agree that depositions would be inconsistent with the goal of achieving inexpensive and streamlined resolution of cases.<sup>862</sup>

The ability to learn about the other side’s case may be critical to support a defense or damages claim, or help to facilitate a settlement. But any such discovery should be narrowly focused on the issues in dispute and far more modest than what is permitted under the Federal Rules (which allow for up to twenty-five interrogatories per party and unlimited requests for production of documents and admissions).<sup>863</sup> Nonetheless, to ensure some flexibility in the system, the tribunal should retain the authority to allow limited additional discovery if it will advance the ultimate goal of resolving a case expeditiously.

## 7. Motion Practice

In theory, a small claims system could provide the parties with the option to file both procedural and substantive motions, as do some of the models reviewed above. A dispositive motion, such as for summary judgment, can shorten a case if it is successful – but by the same token can extend the proceedings and waste valuable resources if it is not. Moreover, formal motion practice requires a familiarity with applicable procedural and substantive law that may be beyond the reach of most *pro se* litigants.

Recognizing these concerns, some stakeholders suggested that any small claims process “strongly limit ... motion practice.”<sup>864</sup> The Office agrees that formal motion practice would be inconsistent with the objectives of the alternative small claims system it is proposing. Any such

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<sup>859</sup> Tr. at 229:15-19 (Nov. 26, 2012) (Edward Hasbrouck, NWU).

<sup>860</sup> See, e.g., NPPA Second Notice Comments at 10 (“Discovery should be limited and could include interrogatories, requests for admissions, and limited requests for production of documents relevant to the issue of liability and damages. Testimony should be in affidavit form unless a hearing is granted, in which case oral sworn testimony could be allowed.”).

<sup>861</sup> See Tr. at 211:22-24 (Nov. 15, 2012) (David Leichtman, VLA) (“We don’t think except in maybe very rare circumstances that depositions would be appropriate.”); Tr. at 235:07-09 (Nov. 26, 2012) (Carolyn Wright, Law Offices of Carolyn E. Wright) (“I think that no depositions likely would be allowed without leave of court.”).

<sup>862</sup> See, e.g., Tr. at 235:01-09 (Nov. 26, 2012) (Carolyn Wright, Law Offices of Carolyn E. Wright) (suggesting no depositions without leave of court); Tr. at 232:20-22 (Nov. 26, 2012) (Lorin Brennan, Linde Law Firm) (suggesting discovery should be limited and noting that “[o]ftentimes depositions just become a way to torture one of the parties in wasting time taking endless depositions that go nowhere”).

<sup>863</sup> FED. R. CIV. P. 33 (interrogatories), 34 (requests for production of documents), & 36 (requests for admissions).

<sup>864</sup> Tr. at 233:14-234:03 (Nov. 26, 2012) (Lorin Brennan, Linde Law Firm).

small claims process should focus on allowing the parties to present their respective evidence and arguments in an informal yet fair manner to permit the ultimate decision on the merits. But this does not mean the parties should be altogether precluded from raising a matter that is obstructing resolution. The Office recommends that parties be allowed to make informal requests to the adjudicators during the course of the proceeding to address case management and discovery issues. In addition, should the adjudicators believe that they need more information from the parties to reach a result, they should be able request specific submissions from the parties.

## 8. Evidence

As in any adjudicatory system, the parties will need to submit evidence to support their positions. At the roundtables and in comments, parties suggested that any evidence should be offered in written form.<sup>865</sup> The Office agrees and recommends that, as a general matter, all evidence, including testimony, be submitted electronically in documentary form. Moreover, as in many small claims settings, formal rules of evidence should not apply; the adjudicators should have the discretion to consider evidentiary submissions according to their worth.

One specific point of contention during the study was whether to allow expert testimony.<sup>866</sup> When a court is addressing a complex topic – for example, the marketplace impact of a statutory copyright license – subject matter experts may help to identify and make sense of complicated evidence. A drawback, however, of using experts is that they are expensive and must typically be retained by both sides in a litigation to ensure that the court has a balanced view of the issue.

The Office believes that in the vast majority of cases, a copyright claim that is amenable to small claims treatment should not require the presentation of expert evidence. A default rule precluding expert witnesses is consistent with the procedures of the recently established copyright small claims court of the UK<sup>867</sup> At the same time, however, in the rare case where it were shown that expert evidence could be fairly introduced and would aid the tribunal in resolving a matter, the tribunal should have the discretion to consider it.

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<sup>865</sup> See, e.g., Authors Guild First Notice Comments at 4 (“Small copyright infringement claims can generally be adjudicated largely on documentary evidence – a submission of the plaintiffs [sic] registered work and the alleged infringing work.”); Getty Images Second Notice Comments at 3 (“In many cases, the parties could submit their positions and evidence in writing, without need for personal appearance.”); Tr. at 217:19-20 (Nov. 15, 2012) (Lisa Willmer, Getty Images) (start with presumption that proceedings are based on submitted papers).

<sup>866</sup> Illustrators’ Partnership First Notice Comments at 2 (opposing limitation of expert witnesses); Getty Images Second Notice Comments at 4 (“Expert witnesses should not be permitted due to the expense and complexity of assessing their expert role. If an expert is required, the matter is not suitable for the small claims process.”); Cannings Second Notice Comments at 4 (supporting inclusion of expert witnesses); Tr. at 89:20-22 (Nov. 15, 2012) (Christos Badavas, HFA) (relating reliance on expert witnesses); Tr. at 168:19-25 (Nov. 15, 2012) (Eugene Mopsik, ASMP) (concerned that expert witnesses will drive up the cost); Tr. at 174:22-175:06 (Nov. 15, 2012) (David Leichtman, VLA) (advocating for limited use of experts for fair use determinations); Tr. at 207:08-11 (Nov. 15, 2012) (Lisa Shaftel, GAG) (advocating for limited use of expert witnesses, at least to determine customary license fees).

<sup>867</sup> CPR 27.5 (In the small claims track, “[n]o expert may give evidence, whether written or oral, at a hearing without the permission of the court.”).

## 9. Frivolous Claims

Throughout the small claims study, stakeholders voiced concern about the potential filing of frivolous or harassing claims and the resulting nuisance for those required to respond. More specifically, there was a view that an alternative system would invite unfounded claims by offering cheaper and easier access than federal court. As one commenter explained, “[i]f the process for filing a complaint amounts to writing a short letter, the court will be overwhelmed with claims and many defendants will have to respond to frivolous complaints.”<sup>868</sup> At the same time, however, it was acknowledged that not all such claims would necessarily be malicious; in some cases, a copyright owner might sincerely but mistakenly believe he or she had a legitimate claim when in fact it was barred by the statute of limitations or was based on a misunderstanding of the law.<sup>869</sup>

To this end, the Office proposes several strategies to guard against frivolous claims. First, as described above, the tribunal and staff attorneys should provide ample information to the public about the rules and requirements of the system. Second, a staff attorney experienced in copyright law should review incoming claims to ensure that they satisfy certain basic legal requirements. For example, a claim should identify the work at issue, the claimant’s interest in the work, and the nature of the alleged infringement. If a claim failed to meet these minimal requirements, it could be returned to the claimant for amendment if possible. If the claimant were ultimately unable to provide a sufficient basis to move forward, the claim would be dismissed without prejudice. Such an approach is consistent with many stakeholder comments and presumably would screen out many unwarranted filings.

In addition, however, as discussed above, the Office suggests that, upon a proper showing, the tribunal be authorized to award aggrieved parties reasonable attorneys’ fees and costs – up to a total amount of \$5,000 – when a litigant has pursued a claim or defense for a harassing or improper purpose, or without a reasonable basis in fact or law.<sup>870</sup> A fee-shifting award could also be made in the case of a claimant who summoned a respondent to the tribunal but failed to move forward with the case. *Pro se* litigants would be eligible for such reimbursement, but for costs only of up to \$2,500. Such amounts would be in addition to, and not count against, the applicable damages cap for small claims proceedings.

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<sup>868</sup> Google First Notice Comments at 4.

<sup>869</sup> Tr. at 277:20-278:05 (Nov. 26, 2012) (Alma Robinson, CLA) (“[W]e do get a number of frivolous inquiries in our office, people who wrote all of Michael Jackson’s music or et cetera, wrote the latest blockbuster movies, the scripts. And so I think having some sort of screening, we discussed legal advisers at the front door that would help people self-evaluate and decide that they didn’t really have the evidence to pursue this would be helpful.”).

<sup>870</sup> Such an approach, for example, was proposed by NPPA. Tr. 266:12-267:01 (Nov. 26, 2012) (Alicia Calzada, NPPA) (suggesting capped fee awards for “truly, truly frivolous claims”).

## 10. Enforcement

A small claims tribunal will not mean much if its decisions can simply be ignored. As one stakeholder put it, “[i]t would be of little use to obtain a judgment in a small copyright claim forum if there was no effective means to enforce the judgment.”<sup>871</sup>

Because a non-Article III administrative tribunal would lack the inherent powers to enforce its determinations, claimants would need a mechanism to turn an award of relief into a court-enforceable judgment. The Office believes that the FAA provides a valuable model in this regard.<sup>872</sup> Under the FAA, parties who have obtained an award through private arbitration may file the award with a federal district court to have it confirmed and reduced to a judgment.<sup>873</sup> As discussed in more detail above, such awards are presumptively confirmed absent a showing that they were obtained by fraud or misconduct, exceed the powers of the deciding body, or fail to make a final and definite award.<sup>874</sup> Under the Office’s proposal, relief awarded through a voluntary small copyright claims process could similarly be confirmed by a district court. A party who was having difficulty collecting damages or securing other relief awarded by the small claims tribunal would thus have the option of obtaining a federal court judgment.

While it seems that many small claims respondents who agreed to participate in the process would pay up if damages were imposed, undoubtedly there would be those who would not, even if the claimant took the step of filing the determination in district court. The problem of collecting on judgments is, of course, not unique to copyright, but a perennial concern for prevailing litigants, particularly in the small claims context.<sup>875</sup> A successful copyright small claims litigant who had his or her judgment confirmed by a district court would, for better or worse, then need to rely on general processes for enforcement of a federal court judgment. These typically would include filing the judgment with a federal or state court in the respondent’s jurisdiction and possibly seeking garnishment or similar court-sanctioned relief.<sup>876</sup>

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<sup>871</sup> PACA Third Notice Comments at 6.

<sup>872</sup> ZipCourt First Notice Comments at 3, 6 (suggesting that a small copyright claims tribunal would benefit from being an arbitration, because it would be covered by the FAA); VLA Third Notice Comments at 16 (suggesting use of the FAA to both affirm awards and as a standard for overturning awards).

<sup>873</sup> 9 U.S.C. § 9.

<sup>874</sup> *Id.* If the enforcement of the arbitration was agreed to by the parties and was timely, “the court must grant such an order unless the award is vacated, modified, or corrected as prescribed in sections 10 and 11 of this title.”; *see also Denver & Rio Grande W. R. Co. v. Union Pac. R. Co.*, 868 F. Supp. 1244, 1252 (D. Kan. 1994) (“If an arbitration award cannot be vacated pursuant to 9 U.S.C. § 10, or modified pursuant to 9 U.S.C. § 11, it must be confirmed pursuant to 9 U.S.C. § 9.”).

<sup>875</sup> Tr. at 53:21-23 (Nov. 15, 2012) (Joseph DiMona, BMI) (“[Collecting a judgment] costs money, and it is not always the easiest thing to do either . . . .”); Tr. at 348:20-350:09 (Nov. 16, 2012) (David Leichtman, VLA) (discussing the problems that plaintiffs in small claims proceedings have collecting judgments); Tr. at 358:08-21 (Nov. 16, 2012) (Lisa Willmer, Getty Images) (suggesting that the enforcement issue is not unique to small claims proceedings, and enforcement challenges may be lessened that if the small claims copyright tribunal were voluntary).

<sup>876</sup> FED. R. CIV. P. 64 (allowing garnishment as a remedy).

## 11. Review

While presumably the outcome of a small claims proceeding should be subject to some form of review, the benefits of a streamlined system would quickly evaporate if decisions could be extensively reconsidered, especially by an Article III court. Losing parties with substantial resources could essentially seek to relitigate the matter in federal court. Taking the examples of the bankruptcy courts and CRB, such Article III review could be either *de novo* at the district court level or by direct appeal to a federal court of appeals. Like district court litigation, federal appellate review can be procedurally complex, time-consuming and costly.<sup>877</sup> In either case, a litigant who could not afford the burden or expense of federal court and was forced to litigate an appeal would be back at square one. As one hearing participant predicted, “[i]f [the award] is appealable afterwards, [a] large corporation is going to take it. And if they don’t like the ruling, they are going to appeal it ....”<sup>878</sup> Another commenting party observed that if appeals were not sufficiently limited, the small claims process could become “an exercise in futility for indigent plaintiffs or small plaintiffs who prevail and then are subjected to an appellate process.”<sup>879</sup>

At the same time, as a matter of basic fairness, a litigant before a small claims tribunal should have some ability to challenge and correct a faulty determination. As a middle ground, the Office therefore proposes that the system provide for review of decisions in a limited manner that will not defeat the purpose of the small claims system. First, as is common in many adjudicatory settings, parties should be able to seek reconsideration by the decisionmakers based on a material error or technical mistake.<sup>880</sup> If reconsideration is denied, upon payment of an additional fee, a party should be permitted to appeal the denial to the Register of Copyrights, who would be empowered to remand the case for further proceedings if she believed the denial of reconsideration was erroneous.<sup>881</sup> Finally, regardless of whether an aggrieved party exercised his or her right to appeal to the Register, the party could challenge the enforceability of the decision in a manner analogous to that permitted under the FAA – that is, the party could seek to have the decision set aside for fraud, misconduct, or on similar grounds.<sup>882</sup> Parties subject to a

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<sup>877</sup> See Tr. at 347:05-12 (Nov. 16, 2012) (Nancy Wolff, PACA) (“I think the idea of giving a *pro se* party the federal rules to look at and to wind their way through the appeals, and even the fonts they have to do, the amount of footnotes and the page limits, the requirements to cite would just – I can’t even begin to imagine how hard that would be for – particularly for a creative person.”).

<sup>878</sup> Tr. at 242:04-07 (Nov. 26, 2012) (Michael Grecco, APA).

<sup>879</sup> Tr. at 325:25-326:06 (Nov. 16, 2012) (Charles Sanders, SGA).

<sup>880</sup> 17 U.S.C. § 803(c)(4) (“The Copyright Royalty Judges may issue an amendment to a written determination to correct any technical or clerical errors in the determination or to modify the terms, but not the rates, of royalty payments in response to unforeseen circumstances that would frustrate the proper implementation of such determination.”); FED. R. CIV. P. 59 (allowing motions to alter or amend judgments).

<sup>881</sup> Some stakeholders supported creating appeals procedures within the Copyright Office itself. IFTA Second Notice Comments at 4 (supporting the right to a limited appeal to the Register similar to the rules governing the CRB); Tr. at 328:17-329:02 (Nov. 16, 2012) (Lisa Shaftel, GAG) (proposing an *en banc* style of appeal within the small claims copyright court); Tr. at 339:18-340:03 (Nov. 16, 2012) (Rachel Fertig, AAP) (suggesting an internal appeals system for motions to reconsider).

<sup>882</sup> 9 U.S.C. § 10(a) (grounds for vacation); *see also*, Tr. at 331:03-05 (Nov. 16, 2012) (David Leichtman, VLA) (suggesting that any challenges to awards granted by the small copyright claims tribunal could be judged by the same the standards found under the FAA).

default judgment or subject to a fee award could also seek review by the district court to have the award set aside upon a showing of excusable neglect.

## 12. Effect of Decisions

A critical question with respect to any alternative adjudication process is what effect its decisions should have. Commenting parties were near universal in their opinion that decisions of an alternative small claims tribunal should not be preclusive, or serve as precedent, in future proceedings.<sup>883</sup> As one stakeholder explained it: “The goals of a small claims court . . . should not include influencing the direction of copyright law: decisions of the court will often be made quickly, based on a superficial record, without the benefit of briefing by counsel.”<sup>884</sup> Another noted that “the decisions should not have any precedential effect beyond the immediate dispute which should lessen any impact on what decisional law the tribunal should follow.”<sup>885</sup>

The Office strongly concurs. Because the small claims tribunal would rely on abbreviated procedures, including limited discovery and argument, it would be inappropriate for its decisions to be binding beyond the particular parties and disputes it adjudicates. Any specific factual or legal issue addressed in a determination – for example, a question of copyright ownership or fair use – should be of no future effect. Similarly, the determinations of a streamlined small claims tribunal should not carry precedential weight, either in federal court or in future matters before it. Notably, this approach is similar to that in UDRP proceedings, which do not accord previous panel decisions any persuasive weight.

Although nonbinding and nonprecedential in effect, however, in the interest of the transparency and maintenance of a public record, the Office believes that the decisions of any alternative small claims process should be publicly available, consistent with the general rules applicable to government proceedings.<sup>886</sup>

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<sup>883</sup> ASCAP & SESAC, Comments Submitted in Response to First Notice of Inquiry at 6 (“[T]he Office should ensure that decisions and opinions of any such adjudication body be limited to that case and not serve as precedent for any other action, including specifically for any action brought in a federal or state court.”); Microsoft First Notice Comments at 3 (“[A]ny findings or opinions that result from a system should be limited to the works at issue, and non-precedential except as between the parties, particularly on fact-specific issues involved in the dispute, such as application of fair use or other exemption.”); PACA First Notice Comments at 11 (“[D]ecisions would . . . have no precedential value in future cases.”); Traynor *et al.* First Notice Comments at 8 (“[Decisions] should *not* have precedential or *stare decisis* effects in other or future cases.”); AAP Second Notice Comments at 9 (“[W]e oppose giving the decisions any precedential value.”); GAG Second Notice Comments at 11 (“A decision of the small claims tribunal should not be published and/or carry any precedential weight.”); Getty Images Second Notice Comments at 5 (“[Decisions of the tribunal] should not be precedential, other than as between the same parties with respect to the same alleged infringement.”); MPAA Third Notice Comments at 5 (“In a system where quick, cheap resolution of claims is the primary goal, judges’ main goal should be to do justice – perhaps even rough justice – for the parties before them” and “[s]mall claims decisions should also have no precedential effect.”). *But see* Cannings Second Notice Comments at 5 (“The decision should be published, and carry precedential weight.”).

<sup>884</sup> Google First Notice Comments at 4.

<sup>885</sup> PACA Third Notice Comments at 4.

<sup>886</sup> *See, e.g.*, 5 U.S.C. 554(a) (the Administrative Procedure Act, for example, applies “in every case of adjudication required by statute to be determined on the record after opportunity for an agency hearing”); *see also* Tr. at 352:21-25 (Nov. 16, 2012) (Randy Taylor, CDL) (“Another possibility has been discussed about whether or not these outcomes should be disclosed publicly or not. That might be an interesting deterrent, that if you refuse to pay in a

### 13. Settlement and Alternative Dispute Resolution

Most stakeholders emphasized the need for a system that could render binding decisions and were not enthusiastic about mediation or other forms of ADR as a viable solution to the problem of small claims. To quote one participant on this subject: “I think the reality is no one takes you seriously until you file .... Every defendant I know in my own copyright cases are [sic] like ‘Whatever.’”<sup>887</sup> Asked about the possibility of requiring parties to submit to a mediation process before seeking an adjudicative decision, some expressed concern that it would simply increase the time and expense necessary to resolve a claim.<sup>888</sup> In addition to the difficulties of reaching a resolution through mediation, parties also noted the considerable costs of traditional arbitration, where parties are typically required to pay the arbitrators’ fees.<sup>889</sup> In light of these reactions, it appears that, at least at this time, stakeholders are most interested in an adjudicative process that results in binding decisions rather than one that relies on ADR.

But the Office does not believe that the possibility of mediation or other ADR procedures should be abandoned completely. Mediation can be effective when all parties are committed to resolving a dispute.<sup>890</sup> At the very least, any small claims process should encourage settlement when possible. For example, participants should have the ability to request a supervised settlement conference if they believe it would be helpful. For these reasons, as discussed above, the Office believes that an alternative small claims process could benefit substantially from a decisionmaker who has meaningful background and experience in ADR. If a small claims process is adopted, further consideration should be given to the question of whether it should also offer mediation or similar services in addition to performing its adjudicative functions.

And finally, to alleviate some of the burdens on federal district courts, the Office suggests that any small claims tribunal be expressly designated as a qualified ADR process under the ADRA

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certain period of time, that outcome would become public.”); Tr. at 263:7-20 (Nov. 26, 2012) (Alicia Calzada, NPPA) (in support of a public record); Tr. at 264:8-12 (Nov. 26, 2012) (Edward Hasbrouck, NWU) (“Especially given whatever kinds of limitations on damages, the naming and shaming are an important function of this tribunal. And that can’t be carried out if its decisions aren’t a public record.”). *But see* GAG Second Notice Comments at 11 (“A decision of the small claims tribunal should not be published and/or carry any precedential weight.”).

<sup>887</sup> Tr. at 300:13-17 (Nov. 26, 2012) (Michael Grecco, APA); *see also* Tr. at 305:19-306:02 (Nov. 26, 2012) (Kim Tommaselli, IFTA) (“[W]e wouldn’t find mediation particularly helpful because it is important for [our members] to get something enforceable, an award, quickly in order to preserve their rights and stop any damage that has already occurred.”); Tr. at 297:16-298:03 (Nov. 26, 2012) (Edward Hasbrouck, NWU) (“The[se cases] would settle if and only if infringers have come to learn that they’re actually going to lose and it is actually going to be costly to them if they pursue these matters to a small claims adjudication.”).

<sup>888</sup> *See, e.g.*, Tr. at 307:16-21 (Nov. 26, 2012) (Lorin Brennan, Linde Law Firm) (“I don’t think that any sort of mandatory pre-filing procedures for mediation, et cetera, would have it benefit. It only increases costs and increases the glue and the procedural hurdles you have to jump through to go through a case.”); Tr. at 296:03-17 (Nov. 26, 2012) (Alicia Calzada, NPPA) (“We do support making mediation a part of the process. But, again, we just want to make sure that it doesn’t become a burdensome part of the process.”).

<sup>889</sup> Tr. at 284:01-288:02 (Nov. 26, 2012) (various participants).

<sup>890</sup> Tr. at 295:19-22 (Nov. 26, 2012) (Alma Robinson, CLA) (“[Mediation] can be effective. Again, if people are there in good faith, if they really want to resolve it, if they want to explore other options, then it can be effective.”).

so that eligible cases can be referred to the tribunal for streamlined resolution upon parties' consent.<sup>891</sup>

#### E. Implementation and Additional Study

In their written comments and at the hearings, stakeholders expressed the view that any small claims process would need to be evaluated and potentially adjusted after it had been in effect for a period of time. As with any unprecedented program, it is difficult to predict all of the contingencies that might arise once it becomes operational. Commentators noted in different ways that “a pilot program is probably a good idea.”<sup>892</sup>

For these reasons, the Office believes that much of the fine-tuning of any such system should be accomplished through regulation, rather than attempted by legislation. While the forum, subject matter, jurisdiction, available remedies, and other fundamental features of the process should be prescribed by statute, the details should be left to the rulemaking capabilities of the Copyright Office. To this end, Congress should ensure that the Office has the regulatory authority to implement the small claims system within the statutory parameters. In addition, after three years of operation, the Office should report to Congress on the efficacy of the system, including in relation to eligible works and claims, damages limitations, fee-shifting authority, identification of unknown infringers, and possible inclusion of mediation or similar ADR services.

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<sup>891</sup> See 28 U.S.C. § 651(b).

<sup>892</sup> Tr. at 137:21-22 (Nov. 27, 2012) (Art Neil, New Media Rights); *see also* Tr. at 225:13-16 (Nov. 26, 2012) (Alma Robinson, CLA) (“I would think that we have heard the idea of a pilot project to test some of these concepts. And if it’s available to everybody around the country, I think it would [be] more useful.”); Tr. at 413:02-04 (Nov. 16, 2012) (Nancy Wolff, PACA) (“So I think even if it was just a pilot program, I think get it started very quickly, that would be helpful.”).

## VIII. LEGISLATIVE PROPOSAL

Based on the above findings and recommendations, the Copyright Office has prepared a draft of proposed legislation to implement a small claims system, as well as a section-by-section analysis of the proposal, both of which are set forth below. The draft legislation includes alternative provisions to implement the system on either an opt-out or opt-in basis.

### A. Discussion Draft

#### § 1401 – Copyright Claims Board and Staff

- a) Copyright Claims Board. – There shall be established within the U.S. Copyright Office a Copyright Claims Board, which shall serve as an alternative forum in which parties may voluntarily seek to resolve certain copyright claims, as further provided in this chapter.
- b) Officers and Staff. –
  - 1) Copyright Claims Officers. – Upon consultation with the Register of Copyrights, who shall recommend qualified candidates, the Librarian of Congress shall appoint 3 full-time Copyright Claims Officers to serve on the Copyright Claims Board.
  - 2) Copyright Claims Attorneys. – The Register of Copyrights shall appoint no fewer than 2 full-time Copyright Claims Attorneys to assist in the administration of the Copyright Claims Board.
  - 3) Qualifications. –
    - A) Copyright Claims Officers. – Each Copyright Claims Officer shall be an attorney with no less than 7 years of legal experience. Two of the Copyright Claims Officers shall have substantial experience in the evaluation, litigation or adjudication of copyright infringement claims and, between them, shall have represented or presided over a diversity of copyright interests, including those of both owners and users of copyrighted works. The third Copyright Claims Officer shall have substantial experience in the field of alternative dispute resolution, including the resolution of litigation matters through such means.
    - B) Copyright Claims Attorneys. – Each Copyright Claims Attorney shall be an attorney with no less than 3 years of substantial experience in the field of copyright law.
  - 4) Compensation. – Each Copyright Claims Officer shall be compensated at not less than the basic minimum and not more than the basic maximum rate of pay for SL employees (or the equivalent) of the federal government. Each Copyright Claims Attorney shall be compensated at not more than the basic rate of pay for level 10 of GS-15 of the General Schedule (or the equivalent).

- 5) Term. – Copyright Claims Officers shall serve for 6-year terms that are automatically renewable by the Librarian of Congress upon consultation with the Register of Copyrights; provided, however, that the terms for the initial Copyright Claims Officers appointed hereunder shall be as follows: one Copyright Claims Officer shall be appointed for 4 years; the second shall be appointed for 5 years; and the third shall be appointed for 6 years.
- 6) Vacancies and Incapacity. –
  - A) Vacancy. – If a vacancy shall occur in the position of Copyright Claims Officer, the Librarian of Congress shall, upon consultation with the Register of Copyrights who shall recommend qualified candidates, act expeditiously to appoint a Copyright Claims Officer for that position. An individual appointed to fill a vacancy occurring before the expiration of the term for which his or her predecessor was appointed shall be appointed to serve for a 6-year term.
  - B) Incapacity. – If a Copyright Claims Officer is temporarily unable to perform his or her duties, the Librarian of Congress shall, upon consultation with the Register of Copyrights who shall recommend qualified candidates, act expeditiously to appoint an interim Copyright Claims Officer to perform such duties during the period of such incapacity.
- 7) Supervision and Removal. – Subject to section 1402(b), the Copyright Claims Officers and Copyright Claims Attorneys shall be supervised and removable by the Librarian of Congress.
- 8) Administrative Support. – The Register of Copyrights shall provide the Copyright Claims Officers and Copyright Claims Attorneys with necessary administrative support, including technological facilities, to carry out their duties under this chapter.
- 9) Location in Copyright Office. – The offices of the Copyright Claims Officers and Copyright Claims Attorneys shall be located at the Copyright Office.

#### **§ 1402 – Authority and Responsibilities of the Copyright Claims Board**

- a) Functions. –
  - 1) Copyright Claims Officers. – Subject to the provisions of this chapter and applicable regulations, the functions of the Copyright Claims Officers shall be as follows:
    - A) To render determinations on such civil copyright claims, counterclaims and defenses as are permitted to be brought before them under this chapter, and to certify such determinations for confirmation by the United States District Court for the District of Columbia;
    - B) To ensure that claims and counterclaims are properly filed and otherwise appropriate for resolution by the Copyright Claims Board;

- C) To manage the proceedings before them and render rulings pertaining to the consideration of claims, including scheduling, discovery, evidentiary, and other matters;
  - D) To request the production of information and documents relevant to the resolution of a claim, defense, or counterclaim from participants in a proceeding and from nonparticipants;
  - E) To conduct hearings and conferences;
  - F) To facilitate parties' settlement of claims and counterclaims;
  - G) To include in its determinations a requirement of cessation or mitigation of infringing activity, including takedown or destruction of infringing materials, where the party to undertake such measures has so agreed;
  - H) To provide information to the public concerning the procedures and requirements of the Copyright Claims Board;
  - I) To maintain records of the proceedings before them and make public the determinations in individual proceedings;
  - J) To carry out such other duties as are prescribed in this chapter; and
  - K) When not engaged in performing their duties as prescribed in this chapter, to perform such other duties as may be assigned by the Register of Copyrights.
- 2) Copyright Claims Attorneys. – Subject to the provisions of this chapter and applicable regulations, the functions of the Copyright Claims Attorneys shall be as follows:
- A) To provide assistance to the Copyright Claims Officers in the administration of their duties under this chapter;
  - B) To provide assistance to members of the public with respect to the procedures and requirements of the Copyright Claims Board; and
  - C) When not engaged in performing their duties as prescribed in this chapter, to perform such other duties as may be assigned by the Register of Copyrights.
- b) Independence in Determinations. – The Copyright Claims Officers shall render their determinations in individual proceedings independently on the basis of the records in the proceedings before them and in accordance with the provisions of this title, judicial precedent and applicable regulations of the Register of Copyrights. The Copyright Claims Officers and Copyright Claims Attorneys may consult with the Register of Copyrights on general issues of law, but, subject to section 1405(w), not with respect to the facts of any particular matter pending before them or the application of law thereto. Notwithstanding any other provision

of law or any regulation or policy of the Library of Congress or Register of Copyrights, no performance appraisal of a Copyright Claims Officer or Copyright Claims Attorney shall consider the substantive result of any individual determination reached by the Copyright Claims Board as a basis for appraisal except insofar as it may relate to an actual or alleged violation of an ethical standard of conduct.

- c) **Direction by Register.** – Subject to subsection (b), the Copyright Claims Officers and Copyright Claims Attorneys shall be generally directed in the administration of their duties by the Register of Copyrights.
- d) **Inconsistent Duties Barred.** – No Copyright Claims Officer or Copyright Claims Attorney may undertake duties that conflict with his or her duties or responsibilities in connection with the Copyright Claims Board.
- e) **Recusal.** – A Copyright Claims Officer shall recuse himself or herself from participation in any proceeding with respect to which the Copyright Claims Officer has reason to believe that he or she has a conflict of interest.
- f) **Ex Parte Communications.** – Except as may otherwise be permitted by applicable law, any party to a proceeding before the Copyright Claims Board shall refrain from ex parte communications with the Copyright Claims Officers concerning the substance of any proceeding before the Copyright Claims Board; provided, however, that Copyright Claims Attorneys may provide information and assistance to parties concerning the procedures and requirements of the Copyright Claims Board.
- g) **Judicial Review.** – Actions of the Copyright Claims Officers and Register of Copyrights under this chapter in connection with the rendering of individual determinations are subject to judicial review as provided under section 1407(c) and not under chapter 7 of title 5.

### § 1403 – Nature of Proceedings

- a) **Voluntary Participation.** – Participation in a Copyright Claims Board proceeding shall be on a voluntary basis in accordance with this chapter, and the right of any party to instead pursue a claim, counterclaim or defense in a United States district court or any other court, and to seek a jury trial, shall be preserved.
- b) **Statute of Limitations.** –
  - 1) **In General.** – No proceeding shall be maintained before the Copyright Claims Board unless it is commenced before the Copyright Claims Board within three years after the claim that is the basis for the proceeding accrued.
  - 2) **Tolling.** – Subject to section 1406(a), a proceeding commenced before the Copyright Claims Board shall toll the time permitted under section 507(b) of this title for commencement of an action on the same claim in a federal district court during the time it remains pending.

- c) Permissible Claims, Counterclaims and Defenses. – The Copyright Claims Officers may render determinations with respect to the following claims, counterclaims and defenses, subject to such further limitations and requirements, including with respect to particular classes of works, as may be set forth in regulations adopted by the Register of Copyrights:
- 1) A claim for infringement or a declaration of infringement of an exclusive right of copyright provided under section 106 of this title asserted by the legal or beneficial owner of such exclusive right at the time of infringement pursuant to which the claimant seeks damages, if any, within the limitations set forth in subsection (d)(1).
  - 2) A claim for a declaration of noninfringement of an exclusive right of copyright provided under section 106 of this title pursuant to which the claimant seeks damages, if any, within the limitations set forth in subsection (d)(1), where an actual controversy exists as evidenced by a documented threat of legal action against the claimant.
  - 3) Notwithstanding any other provision of law, a claim pursuant to 512(f) for misrepresentation in connection with a notification of claimed infringement or a counter notification seeking to replace removed or disabled material; provided, however, that any remedies in such a proceeding before the Copyright Claims Board shall be limited to those available under this chapter.  
*Note: A conforming amendment to section 512(f) may be advisable.*
  - 4) A counterclaim asserted solely against the claimant or claimants in a proceeding pursuant to which the counterclaimant or counterclaimants seek damages, if any, within the limitations set forth in subsection (d)(1), and that –
    - A) Arises under section 106 or section 512(f) of this title and out of the same transaction or occurrence that is the subject of a claim of infringement brought under paragraph (1) or a claim of misrepresentation under paragraph (3); or
    - B) Arises under an agreement pertaining to the same transaction or occurrence that is the subject of a claim of infringement brought under paragraph (1) and could affect the relief awarded to the claimant.
  - 5) A legal or equitable defense, pursuant to this title or otherwise available under law, in response to a claim or counterclaim asserted under this subsection.
  - 6) A single claim or multiple claims permitted under paragraphs (1), (2) or (3) by one or more claimants against one or more respondents; provided, however, that all claims asserted in any one proceeding arise out of the same allegedly infringing activity or a continuous course of alleged infringement and do not in the aggregate result in a claim for damages in excess of the limitation provided in subsection (d)(1)(D).
  - 7) Excluded Claims. – The following claims and counterclaims are not subject to determination by the Copyright Claims Board:

- A) A claim or counterclaim that is not a permissible claim or counterclaim under subsection (c);
  - B) A claim or counterclaim already pending before, or finally adjudicated by, a court of competent jurisdiction;
  - C) A claim or counterclaim by or against a federal or state government entity;
  - D) A claim or counterclaim asserted against a person or entity residing outside of the United States; and
  - E) A claim or counterclaim dismissed by the Copyright Claims Board pursuant to section 1405(f)(3).
- d) Permissible Remedies.
- 1) Damages for Infringement. –
    - A) Actual and Limited Statutory Damages. – Subject to the limitation on total damages set forth in subparagraph (D), with respect to a claim or counterclaim for infringement of copyright, the Copyright Claims Board may award –
      - (i) Actual damages and profits of the infringing party determined in accordance with section 504(b) of this title, which determination shall include in appropriate cases consideration of whether the infringing party has agreed to cease or mitigate the infringing activity as provided in subsection (d)(2); or
      - (ii) Limited statutory damages, which shall be determined in accordance with section 504(c) of this title, subject to the following conditions:
        - (I) With respect to works timely registered under section 412 of this title such that they are eligible for an award of statutory damages under that section, such limited statutory damages shall not exceed \$15,000 per work infringed;
        - (II) With respect to works not timely registered under section 412 of this title but eligible for an award of statutory damages under section 1404(b), limited statutory damages shall not exceed \$7,500 per work infringed, or a total of \$15,000 in any one proceeding;
        - (III) The Copyright Claims Board shall not make any finding or consider whether the infringement was committed willfully in making an award of limited statutory damages; and
        - (IV) The Copyright Claims Board may consider as an additional factor in awarding limited statutory damages whether the infringer has agreed to cease or mitigate the infringing activity as provided in subsection (d)(2).

- B) Election of Damages. – With respect to a claim or counterclaim of infringement, the claimant or counterclaimant shall after the close of discovery and in accordance with the schedule adopted by the Copyright Claims Board pursuant to section 1405(j) elect to pursue either actual damages and profits or limited statutory damages as provided in subparagraph (A).
- C) Other Damages. – Damages for claims and counterclaims other than infringement claims shall be awarded in accordance with applicable law and shall be subject to the limitation set forth in subparagraph (D).
- D) Limitation on Total Damages. – Notwithstanding any other provision of law, a party who pursues any one or more claims or counterclaims in any single proceeding before the Copyright Claims Board may not seek or recover in such proceeding total damages of whatever type that exceed the sum of \$30,000, exclusive of any attorneys’ fees and costs that may be awarded under section 1405(x)(2).
- 2) Requirement to Cease Infringing Activity. – In any proceeding where a party agrees to cease activity that is found to be infringing, including by removal or disabling of access to, or destruction of, infringing materials, and such agreement is reflected in the record, the Copyright Claims Board shall include in its determination a requirement that such party, if found to have infringed, cease his or her infringing conduct to the extent agreed.
- 3) Costs and Attorneys’ Fees. – Notwithstanding any other provision of law, except in the case of bad faith conduct as provided in section 1405(x)(2), the parties to proceedings before the Copyright Claims Board shall bear their own costs and attorneys’ fees.

#### § 1404 – Registration Requirement

- a) No claim or counterclaim alleging infringement of an exclusive right of copyright may be asserted before the Copyright Claims Board unless the owner of the copyright has first delivered a completed application, deposit and the required fee for registration to the Copyright Office and either a registration certificate has been issued or has not been refused.
- b) Notwithstanding any other provision of law, a claimant or counterclaimant in a proceeding before the Copyright Claims Board shall be eligible to recover actual damages and profits or limited statutory damages for infringement of a copyrighted work under this chapter if the requirements of subsection (a) have been met; provided, however, that –
- 1) The Copyright Claims Board shall not render a determination in the proceeding until a registration certificate has been issued by the Copyright Office, submitted to the Copyright Claims Board and made available to the other parties to the proceeding, and the other parties have been provided an opportunity to address it;
- 2) If a proceeding cannot proceed further due to an outstanding registration certificate, it shall be held in abeyance pending submission of the certificate to the Copyright Claims Board; but if held in abeyance for more than 6 months, the Copyright Claims Board may,

upon providing written notice to the parties' and 30 days to respond, dismiss the proceeding without prejudice; and

- 3) If the Copyright Claims Board receives notice that registration has been refused by the Copyright Office, the proceeding shall be dismissed without prejudice.
- c) Where a certificate shows that registration of a work was made before or within five years of its first publication, the presumption set forth in section 410(c) of this title shall apply in a proceeding before the Copyright Claims Board.

#### **§ 1405 – Conduct of Proceedings**

- a) **In General.** – Proceedings of the Copyright Claims Board shall be conducted in accordance with this chapter and regulations as implemented by the Register of Copyrights.
- b) **Record.** – The Copyright Claims Board shall maintain records documenting the proceedings before it.
- c) **Centralized Process.** – Proceedings before the Copyright Claims Board shall be conducted without the requirement of personal appearances by parties or others at the offices of the Copyright Claims Board, and shall take place by means of written submissions and through hearings and conferences accomplished via internet-based applications and other telecommunications facilities; provided, however, that in cases where physical or other nontestimonial evidence material to a proceeding cannot be furnished to the Copyright Claims Board through available telecommunications facilities, the Copyright Claims Board shall have the discretion to make alternative arrangements for the submission of such evidence that do not prejudice another party to the proceeding.
- d) **Representation.** – A party to a proceeding before the Copyright Claims Board may but is not required to be represented by an attorney.
- e) **Commencement of Proceeding.** – To commence a proceeding, a claimant shall, subject to such additional requirements as may be prescribed in regulations adopted by the Register of Copyrights, file a claim with the Copyright Claims Board, that –
  - 1) Includes a statement of material facts in support of the claim;
  - 2) Is certified in accordance with section 1405(x)(1);
  - 3) Is accompanied by a filing fee in such amount as may be prescribed in regulations adopted by the Register of Copyrights, which amount shall be at least \$100, shall not exceed the cost of filing an action in federal district court, and shall be established to further the goals of the Copyright Claims Board.

*Note: A conforming amendment to section 708 may be advisable.*

## f) Review of Claims and Counterclaims. –

- 1) Claims. – Upon filing, a claim shall be reviewed by a Copyright Claims Attorney to ensure that it complies with the provisions of this chapter and applicable regulations. If the claim –
  - A) Is found to comply, the claimant shall be so notified and instructed to proceed with service of the claim as provided in subsection (g).
  - B) Is found not to comply, the claimant shall be notified that the claim is deficient and permitted to file an amended claim within 30 days of the date of such notice without the requirement of an additional filing fee. If the claimant files a compliant claim within that period, he or she shall be so notified and instructed to proceed with service of the claim. If the claim is refiled within the 30-day period but still fails to comply, the claimant will again be notified that the claim is deficient and provided a second opportunity to amend it within 30 days without the requirement of an additional filing fee. If the claim is refiled again within the second 30-day period and is compliant, the claimant shall be so notified and instructed to proceed with service, but if the claim still fails to comply, upon confirmation of its noncompliance by a Copyright Claims Officer, the proceeding shall be dismissed without prejudice. The Copyright Claims Board shall also dismiss without prejudice any proceeding in which a compliant claim is not filed within the applicable 30-day time period.
  - C) For purposes of this paragraph, a claim against an online service provider for infringement by reason of the storage at the direction of a user of material residing on a system or network controlled or operated by the service provider that may be subject to the provisions of 512(c) of this title, or by reason of the service provider referring or linking users to an online location containing infringing material that may be subject to the provisions of section 512(d) of this title, shall be considered noncompliant unless the claimant affirms in the statement required under subsection (e)(1) that he or she has previously notified the service provider of the claimed infringement in accordance with section 512(c)(3) of this title and the service provider failed to remove or disable access to the material within 5 business days of the date of provision of such notice; provided, however, that if a claim is found to be noncompliant under this subparagraph, the Copyright Claims Board shall provide the claimant with information concerning the service of a notice pursuant to section 512(c)(3) of this title.
- 2) Counterclaims. – Upon filing and service of a counterclaim, the counterclaim shall be reviewed by a Copyright Claims Attorney to ensure that it complies with the provisions of this chapter and applicable regulations. If the counterclaim is found not to comply, the counterclaimant and other parties shall be notified that it is deficient and the counterclaimant permitted to file and serve an amended counterclaim within 30 days of the date of such notice. If the counterclaimant files and serves a compliant counterclaim within that period, the counterclaimant and other parties shall be so notified. If the counterclaim is refiled and served within the 30-day period but still fails to comply, the counterclaimant and other parties will again be notified that it is deficient and the

counterclaimant provided a second opportunity to amend it within 30 days. If the counterclaim is refiled and served again within the second 30-day period and is compliant, the counterclaimant and parties shall be so notified, but if the counterclaim still fails to comply, upon confirmation of its noncompliance by a Copyright Claims Officer, the counterclaim, but not the proceeding, shall be dismissed without prejudice.

- 3) Dismissal for Good Cause. – If upon reviewing a claim or counterclaim in a particular proceeding the Copyright Claims Board concludes that it is unsuitable for determination by the Copyright Claims Board due to the failure to join a necessary party, the lack of an essential witness, evidence or expert testimony, or for other good cause, the Copyright Claims Board shall dismiss the proceeding without prejudice.

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*Opt-Out Alternative:*

- g) Service of Notice and Claims. – To proceed with a claim against a respondent, a claimant must within 90 days of receiving notification to proceed with service file proof of service on the respondent with the Copyright Claims Board. To effectuate service on a respondent, the claimant must cause notice of the proceeding and a copy of the claim to be served on the respondent, either by personal service or pursuant to a waiver of personal service, as prescribed in regulations adopted by the Register of Copyrights. Such regulations shall include the following requirements and conditions:
  - 1) The notice of the proceeding shall adhere to a prescribed form and shall set forth the nature of the Copyright Claims Board and proceeding, the respondent’s right to opt out, and the consequences of opting out and not opting out.
  - 2) The copy of the claim served on the respondent shall be as it was filed with the Copyright Claims Board.
  - 3) Personal service of a notice and claim may be effected by an individual who is not a party to the proceeding and is over the age of 18.
  - 4) An individual, other than a minor or incompetent individual, may be served by:
    - A) Following state law for serving a summons in an action brought in courts of general jurisdiction in the state where service is made; or
    - B) Doing any of the following:
      - (i) Delivering a copy of the notice and claim to the individual personally;
      - (ii) Leaving a copy of each at the individual’s dwelling or usual place of abode with someone of suitable age and discretion who resides there; or

- (iii) Delivering a copy of each to an agent authorized by appointment or by law to receive service of process.
- 5) A corporation, partnership or unincorporated association that is subject to suit in courts of general jurisdiction under a common name may be served by:
  - A) Following state law for serving a summons in an action brought in courts of general jurisdiction in the state where service is made; or
  - B) Delivering a copy of the notice and claim to an officer, a managing or general agent or any other agency authorized by appointment or by law to receive service of process in an action brought in courts of general jurisdiction and, if the agent is one authorized by statute and the statute so requires, by also mailing a copy of each to the respondent.
- 6) To request a waiver of personal service, the claimant may notify a respondent by first-class mail or other reliable means that a proceeding has been commenced, as follows:
  - A) Any such request shall be in writing and addressed to the individual respondent, and be accompanied by the prescribed notice and as-filed copy of the claim, as well as by two copies of a prescribed form for waiver of personal service, and a prepaid or costless means of returning the form; and
  - B) The request shall state the date it was sent and provide the respondent 30 days to return one copy of the signed waiver form, which signed waiver shall constitute proof of service for purposes of filing under this subsection.
- 7) A respondent's waiver of personal service shall not constitute a waiver of the respondent's right to opt out of the proceeding; provided, however, that a respondent who waives personal service and does not opt out shall be allowed an additional 30 days beyond the amount of time normally permitted under the applicable procedures of the Copyright Claims Board to submit a substantive response to the claim, including any defenses and counterclaims.
- 8) A minor or an incompetent individual may only be served by following state law for serving a summons or like process on such an individual in an action brought in the courts of general jurisdiction of the state where service is made; and
- 9) Service of a claim and waiver of personal service may only be effected within the United States.
- h) Opt-Out Procedure. – Upon receipt of a properly served notice and claim the respondent shall have 60 days from the date of service in which to provide written notice to the Copyright Claims Board, in accordance with regulations adopted by the Register of Copyrights, of his or her desire to opt out of the Copyright Claims Board proceeding. If proof of service has been filed by the claimant and the respondent does not submit an opt-out notice to the Copyright Claims Board within 60 days of service, the proceeding shall be deemed an active

proceeding and the respondent shall be bound by the result to the extent provided under section 1406(a). If the respondent opts out during that period, the proceeding shall be dismissed without prejudice.

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*Opt-In Alternative:*

- g) **Service of Notice and Claims.** – To proceed with a claim against a respondent, a claimant must within 60 days of receiving notification to proceed with service file proof of service on the respondent with the Copyright Claims Board. To effectuate service on a respondent, the claimant must provide notice of the proceeding and a copy of the claim to the respondent in a manner prescribed in regulations adopted by the Register of Copyrights. The notice of the proceeding shall adhere to a prescribed form and shall set forth the nature of the Copyright Claims Board and proceeding, the respondent’s right to choose not to opt in and the consequences of opting in and not opting in.
- h) **Opt-In Procedure.** – Upon receipt of a notice and claim the respondent shall have 60 days from the date of service in which to provide written notice to the Copyright Claims Board, as prescribed in regulations adopted by the Register of Copyrights, that he or she chooses to opt in to and participate in the proceeding. If proof of service has been filed by the claimant and the respondent submits an opt-in notice to the Copyright Claims Board during the 60-day period, the proceeding shall be deemed an active proceeding and the respondent shall be bound by the result to the extent provided in section 1406(a). If the respondent fails to provide a written opt-in notice during that period, the proceeding shall be dismissed without prejudice.
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- i) **Service of Other Documents.** – Other documents submitted or relied upon in the proceeding shall be served as provided in regulations adopted by the Register of Copyrights.
- j) **Scheduling.** – Upon confirmation that a proceeding has become an active proceeding, the Copyright Claims Board shall issue a schedule for future conduct of the proceeding. A schedule issued by the Copyright Claims Board may be amended by the Copyright Claims Board for good cause.
- k) **Conferences.** – One or more Copyright Claims Officers may hold a conference to address case management or discovery issues in a proceeding; provided, however, that such conference shall not be addressed to ultimate issues of fact or law. Any such conference shall be noted upon the record of the proceeding and may be recorded or transcribed.
- l) **Party Submissions.** – There shall be no formal motion practice in a Copyright Claims Board proceeding; provided, however, that, subject to applicable regulations and the procedures of the Copyright Claims Board –

- 1) The parties to a proceeding shall be permitted to make requests to the Copyright Claims Board to address case management and discovery matters, and responses thereto; and
  - 2) The Copyright Claims Board may request or permit parties to make submissions addressing relevant questions of fact or law, or other matters, and offer responses thereto.
- m) Discovery. – Discovery shall be limited to the production of relevant information and documents, written interrogatories, and written requests for admission, as further provided in regulations adopted by the Register of Copyrights; provided, however –
- 1) That upon request of a party, and for good cause shown, the Copyright Claims Board shall have the discretion to approve additional limited discovery in particular matters, and may request specific information and documents from participants and nonparticipants in the proceeding; and
  - 2) After providing notice and an opportunity to respond, and upon good cause shown, the Copyright Claims Board may apply an adverse inference with respect to disputed facts against a party who has failed timely to provide discovery materials in response to a proper request for materials that could be relevant to such facts.
- n) Evidence. – The Copyright Claims Board may consider the following types of evidence, which may be admitted without application of formal rules of evidence:
- 1) Documentary and other nontestimonial evidence that is relevant to the claims, counterclaims or defenses in a proceeding; and
  - 2) Testimonial evidence, submitted under penalty of perjury and in accordance with subsection (o), limited to written statements of the parties and nonexpert witnesses, that is relevant to the claims, counterclaims and defenses in a proceeding; provided, however, that in exceptional cases expert witness testimony or other forms of testimony may be permitted by the Copyright Claims Board for good cause shown.
- o) Hearings. – The Copyright Claims Board may conduct a hearing to receive oral presentations on issues of fact or law from parties and witnesses to a proceeding, provided that –
- 1) Any such hearing shall be attended by at least two of the Copyright Claims Officers;
  - 2) The hearing shall be noted upon the record of the proceeding and may be recorded or transcribed; and
  - 3) A recording or transcript of the hearing shall be made available to a Copyright Claims Officer who is not in attendance.

- p) Voluntary Dismissal. –
- 1) By Claimant. – Upon written request of a claimant received prior to a respondent’s filing of a response to a claim, the Copyright Board shall dismiss the proceeding, or a claim or respondent, as requested, such dismissal to be without prejudice.
  - 2) By Counterclaimant. – Upon written request of a counterclaimant received prior to a claimant’s filing of a response to a counterclaim, the Copyright Board shall dismiss the counterclaim, such dismissal to be without prejudice.
- q) Settlement. – At any time in an active proceeding some or all of the parties may –
- 1) Jointly request a conference with a Copyright Claims Officer for the purpose of facilitating settlement discussions; or
  - 2) Submit to the Copyright Claims Board an agreement providing for settlement and dismissal of some or all of the claims and counterclaims in the proceeding, which submission may also include a request that the Copyright Claims Board adopt some or all of the terms of the parties’ settlement in a final determination.
- r) Factual Findings. – Subject to subsection (m)(2), the Copyright Claims Board shall make factual findings based upon a preponderance of the evidence.
- s) Determinations. –
- 1) Nature and contents. – A determination rendered by the Copyright Claims Board in a proceeding shall –
    - A) Be reached by a majority of the Copyright Claims Board;
    - B) Be in writing, and include an explanation of the factual and legal basis of the decision therein;
    - C) Pursuant to section 1403(d)(2), set forth any terms of by which a respondent or counterclaim respondent has agreed to cease infringing activity;
    - D) Pursuant to subsection (q)(2) and to the extent agreed by the parties, set forth the terms of any settlement to the extent requested by the parties; and
    - E) Include a clear statement of all damages and other relief awarded, including pursuant to paragraphs C and D.
  - 2) Dissent. – A Copyright Claims Officer who dissents from a decision contained in a determination may append a statement setting forth the grounds for his or her dissent.

- 3) Publication. – Final determinations of the Copyright Claims Board shall be made available on a website maintained by the Copyright Claims Board that is publicly accessible.

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*Opt-Out Alternative:*

- t) Respondent's Default. – Where a proceeding has been deemed an active proceeding but the respondent has failed to appear or has ceased participating in the proceeding, as demonstrated by his or her failing to meet one or more deadlines or requirements set forth in the schedule adopted by the Copyright Claims Board pursuant to subsection (j) without justifiable cause, the Copyright Claims Board may enter a default determination, as follows and in accordance with such other requirements as the Register of Copyrights may prescribe by regulation:
  - 1) The Copyright Claims Board shall require the claimant to submit relevant evidence and other information in support of his or her claim and any asserted damages and, upon review of such evidence and any other requested submissions from the claimant, shall determine whether the materials so submitted are sufficient to support a finding in favor of the claimant under applicable law and, if so, the appropriate relief and damages, if any, to be awarded;
  - 2) If the claimant has met his or her burden under paragraph (1), the Copyright Claims Board shall prepare a proposed default determination and provide written notice to the respondent at all addresses, including email addresses, reflected in the records of the Copyright Claims Board, concerning the pendency of a default determination by the Copyright Claims Board and the legal significance of such determination. Such notice shall be accompanied by the proposed default determination and provide that the respondent has 30 days from the date of the notice to submit any evidence and other information in opposition to the proposed default determination;
  - 3) If the respondent responds to the notice provided under paragraph (2) within the 30-day period, the Copyright Claims Board shall consider respondent's submissions and, after allowing the other parties to address such submissions, maintain or amend its determination as appropriate, and the resulting determination shall not be a default determination; and
  - 4) If the respondent fails to respond to the notice provided under paragraph (2), the Copyright Claims Board shall proceed to issue the default determination as a final determination. Thereafter, a respondent may only challenge such determination to the extent permitted under section 1407(c).
- u) Claimant's Failure to Proceed. –
  - 1) Failure to Complete Service. – If a claimant fails to complete service on a respondent within the 90-day period as prescribed in subsection (g), that respondent shall be dismissed from the proceeding without prejudice; and if a claimant fails to complete

service on all respondents within the 90-day period, the proceeding shall be dismissed by the Copyright Claims Board without prejudice.

- 2) Failure to Prosecute. – If a claimant fails to proceed in an active proceeding, as demonstrated by his or her failing to meet one or more deadlines or requirements set forth in the schedule adopted by the Copyright Claims Board pursuant to subsection (j) without justifiable cause, the Copyright Claims Board may, upon providing written notice to the claimant and 30 days to respond, issue a determination dismissing the claimants' claims, which shall include an award of attorneys' fees and costs if appropriate under subsection 1405(x)(2).

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*Opt-In Alternative:*

- t) Respondent's Default. – Where the proceeding has been deemed an active proceeding but the respondent has ceased participating in the proceeding, as demonstrated by his or her failing to meet one or more deadlines or requirements set forth in the schedule adopted by the Copyright Claims Board pursuant to section 1405(j) without justifiable cause, the Copyright Claims Board may enter a default determination, as follows and in accordance with such other requirements as the Register of Copyrights may prescribe by regulation:
  - 1) The Copyright Claims Board shall require the claimant to submit relevant evidence and other information in support of his or her claim and any asserted damages and, upon review of such evidence and any other requested submissions from the claimant, shall determine whether the materials so submitted are sufficient to support a finding in favor of claimant under applicable law and, if so, the appropriate relief and damages, if any, to be awarded;
  - 2) If the claimant has met his or her burden under paragraph (1), the Copyright Claims Board shall prepare a proposed default determination and provide written notice to the respondent at all addresses, including email addresses, reflected in the records of the Copyright Claims Board, concerning the pendency of a default determination by the Copyright Claims Board and the legal significance of such determination. Such notice shall be accompanied by the proposed default determination and provide that the respondent has 30 days from the date of the notice to submit any evidence and other information in opposition to the proposed default determination;
  - 3) If the respondent responds to the notice provided under paragraph (2) within the 30-day period, the Copyright Claims Board shall consider respondent's submissions and, after allowing the other parties to address such submissions, maintain or amend its determination as appropriate, and the resulting determination shall not be a default determination; and
  - 4) If the respondent fails to respond to the notice provided under paragraph (2), the Copyright Claims Board shall proceed to issue the default determination as a final

determination. Thereafter, a respondent may only challenge such determination to the extent permitted under section 1407(c).

u) Claimant's Failure to Proceed. –

- 1) Failure to Complete Service. – If a claimant fails to complete service on a respondent within the 60-day period as prescribed in subsection (g), that respondent shall be dismissed from the proceeding without prejudice; and if a claimant fails to complete service on all respondents within the 60-day period, the proceeding shall be dismissed by the Copyright Claims Board without prejudice.
- 2) Failure to Prosecute. – If a claimant fails to proceed in an active proceeding, as demonstrated by his or her failing to meet one or more deadlines or requirements set forth in the schedule adopted by the Copyright Claims Board pursuant to subsection (j) without justifiable cause, the Copyright Claims Board may, upon providing written notice to the claimant and 30 days to respond, issue a determination dismissing the claimants' claims, which shall include an award of attorneys' fees and costs if appropriate under subsection (x)(2). Thereafter, the claimant may only challenge such determination to the extent permitted under section 1407(c).

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v) Reconsideration. – A party may, within 14 days of the date of issuance of a final determination by the Copyright Claims Board, submit a written request for reconsideration of, or an amendment to, such determination if the party identifies a clear error of law or fact material to the outcome, or a technical mistake. After providing the other parties an opportunity to address such request, the Copyright Claims Board shall respond by denying the request or issuing an amended final determination.

w) Review by Register. – A party who has been denied reconsideration by the Copyright Claims Board may, within 14 days of the date of such denial, request review by the Register of Copyrights in accordance with regulations adopted by the Register of Copyrights, which regulations shall provide for a reasonable filing fee. The Register's review shall be limited to consideration of whether the Copyright Claims Board abused its discretion in denying reconsideration. After providing the other parties an opportunity to address the request, the Register shall respond by denying the request or remanding the proceeding to the Copyright Claims Board for reconsideration of identified issues and issuance of an amended final determination, which amended final determination shall not be subject to further consideration or review other than pursuant to section 1407(c).

*Note: A conforming amendment to section 708 may be advisable.*

x) Conduct of Parties and Attorneys. –

- 1) Certification. – The Register of Copyrights shall adopt regulations concerning certification of the accuracy and truthfulness of statements made by participants in proceedings before the Copyright Claims Board.

- 2) Bad Faith Conduct. – Notwithstanding any other provision of law, in any proceeding in which a determination is rendered and –
  - A) It is established that a party pursued a claim, counterclaim or defense for a harassing or other improper purpose, or without reasonable basis in law or fact; or
  - B) The claimant’s claim is dismissed for failure to prosecute pursuant to subsection (u)(2),

unless inconsistent with the interests of justice, the Copyright Claim Board shall in such determination award reasonable attorneys’ fees and costs to any adversely affected party or parties in a total amount not to exceed \$5,000; provided, however, that if an adversely affected party appeared *pro se* in the proceeding, the award to that party shall be of costs only and no more than \$2,500.

### § 1406 – Effect of Proceeding

- a) Determination. – Subject to the reconsideration and review processes afforded by section 1405(v) and (w) and section 1407(c), the rendering of a final determination by the Copyright Claims Board in a proceeding, including a default determination or determination based on failure to prosecute, shall, solely with respect to the parties to such determination, preclude relitigation before any court or tribunal, or before the Copyright Claims Board, of the claims and counterclaims asserted and finally determined by such determination, and may be cited or relied upon in a future action or proceeding for such purpose; provided, however, that –
  - 1) A determination of the Copyright Claims Board shall not preclude litigation or relitigation as between the same or different parties before any court or tribunal, or the Copyright Claims Board, of the same or similar issues of fact or law in connection with different claims or counterclaims not asserted and finally determined by the determination of the Copyright Claims Board;
  - 2) A determination of ownership of a copyrighted work for purposes of resolving a matter before the Copyright Claims Board shall not be relied upon, and shall have no preclusive effect, in any other action or proceeding before any other court or tribunal, including the Copyright Claims Board; and
  - 3) Except to the extent permitted in this subsection and section 1407, no determination of the Copyright Claims Board shall be cited or relied upon as legal precedent in any other action or proceeding before any court or tribunal, including the Copyright Claims Board.
- b) Other Materials in Proceeding. – Except as permitted under this section and section 1407, a submission or statement of a party or witness made in connection with a proceeding before the Copyright Claims Board, including a proceeding that is dismissed, shall not be cited or relied upon in, or serve as the basis of, any action or proceeding before any court or tribunal, including the Copyright Claims Board.

- c) With Respect to Section 512(g) of Title 17. – Notwithstanding any other provision of law, the commencement of a proceeding by a claimant before the Copyright Claims Board against a subscriber of a service provider that seeks a declaration of infringement concerning material that has been removed or to which access has been disabled by the service provider in response to a notification of claimed infringement by the claimant pursuant to section 512(c)(1)(C) of this title shall be a basis to preclude the replacement of such material by the service provider pursuant to section 512(g) of this title if notice of the commencement of the Copyright Claims Board proceeding is provided by the claimant to the service provider’s designated agent not less than 10 nor more than 14 business days following receipt of a counter notification by the service provider pursuant that subsection.

*Note: A conforming amendment to section 512(g)(2)(C) may be advisable.*

- d) Stay of District Court Proceedings. – A federal district court shall order a stay of proceedings or such other relief as it deems appropriate with respect to any claim brought before it that is already the subject of a pending active proceeding before the Copyright Claims Board.
- e) Failure to Assert Counterclaim. – The failure or inability to assert a counterclaim in a proceeding before the Copyright Claims Board shall not preclude its assertion in a subsequent court action or proceeding before the Copyright Claims Board.

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*Opt-Out Alternative:*

- f) Opt-Out or Dismissal of Party. – If a party has timely opted out of a proceeding under section 1405(h) or is dismissed from a proceeding prior to the issuance of a final determination by the Copyright Claims Board, the determination shall not be binding upon and shall have no preclusive effect with respect to that party.

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*Opt-In Alternative:*

- f) Failure to Opt In or Dismissal of Party. – If a party declines to opt in or is dismissed from a proceeding prior to the issuance of a final determination by the Copyright Claims Board, the determination shall not be binding upon and shall have no preclusive effect with respect to that party.

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#### **§ 1407 – Review and Confirmation by District Court**

- a) In General. – In any proceeding in which a party has failed to pay damages or otherwise comply with the relief awarded in a final determination of the Copyright Claims Board, including a default determination or a determination based on failure to prosecute, the aggrieved party may, within one year of the issuance of such final determination or

resolution of any reconsideration by the Copyright Claims Board or review by the Register of Copyrights, apply to the United States District Court for the District of Columbia for an order confirming the relief awarded and reducing such relief to judgment. The court shall grant such order and direct entry of judgment unless the determination is vacated, modified or corrected as permitted under subsection (c). Such judgment shall be docketed as if it were rendered in an action in the United States District Court for the District of Columbia, and shall be subject to all the provisions of law relating to, and of the same force and effect as if it had been rendered in, an action in the United States District Court for the District of Columbia.

b) Filing Procedures. –

- 1) Notice of the application for confirmation of a determination of the Copyright Claims Board and entry of judgment shall be provided to all parties to the proceeding before the Copyright Claims Board, in accordance with the procedures applicable to service of a motion in United States District Court for the District of Columbia. If a party to be served is a nonresident, then notice of the application shall be served by the marshal of any district within which such party may be found in the same manner as other process of the court.
- 2) The application shall include a certified copy of the final determination of the Copyright Claims Board that is to be confirmed and rendered to judgment as reflected in the records of the Copyright Claims Board following any process of reconsideration or review by the Register of Copyrights, as well as a declaration by the applicant under penalty of perjury that it is a true and correct copy of such determination and the date it was issued.

c) Challenges to the Determination. –

- 1) Bases for Challenge. – Upon application of a party to the Copyright Claims Board proceeding within 90 days of the issuance of a final determination by the Copyright Claims Board, the United States Court for the District of Columbia may issue an order vacating, modifying or correcting a determination of the Copyright Claims Board in the following cases:
  - A) Where the determination was issued or as a result of fraud, corruption, or undue means, or as a result of misconduct;
  - B) Where the Copyright Claims Board exceeded its authority or so imperfectly executed its duties that a final and definite determination concerning the subject matter at issue was not made; or
  - C) In the case of a default determination or determination based on failure to prosecute, where it is established that the default or failure was due to excusable neglect.

- 2) Procedure to Challenge. –
  - A) Notice of the application to challenge a determination of the Copyright Claims Board shall be provided to all parties to the proceeding before the Copyright Claims Board, in accordance with the procedures applicable to service of a motion in United States District Court for the District of Columbia. If a party to be served is a nonresident, then notice of the application shall be served by the marshal of any district within which such party may be found in the same manner as other process of the court.
  - B) The application shall include a certified copy of the final determination of the Copyright Claims Board that is the subject of the application as reflected in the records of the Copyright Claims Board following any process of reconsideration or review by the Register of Copyrights, as well as a declaration by the applicant under penalty of perjury that it is a true and correct copy of such determination, the date it was issued, and the basis for challenge under subsection (c)(1). For the purposes of the application any judge who might make an order to stay the proceedings in an action brought in the same court may make an order, to be served with the notice of application, staying proceedings to enforce the award.

#### **§ 1408 – Referral of Cases by District Courts**

The Copyright Claims Board shall qualify as an alternative dispute resolution process under section 651 of title 28 for purposes of referral of eligible cases upon consent of the parties by United States district courts.

#### **§ 1409 – Implementation by Copyright Office**

- a) Regulations. – The Register of Copyrights shall adopt regulations to implement the Copyright Claims Board as contemplated by this chapter.
- b) Necessary Facilities. – Subject to applicable law, the Register of Copyrights may retain outside vendors to establish internet-based, teleconferencing and other facilities required to operate the Copyright Claims Board.
- c) Study. – Not later than 3 years after the issuance of the first determination by the Copyright Claims Board, the Register of Copyrights shall deliver a study to Congress that addresses –
  - 1) The use and efficacy of the Copyright Claims Board in resolving copyright claims;
  - 2) Whether adjustments to the authority of the Copyright Claims Board, including eligible claims and works and applicable damages limitations, are necessary or advisable;
  - 3) Whether greater allowance should be made to permit awards of attorneys’ fees and costs to prevailing parties, including potential limitations on such awards;
  - 4) Potential mechanisms to assist copyright owners with small claims in ascertaining the identity and location of unknown online infringers;

- 5) Whether the Copyright Claims Board should be expanded to offer mediation or other nonbinding alternative dispute resolution services to interested parties; and
- 6) Such other matters as the Register of Copyrights believes may be pertinent concerning the Copyright Claims Board.

#### **§ 1410 – Funding**

There are authorized to be appropriated such sums as may be necessary to pay the costs incurred under this chapter not covered by the filing fees collected under this chapter, including the costs of establishing the Copyright Claims Board and its facilities.

#### **§ 1411 – Technical amendments**

[Conforming amendments as noted above and otherwise identified]

#### **§ 1412 – Definitions**

- a) As used in this chapter, “party” refers to both a party and the party’s attorney, as applicable.
- b) As used in this chapter, “person” (including “his” and “her”) refers to both an individual and an entity that is amenable to legal process under applicable law.
- c) “United States” has the meaning given in section 101 of this title.

## B. Section-by-Section Summary

### § 1401 – Copyright Claims Board and Staff

This section establishes the Copyright Claims Board (“Board”) as an optional alternative forum within the U.S. Copyright Office to resolve certain copyright claims and sets forth the qualifications, compensation, and term of the Board and staff. The Board consists of three experienced attorneys called Claims Officers. The Librarian of Congress, after consulting with the Register of Copyrights, appoints the Claims Officers and Claims Attorneys. The Claims Officers must have at least seven years of legal experience, with two Claims Officers having copyright litigation or adjudication experience and the third having alternative dispute resolution experience. The Claims Officers are paid at the level of compensation for SL government employees. They have six-year terms, but their initial terms are staggered at four, five, and six years. The Claims Officers are assisted by two or more Claims Attorneys appointed by the Register of Copyrights. The Claims Attorneys are paid at up to grade 15 of the General Schedule for government employees. This section also provides for supervision and removal of the Claims Officers and filling of vacancies on the Board.

### § 1402 – Authority and Responsibilities of the Copyright Claims Board

This section sets forth the duties and powers of the Claims Officers and Claims Attorneys. The Claims Officers’ primary duty is to make determinations on eligible copyright claims. The Claims Officers are also to review cases to make sure they are properly before the Board, manage the proceedings and render rulings on matters relating to the consideration of claims, request the production of information necessary to the resolution of claims, conduct hearings and conferences, facilitate parties’ settlements, provide information to the public, and maintain records of their proceedings. They may also be assigned other duties by the Register of Copyrights.

Claims Attorneys assist the Claims Officers in performing their duties, provide assistance to members of the public concerning the procedures and requirements of the Board, and engage in any other duties assigned by the Register of Copyrights.

Although subject to general direction by the Register of Copyrights, the Board is to be independent in making its determinations in proceedings and the Claims Officers and Claims Attorneys cannot engage in conduct that would be inconsistent with their duties. Claims Officers and Claims Attorneys must recuse themselves from any proceedings in cases where they perceive a conflict of interest.

Parties are not permitted to have *ex parte* communications with a Claims Officer, but Claims Attorneys may communicate with parties to provide assistance with Board procedures and requirements.

### § 1403 – Nature of Proceedings

This section establishes that proceedings before the Board are voluntary, provides for a three-year statute of limitations with a tolling provision, and sets forth the permissible claims, counterclaims, defenses and remedies available to parties coming before the Board. It confirms that parties retain the right to proceed in federal court instead of before the Board if they choose.

Subject to applicable monetary limits, parties may bring the following types of claims to the Board: a claim for infringement, or a declaration of noninfringement, of one of the exclusive rights under section 106 of the Copyright Act; a claim of misrepresentation under section 512(f) of the Digital Millennium Copyright Act (“DMCA”); and certain limited counterclaims arising under sections 106 and 512(f) of the Copyright Act or an agreement concerning the same transaction or occurrence. In addition, parties can assert any legal or equitable defenses to any such claims or counterclaims. Claims can be brought by one or more claimants against one or more respondents if all of the claims arise out of the same activity or a continuous course of conduct and the total damages do not exceed the applicable monetary limit for a Board proceeding.

Some claims and counterclaims are specifically excluded from Board determination, including claims that are already pending before or adjudicated by a court, claims against a federal or state government entity, claims against a person or entity residing outside of the United States, and claims dismissed by the Board for good cause.

The Board can award a number of limited remedies. The Board can award monetary damages, including actual damages and profits, or limited statutory damages where infringement is shown. Limited statutory damages are capped at \$15,000 per work for works timely registered pursuant to section 412 of the Copyright Act (generally speaking, within three months of publication), and \$7,500 per work for works that are later registered in accordance with section 1404 (but not more than a total of \$15,000 for all such works). After the close of discovery, the party seeking damages is to elect to pursue either actual damages and profits or limited statutory damages. The Board will not consider whether the infringement was willful in assessing limited statutory damages, but it can take into account an infringer’s willingness to cease or mitigate infringing activities. The Board cannot make a total monetary award in a single proceeding of more than \$30,000, exclusive of any attorneys’ fees and costs awarded for bad faith conduct under section 1405 (which are capped at \$5,000).

In addition to monetary awards, the Board can include in its determination a requirement for an infringer to cease or mitigate infringing conduct if the infringer has agreed to do so (which agreements can be the basis for an adjustment of damages).

Costs and attorneys’ fees are not available except in cases where it is established that a party has proceeded (or failed to proceed) in bad faith.

### § 1404 – Registration Requirement

Parties need not have a finalized registration from the Copyright Office for the work at issue before bringing a claim before the Board (though the timing of registration affects the range of available statutory damages). A party must apply for a registration of the work with the Copyright Office, however, before bringing the claim. The Board will not render a determination until a registration certificate is issued by the Copyright Office. The Board will delay rendering a determination for a period of time if the registration has not yet issued, but will dismiss the case if it does not issue or is refused within a certain period. Finally, if a copyright was registered before or within five years of publication, the Board will apply the presumptions of section 410 of the Copyright Act that the registration is valid and the information in the registration is accurate.

### § 1405 – Conduct of Proceedings

Generally, proceedings are conducted by the Board from the Copyright Office based on written submissions, with no requirement of personal appearances, and hearings conducted by internet and other telecommunications facilities. Parties do not need to be represented by an attorney, but attorney representation is permitted. The Board will maintain records documenting its proceedings.

Proceedings are initiated by submitting a statement of facts in support of the claim, certified by the claimant, and a filing fee established by the Register (which can be no less than \$100). When a claim or counterclaim is initiated, it is reviewed by a Claims Attorney to make sure that it complies with Board requirements and can be served on the respondent. Parties who submit noncompliant claims and counterclaims are provided limited opportunities to correct errors and submit amended filings. When a claim is asserted against an online service provider for activity that may be covered by the section 512(c) or 512(d) safe harbors, before the Board will allow the claim to proceed, the claimant must certify that he or she served a DMCA takedown notice and the service provider failed to remove or disable access to the infringing material within five business days. If this is not the case, the Board will provide the claimant with information as to how to serve a DMCA notice.

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#### *Opt-Out Alternative:*

Within 90 days of receiving the Board's direction to proceed with service, the claimant must serve formal notice of the proceeding and claim on the respondent in accordance with rules modeled on Rule 4 of the Federal Rules of Civil Procedure. As under Rule 4, the respondent may waive formal service and agree to accept informal service (for example, by mail), but such waiver of formal service does not constitute a waiver of the respondent's right to opt out of the proceeding. The content of the notice served on the opposing party will explain the nature of the Board and proceeding, the respondent's right to opt out, and the consequences of opting out and not opting out. The respondent has 60 days to file an opt-out notice with the Board. If the respondent does not opt out within 60 days of service, the proceeding is deemed an active

proceeding and the respondent will be bound by the result. Otherwise, the proceeding will be dismissed without prejudice.

*Opt-In Alternative:*

Within 60 days of receiving the Board's direction to proceed with service, the claimant must provide notice of the proceeding and claim to the respondent, but formal service is not required. The content of the notice served on the opposing party will explain the nature of the Board and proceeding, the respondent's right to opt in, and the consequences of opting in and not opting in. The respondent has 60 days to file an opt-in notice with the Board. If the respondent opts in within 60 days of service, the proceeding is deemed an active proceeding and the respondent will be bound by the result. Otherwise, the proceeding will be dismissed without prejudice.

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Once a proceeding is active, the Board will issue a scheduling order to govern the proceedings. The Board may hold conferences as well as hearings to receive oral presentations on issues of fact or law. There is no formal motion practice in a Board proceeding, but the parties can request that the Board address case management and discovery issues and the Board can ask the parties to make submissions addressing relevant questions of fact or law, or other matters.

Discovery is allowed but ordinarily limited to the production of relevant information and documents, written interrogatories, and written requests for admission, with more particular limitations to be imposed by regulation. The Board can approve additional discovery and request specific information from parties and nonparties if good cause is shown. If a party does not provide discovery documents in a timely manner, the Board can draw appropriate inferences against that party.

The Board will accept both documentary and testimonial evidence without application of formal rules of evidence. Testimonial evidence is normally limited to written statements of the parties and nonexpert witnesses, but in exceptional cases expert evidence may be accepted. The Board renders factual findings based on a preponderance of evidence standard.

Final determinations will be issued in writing by a majority of the Board, will explain the factual and legal reasoning for the decision, and will include a clear statement of all relief awarded, including any agreement to cease infringing activity or settlement terms. A dissenting Claims Officer may issue a dissenting opinion. Determinations will be made available to the public on the Board's website.

A party can request that the Board reconsider and amend a determination if the party identifies a clear error of law or fact that is material to the outcome, or a technical mistake. Additionally, a party who has been denied reconsideration may, for an additional fee, seek review of the denial by the Register of Copyrights under an abuse of discretion standard. If the Register finds that reconsideration should have been granted, she will remand the matter to the Board for its further review of specific concerns and issuance of an amended determination.

Parties can agree to settle claims and counterclaims, and claims and counterclaims can be voluntarily dismissed before a response is filed. The Board may dismiss claims and counterclaims for good cause, including for failure to join a necessary party, or the lack of an essential witness, evidence or expert testimony.

The Board may issue default determinations as well as determinations based upon failure to prosecute.

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*Opt-Out Alternative:*

If a respondent has been properly served and not opted out and the proceeding is active, but the respondent fails to appear or ceases participation in the proceeding, then the Board may issue a default determination in favor of the claimant provided that the claimant can establish his or her claim and provide evidence to support a damage award. Before the Board can enter a default, it must attempt to notify the respondent and provide an opportunity to respond.

The Board may also issue a determination in cases where a claimant fails to prosecute by ceasing participation in a proceeding, which may also provide for attorneys' fees and costs to responding parties.

*Opt-In Alternative:*

Following the same procedures as above, a default determination can be entered against a respondent who has opted in but has ceased participation in the proceeding, and a determination can be entered against a claimant who fails to prosecute a proceeding.

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Unless it does not serve the interests of justice, the Board must award attorneys' fees and costs against a party who is shown to have acted in bad faith (for a harassing or improper purpose or without reasonable basis in law or fact), or a claimant who fails to prosecute a proceeding. The Board may not award more than a total of \$5,000 to all adversely affected parties (and no more than \$2,500 for costs only to a party acting *pro se*).

**§ 1406 – Effect of Proceeding**

As between the parties to a final determination, the determination precludes relitigation of the claims and counterclaims asserted and determined by the Board before any court, tribunal or the Board. But it does not preclude litigation as between the same or different parties of the same or similar issues of fact or law in connection with claims or counterclaims not determined by the Board, and it has no later preclusive effect as to copyright ownership issues. Decisions of the Board may not be cited or relied upon as legal precedent, except to the extent the proceeding is reviewed by a district court in accordance with section 1407.

If a party brings a Board proceeding against the subscriber of an online service provider within the applicable time frame seeking a declaration of infringement concerning material subject to a DMCA takedown notice and timely notifies the service provider of the proceeding, then the proceeding will satisfy section 512(g) of the DMCA and preclude the service provider from replacing the material that was subject to the takedown notice.

A federal court is to stay proceedings or order other appropriate relief when a party files a claim that is already the subject of an active proceeding before the Board. There are no compulsory counterclaims before the Board, and failure to plead a counterclaim has no preclusive effect.

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*Opt-Out Alternative:*

If a party timely opts out or is dismissed from a proceeding before the issuance of a final determination, the determination shall not be binding upon the party.

*Opt-In Alternative:*

If a party declines to opt in or is dismissed from a proceeding before the issuance of a final determination, the determination shall not be binding upon the party.

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**§ 1407 – Review and Confirmation by District Court**

Parties who obtain a Board determination can file the determination within one year of its issuance for confirmation by the United States District Court for the District of Columbia in a manner similar to filing an arbitration award under the Federal Arbitration Act. Such confirmation renders the determination an enforceable judgment.

Within 90 days of the issuance of a determination by the Board, an aggrieved party can seek to challenge the determination on the ground that it was issued or resulted from fraud, corruption, or undue means, or as a result of misconduct; or where the Board exceeded its authority or so imperfectly executed its duties that no final or definite determination was made; or, in the case of a default determination or determination based on failure to prosecute, that the default or failure was due to excusable neglect.

**§ 1408 – Referral of Cases by District Courts**

The Board qualifies as an alternative dispute resolution process under 28 U.S.C. § 651 for purposes of referring cases from the federal courts.

**§ 1409 – Implementation by Copyright Office**

The Copyright Office has authority to adopt regulations to implement the Board and may retain outside vendors to establish the necessary facilities. Once the Board has been in operation for three years, the Copyright Office is to issue a study regarding the use and efficacy of the Board and whether any adjustments are needed.

**§ 1410 – Funding**

This section authorizes appropriations to fund the Board.

**§ 1411 – Technical amendments**

This section allows for conforming amendments to existing statutory provisions.

**§ 1412 – Definitions**

This section contains definitions for certain key terms.

**APPENDIX A**

**U.S. COPYRIGHT OFFICE STATEMENT ON  
SMALL COPYRIGHT CLAIMS (2006)**

# REMEDIES FOR SMALL COPYRIGHT CLAIMS

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## HEARING

BEFORE THE

SUBCOMMITTEE ON COURTS, THE INTERNET,  
AND INTELLECTUAL PROPERTY

OF THE

COMMITTEE ON THE JUDICIARY  
HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

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MARCH 29, 2006

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## A P P E N D I X

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### MATERIAL SUBMITTED FOR THE HEARING RECORD

PREPARED STATEMENT OF THE HONORABLE HOWARD L. BERMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, AND RANKING MEMBER, SUBCOMMITTEE ON COURTS, THE INTERNET, AND INTELLECTUAL PROPERTY

Mr. Chairman,

It is especially good timing to have this hearing on alternative dispute resolution mechanisms immediately after the orphan works hearing. ADR was raised by some in the orphan works context as a way to begin addressing some of the inequities that could result from a statutory change. However, there are multiple instances in the copyright context as well in which parties could benefit from forums other than federal court to resolve copyright infringement claims. Today will provide an opportunity to discuss the advantages of offering alternative methods of resolving small copyright claims even outside the scope of the orphan works provision.

As the cost of litigation rises, oftentimes a copyright owner has to make a calculation that is entirely independent from whether the owner will prevail on the merits of the case. The owner must ask: Is it worth it to pursue full scale litigation when the damages or remedies wouldn't even cover the cost of the proceeding, much less provide any relief from infringing conduct?

A number proposals for resolving this dilemma have been suggested, ranging from the establishment of a small claims court to expanding the jurisdiction of Copyright Royalty Judges to determine copyright claims in an administrative dispute resolution proceeding. I would caution that the goal here should not be to create an opportunity for forum-shopping as a result of substance, but merely a to create more simplified procedures that will resolve disputes at a lower cost. I look forward to hearing the witnesses describe circumstances in which they may forgo a remedy because of the cost of bringing suit, and whether they have any suggestions for reform. I doubt this is the last we will hear on this issue.

I also would like to work with the Chairman in pursuing a Copyright Office study on this issue. It is encouraging that in its written testimony, the Office offers to study both 1) how and to what extent copyright owners are hindered from seeking relief due to the cost of litigation, and 2) what changes in the law might be advisable to remedy the problem.

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### PREPARED STATEMENT OF THE UNITED STATES COPYRIGHT OFFICE

The Copyright Office is pleased to present the Subcommittee with its observations on the issue of remedies for small copyright claims.

In preparing the Report on Orphan Works which the Office released two months ago, the Office was told by a representative of photographers that a new mechanism is needed to adjudicate small copyright infringement claims because the cost of litigating in federal courts is prohibitively expensive in many cases.<sup>1</sup> While the Office did not believe that this issue relates directly to the problem of orphan works or to the Office's proposed solution to that problem, the Office observed in its Report on Orphan Works that:

We are sympathetic to the concerns of individual authors about the high cost of litigation and how, in many cases, the individual creator may have little practical recourse in obtaining relief through the court system, particularly against

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<sup>1</sup>See Comment of Professional Photographers of America, March 25, 2005, pp. 11–13, submitted in Copyright Office Study on Orphan Works [available on the Copyright Office website at <http://www.copyright.gov/orphan/comments/OW0642-PPA.pdf>] [hereinafter "PPA Comment"].

infringements involving small amounts of actual damages. This problem, however, has existed for some time and goes beyond the orphan works situation, extending to all types of infringement of the works of individual authors. While there are some mechanisms in place to help address the problem, such as enforcement by collective organizations or timely registration to secure the availability of statutory damages and attorneys fees, we believe that consideration of new procedures, such as establishment of a “small claims” or other inexpensive dispute resolution procedure, would be an important issue for further study by Congress. It is not, however, within the province of this study on orphan works.<sup>2</sup>

In subsequent discussions over proposed legislation to address the orphan works problem, photographers have repeated their assertion that a new procedure and forum for adjudicating small copyright claims is necessary. While the Office does not believe that it is necessary or even advisable to address this issue in the context of orphan works legislation, the Office continues to believe that the issue deserves the attention of Congress. If the Subcommittee believes it would be helpful, the Office would be pleased to study the issue in a way similar to the way in which the Office studied the orphan works problem itself, and to report to Congress its findings as to (1) whether, how, and to what extent authors and copyright owners are hindered or even prevented from seeking relief for infringements of their copyrights due to the cost of litigation under the current system, and (2) if the current system does not provide adequate procedures and remedies for the adjudication of small copyright claims, what changes in the law would be advisable to ensure that authors and copyright owners are able, as a practical matter, to seek remedies for infringements of their works.

Anyone who has litigated a case—whether as a party or as counsel—in the federal courts knows that the costs of litigation are beyond the means of many Americans. Attorneys typically charge hundreds of dollars per hour for their services, and it is our understanding that contingency fee arrangements in copyright cases are relatively rare. In a typical civil case, after pleadings, discovery, motion practice and trial (as well as possible appeals), attorney’s fees can run to tens of thousands of dollars or more, and other costs can run to thousands of dollars or more.<sup>3</sup> If, as the Professional Photographers of America have told us, photographers generally earn about \$30,000 a year,<sup>4</sup> then assertions that they are unable to take advantage of the remedies offered by the federal courts may well be credible.<sup>5</sup> It is legitimate to ask whether the federal courts are hospitable to most small claims.

Of course, there are provisions built into the copyright law that are designed in part to provide even the copyright owner of modest means with a reasonable prospect of recovering not only compensation for infringement but also the expenses of litigation in a successful infringement suit. Unlike most areas of the law, copyright law permits a court to award a reasonable attorney’s fee to a successful plaintiff (or defendant).<sup>6</sup> Moreover, a copyright owner may elect to receive an award of statutory damages of up to \$30,000 per infringed work—and up to \$150,000 per work in cases of willful infringement—in lieu of actual damages and profits.<sup>7</sup>

It is reasonable to ask whether these provisions offer sufficient incentive and sufficient assurance that the copyright owner will be able to afford the cost of litigation. In the past couple of weeks we have asked representatives of authors and “small” copyright owners about their experience in litigating infringement claims. We have heard assertions that in many cases it simply is not worthwhile to bear the expense of federal litigation no matter how meritorious the claim may be. We are not in a position at this time to evaluate the accuracy of those assertions, but it is not difficult to imagine that in many cases an author or copyright owner engaging in a rational analysis of the costs and benefits of litigation will conclude that in light of the modest value of his or her infringement claim and the relatively high cost of litigation, it makes no sense to pursue that claim.

Although the copyright law offers the advantages described above to copyright owners who pursue claims of infringement, another provision of the law arguably

<sup>2</sup>United States Copyright Office, *Report on Orphan Works* 114 (Jan. 2006)

<sup>3</sup>If expert witnesses are used, as is not uncommon in copyright cases, additional thousands of dollars or more in expenses can be incurred.

<sup>4</sup>PPA Comment 10.

<sup>5</sup>It may be worth noting that in diversity actions, the minimum amount in controversy required to invoke the jurisdiction of the federal courts is \$75,000. 28 U.S.C. § 1332(a).

<sup>6</sup>17 U.S.C. § 505.

<sup>7</sup>17 U.S.C. § 504(c). Attorney’s fees and statutory damages are available to plaintiffs only in cases where the copyright in the work was registered prior to the commencement of the infringement or within three months after first publication of the work. 17 U.S.C. § 412.

provides a disincentive to pursue small claims. Section 1338 of Title 28 of the United States Code confers upon the federal district courts exclusive jurisdiction over claims of copyright infringement. As a general proposition, the longstanding exclusive jurisdiction of the federal courts in this area is an important and positive feature of our system. Copyright law is federal law, and confining copyright cases to the federal courts is more likely to ensure consistency of decision-making. It is probably also fair to say that, as a general proposition, the quality of decision-making in the federal courts exceeds that found in many state courts.

But, as noted above, federal litigation tends to be expensive. While pro se litigation is possible in the federal courts, as a practical matter in most cases it requires the assistance of an attorney to navigate the civil procedure and substantive law. Although state court systems offer small claims courts, which handle claims of up to a few thousand dollars and are more congenial to pro se litigation, the federal courts offer no such alternative. As a result, because authors and copyright owners, unlike most other litigants, have no choice but to pursue their claims in federal court, the costs of federal litigation may weigh more heavily on them than on most others.

The Copyright Office expresses no definitive views on the extent to which the current system hinders the ability of authors and copyright owners to pursue small infringement claims, but from the foregoing discussion it is clear that there are serious questions about the effectiveness of the current system that merit further study.

Some have also asserted that the existing system for adjudication of copyright infringement claims can in some cases be too burdensome for defendants who are accused of infringement. While it is not difficult to imagine that a wealthy plaintiff in a copyright infringement suit could make the litigation very costly for a defendant of modest means, the Office is not aware whether this has in fact been a significant problem.

If it is the desire of the Subcommittee, the Office would be pleased to conduct a study—in a way similar to the way in which it conducted its study on orphan works—that would seek and evaluate information on the nature and scope of the problem and, if the problem appears to require further Congressional attention, would recommend possible solutions. Among the information that such a study might seek would be:

- Statistical (if it exists) and anecdotal evidence as to the extent to which authors and copyright owners have foregone asserting claims of infringement due to the cost of litigation or other factors relating to the currently available fora and remedies.
- Information about the range of amounts in controversy in suits for copyright infringement filed in the federal courts.
- Information relating to the range of costs that authors and copyright owners have borne in pursuing claims of infringement, especially in cases involving relatively modest amounts in controversy.
- Information about the practice of the courts in awarding attorney's fees in copyright suits, especially in cases involving relatively modest amounts in controversy, including the frequency with which attorney's fees are awarded, the extent to which the awards are equal to the actual attorney's fees expended by the prevailing party and the extent to which such awards are collected.
- Information about existing use of alternative dispute resolution mechanisms in addressing copyright infringement claims.
- The extent to which collective administration and licensing resolves problems related to enforcement of copyright in cases involving relatively small amounts in controversy, and where such activity has been successful in ameliorating the high costs of litigation in federal court.
- The extent to which trade associations, guilds, professional associations and other groups of copyright owners have been able to provide legal services or otherwise assist members in resolving copyright disputes involving relatively small claims.

To the extent that such a study might find problems that need to be addressed, the study would consider possible legislative or other action. Possible alternatives might include:

- Amending the statute that confers exclusive jurisdiction over copyright matters on the federal courts, in order to permit state courts (*e.g.*, small claims courts) to hear copyright infringement claims where the amount in controversy is small.

- Providing for an administrative proceeding, perhaps in the Copyright Office, for determination of small copyright infringement claims.
- Establishing streamlined procedures for adjudication of small copyright infringement claims in the federal courts.
- Measures to facilitate the use of alternative dispute resolution, such as arbitration and mediation.

The fact that the Copyright Office has identified such possible solutions does not mean that the Office would necessarily endorse any of them following a careful study. Indeed, even without the benefit of further study it is apparent that there are benefits as well as disadvantages to each of these approaches.

As always, the Copyright Office stands ready and eager to assist the Subcommittee on this and other copyright matters.



**APPENDIX B**      **FEDERAL REGISTER NOTICES**

investigation in these cases would serve no purpose since the petitioning group of workers cannot be covered by more than one certification at a time.  
*TA-W-80,427; Coastal Lumber*

*Company, Hopwood, PA*  
 I hereby certify that the aforementioned determinations were issued during the period of October 11, 2011 through October 14, 2011. Copies of these determinations may be requested under the Freedom of Information Act. Requests may be submitted by fax, courier services, or mail to FOIA Disclosure Officer, Office of Trade Adjustment Assistance (ETA), U.S. Department of Labor, 200 Constitution Avenue, NW., Washington, DC 20210 or [tofoiarequest@dol.gov](mailto:tofoiarequest@dol.gov). These determinations also are available on the Department's Web site at <http://www.doleta.gov/tradeact> under the searchable listing of determinations.

Dated: October 20, 2011.

**Michael W. Jaffe,**

*Certifying Officer, Office of Trade Adjustment Assistance.*

[FR Doc. 2011-27847 Filed 10-26-11; 8:45 am]

**BILLING CODE 4510-FN-P**

**DEPARTMENT OF LABOR**

**Employment and Training Administration**

**Investigations Regarding Certifications of Eligibility To Apply for Worker Adjustment Assistance and Alternative Trade Adjustment Assistance**

Petitions have been filed with the Secretary of Labor under Section 221(a) of the Trade Act of 1974 ("the Act") and are identified in the Appendix to this notice. Upon receipt of these petitions, the Director of the Division of Trade Adjustment Assistance, Employment and Training Administration, has instituted investigations pursuant to Section 221(a) of the Act.

The purpose of each of the investigations is to determine whether the workers are eligible to apply for adjustment assistance under title II, chapter 2, of the Act. The investigations will further relate, as appropriate, to the determination of the date on which total or partial separations began or threatened to begin and the subdivision of the firm involved.

The petitioners or any other persons showing a substantial interest in the subject matter of the investigations may request a public hearing, provided such request is filed in writing with the Director, Office of Trade Adjustment Assistance, at the address shown below, not later than November 7, 2011.

Interested persons are invited to submit written comments regarding the subject matter of the investigations to the Director, Office of Trade Adjustment Assistance, at the address shown below, not later than November 7, 2011.

The petitions filed in this case are available for inspection at the Office of the Director, Office of Trade Adjustment Assistance, Employment and Training Administration, U.S. Department of Labor, Room N-5428, 200 Constitution Avenue NW., Washington, DC 20210.

Signed at Washington, DC, this 20th day of October 2011.

**Michael Jaffe,**

*Certifying Officer, Office of Trade Adjustment Assistance.*

**APPENDIX**

[20 TAA petitions instituted between 10/10/11 and 10/14/11]

TA-W	Subject firm (petitioners)	Location	Date of institution	Date of petition
80500	IBM (State/One-Stop)	San Francisco, CA	10/11/11	10/07/11
80501	TT Electronics (Company)	Boone, NC	10/11/11	10/10/11
80502	LexisNexis (Company)	Miamisburg, OH	10/11/11	10/06/11
80503	Viam Manufacturing, Inc. (Company)	Santa Fe Springs, CA	10/11/11	10/06/11
80504	BASF Corporation (Company)	Belvidere, NJ	10/14/11	10/11/11
80505	Haldex (State/One-Stop)	Kansas City, MO	10/14/11	10/12/11
80506	JVC-USA Product Return Center (State/One-Stop)	McAllen, TX	10/14/11	10/12/11
80507	Kerry Ingredients & Flavours (Union)	Turtle Lake, WI	10/14/11	10/12/11
80508	Stateline Warehouse (Workers)	Ridgeway, VA	10/14/11	10/07/11
80509	ON Semiconductor (Company)	Phoenix, AZ	10/14/11	10/06/11
80510	Suntron Corporation (Company)	Sugar Land, TX	10/14/11	10/12/11
80511	Specialty Bar Products Co. (Workers)	Blairsville, PA	10/14/11	10/05/11
80512	Pilgrim's Pride-Dallas Processing Plant (State/One-Stop)	Dallas, TX	10/14/11	09/30/11
80513	Centurion Medical Products (Workers)	Jeanette, PA	10/14/11	10/13/11
80514	Intier Magna (State/One-Stop)	Shreveport, LA	10/14/11	10/13/11
80515	AI Android Industries (State/One-Stop)	Shreveport, LA	10/14/11	10/13/11
80516	Travelers (Workers)	Elmira, NY	10/14/11	10/13/11
80517	AGS Automotive (State/One-Stop)	Shreveport, LA	10/14/11	10/13/11
80518	KV Pharmaceuticals (State/One-Stop)	Bridgeton, MO	10/14/11	10/13/11
80519	Verso Paper Corp. (Union)	Bucksport, ME	10/14/11	10/13/11

[FR Doc. 2011-27846 Filed 10-26-11; 8:45 am]

**BILLING CODE 4510-FN-P**

**LIBRARY OF CONGRESS**

**Copyright Office**

[Docket No. 2011-10]

**Remedies for Small Copyright Claims**

**AGENCY:** Copyright Office, Library of Congress.

**ACTION:** Notice of inquiry.

**SUMMARY:** The U.S. Copyright Office is undertaking a study at the request of Congress to assess whether and, if so, how the current legal system hinders or prevents copyright owners from pursuing copyright infringement claims that have a relatively small economic value ("small copyright claims"); and recommend potential changes in administrative, regulatory, and statutory authority to improve the adjudication of these small copyright claims. The Office

thus seeks comment on how copyright owners have handled small copyright claims and the obstacles they have encountered, as well as potential alternatives to the current legal system that could better accommodate such claims. This is a general inquiry and the Office will publish additional notices on this topic.

**DATES:** Comments are due January 16, 2012.

**ADDRESSES:** All comments and reply comments shall be submitted electronically. A comment page containing a comment form is posted on the Office Web site at <http://www.copyright.gov/docs/smallclaims>. The Web site interface requires submitters to complete a form specifying name and organization, as applicable, and to upload comments as an attachment via a browser button. To meet accessibility standards, submitters must upload comments in a single file not to exceed six megabytes (MB) in one of the following formats: the Adobe Portable Document File (PDF) format that contains searchable, accessible text (not an image); Microsoft Word; WordPerfect; Rich Text Format (RTF); or ASCII text file format (not a scanned document). The form and face of the comments must include both the name of the submitter and organization. The Office will post all comments publicly on the Office's Web site exactly as they are received, along with names and organizations. If electronic submission of comments is not feasible, please contact the Office at 202-707-8380 for special instructions.

**FOR FURTHER INFORMATION CONTACT:** Catherine Rowland, Counsel, Office of Policy and International Affairs, by telephone at 202-707-8350 or by electronic mail at [crowland@loc.gov](mailto:crowland@loc.gov).

**SUPPLEMENTARY INFORMATION:**

**I. Background**

The Copyright Act (the "Act"), 17 U.S.C. 101 *et seq.*, protects a wide variety of works of authorship, ranging from individual articles or photographs that may not have a high commercial value to motion pictures worth hundreds of millions of dollars in the marketplace. Copyright owners of all of these works may seek remedies under the federal Copyright Act in the event of infringement. Not all of these copyright owners, however, have the same resources to bring a federal lawsuit, which can require substantial time, money, and effort. To the extent an infringement results in a relatively small amount of economic damage, the copyright owner may be dissuaded from filing a lawsuit because the potential

award may not justify the expense of litigation. Even where statutory damages and attorney fees are possible, they are not available until the conclusion of the litigation. Moreover, awards of statutory damages may be as low as \$750 (or, in cases of innocent infringement, \$200), and may not always make the copyright owner whole.

In light of these challenges, the House of Representatives' Subcommittee on Courts, the Internet, and Intellectual Property held a hearing in March 2006 to learn more about the problems faced by small copyright claimants (the "Small Claims Hearing").<sup>1</sup> The hearing focused on possible alternative dispute resolution systems such as a copyright "small claims court" or other mechanism. The testimony also addressed some of the problems that small copyright claim owners have with the current system, as well as concerns about defendants' rights in an alternative system. The Copyright Office submitted a statement to the Subcommittee regarding the small copyright claims issue, noting these difficulties, proposing to review potential alternatives, and welcoming the possibility of further study.<sup>2</sup> The Copyright Office also identified some of these "small claims" challenges in its 2006 Report on Orphan Works,<sup>3</sup> and proposed legislation in 2006 and 2008 addressing orphan works included provisions that specifically directed the Copyright Office to conduct a study addressing remedies for small claims, but the legislation ultimately did not become law.<sup>4</sup>

The Chairman of the House Judiciary Committee has recently asked the U.S. Copyright Office to study the obstacles facing small copyright claims disputes, as well as possible alternatives. In a letter dated October 11, 2011, Chairman Lamar Smith requested that the Office "undertake a study to assess: (1) The extent to which authors and other

copyright owners are effectively prevented from seeking relief from infringements due to constraints in the current system; and (2) furnish specific recommendations, as appropriate, for changes in administrative, regulatory and statutory authority that will improve the adjudication of small copyright claims and thereby enable all copyright owners to more fully realize the promise of exclusive rights enshrined in our Constitution."

The Office therefore seeks comments on how parties—both copyright owners and those alleged to have infringed—view the current system, what their experiences with the current system have been, and what types of alternatives would be helpful and viable.

*A. Challenges of the Current Legal System*

Currently, copyright owners interested in bringing a lawsuit to enforce their copyrights must do so in federal district courts, which have exclusive jurisdiction over copyright claims. 28 U.S.C. 1338. This is true regardless of the monetary value of the copyright claim. Vesting exclusive jurisdiction in federal courts is generally beneficial because copyright law is federal law, and federal courts have become familiar with copyright analysis and thus should bring a level of consistency to copyright cases. Additionally, the Act aids some copyright claimants by permitting awards of reasonable attorney's fees and statutory damages to the prevailing party, but a plaintiff may recover statutory damages and attorney's fees only if the work was timely registered. 17 U.S.C. 412, 504, 505.

Despite the benefits of the current system, there are some drawbacks to requiring copyright owners and defendants to engage in potentially extensive federal litigation for all copyright disputes. One of the major impediments to federal lawsuits is the cost of litigation. Although copyright owners could proceed *pro se* in federal court, they often need the assistance of a lawyer to understand and handle federal procedures and substantive law. This is especially true because, unlike in the state court system, there is no streamlined "small claims" process for claims with a lower monetary value. If a copyright owner hires a lawyer, the expenses can add up quickly. Contingency fee arrangements are relatively rare in copyright lawsuits; thus most copyright owners will have to pay an hourly fee for representation. Lawyers charge hundreds of dollars per hour, which could reach a total of tens

<sup>1</sup> *Remedies for Small Copyright Claims, Before the Subcomm. on Courts, the Internet, and Intellectual Property of the H. Comm. on the Judiciary*, 109th Cong. (2006), available at [http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=109\\_house\\_hearings&docid=f:26767.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=109_house_hearings&docid=f:26767.pdf).

<sup>2</sup> *Remedies for Small Copyright Claims, Before the Subcomm. on Courts, the Internet, and Intellectual Property of the H. Comm. on the Judiciary*, 109th Cong. (2006) (statement of the United States Copyright Office), available at <http://www.copyright.gov/docs/regstat032906.html>.

<sup>3</sup> United States Copyright Office, *Report on Orphan Works 1* (2006), available at <http://www.copyright.gov/orphan/orphan-report-full.pdf>.

<sup>4</sup> Proposed bills include the Shawn Bentley Orphan Works Act of 2008, S. 2913, 110th Cong. (2008), which was passed by the Senate; the Orphan Works Act of 2008, H.R. 5889, 110th Cong. (2008); and the Orphan Works Act of 2006, H.R. 5439, 109th Cong. (2006).

or hundreds of thousands of dollars when a case does not immediately settle and instead requires discovery, motion practice, and trial. In fact, one recent survey found that, as of 2011, the median cost for litigating a copyright infringement lawsuit with less than \$1 million at risk was \$350,000. Am. Intellectual Prop. Law Ass'n ("AIPLA"), Report of the Economic Survey 2011 35 (2011). Even if a copyright owner proceeds *pro se*, litigation itself includes court costs and fees, which can add up to a not insignificant sum. Many individual copyright owners simply do not have the resources to fund expensive litigation. Moreover, even though the Act allows some awards of attorney's fees, other costs, and statutory damages, these awards are not guaranteed—and may not be available at all depending on the timeliness of copyright registration—and are only awarded at the end of litigation, likely after a copyright owner has made significant out of pocket payment to cover legal fees and court costs. Additionally, an award of attorney's fees—assuming that it is collectible—will not necessarily reimburse the copyright owner for all fees expended in prosecuting a claim.

In federal litigation, the period of time between the filing of a case and the final determination can be lengthy. The Federal Rules of Civil Procedure allow parties to engage in extensive discovery and motion practice, which often take far more than a year to complete. In fact, the median time for all cases that went to trial—not just copyright suits—was twenty-three months in 2009–2010.<sup>5</sup> This lengthy time frame requires litigants to expend energy and effort throughout a relatively long period of time. This investment of time, not to mention the associated expenses, may not be feasible for individual authors, who may not be able to dedicate sufficient time to handle all of the litigation burdens.

### B. Potential Alternatives for Small Copyright Claims

The Office is interested in learning about alternatives to the current legal system that might help alleviate some of the burdens associated with pursuing small copyright claims. Some

alternatives were identified at the Small Claims Hearing, including: (1) Using the current Copyright Royalty Board (a panel of administrative law judges established under Chapter 8 of Title 17 that sets rates and terms for statutory licenses and decides how to distribute certain statutory license royalties); (2) creating a federal "small claims court" or otherwise streamlining federal procedures; (3) developing a staff of dedicated administrative law judges to specialize in small copyright claims; (4) amending the Act to allow state courts (including small claims courts) to hear small copyright claims; and (5) allowing trade associations or other group representatives to bring a single, large filing on behalf of a sizeable group of small copyright owners. While these alternatives deserve balanced discussion, there may be other potentially suitable options that were not discussed at the Small Claims Hearing.

There are, of course, a variety of issues that require further consideration. These include:

*Degree of Difficulty Litigating Small Copyright Claims in the Current System:* Before analyzing various alternatives to the current system, it is important to further explore the obstacles that the district court process presents in small copyright claim cases. This would help focus future analysis and any potential alternative legal processes.

*State Court Involvement:* State courts do not have expertise in copyright jurisprudence. As noted above, Section 1338 of Title 28 of the U.S. Code vests federal courts with exclusive jurisdiction over copyright claims. Moreover, Section 301 of the Act explicitly preempts state claims "that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103." Thus, state courts are not experienced in the nuances of copyright law and may not have sufficient resources to devote to a claim's intricacies, especially when limited in a small claims court context. Nevertheless, state courts commonly handle small disputes, and thus they likely have the structure to handle the logistics of such claims. State court involvement, however, is only one possible avenue to explore and there are also several federal options that should be considered in the discussion.

*Location of Federal Court/Tribunal:* Creating a federal "small claims court" or administrative judge panel would

create logistical rather than jurisdictional challenges, including where the court(s) and panel(s) would be located. If there are several courts or panels located throughout the country, it may provide more convenience to the parties, but it may also reduce consistency and add to administrative costs. Alternatively, if there is only one court or panel, the guiding rules could allow for liberal use of telephone conferences and videoconferences, and the procedures could focus more on a paper practice with fewer (if any) hearings. The court or tribunal could also limit the types and amount of discovery in the interest of expediency.

*Affiliation With the Copyright Office or Copyright Royalty Board:* The Copyright Office administers the Copyright Act, is a substantive expert on provisions of copyright law, and has statutory responsibilities in both litigation and administrative law. It may thus be appropriate for the Office to be associated with a new process. Similarly, the Copyright Royalty Board is already proficient in handling administrative procedures under the Act, and it may have the capability of expanding its scope to handle additional claims.

*Determination of "Small" Copyright Claims:* Although many copyright owners are concerned about the cost of litigating "small" copyright claims in federal court, the definition of "small" is unclear. Any changes in legal process must take a balanced approach to determine which claims are deemed "small" enough to fit into the new system.

*Voluntary or Mandatory:* A major question is whether a new small copyright claim process would be voluntary or mandatory. Copyright owners may want the option of choosing which type of court hears a claim, and defendants might similarly wish to remove a claim filed in a new court or panel to federal district court. Additionally, the question arises about how to appeal an adverse decision—and to what court or other body.

*Fair Use:* The affirmative defense of fair use defense is extremely fact-specific and typically requires courts to examine decades of judicial precedent. The ability to present and have heard a fair use defense is therefore a concern.

*Defendants' Appearance:* It has been suggested that defendants should not be required to appear at a small copyright claim proceeding until the copyright owner provides a *prima facie* case of infringement. This ostensibly would prevent a copyright owner from dragging a defendant into a legal proceeding without cause. It is unclear

<sup>5</sup> Federal Judicial Caseload Statistics, March 31, 2010, Office of Judges Programs, Statistics Division, Administrative Office of the United States Courts, Table C-5, available at <http://www.uscourts.gov/Viewer.aspx?doc=/uscourts/Statistics/FederalJudicialCaseloadStatistics/2010/tables/C05Mar10.pdf>. The time frame differs significantly between districts—from 11.1 months in the U.S. District Court for the Eastern District of Virginia to 41.2 months in the U.S. District Court for the District of Columbia.

whether this would be necessary, or whether an alternative small copyright claims proceeding might instead rely upon a rule akin to Federal Rule of Civil Procedure 11, which requires plaintiffs to certify the veracity of the claim.

*Available Remedies:* Because a small copyright claim process likely would be limited to reduce costs and time, it is unclear what types of remedies should be offered. The Act itself offers a number of infringement remedies, including injunctions, monetary relief (including statutory damages), impounding of infringing copies and of the articles by means of which infringing copies may be reproduced, costs and attorney's fees. Consideration should be given to whether an alternative small claims process could or should provide this whole panoply of remedies, and whether the new system would also allow preliminary relief to prevent impending or continuing infringement, similar to a temporary restraining order or preliminary injunction under Federal Rule of Civil Procedure 65.

These are but a few of the factors to analyze before deciding whether to move forward with a new small copyright claim system, and, if so, what that new process might be.

## II. Subjects of Inquiry

The Office seeks comment on how copyright owners and defendants use the current legal system for small copyright claims, including information on the obstacles and benefits of using federal district courts. Additionally, the Office requests comment on potential alternatives for handling copyright claims that have a relatively small economic value. The Office is interested in comment on the logistics of potential alternatives, as well as the benefits and risks presented by different types of processes.

## III. Conclusion

The Office hereby seeks comment from the public on factual and policy matters related to the treatment of small copyright claims. If there are any additional pertinent issues not discussed above, the Office encourages interested parties to raise those matters in their comments. In addition, the Office is considering having one or more roundtables or formal hearings on the matters raised above in the coming months. It is also likely that, following receipt of the comments in response to this Notice, the Office will publish a further Notice of Inquiry posing specific questions and possibly exploring additional alternatives.

Dated: October 24, 2011.

**Maria A. Pallante,**

*Register of Copyrights.*

[FR Doc. 2011-27824 Filed 10-26-11; 8:45 am]

**BILLING CODE 1410-30-P**

## NATIONAL ARCHIVES AND RECORDS ADMINISTRATION

### Records Schedules; Availability and Request for Comments

**AGENCY:** National Archives and Records Administration (NARA).

**ACTION:** Notice of availability of proposed records schedules; request for comments.

**SUMMARY:** The National Archives and Records Administration (NARA) publishes notice at least once monthly of certain Federal agency requests for records disposition authority (records schedules). Once approved by NARA, records schedules provide mandatory instructions on what happens to records when no longer needed for current Government business. They authorize the preservation of records of continuing value in the National Archives of the United States and the destruction, after a specified period, of records lacking administrative, legal, research, or other value. Notice is published for records schedules in which agencies propose to destroy records not previously authorized for disposal or reduce the retention period of records already authorized for disposal. NARA invites public comments on such records schedules, as required by 44 U.S.C. 3303a(a).

**DATES:** Requests for copies must be received in writing on or before November 28, 2011. Once the appraisal of the records is completed, NARA will send a copy of the schedule. NARA staff usually prepare appraisal memorandums that contain additional information concerning the records covered by a proposed schedule. These, too, may be requested and will be provided once the appraisal is completed. Requesters will be given 30 days to submit comments.

**ADDRESSES:** You may request a copy of any records schedule identified in this notice by contacting Records Management Services (ACNR) using one of the following means:

*Mail:* NARA (ACNR), 8601 Adelphi Road, College Park, MD 20740-6001.

*E-mail:* [request.schedule@nara.gov](mailto:request.schedule@nara.gov).

*Fax:* 301-837-3698.

Requesters must cite the control number, which appears in parentheses after the name of the agency which

submitted the schedule, and must provide a mailing address. Those who desire appraisal reports should so indicate in their request.

### FOR FURTHER INFORMATION CONTACT:

Laurence Brewer, Director, National Records Management Program (ACN), National Archives and Records Administration, 8601 Adelphi Road, College Park, MD 20740-6001. Telephone: 301-837-1539. *E-mail:* [request.schedule@nara.gov](mailto:request.schedule@nara.gov).

**SUPPLEMENTARY INFORMATION:** Each year Federal agencies create billions of records on paper, film, magnetic tape, and other media. To control this accumulation, agency records managers prepare schedules proposing retention periods for records and submit these schedules for NARA's approval, using the Standard Form (SF) 115, Request for Records Disposition Authority. These schedules provide for the timely transfer into the National Archives of historically valuable records and authorize the disposal of all other records after the agency no longer needs them to conduct its business. Some schedules are comprehensive and cover all the records of an agency or one of its major subdivisions. Most schedules, however, cover records of only one office or program or a few series of records. Many of these update previously approved schedules, and some include records proposed as permanent.

The schedules listed in this notice are media neutral unless specified otherwise. An item in a schedule is media neutral when the disposition instructions may be applied to records regardless of the medium in which the records are created and maintained. Items included in schedules submitted to NARA on or after December 17, 2007, are media neutral unless the item is limited to a specific medium. (See 36 CFR 1225.12(e).)

No Federal records are authorized for destruction without the approval of the Archivist of the United States. This approval is granted only after a thorough consideration of their administrative use by the agency of origin, the rights of the Government and of private persons directly affected by the Government's activities, and whether or not they have historical or other value.

Besides identifying the Federal agencies and any subdivisions requesting disposition authority, this public notice lists the organizational unit(s) accumulating the records or indicates agency-wide applicability in the case of schedules that cover records that may be accumulated throughout an

## APPENDIX—Continued

[32 TAA petitions instituted between 8/6/12 and 8/10/12]

TA-W	Subject Firm (petitioners)	Location	Date of institution	Date of petition
81864	IS One, Inc./E&R Industrial Sales (Workers)	East Syracuse, NY	08/07/12	07/30/12
81865	Sihl Pumps (Workers)	Grand Island, NY	08/07/12	07/31/12
81866	Acme Electric (Company)	Lumberton, NC	08/07/12	08/05/12
81867	Phoenix Services (State/One-Stop)	Sparrows Point, MD	08/07/12	08/06/12
81868	CCC Information Systems, Inc. (State/One-Stop)	Cerritos, CA	08/07/12	08/06/12
81869	Hartford Financial Services Group, Inc. (Company)	Simsbury, CT	08/07/12	08/06/12
81870	Hartford Financial Services Group, Inc. (Company)	Windsor, CT	08/07/12	08/06/12
81871	Fusion Contact Centers (Workers)	Santa Maria, CA	08/08/12	08/06/12
81872	Sykes, Inc. (Workers)	Langhorne, PA	08/08/12	08/07/12
81873	Legacy Custom Plastics LLC (State/One-Stop)	Clearwater, FL	08/09/12	08/08/12
81874	Parkway Knitting (Workers)	Hillsville, VA	08/09/12	07/23/12
81875	Darly Custom Technology, Inc., Engineering Design and Drafting Department (Company).	Windsor, CT	08/09/12	08/09/12
81876	Hartford Financial Services Group, Inc. (Company)	Overland Park, KS	08/09/12	08/08/12
81877	Hartford Financial Services Group, Inc. (Company)	San Antonio, TX	08/09/12	08/08/12
81878	Harsco Metals (Workers)	Warren, OH	08/09/12	08/07/12
81879	Wheeling Corrugating Company (Union)	Beech Bottom, WV	08/09/12	08/07/12
81880	RG Steel, LLC (Union)	Wheeling, WV	08/09/12	08/07/12
81881	NCO/APAC Teleservices (Workers)	Greensboro, NC	08/10/12	07/26/12
81882	Sabritec (State/One-Stop)	Irvine, CA	08/10/12	08/09/12
81883	United Steelworkers (USW), Local 9477 (State/One-Stop)	Baltimore, MD	08/10/12	08/09/12
81884	New CIDC Delaware Corporation (Company)	Cambridge, MA	08/10/12	08/06/12
81885	NCO Financial Systems (State/One-Stop)	Getzville, NY	08/10/12	08/09/12

[FR Doc. 2012-20765 Filed 8-22-12; 8:45 am]

BILLING CODE 4510-FN-P

## LIBRARY OF CONGRESS

## Copyright Office

[Docket No. 2011-10]

## Remedies for Small Copyright Claims: Additional Comments

AGENCY: Copyright Office, Library of Congress.

ACTION: Notice of inquiry.

**SUMMARY:** This is the second request for public comment pertaining to a study undertaken by the U.S. Copyright Office at the request of Congress on the topic of adjudicating small copyright claims. The study will assess whether and, if so, how the current legal system hinders or prevents copyright owners from pursuing claims that have a relatively small economic value and will discuss, with appropriate recommendations, potential changes in administrative, regulatory, and statutory authority. At this time, the Office seeks additional comments on some of the possible alternatives. The Copyright Office also announces two public meetings following the comment period, to be held during November 2012 in New York and Los Angeles, respectively.

**DATES:** Comments are due September 26, 2012.

**ADDRESSES:** All comments and reply comments shall be submitted electronically. A comment page containing a comment form is posted on the Office Web site at <http://www.copyright.gov/docs/smallclaims>. The Web site interface requires commenting parties to complete a form specifying name and organization, as applicable, and to upload comments as an attachment via a browser button. To meet accessibility standards, commenting parties must upload comments in a single file not to exceed six megabytes (MB) in one of the following formats: the Adobe Portable Document File (PDF) format that contains searchable, accessible text (not an image); Microsoft Word; WordPerfect; Rich Text Format (RTF); or ASCII text file format (not a scanned document). The form and face of the comments must include both the name of the submitter and organization. The Office will post the comments publicly on the Office's Web site exactly as they are received, along with names and organizations. If electronic submission of comments is not feasible, please contact the Office at 202-707-8350 for special instructions.

**Public Meetings:** The public meeting in New York will be held in the Jerome Greene Annex of Columbia Law School, 410 West 117th Street, New York, New York 10027, on November 15, 2012 from 9:30 a.m. to 5:30 p.m. and on November 16, 2012 from 9:30 a.m. to 3:30 p.m. The public meeting in Los Angeles will be

held in Room 1314 of the UCLA School of Law, 405 Hilgard Avenue, Los Angeles, California 90095, on November 26, 2012 from 9:30 a.m. to 5:30 p.m. and on November 27, 2012 from 9:30 a.m. to 3:30 p.m. The agendas and the process for submitting requests to participate in or observe one of these meetings will be published on the Copyright Office Web site no later than October 15, 2012.

**FOR FURTHER INFORMATION CONTACT:** Jacqueline Charlesworth, Senior Counsel, Office of the Register, by email at [jcharlesworth@loc.gov](mailto:jcharlesworth@loc.gov) or by telephone at 202-707-8350; or Catherine Rowland, Counsel, Office of Policy and International Affairs, by email at [crowland@loc.gov](mailto:crowland@loc.gov) or by telephone at 202-707-8350.

**SUPPLEMENTARY INFORMATION:****I. Background**

At the request of Congress, the Copyright Office is conducting a study to assess whether and, if so, how the current legal system hinders or prevents copyright owners from pursuing copyright infringement claims that have a relatively small economic value ("small copyright claims" or "small claims"), and to recommend potential changes in administrative, regulatory, and statutory authority to improve the adjudication of such claims. The Office published a general Notice of Inquiry in the fall of 2011 and received numerous comments regarding the current environment in which small copyright claims are (or are not) pursued and

possible alternatives to address concerns about the current system. See the original Notice of Inquiry, 76 FR 66758 (Oct. 27, 2011), and comments received in response thereto, which are posted on the Copyright Office Web site, at <http://www.copyright.gov/docs/smallclaims/comments/>. The Copyright Office also notes the roundtable discussion on small claims sponsored by George Washington University Law School (“GW”) on May 10, 2012. The GW discussion covered topics ranging from constitutional considerations to the definition of a “small claim” to potential features of a streamlined adjudicatory process, and included the participation of both the Copyright Office and the Patent and Trademark Office. See [http://www.uspto.gov/blog/director/entry/uspto\\_co\\_sponsors\\_ip\\_small](http://www.uspto.gov/blog/director/entry/uspto_co_sponsors_ip_small).

At this time, the Copyright Office seeks further input concerning how a copyright small claims system might be structured and function. Accordingly, the Office seeks responses on the specific subjects below (some of which were identified by the Office in its earlier Notice), including from parties who did not previously address those subjects, or those who wish to amplify or clarify their earlier comments or respond to the comments of others. (The Office has studied and will take into consideration the comments already received, so there is no need to restate previously submitted material.) A party choosing to respond to this Notice of Inquiry need not address every subject below, but the Office requests that responding parties clearly identify and separately address each subject for which a response is submitted.

#### *Subjects of Inquiry*

Assuming a system for small copyright claims is created:

1. *Nature of tribunal/process.* Provide a general description of the small claims system you believe would work best. Should it be a streamlined process within the existing Article III court structure, or an alternative process administered by the Copyright Office, the Copyright Royalty Judges, and/or some other type of tribunal? If an alternative process, should it include a right of review by an Article III court? Should the process be adjudicatory in nature, or instead consist of, or include, arbitration or mediation, or be some combination of these? (See below for more specific questions on review/appeals and the potential role of arbitration and/or mediation.)

2. *Voluntary versus mandatory participation.* Explain whether the small claims process would best be structured

as a voluntary or mandatory system. Should a prospective plaintiff with a claim that meets the small claims criteria retain the option of choosing the existing federal district court process instead? Should a defendant be permitted to opt out of the small claims forum in favor of federal district court? If one or both parties’ participation in the small claims process is voluntary, what incentives—such as damages limitations, attorneys’ fees awards, or other features—might be instituted to encourage voluntary participation by plaintiffs and/or defendants?

3. *Arbitration.* Explain what role, if any, arbitration might play in the small claims process. Should matters be decided through some sort of specialized arbitration? Would such arbitration be binding? If so, how would the arbitrator’s award be enforced and under what circumstances, if any, could it be set aside (and how might the Federal Arbitration Act, 9 U.S.C. 1 *et seq.*, apply)? How would arbitrators be trained and selected? Are there any existing arbitration models that might be especially useful as a model for arbitrating small copyright claims?

4. *Mediation.* Explain what role, if any, mediation might play in the small claims system. Should parties be required to participate in mediation before proceeding with a more formal process? Would it be useful to offer a copyright-focused voluntary mediation service? How would mediators be trained and selected?

5. *Settlement.* Please comment on how the small claims process might be structured to encourage voluntary settlements in lieu of litigated proceedings. Should a plaintiff be required to make a settlement offer to a prospective defendant before proceeding with a claim? Should the defendant be required to respond?

6. *Location of tribunal(s).* Could the small claims tribunal be centrally located, or should there be regional venues? If centrally located, where should it be? If in multiple locations, what should those be?

7. *Qualifications and selection of adjudicators.* Who should the adjudicators be? If the small claims system is a streamlined process within the Article III court structure, is there a role for magistrate judges or staff attorneys? If it is an alternative process, what qualifications should the adjudicators have, and how should they be selected?

8. *Eligible works.* Are some types of copyrighted works more amenable to, or in need of, a small claims system than others? Should the small claims process be limited to certain classes of works,

for example, photographs and illustrations, or should it be available for all types of copyrighted works?

9. *Permissible claims.* Discuss the types of claims that could or should be eligible for the small claims process. For example, should the process be limited solely to claims of infringement, or should it be possible to bring a related claim arising out of the same dispute, such as a Lanham Act claim? What about an infringement claim that is tied to a contractual issue, as in the case where the defendant is alleged to have infringed by exceeding the terms of a license? Should issues of copyright ownership be amenable to decision through the small claims process? What about a user’s claim that a takedown notice contained a material misrepresentation in violation of the Digital Millennium Copyright Act (“DMCA”), 17 U.S.C. 512(f)?

10. *Permissible claim amount.* Assuming there would be a cap on the amount of damages that could be sought by a plaintiff or counterclaimant in the small claims process, what should that amount be? What is the rationale for the cap proposed? Should there be any independent analysis of the damages claim by the tribunal? Should it be permissible for a copyright owner to pursue multiple claims in the same proceeding provided that, either individually or, alternatively, in the aggregate, they do not exceed the cap? What if, during the course of the proceeding, additional infringements are discovered such that the plaintiff’s potential damages exceed the cap? What if a defendant asserts a counterclaim that exceeds the cap?

11. *Permissible defenses and counterclaims.* Discuss what limitations, if any, there should be on the types of defenses and counterclaims that could be decided through the small claims process. For example, could a defense of fair use or independent creation be adjudicated through the process? What about defenses or counterclaims arising under the DMCA, such as an assertion that the plaintiff’s claim is subject to one of the safe harbor provisions of 17 U.S.C. 512(a) through (d), or that a takedown notice violated 17 U.S.C. 512(f)? To the extent such defenses or counterclaims were not subject to adjudication through the small claims process and would require removal of the action to federal district court, would this provide defendants with a means to “opt out” of the small claims system in a substantial number of cases?

12. *Registration.* Should registration of the allegedly infringed work be required in order to initiate a claim through the small claims process or,

alternatively, should proof of filing of an application for registration suffice? Should the process permit claims to be brought for unregistered works? Should the registration status of a work affect the availability of statutory damages or recovery of attorneys' fees, assuming such remedies are available through the small claims process?

13. *Filing fee.* Discuss the merits of requiring a filing fee to pursue a claim through the small claims process and the amount, if any, that would be appropriate. Should the filing fee vary with the size of the claim? Are there existing standards that might be informative?

14. *Initiation of proceeding.* Explain what would be required to initiate a proceeding. Should some sort of attestation and/or a *prima facie* showing of infringement be required of a copyright owner with the initial filing? Should a copyright owner need to establish a *prima facie* case of infringement before the defendant is required to appear and, if so, how would it be determined that this requirement had been met? By what means would the defendant be served or otherwise notified of the action? Should a defendant that is sued in federal district court for copyright infringement be permitted to transfer the matter to the small claims tribunal if the plaintiff's alleged damages are within the small claims damages cap? Should a party who has been put on notice of an alleged infringement be able to initiate an action by seeking a declaratory judgment of no infringement?

15. *Representation.* Describe the role of attorneys or other representatives, if any, in a small claims copyright system. Should individual copyright owners be permitted to be represented by an attorney and/or a non-attorney advocate, in addition to appearing *pro se*? Should corporations and other business entities be permitted to appear through employees instead of attorneys?

16. *Conduct of proceedings.* Describe how the small claims proceeding would work. Could the process be conducted by paper submission, without the requirement of personal appearances? Should the tribunal have the option to hold teleconferences or videoconferences in lieu of personal appearances? Should non-party witnesses be permitted to participate and, if so, by what means? Should expert witnesses be permitted? Should the tribunal have any sort of subpoena power? Should there be an established time frame for adjudication of the matter?

17. *Discovery, motion practice and evidence.* Explain what types of

discovery, if any, should be permitted in the small claims system. For example, should depositions (either oral or by written question), requests for production of documents, interrogatories and/or requests for admission be permitted and, if so, to what extent? Should motion practice be allowed and, if so, to what extent? What types of testimony and/or evidence should be accepted (e.g., written, oral, documentary, etc.), and what standards of admissibility, if any, should apply?

18. *Damages.* Describe the damages that would be available through the small claims system. Should damages be limited to actual damages, or could statutory damages also be awarded? If statutory damages were available, should they adhere to the existing statutory damages framework of 17 U.S.C. 504(c) (subject to any cap applicable in the small claims system), or could an alternative approach be adopted, such as a fixed amount to be awarded in the case of a finding of infringement?

19. *Equitable relief.* Describe the equitable relief, if any, that should be available through the small claims system. Should the small claims tribunal be able to grant declaratory relief, issue an injunction to halt the infringing use of a work, impose license terms (such as for the continued distribution of a derivative work) and/or award other forms of equitable relief?

20. *Attorneys' fees and costs.* Explain how attorneys' fees and costs might be handled within the small claims system. Should a prevailing plaintiff and/or defendant be entitled to recover its attorneys' fees and costs? If so, should such fees and costs be awarded according to the standards that have evolved under 17 U.S.C. 505, should they be awarded as a matter of course, or should other criteria apply? Should there be a limit on the amount of attorneys' fees that could be sought and/or awarded in the small claims system?

21. *Record of proceedings.* Describe the record of proceedings that should be kept by the tribunal. Should decisions of the tribunal be rendered in writing? Should they include factual findings, legal explanation and/or other analysis? Should the records be publicly available?

22. *Effect of adjudication.* Explain the nature and effect of a small claims adjudication. Should a decision of the small claims tribunal constitute a final and enforceable judgment (subject to any further review or appeal)? Should it be published and/or carry any precedential weight? Should it have any *res judicata* or collateral estoppel effect, or should it be limited to the specific

activities at issue and parties in question?

23. *Enforceability of judgment.* With respect to monetary judgments and any equitable or other relief awarded by the small claims tribunal, through what means would such remedies be enforceable? Should there be any special procedures for enforcement? Are there existing judicial or nonjudicial resources that might be useful in this regard?

24. *Review/appeals.* Should there be a right of review or appeal and, if so, under what circumstances, and by or to what body or court? What would be the appropriate standard of review (e.g., *de novo*, clearly erroneous, abuse of discretion, etc.)? Aside from any applicable filing fee, should there be any conditions for seeking review (such as posting of a bond)? Should a prevailing party in a review or appeal process be entitled to recover its attorneys' fees or costs?

25. *Group claims.* Should multiple copyright owners or a trade association or other entity acting on behalf of copyright owners be permitted to pursue multiple infringement claims against a single defendant, or multiple defendants, in a single proceeding? Should there be specialized rules of standing or procedures to permit this within the small claims system?

26. *Frivolous claims.* How might the small claims system deter frivolous and unwarranted filings? What measures—such as the awarding of attorneys' fees or other financial sanctions, or the barring of copyright owners that have repeatedly pursued frivolous claims from further use of the small claims process—might be taken to discourage the assertion of bad faith or harassing infringement claims, defenses and counterclaims?

27. *Constitutional issues.* Comment on whether a small claims system might implicate any one or more of the following constitutional concerns—or any other constitutional issue—and, if so, how the particular concern might be addressed:

a. Separation of powers questions arising from the creation of specialized tribunals outside of the Article III framework, including how a right of review by an Article III court might impact the analysis;

b. The Seventh Amendment right to have a copyright infringement case tried to a jury, as confirmed in *Feltner v. Columbia Pictures Television, Inc.*, 523 U.S. 340 (1998);

c. Constitutional requirements for a court's assertion of personal jurisdiction, in particular when

adjudicating claims of a defendant located in another state; and/or

d. Due process considerations arising from abbreviated procedures that impose limitations on briefing, discovery, testimony, evidence, appellate review, etc.

28. *State court alternative.* As an alternative to creating a small claims system at a federal level, should the statutory mandate of exclusive federal jurisdiction for copyright claims be altered to allow small copyright claims to be pursued through existing state court systems, including traditional state small claims courts? What benefits or problems might flow from such a change?

29. *Empirical data.* Commenting parties are invited to cite and submit further empirical data (in addition to the anecdotal and survey information already cited or submitted to the Copyright Office in connection with this proceeding) bearing upon:

a. Whether copyright owners are or are not pursuing small infringement claims through the existing federal court process, and the factors that influence copyright owners' decisions in that regard, including the value of claims pursued or forgone;

b. The overall cost to a plaintiff and/or a defendant to litigate a copyright infringement action to conclusion in federal court, including costs and attorneys' fees, discovery expenditures, expert witness fees and other expenses (with reference to the stage of proceedings at which the matter was concluded);

c. The frequency with which courts award costs and/or attorneys' fees to prevailing parties pursuant to 17 U.S.C. 505, and the amount of such awards in relation to the underlying claim or recovery; and/or

d. The frequency with which litigants decline to accept an outcome in state small claims court and seek *de novo* review (with or without a jury trial) or file an appeal in a different court.

30. *Funding considerations.* Aside from filing fees, by what means might a small claims system be partially or wholly self-supporting? Should winning and/or losing parties be required to defray the administrative costs of the tribunal's consideration of their matter, in all or in part? If so, by what means? If the system consists of or includes arbitration or mediation, should parties bear the cost of these alternatives?

31. *Evaluation of small claims system.* Should the small claims system be evaluated for efficacy and, if so, how? Should it be subject to periodic review or adjustment? Should it be launched

initially as a pilot program or on a limited basis?

32. *Other issues.* Are there any additional pertinent issues not identified above that the Copyright Office should consider in conducting its study?

Dated: August 20, 2012.

**Maria A. Pallante,**

*Register of Copyrights.*

[FR Doc. 2012-20802 Filed 8-22-12; 8:45 am]

**BILLING CODE 1410-30-P**

## **NUCLEAR REGULATORY COMMISSION**

**[Docket No. 50-316; NRC-2012-0199]**

### **Indiana Michigan Power Company, Donald C. Cook Nuclear Plant, Unit 2, Environmental Assessment and Finding of No Significant Impact**

The Nuclear Regulatory Commission (NRC or the Commission) is considering issuance of an exemption and an amendment to Renewed Facility Operating License No. DPR-74, issued to Indiana Michigan Power Company (the licensee), for operation of Donald C. Cook Nuclear Plant, Unit 2 (CNP-2), located in Berrien County, Michigan, in accordance with §§ 50.12 and 50.90 of Title 10 of the Code of Federal Regulations (10 CFR). In accordance with 10 CFR 51.21, the NRC performed an environmental assessment documenting its findings as follows:

#### **Environmental Assessment**

##### *Identification of the Proposed Actions*

The proposed actions would issue an exemption from certain requirements of 10 CFR, Section 50.46 and Appendix K, regarding fuel cladding material, and revise the Technical Specifications document, which is Appendix A to Renewed Facility Operating License DPR-74, to permit use of a Westinghouse proprietary material, Optimized ZIRLO™, for fuel rod cladding. The licensee will be authorized to a peak load average burnup limit of 62 gigawatt-days per metric ton uranium (GWD/MTU).

The proposed actions are in accordance with the licensee's application dated September 29, 2011, as supplemented on July 25, 2012.

##### *The Need for the Proposed Actions*

The proposed actions to issue an exemption to the fuel cladding requirement of 10 CFR 50.46 and Appendix K, and to amend the Technical Specifications to permit use of Optimized ZIRLO™ clad fuel rods to

a peak rod average burnup limit of 62 GWD/MTU would allow for more effective fuel management. If the exemption and amendment are not approved, the licensee will not be provided the opportunity to use Optimized ZIRLO™ fuel design with a peak rod average burnup as high as 62 GWD/MTU; the licensee would thus lose fuel management flexibility.

#### *Environmental Impacts of the Proposed Actions*

In this environmental assessment regarding the impacts of the use of Optimized ZIRLO™ clad fuel with the possible burnup up to 62 GWD/MTU, the Commission is relying on the results of the updated study conducted for the NRC by the Pacific Northwest National Laboratory (PNNL), entitled "Environmental Effects of Extending Fuel Burnup Above 60 GWD/MTU" (NUREG/CR-6703, PNNL-13257, January 2001). Environmental impacts of high burnup fuel up to 75 GWD/MTU were evaluated in the study, but some aspects of the review were limited to evaluating the impacts of the extended burnup up to 62 GWD/MTU, because of the need for additional data on the effect of extended burnup on gap release fractions. All the aspects of the fuel-cycle were considered during the study, from mining, milling, conversion, enrichment and fabrication through normal reactor operation, transportation, waste management, and storage of spent fuel.

The amendment and exemption would allow CNP-2 to use Optimized ZIRLO™ clad fuel up to a burnup limit of 62 GWD/MTU. The NRC staff has completed its evaluation of the proposed actions and concludes that such changes would not adversely affect plant safety, and would have no adverse effect on the probability of any accident. For the accidents that involve damage or melting of the fuel in the reactor core, fuel rod integrity has been shown to be unaffected by extended burnup under consideration; therefore, the consequences of an accident will not be affected by fuel burnup to 62 GWD/MTU. For the accidents in which the reactor core remains intact, the increased burnup may slightly change the mix of fission products that could be released, but because the radionuclides contributing most to the dose are short-lived, increased burnup would not have an effect on the consequences beyond the consequences of previously evaluated accident scenarios. Thus, there will be no significant increase in projected dose consequences of postulated accidents associated with fuel burnup up to 62 GWD/MTU, and

(g) Batteries in the surveying equipment will be changed out or charged in fresh air out of the return.

(h) Qualified personnel who use surveying equipment will be properly trained to recognize the hazards associated with the use of nonpermissible surveying equipment in areas where methane could be present.

(i) The nonpermissible surveying equipment will not be put into service until MSHA has initially inspected the equipment and determined that it is in compliance with all the terms and conditions in this petition.

The petitioner asserts that the proposed alternative method will at all times guarantee no less than the same measure of protection as that afforded by the existing standard.

*Docket Number:* M-2013-013-C.

*Petitioner:* Peabody Midwest Mining, LLC, Three Gateway Center, Suite 1500, 401 Liberty Avenue, Pittsburgh, Pennsylvania 15222-1000.

*Mine:* Wildcat Hills Underground Mine, MSHA I.D. No. 11-03156, located in Saline County, Illinois.

*Regulation Affected:* 30 CFR 75.1002(a) (Installation of electric equipment and conductors; permissibility).

*Modification Request:* The petitioner requests a modification of the existing standard to permit an alternative method of compliance to allow the use of battery-powered nonpermissible surveying equipment within 150 feet of pillar workings, including, but not limited to, portable battery-operated mine transits, total station surveying equipment, distance meters, and data loggers. The petitioner states that:

(1) To comply with requirements for mine ventilation maps and mine maps in 30 CFR 75.372 and 75.1200, use of the most practical and accurate surveying equipment is necessary. To ensure the safety of the miners in active mines and to protect miners in future mines that may mine in close proximity to these same active mines, it is necessary to determine the exact location and extent of the mine workings.

(2) Application of the existing standard would result in a diminution of safety to the miners. Underground mining, by its nature and size and the complexity of mine plans, requires that accurate and precise measurements be completed in a prompt and efficient manner. The petitioner proposes the following as an alternative to the existing standard:

(a) Nonpermissible electronic surveying equipment may be used. Such nonpermissible surveying equipment includes portable battery-operated total

station surveying equipment, mine transits, distance meters, and data loggers.

(b) All nonpermissible electronic surveying equipment to be used within 150 feet of pillar workings will be examined by surveying personnel prior to use to ensure the equipment is being maintained in a safe operating condition. These examinations will include the following steps:

(i) Checking the instrument for any physical damage and the integrity of the case.

(ii) Removing the battery and inspecting for corrosion.

(iii) Inspecting the contact points to ensure a secure connection to the battery.

(iv) Reinserting the battery and powering up and shutting down to ensure proper connections.

(v) Checking the battery compartment cover to ensure that it is securely fastened.

(c) The results of such examinations will be recorded and retained for one year and made available to MSHA on request.

(d) A qualified person as defined in 30 CFR 75.151 will continuously monitor for methane immediately before and during the use of nonpermissible surveying equipment within 150 feet of pillar workings.

(e) Nonpermissible surveying equipment will not be used if methane is detected in concentrations at or above one percent for the area being surveyed. When methane is detected at such levels while the nonpermissible surveying equipment is being used, the equipment will be deenergized immediately and the nonpermissible electronic equipment withdrawn further than 150 feet from pillar workings.

(f) All hand-held methane detectors will be MSHA-approved and maintained in permissible and proper operating condition as defined in 30 CFR 75.320.

(g) Batteries in the surveying equipment will be changed out or charged in fresh air more than 150 feet from pillar workings.

(h) Qualified personnel who use surveying equipment will be properly trained to recognize the hazards associated with the use of nonpermissible surveying equipment in areas where methane could be present.

(i) The nonpermissible surveying equipment will not be put into service until MSHA has initially inspected the equipment and determined that it is in compliance with all the terms and conditions in this petition.

The petitioner asserts that the proposed alternative method will at all

times guarantee no less than the same measure of protection as that afforded by the existing standard.

Dated: February 21, 2013.

**George F. Triebisch,**

*Director, Office of Standards, Regulations and Variances.*

[FR Doc. 2013-04370 Filed 2-25-13; 8:45 am]

**BILLING CODE 4510-43-P**

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## LIBRARY OF CONGRESS

### United States Copyright Office

[Docket No. 2011-10]

#### Remedies for Small Copyright Claims: Third Request for Comments

**AGENCY:** U.S. Copyright Office, Library of Congress.

**ACTION:** Notice of inquiry.

**SUMMARY:** The United States Copyright Office is requesting public comment for the third time on the topic of adjudicating small copyright claims. The Office is studying whether and, if so, how the current legal system hinders or prevents copyright owners from pursuing copyright claims that have a relatively small economic value and will discuss, with appropriate recommendations, potential changes in administrative, regulatory, and statutory authority. At this time, the Office seeks additional comments on possible alternatives to the current system to improve the adjudication of such claims.

**DATES:** Comments are due April 12, 2013.

**ADDRESSES:** All comments are to be submitted electronically. A comment page containing a comment form is posted on the Office Web site at <http://www.copyright.gov/docs/smallclaims>. The Web site interface requires commenting parties to complete a form specifying name and organization, as applicable, and to upload comments as an attachment via a browser button. To meet accessibility standards, commenting parties must upload comments in a single file not to exceed six megabytes (MB) in one of the following formats: The Adobe Portable Document File (PDF) format that contains searchable, accessible text (not an image); Microsoft Word; WordPerfect; Rich Text Format (RTF); or ASCII text file format (not a scanned document). The form and face of the comments must include both the name of the submitter and organization. The Office will post the comments publicly on the Office's Web site exactly as they

are received, along with names and organizations. If electronic submission of comments is not feasible, please contact the Office at 202-707-8350 for special instructions.

**FOR FURTHER INFORMATION CONTACT:**

Jacqueline Charlesworth, Senior Counsel, Office of the Register, by email at [jcharlesworth@loc.gov](mailto:jcharlesworth@loc.gov) or by telephone at 202-707-8350; or Catherine Rowland, Senior Counsel, Office of Policy and International Affairs, by email at [crowland@loc.gov](mailto:crowland@loc.gov) or by telephone at 202-707-8350.

**SUPPLEMENTARY INFORMATION:**

**I. Background**

At the request of Congress, the Copyright Office is conducting a study to assess whether and, if so, how the current legal system hinders or prevents copyright owners from pursuing copyright infringement claims that have a relatively small economic value (“small copyright claims” or “small claims”), and to recommend potential changes in administrative, regulatory, and statutory authority to improve the adjudication of such claims. To aid with this study, the Office has published two prior Notices of Inquiry seeking public comment, and the Office also has held public hearings on small copyright claims issues. The Office’s first general Notice of Inquiry, published in the fall of 2011, generated numerous comments regarding the current environment in which small copyright claims are (or are not) pursued, and possible alternatives to address concerns about the current system. See the original Notice of Inquiry, 76 FR 66758 (Oct. 27, 2011), and comments received in response thereto, which are posted on the Copyright Office Web site, at <http://www.copyright.gov/docs/smallclaims/comments/>. The Copyright Office published a second Notice of Inquiry in the summer of 2012 that announced public hearings and set forth a list of specific topics relating to the small copyright claims process, which resulted in additional public comments. See the second Notice of Inquiry, 77 FR 51068 (Aug. 23, 2012), and comments received in response thereto, posted on the Copyright Office Web site, at [http://www.copyright.gov/docs/smallclaims/comments/noi\\_10112012/index.html](http://www.copyright.gov/docs/smallclaims/comments/noi_10112012/index.html). Finally, in November 2012, the Office held two two-day public hearings on small copyright claims in New York City and Los Angeles, during which participants provided their views on the adjudication of small copyright claims.

At this time, the Copyright Office seeks additional comments regarding

how a small copyright claims system might be structured and function, including from parties who have not previously addressed these issues, or those who wish to amplify or clarify their earlier comments, or respond to the comments of others. The Office is interested in additional comments about the potential benefits and risks of creating a new procedure for adjudicating small copyright claims, as well as how such a system might be implemented—for example, as a new adjudicative body, as part of the existing federal court system, by extending the jurisdiction of state courts, or as some form of arbitration or mediation system. Based on its review of previously submitted comments and statements at the public hearings, the Office in particular seeks further commentary on the specific subjects set forth below, as the Office believes they warrant further analysis.

While commenting parties may address any matter pertinent to the adjudication of small copyright claims, they should be aware that the Office has studied and will take into consideration the comments already received, so there is no need to restate previously submitted material. A party choosing to respond to this Notice of Inquiry need not address every topic below, but the Office requests that responding parties clearly identify and separately address those subjects for which a response is submitted.

**II. Subjects of Inquiry**

1. *Voluntary versus mandatory participation.* Stakeholders voiced opinions in their comments and at the Office’s two public hearings regarding the benefits and risks of voluntary versus mandatory small copyright claim resolution systems. Specifically, members of the public expressed conflicting views concerning the efficacy of incentives for participation in a voluntary system and the constitutional implications of a mandatory system. The Office is interested in learning more about the feasibility and constraints of voluntary and mandatory systems, and how these alternatives might be implemented. Among other questions, the Office is interested in whether a voluntary system could be implemented on an “opt out” basis—that is, whether a properly served defendant might be deemed to consent to participate in the voluntary process unless he or she affirmatively opts out within a certain time frame. Some stakeholders suggested that such a framework might be helpful to address the problem of alleged infringers who fail to respond to

notices of infringement and thus might also be unlikely to respond to notice of a lawsuit.

2. *Eligible works.* The previous round of comments and public hearings explored the issue of what types of works should be covered by a small copyright claims process; that is, whether the procedure should cover only certain types of copyrighted works, such as photographs, illustrations, and textual works, or should cover all types of works. For example, certain music organizations proposed that musical works and sound recordings be excluded from the process (at least for the time being) as, in their view, music publishers, performing rights societies, and record companies already adequately address small copyright claims on behalf of the songwriters and recording artists they represent. At the same time, others pointed out that some songwriters and recording artists—for example, those who are self-represented—may not have access to such resources and, even if they are represented through a larger organization, may not be successful in convincing that organization to take legal action. The Office invites further comment on whether musical works, sound recordings, or any other type of copyrighted work should be excluded from the small claims process and, if so, how it might impact individual and small copyright owners of that type of work.

3. *Permissible claims.* Some of the comments and public hearing participants analyzed what types of claims should be eligible for the small copyright claims process. These comments and discussions raised questions regarding how to define what claims might or might not be amenable to the small copyright claims procedure. While it seems clear that a copyright small claims tribunal would address infringement matters, some infringement claims are intertwined with other issues, such as contractual or ownership disputes, thus suggesting a need for any such tribunal to address these additional types of claims and defenses as well. Some commenters indicated that plaintiffs should be limited to asserting infringement claims, with contractual or ownership issues to be adjudicated only when raised as defenses. Others suggested that certain types of issues, such as ownership disputes, should be excluded from the small claims process altogether. The Office is interested in further thoughts on the types of claims that should be included in a small copyright claims process and how the system might address situations where an allegedly

infringing act implicates an additional cause of action or defense, such as breach of contract, an ownership issue, a trademark violation, or some other claim.

4. *Injunctive relief.* In the comments and during the public hearings, some stakeholders argued strongly that any small claims system should include the possibility of injunctive relief to end infringing behavior, including in situations where the infringing conduct exploits the work in a manner that the copyright owner would not license, or violates an exclusive arrangement between the copyright owner and a third party. However, others noted that injunctive relief could be a complicated undertaking in a small claims context, partly if the unauthorized use is but one part of a larger work such as a film, book, or sound recording. It was suggested that in such a case, a plaintiff's monetary damages might be small but the economic consequences of an injunction may be considerably larger, perhaps exceeding in value any damages cap adopted for the small claims process. Stakeholders expressed differing views as to whether injunctive relief should be available through a small claims system and, if so, how the nature or scope of such relief might be tailored to the small claims context. Particular concerns raised in the comments and at the hearings included: whether preliminary injunctive relief is compatible with a small claims process; the procedural safeguards that would adequately protect parties against whom injunctive relief was sought; whether injunctive relief awarded through the small claims process should be reviewable by an Article III court; and whether Article III review would be a practical alternative for parties of limited means. A related consideration is how the question of injunctive relief might be affected by whether the small claims process is voluntary or mandatory. The Office welcomes additional thoughts on these issues.

5. *Secondary liability.* Although much of the public commentary and discussion of small copyright claims has focused on direct infringement, it has also touched upon issues of secondary liability, including the relationship of a small claims procedure to the notice and takedown requirements of Section 512 of the Copyright Act, 17 U.S.C. 512. The Office is interested in further views concerning the intersection of a small claims process with Section 512 and, more generally, any recommended approaches to claims of contributory and vicarious infringement within the small claims context.

6. *Role of attorneys.* Written comments and discussion at the two hearings revealed a range of opinions as to the role of attorneys in a small copyright claims system. Some believe attorneys should be excluded from the proceedings as the ability to retain counsel would tend to favor defendants with greater resources over small copyright owner plaintiffs who are compelled to proceed *pro se*. Other commenters believe that access to legal representation would be important to both sides—especially in cases with a degree of legal complexity—and the system should be designed to encourage attorneys to take lower-value cases by offering fee awards. It was further suggested that such fee awards might be capped to reflect the streamlined procedures and lower recoveries of a small claims process. The Office welcomes further consideration of these issues.

7. *Guiding law.* If the small claims tribunal was to be centrally located (or even if it were in multiple locations), what decisional law should it follow? In addition to the United States Supreme Court, should it look primarily to copyright decisions of any particular circuit—for example, based upon its location, the location of the infringing conduct, or the location of the parties? Should its own decisions have any precedential effect, at least with respect to future decisions of the small claims tribunal? In this regard, some expressed the concern that if small claims decisions had effect beyond the immediate dispute, defendants might be inclined to opt out of a voluntary system. The Office invites further thoughts on the decisional law that should guide the small claims tribunal.

8. *Willful and innocent infringement.* At the hearings, it was suggested by some that a small claims process should not include a potential finding of willfulness, in part because it could be more difficult to establish the appropriate evidentiary record to support such a finding under a streamlined procedure. In addition, a damages cap for small copyright claims appreciably below the existing \$150,000 maximum in statutory damages for willful infringement—for example, a ceiling of \$30,000, as has been suggested by some—would limit the economic significance of a willfulness finding. *See* 17 U.S.C. 504(c)(2). If the willfulness element were to be eliminated in the small claims context, a question also arises as to whether the “innocent infringer” distinction—which permits a court to reduce statutory damages to as low as \$200 for a defendant who was not aware and had no reason to believe

his or her actions were infringing—should remain. *See id.* Should the small claims procedure eliminate distinctions as to the nature of the infringement, along with their potential impact on damages awards?

9. *Service of process.* At the hearings, participants shared views on how potential small claims defendants might be notified of the action. A particular concern is that copyright owners of limited means may have difficulty effectuating traditional service on distant or elusive defendants. It was suggested that Federal Rule of Civil Procedure 4, including the provision that permits a defendant to be notified of an action by mail or other means via a waiver of formal service of process, could be appropriate for the small claims system. *See* Fed. R. Civ. P. 4. It was also suggested that a Web site might properly be served by sending electronic notice to an agent designated to receive notifications of infringement pursuant to Section 512 of the Copyright Act. *See* 17 U.S.C. 512(c)(2). In addition, it was observed that the small claims tribunal might handle service of defendants, as is sometimes the case in other contexts (including in some state courts). The Office seeks further comments on potential procedures to notify defendants that an action has been filed.

10. *Offers of judgment.* Some commenters have suggested that a process such as that contemplated by Federal Rule of Civil Procedure 68—which allows a defendant to make an offer of judgment and recover certain costs if the plaintiff rejects the offer and fails to obtain a more favorable outcome—could play a useful role in the small claims setting. *See* Fed. R. Civ. P. 68. Others feel that once a plaintiff has filed an action, pretrial settlement procedures would merely delay the process in most cases. The Office is interested in additional comments as to whether and how a mechanism akin to Rule 68 might be useful in the small claims context.

11. *Default judgments.* Current federal district court procedures allow a plaintiff to seek default judgments if a lawfully served defendant fails to appear. The Office is interested in whether such a procedure should be available in a small copyright claim proceeding. If plaintiffs are able to seek default judgments, what are the procedural safeguards that should apply, what type of remedies should be available, and what type of showing should be required to justify relief?

12. *Enforceability of judgments.* A primary concern of commenters and participants at the small claims hearings is that a small claims judgment—in

particular one rendered through a voluntary system—should be enforceable. In addition to monetary damages, such a judgment might include some form of injunctive relief. Participants offered a range of suggestions on the matter of enforcement. Some indicated that the Federal Arbitration Act, 9 U.S.C. 1 *et seq.*, might to some degree serve as a model for obtaining an enforceable federal court judgment following adjudication by the small claims tribunal. Participants also commented on the practical aspects of collecting on judgments. Noting that the challenges of enforcing a judgment, once obtained, are not unique to the copyright context, some suggested that successful small claims plaintiffs could avail themselves of existing federal and state court procedures. The Office welcomes further discussion of existing or potential mechanisms that successful plaintiffs might employ to enforce small claims judgments without incurring prohibitive costs.

13. *Unknown defendants.* Some hearing participants observed that in many instances—especially in the case of internet-based infringement—the infringer's identity may not be known and/or the infringer may be difficult to locate. Web sites may lack usable contact data and/or may be registered anonymously. Should the small claims procedure permit parties to pursue claims against “John Doe” defendants, including, when appropriate, the means to subpoena an internet service provider to learn the identity and location of such a defendant? The Office invites comments on how such a process might work, with reference to existing practices in other courts as appropriate.

14. *Multiple tracks or proceedings.* During the hearings, some participants discussed the possibility of having more than one type of small copyright claims proceeding—a highly simplified process for straightforward claims with perhaps only a few hundred or few thousand dollars at stake, and a more robust process for matters of greater complexity or economic consequence that are still too small to be practically pursued in federal district court. Stakeholders considered whether, even within the small claims context, there should be a greater amount of discovery and procedure in certain types of cases, for example, when an injunction is sought. The Office seeks further comment on whether a tiered system would be desirable, or whether a single, unified approach to small claims is the better alternative, perhaps with the possibility of developing additional “tracks” over time if warranted.

15. *Constitutional issues.* The Office continues to be interested in learning more about the constitutional impact of any small copyright claims procedure. Thus, the Office requests additional comments on whether a small copyright claims system might implicate any one or more of the following constitutional concerns—or any other constitutional issue—and, if so, how the particular concern might be addressed:

a. Separation of powers questions arising from the creation of specialized tribunals outside of the Article III framework, including how a right of review by an Article III court might impact the analysis;

b. The Seventh Amendment right to have a copyright infringement case tried by a jury, as confirmed in *Feltner v. Columbia Pictures Television, Inc.*, 523 U.S. 340 (1998);

c. Constitutional requirements for a court's assertion of personal jurisdiction, in particular when adjudicating claims of a defendant located in another state; and/or

d. Due process considerations arising from abbreviated procedures that impose limitations on briefing, discovery, testimony, evidence, appellate review, etc.

16. *International issues.* At the public hearings, some participants sought to ensure that the small claims procedure would be available to foreign plaintiffs seeking redress for infringing activity in the United States, as well as to U.S. plaintiffs seeking to take action against foreign defendants, as is permitted under the existing federal system. The operation of a small copyright claims system could have implications for the United States' rights and responsibilities under the Berne Convention, the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), and other instruments. The Office welcomes additional comments on the international implications of a small claims system, including how the voluntary or mandatory nature of such a system might affect the analysis.

17. *Empirical data.* Previous comments provided helpful empirical data relevant to the adjudication of small copyright claims, including surveys by the American Bar Association Section on Intellectual Property Law and the Graphic Artists Guild. The Office welcomes additional surveys and empirical studies bearing upon:

a. Whether copyright owners are or are not pursuing small infringement claims through the existing federal court process, and the factors that influence copyright owners' decisions in that

regard, including the value of claims pursued or forgone;

b. The overall cost to a plaintiff and/or a defendant to litigate a copyright infringement action to conclusion in federal court, including costs and attorneys' fees, discovery expenditures, expert witness fees and other expenses (with reference to the stage of proceedings at which the matter was concluded);

c. The frequency with which courts award costs and/or attorneys' fees to prevailing parties pursuant to 17 U.S.C. 505, and the amount of such awards in relation to the underlying claim or recovery; and/or

d. The frequency with which litigants decline to accept an outcome in state small copyright claims court and seek *de novo* review (with or without a jury trial) or file an appeal in a different court.

Parties considering the submission of additional survey or empirical data may wish to review the studies mentioned above, which are available at <http://www.copyright.gov/docs/smallclaims/>.

18. *Other issues.* Please comment on any other issues the Copyright Office should consider in conducting its small copyright claims study.

Dated: February 20, 2013.

**Maria A. Pallante,**

*Register of Copyrights.*

[FR Doc. 2013-04466 Filed 2-25-13; 8:45 am]

BILLING CODE 1410-30-P

## NUCLEAR REGULATORY COMMISSION

[NRC-2013-0038]

### Electric Power Research Institute; Seismic Evaluation Guidance

**AGENCY:** U.S. Nuclear Regulatory Commission.

**ACTION:** Endorsement letter; issuance.

**SUMMARY:** The U.S. Nuclear Regulatory Commission (NRC) is issuing an endorsement letter with clarifications of Electric Power Research Institute (EPRI)-1025287, “Seismic Evaluation Guidance: Screening, Prioritization and Implementation Details (SPID) for the Resolution of Fukushima Near-Term Task Force Recommendation 2.1: Seismic,” Revision 0, hereafter referred to as the SPID report. This SPID report provides guidance and clarification of an acceptable approach to assist nuclear power reactor licensees when responding to the NRC staff's request for information dated March 12, 2012, Enclosure 1, “Recommendation 2.1: Seismic.” The NRC staff's endorsement

**APPENDIX C**      **COMMENTING PARTIES AND ROUNDTABLE  
PARTICIPANTS**

### **Parties Who Responded to First Notice of Inquiry**

1. American Intellectual Property Law Association (AIPLA)
2. Alliance of Visual Artists (AVA) (on behalf of Evidence Photographers International Council (EPIC), Professional Photographers of America (PPA), and Student Photographic Society (SPS))
3. American Society of Composers, Authors and Publishers (ASCAP) and SESAC, Inc. (SESAC)
4. American Society Of Media Photographers (ASMP)
5. American Photographic Artists (APA)
6. Association of American Publishers (AAP)
7. Atkinson, Dale
8. Authors Guild
9. Beasley, Joe
10. Broadcast Music, Inc. (BMI)
11. Broeder, Kay
12. Byron, Robert
13. California Lawyers for the Arts (CLA)
14. Cannings, James (on behalf of himself and Our Own Performing Society, Inc.)
15. Chu, Lynn
16. Copyright Alliance
17. Craig, M. Tom
18. D'Angelo, Steven
19. Damstra, Emily S.
20. Donald A. Gardner Architects, Inc.
21. Gilmartin, Robert E.
22. Google Inc.
23. Graphic Artists Guild (GAG)
24. Gray Matters
25. Hoch, Judy
26. Illustrators' Partnership of America (IPA)
27. Independent Film & Television Alliance (IFTA)
28. Keck, Cheryl
29. Kernochan Center for Law, Media and the Arts

30. Koenig III, C. Frederick
31. McDermott Medical Illustration
32. McGowan, Michael
33. Michelsen, SJ
34. Microsoft Corporation
35. National Music Publishers' Association (NMPA), American Society of Composers, Authors and Publishers (ASCAP), and SESAC, Inc. (SESAC)
36. National Press Photographers Association (NPPA)
37. National Writers Union (UAW Local 1981, AFL-CIO) (NWU)
38. New Media Rights
39. OnLock Digital Authentication
40. Pepi, Eugene
41. Perry4Law
42. Picture Archive Council Of America, Inc. (PACA)
43. Planetemeraldjungle LLC
44. Public Knowledge (PK), Electronic Frontier Foundation (EFF), and Future of Music Coalition (FMC)
45. R. Kunstadt, P.C. (on behalf of Robert Kunstadt and Fritjof Haft)
46. Recording Industry Association of America (RIAA) and American Association of Independent Music (A2IM)
47. Rosen, Barry
48. Rosenthal, Morris
49. Schnackel, Cindy
50. Sherwin, Brian
51. The Songwriters Guild of America (SGA) and The Nashville Songwriters Association International (NSAI)
52. Traynor, Michael, Spelman, Katherine C., and Cohen, Sophie
53. Westwood, William B.
54. Williamson, Miryam Ehrlich
55. ZipCourt, Inc.

### **Parties Who Responded to Second Notice of Inquiry**

1. Alliance of Visual Artists (AVA) (on behalf of Professional Photographers of America (PPA) and Student Photographic Society (SPS))
2. American Bar Association's Section of Intellectual Property Law (ABA IP Section)
3. American Photographic Artists (APA)
4. American Society of Composers, Authors & Publishers (ASCAP), American Association of Independent Music (A2IM), Broadcast Music, Inc. (BMI), National Music Publishers Association (NMPA), Recording Industry Association of America (RIAA), and SESAC, Inc. (SESAC)
5. American Society of Media Photographers (ASMP)
6. Association of American Publishers (AAP)
7. Blich, Michael
8. Cannings, James (on behalf of himself and Our Own Performing Society, Inc.)
9. Dreyfus, Rochelle C. (Pauline Newman Professor of Law and Co-Director, Engelberg Center on Innovation Law & Policy)
10. Gear Publishing Company
11. Getty Images
12. Graphics Artists Guild (GAG)
13. Gunewardene, R
14. Hegazy, Eman
15. Independent Book Publishers Association (IBPA)
16. Independent Film & Television Alliance (IFTA)
17. Kernochan Center for Law, Media and the Arts
18. Kirk, Thaddeus S.
19. National Press Photographers Association (NPPA)
20. New Media Rights
21. Picture Archive Council of America, Inc. (PACA)
22. The Songwriters Guild of America (SGA)
23. Soulen, Julie Magers
24. Southworth, William
25. Starstone Media

### **Parties Who Responded to Third Notice of Inquiry**

1. American Photographic Artists (APA)
2. American Society Of Media Photographers (ASMP)
3. Association of American Publishers (AAP)
4. Blum, Richard
5. Cifrino, Christopher
6. Devorah, Carrie
7. Federal Legal Assistance Self Help Center (FLASH)
8. Firth, Sheana
9. Hibberd, Rick
10. Hollaar, Dr. Lee A. (Professor in the School of Computing at the University of Utah in Salt Lake City, representing himself)
11. Getty Images
12. Graphic Artists Guild (GAG)
13. Motion Picture Association of America, Inc. (MPAA)
14. National Music Publishers' Association, Inc. (NMPA), The Harry Fox Agency, Inc. (HFA), American Society of Composers, Authors and Publishers (ASCAP), Broadcast Music, Inc. (BMI), SESAC, Inc. (SESAC), and the Church Music Publishers Association (CMPA)
15. National Press Photographers Association (NPPA)
16. National Writers Union (UAW Local 1981, AFL-CIO) (NWU)
17. Nelson and McCulloch LLP
18. Odyssey Entertainment, Inc.
19. Peterson, Elsa
20. Picture Archive Council of America, Inc. (PACA)
21. Sisk, Lorene Leftwich
22. The Songwriters Guild of America (SGA)
23. Studio 1, Inc.
24. Sun-Glo Records, Inc. and Upward Bound Music Company, Inc.
25. VIPO Inc.
26. Volunteer Lawyers for the Arts, Inc. (VLA)
27. Umans, Rudy

### **Participants in New York Hearings**

1. Badavas, Christos (The Harry Fox Agency, Inc.)
2. Cannings, James (Our Own Performance Society, Inc.)
3. Chaitovitz, Ann (U.S. Patent & Trademark Office)
4. Davis, Susan (National Writers Union)
5. DiMona, Joseph (Broadcast Music, Inc.)
6. Fertig, Rachel (Association of American Publishers)
7. Holland, Brad (Illustrators' Partnership of America)
8. Lehman, Bruce (Former Assistant Secretary of Commerce and Commissioner of Patents and Trademarks 1993-1999)
9. Leichtman, David (Volunteer Lawyers for the Arts, Inc.)
10. Loftus, Mary Fran (We Research Pictures, LLC)
11. Mopsik, Eugene (American Society of Media Photographers)
12. Osterreicher, Mickey (National Press Photographers Association)
13. Perlman, Victor (American Society of Media Photographers)
14. Rosenthal, Jay (National Music Publishers Association)
15. Sanders, Charles (The Songwriters Guild of America)
16. Shaftel, Lisa (Graphic Artists Guild)
17. Taylor, Randy (Copyright Defense League, LLC)
18. Willmer, Lisa (Getty Images)
19. Wolff, Nancy (Picture Archive Council of America, Inc.)

## **Participants in Los Angeles Hearings**

1. Brennan, Lorin (Linde Law Firm)
2. Bristol, Erica (Mediator)
3. Calzada, Alicia (National Press Photographers Association)
4. Chaitovitz, Ann (U.S. Patent & Trademark Office)
5. Cleary, Susan (Independent Film & Television Alliance)
6. Clinton, George (Musician)
7. Cohan, Timothy A. (Peermusic)
8. Field, Corey (Ballard Spahr, LLP)
9. Grecco, Michael (American Photographic Artists)
10. Hasbrouck, Edward (National Writers Union)
11. Knappen, Molly (Designer and Developer)
12. Kunze, Erin (California Lawyers for the Arts)
13. Neil, Art (New Media Rights)
14. Reed, Kendall (Mediator, Arbitrator, Attorney)
15. Robinson, Alma (California Lawyers for the Arts)
16. Tommaselli, Kim (Independent Film & Television Alliance)
17. Traynor, Michael (Cobalt, LLP)
18. Wright, Carolyn (Law Offices of Carolyn E. Wright, LLC)

**APPENDIX D**      **SUMMARY OF STATE SMALL CLAIMS  
PROCEDURES**

State <sup>1</sup>	Courts	Monetary Limit (\$000s)	Equitable Relief	Attorney Representation for Individuals	Simplified Pleadings	Answer Required	Counterclaims Must Be Filed In Advance of Hearing	Filing Fees (\$)	Costs Recoverable	Specialized Procedure	Discovery	Evidentiary Rules	Jury Trials	Appeals
Cal. <sup>2</sup>	Small Claims Court (Division of Superior Court)	10	Limited	Not permitted	Yes	No	Required	30-100	Yes	Yes	Not Permitted	Relaxed	Not allowed	By Defendants
Fla. <sup>3</sup>	County Courts	5	Not Available	Permitted	Yes	No	Required	50-295	Yes	Yes	Limited	Relaxed	Available	By Either Party
Ga. <sup>4</sup>	Magistrate Courts	15	Not Available	Permitted	Yes	Yes	Permitted	< 22	Yes	Yes	By Leave of Court	Traditional w/ liberal construction	Not allowed	By Either Party
Ill. <sup>5</sup>	County Circuit Courts	10	Available	Permitted	Yes	No	Permitted	10-150	Yes	Yes	By Leave of Court	Relaxed	Available	By Either Party
Mass. <sup>6</sup>	District Court Department and Boston Municipal Court Department	7	Available	Permitted	Yes	No	Permitted	20-140	Yes	Yes	Not Permitted unless good cause shown	Relaxed	Not allowed	By Defendants
Mich. <sup>7</sup>	District Court	5	Limited	Not permitted	Yes	No	Permitted	25-65	Yes	Yes	Not Permitted	Relaxed	Not allowed	None, unless appealing from a magistrate
N.Y. <sup>8</sup>	New York City Civil Courts, City Courts outside New York City, District Courts, and Justice Courts (Small Claims Parts)	3 or 5	Not Available	Permitted	Yes	No	Required	10-20	Yes	Yes	Not Permitted Without a Court Order	Relaxed	Defendant may request	None, unless no substantial justice.
Pa. <sup>9</sup>	Magisterial District Judges	12	Not Available	Permitted	Yes	No	Required	30-75	Yes	Yes	Depositions & Interrogatories Not Permitted	Traditional	Not allowed	Either Party
Tenn. <sup>10</sup>	Court of General Sessions	25	Limited	Permitted	Yes	No	Required	42	Yes	Yes	Available	Traditional	Not allowed	Either Party
Tex. <sup>11</sup>	Justice Courts	10	Limited	Permitted	Yes	Yes	Required	25	Yes	Yes	Limited	Relaxed	Available	Either Party

<sup>1</sup> The ten states represented in this chart contain the ten district courts in which the most copyright-related cases were filed from 2000-2012. *Copyright Cases Filed by Year*, LEX MACHINA, <https://winslow.lexmachina.com/court/tableTop> (last visited Jul. 16, 2013).

<sup>2</sup> CAL. CIV. PROC. CODE § 116.210 (2013) (courts); *id.* § 116.221 (monetary limit) (for natural persons in most situations); *id.* §§ 116.220(a)(5), 116.220(b) (equitable relief); *id.* § 116.530 (attorney representation); *id.* §§ 116.310(a), 116.320(b) (simplified pleadings); *id.* § 116.330 (answer required); *id.* § 116.360 (2013) (advanced counterclaim); *id.* § 116.230(b)-(c) (filing fees); *id.* § 116.610(g)(1) (costs recoverable); *id.* § 116.110-950 (specialized procedure); *id.* § 116.310(b) (discovery); *id.* § 116.520 (evidentiary rules); *Crouchman v. Superior Court*, 755 P.2d 1075, 1077 (Cal. 1988) (jury trials); CAL. CIV. PROC. CODE § 116.710 (2013) (appeals).

<sup>3</sup> FLA. SM. CL. R. 7.010(a) (courts); *id.* R. 7.010(b) (monetary relief); *id.* (equitable relief); *id.* R. 7.020(b) (attorney representation); *id.* R. 7.050(a)(1) and R. 7.300 (simplified pleadings); *id.* R. 7.090(c) (answer required); *id.* R. 7.100 (advanced counterclaim); FLA. STAT. § 34.041(1)(a) (2013) (filing fees); FLA. SM. CL. R. 7.175 (costs recoverable); *id.* R 7.010 – 7.350 (specialized procedure); *id.* R. 7.020(b) (discovery); *id.* R. 7.140(f) (evidentiary rules); *id.* R. 7.150 (jury trials); *id.* R. 7.230 (appeals).

<sup>4</sup> GA. CODE ANN. § 15-10-2(5) (2013) (courts); *id.* (monetary limit); GA. CONST. art. VI, § IV (equitable relief); GA. UNIF. MAGISTRATE CT. R. 7.1 (attorney representation); GA. CODE ANN. §§ 15-10-43(a), 10-48 (2013) (simplified pleadings); *id.* § 15-10-43(c) (answer required); *id.* § 15-10-45(a)-(b) (advanced counterclaim); *id.* § 15-10-80(a) (filing fees); *id.* § 15-10-80(d) (costs recoverable); *id.* § 15-10-42 (specialized procedure); GA. UNIF. MAGISTRATE CT. R. 40 (discovery); GA. CODE ANN. § 15-10-44(b) (2013) (evidentiary rules); *id.* § 15-10-41 (jury trials); *id.* § 15-10-41(b)(1) (appeals).

<sup>5</sup> ILL. SUP. CT. R. 282 (courts); *id.* at § 281 (monetary limit); ILL. CONST. art. VI, § 9 (2013), *see also Wicks v. Bank of Belleville*, 371 N.E.2d 1007 (Ill. App. 1977) (noting that small claims court procedures govern but, where silent, general procedural rules govern), *see also Iowa-Illinois Gas & Electric Co. v. Fisher*, 114 N.E.2d 581, 584 (Ill. App. 1953) (finding that Illinois circuit courts derive original jurisdiction in all equity cases from section 12 of article 6 of the constitution, and that the legislature cannot validly limit those powers) (equitable relief); ILL. SUP. CT. R. 282, Illinois Attorney General, Small Claims Court, *Things You Should Know About*, <http://illinoisattorneygeneral.gov/consumers/smlclaims.html> (attorney representation); ILL. SUP. CT. R. 282(a) (simplified pleadings); *id.* R. 286(a) (answer required); *see id.* (advanced counterclaim); 705 ILL. COMP. STAT. 105/27.1a - 105/27.2a (2013) (filing fees); ILL. SUP. CT. R. 281, 19TH JUDICIAL CIR. CT. R. 7.07 (costs recoverable); *id.* R. 281 – 89 (specialized procedure); *id.* R. 287(a) (discovery); *id.* R. 286(b) (evidentiary rules); *id.* R. 285 (jury trials); *id.* R. 301 (appeals).

<sup>6</sup> MASS. GEN. LAWS ch. 218, § 21 (2013) (courts); *id.* (monetary limit); Mass. Unif. Small Cl. Standards § 702 (equitable relief); MASS. UNIF. SM. CL. R. 7(g) (attorney representation); MASS. GEN. LAWS ch. 218, § 22 (2013) (simplified pleadings); MASS. UNIF. SM. CL. R. 3(b) (answer required); *id.* R. 3(c) (advanced counterclaim); MASS. GEN. LAWS ch. 218, § 22 (2013) (filing fees); Mass. Unif. Small Cl. Standards § 7:05 (costs recoverable); MASS. GEN. LAWS ch. 218, § 21 (2013) (specialized procedure); MASS. UNIF. SM. CL. R. 5 (discovery); Mass. Unif. Sm. Cl. Standards § 6:10 (evidentiary rules); MASS. GEN. LAWS ch. 218, § 23 (2013) (jury trials); *id.* (appeals).

<sup>7</sup> MICH. COMP. LAWS § 600.8401 (2012) (courts); *id.* (monetary limit); *id.* § 600.8302(1) (equitable relief); *id.* § 600.8408(1) (attorney representation); MICH. CT. R. 4.302 (simplified pleadings); MICH. COMP. LAWS §§ 600.8404 (2013) (answer required); *id.* § 600.8422 (advanced counterclaim); *id.* § 600.8420(1) (filing fees); *id.* § 600.8421 (costs recoverable); *id.* §§ 600.8401-.8427 (specialized procedure); MICH. CT. R. 2.302(A)(3) (discovery); MICH. R. EVID. 1101(b)(5) (evidentiary rules); MICH. COMP. LAWS § 600.8411(2) (2013) (jury trials); *id.* §§ 600.8412, 600.8427 (appeals).







# COPYRIGHT POLICY, CREATIVITY, AND INNOVATION IN THE DIGITAL ECONOMY

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THE DEPARTMENT OF COMMERCE  
INTERNET POLICY TASK FORCE  
July 2013



## Message from Secretary of Commerce Penny Pritzker

Copyright law in the United States is founded on the Constitutional goal of “promot[ing] the Progress of Science and useful Arts” by providing exclusive rights to creators. Protection by copyright law gives creators incentives to produce new works and distribute them to the public. In doing so, the law strikes a number of important balances in delineating what can be protected and what cannot, determining what uses are permitted without a license, and establishing appropriate enforcement mechanisms to combat piracy, so that all stakeholders benefit from the protection afforded by copyright.

A 2012 Commerce Department economic study showed that intellectual-property-intensive industries account for tens of millions of jobs and several trillion dollars of our GDP. Among these, copyright-intensive industries contributed 5.1 million jobs and grew by 46.3 percent between 1990 and 2011, outpacing other IP-intensive industries as well non-IP-intensive ones. This vital contribution is a tribute to the Founders’ vision in providing for the protection of creative works.

The reasons to protect creative works go well beyond the economic benefit. America’s writers, musicians, filmmakers, photographers, sculptors and other creators make up the lifeblood of our culture, build new stores of knowledge, and shape how we see ourselves—and how the world sees us as well. Their influence extends beyond our borders; our copyrighted works weave a compelling narrative of the opportunity and possibility of America, and continue to be at the forefront of the global creative marketplace. We must continue to nurture such extraordinary creative resources.

The goals of our national copyright policy and our global Internet policies can and should work in tandem. United States Internet policy has avoided fragmented and prescriptive rules that frustrate innovation and undermine consumer trust. The United States, in collaboration with other stakeholders around the world, supports a model of Internet governance that facilitates transparency, promotes cooperation, and strengthens multistakeholder governance, allowing innovation to flourish while building trust and protecting other important rights and interests. Although copyright laws are territorial and U.S. copyright policy is designed to fit circumstances in the United States, online distribution and debates are global. The United States can demonstrate that our copyright framework provides strong and effective protection, balanced by exceptions that enable uses of copyrighted works in the public interest and supported by appropriate enforcement mechanisms in the digital environment, while it safeguards cybersecurity, privacy, and freedom of expression.

In April 2010, then-Secretary of Commerce Gary Locke launched the Internet Policy Task Force (IPTF), which brings together the technical, policy, trade, economic, and legal expertise of many Commerce bureaus, including the United States Patent and Trademark Office (USPTO), the National Telecommunications and Information Administration (NTIA), the International Trade Administration (ITA), the National Institute of Standards and Technology (NIST), and the Economic and Statistics Administration (ESA). Together, these bureaus have worked in the IPTF to identify leading public policy and operational challenges in the digital economy. In turn, the IPTF has developed approaches to strengthen protections for consumer data privacy, enhance cybersecurity practices, safeguard the global free flow of information, and

ensure balanced and meaningful protection for intellectual property while preserving the dynamic innovation and growth that have made the Internet and digital technology so important to our economy and society. The paper that follows is the latest result of these cross-agency and multistakeholder discussions.

Each of the bureaus of the IPTF offers an important institutional perspective in examining the impact of intellectual property on the U.S. economy. USPTO, as the principal advisor to the President on intellectual property policy, has played an important role in the formulation of copyright policy for the Internet for over two decades. NTIA, in its role as principal advisor to the President on telecommunications and information policies, has worked closely with stakeholders and other parts of government on the full range of online innovation issues. ITA plays an important role both in promoting the importance of intellectual property protection to U.S. consumers and businesses domestically and internationally, and in protecting the flow of data across borders as an instrument of international commerce. ESA provides the rigorous economic understanding of the impact that copyright has on the U.S. economy. And NIST's work on standards generates the basic research that often results in productive uses for intellectual property and benefits to consumers and offers a proven model of multistakeholder governance.

Ensuring that copyright policy provides strong incentives for creativity, while promoting innovation in the digital economy, is a critical and challenging task. In developing this paper, the IPTF led by PTO and NTIA held more than a dozen listening sessions with interested stakeholders, convened a symposium, received hundreds of public comments, and submitted comments to other agencies on relevant topics. This input has been invaluable to the thinking of the IPTF, and I look forward to the continued involvement of all stakeholders as discussion moves forward. As the Nation embarks on a fresh debate about how best to strike the copyright balance, this Green Paper is an important contribution.

Penny Pritzker

## FOREWORD

Copyright protection is a foundation for creative services and products that help to drive much of the U.S. economy. Creative works protected by copyright also enrich our culture and lives in unquantifiable ways. Digital distribution and a proliferation of consumer-friendly devices have given American consumers more choices than ever in how they access and enjoy copyrighted works.

Copyright law has always adapted to technological change, from its origin in response to the development of the printing press, through the revolution of broadcasting via radio and television, and now the transformation of creative works into digital formats available all over the world via the Internet. In 1998, Congress amended the Copyright Act to address issues raised by a rapidly developing Internet by updating rights, exceptions, and enforcement mechanisms through the Digital Millennium Copyright Act (DMCA). Fifteen years after the DMCA's passage, we face a renewed challenge to assure that copyright law continues to strike the right balance between protecting creative works and maintaining the benefits of the free flow of information.

Digital technology and networks have had a profound effect on how copyrighted works are delivered to the public. The tools available in the digital environment have changed the nature of what creators are able to produce and how they share their works with the public, and the ways the public can access that content and interact with it. Individuals can now access creative works through an increasing variety of legitimate online platforms. Improvements can be made to promote further development of distribution platforms and business models that can reward content creation and use, and to amplify the Internet's power to ease licensing transactions,

At the same time, there cannot be meaningful protection without enforcement of rights. There is no single solution to the problems of online infringement. Rather, it takes a combination of approaches, including not only legal mechanisms, but also technology, public education, and collaborative efforts among stakeholders. A number of these approaches have been developed in recent years and this report discusses several that we believe hold great promise. In shaping or refining enforcement tools, it is critical to safeguard the benefits that robust information flows have on innovation, knowledge, and public discourse.

Digital copyright issues have long been the subject of passionate debate in Congress, the courts, the press, and the marketplace. The vigor of this debate reflects the economic, social, and political importance of copyright policy as well as the complexity of the underlying legal, economic, and technical questions.

It is time to assess whether the current balance of rights, exceptions and responsibilities - crafted, for the most part, before the rapid advances in computing and networking of the past two decades - is still working for creators, rights holders, service providers, and consumers. The Internet must continue to support a legitimate market for copyrighted works as well as provide a platform for innovation and the introduction of new and dynamic services that drive digital commerce. And we must ensure that free expression, respect for consumer privacy, and cybersecurity are preserved in the online environment. The government can promote progress as a convener of the many stakeholder groups - including creators, industry, and

consumers – that share an interest in maintaining an appropriate balance within the copyright system. NTIA has been engaged in this type of process related to issues identified in its prior paper *Commercial Data Privacy and Innovation in the Internet Economy: A Dynamic Policy Framework*, and the multistakeholder model is the broad foundation of our approach to policy issues in the Internet context. This same approach was reflected in the Department’s paper, *Cybersecurity, Innovation and the Internet Economy*.

The Department of Commerce is uniquely positioned to provide continued leadership and to work with others inside and outside government to consider these issues. As early as 1993, the White House formed the Information Infrastructure Task Force, chaired by then-Secretary of Commerce Ron Brown, to develop telecommunications and information policies that would promote development of the Internet. As part of that process, a working group on intellectual property rights examined the protection of creative works online and made recommendations to update the U.S. copyright law for the Internet age in its 1995 report, *Intellectual Property and the National Information Infrastructure*. Many of the recommendations from that report were subsequently enacted in legislation.

Nearly 20 years later, the valuable works of our creative industries have fueled the growth of digital commerce and new distribution platforms and services, and these new distribution platforms and services have in turn transformed our creative industries. The Department of Commerce – led by the USPTO and NTIA – has a vision of a digital future in which the relationship among digital technology, the Internet, and creative industries becomes increasingly symbiotic: in which the rights of creators and copyright owners are appropriately protected; creative industries continue to make their substantial contributions to the Nation’s economic competitiveness; online service providers continue to expand the variety and quality of their offerings; technological innovation continues to thrive; and consumers have access to the broadest possible range of creative content. We believe these goals are compatible and can be achieved together.

This *Green Paper on Copyright Policy, Creativity, and Innovation in the Digital Economy* provides a lens through which to assess current policy related to copyright and the Internet, identifying important issues that are being addressed by the courts and those that are ripe for further discussion and development of solutions. We hope the issues and findings discussed in this paper can serve as a reference for stakeholders, a blueprint for further action, and a beacon for U.S. leadership in the global copyright debates. To contribute further to the Administration’s development of copyright policy, the paper identifies a number of topics on which we will solicit further public comment.

This paper reflects the hard work of the Department’s Internet Policy Task Force spanning several years. We acknowledge Shira Perlmutter, Garrett Levin, Molly Torsen Stech, and Ann Chaitovitz at USPTO, for their role as principal drafters, as well as John Morris, Aaron Burstein, Jade Nester, and Ashley Heineman at NTIA for their many valuable contributions. Numerous others throughout the Department of Commerce assisted in the initial listening sessions and the 2010 symposium that began this process, and provided valuable input to get to this final product.

The Task Force's analyses recognize a continued set of challenges presented by rapidly changing technology and market conditions. The challenges are significant, but the economic and cultural opportunities are limited only by our collective will and imagination. To realize these opportunities, we will need continued productive engagement from all stakeholders.

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## Table of Contents

Executive Summary .....	1
I. Copyright and the Internet: Opportunities and Challenges .....	5
II. Maintaining an Appropriate Balance .....	9
A. General.....	9
B. Updates to Rights.....	10
1. The Digital Performance Rights in Sound Recording Act of 1995.....	10
2. The Right of Reproduction In Temporary Copies .....	12
3. The Making Available Right .....	14
4. Technological Adjuncts to Copyright Rights.....	16
a) Technological Protection Measures (TPMs).....	16
b) Rights Management Information (RMI).....	19
5. New Challenge: The Meaning of “Public Performance” .....	19
C. Updates to Exceptions.....	20
1. The Fair Use Doctrine.....	21
2. Library Exception.....	23
3. Distance Education .....	24
4. Blind, Visually Impaired and Other Persons with Print Disabilities .....	25
5. DMCA Anti-Circumvention Exceptions .....	26
6. Other Issues.....	28
a) Remixes .....	28
b) Orphan Works and Mass Digitization .....	29
i) Orphan Works .....	29
ii) Mass Digitization.....	33
c) The First Sale Doctrine.....	35
D. Conclusion and Next Steps .....	37
III. Keeping Rights Meaningful in the Online Environment .....	38
A. General.....	38
B. Existing Legal Tools for Online Copyright Enforcement.....	42
1. Government Actions.....	42
a) Coordination and Oversight .....	42
b) Civil and Criminal Enforcement .....	42
c) International Initiatives .....	45
2. Private Action and Available Remedies.....	46
a) Direct Infringement Suits.....	47

i) Individual File Sharers.....	47
ii) Digital Services.....	47
b) Secondary Liability.....	48
c) Judicial Remedies.....	50
i) Injunctions.....	50
ii) Statutory Damages.....	51
d) The Role of ISPs under the DMCA.....	52
i) General Framework.....	53
ii) Notice and Takedown Issues.....	54
(a) Knowledge Standard.....	54
(b) Burdens of Compliance.....	56
(c) Database of Designated ISP Agents.....	59
iii) Additional Enforcement Tools: Termination of Repeat Infringers' Accounts and Subpoenas.....	59
C. Potential New Tools.....	61
1. Website Blocking.....	62
2. Content Filtering.....	65
3. "Follow the Money" Approach.....	67
a) Payment Processors.....	67
b) Online Advertisers.....	68
4. Search Engines.....	70
5. Graduated Response.....	71
D. Public Education and Outreach.....	74
E. Conclusion and Next Steps.....	76
IV. Ensuring an Efficient Online Marketplace.....	77
A. Delivering the World's Creativity to Consumers Legally.....	77
1. Today's Legal Offerings.....	78
2. Impediments to Licensing for Online Distribution.....	80
a) The Complexity of Music Licensing.....	81
i) Licensing Musical Compositions.....	81
ii) Licensing Sound Recordings.....	83
iii) Practical Impact on Licensing.....	83
b) Old Contracts, New Uses.....	86
c) Licensing Across Borders.....	86
B. Moving Licensing Online.....	87
C. The Basic Building Blocks: Global Rights Information.....	89

1. Access to Ownership Information.....	89
a) Public Registries .....	89
b) Private Databases .....	92
i) Membership Organizations.....	92
ii) Other Private Databases.....	94
2. Connecting the Dots: Integrating Databases Across Borders and Sectors .....	94
a) Global Information Resources .....	95
b) Standards .....	97
D. Role of Government.....	98
E. Conclusion and Next Steps .....	99
V. Conclusion.....	99
Appendix A: Summary of Recommendations and Issues for Further Discussion and Comment .....	100
Appendix B: Acknowledgements, Symposium Panelists and Notice of Inquiry Respondents.....	105

## Executive Summary

Copyright law's history is one of continuous evolution in the face of technological change. But arguably no prior technological change has impacted copyright with a magnitude comparable to the development of the Internet. Never before has there been such widespread and immediate access to such a broad array of creative works; never before have content creators – ranging from individuals to large corporations – been able to reach a global audience so effortlessly and inexpensively; and never before has it been possible for members of the public to create, transform or distribute multiple perfect copies of works seamlessly, without regard to national borders.

How to retain a meaningful copyright system that continues to drive the production of creative works while at the same time preserving the innovative power of the Internet and the free flow of information are questions at the forefront of today's policy debate. As a broadening array of creators continue to express themselves and share their valuable works with the world, and as the Internet continues to grow in economic, social and cultural relevance, the importance of these questions will only be heightened.

The industries that rely on copyright are today an integral part of the U.S. economy, accounting for millions of jobs and contributing billions of dollars to the G.D.P. Moreover, the creative content they produce contributes to the development of the broader Internet economy, spurring the creation and adoption of innovative distribution technologies. Not only do these industries make important economic contributions, they are at the core of our cultural expression and heritage. It is no exaggeration to say that U.S. music, movies, television shows, computer software, games, writings and works of art have changed the world.

At the same time, the Internet and other networked information technologies have transformed virtually all aspects of our lives, including the market for copyrighted works. Consumers are accessing more and more creative content of all kinds on the Internet in a wide variety of formats; creators of all sizes can reach a broad audience without going through traditional intermediaries; and the growth of online services has been nothing short of remarkable. Some of the technological developments that have fostered this exciting diversity, however, have also given rise to new methods of mass infringement. Addressing this problem is vital to maintaining meaningful incentives for producing creative works, ensuring a level playing field for legitimate services, and promoting the broadest offerings of online content. All stakeholders, from creators to intermediaries to consumers, have an interest in ensuring a healthy online ecosystem. The fundamental question is how best to achieve that end.

Some would argue that copyright protection and the free flow of information are inextricably at odds—that copyright enforcement will diminish the innovative information-disseminating power of the Internet, or that policies promoting the free flow of information will lead to the downfall of copyright. Such a pessimistic view is unwarranted. The ultimate goal is to find, as then-Secretary of Commerce Gary Locke explained, “the sweet spot on Internet policy – one that ensures the Internet remains an engine of creativity and innovation; and a place where we do a better job protecting against piracy of copyrighted works.” Effective and balanced copyright protection need not be antithetical to the free flow of information, nor need encouraging the free flow of information undermine copyright. In fact, as the Supreme Court has

recognized, “the Framers intended copyright itself to be the engine of free expression.”<sup>1</sup>

In 2010, the Secretary of Commerce created the Internet Policy Task Force (Task Force) to provide policy coordination across the Department of Commerce, and to conduct initially a comprehensive review of privacy policy, copyright, global free flow of information, and cybersecurity, and their respective relationships to innovation in the Internet economy. To advance the dual public policy imperative of “combat[ing] online copyright infringement more effectively and sustain[ing] innovative uses of information and information technology,” the Task Force launched a dialogue to contribute to Administration-wide policy positions and to further a global consensus on fostering creativity and innovation online.<sup>2</sup> In 2010, the Task Force held listening sessions with a wide range of stakeholders to understand the current major questions related to online copyright protection as well as the broader impact on innovation in the Internet economy. The Task Force then convened a public meeting on July 1, 2010, to further explore these issues.<sup>3</sup> Subsequently, the Task Force published a Notice of Inquiry (NOI) and received several hundred submissions in response.<sup>4</sup>

The Task Force has closely followed the developments that have taken place since that time, including proposed legislation on online enforcement tools; negotiations of voluntary agreements between various types of intermediaries and content owners; and studies, inquiries and rulemakings by the U.S. Copyright Office of the Library of Congress. Additional input was obtained through reviewing the submissions made to the Office of the Intellectual Property Enforcement Coordinator (IPEC) in connection with the 2013 Joint Strategic Plan for Intellectual Property Enforcement.<sup>5</sup>

Through this process, the Task Force has sought to understand stakeholders’ experiences, the benefits and shortcomings of existing law, and the various initiatives that have been implemented or proposed to address online copyright issues. NOI respondents and symposium participants focused on numerous topics, including: (1) the levels and impact of online copyright infringement; (2) emerging services and business models, both legal and illegal; (3) intermediary roles, responsibilities, and protections; and (4) issues involved in online protection efforts, including experiences with notice and takedown under the Digital Millennium Copyright Act (DMCA), and the problem of repeat infringers.

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<sup>1</sup> *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 558 (1985).

<sup>2</sup> The Task Force dialogue on online copyright issues, led by the United States Patent and Trademark Office (USPTO) and the National Telecommunications and Information Administration (NTIA), has closely consulted with the Office of the Intellectual Property Enforcement Coordinator (IPEC) in the Office of Management and Budget, and other components of the Executive Office of the President.

<sup>3</sup> USPTO & NTIA, Copyright Policy, Creativity, and Innovation in the Internet Economy, 75 Fed. Reg. 33577 (June 14, 2010). An agenda from the symposium is available at <http://www.ntia.doc.gov/legacy/InternetPolicyTaskForce/copyright/CopyrightSymposiumProgram.pdf>.

<sup>4</sup> USPTO & NTIA, Copyright Policy, Creativity, and Innovation in the Internet Economy, 75 Fed. Reg. 72790 (November 26, 2010). The comments are available at <http://ssl.ntia.doc.gov/comments/100910448-0448-01/>.

<sup>5</sup> See IPEC, Request of the U.S. Intellectual Property Enforcement Coordinator for Public Comments: Development of the Joint Strategic Plan on Intellectual Property Enforcement, 77 Fed. Reg. 42765 (July 20, 2012).

The Task Force has taken into account the views expressed in the public meeting, submitted comments, and listening sessions, and is now issuing this paper to stimulate further public discussion on a number of specific topics that were either raised through those avenues or that have emerged subsequently. The paper does not purport to provide an exhaustive catalog of all issues relating to copyright in the online environment,<sup>6</sup> but outlines the major issues that are making their way through the courts, merit further attention, or require solutions. With respect to those issues not currently being addressed elsewhere, the paper proposes next steps—some involving potential legislative changes, but many based on voluntary private sector initiatives.

The Task Force's recommendations fall into three broad categories and can be summarized as follows:

- 1) Updating the balance of rights and exceptions.
  - a) The Task Force urges Congress to better rationalize the public performance right for sound recordings. We reiterate the Administration's support for extending the right to cover broadcasting, and urge that any reassessment of the appropriateness of different rate-setting standards for different types of digital music services take into account the impact on creators and right holders as well as on different types of services;
  - b) The Task Force will solicit public comment and convene roundtables on issues related to the creation of remixes and the first sale doctrine in the digital environment; and
  - c) The Task Force will support and provide input to the Copyright Office as it moves forward with its work on updating the library exception in Section 108 and examining the issues of orphan works and mass digitization.
- 2) Assessing and improving enforcement tools to combat online infringement and promote the growth of legitimate services while preserving the essential functioning of the Internet.
  - a) The Task Force repeats the Administration's prior call for Congress to enact legislation adopting the same range of penalties for criminal streaming of copyrighted works to the public as now exists for criminal reproduction and distribution;
  - b) The Task Force will solicit public comment and convene roundtables regarding the application of statutory damages in the context of individual file-sharers and secondary liability for large-scale online infringement;
  - c) The Task Force will establish a multi-stakeholder dialogue on how to improve the operation of the DMCA's notice and takedown system;

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<sup>6</sup> We do not address various broader or newly emerging topics, among them: the term of copyright protection; jurisdiction and choice of law issues; implied license; the scope of statutory licenses for cable and satellite retransmissions; certain limitations and exceptions not specific to the Internet environment; and the copyright implications of data mining and 3D printing.

- d) The Task Force supports the Copyright Office's improvement of the DMCA database of designated agents, as well as its examination of possible small claims procedures that can assist individual creators and SMEs in enforcing their rights online;
  - e) The Task Force supports and encourages the development of appropriate voluntary private sector initiatives to improve online enforcement, and will monitor and evaluate the effectiveness of such initiatives to determine whether additional action should be considered; and
  - f) The Task Force encourages enhancing public education and outreach efforts to inform consumers about both rights and exceptions and to encourage the use of legitimate online services.
- 3) Realizing the potential of the Internet as a legitimate marketplace for copyrighted works and as a vehicle for streamlining licensing.
- a) The Task Force will provide input into any Congressional review of music licensing, particularly with respect to the mechanical license for musical compositions;
  - b) The Task Force supports the Copyright Office's work in improving the registration and recordation systems and supports the provision of enhanced incentives for using these systems; and
  - c) The Task Force will solicit public comment and convene roundtables regarding an appropriate role for the government, if any, to help to improve the online licensing environment.

As the Task Force continues to examine these policy areas, it will coordinate its efforts closely with other key government actors, including the IPEC and the U.S. Copyright Office. The IPEC's work to promote voluntary best practices and the Copyright Office's various studies and comment processes are referred to throughout this paper.

Section I of the paper provides an overview of the intersection of copyright and the Internet, noting the tremendous opportunities and challenges that have arisen over the past decades. Section II outlines efforts to maintain an appropriate balance in copyright law, as rights and exceptions continue to be updated in response to technological change. It describes the major ways in which the law has been amended to address digital developments, and identifies areas where it may be appropriate to consider additional changes. Section III addresses how rights can be meaningfully enforced in the digital environment while ensuring that the Internet remains a robust platform for innovation, a diversity of business models, and economic growth. It outlines existing civil and criminal enforcement mechanisms, describes gaps or shortcomings as well as efforts that have been made to address them, and calls for solutions to be found. Section IV examines the state of licensing in the online marketplace, notes areas where there are improvements to be made, and proposes some steps that the government might take to further the private sector's efforts.

## I. Copyright and the Internet: Opportunities and Challenges

Copyright law grants exclusive rights to authors in order to encourage the production of creative works, to the benefit of society as a whole.<sup>7</sup> These exclusive rights are balanced by a range of limitations and exceptions that permit some uses of copyrighted works without the need for authorization.<sup>8</sup> Copyright has been a vital contributor to U.S. cultural and economic development for more than two hundred years, fostering the production and dissemination of the valuable expression that has put America at the forefront of the global creative marketplace.<sup>9</sup>

“[N]othing is more important to American prosperity than jumpstarting our engine of innovation.”<sup>10</sup> Both American creativity and the Internet economy are at the heart of that engine, and the relationship between the two has motivated the Department of Commerce’s inquiry into this issue. The industries that rely on copyright law are today an integral part of our economy, accounting for 5.1 million U.S. jobs in 2010—a figure that has grown dramatically over the past two decades.<sup>11</sup> In that same year, these industries contributed 4.4 percent of U.S. GDP, or approximately \$641 billion.<sup>12</sup> And the demand for content produced by our creators contributes to the development of the broader Internet economy, spurring the creation and adoption of innovative distribution technologies.<sup>13</sup>

As copyright continues to grow in importance, the parallel rise of digital technologies has presented new opportunities, as well as a host of complex issues. Governments, including their judicial branches, along with private sector interests around the world

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<sup>7</sup> *Washingtonian Publ’g Co. v. Pearson*, 306 U.S. 30, 36 (1939). The “ultimate aim is, by this incentive, to stimulate artistic creativity for the general public good.” *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975).

<sup>8</sup> In some contexts, limitations and exceptions may be constitutionally required. *See, e.g., Eldred v. Ashcroft*, 537 U.S. 186, 219 (2003) (“In addition to spurring the creation and publication of new expression, copyright law contains built-in First Amendment accommodations,” including the idea/expression dichotomy and fair use).

<sup>9</sup> As President Obama has noted, “Our single greatest asset is the innovation and the ingenuity and creativity of the American people. It is essential to our prosperity and it will only become more so in this century.” Remarks by the President at the Export-Import Bank’s Annual Conference (Mar. 11, 2010), available at <http://www.whitehouse.gov/omb/intellectualproperty/quotes/>.

<sup>10</sup> Remarks by Gary Locke, Secretary of Commerce, at the Internet Policy Task Force Symposium on Copyright Policy, Creativity, and Innovation in the Internet Economy (July 1, 2010), available at <http://www.commerce.gov/news/secretary-speeches/2010/07/01/remarks-copyright-policy-internet-economy-symposium>.

<sup>11</sup> Economics and Statistics Administration and the USPTO, Intellectual Property and the U.S. Economy: Industries in Focus at 39-42 (March 2012), available at [http://www.uspto.gov/news/publications/IP\\_Report\\_March\\_2012.pdf](http://www.uspto.gov/news/publications/IP_Report_March_2012.pdf). When indirect employment in the supply chain supported by these copyright-intensive industries is included, the figure rises to nearly 7.6 million. *Id.* at 43-44.

<sup>12</sup> *Id.* at 45.

<sup>13</sup> The economic growth of the Internet “would not exist without equally strong creative content produced by America’s authors, artists, and other creative workers.” Remarks by Lawrence Strickling, Assistant Secretary of Commerce for Communications and Information, Internet Policy Task Force Symposium on Copyright Policy, Creativity, and Innovation in the Internet Economy (July 1, 2010), available at <http://www.ntia.doc.gov/speechestestimony/2010/opening-remarks-lawrence-e-strickling-assistant-secretary-commerce-communic-0>.

have been grappling with these issues for over twenty years. Their efforts represent the continuation of a long process; the history of copyright is integrally entwined with and has always been shaped by technological change.

The impetus for the first copyright laws was the revolutionary technology of the printing press.<sup>14</sup> In the course of the 20th century, copyright confronted new technologies ranging from player piano rolls,<sup>15</sup> to motion pictures, television and radio,<sup>16</sup> to photocopy machines,<sup>17</sup> computers<sup>18</sup> and VCRs.<sup>19</sup> Each of these developments provoked great anxiety as to the continued viability of copyright,<sup>20</sup> and led to various statutory amendments. The development of the Internet is the current iteration of this evolutionary process—one that is both necessary and healthy for a vital copyright system. We are again in the midst of vigorous debate about the proper boundaries of copyright protection and enforcement.

Despite this history, it must be acknowledged that digital technologies have presented challenges – as well as opportunities – of an unprecedented magnitude, and at an unprecedented pace. Never before has it been possible for individuals to create and disseminate multiple perfect copies of works virtually instantaneously and essentially cost-free. Moreover, a rich and expanding repertoire of content can be made available anywhere there is access to the Internet, bypassing the historical limits of national borders.

In the early days of public use of the Internet, these developments were already on the horizon. At that time, questions were even raised about the extent to which the Internet should be subject to any legal regulation, including copyright law.<sup>21</sup> In 1995, the Clinton Administration’s Intellectual Property Working Group issued a report on *Intellectual Property and the National Information Infrastructure*.<sup>22</sup> The Report

<sup>14</sup> WILLIAM F. PATRY, 1 PATRY ON COPYRIGHT § 1.5 (2012).

<sup>15</sup> See *White-Smith Music Publ’g Co. v. Apollo*, 209 U.S. 1 (1908).

<sup>16</sup> See, e.g., *Kalem Co. v. Harper Bros.*, 222 U.S. 55, 62-63 (1911); *Jerome H. Remick & Co. v. Am. Auto. Accessories Co.*, 5 F.2d 411, 411-12 (6th Cir. 1925).

<sup>17</sup> See, e.g., *Williams & Wilkins Co. v. United States*, 487 F.2d 1345 (Ct. Cl. 1973).

<sup>18</sup> See Final Report of the National Commission on New Technological Uses of Copyrighted Works, 1-2 (1978).

<sup>19</sup> See, e.g., *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).

<sup>20</sup> See John Phillip Sousa, *The Menace of Mechanical Music*, 8 APPLETON’S MAG. 278 (1906); *The Law: Copying v. Copyright*, TIME, May 1, 1972, at 62 (quoting leading copyright scholar Melville Nimmer as saying “the day may not be far off when no one need purchase books” because of the use of the photocopier); Barbara A. Ringer, *The Demonology of Copyright*, R.R. Bowker Memorial Lecture (Oct. 24, 1974).

<sup>21</sup> See, e.g., John Perry Barlow, *The Economy of Ideas: A framework for patents and copyrights in the Digital Age*, WIRED, Mar. 1994 available at <http://www.wired.com/wired/archive/2.03/economy.ideas.html>.

<sup>22</sup> *Intellectual Property and the National Information Infrastructure: The Report of the Working Group on Intellectual Property Rights* (Sept. 1995) (NII Report), available at <http://www.uspto.gov/web/offices/com/doc/ipnii/ipnii.pdf>. The NII Report dismissed the view of the Internet as a regulation-free zone as follows: “[A]ctivity on the Internet takes place neither in outer space nor in parallel, virtual locations. Satellite, broadcast, fax and telephone transmissions have not been thought to be outside the jurisdiction of the nations from which or to which they are sent. Computer network transmissions have no distinguishing characteristics warranting such otherworld treatment. Further, such a legal free-for-all would transform the [Internet] into a veritable copyright Dodge City. As enticing as this concept may seem to some users, it would hardly encourage creators to enter its confines.” *Id.* at 15.

described copyright law's past adaptation to new technologies, identified the challenges of the digital environment, and made a number of recommendations for legislative changes.<sup>23</sup> But even this comprehensive report could not predict all of the issues that we face today. As noted by the then-Assistant Secretary of Commerce and Commissioner of Patents and Trademarks:

There is much that we do not - and cannot - know about how the (Internet) will develop. Technology is advancing at such an incredible pace that issues will certainly continue to arise in the future, perhaps demanding more comprehensive legislation.<sup>24</sup>

The pace of technological change has only continued to increase since that early phase of legal analysis and adaptation.

The flip side to the challenges presented by the Internet is the fact that it has enabled the creation of vibrant, innovative marketplaces of unprecedented scope and convenience. This potential was recognized as early as 1995, and is now being realized.

Both within and outside of the traditional content publishing and distribution industries, a wide range of exciting new models for the enjoyment of copyrighted works has emerged in recent years, some of which have achieved widespread consumer acceptance. One striking development has been what some have called the "democratization of publishing" - the ability of individual authors, musicians, videographers, and other artists to publish directly to a global audience, regardless of whether they are seeking to make money or simply have their creations seen or heard. The online marketplace for copyrighted works is still, however, a work in progress. It is not yet clear which of these models will prove economically viable, and existing offerings are neither consistent in catalog depth nor seamless for purposes of broad-based licensing. Additional work needs to be done to ensure that licensing can extend smoothly to the full range of content in all sectors and media, for users large and small, and across borders.

Also on the horizon is the opportunity to streamline the process of licensing for both businesses and consumers, through the broader online availability of rights information, and the provision of automated, online platforms for contracts, payments and delivery. This could permit more efficient development of new businesses and enable microlicensing potentially to the benefit of all.

At the same time, piracy remains a formidable challenge.<sup>25</sup> Since the NII Report, the

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<sup>23</sup> The NII Report recommendations included: creating a public performance right for sound recordings; amending the library exceptions to permit broader use of digital technology; permitting certain reproductions and distributions of works for the visually impaired; adjusting the requirements for criminal copyright infringement to address large-scale infringement not motivated by profit; and providing legal protection for technological protection measures and copyright management information. Many of these changes were ultimately adopted in some form into U.S. law, as described below.

<sup>24</sup> Statement of Bruce A. Lehman, Assistant Secretary of Commerce and Commissioner of Patents and Trademarks on S. 1284 and H.R. 2441 before the Subcommittee on Courts and Intellectual Property, Committee on the Judiciary, United States House of Representatives and the Committee on the Judiciary, United States Senate (Nov. 15, 1995).

<sup>25</sup> Use of the term "piracy" in the context of copyright infringement traces back to the early development of the publishing industry in England. See Justin Hughes, *Copyright and Incomplete Historiographies: Of*

threat of rampant infringement over the Internet has not abated;<sup>26</sup> today, however, much of that infringement is taking place through technologies that were unforeseen in 1995, particularly peer-to-peer networks and cyberlockers. While the extent of the losses caused by online infringement is hard to calculate with certainty,<sup>27</sup> the proliferation of unlicensed sites and services making content available without restriction or payment impedes the growth of legitimate services.<sup>28</sup>

The time is ripe to take stock once again of the landscape for copyright in today's digital environment. The issues to be examined include whether updates may be needed to the current balance of rights and exceptions; whether adequate tools exist to allow rights to be meaningfully and appropriately enforced; and how the conditions for online licensing can best be improved. Preserving copyright law is not an end in itself; our goal is to ensure that the Internet remains both an engine of creativity and innovation and an environment where copyrighted works are adequately protected against piracy. By doing so, copyright can continue its role as an "engine of free expression,"<sup>29</sup> a time-tested means to promote the production and dissemination of creative works.<sup>30</sup>

The Task Force believes that the core principles of U.S. copyright law remain fundamentally sound. Many updates have already been made to adapt to digital technology, and we describe them below. The precise boundaries of these provisions will continue to evolve as the courts apply them to new factual contexts; where issues are making their way through the courts, and no definitive interpretation has emerged, further action may be unnecessary or premature. Nevertheless, we have identified a number of areas where new solutions are needed or desirable. As to each, the appropriate process and technique may differ.<sup>31</sup> This paper describes ongoing

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*Piracy, Propertization, and Thomas Jefferson*, 79 S. CAL. L. REV. 993, 1009-10 (2006); ADRIAN JOHNS, THE NATURE OF THE BOOK 32 (1998); ADRIAN JOHNS, PIRACY: THE INTELLECTUAL PROPERTY WARS FROM GUTENBERG TO GATES (2011).

<sup>26</sup> See *infra* pp. 39-78. USPTO & NTIA, Inquiry on Copyright Policy, Creativity, and Innovation in the Internet Economy, 75 Fed. Reg. 61419, 61421 (Oct. 5, 2010).

<sup>27</sup> A number of industry studies have shown high estimated costs from piracy. See, e.g., U.S. Government Accountability Office, GAO-10-423, *Intellectual Property Observation on Efforts to Quantify the Economic Effects of Counterfeits and Pirated Goods* 21 (Apr. 2010). Some of these estimates have been questioned, however, and the GAO has noted that "estimating the economic impact of IP infringements is extremely difficult." *Id.* at 15. The GAO Report states that there is not likely to be a one-to-one substitution between legitimate and pirated content, although some degree of substitution is generally acknowledged. *Id.* at 17.

<sup>28</sup> *Id.* at 19 (explaining that although difficult to quantify, "counterfeiting and piracy is a sizeable problem, which affects consumer behavior and firms' incentives to innovate").

<sup>29</sup> *Harper & Row*, 471 U.S. at 558.

<sup>30</sup> The constitutional clause authorizing Congress to enact intellectual property laws, art. I, § 8, cl. 8, articulates its purpose as promoting the "Progress of Science and useful Arts." When this clause was crafted, the term "science" was synonymous with "knowledge" and "learning," whereas "useful Arts" referred to technological inventions. See EDWARD WALTERSCHEID, THE NATURE OF THE INTELLECTUAL PROPERTY CLAUSE 125-26 (2002); Karl B. Lutz, *Patents and Science: A Clarification of the Patent Clause of the U.S. Constitution*, 32 J. PAT. OFF. SOC'Y 83, 87 (1950). To avoid confusion, this paper will refer to the constitutional goal of the copyright system as promoting progress in the "creative arts."

<sup>31</sup> On the legislative side, the Register of Copyrights has recently called for a "comprehensive review" of U.S. copyright law. See Maria A. Pallante, *The Next Great Copyright Act - Twenty-Sixth Horace S. Manges Lecture* (Mar. 4, 2013) ("Manges Lecture"). The Chairman of the House Judiciary Committee has launched

initiatives in some of these areas, and for others, either proposes a path for future work or seeks comments on the way forward. Finding solutions can enable us to continue fostering the valuable contributions that a vibrant copyright ecosystem can provide to society as a whole.

Finally, all of these developments take place within an international context. The United States is a signatory to a number of international copyright treaties and trade agreements, which must be taken into account when considering revisions to U.S. law.<sup>32</sup> Moreover, most of the issues facing copyright law in the digital environment are not unique to the United States and are being considered in jurisdictions and forums around the world.<sup>33</sup> These debates and experiences can be useful resources and help inform our thinking. Although copyright laws are territorial, the Internet is inherently global; an effective copyright system will therefore require close cooperation with other nations. As we continue to shape our copyright policy, the United States will continue to provide international leadership on these issues, promoting the importance of a transparent and inclusive process as well as the need to find an appropriate balance both within copyright law and in its relationship to the core values of free expression and privacy, while avoiding cybersecurity risks.

## II. Maintaining an Appropriate Balance

### A. General

From its inception, copyright law has balanced rights and exceptions in the service of promoting the creative arts.<sup>34</sup> As the law is updated to accommodate technological change, this relationship requires ongoing adjustment. This does not mean, of course, that every change in rights must give rise to a corresponding change in exceptions, or *vice-versa*. It is also important to acknowledge that while an appropriate balance

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a series of hearings on such a review. See U.S. House of Representatives, Committee on the Judiciary, *Chairman Goodlatte Announces Comprehensive Review of Copyright Law* (Apr. 24, 2013) available at [http://judiciary.house.gov/news/2013/04242013\\_2.html](http://judiciary.house.gov/news/2013/04242013_2.html). And the National Research Council of the National Academies recently released a report calling for more empirical research to be conducted on digital copyright issues to help inform the policy debates. See COPYRIGHT IN THE DIGITAL ERA: BUILDING EVIDENCE FOR POLICY 26 (2013) (Stephen A. Merrill & William J. Raduchel, eds.), available at [http://www.nap.edu/catalog.php?record\\_id=14686](http://www.nap.edu/catalog.php?record_id=14686) (“Copyright in the Digital Era”).

<sup>32</sup> Berne Convention for the Protection of Literary and Artistic Works (1971); WIPO Copyright Treaty (WCT) (1996); WIPO Performances and Phonograms Treaty (WPPT) (1996) (together the WCT and WPPT are often referred to as the “WIPO Internet Treaties”). The United States is also a Member of the World Trade Organization and has undertaken obligations pursuant to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) (1994). The United States has also entered into a number of bilateral free trade agreements and plurilateral agreements that include copyright obligations.

<sup>33</sup> See, e.g., World Economic Forum, *Global Agenda Council on the Intellectual Property System - Digital Copyright Principles* (2013), available at [http://www3.weforum.org/docs/WEF\\_GAC\\_CopyrightPrinciples.pdf](http://www3.weforum.org/docs/WEF_GAC_CopyrightPrinciples.pdf); UK IPO, *Modernising Copyright: A modern, robust and flexible framework* (2012), available at <http://www.ipo.gov.uk/response-2011-copyright-final.pdf>; Ian Hargreaves, *Digital Opportunity: A Review of Intellectual Property and Growth* (May 2011), available at <http://www.ipo.gov.uk/ipreview-finalreport.pdf> (“Hargreaves Report”); European Commission, *Commission agrees way forward for modernizing copyright in the digital economy*, MEMO/12/950 (Dec. 5, 2012), available at [http://europa.eu/rapid/press-release-MEMO-12-950\\_en.htm](http://europa.eu/rapid/press-release-MEMO-12-950_en.htm).

<sup>34</sup> See *supra* note 30.

remains the goal, there can never be such a thing as a perfect equilibrium in a complex, dynamic system, and the process of calibration will never be complete.

Since the mid-1990s, the rights and exceptions in U.S. and international copyright law have been amended several times to respond to digital technologies.<sup>35</sup> This Section will describe these adaptations, many of which are still in the process of judicial interpretation, and discuss additional ones that have more recently been proposed for consideration.

## **B. Updates to Rights**

In the United States, the most notable adjustments to copyright rights in the digital space have been the creation of a digital performance right for sound recordings; the application of the reproduction right to temporary digital copies; and the establishment of legal regimes regarding technological adjuncts to copyright, namely technological protection measures (TPMs) and rights management information (RMI). At the international level, there has also been explicit recognition of a “making available” right—i.e., the right to control making works available on demand to members of the public. Each of these adjustments represented an attempt to ensure that copyright owners retain the ability to exploit their rights effectively in the digital environment.

### **1. The Digital Performance Rights in Sound Recording Act of 1995**

Sound recordings were not granted federal copyright protection until 1972, and then copyright owners were granted only a limited set of rights: reproduction, distribution, and adaptation.<sup>36</sup> Unlike owners of other works including musical compositions, they did not enjoy a right to control and be compensated for the public performance of their works.<sup>37</sup>

In 1995, Congress partially remedied this discrepancy by providing such a right, but limited to the digital context. The Digital Performance Right in Sound Recordings Act (DPRA) created a new exclusive right for owners of sound recordings to perform their works publicly by means of a digital audio transmission.<sup>38</sup> Congress determined that a

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<sup>35</sup> Some early modifications in the United States related to the special characteristics of digital physical media, namely the prohibition on commercial lending of computer software based on the determination that such lending led to the making of illegal copies. See Computer Software Rental Amendments Act of 1990, Pub. L. No. 101-650, 104 Stat. 5089 (1990), and the Audio Home Recording Act, Pub. L. 102-563, 106 Stat. 4237 (1992), which established a complex set of rights and responsibilities of device makers and the content industry to address the new technology of digital audio recording devices and contained an exception for certain non-commercial home recording of music.

<sup>36</sup> Sound Recording Act of 1971, Pub. L. No. 92-140, 85 Stat. 391 (1971).

<sup>37</sup> *Cf.* the broader set of rights granted to other categories of works, which include rights of public display and performance. 17 U.S.C. § 106. The initial intention of protecting only certain rights in sound recordings was to focus on prohibiting unauthorized copying of physical copies of sound recordings, a problem that had been separately addressed under each states’ laws prior to federal recognition of copyright in sound recordings. See H.R. REP. NO. 487, at 2-3 (1971).

<sup>38</sup> Pub. L. No. 104-39, 109 Stat. 336 (Nov. 1, 1995), amending 17 U.S.C. §§ 106, 114-15. The digital performance right was further amended by the DMCA and by the Copyright Royalty and Distribution Reform Act of 2004, Public Law 108-419, 118 Stat. 2341, and the digital performance right and corresponding statutory licenses as currently codified reflect those amendments.

digital performance right was necessary in recognition of the fact that “digital transmission of sound recordings is likely to become a very important outlet for the performance of recorded music in the near future.”<sup>39</sup>

The digital performance right was qualified by a number of restrictions, most notably the creation of a statutory license for certain categories of non-interactive transmissions.<sup>40</sup> This statutory license has fostered the growth of Internet radio (or webcasting) and satellite radio. The royalty rates are set by the Copyright Royalty Board, subject to statutorily defined standards.<sup>41</sup>

As the market for digital transmission of sound recordings continues to mature, and streaming becomes an increasingly important means of enjoying music, questions have been raised as to different obligations for different types of services using sound recordings, and disparities in rate-setting standards for those digital services that are subject to the statutory license.<sup>42</sup> Of particular concern in the context of the growing digital audio market is the fact that there is still no public performance right when sound recordings are used by over-the-air FCC-licensed broadcasters. As a result, over-the-air broadcasters enjoy a competitive advantage over emerging digital services.

For over thirty years, the Administration and Copyright Office have made repeated calls to create a public performance right for the broadcasting of sound recordings.<sup>43</sup> Apart from the inability to obtain compensation in the United States, this omission has had a real impact on revenues received from abroad. While broad public performance rights are enjoyed by owners of sound recordings in most other countries, U.S. sound recording owners and performers have been unable to collect remuneration for the broadcasting of their works in those countries, due to the lack of reciprocal protection here.<sup>44</sup>

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<sup>39</sup> S. REP. 104-128, at 14 (1995).

<sup>40</sup> See 17 U.S.C. § 114(d)(2).

<sup>41</sup> See 17 U.S.C. §§ 114(f)(2)(B), 801(b)(1). The Copyright Royalty Board is an independent administrative law panel housed in the Library of Congress that adjudicates the rates and terms of the statutory licenses in the Copyright Act. See 17 U.S.C. §§ 801-805.

<sup>42</sup> In the last Congress, legislation was proposed in response to these questions. One bill sought to address the rate disparity for different services based on different rate-setting standards. See Internet Radio Fairness Act, H.R. 6480, S. 3609, 112th Cong. Another bill revisited the broader issue of the disparity between the digital audio services that are required to pay a performance royalty for sound recordings and terrestrial broadcasters with no such obligations. See Interim FIRST Act, available at [http://nadler.house.gov/sites/nadler.house.gov/files/documents/NADLER\\_153\\_xml.pdf](http://nadler.house.gov/sites/nadler.house.gov/files/documents/NADLER_153_xml.pdf).

<sup>43</sup> See, e.g., Register of Copyrights, Report on Performance Right in Sound Recordings, H.R. Doc. No. 15, 95th Cong., 2d Sess. (1978); Register of Copyrights, *Report on Copyright Implications of Digital Audio Transmission Services* (Oct. 1991); Letter from Cameron F. Kerry to Honorable Patrick Leahy (Apr. 1, 2010), available at <http://www.commerce.gov/sites/default/files/documents/2012/january/s379apr0110.pdf>; Administration’s White Paper on Intellectual Property Enforcement Legislative Recommendations 17 (Mar. 2011), available at [http://www.whitehouse.gov/sites/default/files/ip\\_white\\_paper.pdf](http://www.whitehouse.gov/sites/default/files/ip_white_paper.pdf).

<sup>44</sup> This lack of payment is a result of how the United States fulfills international obligations related to public performance rights. Although the United States is a signatory to the WPPT, because our public performance right is limited only to certain digital transmissions, other signatories to the WPPT withhold payment of royalties for performances of U.S. sound recordings on broadcast radio in their countries. Moreover, the United States is not a signatory to the International Convention for the Protection of Performers, Producers of Phonogram Recordings and Broadcasting Organizations (“Rome Convention”), so countries that are signatories to only the Rome Convention (and not the WPPT) do not pay royalties for

The Task Force believes that the overall framework of rights for the public performance of sound recordings should be revisited and better rationalized. In particular, the Administration continues to support a broadcasting right for sound recordings. With respect to the rate-setting standards for digital services, we urge that any reconsideration should focus broadly on the interests of all involved parties, taking into account the impact on creators and right holders as well as on different types of services. As Congress considers these issues, the Department of Commerce will provide ongoing input.

## 2. The Right of Reproduction In Temporary Copies

The right to reproduce a work in copies is the first and most fundamental of the bundle of rights that make up a copyright. In the online environment, this right is even more central, as copies are made in the course of virtually every network transmission of a digital copy.<sup>45</sup> Temporary copies may be a key aspect of the value of the use in some circumstances, but merely incidental in others.

The ability to control temporary copying in digital devices has long been important to rights owners. For software in particular, consumers increasingly engage in the exploitation of software they receive over a network without ever knowingly storing a permanent copy on their hard drive.<sup>46</sup> Temporary copies are also prevalent in the context of streaming sound recordings and video, where “buffer copies” are a technologically necessary step in the delivery of content to the consumer.

It has long been clear in U.S. law that the reproduction right is not limited solely to the making of “permanent” physical copies.<sup>47</sup> The statutory definitions cover any fixation “sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration.”<sup>48</sup> In the seminal 1993 case *MAI Systems Corp. v. Peak Computer, Inc.*, the Ninth Circuit applied these definitions to hold that when a program is loaded into RAM, a copy is created.<sup>49</sup> In a 2001 Report, the Copyright Office confirmed its agreement, noting that “[a]lthough it is theoretically possible that information . . . could be stored in RAM for such a short

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performances of U.S. sound recordings. See Statement of Marybeth Peters, Register of Copyrights, before the Subcommittee of Courts, the Internet, and Intellectual Property, Committee on the Judiciary, *Ensuring Artists Fair Compensation: Updating the Performance Right and Platform Parity for the 21st Century* (July 31, 2007) available at <http://www.copyright.gov/docs/regstat073107.html>.

<sup>45</sup> More broadly, the transmission of any information over the Internet – including content protected by copyright – inherently requires numerous temporary copies or buffers to be made as the information traverses the network. As information is transported from switch to switch and server to server across the Internet, temporary copies are made at every stopping point. Without temporary copies, no communications could flow across the Internet.

<sup>46</sup> In other words, they access the software according to their license terms, load it into their computer’s random access memory (RAM), use it and then close the program or shut down the computer – with the software only being temporarily stored on the computer’s or server’s hard drive.

<sup>47</sup> See Final Report of the National Commission on New Technological Uses of Copyrighted Works *supra* note 18 at 12-13, 22; Computer Software Copyright Act of 1980, Pub. L. No. 96-517, 94 Stat. 3015, 3028; *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993).

<sup>48</sup> 17 U.S.C. § 101 (definition of “fixed”).

<sup>49</sup> 991 F.2d 511 (9th Cir. 1993).

period of time that it could not be retrieved, displayed, copied or communicated, this is unlikely to happen in practice.”<sup>50</sup>

While the central premise of the *MAI* decision has been consistently upheld,<sup>51</sup> U.S. courts continue to refine in what circumstances a reproduction may be too short-lived to qualify as a copy.<sup>52</sup> Even if a copy is made, of course, it may not be infringing. The Copyright Act contains several specific limitations permitting temporary copies, including those made to allow the ordinary use or repair of a computer<sup>53</sup> or for purposes of re-broadcasting,<sup>54</sup> and ephemeral recordings used by non-interactive audio services.<sup>55</sup> Temporary reproductions may also qualify as fair use in appropriate circumstances.<sup>56</sup> The Copyright Office has stated that a fair use case could be made for buffer copies that are made in the process of streaming content because, although the use is not transformative and is for a commercial purpose, the reproduction is made “solely to render a performance that is fully licensed” and “facilitates an already existing market for the authorized and lawful streaming of works,” especially where they are made internally solely to enable an otherwise lawful use.<sup>57</sup> Further certainty could be provided through the adoption of a new statutory exception.<sup>58</sup>

This issue has received significant international attention. The World Intellectual Property Organization (WIPO) Internet Treaties explicitly confirm that the reproduction right as well as the exceptions thereto apply fully in the digital environment, and that

<sup>50</sup> U.S. Copyright Office, *A Report of the Register of Copyrights Pursuant to § 104 of the Digital Millennium Copyright Act*, 108 (2001), available at <http://www.copyright.gov/reports/studies/dmca/sec-104-report-vol-1.pdf> (“Section 104 Report”).

<sup>51</sup> See *Carson v. Verismart Software*, No. C 11-03766, 2012 U.S. Dist. LEXIS 42166 at \*8-9 (N.D. Cal. Mar. 27, 2012); *Costar Realty Info., Inc. v. Field*, No. 08-CV-0663, 2010 U.S. Dist. LEXIS 135016 at 19 (D. Md. Dec. 20, 2010); *DocMagic, Inc. v. Ellie Mae, Inc.*, 745 F. Supp. 2d 1148 (N.D. Cal. 2010); *Apple, Inc. v. Psystar Corp.*, 673 F. Supp. 2d 931, 935 (N.D. Cal. 2009); *Quantum Sys. Integrators, Inc. v. Sprint Nextel Corp.*, No. 08-1534, 2009 U.S. App. LEXIS 14766 at 18-19 (4th Cir. July 7, 2009).

<sup>52</sup> See, e.g., *Cartoon Network LP v. CSC Holdings, Inc.*, 536 F.3d 121, 129-30 (2d Cir. 2008), *cert. denied*, 557 U.S. 946 (2009) (holding that buffer copies existing for no longer than 1.2 seconds are not fixed and therefore do not qualify as copies under the Copyright Act); *CoStar Grp., Inc. v. LoopNet, Inc.*, 373 F.3d 544, 551 (4th Cir. 2004) (noting that an ISP that acts as conduit for users’ material does not engage in acts of reproduction because the copies are not fixed for more than transitory duration).

<sup>53</sup> 17 U.S.C. § 117(c).

<sup>54</sup> 17 U.S.C. § 112(a).

<sup>55</sup> 17 U.S.C. § 112(e). These ephemeral copies are subject to a statutory license, the rates and terms of which are set in conjunction with the statutory license for the digital public performance of sound recordings under Section 114.

<sup>56</sup> See, e.g., *Perfect 10 v. Google, Inc.*, 416 F. Supp. 2d 828 (C.D. Cal. 2006), *aff’d sub nom*, *Perfect 10 v. Amazon.com, Inc.*, 508 F.3d 1146, 1169 (9th Cir. 2007); *Field v. Google*, 412 F.Supp.2d 1106, 1118 (D. Nev. 2006); see also 4 M. NIMMER & D. NIMMER, NIMMER ON COPYRIGHT § 13.05[G], at 13-280 (“To the extent that infringers afford access to others’ copyrighted works via making those works accessible in users’ RAM, then liability should follow . . . . On the other hand, to the extent that RAM copies appear in the background and are not accessed, are created automatically, or exist solely to minimize unnecessary bandwidth usage of otherwise noninfringing conduct, then fair use should be given maximal latitude.”).

<sup>57</sup> Copyright Office Section 104 Report *supra* note 50 at 133-40.

<sup>58</sup> See Maria Pallante, Manges Lecture *supra* note 31 at 11-12. See also Copyright Office Section 104 Report *supra* note 50 at 141-46 (in the context of music licensing, recommending the adoption of a specific exception for temporary buffer copies).

the right extends to storage in an electronic medium.<sup>59</sup> In implementing these treaties, the European Union (EU) specified that the right covers “direct or indirect, temporary or permanent reproduction by any means and in any form, in whole or in part.”<sup>60</sup> Again, however, the broad coverage of the right does not mean that all reproductions require authorization. The Directive also contains a mandatory exception for certain “[t]emporary acts of reproduction . . . , which are transient or incidental [and] an integral and essential part of a technological process and whose sole purpose is to enable: (a) a transmission in a network between third parties by an intermediary, or (b) a lawful use,” which have no “independent economic significance.”<sup>61</sup> Although many countries have, like the United States, determined that their existing reproduction right covers temporary reproductions, some have amended their laws to explicitly clarify the coverage of such copies.<sup>62</sup> And the United States’ bilateral free trade agreements incorporate obligations to extend the reproduction right to temporary storage in any manner or form.<sup>63</sup>

### 3. The Making Available Right

On-demand delivery has become a principal means of distributing copyrighted works through digital networks. To ensure that copyright owners could control this means of exploitation, the 1996 WIPO Internet Treaties introduced at the international level an explicit “making available” right.<sup>64</sup> In order to resolve potential ambiguity in the

<sup>59</sup> WIPO, *Agreed Statements Concerning the WIPO Copyright Treaty* (WIPO Doc. No. CFNF/DC/96) (1996) (Agreed Statement concerning Article 1(4)); WIPO, *Agreed Statements Concerning the WIPO Performances and Phonograms Treaty* (WIPO Doc. No. CFNF/DC/96) (1996) (Agreed Statement concerning Articles 7, 11 and 16).

<sup>60</sup> Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society at art. 2 (OJ L 167 of 22.6.2001) (“Copyright Directive”).

<sup>61</sup> *Id.* at art. 5(1) (brackets in original). See also *Infopaq Int’l A/5 v. Danske Dagblades Forening*, European Court of Justice Case C-302/10 (Jan. 17, 2012). The ECJ stated that this exemption must be interpreted strictly, and that because most protected works have economic value, an act of temporary reproduction is only permitted if it does not enable the generation of an additional profit (for the user) going beyond that derived from lawful use of the protected work.

<sup>62</sup> See, e.g., Israeli Copyright Act of 2007 at § 12(4) (IL027); Mexican Federal Law on Copyright at art. 16(VI).

<sup>63</sup> See, e.g., United States-Australia Free Trade Agreement, Chapter on Intellectual Property Rights, art. 17.4.1: “Each Party shall provide that the following have the right to authorise or prohibit all reproductions, in any manner or form, permanent or temporary (including temporary storage in material form): (a) authors, in respect of their works; (b) performers, in respect of their performances; and (c) producers of phonograms, in respect of their phonograms.”

<sup>64</sup> Several decades before the Internet, copyright treaty negotiators were already laying the groundwork for a “making available” right. See Peter S. Menell, In Search of Copyright’s Lost Ark: Interpreting the Right to Distribute in the Internet Age, 59 J. COPYRIGHT SOC’Y USA 1, 50-51 (2011). In 1971, the Geneva Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of Their Phonograms, provided that Contracting States “shall protect producers of phonograms . . . against the making of duplicates without the consent of the producer and against the importation of such duplicates, provided that any such making or importation is for the purpose of distribution to the public, and against the distribution of such duplicates to the public.” 25 U.S.T. 309, 888 U.N.T.S. 67 at art. 2 (Oct. 29, 1971). Article 1 defines “distribution to the public” to mean “any act by which duplicates of a phonogram are offered, directly or indirectly, to the general public or any section thereof.” *Id.* at art. 1(d) (emphasis added).

existing copyright treaties, and at the same time to leave open the manner in which countries could implement the obligation, the right was formulated to cover the making available of works to the public “in such a way that members of the public may access these works from a place and at a time individually chosen by them.”<sup>65</sup> In countries where the “making available” right has been explicitly adopted, it has been interpreted to cover the placement of a work on the Internet where it can be accessed by individual members of the public.<sup>66</sup>

When the United States implemented the WIPO Internet Treaties in the DMCA, it did not include an explicit “making available” right, as both Congress and the Administration concluded that the relevant acts were encompassed within the existing scope of exclusive rights.<sup>67</sup> In addition to the existing reproduction and public performance rights, the distribution right, adopted in the 1976 Copyright Act, applied to digital transmissions as well as the distribution of physical copies.<sup>68</sup> And the legislative history indicates that this right was intended to incorporate the prior law’s “publication” right,<sup>69</sup> which included the mere offering of copies to the public.<sup>70</sup>

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<sup>65</sup> WCT *supra* note 32, art. 8; WPPT, *supra* note 32, art. 10. “It is irrelevant whether copies are available for the user or whether the work is simply made perceptible to, and thus usable by, the user . . . . One of the main objectives . . . is to make it clear that interactive on-demand acts of communication are within the scope of the provision.” Memorandum Prepared by the Chairman of the Committee of Experts, CRNR/DC/4 at 51 (Aug. 30, 1996), in Records of the Diplomatic Conference on Certain Copyright and Neighboring Rights Questions, at 204 (1999). The final wording was intended as an “umbrella solution,” allowing countries to choose by what right or combination of rights in their national laws it would be implemented. MIHÁLY FICSOR, *THE LAW OF COPYRIGHT AND THE INTERNET* C8.06 (Oxford University Press 2002). Neither a “distribution right” model nor a “communication right” model satisfied all the WIPO delegates because different legal regimes interpreted the terms “distribution” and “communication” differently.

<sup>66</sup> See, e.g., *Polydor Ltd v Brown*, No. HC 05C02035, [2005] EWHC 3191(Ch) (UK High Ct. Chancery Division, 18 Nov. 2005); Order in Interlocutory Injunction Proceedings, No. 308 O 58/06 (Civ Chamber 8, Hamburg Landgericht, 25 Jan. 2006); Order in Interlocutory Injunction Proceedings, No. 28 O 634/05 (Köln Landgericht, 23 Nov. 2005); Judgment, No. 95 Ds 1653 Js 15556/04 (57/04) (Kottbus D. Ct., 24 May 2004); Judgment, No. 461 Cs 509 Js 1607/02 (Fürth D. Ct., 29 Mar. 2004).

<sup>67</sup> See H.R. REP. NO. 105-551, pt. 1, at 9 (1998) (“The treaties do not require any change in the substance of copyright rights or exceptions in U.S. law.”); S. REP. NO. 105-190, 105th Cong., 2nd Session, at 11 (1998) (“The Committee believes that in order to adhere to the WIPO treaties, legislation is necessary in two primary areas - anticircumvention of technological protection measures and protection of the integrity of rights management information . . . . This view is shared by the Clinton administration.”); Statement of Bruce Lehman, Assistant Secretary of Commerce for Intellectual Property, Hearing on WIPO Copyright Treaties Implementation Act (H.R. 2281) and On-Line Copyright Liability Limitations Act (H.R. 2180) before the Subcomm. on Courts and Intellectual Property of the House Comm. on the Judiciary, 105th Cong., 1st Sess. (Sept. 16, 1997).

<sup>68</sup> Notably the legislative history from 1965 made reference to the potential for the “transmission of works by . . . linked computers, and other new media of communication” that “may be expected to displace the demand for authors’ works by other users from whom copyright owners derive compensation.” Supplementary Register’s Report on the General Revision of the U.S. Copyright Law 14 (1965)

<sup>69</sup> The right to “distribute” first emerged in the “Preliminary Draft for Revised U.S. Copyright Law” in late 1962, and was substituted for “publish” to avoid the confusion that had developed surrounding the term “publication” and courts’ attempts to avoid the harsh effects of “publication” without proper notice (forfeiture of federal copyright protection). See generally Menell *supra* note 64 at 39-43; Benjamin Kaplan, *Publication in Copyright Law: The Question of Phonograph Records*, 103 U. PA. L. REV. 469, 488-89 (1955).

<sup>70</sup> See Menell *supra* note 64 at 57; see also 2-8 NIMMER ON COPYRIGHT § 8.11[B][4][d]. At the time, the right to “publish” was understood to encompass the offering of copyright works to the public, and there was no requirement to prove actual distribution of copies. *Id.* See David O. Carson, *Making the Making Available*

Since that time, a number of U.S. courts have addressed the “making available” right, primarily in the context of individuals uploading a work to a shared folder on a computer connected to a peer-to-peer network. A number of courts have concluded that the distribution right incorporates the concept of “making available” reflected in the WIPO Treaties.<sup>71</sup> Some others have disagreed.<sup>72</sup> All of these cases, however, have focused solely on the scope of the distribution right and predate the recent academic scholarship described above, reviewing previously unanalyzed legislative history.<sup>73</sup>

#### 4. Technological Adjuncts to Copyright Rights

Technological advances can also provide tools for right holders to engage in digital self-help. As the Senate Judiciary Committee explained in considering the DMCA, “copyright owners will hesitate to make their works readily available on the Internet without reasonable assurance that they will be protected against massive piracy.”<sup>74</sup> Rather than seeking to lock up their works and keep them off the Internet, copyright owners can use digital technologies to control their manner and terms of use. As expressed in the phrase that became widespread in the 1990s, “the answer to the machine is in the machine.”<sup>75</sup>

But the machine alone may be insufficient, as there will always be those who find ways to evade technological controls. Accordingly, governments have put in place legal safeguards to enhance the efficacy of these tools, in the hope of avoiding endless technological cat and mouse games and allowing energies to be channeled into more productive endeavors. While those determined to circumvent may never be completely dissuaded, the goal of the DMCA was to deter infringement, and tools that enable infringement, sufficiently to give breathing room to the legitimate market.

Two types of technological tools used as adjuncts to copyright rights are now protected under U.S. and international law: TPMs and RMI.

##### a) *Technological Protection Measures (TPMs)*

TPMs are technological tools designed to prevent the unauthorized use of or access to

*Right Available: 22nd Annual Horace S. Manges Lecture, February 3, 2009* 33 COLUM. J.L. & ARTS 135, 160-61 (2010); RESTATEMENT (THIRD) OF THE FOREIGN RELATIONS LAW OF THE UNITED STATES § 114 (1986) (“Where fairly possible, a United States statute is to be construed so as not to conflict with international law or with an international agreement of the United States.”).

<sup>71</sup> *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1014 (9th Cir. 2001) (“*Napster*”); *Universal City Studios Prods. LLLP v. Bigwood*, 441 F. Supp. 2d 185, 191 (D. Me. 2006); *Motown Records Co. v. DiPietro*, No. 04-CV-2246, 2007 WL 576284 (E.D. Pa. Feb. 16, 2007); *UMG Recordings, Inc. v. Alburger*, Civil No. 07-3705, 2009 WL 3152153, at \*3 (E.D. Pa. Sept. 29, 2009).

<sup>72</sup> These cases have not, however, required direct evidence of the dissemination of copies, but have allowed proof based on circumstantial evidence or inference. See *Capitol Records, Inc. v. Thomas*, 579 F.Supp.2d 1210, 1225 (D. Minn. 2008); *London-Sire Records, Inc. v. Doe 1*, 542 F.Supp.2d 153, 169 (D. Mass. 2008); *Atl. Recording Corp. v. Howell*, 554 F. Supp. 2d 976, 981-84 (D. Ariz. 2008).

<sup>73</sup> Menell *supra* note 64; 2-8 NIMMER ON COPYRIGHT § 8.11[B][4][d].

<sup>74</sup> S. REP. NO. 105-190 (1998).

<sup>75</sup> Charles Clark, *The Answer to the Machine is in the Machine*, in THE FUTURE OF COPYRIGHT IN THE DIGITAL ENVIRONMENT (Hugenholtz, ed.) (1996).

works in digital form. TPMs include *access controls*, such as cryptographic locks, passwords and digital signatures, or *use controls*, such as a digital lock that prevents the copying of a particular film or computer program. They can serve the function not only of preventing infringement but also of enabling the existence of varied business models, making it possible for content to be delivered in different ways on different terms and price points.

The late 1990s saw the enactment of laws protecting TPMs used in connection with copyrighted works. This idea was first proposed in 1995 in the NII Report, building on earlier laws directed at specific categories of works or devices,<sup>76</sup> and adopted in general terms in the WIPO Internet Treaties, which require contracting parties to provide “adequate legal protection” and “effective legal remedies” against circumvention of TPMs.<sup>77</sup>

The DMCA fleshes out the specifics in U.S. law. It prohibits not only the act of circumvention but also the manufacture or distribution of circumvention devices and services—the source of much greater damage to right holders.<sup>78</sup> TPMs are defined broadly to include both access controls and use controls, whether used separately or in combination.<sup>79</sup>

One challenging implementation issue was to ensure that TPMs are not deployed in such a way as to impede acts permitted under fair use and other copyright exceptions. To this end, the DMCA reflects a careful balance. First, there is an explicit distinction between the act of circumventing *access* controls and the act of circumventing *use* controls; the former is prohibited but the latter is not.<sup>80</sup> This distinction recognizes that copyright exceptions may permit someone to use a work in ways not authorized by the copyright owner, but exceptions do not permit unauthorized access to a work. In addition, there is a provision stating that the protection of TPMs will not affect the other limitations or defenses to copyright infringement, including fair use.<sup>81</sup> Finally,

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<sup>76</sup> NII Report *supra* note 22, at 230-36. Among the early laws cited were: The Audio Home Recording Act, which added provisions that required digital audio recording devices to use a copy control system and prohibited circumvention of that system, 17 U.S.C. § 1002, and the Communications Act, which included a provision prohibiting the unauthorized decryption of satellite cable programming, 47 U.S.C. § 605(e)(4). In 1991, the EU had also issued a directive that required Member States to prohibit “any act of putting into circulation, or the possession for commercial purposes of, any means the sole intended purpose of which is to facilitate the unauthorized removal or circumvention of any technical device which may have been applied to protect a computer program.” Council Directive on the Legal Protection of Computer Programs, at art. 7(1)(c), 91/250/EEC (May 14, 1991).

<sup>77</sup> WCT, *supra* note 32, art. 11; WPPT, *supra* note 32, art. 18.

<sup>78</sup> The DMCA regulates two classes of activity: (1) circumvention – the act of descrambling a scrambled work, decrypting an encrypted work, or otherwise disabling, removing, or avoiding a technological measure, 17 U.S.C. § 1201(a)(3)(A); and (2) trafficking – the manufacture, distribution, sale, or offering to the public of devices, tools, or technologies that enable circumvention. 17 U.S.C. §§ 1201(a)(2), (b)(1).

<sup>79</sup> 17 U.S.C. §§ 1201(a), (b)(1).

<sup>80</sup> With respect to access controls, both the act of circumvention and the trafficking in circumvention technologies are prohibited. With respect to use (or copy) controls, the act of circumvention is not prohibited but trafficking is. *See also* U.S. Copyright Office, *The Digital Millennium Copyright Act of 1998: U.S. Copyright Office Summary* 3-6 (Dec. 1998), available at <http://www.copyright.gov/legislation/dmca.pdf>.

<sup>81</sup> 17 U.S.C. § 1201(c)(1).

there are a number of specific exceptions to the prohibitions on circumvention, as well as a triennial rule-making process to establish additional exceptions for circumvention of access controls where needed to accommodate permitted uses (discussed below at pp. 26-27).

To avoid inappropriate liability for multipurpose devices such as personal computers, the prohibition on circumvention extends only to those that: (1) are “primarily designed or produced” to circumvent TPMs; (2) have only limited commercially significant uses other than for circumvention; or (3) have been marketed as circumvention tools.<sup>82</sup> The law also includes a “no mandate” provision, clarifying that technology developers are under no obligation to proactively design their products to accommodate any particular technological measure.<sup>83</sup>

In implementing the WIPO Internet Treaties, many other countries have enacted similar laws. Generally, these laws cover both access and copy controls, prohibit the act of circumvention, and avoid liability for multipurpose devices. The areas of greatest variation relate to the definition of TPMs, whether the act of trafficking in circumvention tools is separately prohibited, and how to deal with impacts on legitimate uses, with a range of approaches adopted including safeguard mechanisms similar to the DMCA rule-making.<sup>84</sup> TPM provisions modeled on the DMCA are also included in all subsequent U.S. free trade agreements.<sup>85</sup>

In the years since the DMCA’s passage, the anti-circumvention provisions have been the subject of litigation. Although complete analysis of the case law is beyond the scope of this paper, a few aspects are worth mentioning. First, the prohibition on circumvention has been upheld in the face of First Amendment and fair use challenges.<sup>86</sup> And second, courts have generally rebuffed attempts to use the prohibition to further anti-competitive purposes related to the sale of consumer goods rather than to the goal of protecting copyright.<sup>87</sup>

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<sup>82</sup> 17 U.S.C. §§ 1201(a)(2), (b)(1).

<sup>83</sup> 17 U.S.C. § 1201(c)(3).

<sup>84</sup> See WIPO, *Survey on Implementation Provisions of the WCT and WPPT* (2003), available at [http://www.wipo.int/edocs/mdocs/copyright/en/sccr\\_9/sccr\\_9\\_6.pdf](http://www.wipo.int/edocs/mdocs/copyright/en/sccr_9/sccr_9_6.pdf); EU Copyright Directive art. 6; Australian Copyright Act of 1968 arts. 116AK-116AQ; Canadian Copyright Act arts. 41-41.21; Copyright Law of the People’s Republic of China art. 48(6); Japanese Copyright Law arts. 2(1)(xx), 30(1)(ii), 120bis; Japanese Unfair Competition Prevention Act Law arts. 2(1)(x)-(xi), 2(7), 3, 4, 21(2)(iv); Civil Code of the Russian Federation art. 1299.

<sup>85</sup> See, e.g., United States-Australia Free Trade Agreement art. 17.4.7.

<sup>86</sup> See *Universal City Studios, Inc. v. Corley*, 273 F.3d 429, 453-59 (2d Cir. 2001).

<sup>87</sup> See *Chamberlain Grp., Inc. v. Skylink Techs., Inc.*, 381 F.3d 1178, 1202 (Fed. Cir. 2004) (rejecting claim by garage door manufacturer that the sale of a universal garage door opener circumvented the technological measure that controlled access to the computer software that operated the garage door); see also *Lexmark Int’l, Inc. v. Static Control Components, Inc.*, 387 F.3d 522, 549 (6th Cir. 2004) (rejecting similar claim in context of interoperable printer cartridges). But see *MDY Indus., LLC v. Blizzard Entm’t, Inc.*, 629 F.3d 928, 952 (9th Cir. 2011) (finding defendant liable for trafficking in technology that circumvented access controls used by online video game to prevent players from using unauthorized software to advance through the game faster).

### ***b) Rights Management Information (RMI)***

An additional technological adjunct to copyright is RMI, information about a protected work that enables its licensing. In the digital environment, RMI often takes the form of machine-readable metadata – “data about data.”<sup>88</sup> Its availability is valuable for both owners and users, giving factual information that can facilitate legal uses of content. Its manipulation or deletion, on the other hand, can lead to false conclusions about proper payees and permitted uses, with an effect equivalent to common fraud.

The 1996 WIPO Treaties require legal protection for RMI, defined as:

information which identifies the work, the author of the work, the owner of any right in the work, or information about the terms and conditions of use of the work, and any numbers or codes that represent such information, when any of these items of information is attached to a copy of a work or appears in connection with the communication of a work to the public.<sup>89</sup>

The implementing provision in the DMCA makes it illegal to provide or distribute false RMI with the intent to induce, facilitate or conceal copyright infringement, or intentionally to remove or alter it with knowledge or reasonable grounds to know that doing so will have that effect.<sup>90</sup> Other signatories to the WIPO Internet Treaties have adopted similar provisions, some essentially transposing the treaty language into national law.<sup>91</sup>

The importance of RMI is intensifying as more copyrighted works and associated data become available online, with a corresponding need for consistency and completeness for licensing purposes. Legal protection can help to ensure that this information remains reliable as online licensing mechanisms continue to develop (as explored below in Section IV). In addition, the desire for attribution on the part of authors (even those who are not concerned about compensation) may be heightened in the online environment. Laws protecting the author’s name from falsification, alteration or removal can serve this function too.

## **5. New Challenge: The Meaning of “Public Performance”**

Another set of issues relating to the scope of rights has arisen in the context of new online services enabling consumers to stream entertainment content produced by third

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<sup>88</sup> See, e.g., National Information Standards Organization, *Understanding Metadata* (2004), available at <http://www.niso.org/publications/press/UnderstandingMetadata.pdf>.

<sup>89</sup> See WCT, *supra* note 32 art. 12(2); WPPT, *supra* note 32, art. 19(2).

<sup>90</sup> 17 U.S.C. § 1202. The statute uses the term “copyright management information,” and defines it more precisely than the WIPO Treaties, including various carve-outs for public performances by radio and television broadcast stations. It also contains an exception for law enforcement, intelligence and other government activities, and limitations on liability with respect to certain transmissions by broadcast stations and cable systems.

<sup>91</sup> See EU Copyright Directive art. 7; Australian Copyright Act of 1968 arts. 116B-116D; Canadian Copyright Act art. 41.22; Copyright Law of the People’s Republic of China art. 48(7); Japanese Copyright Law arts. 2(1)(xxi), 113(3), 120*bis*(iii); Civil Code of the Russian Federation art. 1300. RMI provisions are also included in many U.S. FTAs. See, e.g., United States-Australia Free Trade Agreement art. 17.4.8.

parties into their homes. In recent years a number of licensed online video streaming services have launched, and many cable television providers offer extensive on-demand catalogs to their subscribers. Other services have launched without licenses, using technology developed to transmit individual streams from individually-made copies, rather than broadcasting to the public from a single source copy. These services, which rely on recent case law in the context of a cable operator with underlying content licenses,<sup>92</sup> pose a challenge to the traditional dividing lines between public and private performance, and raise a host of questions. If any consumer can stream the content she wants on-demand, is this act “public” as defined by the Copyright Act if the technology is structured so that the stream comes from a copy made by a third party for each individual? Does it make a difference if the consumer already has legal access in another form to the content being streamed? Does it matter how the source copies are made, and by whom? Such interpretive tensions in the face of changing delivery models are the inevitable result of a system based on a bundle of specific rights, each drafted in the context of then-existing technologies.

Courts are grappling with this issue and it remains to be seen how it will be resolved.<sup>93</sup> And while the answers may require careful parsing of statutory language and legislative history, the underlying policy question is which businesses will benefit to what extent from new technologies that meet the consumer’s desired enjoyment of content. The result of these cases could affect, for example, the viability and scope of new licensed business models such as online video subscription services. To the extent that judicial decisions undermine a meaningful public performance right, Congressional action may be needed.<sup>94</sup>

### C. Updates to Exceptions

Digital technologies have also given rise to a need to update copyright exceptions. Such updates must be approached against the backdrop of the general obligation to comply with the “three-step test” of international law: exceptions to copyright must be limited to certain special cases, and must not conflict with a normal exploitation of the work or unreasonably prejudice the legitimate interests of the right holder.<sup>95</sup> At the same time, it is clear that existing exceptions can be extended into the digital

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<sup>92</sup> *Cartoon Network*, 536 F.3d 121.

<sup>93</sup> See *WNET, Thirteen v. Aereo, Inc.*, 712 F.3d 676 (2d Cir. 2013) (“*Aereo*”); *Fox Television Stations, Inc., et al. v. BarryDriller Content Sys., PLC, et al.*, No. CV 12-6921-GW, 2012 WL 6784498 (C.D. Cal. Dec. 27, 2012) (“*Aereokiller*”). The European Court of Justice recently held that the unauthorized live streaming of TV broadcasts violates the EU Copyright Directive’s exclusive right of “communication to the public.” *ITV Broad. Ltd v. TVCatchup Ltd*, Case C 607/11 at ¶ 40 (ECJ Mar. 7, 2013).

<sup>94</sup> 17 U.S.C. § 106(4). A public performance right is required by a number of international treaties which the United States has ratified, generally labeled as the right of “communication to the public.” See, e.g., Berne Convention *supra* note 32, arts. 11, 11*bis*, 11*ter*, 14, 14*bis*; TRIPS Agreement *supra* note 32, arts. 9, 14; WCT *supra* note 32, art. 8.

<sup>95</sup> Berne Convention, *supra* note 32, art. 9(2); see also TRIPS Agreement, *supra* note 32, art. 13; WCT, *supra* note 32, art. 10; WPPT, *supra* note 32, at art. 16; Beijing Treaty on Audiovisual Performances at art. 13(2); Panel Report, *United States – Section 110(5) of the US Copyright Act*, WT/DS160/R (June 15, 2000). Free trade agreements between the United States and other countries likewise include the obligations of the three-step test. See, e.g., United States-Australia FTA art. 17.4.10(a); Dominican Republic-Central America-United States FTA art. 15.5.10(a); U.S.-Singapore FTA art. 16.4.2(a).

environment, and new ones adopted as appropriate.<sup>96</sup> In the U.S., several long-standing exceptions have been recalibrated through legislative amendments or judicial interpretation, and new ones adopted or considered.

## 1. The Fair Use Doctrine

The fair use doctrine, developed by the courts and codified in the 1976 Copyright Act, is a fundamental linchpin of the U.S. copyright system.<sup>97</sup> Along with the idea/expression dichotomy, the fair use doctrine is a critical means of balancing “the interests of authors and inventors in the control and exploitation of their writings and discoveries on the one hand, and society’s competing interest in the free flow of ideas, information, and commerce on the other hand.”<sup>98</sup> It is also a vital “built-in First Amendment accommodation[.]” in copyright law.<sup>99</sup> Because fair use requires an assessment of the “fairness” of the use in question, based on a balancing of several factors, it is inherently fact-intensive. Accordingly, in any area where there is not yet established precedent, it may be difficult for prospective users of copyrighted works to predict whether a fair use defense will succeed or fail.<sup>100</sup>

The corresponding advantage of fair use is its flexibility; the doctrine is highly adaptable to new technologies and has already played an important role in the online environment. Fair use has been applied by the courts to enable, among other things, the use of thumbnail images in Internet search results,<sup>101</sup> caching of web pages by a search engine,<sup>102</sup> and a digital plagiarism detection service.<sup>103</sup>

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<sup>96</sup> WIPO, *Agreed Statements Concerning the WIPO Copyright Treaty*, Agreed Statement concerning Article 10 (WIPO Doc. No. CFNF/DC/96) (1996) (“It is understood that the provisions of Article 10 permit Contracting Parties to carry forward and appropriately extend into the digital environment limitations and exceptions in their national laws which have been considered acceptable under the Berne Convention. Similarly, these provisions should be understood to permit Contracting Parties to devise new exceptions and limitations that are appropriate in the digital network environment. It is also understood that Article 10(2) neither reduces nor extends the scope of applicability of the limitations and exceptions permitted by the Berne Convention.”); WIPO, *Agreed Statements Concerning the WIPO Performances and Phonograms Treaty*, Agreed Statement concerning Article 16 (WIPO Doc. No. CFNF/DC/96) (1996).

<sup>97</sup> 17 U.S.C. § 107. Whether a particular use of a copyrighted work qualifies as fair use requires a court to consider all relevant factors, including: (1) the purpose and character of the use, including whether such use is of commercial nature or is for nonprofit education purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for, or value of, the copyrighted work. Most other countries do not have a comparable fair use doctrine, but rely on specific defenses sometimes in combination with the generally narrower concept of “fair dealing.” See PAUL GOLDSTEIN & BERNT HUGENHOLTZ, *INTERNATIONAL COPYRIGHT: PRINCIPLES, LAW AND PRACTICE* 362-64 (2d ed. 2010); see also Jonathan Band & Jonathan Gerafi, *The Fair Use/Fair Dealing Handbook* (Mar. 2013) <http://infojustice.org/wp-content/uploads/2013/03/band-and-gerafi-2013.pdf>.

<sup>98</sup> *Sony*, 464 U.S. at 429.

<sup>99</sup> *Golan v. Holder*, 132 S. Ct. 873, 890 (2012) (internal quotation marks and citation omitted).

<sup>100</sup> See Peter S. Menell & Ben Depoorter, *Using Fee Shifting to Promote Fair Use and Fair Licensing*, 101 CAL. L. REV. (forthcoming 2014); MICHAEL C. DONALDSON, *CLEARANCE AND COPYRIGHT: EVERYTHING YOU NEED TO KNOW FOR FILM AND TELEVISION* 29, 363-67 (3d ed. 2008).

<sup>101</sup> *Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 815-16 (9th Cir. 2003); *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1163-68 (9th Cir. 2007); but see *Associated Press v. Meltwater U.S. Holdings, Inc.*, No. 12 Civ. 1087, -- F. Supp. 2d --, 2013 WL 1153979 (S.D.N.Y. Mar. 21, 2013) (rejecting fair use defense for

The status of several types of common digital uses remains unsettled, however. While time-shifting of over-the-air broadcast programming has been held to be fair use,<sup>104</sup> similar consumer activities known as “format-shifting” and “space-shifting” that involve the copying of entire works to permit personal use on different types of devices have not yet been definitively addressed by U.S. courts.<sup>105</sup> It is an open question whether having paid for enjoyment of a work in one format or location should eliminate the need to pay again for its enjoyment in a different format or location.

Over the years, as the courts have defined the contours of fair use, there have been several public and private initiatives aiming to provide greater specificity and predictability to its application. At the time of enactment of the 1976 Copyright Act, a set of guidelines for educational users (“Classroom Guidelines”) were adopted and approved by Congress.<sup>106</sup> Once digital technologies became prevalent, the Working Group on Intellectual Property Rights convened a Conference on Fair Use (CONFU) in 1994 “to bring together copyright owner and user interests to discuss fair use issues and, if appropriate and feasible, to develop guidelines for fair uses of copyrighted works by librarians and educators.”<sup>107</sup> After a four-year process, no consensus was achieved on the overall scope of fair use guidelines, although one set of such guidelines was developed for educational multimedia. CONFU also resulted in proposals for fair use guidelines for digital images and distance learning that were circulated for discussion.<sup>108</sup> Despite the lack of consensus, the guidelines and proposals that came out of that process remain useful resources.

More recently, others have undertaken efforts to develop fair use guidelines for various user communities. American University’s Center for Social Media, in

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subscription news clipping service that used algorithm similar to search engines to locate and excerpt news stories).

<sup>102</sup> *Field v. Google Inc.*, 412 F. Supp. 2d 1106, 1117-23 (D. Nev. 2006).

<sup>103</sup> *A.V. v. iParadigms, LLC*, 562 F.3d 630, 637-45 (4th Cir. 2009).

<sup>104</sup> *Sony*, 464 U.S. at 429. The scope of time-shifting as fair use is currently being challenged in litigation between major broadcast networks and the Dish satellite service involving a feature of its in-home recorders that allows consumers to automatically skip commercials during playback. Such ad-skipping features raise additional considerations beyond those in *Sony* given the potential impact on the advertising-funded model for broadcast television. See *Fox Broad. Co., Inc. v. Dish Network, L.C.C.*, -- F.3d --, 2013 WL 3814917 (9th Cir. July 24, 2013).

<sup>105</sup> See Register of Copyrights, *Section 1201 Rulemaking: Fifth Triennial Proceeding to Determine Exemptions to the Prohibition on Circumvention, Recommendations of the Register of Copyrights* 162-66 (Oct. 2012), available at [http://www.copyright.gov/1201/2012/Section\\_1201\\_Rulemaking%202012\\_Recommendation.pdf](http://www.copyright.gov/1201/2012/Section_1201_Rulemaking%202012_Recommendation.pdf). In many other countries, these types of consumer activities are treated as “private copying,” generally exempted from liability in return for remuneration (“levies”) paid to right holders by the manufacturers of the devices or media used to make the copies. See EU Copyright Directive at art. 5(2)(b). Japan, Canada and Australia also have similar levy systems. For information about the various private copying schemes around the world, see WIPO, *International Survey on Private Copying* (2012), available at [http://www.wipo.int/freepublications/en/copyright/1037/wipo\\_pub\\_1037.pdf](http://www.wipo.int/freepublications/en/copyright/1037/wipo_pub_1037.pdf).

<sup>106</sup> H.R. REP. NO. 1476 at 68-71 (1976).

<sup>107</sup> Bruce A. Lehman, *The Conference on Fair Use: Final Report to the Commissioner on the Conclusion of the Conference on Fair Use 2* (1998), available at <http://www.uspto.gov/web/offices/dcom/olia/confu/confurep.pdf>.

<sup>108</sup> *Id.* at 17.

conjunction with the University's Washington College of Law, has created a set of tools for creators, teachers, and researchers to better understand the application of fair use to their particular disciplines.<sup>109</sup> The Copyright Advisory Office established at Columbia University in 2008 has collected and developed resources on the relationship between copyright law and the work of the university community, including a fair use checklist.<sup>110</sup> And the College Art Association recently announced a major grant to develop a code of best practices for fair use "in the creation and curation of artworks and scholarly publishing in the visual arts."<sup>111</sup>

The Task Force supports private efforts to explore the parameters of fair use, and notes that best practices produced with input from both user groups and right holders can offer the greatest certainty. To further assist in providing guidance to the creative community, the IPEC's 2013 Joint Strategic Plan for Intellectual Property Enforcement proposes that the Copyright Office in coordination with the Administration publish and maintain an index of major fair use court decisions to serve as a helpful resource.<sup>112</sup>

## 2. Library Exception

One specific exception that has already been updated once relates to library preservation and research activities. In 1998, the DMCA amended Section 108 of the Copyright Act to allow libraries and archives to take advantage of digital technologies when engaging in preservation activities. Libraries and archives are now permitted to make up to three copies or phonorecords in digital as well as analog formats, for purposes of preservation and security or for deposit for research use in another library or archive.<sup>113</sup> The amendment imposed restrictions on the use of any digital copies made, in order to ensure that they are not freely distributed outside library premises.

By 2006, however, there was concern that the amendments had been outstripped by technology and needed further updates. Libraries and archives were concerned about the impact digital technologies were having on their abilities to properly serve their constituents. Issues included the scope of works covered by Section 108, the ability of libraries to use outside contractors with specialized expertise in emerging digital

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<sup>109</sup> See <http://www.centerforsocialmedia.org>. The Center, working with stakeholders in various areas, has developed guidelines and codes for academic and research libraries; poetry; open course ware; media literacy education; online videos; documentary filmmakers; scholarly research in communication; and dance-related materials. For example, the code of best practices for academic and research libraries was created in conjunction with the Association of Research Libraries. See <http://www.arl.org/focus-areas/copyright-ip/fair-use/code-of-best-practices>.

<sup>110</sup> See <http://copyright.columbia.edu/copyright>. Other online resources available from the Copyright Advisory Office are a Copyright Quick Guide, fair use case summaries, materials on distance education, links to other online resources, including major fair use guidelines issued during the period 1976-1998, and a blog on current developments.

<sup>111</sup> See Janet Landay, *CAA receives major Mellon grant*, College Art Association, <http://www.collegeart.org/news/2013/01/14/caa-receives-major-mellon-grant/> (Jan 14, 2013).

<sup>112</sup> U.S. Intellectual Property Enforcement Coordinator, *2013 Joint Strategic Plan on Intellectual Property Enforcement* 18 (June 2013) ("2013 Joint Strategic Plan") available at <http://www.whitehouse.gov/sites/default/files/omb/IPEC/2013-us-ipec-joint-strategic-plan.pdf>

<sup>113</sup> See 17 U.S.C. § 108(b).

technologies, and the ability to capture online content for preservation purposes. Right holders and publishers, on the other hand, wanted any exceptions to be confined to certified institutions to help maintain and ensure the security of any digital copies.

To help guide the discussion of how best to transition into the digital era and to ensure that Section 108 did not become technologically irrelevant, the Copyright Office convened an independent Study Group. In its final Report, the Study Group recommended a number of legislative changes to update the exceptions for libraries and archives,<sup>114</sup> and noted that additional changes might be necessary.<sup>115</sup> In the interim, one library group has developed a set of guidelines for video preservation under Section 108, which may prove to be a useful resource.<sup>116</sup>

Although the recommendations of the Study Group have not yet been acted on, the Copyright Office has recently reopened its consideration of Section 108, and will be making recommendations going forward.<sup>117</sup> The Task Force supports the Copyright Office's efforts to ensure that libraries and archives can benefit from the use of current technologies while safeguarding the rights of right holders. We note that an updated Section 108 could provide a positive model for international discussions at WIPO and elsewhere.<sup>118</sup>

### 3. Distance Education

Updates have also been made to the exceptions in the Copyright Act dealing with distance education, amending it to better enable the use of digital technologies. A 1999 report to Congress by the Register of Copyrights<sup>119</sup> recommending an exception for digital distance education became the basis for the Technology, Education, and

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<sup>114</sup> *The Section 108 Study Group Report* 31-94 (March 2008), available at <http://www.section108.gov/docs/Sec108StudyGroupReport.pdf>. Among other items, the Report recommended that museums should be included in Section 108 eligibility; a new exception should be added to permit certain qualified libraries and archives to make preservation copies of at-risk published works prior to any damage or loss; a new exception should be added to permit libraries and archives to capture and reproduce publicly available Web sites and other online content for preservation purposes and to make those copies accessible to users for private study, research or scholarship; and libraries and archives should be permitted to make a limited number of copies, as reasonably necessary, to create and maintain a single replacement or preservation copy.

<sup>115</sup> *Id.* at 95-112.

<sup>116</sup> *See Video at Risk: Strategies for Preserving Commercial Video Collections in Libraries, Section 108 Guidelines* (Dec. 2012), available at [http://www.nyu.edu/tisch/preservation/research/video-risk/VideoAtRisk\\_SECTION108\\_Guidelines\\_2013.pdf](http://www.nyu.edu/tisch/preservation/research/video-risk/VideoAtRisk_SECTION108_Guidelines_2013.pdf).

<sup>117</sup> As part of this process, the Copyright Office conducted a symposium in February 2013 on Copyright Exceptions for Libraries in the Digital Age: Section 108 Reform. *See* Revising Section 108: Copyright Exceptions for Libraries and Archives, U.S. Copyright Office, <http://www.copyright.gov/docs/section108/>.

<sup>118</sup> The issue of limitations and exceptions for libraries and archives has been an ongoing topic of discussion for the WIPO Standing Committee on Copyrights, with discussions as recently as November 2012. *See* WIPO, *Standing Committee on Copyright and Related Rights, Agenda for Twenty-fifth Session* (Nov. 19, 2012), available at [http://www.wipo.int/edocs/mdocs/copyright/en/sccr\\_25/sccr\\_25\\_1.pdf](http://www.wipo.int/edocs/mdocs/copyright/en/sccr_25/sccr_25_1.pdf); *see also* WIPO, *Study on Copyright Limitations and Exceptions for Libraries and Archives* (Aug. 2008), available at [http://www.wipo.int/edocs/mdocs/copyright/en/sccr\\_17/sccr\\_17\\_2.pdf](http://www.wipo.int/edocs/mdocs/copyright/en/sccr_17/sccr_17_2.pdf).

<sup>119</sup> U.S. Copyright Office, *Report on Copyright and Digital Distance Education* (May 1999), available at [http://www.copyright.gov/reports/de\\_rprt.pdf](http://www.copyright.gov/reports/de_rprt.pdf).

Copyright Harmonization (TEACH) Act of 2002.<sup>120</sup> Under the TEACH Act, which amended sections 110(2) and 112(f) of the Copyright Act, instructors may use a wider range of works in distance learning environments; students may participate in distance learning sessions from virtually any location; and participants enjoy greater latitude when it comes to storing, copying and digitizing materials. In order to benefit from these provisions, academic institutions must comply with a set of criteria intended to protect against potential piracy of digital content and to preserve the viability of markets for educational materials.<sup>121</sup>

In the past ten years, digital distance education in the United States has flourished. It has been reported, however, that few institutions have taken advantage of the TEACH Act exception in part due to its technological requirements.<sup>122</sup> The development of the distance education market may instead be the result of some form of licensing, reliance on fair use, or a combination of both. The Register of Copyrights has recently urged congressional review of copyright issues related to higher education, including distance education.<sup>123</sup>

#### 4. Blind, Visually Impaired and Other Persons with Print Disabilities

Digital technologies can also be an important means of providing access to copyrighted works to the visually impaired. A 1996 amendment to the Copyright Act established a new exception to promote such access; the Chafee Amendment provided that an “authorized entity,” defined as “a nonprofit organization or a governmental agency that has a primary mission to provide specialized services relating to training, education, or adaptive reading or information access needs of blind or other persons with disabilities,” could reproduce or distribute certain works in specialized formats, including digital formats, exclusively for use by such persons.<sup>124</sup> More than fifteen years later, it may be time for further updates. The Register of Copyrights recently noted that some aspects of Section 121 “appear ill-suited to the digital world and could benefit from comprehensive review by Congress.”<sup>125</sup>

In addition, exemptions to the prohibition on circumvention of TPMs to ensure access to e-books by the visually impaired have been repeatedly granted in the DMCA rule-

<sup>120</sup> Pub. L. 107-273, Sec. 13301.

<sup>121</sup> See H.R. Rep. 107-687, at 11-13 (2002).

<sup>122</sup> See Christopher L. Ashley, *The TEACH Act: Higher Education Challenges for Compliance* (June 22, 2004), available at <http://net.educause.edu/ir/library/pdf/erb0413.pdf>; Kenneth Crews, *Copyright Law and Distance Education: Overview of the TEACH Act* (Aug. 17, 2010), available at <http://copyright.columbia.edu/copyright/files/2010/08/teach-act-summary-by-kenneth-crews.pdf>; Digital Media Project, *The Digital Learning Challenge: Obstacles to Educational Uses of Copyrighted Material in the Digital Age* (Aug. 9, 2006), available at <http://cyber.law.harvard.edu/media/files/copyrightandeducation.html>.

<sup>123</sup> Maria Pallante, Manges Lecture *supra* note 31 at 19.

<sup>124</sup> 17 U.S.C. § 121.

<sup>125</sup> See Register of Copyrights, *Section 1201 Rulemaking: Fifth Triennial Proceeding to Determine Exemptions to the Prohibition on Circumvention, Recommendation of the Register of Copyrights* 24 (Oct. 2012), available at [http://www.copyright.gov/1201/2012/Section\\_1201\\_Rulemaking%20\\_2012\\_Recommendation.pdf](http://www.copyright.gov/1201/2012/Section_1201_Rulemaking%20_2012_Recommendation.pdf).

makings discussed below, based on findings that some TPMs have been developed and deployed in ways that prevent such access.<sup>126</sup>

At the international level, WIPO adopted a treaty in June 2013 to improve access to published works for the blind, visually impaired and other individuals with print disabilities.<sup>127</sup> The treaty is intended to promote the international availability of accessible e-books and other digital formats as well as traditional formats such as braille. The United States played a leadership role in these negotiations.

## 5. DMCA Anti-Circumvention Exceptions

The DMCA's prohibitions against circumvention of TPMs contain a number of specific, detailed exceptions. One allows nonprofit libraries, archives and educational institutions to circumvent technological measures in order to make a good faith determination of whether to acquire a copy of a work that is not reasonably available in another format.<sup>128</sup> Others allow circumvention in specific circumstances for federal law enforcement and intelligence activities,<sup>129</sup> reverse engineering of a computer program,<sup>130</sup> encryption research,<sup>131</sup> preventing minors from accessing material on the Internet,<sup>132</sup> or protecting personally identifying information.<sup>133</sup>

In addition to these enumerated exceptions, a new rule-making procedure was established as a safety valve against the potential application of TPMs in such a way as to prevent otherwise lawful uses. The Librarian of Congress is authorized (based on a public fact-gathering process and the recommendation of the Register of Copyrights upon consultation with NTIA) to designate certain classes of works as exempt for a three-year period from the prohibition against the act of circumventing access control measures.<sup>134</sup> This mechanism has operated to identify a number of circumstances in which an exemption is appropriate.<sup>135</sup> Upon demonstrating that the anti-circumvention

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<sup>126</sup> The exemption was first proposed in the 2003 rulemaking, and has been adopted in some form by the Library of Congress in each subsequent rulemaking. See Copyright Office, Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies, Final Rule, 77 Fed. Reg. 65260, 65262-63 (Oct. 26, 2012).

<sup>127</sup> WIPO, *Historic Treaty Adopted, Boosts Access to Books for Visually Impaired Persons Worldwide* (June 27, 2013) available at [http://wipo.int/pressroom/en/articles/2013/article\\_0017.html](http://wipo.int/pressroom/en/articles/2013/article_0017.html). The text of the treaty is available at [http://wipo.int/meetings/en/doc\\_details.jsp?doc\\_id=241683](http://wipo.int/meetings/en/doc_details.jsp?doc_id=241683).

<sup>128</sup> 17 U.S.C. § 1201(d).

<sup>129</sup> 17 U.S.C. § 1201(e).

<sup>130</sup> 17 U.S.C. § 1201(f).

<sup>131</sup> 17 U.S.C. § 1201(g).

<sup>132</sup> 17 U.S.C. § 1201(h).

<sup>133</sup> 17 U.S.C. § 1201(i).

<sup>134</sup> Specifically, the Librarian has the authority to exempt users who "are, or are likely to be in the succeeding three-year period, adversely affected . . . in their ability to make noninfringing uses . . . of a particular class of copyrighted works." 17 U.S.C. § 1201(a)(1)(C). Exemptions are not authorized, however, for the ban on trafficking in circumvention devices or services. As noted above, there is no prohibition on circumventing use controls.

<sup>135</sup> A similar safety valve mechanism has been established in a number of other countries. In the EU, for example, the Copyright Directive requires Member States to take appropriate measures to ensure that

prohibition has had or is likely to have a substantial adverse impact on a non-infringing use of a particular class of works,<sup>136</sup> proponents have succeeded in obtaining several exemptions in each of the rulemaking procedures since enactment of the DMCA.<sup>137</sup> Over the years, new exemptions have been added, while others have expanded, contracted, or expired.

Some of these exemptions have raised policy issues going beyond the scope of copyright, as technological protections for software have been relied on to limit the interoperability or functioning of consumer devices. Most recently, the decision not to continue the exemption for cell phone unlocking as applied to newly purchased phones has raised controversial issues of telecommunications policy.<sup>138</sup> The Administration has made clear its position “that consumers should be able to unlock their cell phones,” while respecting the process undertaken by the Librarian of Congress.<sup>139</sup> The Administration and Library of Congress agree that the DMCA rule-making process “was not intended to be a substitute for deliberations of broader public policy”<sup>140</sup> relating to this telecommunications issue.

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right holders make available to beneficiaries of certain exceptions the means to benefit from them, where right holders have not already done so voluntarily. See Copyright Directive at art. 6(4). How countries implement these requirements is a question of national law. In the United Kingdom, a process has been established whereby a user may file a complaint with the Secretary of State, who will then open an investigation to determine whether there is a voluntary agreement to enable a permitted act related to the underlying work and, if one does not exist, will require the copyright owner to ensure that the user can use the work under the relevant exception. See U.K. Copyright Designs and Patent Act (CDPA) at § 296ZE.

<sup>136</sup> 17 U.S.C. §§ 1201(a)(1)(B), (C).

<sup>137</sup> See Copyright Office, Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies, 65 Fed. Reg. 64556, 64574 (Oct. 27, 2000); Copyright Office, Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies, 68 Fed. Reg. 62011, 62013-14 (Oct. 31, 2003); Copyright Office, Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies, 71 Fed. Reg. 68472, 68473-77 (Nov. 27, 2006); Copyright Office, Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies, 75 Fed. Reg. 43825, 43827-34 (July 27, 2010); Copyright Office, Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies, 77 Fed. Reg. 65260, 65262-71 (Oct. 26, 2012). The five current exemptions relate to: (1) motion pictures on DVDs or delivered through online services circumvented for the purpose of criticism or comment in certain types of works and for certain educational purposes; (2) motion pictures on DVDs or delivered through online services circumvented for the purpose of research and development of captioning or descriptive audio technologies for persons with certain disabilities; (3) computer programs that enable wireless telephone handsets to execute lawfully-acquired software applications for purposes of interoperability (smartphone “jail-breaking”); (4) computer programs that enable wireless telephone handsets acquired before late January 2013 to connect to an alternative network (smartphone “unlocking”); and (5) literary works distributed in e-book format to permit use of assistive technologies for the blind, visually impaired, deaf, or hard of hearing.

<sup>138</sup> See Jon Healey, *Proponents of cellphone unlocking ask the White House for help*, LOS ANGELES TIMES (Feb. 18, 2013), available at <http://www.latimes.com/business/technology/la-fi-tn-cellphone-unlocking-petition-20130218,0,6053343.story>.

<sup>139</sup> R. David Edelman, Official White House Response to Make Unlocking Cell Phone Legal, *It's Time to Legalize Cell Phone Unlocking* (Mar. 4, 2013), available at <https://petitions.whitehouse.gov/petition/make-unlocking-cell-phones-legal/lg9KhZG7>.

<sup>140</sup> Statement from the Library of Congress Regarding White House Statement Today in Response to a Petition on Section 1201 Rulemaking (Mar. 4, 2013), available at <http://www.loc.gov/today/pr/2013/13-041.html>; see also White House Response *supra* note 139. Several legislative proposals have since been introduced in an effort to address this issue. See Unlocking Consumer Choice and Wireless Competition

## 6. Other Issues

### a) Remixes

There has been considerable discussion in recent years of the value and copyright treatment of “remixes”<sup>141</sup> – works created through changing and combining existing works to produce something new and creative.<sup>142</sup> Often, these works are part of a growing trend of “user-generated content” that has become a hallmark of today’s Internet, including sites like YouTube. Advances in digital technology have made remixing existing works easier and cheaper than ever before and provided greater opportunities for enhanced creativity.<sup>143</sup> But because remixes typically rely on copyrighted works as source material – often using portions of multiple works – they can raise daunting licensing issues.<sup>144</sup>

Under current U.S. law, some remixes may qualify as a fair use of the copyrighted material they draw on. They are likely to be considered transformative, taking parts of the original work and altering it with new meaning or purpose,<sup>145</sup> so the key questions will ordinarily be whether they are commercial, how much they use from any given work, and the extent to which they can serve as a substitute in the market. A body of precedent already exists with respect to fair use claims for quoting the works of others in new works of art. One line of cases involves parody;<sup>146</sup> others deal with “appropriation art.”<sup>147</sup> The results have turned in large part on the extent to which the second artist was either transforming or commenting on the source. Music sampling, however, has generally not been excused as fair use, and continues to be the subject of

Act, S. 517, H.R. 1123, 113th Cong. (2013); Wireless Device Independence Act, S. 467, 113th Cong. (2013); Wireless Consumer Choice Act, S. 481, 113th Cong. (2013); Unlocking Technology Act of 2013, H.R. 1892, 113th Cong. (2013).

<sup>141</sup> Other terms such as “mashups” or “sampling” are also used, especially with reference to music.

<sup>142</sup> See, e.g., KEMBREW MCLEOD & PETER DICOLA, CREATIVE LICENSE: THE LAW AND CULTURE OF DIGITAL SAMPLING (2011); LAWRENCE LESSIG, REMIX: MAKING ART AND COMMERCE THRIVE IN THE HYBRID ECONOMY (2009) (arguing that the health, progress, and wealth creation of a culture are tied to a participatory remix process); Lawrence Lessig, *Free(ing) Culture for Remix*, 2004 UTAH L. REV. 961 (2004); Electronic Frontier Foundation, *Fair Use: Remix Mash-ups, and Copyright*, available at <http://www.teachingcopyright.org/curriculum/hs/3>.

<sup>143</sup> Among the most well-known works created this way is the *Grey Album* by the musician Danger Mouse, which combined the vocal tracks of Jay-Z’s *Black Album* with samples of the instrumental tracks from the Beatles’ *White Album*.

<sup>144</sup> The remix itself, assuming a modicum of creativity, should qualify as a derivative work protected by copyright law, but the copyright will not extend to any part in which the preexisting material is used unlawfully. 17 U.S.C. § 103(a).

<sup>145</sup> Whether, and to what extent, a new use is transformative “is not absolutely necessary for a finding of fair use,” but “the goal of copyright, to promote science and the arts, is generally furthered by the creation of transformative works.” *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994). Ultimately, “the more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use.” *Id.*

<sup>146</sup> See *id.*; see also *Brownmark Films, LLC v. Comedy Partners*, 800 F. Supp. 2d 991, 1000-02 (E.D. Wis. 2011); *Bourne Co. v. Twentieth Century Fox Film Corp.*, 602 F. Supp. 2d 499, 508-11 (S.D.N.Y. 2009).

<sup>147</sup> *Cariou v. Prince*, 714 F. 3d 694 (2d Cir. 2013); *Blanch v. Koons*, 467 F.3d 244, 251-59 (S.D.N.Y. 2006); see also *Bill Graham Archives v. Dorling Kindersley Ltd.*, 448 F.3d 605, 608-615 (2d Cir. 2006); *Rogers v. Koons*, 960 F.2d 301, 310 (2d Cir.1992), *cert. denied*, 506 U.S. 934 (1992).

litigation.<sup>148</sup>

In some contexts, licensing mechanisms have been developed as a less risky alternative to relying on fair use. Particularly promising are those that rely on commercial intermediaries to enable remixes by their individual users. One model is YouTube's Content ID system, which allows users to post remixes that may be monetized by the relevant right holders.<sup>149</sup> Under this system, however, it is the right holder's decision whether to allow the posting. Another tool is the Creative Commons license (discussed in more detail below at p. 88) through which creators can authorize remixes of their works subject to certain provisos.<sup>150</sup> Other online licensing mechanisms (discussed below at pp. 87-89) may also be available as alternatives for licensing specific content quickly and easily.

In addition, best practices and industry-specific guidelines have been developed to help artists looking to use existing works make informed choices, including a code of best practices specifically for creating online videos.<sup>151</sup>

Despite these alternatives, a considerable area of legal uncertainty remains. The question is whether the creation of remixes is being unacceptably impeded. There is today a healthy level of production, but clearer legal options might result in even more valuable creativity. Is there a need for new approaches to smooth the path for remixes, and if so, are there efficient ways that right holders can be compensated for this form of value where fair use does not apply? Can more widespread implementation of intermediary licensing play a constructive role? Should solutions such as microlicensing to individual consumers, a compulsory license, or a specific exception be considered? Are any of these alternatives preferable to the status quo, which includes widespread reliance on uncompensated fair uses? The Task Force will convene a series of roundtables to examine this issue.

### ***b) Orphan Works and Mass Digitization***

The Internet's exciting potential for making available comprehensive collections of works has highlighted the problems of locating the owners of copyright in obscure or older works and enabling access to the full range of the world's cultural and historical heritage.

#### ***i) Orphan Works***

Orphan works are copyrighted works whose owners cannot be identified or located,

<sup>148</sup> See *Bridgeport Music, Inc. v. Dimension Films*, 383 F.3d 390 (6th Cir. 2004); *Grand Upright Music, Ltd. v. Warner Bros. Records, Inc.*, 780 F. Supp. 182 (S.D.N.Y. 1991); Marc Hogan, *Kanye West's Latest Sample Lawsuit Puts Him in Good Company*, SPIN (Oct. 1, 2012), available at <http://www.spin.com/#articles/kanye-west-my-beautiful-dark-twisted-fantasy-sample-lawsuit-tuf-america>.

<sup>149</sup> For a description of the Content ID system and its operations see YouTube - Content ID, <http://www.youtube.com/t/contentid>.

<sup>150</sup> See Creative Commons - About The Licenses, <http://creativecommons.org/licenses/>.

<sup>151</sup> See American University, Center for Social Media, *Code of Best Practices in Fair Use for Online Video*, <http://centerforsocialmedia.org/fair-use/related-materials/codes/code-best-practices-fair-use-online-video>. See also American University, Center for Social Media, *Remix Culture*, <http://www.centerforsocialmedia.org/fair-use/videos/podcasts/remix-culture>.

making it impossible to negotiate terms for their use.<sup>152</sup> The development of comprehensive digital resources necessarily entails the inclusion of large numbers of works, some of which will be orphaned. Although difficult to quantify, the number of orphan works appears to be substantial, at least in the context of library and archive collections.<sup>153</sup> This is not a new issue, but the extent of the problem has surely grown, given the abandonment of copyright formalities (discussed below at pp. 91-92) and the extension of copyright terms; there are simply more older works, and works without clear indicia of ownership, that are protected by copyright.<sup>154</sup>

U.S. law contains a few provisions that can ease the ability to make specific uses of orphan works in some circumstances.<sup>155</sup> But “[w]here the proposed use goes beyond an exemption or limitation to copyright . . . the user cannot reduce the risk of copyright liability for such use, because there is always a possibility, even if remote, that a copyright owner could bring an infringement action after that use has begun.”<sup>156</sup> As the Copyright Office recently noted, “[t]his outcome is difficult if not impossible to reconcile with the objectives of the copyright system and may unduly restrict access to millions of works that might otherwise be available to the public (e.g., for use in research, education, mainstream books, or documentary films).”<sup>157</sup>

In a 2006 Report, the Copyright Office endorsed a legislative solution based on limiting remedies against good faith users of orphan works. Legislation was introduced in 2006 and again in 2008 that closely tracked the Report’s recommendations.<sup>158</sup> The legislation would have permitted the use of orphan works when the user had made “a qualifying search, in good faith, to locate and identify the owner of the infringed

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<sup>152</sup> U.S. Copyright Office, Report on Orphan Works at 2 (2006), available at <http://www.copyright.gov/orphan/orphan-report.pdf> (“Orphan Works Report”). The Copyright Office described the most common obstacles to successfully identifying and locating a copyright owner as including inadequate identifying information on copies of works; inadequate information about copyright ownership due to changes in ownership or changes in the copyright owner’s circumstances; limited existing copyright ownership information sources; and difficulties researching copyright information.

<sup>153</sup> See, e.g., David R. Hansen, *Orphan Works: Definitional Issues*, Berkeley Digital Library Copyright Project, White Paper #1 (2011). One study on books estimates that more than 25% of twentieth century publications should be considered orphans. See Michael Cairns, *580,388 Orphan Works – Give or Take*, Personanondata, <http://personanondata.blogspot.com/2009/09/580388-orphan-works-give-or-take.html> (Sept. 9, 2009). Many of the estimates focus on library and museum collections. A study of museums, archives, and libraries in the United Kingdom resulted in a conservative estimate of 25 million orphan works. JISC, *In From the Cold: An Assessment of the Scope of ‘Orphan Works’ and its Impact on the Delivery of Services to the Public* 6 (2009). The British Library has previously estimated that 40% of all books and other print works are orphaned. Gowers Review of Intellectual Property 69 (Dec. 2006), available at <http://www.official-documents.gov.uk/document/other/0118404830/0118404830.pdf>.

<sup>154</sup> See Marybeth Peters, The Importance of Orphan Works Legislation, U.S. Copyright Office, available at <http://www.copyright.gov/orphan/OWLegislation/> (Sept. 25, 2008).

<sup>155</sup> See, e.g., 17 U.S.C. §§ 108(h), 115(b), 504(c)(2).

<sup>156</sup> Orphan Works Report *supra* note 152 at 1.

<sup>157</sup> Copyright Office, Orphan Works and Mass Digitization, 77 Fed. Reg. 64555 (Oct. 22, 2012) (“Orphan Works NOI”).

<sup>158</sup> See Shawn Bentley Orphan Works Act of 2008, S. 2913, 110th Cong. (2008); the Orphan Works Act of 2008, H.R. 5889, 110th Cong. (2008); Orphan Works Act of 2006, H.R. 5439, 109th Cong. (2006).

copyright” and provided attribution where feasible.<sup>159</sup> Although the user could be liable for infringement if the copyright owner later appeared, any damages would have been limited to a reasonable licensing fee based on what a willing buyer and willing seller would have agreed to in advance.<sup>160</sup> The goal was to put copyright owners and potential users in the positions they would have occupied in a normal marketplace negotiation, if the copyright owner had been identified and located prior to the use of the work.<sup>161</sup> Although the 2008 bill attracted much interest and support, it did not ultimately become law.<sup>162</sup>

Since that time, the issue has also been confronted in U.S. courts. In a copyright infringement lawsuit brought by publishers and authors against Google, a proposed settlement of the publishers’ claims included provisions affecting orphan works. The case involves Google’s scanning of millions of copyrighted works in the collections of several major research libraries in order to create an online, searchable library. Although the U.S. government applauded some of the practical advantages of the settlement, including the creation of a registry by which authors could claim their works as well as increased access for the general public and people with print disabilities, it ultimately opposed the proposed settlement because certain aspects were at odds with the basic premises of copyright law. The settlement was ultimately rejected by the district court.<sup>163</sup> The court explained that “questions of who should be entrusted with guardianship over orphan works, under what terms, and with what safeguards, are matters more appropriately decided by Congress than through an agreement among private, self-interested parties.”<sup>164</sup>

Outside the United States, a number of countries have either enacted or recently proposed orphan works legislation. Canada has had such legislation since 1985, offering government-issued licenses for the use of orphan works on a case-by-case

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<sup>159</sup> Shawn Bentley Orphan Works Act of 2008 at § 2. The bill set out requirements for a “qualifying search,” based around the principle of a “diligent effort that is reasonable under the circumstances,” and that included searching the Copyright Office’s records and other sources of copyright ownership information. *Id.* The Copyright Office would also have been instructed to create and maintain category-specific recommended practices to help guide searches. *Id.*

<sup>160</sup> *Id.*

<sup>161</sup> *See Peters supra* note 154.

<sup>162</sup> The Shawn Bentley Orphan Works Act of 2008 passed the Senate by unanimous consent on September 26, 2008, and was referred to the House Committee on the Judiciary, where a similar bill (H.R. 5889) was also pending. *Orphan Works Legislation Passes Senate by Unanimous Consent, Moves to House*, 76 PATENT, TRADEMARK, & COPYRIGHT J. 754 (Oct. 3, 2008). The House failed to act before Congress adjourned. Orphan works legislation has not been introduced in Congress since 2008.

<sup>163</sup> *Authors Guild v. Google Inc.*, 770 F. Supp. 2d 666, 677 (S.D.N.Y. 2011).

<sup>164</sup> *Id.* The publishers subsequently settled their claims against Google, without addressing the orphan works issue. Another ongoing lawsuit involves a collaborative effort by five major universities to create a shared digital library – the HathiTrust Digital Library. *See Authors Guild, Inc. v. HathiTrust*, 902 F. Supp. 2d 445, 447-49 (S.D.N.Y. 2012). The HathiTrust Digital Library would provide complete access to digitized orphan works, while only permitting certain limited uses of digitized works for which the author is known. *Id.* The district court recently determined that the uses of the non-orphan works qualified as fair uses or were permitted under Section 121, but did not reach the questions related to the orphan works because the defendants had suspended that aspect of the project and the claims were therefore not ripe. *Id.* at 455-56, 458-66.

basis.<sup>165</sup> Hungary, Japan, Korea, and India all have some form of government or compulsory licensing scheme for orphan works,<sup>166</sup> and China is considering similar legislation.<sup>167</sup> In the Nordic countries, the technique of extended collective licensing has been used to permit the licensing of orphan works through collective management organizations.<sup>168</sup> The U.K. recently passed a law to permit government licensing of orphan works, although the details of implementation will not be finalized this year.<sup>169</sup>

Treatment of orphan works is now being harmonized across Europe. In October 2012, the EU adopted a directive on orphan works, which is to be implemented by all Member States by October 29, 2014.<sup>170</sup> The Orphan Works Directive will allow certain public interest entities<sup>171</sup> to make limited use of specified categories of orphan works “only in order to achieve aims related to their public-interest missions, in particular the preservation of, the restoration of, and the provision of cultural and educational access to, works and phonograms contained in their collection.”<sup>172</sup> A diligent search to locate the copyright owner is required in the Member State of first publication or broadcast.<sup>173</sup> But once a work is deemed orphaned in one Member State it will be deemed orphaned throughout the EU, with a list of such works to be maintained in a single registry.<sup>174</sup> If the owner subsequently appears, she will be entitled to fair

<sup>165</sup> See Copyright Act, R.S.C., c. C-42, s. 77 (1985) (Can.), available at <http://laws.justice.gc.ca/PDF/C-42.pdf>.

<sup>166</sup> See Government Regulation on the Detailed Rules Related to the Licensing of Certain Use of Orphan Works, arts. 2(1), 2(2), 3, Decree 100/2009, V. 8 (Hun.), available at [http://www.hipo.gov.hu/English/jogforras/100\\_2009.pdf](http://www.hipo.gov.hu/English/jogforras/100_2009.pdf); Chosakuken-Ho [Copyright Law], Law No. 48 of 1970, 2009, arts. 67, 74(3) (Japan), unofficial translation available at <http://www.japaneselawtranslation.go.jp/law/detail/?ft=1&re=02&dn=1&co=01&ky=copyright+law&page=16>; Korean Copyright Act art. 50 (S. Kor.); Copyright (Amendment) Act, 2012, at para. 17 (2012) (India), available at [http://copyright.gov.in/Documents/CRACT\\_AMNDMNT\\_2012.pdf](http://copyright.gov.in/Documents/CRACT_AMNDMNT_2012.pdf).

<sup>167</sup> See, e.g., Dr. Prof. Hong Xue, *A User-Unfriendly Draft: 3rd Revision of the Chinese Copyright Law* at <http://infojustice.org/wp-content/uploads/2012/04/hongxue042012.pdf>.

<sup>168</sup> Extended collective licensing permits collective management organizations to extend the effect of the licenses they grant to all works in the sector they represent, even without having authorization to do so, as long as they represent a large enough percentage of the works in that sector (generally subject to each owner’s ability to opt out of the representation). See Consolidated Act on Copyright 2010, No. 202, art. 50-51 (2010) (Denmark); see also Copyright Act, No. 404, §§ 13-14 (2010) (Finland).

<sup>169</sup> See Enterprise and Regulatory Reform Act 2013 at cl. 77 (U.K.), available at <http://www.legislation.gov.uk/ukpga/2013/24/contents/enacted>. One proposed approach is a two-tiered regime, with extended collective licensing for mass digitization by cultural institutions and individual licenses granted by a new agency for other types of uses. Hargreaves Report *supra* note 33 at 37-40. The U.K. government has indicated, however, that extended collective licensing and the orphan works licensing will operate separately. U.K. Intellectual Property Office, *The Enterprise and Regulatory Reform Act 2013 – Your photos and you* (Apr. 2013), available at <http://www.ipo.gov.uk/hargreaves-orphanmyth.pdf>; see also Government Policy Statement: Consultation on Modernising Copyright 7-11 (July 2012), available at <http://www.ipo.gov.uk/response-2011-copyright.pdf>.

<sup>170</sup> See Directive of the European Parliament and of the Council on Certain Permitted Uses of Orphan Works (2012/28/EU) (Oct. 25, 2012) (“Orphan Works Directive”).

<sup>171</sup> *Id.* at art. 1(1) (The covered entities are “publicly accessible libraries, educational establishments and museums, as well as . . . archives, film or audio heritage institutions and public-service broadcasting organisations”).

<sup>172</sup> See *id.* at 6.

<sup>173</sup> See *id.* at art. 3 & Annex.

<sup>174</sup> *Id.* at arts. 3 & 4.

compensation.<sup>175</sup>

In October 2012, the U.S. Copyright Office returned to the issue with a Notice of Inquiry calling for public comments on (1) changes in the legal landscape since 2008 with respect to using orphan works on an occasional or case-by-case basis, and (2) solutions for the new issue of the use of orphan works in the context of mass digitization.<sup>176</sup> The Task Force believes that the time is ripe to address the orphan works issue, and to ensure that the United States can play a leadership role in shaping international thinking. At the domestic level, the Task Force will support and provide input to the Copyright Office as it examines the issue of orphan works.

## *ii) Mass Digitization*

“Mass digitization” can be defined as the conversion of analog works into digital copies on a mass scale. Many historical collections of copyrighted works exist in analog form in libraries and archives, and others could be newly amassed through the use of scanning technologies. Such projects have the potential to provide greatly enhanced access to works that have not yet been widely distributed and to reach new users. As a result, mass digitization presents significant economic opportunities in addition to cultural and societal benefits.<sup>177</sup> But given the large numbers of works involved, many of which are protected by copyright, individual licensing negotiations will not always be feasible. As to the orphan works in existing or future collections, new legislation could ease the path to move ahead with individual uses, but the typical requirement of diligent search may be overly burdensome in high volume.

Another component of the mass digitization problem involves works that are not orphaned, but are “out-of-commerce”—i.e., no longer commercially distributed. On the one hand, the owners of these works are likely to be known (although possibly difficult to locate); on the other hand, the works themselves by definition have little commercial value justifying individual negotiations for use in mass digitization. Facilitating such use can benefit all by enabling access that otherwise would not exist.

Steps have been taken in Europe to ease the digitization of out-of-commerce works. In 2011, the European Commission fostered a Memorandum of Understanding (“MOU”) between libraries, publishers, writers, and other artists, making it possible for European libraries and cultural institutions more easily to acquire licenses to digitize out-of-commerce books and journals.<sup>178</sup> And France has enacted legislation that allows

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<sup>175</sup> *Id.* at art. 6(5).

<sup>176</sup> Copyright Office, *Orphan Works and Mass Digitization*, Docket No. 2012-12, 77 Fed. Reg. 64555 (Oct. 22, 2012).

<sup>177</sup> See generally, Peter S. Menell, *Knowledge Access and Preservation Policy in the Digital Age*, 44 Hous. L. Rev. 1013, 1042-55 (2007).

<sup>178</sup> Memorandum of Understanding, Key Principles on the Digitisation and Making Available of Out-of-Commerce Works (Sept. 20, 2011), available at [http://ec.europa.eu/internal\\_market/copyright/docs/copyright-info/20110920-mou\\_en.pdf](http://ec.europa.eu/internal_market/copyright/docs/copyright-info/20110920-mou_en.pdf). The MOU’s principles include: (1) institutions seeking to use out-of-commerce works must publicize the project and initiate a stakeholder dialogue with right owners and collecting societies; (2) institutions should seek voluntary licenses, specifying commercial or non-commercial uses; (3) collective management organizations can only negotiate licenses if they represent a substantial number of affected authors and publishers; and (4) right holders may opt out of collective management.

its national library to build a public database of books published in France in the 20<sup>th</sup> century that are not currently being distributed or published in print or digital formats.<sup>179</sup>

Several mass digitization projects have already been initiated by public institutions in the United States and elsewhere, focusing primarily on public domain materials.<sup>180</sup> Other broader projects have led to high-profile litigation, with still-uncertain outcomes.<sup>181</sup>

In October 2011, the Copyright Office released an analysis of the legal issues involved in mass digitization.<sup>182</sup> The Copyright Office noted that mass digitization and dissemination may serve important public interest goals that could justify restricting or limiting certain copyright rights.<sup>183</sup> One relevant factor will be the commercial nature of the project; while this may not undermine the public benefit to be gained, it may change the appropriate reach of copyright limitations and exceptions.<sup>184</sup> Furthermore, to the extent that a mass digitization project is global or even multijurisdictional in nature, fair use will not resolve the issue because the doctrine is specific to the United States.<sup>185</sup> The Copyright Office did not offer specific

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<sup>179</sup> Anyone wishing to use an out-of-commerce work may apply to have the work listed in the national database. Once a work is listed, the right holder has six months to opt-out of collective management. If the right holder does not opt out, collective management organizations issue renewable, five-year, non-exclusive licenses to make listed works available, subject to payment of a licensing fee. After ten years on the list, if a right holder has not claim a work, French libraries and archives will be permitted to digitize and provide access to the works. See *Loi n° 2012-287 du 1er mars 2012 relative à l'exploitation numérique des livres indisponibles du xxe siècle* [Law Number 2012-287 of March 1, 2012, on the Digital Exploitation of Unavailable Books] art. 134-1 (2012) (Fr.), available at [http://www.legifrance.gouv.fr/affichTexte.do;jsessionid=4D8B77A47AA211DE6E336FD22AA18F60.tpdjo09v\\_2?cidTexte=JORFTEXT000025422700&dateTexte=20121016](http://www.legifrance.gouv.fr/affichTexte.do;jsessionid=4D8B77A47AA211DE6E336FD22AA18F60.tpdjo09v_2?cidTexte=JORFTEXT000025422700&dateTexte=20121016); see also International Federation of Reproduction Rights Organisations, *French Parliament Passed Law on Out of Commerce Works on 22nd February 2012*, (Mar. 3, 2012), available at <http://www.ifrro.org/content/french-parliament-passed-law-out-commerce-works-22nd-february-2012>.

<sup>180</sup> The Library of Congress has made digitized versions of public domain materials from its collection available since 1994 and is regularly expanding such digital access. See <http://loc.gov/library/about-digital.html>. Other examples include: NGA Images at the National Gallery of Art, [https://images.nga.gov/en/page/show\\_home\\_page.html](https://images.nga.gov/en/page/show_home_page.html); the Internet Archive, which contains digital versions of over 3.8 million books and texts, <http://archive.org/details/texts>; Project Gutenberg, which offers 40,000 free e-books, <http://www.gutenberg.org/>; Europeana, a partnership of a many organizations throughout Europe that have contributed digital resources that can be located through a centralized database, <http://www.europeana.eu/portal/>. For more examples of such projects, see U.S. Copyright Office, *Legal Issues in Mass Digitization: A Preliminary Analysis and Discussion Document*, at Appendix C (2011) (“Mass Digitization Report”), available at [http://www.copyright.gov/docs/massdigitization/USCOMassDigitization\\_October2011.pdf](http://www.copyright.gov/docs/massdigitization/USCOMassDigitization_October2011.pdf).

<sup>181</sup> While aspects of one particular project have been held to constitute fair use, they did not involve access by the general public to full texts of works with known authors. That decision is now on appeal. *Authors Guild, Inc. v. HathiTrust*, 902 F. Supp. 2d 445, 447-49, 458-66 (S.D.N.Y. 2012) *appeal docketed*, No. 12-4547 (2d Cir. Nov. 14, 2012); see also *Authors Guild, Inc. v. Google Inc.*, -- F.3d --, 2013 WL 3286232 (2d Cir. July 1, 2013) (vacating class certification to authors’ in claims related to Google Books Project, because district court failed to consider merits of fair use defense before certifying the class of plaintiffs).

<sup>182</sup> Mass Digitization Report *supra* note 180.

<sup>183</sup> *Id.* at 14.

<sup>184</sup> *Id.* at 13.

<sup>185</sup> *Id.* at 25.

recommendations, concluding instead that:

Issues about the intersection between copyright law and new technologies . . . would benefit from further discussions among all stakeholders. Among the pertinent questions are the following: the objectives and public policy goals of mass digitization projects, the interplay among library exceptions, fair use, and licensing, and the ability of public and private actors to work together.<sup>186</sup>

In October 2012, as noted above, the Copyright Office requested additional public comment on the use of orphan works in mass digitization.<sup>187</sup> The Task Force supports this initiative and believes that the broader issues involved in mass digitization should also be addressed. As the Copyright Office continues to examine the question of mass digitization, including those issues raised in its October 2011 report, the Task Force will provide input.

### c) *The First Sale Doctrine*

Another limitation on rights that has raised issues in the digital environment is the U.S. first sale doctrine (elsewhere referred to as “exhaustion of rights”).<sup>188</sup> The first sale doctrine, as codified in the Copyright Act, allows the owner of a physical copy of a work to resell or otherwise dispose of that copy without the copyright owner’s consent, by limiting the scope of the distribution right.<sup>189</sup> This doctrine, which originated to ensure a consumer’s control over her tangible physical property, enables the existence of libraries and second-hand markets in records and books. But the copyright owner’s remaining exclusive rights, notably the right of reproduction, are not affected.

As a result, the first sale doctrine does not apply to the distribution of a work through digital transmission where copies are created implicating the reproduction right.<sup>190</sup> In a 2001 Report, the Copyright Office considered whether the first sale doctrine should be amended to extend to digital transmissions. It concluded that an extension was not advisable, given the fundamental differences between the transfer of a single physical

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<sup>186</sup> *Id.* at 40.

<sup>187</sup> Orphan Works NOI *supra* note 157.

<sup>188</sup> The first sale doctrine is technically a restriction on the scope of the distribution right, rather than an exception.

<sup>189</sup> 17 U.S.C. § 109. The law also enables the rental of copies of works, such as DVDs of movies and television shows, but contains a carve-out prohibiting the rental of computer programs and sound recordings, except in limited circumstances by nonprofit libraries or educational institutions. *Id.* at § 109(b).

<sup>190</sup> Section 104 Report, *supra* note 50 at 78-79. *Cf.* EU Copyright Directive art. 3(3) (providing that the right of communication to the public and making available to the public “shall not be exhausted by any act of communication to the public or making available to the public”); *see also id.* at Recitals 28-29 (“Unlike CD-ROM or CD-I, where the intellectual property is incorporated in a material medium, namely an item of goods, every on-line service is in fact an act which should be subject to authorisation where the copyright or related right so provides.”). *See also Capitol Records, LLC v. ReDigi Inc.*, -- F. Supp. 2d --, 2013 WL 1286134 at \*1-2, 9-11 (S.D.N.Y. Mar. 30, 2013) (“*ReDigi*”) (rejecting the application of the first sale doctrine to a service that allows individuals to resell digital music files because of the necessary reproductions involved in the transaction).

copy and a transmission over online networks. The Office stressed the fact that digital transmission creates a perfect copy of the work, unlike the imperfect quality of a used physical copy, with a greater potential impact on the market, and also increases the risk of piracy by enabling the easy proliferation of further copies.<sup>191</sup>

Proponents of a digital first sale doctrine have argued that the extension of the doctrine would have pro-competitive effects, with a resale market competing with the market for new sales and keeping prices lower.<sup>192</sup> They also seek to preserve the traditional benefits of users sharing works with friends or family, and students being able to purchase less expensive copies of textbooks. They suggest that concerns about the proliferation of copies could be addressed by a requirement that the original copy of the work be destroyed, either voluntarily by the sender or through automated technology. In its 2001 report, the Copyright Office acknowledged this suggestion, but dismissed it as unworkable.<sup>193</sup> Ultimately, the Copyright Office concluded that the marketplace should be given an opportunity to address the concerns raised by advocates of a digital first sale doctrine “before Congress alters the balance of rights and exceptions in the Copyright Act.”<sup>194</sup>

Another relevant question is defining what constitutes a sale that is capable of exhausting rights. Increasingly, business models for certain types of works may structure the transaction as a license rather than a sale, avoiding application of the first sale doctrine. This has long been the case for software and is now becoming more common for e-books.<sup>195</sup> If ultimately this becomes the only way in which a particular type of work is offered to consumers, the result could be to render the first sale doctrine meaningless for that type of work. Such concerns may lead courts or policy makers to reinterpret what constitutes a “license” or to expand the scope of the first sale doctrine.<sup>196</sup>

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<sup>191</sup> Section 104 Report *supra* note 50 at 96-101.

<sup>192</sup> *Id.* at 20-21, 86-87, 100.

<sup>193</sup> *Id.* at 97. The district court in *ReDigi*, *supra* note 190, found that the unauthorized reproductions of the music files were not protected by first sale, even though the original file was deleted from the seller’s computer. *ReDigi*, 2013 WL 1286134, at \*9-11. The court noted that ReDigi had launched a new version of its service during the litigation that purported to transfer the file without ever storing it on the seller’s computer, but did not rule on the new version’s legality because of an undeveloped factual record on its operation. *Id.* at \*2 n.3.

<sup>194</sup> Section 104 Report *supra* note 50 at 101.

<sup>195</sup> See, e.g., David R. O’Brien, Urs Gasser, & John Palfrey, *E-Books In Libraries: A Briefing Document developed in preparation for a Workshop on E-Lending in Libraries* at 10 (2012), available at [http://cyber.law.harvard.edu/sites/cyber.law.harvard.edu/files/E-Books%20in%20Libraries%20\(O'Brien,%20Gasser,%20Palfrey\)-1.pdf](http://cyber.law.harvard.edu/sites/cyber.law.harvard.edu/files/E-Books%20in%20Libraries%20(O'Brien,%20Gasser,%20Palfrey)-1.pdf); *The e-book business: Binding books*, *The Economist* (Oct. 25, 2012), available at <http://www.economist.com/blogs/prospero/2012/10/e-book-business>.

<sup>196</sup> The European Court of Justice recently found exhaustion of rights in software licenses that granted the “right to use that copy for an unlimited period”, where the maximum number of authorized users under the license had not been met. *UsedSoft GmbH v. Oracle Int’l Corp.*, European Court of Justice Case C-128/11 (July 3, 2012). The Court concluded that the licensing transactions constituted the equivalent of sales, stating that “[t]he making available by Oracle of a copy of its computer program and the conclusion of a user license agreement for that copy are thus intended to make the copy usable by the customer, permanently, in return for payment of a fee designed to enable the copyright holder to obtain a remuneration corresponding to the economic value of the copy of the work of which it is the proprietor.” *Id.* at ¶ 45. The ECJ required, however, that the original purchaser of the software must “make his own

In the context of cross-border transactions, the relationship between the first sale doctrine and the importation right of U.S. law (defined in the Copyright Act as part of the distribution right) has been the subject of litigation. Differing interpretations in the courts were recently resolved by the Supreme Court in a holding that goods lawfully made and purchased with the authorization of the copyright owner anywhere in the world can be resold within the United States.<sup>197</sup> While the case did not directly raise the issue of online application of the first sale doctrine, the Court's decision could have an impact on the ability of right holders to offer their works at different prices and different times in different countries,<sup>198</sup> and may result in legislative reexamination of the doctrine as a whole.

Since the Copyright Office's examination of the digital first sale doctrine in 2001, much has changed. In a world of increasingly digital distribution, the traditional field of application of the first sale doctrine may disappear, and the resale market become obsolete. The question is whether there is a way to preserve the doctrine's benefits, allowing the equivalent of sharing favorite books with friends, or enabling the availability of less-than-full-price versions to impecunious students. Will the market provide these opportunities, and if so, how? And are there any changes in technological capabilities that would alter any of the Copyright Office's 2001 conclusions?<sup>199</sup>

The Task Force believes that this is an area that deserves further attention. The USPTO, in collaboration with the Copyright Office, will solicit public comments and hold a series of roundtables regarding the relevance and scope of the first sale doctrine in the digital age.

#### D. Conclusion and Next Steps

- Over the past two decades, the rights and exceptions in copyright law have been repeatedly amended to respond to developments in digital technology.
- Many of these updates are in the process of being interpreted by the courts, and should be left to evolve unless and until there is a need for legislative correction.
- As to some issues, however, consideration should be given to further action. Work is already underway in Congress or the Copyright Office on several of these issues. The Task Force recommends the following steps:

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copy unusable at the time of its resale." *Id.* at ¶ 70. *Cf. Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1111 (9th Cir. 2010) (holding that "a software user is a licensee rather than an owner of a copy where the copyright owner (1) specifies that the user is granted a license; (2) significantly restricts the user's ability to transfer the software; and (3) imposes notable use restrictions").

<sup>197</sup> *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S.Ct. 1351 (2013).

<sup>198</sup> See John Villasenor, *Rethinking a Digital First Sale Doctrine In A Post-Kirtsaeng World: The Case for Caution*, 2 COMPETITION POL'Y INT'L ANTITRUST CHRON. 10-12 (May 2013), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2273022](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2273022).

<sup>199</sup> See Maria Pallante, Manges Lecture *supra* note 31 at 17-18 (discussing the possibility of Congressional review of the first sale doctrine "in the digital context" and potential policy and technology considerations).

- The Task Force urges Congress to better rationalize the public performance right for sound recordings. We reiterate the Administration's support for extending the right to cover broadcasting, and urge that any reassessment of the appropriateness of different rate-setting standards for different types of digital music services take into account the impact on creators and right holders as well as on different types of services;
- The Task Force will solicit public comment and convene roundtables on issues related to the creation of remixes and the first sale doctrine in the digital environment; and
- The Task Force will support and provide input to the Copyright Office as it moves forward with its work on updating the library exception in Section 108 and examining the issues of orphan works and mass digitization.

### III. Keeping Rights Meaningful in the Online Environment

#### A. General

Even the most state-of-the-art and well-balanced copyright system would have little value if rights could not be enforced. As was predicted in the 1990s, the Internet has proved to present both an exciting opportunity and a daunting challenge for copyright owners. At the same time that it has opened a vast range of new markets and delivery methods, it has given consumers unprecedented tools to reproduce, alter and immediately transmit perfect digital copies of copyrighted works around the world, and has led to the rise of services designed to provide these tools.<sup>200</sup> Today these include P2P file-sharing services<sup>201</sup> and cyberlockers<sup>202</sup>— which have a range of legitimate uses but also have become major sources of illegal content.<sup>203</sup> A number of

<sup>200</sup> See Nick Bilton, *Internet Pirates Will Always Win*, N.Y. TIMES (Aug. 4, 2012), available at <http://www.nytimes.com/2012/08/05/sunday-review/internet-pirates-will-always-win.html>; Alex Hudson, *Is piracy a Mega problem for Hollywood*, BBC NEWS (Feb. 3, 2013), available at <http://www.bbc.co.uk/news/technology-21251680>.

<sup>201</sup> Peer-to-Peer (P2P) technology, developed in the late 1990s and widely adopted since that time, allows individual consumers to exchange digital files of music, videos, and games. See Federal Trade Commission, *Peer-to-Peer File Sharing: A Guide for Business*, available at <http://business.ftc.gov/documents/bus46-peer-peer-file-sharing-guide-business>. Perhaps the most widely used current P2P file-sharing protocol is BitTorrent, which permits users to download a file in small pieces from multiple computers at a time, greatly increasing download speeds. See Carmen Carmack, *How BitTorrent Works*, How Stuff Works, <http://computer.howstuffworks.com/bittorrent.htm>.

<sup>202</sup> Cyberlockers, such as Hotfile and Mediafire, have become increasingly popular in the past few years, allowing users both to store and to share large files, often operating as cloud-based services. Users can post the URLs for the files that they have uploaded onto blogs or “link farms” that aggregate such links, which can be found using a search engine. See Roger Parloff, *Megaupload and the Twilight of Copyright*, FORTUNE, July 11, 2012, available at <http://tech.fortune.cnn.com/2012/07/11/megaupload-cyberlocker-copyright/>.

<sup>203</sup> There is evidence that the bulk of files available on P2P file-sharing networks are infringing. See, e.g., Annemarie Bridy, *Is Online Copyright Enforcement Scalable?*, 13 VAND. J. ENTMT & TECH. LAW, 695-737, 709 (Summer 2011). A sizeable percentage of Internet traffic remains infringement-related. See Christopher S. Stewart, *As Pirates Run Rampant, TV Studios Dial Up Pursuit*, WALL STREET J. (March 4, 2013) (reporting that

mobile apps have also been developed and made available that foster infringement of copyrighted works.<sup>204</sup>

Another source of online infringement today is based beyond our borders. Websites dedicated to the provision of pirated content can be located anywhere in the world, and many operate outside the United States.<sup>205</sup> Signal piracy involving online video streaming sites based abroad that retransmit broadcast television station signals in real time also poses a threat to U.S. businesses.<sup>206</sup> Enforcement using existing tools is significantly more complicated for websites registered and located abroad, raising jurisdictional, procedural, and logistical difficulties.

Although copyright infringement over the Internet has proven difficult to quantify, it has resulted in billions of dollars in losses to the U.S. economy – including reduced income for creators and other participants in copyright-intensive industries.<sup>207</sup>

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antipiracy firm had “detected 5.4 billion instances of pirated content online” in 2009 and 14 billion in 2012); Envisional, *Technical Report: An Estimate of Infringing Use of the Internet 2-3* (Jan. 2011) (finding that 23.76% of global internet traffic and 17.53% of U.S. internet traffic is dedicated to the infringement of non-pornographic copyrighted works), available at <http://documents.envisional.com/docs/Envisional-Internet-Usage-Jan2011.pdf>; see also Cisco, *Visual Networking Index: Forecast and Methodology, 2011–2016* 9 (May 2012), available at [http://www.cisco.com/en/US/solutions/collateral/ns341/ns525/ns537/ns705/ns827/white\\_paper\\_c11-481360.pdf](http://www.cisco.com/en/US/solutions/collateral/ns341/ns525/ns537/ns705/ns827/white_paper_c11-481360.pdf) (estimating that file sharing Internet traffic will increase by 26% between 2011 and 2016); PRS for Music & Google, *The six business models for copyright infringement* at 11 (June 2012), available at <http://www.prsformusic.com/aboutus/policyandresearch/researchandeconomics/Documents/TheSixBusinessModelofCopyrightInfringement.pdf> (reporting 17% increase in page views of P2P file-sharing networks from 2011-2012); Ed Felten, *Census of Files Available via BitTorrent*, FREEDOM TO TINKER <https://freedom-to-tinker.com/blog/felten/census-files-available-bittorrent/> (Jan. 29, 2010) (reporting results of study finding that all of the movie, TV and music torrents in a sample of 1,021 files were likely infringing).

<sup>204</sup> See Sue Zeidler, *Hollywood targets “rogue” mobile apps in war on pirated content*, Reuters (Feb. 28, 2013) available at <http://www.reuters.com/article/2013/03/01/net-us-hollywood-apps-idUSBRE92003Y20130301>.

<sup>205</sup> See, e.g., United States Trade Representative, *Out-of-Cycle Review of Notorious Markets* (Dec. 13, 2012) available at <http://www.ustr.gov/sites/default/files/121312%20Notorious%20Markets%20List.pdf>; see also Copyright in the Digital Era *supra* note 31 at 26.

<sup>206</sup> See *Piracy of Live Sports Broadcasting over the Internet*. Hearing before the Committee on the Judiciary, House of Representatives, 111th Cong., 1st Sess., December 16, 2009, Serial No. 111-94, available at <http://www.gpo.gov/fdsys/pkg/CHRG-111hhr54075/html/CHRG-111hhr54075.htm>; Organisation for Economic Co-Operation and Development, *Piracy of Digital Content* (2009), available at [http://www.keepeek.com/Digital-Asset-Management/oecd/science-and-technology/piracy-of-digital-content\\_9789264065437-en](http://www.keepeek.com/Digital-Asset-Management/oecd/science-and-technology/piracy-of-digital-content_9789264065437-en); Screen Digest, *Study on the Socioeconomic Dimension of the Unauthorized Use of Signals – Part II: Unauthorized Access To Broadcast Content – Cause And Effects: A Global Overview* (May 10, 2010). Concerns about signal piracy have led to negotiations toward an international agreement for the protection of broadcasting organizations. See WIPO, Standing Committee on Copyright and Related Rights, *Working Document for a Treaty on the Protection of Broadcasting Organizations*, SCCR/24/10 (Sept. 21, 2012), available at [http://www.wipo.int/edocs/mdocs/copyright/en/sccr\\_24/sccr\\_24\\_10.pdf](http://www.wipo.int/edocs/mdocs/copyright/en/sccr_24/sccr_24_10.pdf).

<sup>207</sup> While the exact dimensions of online piracy and its impact, and the techniques for its measurement, are the subject of debate, increasing amounts of data are being amassed from objective sources. U.S. Government Accountability Office, GA0-10-423, *Intellectual Property Observation on Efforts to Quantify the Economic Effects of Counterfeit and Pirated Goods* 8 (2010). Similar efforts are being undertaken outside the United States. See, e.g., Organisation for Economic Co-Operation and Development, *Piracy of Digital Content* (2009), available at [http://www.keepeek.com/Digital-Asset-Management/oecd/science-and-technology/piracy-of-digital-content\\_9789264065437-en](http://www.keepeek.com/Digital-Asset-Management/oecd/science-and-technology/piracy-of-digital-content_9789264065437-en); RAND Europe, *Measuring IPR Infringements in the Internal Market: Development of a new approach to estimating the impact of infringement on sales* (2012), available at [http://ec.europa.eu/internal\\_market/iprenforcement/docs/ipr\\_infringement-](http://ec.europa.eu/internal_market/iprenforcement/docs/ipr_infringement-)

Virtually every content industry is affected, including the music, motion picture, television, publishing, visual arts, and software industries. Even as legitimate online markets are taking root and growing at an increasing rate,<sup>208</sup> traditional markets for physical products continue to shrink, and some of the industries they support are a fraction of their size just ten years ago.<sup>209</sup> While some of these changes are a result of the disruptive power of the Internet giving rise to new business models (as discussed below at pp. 77-80),<sup>210</sup> online infringement continues to undermine both established industries and emerging businesses. Existing business models should not be preserved for their own sake, but their destruction should not simply be assumed to be a positive development.

The legitimate services made possible by the Internet, which serve to incentivize further creative outputs, cannot fully flourish while faced with unfair competition from illegal sources. Accordingly, effective enforcement is a critical component of a healthy online ecosystem, but the digital environment makes enforcement more difficult for several reasons:

- **Individuals can copy and distribute works in ways that can pose a significant threat to legitimate markets for those works.** In essence, consumers have become competing publishers and distributors of copyrighted content. This ability makes enforcement difficult because of the sheer number of potential defendants, and has led some to question the proportionality of traditional enforcement tools when applied to individuals.
- **Infringement can be both hard to detect and global.** The Internet allows individuals to access and disseminate content from private locations without public attribution, which can make it difficult to trace acts of infringement to their source. Moreover, the global reach of the Internet enables content created in one country to be quickly made available around the world, raising issues of jurisdiction and applicability of

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[report\\_en.pdf](http://ec.europa.eu/internal_market/iprenforcement/observatory/index_en.htm) (report prepared for of the European Observatory on Counterfeiting and Piracy, *see* [http://ec.europa.eu/internal\\_market/iprenforcement/observatory/index\\_en.htm](http://ec.europa.eu/internal_market/iprenforcement/observatory/index_en.htm)).

<sup>208</sup> Michael Masnick & Michael Ho, *The Sky is Rising: A Detailed Look at the State of the Entertainment Industry* (Jan. 2012), available at <https://s3.amazonaws.com/s3.documentcloud.org/documents/562830/the-sky-is-rising.pdf> (focusing on U.S. entertainment industries); Michael Masnick & Michael Ho, *The Sky is Rising Regional Study*, available at <https://s3.amazonaws.com/s3.documentcloud.org/documents/561023/the-sky-is-rising-2.pdf> (examining industries in Germany, France, the U.K., Italy, Russia, and Spain).

<sup>209</sup> *See, e.g.*, Harry McCracken, *The decline and fall of physical media retailing: A timeline*, TECHNOLOGIZER, <http://technologizer.com/2011/02/17/borders-bankruptcy/> (February 17, 2011) (noting the closure of bookstores, record stores, video rental stores and others since 2003 due to technological trends); *see also* David Goldman, *Music's lost decade: Sales cut in half*, CNNMONEY.COM, [http://money.cnn.com/2010/02/02/news/companies/napster\\_music\\_industry/](http://money.cnn.com/2010/02/02/news/companies/napster_music_industry/) (February 3, 2010) (noting that U.S. music industry revenue plunged from \$14.6 billion in 1999 to \$6.3 billion in 2009).

<sup>210</sup> *See* Copyright in the Digital Era *supra* note 31 at 22 (“The magnitude of these effects on different creative sectors are difficult to quantify, but disruptive changes in traditional supply chains and the destruction of some older business models and enablement of new ones are easy to identify.”); *see also* Lisa Cameron & Coleman Bazelon, *The impact of Digitization on Business Models in Copyright-Driven Industries: A Review of the Economic Issues* (Feb. 2013) available at [http://brattle.com/\\_documents/UploadLibrary/Upload951.pdf](http://brattle.com/_documents/UploadLibrary/Upload951.pdf).

national laws.

- **Public perceptions about infringement may be different in the online environment.** Unauthorized file-sharing and downloading have come to be perceived by some as less immoral and less harmful than the unauthorized taking of physical media, such as shoplifting.<sup>211</sup> This shift in attitudes has led to a global debate over appropriate enforcement.

Given these difficulties, there are a number of respects in which the existing array of tools against infringement has become insufficient. The tools for protecting and enforcing rights must keep pace—as with rights and exceptions, they need regular updating.<sup>212</sup> These tools too must be well calibrated to ensure a balanced online ecosystem and to safeguard our commitment to free speech, due process, privacy, and cybersecurity.<sup>213</sup>

In the search for appropriate solutions, it is important to note that legislation may not be the sole or the best avenue available.<sup>214</sup> Indeed, no single solution is likely to be enough; a combination of approaches will be needed to create an environment that can sustain a thriving market for legitimate content. Voluntary initiatives and best practices, including those involving cooperation among right holders and intermediaries, offer great promise and continue to be supported as an approach by the Administration. Without doubt, the wide availability of legal alternatives itself has an influence on consumer attitudes and behaviors. And public education is an indispensable element, raising awareness about the purpose of copyright and the availability of legitimate alternatives, and clarifying that online infringement has real consequences.

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<sup>211</sup> See, e.g., Intellectual Property Awareness Foundation, *Australian attitudes and activities in relation to illegally accessing online movies and television shows* at 33-34 (March 2012) available at <http://www.ipawareness.com.au/LiteratureRetrieve.aspx?ID=120375>; Twila Wingrove, Angela L. Korpas & Victoria Weisz, *Why were millions of people not obeying the law? Motivational influences on non-compliance with the law in the case of music piracy*, 17 PSYCHOL., CRIME & L. 261 (2011); Loraine Gelsthorpe, *Copyright Infringement: A Criminological Perspective*, in COPYRIGHT AND PIRACY: AN INTERDISCIPLINARY CRITIQUE 401-02 (Lionel Bently, Jennifer Davis & Jane C. Ginsburg eds., 2010).

<sup>212</sup> Some suggest that attempts to enforce in the online environment should be abandoned, and alternate means relied on to incentivize creators. See Raymond Shih Ray Ku, *The Creative Destruction of Copyright: Napster and the New Economics of Digital Technology*, 69 U. CHI. L. REV. 263 (2002); Glynn S. Lunney Jr., *The Death of Copyright: Digital Technology, Private Copying, and the Digital Millennium Copyright Act*, 87 VA. L. REV. 813 (2001). Specific proposals have also been made for a system of remuneration for file-sharing. See, e.g., WILLIAM W. FISHER III, *PROMISES TO KEEP: TECHNOLOGY, LAW, AND THE FUTURE OF ENTERTAINMENT* (2004); Neil Weinstock Netanel, *Impose a Noncommercial Use Levy to Allow Free Peer-to-Peer File Sharing*, 17 HARV. J.L. & TECH. 1 (2003); Jessica Litman, *Sharing and Stealing*, 27 HASTINGS COMM. & ENT. L.J. 1 (2004). Such approaches have not yet been adopted anywhere. In addition to problems of incompatibility with international treaty obligations, there are issues of feasibility, both in terms of the resources required to establish and administer such a system, and the ability to generate sufficient revenues.

<sup>213</sup> See, e.g., 2010 Joint Strategic Plan on Intellectual Property Enforcement 17 (June 2010) (“2010 Joint Strategic Plan”) available at [http://www.whitehouse.gov/sites/default/files/omb/assets/intellectualproperty/intellectualproperty\\_strategic\\_plan.pdf](http://www.whitehouse.gov/sites/default/files/omb/assets/intellectualproperty/intellectualproperty_strategic_plan.pdf).

<sup>214</sup> We note that legislation in the area of enforcement has proved particularly difficult over the past few years. See Combating Online Infringement and Counterfeits Act, S. 3804, 111th Cong. (2010); Preventing Real Online Threats to Economic Creativity and Theft of Intellectual Property Act (PROTECT IP Act), S. 968, 112th Cong. (2011); Stop Online Piracy Act (SOPA), H.R. 3261, 112th Cong. (2011).

This Section will describe existing enforcement tools; identify the major gaps and shortcomings in the toolbox; and set out a range of potential solutions for addressing these shortcomings, including those pursued so far in the United States and elsewhere.

## **B. Existing Legal Tools for Online Copyright Enforcement**

U.S. law provides a number of methods for enforcing copyright online, including both government enforcement and private actions. This Paper will focus primarily on private actions, but will first provide a brief overview of the government's role in online copyright enforcement.

### **1. Government Actions**

The U.S. government has taken an active role in seeking to improve online enforcement at home and abroad, particularly in the past few years. The efforts fall into three general categories: (1) coordination and oversight; (2) direct civil and criminal action; and (3) international outreach.

#### ***a) Coordination and Oversight***

In 2008, Congress established the Office of the Intellectual Property Enforcement Coordinator (IPEC) to coordinate government enforcement efforts.<sup>215</sup> In 2010, the IPEC released its first Joint Strategic Plan on Intellectual Property Enforcement, describing government efforts to improve enforcement, including reducing online piracy, and putting forth a strategy for the future.<sup>216</sup> The most recent Joint Strategic Plan was released in June 2013, and covers the next three years. The Joint Strategic Plan highlights the efforts of the United States to advance a coordinated approach to combating online infringement by increasing law enforcement action, supporting voluntary efforts by the private sector, and increasing consumer awareness.<sup>217</sup>

#### ***b) Civil and Criminal Enforcement***

A number of civil and criminal enforcement mechanisms have been used by the government to combat online piracy.<sup>218</sup> The Departments of Justice (DOJ) and

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<sup>215</sup> Prioritizing Resources and Organization for Intellectual Property Act of 2008 (PRO-IP Act), Pub. L. 110-403 (2008). The PRO-IP Act, also enhanced enforcement mechanisms and strengthened the forfeiture and restitution provisions for both civil and criminal infringement actions.

<sup>216</sup> 2010 Joint Strategic Plan *supra* note 213. This strategy includes working with trading partners and international organizations, securing supply chains, and improving data collection, among other commitments. *Id.* at 1-2.

<sup>217</sup> *See* 2013 Joint Strategic Plan, *supra* note 112.

<sup>218</sup> There are also civil enforcement tools available to the U.S. government that apply to the importation of physical goods that have not yet been widely tested in the online context. For example, U.S. Customs and Border Protection has the power to seize pirated or counterfeit goods upon their attempted import or export into the U.S. *See, e.g.*, 19 U.S.C. § 1595(a). And the International Trade Commission can issue exclusion orders against the importation of goods, or cease and desist orders against the sale, marketing, or advertising of goods already imported into the United States, that infringe U.S. patents, trademarks, trade secrets, or copyrights, based on complaints filed by right holders under 19 U.S.C. § 1337 ("Section 337"). The overwhelming majority of Section 337 proceedings arise in the patent context, however, and there is no record of any proceedings related to online copyright infringement.

Homeland Security (DHS) have primary responsibility for such actions, with criminal investigations conducted by the Federal Bureau of Investigation and the U.S. Immigration and Customs Enforcement (ICE).<sup>219</sup>

*Seizure and Forfeiture.* The DOJ has legal authority to seize property used in connection with copyright infringement.<sup>220</sup> Through *Operation in Our Sites*, a program coordinated by the DOJ and the DHS, domain names of websites used to distribute pirated or counterfeit content have been seized.<sup>221</sup> *Operation in Our Sites* has successfully targeted a number of sites devoted to piracy,<sup>222</sup> but there are a number of limitations, including the limited resources available to the Attorney General to carry out the takedowns and jurisdictional issues that restrict seizures to domain names registered with a U.S. registry. As a result, domain names for websites with infringing content that are controlled by foreign registries, even if accessible by and targeted to U.S. consumers, can be very challenging for U.S. authorities to reach. Stemming such international infringement requires cooperation and coordination with other governments.<sup>223</sup> It is also important to avoid potential damage from erroneous seizures. Challenges from domain name registrants have resulted in two cases being

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<sup>219</sup> In early 2010, Attorney General Eric Holder created an Intellectual Property (IP) Task Force with the assistance of the IPEC to combat the growing number of domestic and international intellectual property crimes, protect the health and safety of American consumers, and safeguard the nation's economic security against those who seek to profit through intellectual property infringement. DOJ, *Justice Department Announces New Intellectual Property Task Force as Part of Broad IP Enforcement Initiative* (Feb. 12, 2010) available at <http://www.justice.gov/opa/pr/2010/February/10-ag-137.html>. Intellectual property crime is a DOJ priority, and it has focused much effort on online enforcement issues. See Deputy Attorney General James Cole, *Protecting America's Intellectual Property Assets*, DOJ Office of Public Affairs, <http://blogs.justice.gov/main/archives/1315> (Apr. 26, 2011). In addition, the ICE-led National Intellectual Property Rights Coordination Center (IPR Center) is an interagency task force that coordinates IP enforcement efforts across the U.S. government. See IPR Center, About Us, <http://www.iprcenter.gov/about-us>.

<sup>220</sup> 18 U.S.C. § 2323(a).

<sup>221</sup> See National Intellectual Property Rights Coordination Center, *Operation in Our Sites*, <http://www.ice.gov/doclib/news/library/factsheets/pdf/operation-in-our-sites.pdf>. When someone tries to access a website at a domain that has been seized, they see a message that notifies them of the seizure and provides educational information about copyright piracy. See, e.g., domain name has been seized by U.S. Immigration and Customs Enforcement, <http://tvshack.net/>.

<sup>222</sup> See ICE, "Operation In Our Sites" Targets Internet Movie Pirates (June 30, 2010), available at <http://www.ice.gov/news/releases/1006/100630losangeles.htm>. Since the program began in 2010, over 2000 domain names have been seized, the majority of which have involved the sale of counterfeit merchandise. See ICE, *IPR Center Partners with National Crime Prevention Council to Teach Shoppers About Dangers of Buying Counterfeit Goods* (Apr. 26, 2013), available at <http://www.ice.gov/news/releases/1304/130426arlington2.htm>. The program has also received some criticism. See Brendan Sasso, *Lawmakers Question Administration's Crackdown on Pirate Websites*, THE HILL, <http://thehill.com/blogs/hillicon-valley/technology/247077-lawmakers-question-administrations-crackdown-on-pirate-websites> (Sept. 2, 2012).

<sup>223</sup> ICE has recently partnered with Europol in a coordinated effort that led to the seizure of 132 domains, 31 through European registries. See ICE, *ICE, European Law Enforcement Agencies and Europol Seize 132 Domain Names Selling Counterfeit Merchandise in 'Project Cyber Monday 3' and 'Project Transatlantic' Operations* (Nov. 26, 2012), available at <http://www.ice.gov/news/releases/1211/121126washingtondc.htm>. The United States and 38 other nations are signatories to the Council of Europe Convention on Cybercrime, which requires establishing criminal offenses for copyright infringement. See Council of Europe, *Convention on Cybercrime*, ETS No. 185 (2001).

dropped and the return of the domain names to the registrants.<sup>224</sup>

*Criminal prosecution.* The DOJ also is empowered to bring criminal prosecutions for copyright infringement.<sup>225</sup> The Computer Crime and Intellectual Property Section (CCIPS) of the Criminal Division implements the Department's IP prosecution strategies, and provides domestic and international enforcement training.<sup>226</sup>

In 1997, Congress created criminal liability for reproducing or distributing works of a certain value even if the infringer neither gains nor expects to gain anything of value in return.<sup>227</sup> And in 2005, Congress created criminal penalties for infringement of works being prepared for commercial distribution.<sup>228</sup> Both of these provisions are important for effective enforcement, because much online infringement is undertaken without a profit motive by infringers, but still has the potential for significant economic damages.<sup>229</sup>

One recent high-profile case highlights the potential and the difficulty of government actions against foreign website operators. In January 2012, seven individuals and two corporations were charged in the United States with running an organized criminal enterprise responsible for worldwide online piracy, through the cyberlocker service Megaupload.com and other related sites. According to the indictment, these businesses generated more than \$175 million in criminal proceeds and caused more than half a billion dollars in potential damages to copyright owners.<sup>230</sup> Substantial assistance was provided by law enforcement entities around the world.<sup>231</sup>

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<sup>224</sup> See, e.g., *Government Drops Domain Seizure Case Against Rojdirecta Streaming Websites*, BLOOMBERG LAW, Apr. 29, 2012, available at <http://about.bloomberglaw.com/law-reports/government-drops-domain-seizure-case>; *Electronic Frontier Foundation, In the Matter of the Seizure of the Internet Domain Name "DAJAZI.COM"*, available at <https://www.eff.org/cases/matter-seizure-internet-domain-name-dajazi1.com>.

<sup>225</sup> 17 U.S.C. § 506.

<sup>226</sup> See USDOJ, *About CCIPS*, <http://www.justice.gov/criminal/cybercrime/about>. There are also 25 specialized Computer Hacking and Intellectual Property (CHIP) Units located in U.S. Attorney Offices throughout the country, and more than 250 specially trained prosecutors with expertise in prosecuting IP and computer crimes (at least one in each Office). USDOJ, *Districts with Specialized CHIP Units*, [http://www.justice.gov/usao/briefing\\_room/cc/graphics.html](http://www.justice.gov/usao/briefing_room/cc/graphics.html).

<sup>227</sup> No Electronic Theft Act (NET Act) Pub. L. 105-147 (1997); 17 U.S.C. § 506(a)(1)(B).

<sup>228</sup> Family Entertainment and Copyright Act of 2005, Pub. L. 109-9 (2005); 17 U.S.C. § 506(a)(1)(C). This change was in response to the increasing occurrence of "camcording" new movies upon their release in theatres "followed immediately by either mass duplication and distribution of DVD copies or Internet distribution of the same movie." H.R. REP. NO. 109-33, at 4 (2005).

<sup>229</sup> A conviction for criminal copyright infringement also triggers mandatory criminal forfeiture, requiring that the defendant forfeit to the United States any property used to commit or facilitate the offense, or property derived from the proceeds. 18 U.S.C. § 2323(b). While this type of proceeding has been used to require forfeiture of domain names for infringing websites, see, e.g., Department of Justice, *Defendants Sentenced For Role In Sale of \$2.5 Million Worth of Counterfeit Software* (Dec. 19, 2008), available at <http://www.justice.gov/criminal/cybercrime/press-releases/2008/rushingSent.pdf>, criminal prosecution again presents resource issues, limiting the number of websites that can be targeted.

<sup>230</sup> *United States v. Kim Dotcom, et al.*, Case No. 12-cr-00003-LO, Doc. 34 at ¶ 1 (Superseding Indictment) (E.D.Va. Feb. 16, 2012), available at <http://www.washingtonpost.com/wp-srv/business/documents/megaupload-indictment.pdf>.

<sup>231</sup> These entities included police and prosecutors from New Zealand, Hong Kong, the Netherlands, the U.K., Canada, Australia, Germany, and the Philippines.

Such prosecutions can be effective in shutting down sites causing great harm to right holders, creators, and legitimate services, and in sending a strong public message.<sup>232</sup> Still to be resolved, however, is how to deal with those users who are storing noninfringing content on the sites.<sup>233</sup> Moreover, this level of resource allocation will not always be feasible. And the Megaupload case presented special circumstances, including the voluntary assistance of multiple foreign law enforcement entities, the availability of an extradition treaty, and Megaupload's use of U.S. domestic registries, without which prosecution may have been impossible.

An additional hurdle to enforcement is the existence of an anomaly in the coverage of U.S. criminal law. While the willfully infringing reproduction and distribution of copyrighted works can be punished as a felony,<sup>234</sup> willful violations of the public performance right are punishable only as misdemeanors.<sup>235</sup> This discrepancy is an increasingly significant impediment. Since the most recent updates to the criminal copyright provisions, streaming (both audio and video) has become a significant if not dominant means for consumers to enjoy content online. The lack of potential felony penalties for criminal acts of streaming disincentivizes prosecution and undermines deterrence.<sup>236</sup> The Administration and the Copyright Office have both called on Congress to amend the Copyright Act to ensure that illegal streaming to the public can be punished as a felony in the same manner as other types of criminal infringement.<sup>237</sup> The Task Force now repeats that call.

### c) *International Initiatives*

Through bilateral and multilateral negotiations, educational programs and other initiatives, the United States encourages the adoption and implementation of high

<sup>232</sup> A recent academic study found that the shutdown of Megaupload had an immediate positive impact on digital revenues for major movie studios. See Brett Danaher and Michael D. Smith, *Gone in 60 Seconds: The Impact of the Megaupload Shutdown on Movie Sales* (March 2013), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2229349&download=yes](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2229349&download=yes).

<sup>233</sup> See, e.g., Graeme McMillan, *EFF Launches 'MegaRetrieval' Site for Megaupload Users*, TIME TECH, Feb. 1, 2012, available at <http://techland.time.com/2012/02/01/eff-launches-megaretrieval-site-for-megaupload-users>.

<sup>234</sup> See 17 U.S.C. § 506(a)(1)(A) (offense), 18 U.S.C. § 2319(b)(1) (felony for specified "reproduction or distribution"); 17 U.S.C. § 506(a)(1)(B) ("reproduction or distribution" offense), 18 U.S.C. § 2319(c)(1) (felony for specified "reproduction or distribution"); 17 U.S.C. § 506(a)(1)(C) (pre-release "distribution" offense), 18 U.S.C. § 2319(d)(1) (felony penalty).

<sup>235</sup> 17 U.S.C. § 506(a)(1)(A) (offense), 18 U.S.C. §§ 2319(b)(1), (3) (felony punishment only for specified "reproduction or distribution," all other offenses punishable as misdemeanors).

<sup>236</sup> SOPA included a provision making illegal Internet streaming a felony. See SOPA at § 201. And calls for such legislation have been made previously by the IPEC, Administration's White Paper on Intellectual Property Enforcement Legislative Recommendations 10 (March 2011), and the Register of Copyrights, Maria Pallante Manges Lecture *supra* note 31 at 13.

<sup>237</sup> See Administration's White Paper on Intellectual Property Enforcement Legislative Recommendations 10 (March 2011) available at [http://www.whitehouse.gov/sites/default/files/ip\\_white\\_paper.pdf](http://www.whitehouse.gov/sites/default/files/ip_white_paper.pdf); Statement of Maria A. Pallante, Register of Copyrights, June 1, 2011, available at <http://www.copyright.gov/docs/regstat060111.html>; John Eggerton, *AG Holder: Justice Should Be Able to Go After Some Illegal Streaming as Felony*, BROADCASTING & CABLE (May 15, 2013), available at [http://www.broadcastingcable.com/article/493524-AG\\_Holder\\_Justice\\_Should\\_Be\\_Able\\_to\\_Go\\_After\\_Some\\_Illegal\\_Streaming\\_as\\_Felony.php](http://www.broadcastingcable.com/article/493524-AG_Holder_Justice_Should_Be_Able_to_Go_After_Some_Illegal_Streaming_as_Felony.php).

standards for copyright protection and enforcement around the world.<sup>238</sup> For example, the Office of the United States Trade Representative (USTR) is charged by Congress with reporting the results of an annual review of the global state of intellectual property rights (IPR) protection and enforcement.<sup>239</sup> This Special 301 Report is an assessment of the adequacy and effectiveness of the protection of IPR by U.S. trading partners.<sup>240</sup> USTR also publishes a “Notorious Markets List” each year, identifying selected markets, including ones on the Internet, that are reportedly engaged in substantial piracy and counterfeiting.<sup>241</sup> The Notorious Markets List highlights markets that facilitate online infringement via “pay-per-download” services, BitTorrent indexing and BitTorrent tracking. Both reports have drawn international attention to the economic harm caused by online piracy and triggered positive changes by both government and non-government actors to improve copyright protection.

The Task Force believes that it is important that the United States continue to work to reduce foreign-based piracy by working to ensure the adequacy and effectiveness of measures against Internet piracy in foreign jurisdictions and by increasing our cooperative efforts with foreign law enforcement.

## 2. Private Action and Available Remedies

Most online copyright enforcement is handled through private action. Copyright owners have at their disposal a range of possible tools, including lawsuits against the primary infringer or based on theories of secondary liability, as well as procedures short of litigation for removing infringing content from the Internet.

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<sup>238</sup> Much of this work relates to obligations of international agreements specifically dealing with intellectual property enforcement. The TRIPS Agreement obligates WTO Members to adequately and effectively protect intellectual property rights. TRIPS Section III, *supra* note 32, at art. 41-61; *see also* WCT, *supra* note 32, at art 14; WPPT, *supra* note 32, at art. 23; AVPT, at art. 20. The bilateral FTAs between the United States and other countries also contain substantive enforcement provisions. *See, e.g.*, U.S.-Australia Free Trade Agreement, Chapter on Intellectual Property Rights, art. 17.11. And the Anti-Counterfeiting Trade Agreement (ACTA), recently concluded but not yet in force, sets forth provisions for a high-level enforcement standard consistent with U.S. law, including issues specific to the digital environment. ACTA, arts. 6-32. The final text of ACTA, so far signed by the United States, Australia, Canada, Korea, Japan, New Zealand, Mexico, Morocco, and Singapore, is *available at* [http://www.mofa.go.jp/policy/economy/i\\_property/pdfs/acta1105\\_en.pdf](http://www.mofa.go.jp/policy/economy/i_property/pdfs/acta1105_en.pdf).

<sup>239</sup> *See* Section 182 of the Trade Act of 1974, as amended by the Omnibus Trade and Competitiveness Act of 1988 and the Uruguay Round Agreements Act.

<sup>240</sup> *See* USTR, *2013 Special 301 Report*, *available at* <http://www.ustr.gov/sites/default/files/05012013%202013%20Special%20301%20Report.pdf>. The 2013 Report highlighted both online infringement challenges in specific markets, such as Ukraine, China, Switzerland, and Russia, and the most recent developments in online piracy, including new technologies and business practices that are evolving to facilitate and monetize copyright theft via the Internet.

<sup>241</sup> *See* USTR, *Out-of-Cycle Review of Notorious Markets*, December 13, 2012, *available at* <http://www.ustr.gov/sites/default/files/121312%20Notorious%20Markets%20List.pdf>. In addition to the Administration’s list, the Congressional International Anti-Piracy Caucus publishes an annual list that focuses on copyright piracy in other countries. *See* The Congressional International Anti-Piracy Caucus, *International Anti-Piracy Caucus Country Watch List* (2012), *available at* <http://www.scribd.com/doc/106458437/Congressional-Anti-Piracy-Caucus-2012-Country-Watch-List>.

### **a) Direct Infringement Suits**

Online distribution of copyrighted works necessarily involves numerous acts of reproduction, distribution and/or public performance. Those who engage in these acts without authorization, whether individuals or entities, may be liable for infringement.

#### **i) Individual File Sharers**

Some right holders have sued individual file sharers for engaging in acts of reproduction and distribution of copyrighted works, particularly those who have uploaded large numbers of files. Prior to December 2008, when it abandoned this approach, the Recording Industry Association of America (RIAA) sued over 30,000 individuals for uploading music files through illegal P2P services. The vast majority were settled out of court, generally for sums in the low thousands.<sup>242</sup>

Although some right holders continue to pursue direct infringement suits against individual file-sharers,<sup>243</sup> these lawsuits have generally proven to be not only controversial but also an inefficient method for combating large-scale online infringement. Given the resources required to pursue a lawsuit, only a small fraction of the millions of infringing P2P users can be identified and taken to court. As a result, although these litigation campaigns may have some educational effect, they have not appeared to provide meaningful long-term deterrence. Efforts like the graduated response systems (discussed below at pp. 71-74) coupled with infringement actions against recalcitrant individual file sharers, may ultimately prove more effective.

#### **ii) Digital Services**

In the online environment, new types of intermediaries play an increasingly important role in the reproduction, distribution, and public performance of copyrighted works. In considering potential legal claims, the distinction between engaging in infringing acts and enabling others to engage in them is not always clear. Several cases, some predating the DMCA, have concluded that a finding of direct infringement against a

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<sup>242</sup> See Ryan Nakashima, *RIAA to Stop Suing Music Swappers*, HUFFINGTON POST, [http://www.huffingtonpost.com/2008/12/19/riaa-to-stop-suing-music-n\\_152522.html](http://www.huffingtonpost.com/2008/12/19/riaa-to-stop-suing-music-n_152522.html) (Dec. 19, 2008) (noting the average settlement amount of around \$3,500).

<sup>243</sup> The adult entertainment industry has been aggressive in recent years in pursuing such lawsuits. Although questions have been raised about the accuracy with which the correct defendants have been identified, the suits have led to a large number of settlements which may have been motivated in part by the defendants' desire to avoid having their names associated with adult content. See, e.g., *MMGIP, LLC v. Does 1-149*, No. C 11-02331 LB, 2011 WL 4352110, at \*4 n.5 (N.D. Cal. Sept. 16, 2011) (describing the "common arc" for mass copyright infringement cases in this area). Some courts have decried these litigation and settlement practices as potentially abusive and improper. *Hard Drive Prods., Inc. v. Does 1-130*, No. C-11-2826 DMR, 2011 WL 5573960, at \*3 (N.D. Cal. Nov. 16, 2011); *K-Beech, Inc. v. Does 1-41*, No. V-11-46, 2012 WL 773683, at \*5 & n.2 (S.D. Tex. Mar. 8, 2012); *Raw Films, Inc. v. Does 1-32*, No. 11-CV-2939-TWT, 2011 WL 6840590, at \*2 & n.5 (N.D. Ga. Dec. 29, 2011); *Third Degree Films, Inc. v. Does 1-131*, No. 12-108-PHX-JAT, 2012 WL 692993, at \*7 (D. Ariz. Mar. 1, 2012). See also Stuart Pfeifer, *Lawyers Fined for Online Porn Lawsuits*, LOS ANGELES TIMES, May 7, 2013 (quoting the judge as calling Prenda Law and others a "porno trolling collective"), available at <http://www.latimes.com/business/la-fi-prenda-porn-sanctions-20130508,0,1738507.story>.

service provider requires “some element of volition or causation.”<sup>244</sup> These holdings have heightened the importance of secondary liability theories, discussed below. Direct infringement has still been found where service providers engaged in active, volitional conduct.<sup>245</sup>

### *b) Secondary Liability*

The courts have developed several doctrines of secondary liability, allowing claims against those who participate in various ways in the infringement of others:<sup>246</sup>

- **Contributory liability** requires that the defendant knew or had reason to know of the underlying infringement and caused or materially contributed to it.<sup>247</sup>
- **Vicarious liability** requires that the defendant had the right and ability to control the infringement and derived a financial benefit from it.<sup>248</sup>
- **Inducement liability** requires that the defendant distributed a device or provided a service with the demonstrated purpose of promoting its use for infringement.<sup>249</sup>

Some version of secondary liability exists in laws of most countries, although the legal theories and required elements differ.<sup>250</sup>

In recent years, claims of secondary liability brought against online intermediaries have played an increasingly prominent role in enforcement efforts against digital piracy. Such claims have been the inevitable result of the use of technological

<sup>244</sup> *Religious Tech. Ctr. v. Netcom On-Line Commc'n Servs., Inc.*, 907 F. Supp. 1361, 1370 (N.D. Cal. 1995); see also *CoStar Gp., Inc. v. LoopNet, Inc.*, 373 F.3d 544, 550 (4th Cir. 2004); *Cartoon Network LP v. CSC Holdings, Inc.*, 536 F.3d 121, 131 (2d Cir. 2008) (“*Cablevision*”).

<sup>245</sup> See, e.g., *Arista Records LLC v. Usenet.com, Inc.*, 633 F. Supp. 2d 124, 148-49 (S.D.N.Y. 2009) (finding direct infringement where defendants took active steps to maintain access to infringing digital music files (“*Usenet*”); *Playboy Enters. v. Russ Hardenburgh, Inc.*, 982 F. Supp. 503, 513 (N.D. Ohio 1997) (although decided before the DMCA, this case is still cited by courts for the proposition that volitional conduct by service providers can lead to direct liability). Service providers in other countries have also been found directly liable for infringement. See, e.g., *Jean Yves L. dit Lafesse v. MySpace*, Tribunal de Grande Instance de Paris, Ordonnance de référé (June 22, 2007); *Columbia Pictures v. Sohu.com*, Beijing First Intermediate Court (Dec. 27, 2006).

<sup>246</sup> The U.S. Copyright Act grants to copyright owners not only the right to exercise exclusive rights, but also the right “to authorize” their exercise by others. 17 U.S.C. § 106. The inclusion of the right “to authorize” was intended to avoid any questions as to the liability of secondary infringers – those who do not directly exercise the copyright owner’s rights, but “authorize” others to do so. See H.R. REP. NO. 94-1476, at 61, reprinted in 1976 U.S.C.C.A.N. 5674.

<sup>247</sup> See *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971); *Usenet*, 633 F.Supp. 2d at 155-56.

<sup>248</sup> See *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304, 307 (2d Cir. 1963); *Napster*, 239 F.3d at 1022-24.

<sup>249</sup> *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 936-37 (2005). It is not entirely clear whether inducement is a separate ground of secondary liability or simply a form of contributory infringement. See *Usenet*, 633 F. Supp. 2d at 150 n.17.

<sup>250</sup> See, e.g., Daniel Seng, *Comparative Analysis of the National Approaches to the Liability of Internet Intermediaries*, available at [http://www.wipo.int/export/sites/www/copyright/en/doc/liability\\_of\\_internet\\_intermediaries.pdf](http://www.wipo.int/export/sites/www/copyright/en/doc/liability_of_internet_intermediaries.pdf).

advances in digital distribution for large-scale infringement by individuals. Both in the United States and in other jurisdictions, courts have relied on theories of secondary liability to draw lines between legitimate and illegitimate services that provide access to copyrighted content.

Beginning with Napster, a number of unlicensed P2P file-sharing services have been found actually or potentially liable in the United States, despite differences in their structures—generally where they encouraged or profited from infringement while failing to take steps to control it.<sup>251</sup> In a case brought against Grokster, the US Supreme Court in June 2005 unanimously confirmed the existence of a cause of action for inducement of copyright infringement, holding that Grokster could be subject to liability for distributing a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement.<sup>252</sup>

Secondary liability claims have also been brought in the United States against other types of online services, including video hosting sites,<sup>253</sup> BitTorrent sites,<sup>254</sup> Usenet.com, which provided access to the USENET network,<sup>255</sup> and cyberlockers.<sup>256</sup> In those cases where the courts have reached the secondary liability issue, the decisions have turned on fact-specific inquiries, with liability where there was evidence that defendants encouraged, promoted, facilitated and profited from the infringing conduct of their users.

In other jurisdictions, similar outcomes have been reached on similar facts, relying on the applicable secondary liability theories. Right holders have prevailed in lawsuits against P2P file-sharing services in Australia,<sup>257</sup> Japan,<sup>258</sup> China,<sup>259</sup> and South Korea;<sup>260</sup> against BitTorrent sites in Sweden,<sup>261</sup> Finland,<sup>262</sup> and the Netherlands;<sup>263</sup> against a Usenet

<sup>251</sup> In 2001, the Ninth Circuit determined that Napster was liable for contributory infringement on the basis of its actual and constructive knowledge of the infringing activities and vicarious copyright infringement because it had a direct financial interest in drawing users to its service. *Napster*, 239 F.3d at 1019-24; see also *In re Aimster Copyright Litig.*, 334 F. 3d 643, 651-54 (7th Cir. 2003); *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 939 (2005); *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 454 F. Supp. 2d 966, 985-92 (C.D. Cal. 2006); *Arista Records LLC v. Lime Group LLC*, 784 F. Supp. 2d 398, 426 (S.D.N.Y. 2011).

<sup>252</sup> *Grokster* 545 U.S. at 936-37.

<sup>253</sup> *Viacom Int'l, Inc. v. YouTube, Inc.*, 676 F.3d 19 (2d Cir. 2012); *UMG Recordings, Inc. v. Shelter Capital Partners LLC*, No. 09-55902, 2013 U.S. App. LEXIS 5100 (9th Cir. Mar. 14, 2013) (“*Veoh*”).

<sup>254</sup> *Columbia Pictures Indus., Inc. v. Fung*, 710 F.3d 1020 (9th Cir. 2013) (“*Isohunt II*”); *Columbia Pictures, Inc. v. Bunnell*, No. 2:06-cv-01093, 2007 WL 4877701, \*8 (C.D. Cal. Dec. 13, 2007).

<sup>255</sup> *Arista Records LLC v. Usenet.com, Inc.*, 633 F. Supp. 2d 124, 150-58 (S.D.N.Y. 2009).

<sup>256</sup> *Disney Enters., Inc. v. Hotfile Corp.*, 798 F. Supp. 2d 1303, 1310-11 (S.D. Fla. 2011).

<sup>257</sup> *Universal Music Australia Pty Ltd v. Sharman License Holdings Ltd*, [2005] FCA 1242.

<sup>258</sup> *File Rogue*, Heisei 16 (Ne) 446 (2003) (Tokyo High Ct., Mar. 31, 2005).

<sup>259</sup> See, e.g., *Go East Entm't Co. Ltd. (H.K.) v. Beijing Century Tech. Co., Ltd.*, (2004) Gao Min Zhong Zi No. 713 (Beijing High Court, Dec. 2, 2004); *Shanghai Push Sound Music & Entm't Co., Ltd. V. Beijing FashionNow Co. Ltd.*, (2005) Er Zhong Min Chu Zi No. 13739 (Beijing No. 2 Intermediate Court, Dec. 19, 2006).

<sup>260</sup> *Soribada*, 2005 Da 11626 (2007) (Sup. Ct. Rep. of Korea, Jan. 25, 2007).

<sup>261</sup> *Pirate Bay*, Case No. B 4041-09 (Svea Court of Appeal, Nov. 26, 2010).

indexing site in the United Kingdom;<sup>264</sup> and against a major social media site in Russia.<sup>265</sup>

### c) *Judicial Remedies*

#### i) *Injunctions*

Several aspects of the remedies available in litigation have raised particular issues in the online context. Injunctive relief, always an important potential remedy to put a stop to continuing acts of infringement, is particularly critical in online infringement cases, where unauthorized sites or services can cause great financial harm to right holders in a matter of hours through the unrestricted public availability of valuable content.

Injunctions have been granted by numerous courts against various online services found liable for infringement.<sup>266</sup> Moreover, the DMCA authorizes right holders to seek injunctions against Internet service providers (ISPs) (referring in the context of the DMCA to a wide range of providers, not only those providing Internet access), even when a service provider qualifies for a safe harbor from monetary damages (as discussed below at pp. 52-54). The DMCA limits the scope of such injunctions according to the service provider's function.<sup>267</sup>

The DMCA's injunctive relief provisions appear to be little used. Indeed, there are no reported cases in the U.S. courts in which an injunction has been granted against a service provider that qualifies for a DMCA safe harbor. This is not surprising for a number of reasons. Most fundamentally, the plaintiff would have to establish a basis for liability on the part of the ISP, an expensive and uncertain proposition given the lack of clear precedent. And injunctions cannot be issued absent notice to the ISP and an opportunity to appear before the court hearing the application for an injunction.<sup>268</sup>

<sup>262</sup> *Finreactor*, Supreme Court, Decision of 30 June 2010 nr 1396, KKO:2010:47.

<sup>263</sup> *BREIN vs. XS Networks B.V.*, 412217 / HA ZA 12-153 (District Court of the Hague, Oct. 24, 2012).

<sup>264</sup> *Twentieth Century Fox Film Corp. v. Newzbin Ltd.*, [2010] EWHC 608 (Ch.) (Mar. 29, 2010).

<sup>265</sup> *VKontakte*, No. A56-16627/2011 (Arbitrazh Court of St. Petersburg and Leningrad Region, Oct. 15, 2012) (13th Arbitrazh Court of Appeal, Jan. 21, 2013).

<sup>266</sup> *See, e.g., Isohunt II*, 710 F. 3d at 1047-49; *Napster*, 284 F.3d 1091.

<sup>267</sup> Injunctions against non-conduit ISPs are limited to: (1) prohibiting access to material residing at a particular online site; (2) terminating a specified user's account; and (3) other relief that the court deems necessary to block access to material at "a particular online location" but only if the relief is the least burdensome method. 17 U.S.C. § 512(j)(1). Injunctions against conduit ISPs are limited to: (1) terminating a specified user's account; and (2) blocking access to a specific website *outside* of the United States. 17 U.S.C. § 512(j)(2).

<sup>268</sup> 17 U.S.C. § 512(j)(3). In the trademark context, in contrast, U.S. courts have been willing to issue *ex parte* injunctions that require ISPs to permanently block access to domain names associated with infringing conduct. Nor have right holders been required to establish liability on the part of the ISP; rather, the injunction is issued for a default judgment against the infringer or under the preliminary injunction standard of the general rules of civil procedure. *See, e.g., Tory Burch LLC v. Yong Sheng Int'l Trade Co.*, Case No. 10 Civ. 9336, Doc. 29, Default Judgment and Permanent Injunction Order (S.D.N.Y. May 31, 2011); *Gucci Am., Inc. v. Li*, Case No. 10 Civ. 4974, Doc. 12, Preliminary Injunction and Order Authorizing Expedited Discovery (S.D.N.Y. July 13, 2010).

Even if liability were established, the available relief under the DMCA is narrow. One permissible form of injunction – prohibiting access to material at a particular site – is effectively identical to the statutory requirement that ISPs comply with DMCA takedown notices.<sup>269</sup> The time and expense required to meet the DMCA’s procedural and substantive requirements may make injunctions not worthwhile to pursue.

Foreign-based websites, which may be beyond the jurisdiction of U.S. courts, also present challenges for right holders. The DMCA provides for the possibility of an order requiring an ISP to block access to a foreign website.<sup>270</sup> Only one case has been brought to date seeking such an order, however, and it was voluntarily dismissed when the targeted site went offline soon after the lawsuit was filed.<sup>271</sup>

### *ii) Statutory Damages*

For purposes of deterrence, monetary relief is key. Because actual damages for copyright infringement can be difficult to prove, the Copyright Act permits a right holder to elect to seek damages within a statutorily defined range instead.<sup>272</sup> In the online environment, where the scope of the infringing use will often not be ascertainable, making it hard to prove actual damages, the availability of statutory damages is increasingly important. Congress recognized this when it increased the level of damages in the Digital Theft Deterrence and Copyright Damages Improvement Act of 1999.<sup>273</sup>

In the decade or so since that congressional action, concerns have been raised about the application of statutory damages in certain contexts. For example, the Copyright Office has reported that the prospect of large statutory damages has deterred people from using orphan works, where they would be willing to negotiate if the owner could be found.<sup>274</sup> As a result, the Copyright Office recommended limiting available monetary relief to only “reasonable compensation,” if an orphan work’s owner appears

<sup>269</sup> See *Wolk v. Kodak Imaging Network, Inc.*, No. 10 Civ. 4135, 2011 WL 940056 at \*7 (S.D.N.Y. Mar. 17, 2011).

<sup>270</sup> 17 U.S.C. § 512(j)(1)(B)(ii).

<sup>271</sup> In 2002, the RIAA brought a suit against four major conduit ISPs seeking only an injunction under § 512(j)(1)(B)(ii) to block access to a Chinese-based unlicensed music service, Listen4ever. See *Arista Records, Inc. v. AT&T Broadband Corp.*, No. 02-CV-6554 (S.D.N.Y. filed Aug. 16, 2002); see also RIAA, *RIAA Statement on Listen4Ever Filing* (Sept. 4, 2002), available at <http://www.riaa.com/print.php?id=77585D52-E9D7-CF61-1F38-962F3FEB9597>; Billboard, *RIAA Drops ISP Suit, Vows to Remain Vigilant*, <http://www.billboard.com/articles/news/74478/riaa-drops-isp-suit-vows-to-remain-vigilant>.

<sup>272</sup> Statutory damages normally range from a minimum of \$750 to a maximum of \$30,000 per work infringed, with the potential to be raised to a maximum of \$150,000 upon a finding of willful infringement or lowered to a minimum of \$200 upon a finding that the infringer was not aware and had no reason to believe that his or her acts were infringing. 17 U.S.C. § 504(c).

<sup>273</sup> Pub. L. No. 106-160, 124 Stat. 3180, 3181; see also 145 CONG. REC. H12884 (“With the advanced technologies available and the fact that many computer users are either ignorant of the copyright laws or simply believe that they will not be caught or punished, the piracy trend will continue. One way to combat this problem is to increase the statutory penalties for copyright infringement so that they will be an effective deterrent to this conduct.”).

<sup>274</sup> Orphan Works Report *supra* note 152 at 12.

and asserts an infringement claim.<sup>275</sup>

Another issue involves the potential for huge statutory damage awards against online services because of the volume of works that they make available. While some have warned of a negative impact on investment and innovation,<sup>276</sup> others point out that a proportionate level of deterrence is necessary against services that have the potential of causing great financial harm, and that the risk of statutory damages may motivate the development of means to prevent infringement.<sup>277</sup>

Finally, there is the issue of statutory damages awards against individuals making infringing content available online. Much public attention has focused on the size of the awards in the two infringement cases against individual file sharers that have gone to trial. In both cases, after large awards by juries within the statutory range had been reduced by the district courts, they were eventually reinstated by the Courts of Appeals.<sup>278</sup> These cases have led to calls for further calibration of levels of statutory damages.<sup>279</sup>

The Task Force reiterates the importance of statutory damages in online copyright enforcement, but believes that there are certain areas where recalibration of their scope may be appropriate. To that end, we will seek public comment and convene public discussions regarding the application of statutory damages in the context of: (1) individual file-sharers; and (2) secondary liability for large-scale online infringement.<sup>280</sup>

#### **d) The Role of ISPs under the DMCA**

Additional extra-judicial tools for helping to curb online infringement were created by the DMCA, in provisions relating to the role of Internet service providers.

<sup>275</sup> *Id.* That suggestion was incorporated in the orphan works bills introduced in Congress. See, e.g., Shawn Bentley Orphan Works Act of 2008, S. 2913, at § 2 (2008).

<sup>276</sup> See, e.g., Stephanie Berg, *Remedying the Statutory Damages Remedy for Secondary Copyright Infringement Liability: Balancing Copyright and Innovation in the Digital Age*, 56 J. COPYRIGHT SOC'Y U.S.A. 265, 314-17 (2008-09); Michael A. Carrier, *Copyright and Innovation: The Untold Story*, 2012 WISC. L. REV. 891, 940-41 (2012).

<sup>277</sup> See, e.g., Ronald J. Mann & Seth R. Belzley, *The Promise of Internet Intermediary Liability*, 47 WM. & MARY L. REV. 239, 246-49, 251 (2005); Douglas Lichtman & Willam Landes, *Indirect Liability for Copyright Infringement: An Economic Perspective*, 16 HARV. J.L. & TECH. 395, 405-06 (2003).

<sup>278</sup> In the first case, after several retrials, the Court of Appeals for the Eighth Circuit recently affirmed the first jury's finding of liability and award of \$220,000 in statutory damages. *Capitol Records, Inc. v. Thomas-Rasset*, 692 F.3d 899, 911 (8th Cir. 2012), *cert. denied*, 133 S. Ct. 1584 (Mar. 18, 2013). The jury in the first retrial awarded damages of \$1.92 million, which the district court reduced to \$54,000. The plaintiffs then offered to settle the case for \$25,000, which was rejected. See Greg Sandoval, *Jammie Thomas Rejects RIAA's \$25,000 Settlement Offer*, CNET, [http://news.cnet.com/8301-31001\\_3-10442482-261.html](http://news.cnet.com/8301-31001_3-10442482-261.html) (Jan. 27, 2010). In the second case, the Court of Appeals for the First Circuit reinstated the jury's award of \$675,000 in statutory damages, reversing a decision by the district court to reduce it to \$67,500. *Sony BMG Music Entm't v. Tenenbaum*, 660 F.3d 487, 489-90 (1st Cir. 2011), *cert. denied*, 132 S. Ct. 2431 (2012).

<sup>279</sup> See, e.g., Pam Samuelson & Tara Wheatland, *Statutory Damages in Copyright Law: A Remedy in Need of Reform*, 51 WM. & MARY L. REV. 439, 500-09 (Spring 2009); Berg, *supra* note XX; see generally Alan E. Garfield, *Calibrating Copyright Statutory Damages to Promote Speech*, 38 FLA. ST. U. L. REV. 1 (2010).

<sup>280</sup> As to statutory damages in the context of orphan works, the Task Force notes that the Copyright Office is currently examining this issue again. See Orphan Works NOI *supra* note 157.

### i) *General Framework*

One particular class of online actor enjoys special protection against either primary or secondary liability claims. In 1998, the DMCA established safe harbors to shield ISPs from unreasonable liability. Service providers that cooperate with right holders in specified ways to curb infringement are immunized from monetary damages—but not injunctive relief.<sup>281</sup>

The DMCA safe harbors protect providers that comply with certain conditions when they are engaged in one of four covered activities: serving as a conduit for transmitting content (“mere conduit”), caching, hosting, or providing information location tools.<sup>282</sup> Where an ISP engages in activities beyond those specified in the statute, such as taking affirmative steps to encourage infringement, it may be exposed to full liability.<sup>283</sup>

One of the conditions on the availability of a safe harbor is that an ISP, to the extent it is engaging in covered activities going beyond mere transmission, must block or remove infringing content for which it has received a valid notice or is otherwise aware.<sup>284</sup> A “put-back” mechanism ensures the ability to restore content that was removed through mistake or misidentification (within 10 to 14 days after receiving a counternotice).<sup>285</sup> This structure has essentially created a new, extrajudicial tool – notice and takedown – for curbing infringement.

A similar ISP safe harbor approach has been adopted in most of the U.S.’s major trading partners, including the member countries of the European Union, China, India, Japan, South Korea, Taiwan, and Australia.<sup>286</sup>

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<sup>281</sup> See *supra* pp. 51-52.

<sup>282</sup> The four ISP functions covered by the DMCA safe harbors are: (1) mere conduit activities, such as transmitting email or providing Internet service; (2) caching, or temporary automatic storage for purposes of transmitting data from one person to another; (3) hosting “information residing on systems or networks at direction of users”; and (4) providing “information location tools” such as search engines or hypertext links. 17 U.S.C. §§ 512(a)-(d).

<sup>283</sup> See, e.g., *Usenet*, 633 F. Supp. 2d at 142, 159 (precluding defendants from asserting safe harbor defenses and finding them liable for direct and secondary infringement); *Columbia Pictures Indus., Inc. v. Fung*, No. CV 06-5578, 2009 WL 6355911, at \*15-16 (C.D. Cal. Dec. 21, 2009) (service provider found ineligible for safe harbors) (“*Isohunt I*”).

<sup>284</sup> The provider is also protected from any liability for third-party claims based on its having taken down the material in good faith. 17 U.S.C. § 512(g)(1).

<sup>285</sup> 17 U.S.C. § 512(g)(2).

<sup>286</sup> See Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on Certain Legal Aspects of Information Society Services, in Particular Electronic Commerce, in the Internal Market (“Directive on Electronic Commerce”), arts. 12-15; Regulation On Protection of the Right of Communication Through Information Networks, arts. 14-17, 20-23 (China); Information Technology Act 2000 (as amended by the Information Technology Amendment Act, 2008), §§ 79, 81 (India); Law Concerning the Limits of Liability for Damages of Specified Telecommunications Service Providers and the Right to Request Disclosure of Identification Information of the Senders, art. 3 (Japan); Korean Copyright Act, arts. 102-04; Taiwanese Copyright Act, arts. 90quinquies-90terdecies; Australian Copyright Act § 116AG. U.S. FTAs also generally require such safe harbor provisions. See, e.g., United States-Australia FTA, art. 17.11.29; United States-Korea FTA, art. 18.10.30; United States-Singapore FTA, art. 16.9.22. Canada has adopted (but not yet implemented) a different approach, featuring a “notice and notice” system wherein a right holder can

When the DMCA was enacted in 1998, concerns about online infringement were primarily focused on websites hosting content, and the notice and takedown system was designed with that focus. In that context, the system has generally worked well, subject to the issues discussed below.<sup>287</sup> Later developments have brought new challenges and revealed some ambiguities in application of the DMCA safe harbors, causing difficulties for both right holders and ISPs. Most importantly, unanticipated types of infringing services, such as P2P file-sharing services and cyberlockers, do not fit neatly within the existing framework of the DMCA, and may require new approaches.<sup>288</sup> For example, P2P file-sharing services generally do not involve content hosted by an ISP, and therefore cannot be subject to a DMCA takedown obligation. Other new products and services, such as cyberlockers and those mobile apps that facilitate infringement, may be subject to notice and takedown, but their decentralized nature, lack of searchability, and the scale of infringing content causes problems in application.<sup>289</sup>

## *ii) Notice and Takedown Issues*

### *(a) Knowledge Standard*

Although the DMCA makes clear that there is no affirmative duty for an ISP to monitor for infringing content,<sup>290</sup> a certain level of knowledge of infringement will trigger the need to take action in order to enjoy three of the four safe harbors.<sup>291</sup> The requisite

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provide a notice to an ISP that a subscriber is infringing and the ISP must promptly forward that notice to the subscriber. See Bill C-11, The Copyright Modernization Act, §§ 41.25-27.

<sup>287</sup> See NOI responses from AT&T, 2, 6; Google, 2, 8-9; NCTA, 3; TechAmerica, 5-6; Library Copyright Alliance, 3; Public Knowledge, 1, 16-21; A2IM, AFM, AFTRA, DGA, IATSE, MPAA, NMPA, RIAA, SAG, 8-9, 30-32 available at <http://ssl.ntia.doc.gov/comments/100910448-0448-01/>.

<sup>288</sup> See, e.g., Mark Lemley, *Rationalizing Internet Safe Harbors*, 6 J. TELECOMM. & HIGH TECH. L. 101, 124 (2007). See also Peter S. Menell, *Design for Symbiosis: Promoting More Harmonious Paths for Technological Innovators and Expressive Creators in the Internet Age*, 55 COMM. ASS'N COMPUTING MACHINERY 31 (2012).

<sup>289</sup> For example, cyberlockers are not searchable and right holders must therefore individually locate infringing content, often by visiting other sites on which cyberlocker users post the URLs for their files. See MPAA, RIAA, & NMPA IPEC Submission at 19-20 available at <http://www.mppaa.org/Resources/7960e748-c27e-4745-afe9-1012c85a4755.pdf>. On the other hand, some cyberlocker operators not only respond to takedown notices, but have taken active steps to curb infringement through their services. See, e.g., TorrentFreak, *RapidShare: Traffic and Piracy Dipped After New Business Model Kicked In*, <http://torrentfreak.com/rapidshare-traffic-and-piracy-dipped-after-new-business-model-kicked-in-130109/> (Jan. 9, 2013). Right holders have also had some success in notifying app stores, such as Google's Play Store or the Apple App Store, and having infringement-related apps taken down. See Sue Zeidler, *Hollywood Targets "Rogue" Mobile Apps in War on Pirated Content*, REUTERS, Feb. 28, 2013, available at <http://www.reuters.com/article/2013/03/01/net-us-hollywood-apps-idUSBRE92003Y20130301>; Joint Submission of MPAA, RIAA, and NMPA to IPEC at 15. Some remain available, however, either in their original form or as copycat applications, or are available through other sites that do not respond to requests from right holders. Joint Submission of MPAA, RIAA, and NMPA to IPEC at 15.

<sup>290</sup> 17 U.S.C. § 512(m)(1).

<sup>291</sup> The safe harbor for conduit services, or "transitory digital network communications," as set forth in 17 U.S.C. § 512(a), is not conditioned on a lack of awareness of infringing activity. According to the DMCA's legislative history, this exemption was intended to codify the holding of *Religious Tech. Ctr. v. Netcom Online Commc'ns Servs., Inc.*, 907 F. Supp. 1361 (N.D. Cal. 1995), that a service provider could not be liable for direct infringement if it takes no "affirmative action that [directly results] in copying . . . works other than by installing and maintaining a system whereby software automatically forwards messages received

knowledge may arise either through a valid notice from a right holder<sup>292</sup> or independently. It includes not only actual knowledge<sup>293</sup> but awareness of “facts or circumstances from which infringing activity is apparent,” referred to as a “red flag” standard.<sup>294</sup> This standard includes both a subjective element, focusing on the ISP’s actual awareness of the facts, and an objective element, focusing on whether the infringement is apparent from those facts.<sup>295</sup> Congress’s goal was to ensure that ISPs were not burdened with the duty of proactively investigating but at the same time could not deliberately turn a blind eye.<sup>296</sup>

In recent years, courts have begun to examine the contours of “red flag” knowledge. Both the Second and Ninth Circuits have held that the burden is on the right holders to demonstrate the requisite level of knowledge, and that an ISP must be aware of specific acts of infringement.<sup>297</sup> Despite these decisions, litigation continues over the appropriate knowledge standard and the consistency of requiring knowledge of specific acts given the statute’s reference to “infringing activity” generally.<sup>298</sup> Moreover, no court has yet determined whether “red flag” knowledge exposes an ISP to monetary damages for only that activity or more broadly to all activity on the site.<sup>299</sup> Resolution of these questions by the courts will provide greater certainty to both right holders and ISPs and enable a clearer understanding of whether the safe harbors are operating as intended.

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from subscribers . . . and temporarily stores copies on its system.” *Id.* at 1368-70; H.R. REP. 105-551, at 24 (1998).

<sup>292</sup> The DMCA sets out a list of requirements for a valid notice that triggers the ISP’s obligation to take action once it is submitted to the ISP’s “designated agent.” 17 U.S.C. §§ 512(c)(3), 512(b)(1)(E), (c) (1)(C), (d)(3).

<sup>293</sup> 17 U.S.C. § 512(d)(1)(A); *see also* 17 U.S.C. § 512(c)(1)(A)(i).

<sup>294</sup> 17 U.S.C. §§ 512(c)(1)(A)(ii), (d)(1)(B).

<sup>295</sup> The test is “whether infringing activity would have been apparent to a reasonable person operating under the same or similar circumstances.” H.R. REP. 105-551, at 53; S. REP. 105-190, at 44 (1998).

<sup>296</sup> H.R. REP. 105-551, at 53; S. REP. 105-190, at 44.

<sup>297</sup> *See Viacom Int’l, Inc. v. YouTube, Inc.*, 676 F.3d 19, 30 (2d Cir. 2012) (concluding that both the actual and “red flag” knowledge provisions of the DMCA require “knowledge or awareness of specific infringing activity”); *Veoh*, 2013 U.S. App. LEXIS 5100 at \*40-41 (explaining that the “red flag” test places the burden of showing awareness “with the copyright holder rather than the service provider” and that “general knowledge that [a service provider] hosted copyrightable material and that its services could be used for infringement is insufficient to constitute a red flag”); *Isohunt II*, 710 F.3d at 1043-44 (finding defendant ineligible for safe harbors because of his “red flag” knowledge).

<sup>298</sup> *See* 17 U.S.C. §§ 512(c)(1)(A)(i), (ii); *see also supra* note 297. A leading scholar has suggested that one reading that would, “give content to both provisions of the statute is to construe the ‘actual knowledge’ subparagraph to refer to knowledge of *specific* infringing items, whereas the ‘red flag’ subparagraph refers to *generalized* knowledge.” 3-12B NIMMER ON COPYRIGHT § 12B.04.

<sup>299</sup> *See Isohunt II*, 710 F.3d at 1043 n. 20. The *Isohunt* Court did not resolve this question because it found the defendants ineligible for the safe harbor as a result of “receiv[ing] a financial benefit directly attributable to the infringing activity” and having “the right and ability to control such activity,” under 17 U.S.C. § 512(c)(1)(B). *Isohunt II*, 710 F.3d at 1044-46. The court held that when an ISP is ineligible for safe harbor protection under this provision of the DMCA, it “loses protection with regard to any infringing activity using the service.” *Id.* at 1046.

*(b) Burdens of Compliance*

After more than a decade of experience with the DMCA notice and takedown system, right holders and ISPs alike have identified respects in which its operation can become unwieldy or burdensome. On one side, there are complaints that the system is too resource-intensive and requires constant re-notification as to the same content; on the other, that the volume has become too high, and notices may be inaccurate or otherwise misused.

On the right holder side, the system is most effective for large entities or organizations. Many individual creators or small and medium-sized enterprises (SMEs) do not have the resources to engage in the ongoing monitoring and notification process required by the DMCA.<sup>300</sup>

For all types of right holders, concerns are expressed about the brief effective lifespan of takedowns. The DMCA requires that the content be taken down only from the specific location identified in the notice. That limitation, coupled with the lack of any affirmative duty to monitor by ISPs, leads to infringing content often being quickly put back up on the same site. Right holders report that they find themselves in a game of “whack-a-mole”—a never-ending cycle of sending notices about infringing content that may be taken down, only to reappear a short time later in a new location on the same website.<sup>301</sup> They have therefore called for an understanding that notice and takedown should mean notice and staydown—once a given piece of content has been notified as being infringed on the site, it should not be permitted to be put back up.<sup>302</sup> This would require the use of technology to flag copyright content that has been notified and removed, and subsequent blocking of the flagged content. While such a system could be imposed via legislation, implementation would raise a number of technical and legal challenges. Voluntary cooperation between ISPs and right holders would offer a more flexible way of addressing this problem.

On the ISP side, concerns center on the volume of DMCA takedown requests, which has

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<sup>300</sup> See Christopher S. Stewart, *As Pirates Run Rampant, TV Studios Dial Up Pursuit*, WALL STREET J., March 4, 2013 (reporting that owner of small independent film distributor “found more than 903,000 links to unauthorized versions of her films” with estimated losses of “over \$3 million in revenue” and a cost to send takedown notices of “over \$30,000 a year”). As the Independent Film & Television Alliance (IFTA) noted, “[w]ithout substantial financial resources to utilize digital content protection technologies such as scanning and electronic notification services on an ongoing basis . . . the current notice and takedown provisions are an insufficient mechanism for many independent producers leaving them with no real alternative protection tools.” IFTA, Comments in Response to the USPTO & NTIA NOI on Copyright Policy, Creativity, and Innovation in the Internet Economy, at 5 (Dec. 10, 2010), available at <http://ssl.ntia.doc.gov/comments/100910448-0448-01/attachments/IFTA%20Submission%20to%20DOC%20NOI%20Copyright%20Policy.pdf>. See also Copyright Alliance, Comments in Response to the USPTO & NTIA NOI on Copyright Policy, Creativity, and Innovation in the Internet Economy, at 15 (2010), available at <http://ssl.ntia.doc.gov/comments/100910448-0448-01/attachments/Copyright%20Alliance%20filing%20in%20Internet%20Policy%20Task%20Force%20NoI%20on%20copyright%2012%2010%2010.pdf> (“Independent artists and creators find great frustration with a notice-and-takedown approach to enforcing their own rights online. [An i]ndependent filmmaker . . . estimates she spends more than two hours daily sending notices to parties engaged in infringement, with mixed results. . . . The time consumed in this daily exercise is time that could be spent creating her next film.”).

<sup>301</sup> See Joint Submission of MPAA, RIAA, and NMPA *supra* note 289 at 19-20.

<sup>302</sup> See *id.* at 19.

increased significantly. Google, which as a provider of “information location tools” under the DMCA may receive more takedown requests than any other entity, reports that the number of such requests it receives for Google Search on a weekly basis has climbed into the millions.<sup>303</sup> As right holders have noted, even those numbers fail to reflect the full scope of infringing content available through search results given volume limitations on the automated processes for submitting requests.<sup>304</sup>

One of the primary contributors to the overall volume of notices may be the “whack-a-mole” problem described above. Another may be the increased reliance by many right holders on automated systems to help them locate infringing content and submit takedown requests. Because the large amount of infringing content on the Internet makes individual review of each item infeasible, large right holder organizations find it necessary to use automation. Moreover, content stored on certain services, such as cyberlockers, is not directly searchable; right holders must locate infringing URLs through other sites that aggregate links and then send takedown notices directly to the cyberlockers, adding a step to the process.<sup>305</sup>

Other concerns about the notice and takedown system relate to erroneous infringement claims, which can affect third party interests as well as those of the ISP.<sup>306</sup> In some cases, such as with DMCA take-downs of political advertisements, the goal of the takedown request may have little to do with copyright.<sup>307</sup> The extent of inaccurate notices is subject to dispute, but is very small in relation to the many millions of notices sent.<sup>308</sup> Some errors may be caused by the use of automated systems (particularly in those cases where the results are not verified by human review). In the case of deliberate abuse, the DMCA provides a legal remedy, enabling damage claims against any person who “knowingly materially misrepresents under this section ... that

<sup>303</sup> See Google Transparency Report, Removal Requests, Copyright, <http://www.google.com/transparencyreport/removals/copyright/> (reporting 3.5 million requests received during the week of December 10, 2012; this number is only for takedown requests directed toward Google Search, not any other Google products such as YouTube); see also TorrentFreak, RIAA Set For Historic 10,000,000th Google URL Takedown, <http://torrentfreak.com/riaa-set-for-historic-10000000th-google-url-takedown-130204/>, (Feb. 4, 2013).

<sup>304</sup> See Brendan Sasso, *Music Industry Accuses Google of Slacking on Piracy Fight*, THE HILL, <http://thehill.com/blogs/hillicon-valley/technology/230143-music-industry-accuses-google-of-slacking-on-piracy-fight> (May 30, 2012).

<sup>305</sup> See Comments of MPAA, NMPA & RIAA to IPEC *supra* note 289 at 19-20.

<sup>306</sup> See, e.g., Google, *Google Transparency Report FAQ*, [http://www.google.com/transparencyreport/removals/copyright/faq/#abusive\\_copyright\\_requests](http://www.google.com/transparencyreport/removals/copyright/faq/#abusive_copyright_requests); see also Chilling Effects Clearinghouse, <http://chillingeffects.org/>; Electronic Frontier Foundation, *Takedown Hall of Shame*, <https://www.eff.org/takedowns>; John Paul Titlow, *5 Absurd Copyright Takedowns That Make the Law Look Outdated*, READWRITE.COM, <http://readwrite.com/2013/01/22/5-absurd-copyright-takedowns-that-make-the-law-look-outdated> (Jan. 22, 2013).

<sup>307</sup> Center for Democracy & Technology, *Campaign Takedown Troubles: How Meritless Copyright Claims Threaten Online Political Speech* (Sept. 2010), available at [https://www.cdt.org/files/pdfs/copyright\\_takedowns.pdf](https://www.cdt.org/files/pdfs/copyright_takedowns.pdf).

<sup>308</sup> Google reports, for example, that it “removed 97% of search results specified in requests” between July and December 2011, see Google, *Google Transparency Report FAQ*, <http://www.google.com/transparencyreport/removals/copyright/faq>. Notably, Google reviews takedown notices and does not remove links for a number of reasons, including “not having . . . enough information about why the URL is allegedly infringing; not finding the allegedly infringing content referenced in the request; deducing that the copyright removal process is being used improperly . . . or fair use.” *Id.*

material or activity is infringing.”<sup>309</sup> Courts have interpreted this language to require subjective measurement of the copyright owner’s bad faith;<sup>310</sup> to require that a material misrepresentation “affect[] [the service provider’s] response to a DMCA letter;”<sup>311</sup> and to require copyright owners to consider, in certain circumstances, whether a given use qualifies as fair use.<sup>312</sup>

All of these problems taken together may be undermining the benefits of the notice and takedown system. One potential solution to ease the burdens involved and improve results could be to create best practices for identifying infringing content and sending notices, for takedown procedures, and for ensuring that infringing content once removed does not immediately reappear. This would benefit right holders, ISPs and end users alike, by supporting a more efficient and reliable notice and takedown system. To that end, the Task Force will convene a multi-stakeholder dialogue involving right holders (both large and small), ISPs, consumer representatives and companies in the business of identifying infringing content, on how to improve the operation of the notice and takedown system.

As to the issue of individual right holders and SMEs lacking the resources to effectively utilize the DMCA takedown mechanism, a possible alternate remedy may be created through a separate small claims procedure. The U.S. Copyright Office is undertaking a study at the request of Congress to assess whether and, if so, how, the current legal system hinders or prevents copyright owners from pursuing infringement claims with a relatively small economic value; and to recommend potential changes in administrative, regulatory, and statutory authority.<sup>313</sup> While the study is not limited to claims involving online infringement, an alternative procedure could be useful for such claims when they involve small entities or small-scale infringements, lessening the need to rely on the DMCA notice and takedown process. The Copyright Office has published three Notices of Inquiry,<sup>314</sup> held a series of public hearings in November 2012,<sup>315</sup> and is scheduled to issue a final report to Congress in September 2013. The Administration supports this effort and will continue to work with the Copyright Office on this issue.

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<sup>309</sup> 17 U.S.C. § 512(f)(1). Damage claims are also available for knowing misrepresentations “that material or activity was removed or disabled by mistake or misidentification.” *Id.*

<sup>310</sup> *Rossi v. Motion Picture Ass’n of Am.*, 391 F.3d 1000 (9th Cir. 2004).

<sup>311</sup> *Online Policy Group v. Diebold, Inc.*, 337 F. Supp. 2d 1195, 1204 (N.D. Cal. 2004); *see also Ground Zero Museum Workshop v. Wilson*, 813 F. Supp. 2d 678, 704-05 (D. Md. 2011); *Capitol Records, Inc. v. MP3Tunes, LLC*, 611 F. Supp. 2d 342, 346 (S.D.N.Y. 2009).

<sup>312</sup> *Lenz v. Universal Music Corp.*, 572 F.Supp.2d 1150, 1155-56 (N.D. Cal. 2008); *Lenz v. Universal Music Corp.*, No. 5:07-CV-03783-JF, 2013 WL 271673 at \*8 (N.D. Cal. Jan. 24, 2013).

<sup>313</sup> Copyright Office, Remedies for Small Claims, 76 Fed. Reg. 66758 (Oct. 27, 2011).

<sup>314</sup> *Id.*; Copyright Office, Remedies for Small Copyright Claims: Additional Comments, 77 Fed. Reg. 51068 (Aug. 23, 2012); Copyright Office, Remedies for Small Copyright Claims: Third Request for Comments, 78 Fed. Reg. 13094 (Feb. 26, 2013).

<sup>315</sup> *See* U.S. Copyright Office, November 2012 Public Hearings, <http://www.copyright.gov/docs/smallclaims/public-hearings-112012.html>.

*(c) Database of Designated ISP Agents*

A separate problem relates to the availability of accurate information on where to send a takedown notice. To be eligible for a DMCA safe harbor, service providers must identify an agent for receiving notices of claimed infringement, and provide contact information both on their own websites and to the U.S. Copyright Office.<sup>316</sup> Although the Copyright Office removes an old designation and replaces it whenever new information is provided, there is no obligation for ISPs to provide updates. Because many do not in fact do so, the database is not current and reliable.<sup>317</sup>

To improve the situation, the Copyright Office is proposing to implement an electronic process to replace the existing system, where filings are made either via mail or in-person.<sup>318</sup> The Copyright Office would require all ISPs to file new designations of agents within one year after new regulations go into effect, and thereafter to update and/or verify the accuracy of their information on a regular basis.<sup>319</sup> The Task Force supports the Copyright Office's efforts to address this issue. As its technical capacity evolves, the Copyright Office database could become an interactive portal for DMCA notices.

***iii) Additional Enforcement Tools: Termination of Repeat Infringers' Accounts and Subpoenas***

As part of the overall bargain of the DMCA, two other tools were created to assist right holders: an obligation for ISPs to adopt and implement a policy to terminate the accounts of repeat infringers in appropriate circumstances,<sup>320</sup> and a streamlined subpoena procedure to obtain identifying information about individual infringers.<sup>321</sup> Since enactment of the DMCA, both have given rise to problems of interpretation,

<sup>316</sup> 17 U.S.C. § 512(c)(2). The statute requires the name, address, phone number, and e-mail address of the agent, as well as any other contact information the Register of Copyrights deems appropriate. *Id.*

<sup>317</sup> In 2010, the Software & Information Industry (SIIA) conducted a study to determine the accuracy of the contact information in the Copyright Office's database and found a number of problems with out-of-date or unreliable information. SIIA, Comments in Response to the USPTO & NTIA NOI on Copyright Policy, Creativity, and Innovation in the Internet Economy, at 21-22, *available at* <http://ssl.ntia.doc.gov/comments/100910448-0448-01/attachments/SIIACommentsOnTaskForceQuestions.pdf>. The SIIA sent out sample e-mails to designated agents listed, and nearly half were returned as undeliverable. Of those that were deliverable, many went without a response. *Id.* at 22.

<sup>318</sup> U.S. Copyright Office, Online Service Providers, Background, <http://www.copyright.gov/online/NPR>. See also Designation of Agent to Receive Notification of Claimed Infringement, 76 Fed. Reg. 188 at 59953, (Sept. 28, 2011).

<sup>319</sup> See U.S. Copyright Office, Designation of Agent to Receive Notification of Claimed Infringement, 76 Fed. Reg. 59953 (Sept. 28, 2011).

<sup>320</sup> 17 U.S.C. § 512(i)(1)(A). Compliance with this provision is a condition for eligibility for any of the safe harbors, along with not interfering with standard technical measures, *id.* at § 512(i)(1)(B), and designating an agent to receive notices of claimed infringement, *id.* at § 512(c)(2). Several other countries have adopted similar provisions regarding the termination of repeat infringers' accounts. See, e.g., Copyright Act of 1968 § 116AH (Australia); Copyright (Network Service Provider) Regulations 2005 § 8 (Singapore); Korean Copyright Act art. 102(1)(1) (South Korea). Other governments, including those of France, the U.K., New Zealand, and Taiwan, have adopted laws that allow for termination of repeat infringers' accounts in the context of a graduated response system, discussed *infra* pp. 71-74.

<sup>321</sup> 17 U.S.C. § 512(h).

making these provisions less useful to right holders than originally anticipated.

A service provider must meet three requirements under this provision: “(1) adopt a policy that provides for the termination of service access for repeat copyright infringers in appropriate circumstances; (2) implement that policy in a reasonable manner; and (3) inform its subscribers of the policy.”<sup>322</sup> As to the termination of repeat infringers’ accounts, the legislative history shows that Congress believed that a “realistic threat” of losing internet access must exist as a deterrent for repeated or flagrant infringement.<sup>323</sup> Unfortunately, three key phrases in the statute – “repeat infringer,” “appropriate circumstances,” and “reasonably implement” – have been subject to inconsistent interpretations in the courts.

Most critically, there is no clear definition of when a user must be considered a “repeat” infringer. Although some courts have said that several notices of infringement from a copyright owner alone are sufficient,<sup>324</sup> others have disagreed.<sup>325</sup> Requiring repeat judicial findings of infringement before a subscriber could be terminated would arguably render the statutory remedy superfluous. One leading commentator has suggested that someone could be considered an infringer either based on a court finding or if the ISP has actual knowledge of infringing conduct (beyond a right holder notice).<sup>326</sup>

Several courts have addressed the question of whether a policy has been reasonably implemented, with little consistency other than the general principle that a policy ought to carry some meaningful potential of leading to termination.<sup>327</sup> With respect to “appropriate circumstances,” the legislative history makes reference to “different degrees of on-line copyright infringement, from the inadvertent and noncommercial, to the willful and commercial.”<sup>328</sup> At least one court has relied on that passage to conclude that an ISP may take such considerations into account when deciding whether the circumstances are appropriate to result in termination.<sup>329</sup> Ultimately, questions will remain about the contours of this requirement until there is either more

<sup>322</sup> *Ellison v. Robertson*, 357 F.3d 1072, 1080 (9th Cir. 2004).

<sup>323</sup> H.R. REP. NO. 105-551, pt. II, at 61 (1998) (“[T]hose who repeatedly or flagrantly abuse their access to the Internet through disrespect for the intellectual property rights of others should know that there is a realistic threat of losing that access.”); S. REP. NO. 105-90, at 52 (1998) (same).

<sup>324</sup> *See, e.g., Perfect 10, Inc. v. CCBill, LLC*, 340 F. Supp. 2d 1077, 1088 (C.D. Cal. 2004).

<sup>325</sup> *See, e.g., Corbis Corp. v. Amazon.com, Inc.*, 351 F. Supp. 2d 1090, 1105 (W.D. Wash. 2004).

<sup>326</sup> NIMMER ON COPYRIGHT § 12B.10(B)(3)(c).

<sup>327</sup> *See, e.g., Perfect 10, Inc. v. CCBill LLC*, 488 F.3d 1102, 1109 (9th Cir. 2007); *In re Aimster Copyright Litig.*, 252 F. Supp. 2d 634, 659 (N.D. Ill. 2002) *aff’d*, 334 F.3d 643, 655 (7th Cir. 2004); *Ellison v. Robertson*, 357 F.3d 1072, 1080 (9th Cir. 2004); *UMG Recordings, Inc. v. Veoh Networks Inc.*, 665 F. Supp. 2d 1099, 1116 (C.D. Cal. 2009); *Flava Works, Inc. v. Gunter*, No. 10 C 6517, 2011 WL 3205399, at \*10 (N.D. Ill. July 27, 2011) *rev’d on other grounds*, 689 F.3d 754 (7th Cir. 2012).

<sup>328</sup> H.R. REP. NO. 105-551, pt. II, at 61 (1998) (footnote omitted); S. REP. NO. 105-90, at 52 (1998) (footnote omitted).

<sup>329</sup> *Perfect 10, Inc. v. Cybernet Ventures, Inc.*, 213 F. Supp. 2d 1146, 1176-77 (C.D. Cal. 2002) (noting that the types of appropriate circumstances leading to a duty to reasonably implement termination would “appear to cover, at a minimum, instances where a service provider is given sufficient evidence to create actual knowledge of blatant, repeat infringement by particular users, particularly infringement of a willful and commercial nature”).

development in the case law or alternative solutions are provided through stakeholder-negotiated understandings. Collaborative public-private efforts could help develop standards for the termination of repeat infringers, including the possibility of having a third party verify repeat infringement.

The subpoena provision of the DMCA allows right holders to obtain the identity of an alleged infringer from an ISP, in order to be able to bring a lawsuit for direct infringement.<sup>330</sup> Courts have held that this subpoena provision does not apply to requests for the identities of P2P users of conduit ISPs, but only to users of hosting or linking ISPs.<sup>331</sup> This result has been critiqued by some as contrary to the intention of the drafters, and the Register of Copyrights has urged that the DMCA be amended to reverse it.<sup>332</sup> Since those decisions, right holders have instead relied on the mechanism of subpoenas issued under Federal Rule of Civil Procedure 45 to obtain identifying information of individual P2P users.<sup>333</sup>

### C. Potential New Tools

A number of possible solutions have been identified to address the gaps and shortcomings in existing legal tools. As to problems relating to the scope of remedies and to application of the DMCA safe harbors, several initiatives have been proposed above. As to other problems, a number of solutions have already been adopted or are underway in the U.S. and elsewhere, whether in the form of legislation, private agreements or informal cooperation. But most are still in the early stages, making it difficult to assess their degree of success.

Considerable progress in curbing online infringement has been made in recent years through stakeholder cooperation. All participants in the digital economy have both a responsibility and much to gain from working together to enable a functioning marketplace, by educating the public, curbing infringement, and promoting legitimate uses of copyrighted material. Right holders can achieve positive returns, and intermediaries can lower their risk of liability and potentially enhance the competitiveness of their commercial offerings. Although some problems ultimately may require legislative solutions, voluntary initiatives are an important component of devising new ways to protect copyrights in the digital environment. The Task Force

<sup>330</sup> 17 U.S.C. § 512(h).

<sup>331</sup> See *Recording Industry Ass'n of Am. v. Charter Commc'ns, Inc.*, 393 F.3d 771, 772 (8th Cir. 2005); *Recording Industry Ass'n of Am. v. Verizon Internet Servs., Inc.*, 351 F.3d 1229, 1233 (D.C. Cir. 2003) *cert denied*, 543 U.S. 924 (2004).

<sup>332</sup> Statement of Marybeth Peters, The Register of Copyrights, before the Committee on the Judiciary, *Pornography, Technology, and Process: Problems and Solutions on Peer-to-Peer Networks*, U.S. Senate, 108th Congress, 1st Session, Sept. 9, 2003.

<sup>333</sup> See, e.g., *Sony Music Entm't, Inc. v. Does 1-40*, 326 F. Supp. 2d 556, 567 (S.D.N.Y. 2004); *Arista Records LLC v. Does 1-19*, 551 F. Supp. 2d 1, 8-9 (D.D.C. 2008). By contrast, in Germany, right holders work with Internet monitoring firms to identify large numbers of alleged infringers based solely on Internet Protocol addresses, obtain court orders directing ISPs to provide contact information, and send cease-and-desist letters directly to the subscribers seeking settlement. See Ben Knight, *The Lowdown on Downloads*, EXBERLINER, Feb. 28, 2012, available at <http://www.exberliner.com/articles/the-lowdown-on-downloads/>. By some accounts, 300,000 subscribers a month are identified through this process. See Janko Roettgers, *German Rights Holders Go After 300,000 P2P Users Per Month*, GIGAOM, <http://gigaom.com/2011/05/31/germany-mass-p2p-lawsuits> (May 31, 2011).

encourages stakeholders to take part in existing initiatives or to develop others relevant to their own sectors.<sup>334</sup>

The potential solutions described below – website blocking, content filtering, a “follow the money” approach, search engine demotion and delinking, and graduated response – have all been proposed or adopted in some form to address the problems of P2P file-sharing and websites dedicated to piracy, but could assist in curbing infringement in other contexts as well. While each may offer benefits, they also raise a number of concerns that would need to be resolved.

## 1. Website Blocking

One proposed method for addressing websites dedicated to piracy, and the one that has generated the most controversy recently, is directing ISPs to block the public’s access to them. Restricting U.S. access to foreign-based websites dedicated to piracy could serve to reduce infringing traffic.<sup>335</sup> As discussed above, while under current law injunctions requiring ISPs to block foreign websites are theoretically available, they have not been sought by right holders for a number of reasons.<sup>336</sup>

In 2011, the U.S. Congress considered legislation along these lines. The PROTECT IP Act introduced in the Senate, and the Stop Online Piracy Act (SOPA) introduced in the House, would have provided for expanded government and private enforcement actions directed toward blocking websites dedicated to piracy.<sup>337</sup> While the bills

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<sup>334</sup> In enacting the DMCA, Congress also acknowledged the importance of voluntary agreements in addressing technological developments, conditioning ISP safe harbors on accommodating “standard technical measures” that have been “developed pursuant to a broad consensus of copyright owners and service providers in an open, fair, voluntary, multi-industry standards process.” 17 U.S.C. §§ 512(i)(1), (2). Congress recognized “technology is likely to be the solution to many of the issues facing copyright owners and service providers in this digital age” and “strongly urge[d] all of the affected parties expeditiously to commence voluntary, interindustry discussions to agree upon and implement the best technological solutions available to achieve these goals.” S. REP. 105-190, at 52. Although no measures have yet been identified under the DMCA provision, increasing stakeholder cooperation may lead to such a result.

A number of voluntary initiatives have already been developed, as described below. In July 2013, ICANN released a new agreement for domain name registries issuing generic top-level domains (gTLDs). Under the agreement, registries must require registrars to prohibit domain name holders from engaging in “piracy” and “trademark or copyright infringement” and to provide “consequences for such activities including suspension of the domain name.” See ICANN, New gTLD Registry Agreement, Specification 11.3.a (July 2, 2013) available at <http://newgtlds.icann.org/en/applicants/agb/agreement-approved-02jul13-en.pdf>. The IPEC has also stated the intent to encourage dialogue with domain name registrars and others to explore whether they might develop voluntary best practices to respond to piracy. See 2013 Joint Strategic Plan *supra* note 112 at 36.

<sup>335</sup> The primary focus of potential solutions is on foreign-based websites, which, as described above at 40, present the most significant challenges to existing enforcement tools. See Statement of Maria Pallante, Register of Copyrights before the Committee on the Judiciary (Nov. 16, 2011), available at <http://www.copyright.gov/docs/regstat111611.html>; see also MPAA, RIAA, & NMPA IPEC Submission *supra* note 289 at 13 (noting that websites dedicated to piracy “increasingly avoid any contacts with the U.S. but are nevertheless readily accessible to the U.S. market”).

<sup>336</sup> See *supra* pp. 51-52.

<sup>337</sup> Preventing Real Online Threats to Economic Creativity and Theft of Intellectual Property Act of 2011, (PROTECT IP Act), S. 968, 112th Cong. (2011). Stop Online Piracy Act (SOPA), H.R. 3261, 112th Cong. (2011).

differed in various respects, as initially introduced, both would have authorized the Attorney General to pursue an injunction directing ISPs that offer “last mile” Internet access services (as well as certain DNS server operators) to block access to and redirect users away from a foreign infringing site.<sup>338</sup> Specifically, the original versions of the bills contained provisions that would have required ISPs to respond to DNS queries by pointing users not to the requested websites but instead to an Attorney General notice.

While the bills were supported by many right holders, the website blocking provisions provoked strong opposition, with unprecedented online activism from individuals, companies, and civil society.<sup>339</sup> Some raised concerns that the DNS filtering provisions could engender threats to speech, security, and stability on the Internet, while leaving contraband goods and services accessible online.<sup>340</sup> The Administration shared some of these concerns, particularly with respect to the security implications of DNS redirection.<sup>341</sup> Although consideration was given to removing the provisions related to ISP injunctions while retaining the provisions on the “follow the money” approach (discussed below at 67-70)<sup>342</sup> ultimately both bills were withdrawn.<sup>343</sup>

Outside of the United States, some form of website blocking has been used as a tool against copyright infringement in a number of countries in recent years. In the EU, Article 8(3) of the Copyright Directive requires that Member States “ensure that

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<sup>338</sup> SOPA at § 102; PROTECT IP Act at § 3. One fundamental difference between the two bills was in how they defined the targeted websites. The PROTECT IP Act would have allowed for actions against websites “dedicated to infringing activities,” defined to cover sites with no significant use other than engaging in, enabling, or facilitating copyright infringement, circumvention of TPMs or RMI, or the sale, distribution, or promotion of counterfeit goods and services. SOPA’s private right of action would have been limited to actions against sites “dedicated to theft of U.S. property,” a more expansive category that would have permitted actions when the operator of the site “is taking, or has taken, deliberate actions to avoid confirming a high probability of the use of the U.S.-directed site to carry out” copyright infringement or circumvention of TPMs and RMI. SOPA at § 103(a)(1).

<sup>339</sup> The protests against the bills culminated on January 18, 2012, when a number of popular websites, including Wikipedia and Reddit, participated in a 24-hour blackout in which they shut down access to their sites. See Stephanie Condon, *SOPA, PIPA: What You Need to Know*, CBS NEWS, Jan. 18, 2012, available at [http://www.cbsnews.com/8301-503544\\_162-57360665-503544/sopa-pipa-what-you-need-to-know](http://www.cbsnews.com/8301-503544_162-57360665-503544/sopa-pipa-what-you-need-to-know).

<sup>340</sup> See, e.g., Jonathan Weisman, *In Fight Over Piracy Bills, New Economy Rises Against Old*, NY TIMES, Jan. 18, 2012; Mark Lemley, David S. Levine, & David G. Post, *Don’t Break the Internet*, 64 STAN. L. REV. ONLINE 34 (Dec. 19, 2011); Steve Crocker et al, *Security and Other Technical Concerns Raised by the DNS Filtering Requirements in the PROTECT IP Bill* (May 2011), available at <http://domainincite.com/docs/PROTECT-IP-Technical-Whitepaper-Final.pdf>.

<sup>341</sup> See Victoria Espinel, Aneesh Chopra, & Howard Schmidt, *Combating Online Piracy while Protecting an Open and Innovative Internet*, WhiteHouse.gov, <https://petitions.whitehouse.gov/response/combating-online-piracy-while-protecting-open-and-innovative-internet> (Jan. 14, 2012).

<sup>342</sup> See Comment of Senator Patrick Leahy on Internet Service Providers and the PROTECT IP Act (Jan. 12, 2012), available at <http://www.leahy.senate.gov/press/comment-of-senator-patrick-leahy-on-internet-service-providers-and-the-protect-ip-act>; Press Release, *Smith to Remove DNS Blocking from SOPA* (Jan. 20, 2012) available at <http://lamarsmith.house.gov/news/documentsingle.aspx?DocumentID=275770>.

<sup>343</sup> See Paul Kane, *SOPA, PIPA votes to be delayed in House and Senate*, THE WASHINGTON POST, Jan. 20, 2012, available at [http://www.washingtonpost.com/blogs/2chambers/post/sopa-senate-vote-to-be-delayed-reid-announces/2012/01/20/gIQAprWVDO\\_blog.html](http://www.washingtonpost.com/blogs/2chambers/post/sopa-senate-vote-to-be-delayed-reid-announces/2012/01/20/gIQAprWVDO_blog.html). Senator Ron Wyden introduced as an alternative approach the Online Protection and Enforcement of Digital Trade Act (OPEN Act), S. 2029, 112th Cong., giving new powers to the ITC to target online piracy. The OPEN Act did not make it out of Committee. See <http://www.govtrack.us/congress/bills/112/s2029>.

rightholders are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe a copyright or related right.”<sup>344</sup> The Directive does not specify any particular technique to be required by such an injunction. Courts in several Member States have applied their national legislation implementing this provision to issue orders requiring ISPs to block access to specific infringing websites, sometimes through DNS blocking, sometimes through IP blocking, and sometimes without specifying the method.<sup>345</sup> Blocking orders have also been issued in several non-EU countries.<sup>346</sup>

The Task Force reiterates the Administration’s view that “[w]hile . . . online piracy by foreign websites is a serious problem that requires a serious legislative response,” we “will not support legislation that reduces freedom of expression, increases cybersecurity risk, or undermines the dynamic, innovative global Internet.”<sup>347</sup> We believe that solutions must be found, legislative or otherwise, but the values of free speech and cybersecurity must not and need not be compromised. It is critical to ensure that these values are appropriately accommodated in any legislation, court order or voluntary action.

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<sup>344</sup> Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the Harmonization of Certain Aspects of Copyright and Related Rights in the Information Society, art. 8(3). See also Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on Certain Aspects of Information Society Services, in Particular Electronic Commerce, in the Internal Market (“Directive on Electronic Commerce”), at Recital 45; Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the Enforcement of Intellectual Property Rights, at art. 11 (“Member States shall also ensure that rightholders are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe an intellectual property right, without prejudice to Article 8(3) of Directive 2001/29/EC.”). In contrast to the DMCA, no finding of infringement by the service provider is necessary to obtain an injunction.

<sup>345</sup> See The Netherlands, *Stichting BREIN v. UPC Nederland B.V.*, Court of the Hague (Civil Division), Case No. 413085 / KG ZA 12-156 (May 10, 2012); U.K., *EMI Records Ltd. v. British Sky Broad. Ltd.* [2013] EWHC 379 (Ch) (Feb. 28, 2013); U.K., *Dramatico Entertainment Ltd. v. British Sky Broad. Ltd.* [2012] EWHC 1152 (Ch) (May 2, 2012); U.K., *Twentieth Century Fox Film Corp. v. British Telecommc’ns PLC*, [2011] EWHC 1981 (Ch.) (July 28, 2011); Belgium, *VZW Belgian Anti-Piracy Federation v. NV Telenet*, Hof van Beroep [Court of Appeal] Antwerpen, docket No. 2011/8314 (Sept. 26, 2011); Denmark, *Telener v IFPI Denmark*, Supreme Court of Denmark, case 153/2009, (May 27, 2010) (; Denmark, *IFPI Denmark v. Tele2 A/S*, Byret [City Court] Copenhagen, docket No. FI-15124/2006 (Oct. 25, 2006); Austria, *Constantin Film v UPC*, Commercial Court of Austria (May 13, 2011); Finland, *IFPI Finland v. Elisa Corp.*, docket No. H 11/20937, Helsinki District Court (Oct. 26, 2011); Germany, *Columbia Pictures Inds., Inc. v. CB3ROB Ltd.*, 310 O 154/10, Landgericht Hamburg, 10th Civil Chamber (May 6, 2010); Greece, *Ellinadiko.com & Music-Bazaar.com*, Athens Court of First Instance, Decision no. 4658/2012 (Nov. 7, 2011); Italy, *Pirate Bay*, Court of Cassation, Third Criminal Chamber, Docket No. 40884/08 (Sept. 29, 2009); Sweden, *Columbia Pictures Indus. Inc. v. Portlane AB*, Swedish Court of Appeal (May 4, 2010); see also Lukas Feiler, *Website Blocking Injunctions under EU and U.S. Copyright Law—Slow Death of the Global Internet or Emergence of the Rule of National Copyright Law?*, TRANSATLANTIC TECH. L. FORUM WORKING PAPERS No. 13 at 22-26 (2012), available at [http://www.law.stanford.edu/sites/default/files/publication/203758/doc/slspublic/feiler\\_wp13.pdf](http://www.law.stanford.edu/sites/default/files/publication/203758/doc/slspublic/feiler_wp13.pdf).

<sup>346</sup> India, *Sagarika Music Pvt. Ltd. v. Dishnet Wireless Ltd.*, GA No. 187, CS No. 23 (Jan. 27, 2012 & Feb. 6, 2012); Israel, *HttpShare.com*, CSCE 3485/08, 000167/07, Haifa District Court (Feb. 25, 2008); Turkey, *TorrentFreak, The Pirate Bay Blocked in Turkey*, <http://torrentfreak.com/the-pirate-bay-blocked-in-turkey> (Sept. 17, 2007).

<sup>347</sup> Victoria Espinel, Aneesh Chopra, & Howard Schmidt, *Combating Online Piracy while Protecting an Open and Innovative Internet*, WhiteHouse.gov, <https://petitions.whitehouse.gov/response/combating-online-piracy-while-protecting-open-and-innovative-internet> (Jan. 14, 2012).

## 2. Content Filtering

Another tool that could be effective in curbing online infringement is filtering. Filtering can be done in different ways by different types of services, primarily at either the network or website level.

ISPs can at least in theory filter at the network level by screening all incoming network traffic to look for unique identifying marks, which could be assigned to each piece of digital content, to determine whether transmissions are authorized.<sup>348</sup> As with website blocking, content filtering raises potential policy concerns related to privacy and free expression, primarily because of the possibility of the misidentification of non-infringing content and the difficulty in distinguishing between authorized and unauthorized uses.<sup>349</sup> Such filtering could also raise technical concerns caused by increased “latency” (or delay) in content delivery caused by the filtering system.<sup>350</sup> Any evaluation of these concerns will depend on the particular nature and implementation of the filtering technologies at issue.<sup>351</sup>

Although there have been no reported cases on network-level filtering in the U.S., the European Court of Justice has struck down as overbroad under E.U. law an order requiring a Belgian ISP to install a filtering system that would monitor all communications on its network to prevent the infringement of musical works (although the court implied that a more limited filtering order might be permissible).<sup>352</sup>

Content filtering for online websites and services has met with more success to date. The major voluntary initiative to date that incorporates filtering relates to online sites that host user-generated content (UGC).<sup>353</sup> The Principles for User Generated Content Services (the “Principles”), developed in 2007, were established by a group of private companies, including copyright owners and UGC services, in order “to foster an online environment that promotes the promises and benefits of UGC Services and protects

<sup>348</sup> See Envisional, *Global Site Block Landscape and Analysis* 26-29 (July 2012), available at [http://documents.envisional.com/docs/Envisional-Global\\_Site\\_Blocking\\_Landscape-July2012.pdf](http://documents.envisional.com/docs/Envisional-Global_Site_Blocking_Landscape-July2012.pdf); Bill Rosenblatt, *The New Technologies for Pay TV Content Security* 25 (Dec. 5, 2011), available at [http://irdeto.com/documents/New\\_Technologies\\_for\\_Pay\\_TV\\_Content\\_Security.pdf](http://irdeto.com/documents/New_Technologies_for_Pay_TV_Content_Security.pdf).

<sup>349</sup> See, e.g., Mehan Jayasuriya et al., *Forcing the Net Through a Sieve: Why Copyright Filtering is Not a Viable Solution for U.S. ISPs* 47-49 (2009), available at <http://www.publicknowledge.org/pdf/pk-filtering-whitepaper-200907.pdf>.

<sup>350</sup> *Id.* at 26-27.

<sup>351</sup> Filtering generally relies on one of two different technologies, watermarking or fingerprinting, and can in theory be done either at the website or network level. See Rosenblatt *supra* note 348 at 21-25.

<sup>352</sup> Case C-70/10, *Scarlet v. Sabam* [2011] at ¶¶ 47-53, 55 (rejecting the injunction because it had “no limitation in time, is directed at all future infringements and is intended to protect not only existing works, but also future works that have not yet been created at the time when the system is introduced” and would therefore “require that ISP to install a complicated, costly, permanent computer system at its own expense”).

<sup>353</sup> User-generated content (“UGC”) has been defined as “i) content made publicly available over the Internet, ii) which reflects a certain amount of creative effort, and iii) which is created outside of professional routines and practices.” Organisation for Economic Co-Operation and Development, *Participative Web: User-Created Content* 4 (2007). A large number of websites and internet services feature substantial volumes of UGC. *Id.* at 9.

the rights of Copyright Owners.”<sup>354</sup> Among other things, the Principles require UGC services to filter content actively and to ensure that their filtering technology is up-to-date.<sup>355</sup> Many companies with an online presence have adhered to the UGC principles since they were first adopted.<sup>356</sup>

There are also steps that individual companies can and do take to minimize infringement through their services. These can involve fingerprinting and other technologies for identifying copyrighted material, allowing it to be filtered or appropriately used under a license. Many websites employ voluntary filtering, including a number of services that are not signatories to the Principles. The most well-known is YouTube’s Content ID digital fingerprinting system, which allows right holders to submit metadata and reference files for content they own, which are compared to videos posted on YouTube.<sup>357</sup> Right holders can choose to monetize the infringing files, block them, or obtain statistics on their use.<sup>358</sup> Other companies offer services to fingerprint and identify copyrighted material or to “crawl” the web to find copyrighted content.<sup>359</sup>

One potential constraint on such voluntary action may be a concern that voluntary filtering could result in a finding of sufficient knowledge or control of infringing activity to place the service provider outside the DMCA safe harbors.<sup>360</sup> But as most filtering is accomplished through automated processes, the courts have rejected arguments that its implementation prevents safe harbor eligibility.<sup>361</sup> In fact, taking such action to curb infringement can help in avoiding a finding of secondary liability. For example, the Supreme Court in *Grokster* noted that the service’s failure to implement a copyright filter was evidence of its intent to induce infringement.<sup>362</sup> Filtering has also been imposed as a remedy in litigation against P2P services as well as sites that host or maintain pointers to infringing content. Courts in the United States

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<sup>354</sup> The Principles provide that copyright owners and UGC services should cooperate with regard to creating “content-rich, infringement-free services,” to which end they “should cooperate in the testing of new content identification technologies and should update these Principles as commercially reasonable, informed by advances in technology, the incorporation of new features, variations in patterns of infringing conduct, changes in users’ online activities and other appropriate circumstances.” Principles for User Generated Content Services, <http://www.ugcprinciples.com/>.

<sup>355</sup> *Id.*, at ¶ 3.

<sup>356</sup> See PR Newswire, YouKu joins broad coalition in support of UGC principles, <http://www.prnewswire.com/news-releases/youku-joins-broad-coalition-in-support-of-ugc-principles-117512623.html> (March 7, 2011).

<sup>357</sup> See YouTube, Content ID, <http://www.youtube.com/t/contentid>.

<sup>358</sup> *Id.* According to YouTube, Content ID accounts for over one-third of its total monetized views. YouTube – Statistics, <http://www.youtube.com/yt/press/statistics.html>.

<sup>359</sup> See, e.g., Audible Magic – About Audible Magic, <http://audiblemagic.com/company.php>.

<sup>360</sup> See 17 U.S.C. §§ 512(c)(1)(B), (d)(2).

<sup>361</sup> See *UMG Recordings, Inc. v. Veoh Networks, Inc.*, 665 F. Supp. 2d 1099, 1113 (C.D. Cal. 2009) *aff’d by UMG Recordings, Inc. v. Shelter Capital Partners LLC*, -- F.3d --, 2013 WL 1092793 (9th Cir. Mar. 14, 2013).

<sup>362</sup> *Grokster*, 545 U.S. at 939. See also *Lime Group*, 784 F. Supp. 2d at 429-31; *Usenet*, 633 F. Supp. 2d at 153. In the Australian case against P2P file-sharing service Kazaa, the court highlighted Kazaa’s failure to implement available filtering technology. *Universal Music Australia Pty Ltd v. Sharman License Holdings Ltd*, [2005] FCA 1242.

have issued injunctions requiring online services to filter out the content or pointers.

The Task Force encourages stakeholders to continue to work together to develop identification and filtering systems that are consistent with rights to due process and free expression. While filtering technology is already being deployed in a number of contexts, more can be done to improve its efficiency and accuracy. Considerable promise is offered by rapidly improving technologies for the identification of online content, which may permit more granular and tailored applications.

### 3. “Follow the Money” Approach

One different and promising approach against websites dedicated to piracy focuses on stemming the cash flow they need to survive.<sup>363</sup> Payment processors and ad networks in particular are major contributors to the ability of the sites to earn a profit.<sup>364</sup>

#### a) *Payment Processors*

Websites that profit from infringing material typically rely on payment processors to process their sales. Use of well-known payment processors provides such websites with an appearance of legitimacy, and consumers may be misled into thinking the site is lawful. These websites’ operations could be substantially disrupted if their relationships with payment processors were severed. Payment processors have taken steps to accomplish this result in the United States and elsewhere.

Banks and payment processors have voluntarily initiated programs under which they crawl the internet for certain violations of their rules; this now includes intellectual property rights violations.<sup>365</sup> In addition, in June 2011, a group of leading payment processors in the United States finalized a set of best practices to investigate complaints and stop processing transactions for sites that distribute counterfeit and pirated goods. Under these best practices, reached with the support of the

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<sup>363</sup> This approach was included in both SOPA and the PROTECT IP Act, and received significantly less opposition than the controversial provisions on website blocking. Both bills would have allowed the Attorney General and right holders to obtain orders requiring payment processors and advertisers to cease doing business with websites dedicated to piracy. See SOPA at §§ 102(c)(2)(C)-(D) & 103(b)(1)-(2); PROTECT IP Act at §§ 3(d)(2)(B)-(C) & 4(d)(2)(A)-(B).

<sup>364</sup> See PRS for Music & Google *The six business models for copyright infringement* (June 27, 2012), available at <http://www.prsformusic.com/aboutus/policyandresearch/researchandconomics/Documents/TheSixBusinessModelsofCopyrightInfringement.pdf> (concluding that many infringing websites rely on advertising and prominently display the logos of major payment processors); Rory Cellan-Jones, *The business and politics of piracy*, BBC News (July 2, 2012), available at <http://www.bbc.co.uk/news/technology-18670734>.

<sup>365</sup> For example, Visa has implemented a policy whereby any transaction entered into the Visa system must be legal in both the Cardholder’s jurisdiction and the Merchant Outlet’s jurisdiction. Mastercard has implemented a program to endeavor to prevent signing merchants who have a history of illicit behavior. The program, called MATCH, helps assess risk prior to a member signing a merchant. See [http://www.mastercard.com/ca/company/en/security\\_risk.html](http://www.mastercard.com/ca/company/en/security_risk.html). In the areas of online gambling and online child pornography, mechanisms have been set up, through legislation and public-private partnerships, to ensure that users understand that the activity they are engaging in is unlawful, and are deprived of a convenient way to pay for their illicit activities. See, e.g., The Unlawful Internet Gambling Enforcement Act, 31 U.S.C. § 5363.

Administration,<sup>366</sup> the payment processors have created a mechanism easing the way for right holders to bring infringement complaints. They will state on their websites that their services will not be provided to companies that sell infringing products, and they will conduct an investigation and determine what action is appropriate when sent a request via email.<sup>367</sup>

A public/private initiative on this issue has led to meaningful results in the UK. The International Federation of the Phonographic Industry (IFPI) has partnered with MasterCard, Visa, PayPal, a leading prepaid card service, the UK phone payment service regulator, and the City of London Police in a program designed to curb online music piracy.<sup>368</sup> As of December 2011, 24 music services had lost their payment processing and an additional 38 websites were under investigation.<sup>369</sup>

### **b) Online Advertisers**

Many websites that sell or provide access to pirated content profit from advertisers paying for banner ads. They also may appear legitimate to consumers because the advertisements are from reputable businesses.<sup>370</sup> Denying infringing websites access to lucrative advertising has the potential to starve them of funds and substantially curtail

<sup>366</sup> 2011 U.S. Intellectual Property Enforcement Coordinator Annual Report on Intellectual Property at 33 (Mar. 2012), available at [http://www.whitehouse.gov/sites/default/files/omb/IPEC/ipec\\_annual\\_report\\_mar2012.pdf](http://www.whitehouse.gov/sites/default/files/omb/IPEC/ipec_annual_report_mar2012.pdf). Payment processors had begun work in a similar vein in 2009 to address the problem of sales of counterfeit goods online. See INTA, *Addressing the Sale of Counterfeits on the Internet*, available at <http://www.inta.org/Advocacy/Documents/INTA%20Best%20Practices%20for%20Addressing%20the%20Sale%20of%20Counterfeits%20on%20the%20Internet.pdf>.

<sup>367</sup> See Visa Corporate, *Intellectual Property Rights*, available at [http://corporate.visa.com/about-visa/security-and-trust/intellectual-property-rights.shtml?ep=v\\_sym\\_ReportBrandAbuse](http://corporate.visa.com/about-visa/security-and-trust/intellectual-property-rights.shtml?ep=v_sym_ReportBrandAbuse); MasterCard Anti-Piracy Policy, available at [http://www.mastercard.com/us/wce/PDF/MasterCard\\_Anti-Piracy\\_Policy.pdf](http://www.mastercard.com/us/wce/PDF/MasterCard_Anti-Piracy_Policy.pdf).

<sup>368</sup> In the UK, payment processors face potential liability under the Proceeds of Crime Act if they have been notified of a website's illegal activity and continue to provide payment processing services. See PhonpayPlus, *Provision of illegal music downloads using premium rate service billing*, <http://www.phonpayplus.org.uk/For-Business/Code-and-Help/Code-Compliance-Updates/Provision-of-illegal-music-downloads-using-premium-rate-service-billing.aspx>. See IFPI, *PayPal works with police and industry to tackle copyright infringing websites* (July 21 2011), [http://www.ifpi.com//content/section\\_news/20110721.html](http://www.ifpi.com//content/section_news/20110721.html). Best practices have also been developed to help identify infringing websites prior to notification from right holders. See also IFPI, *Recording industry welcomes support by payment providers to tackle illegal online sale of unlicensed music* (Mar. 2, 2011), [http://www.ifpi.com//content/section\\_news/20110302.html](http://www.ifpi.com//content/section_news/20110302.html); IFPI, *PhonpayPlus works with premium rate industry to combat infringing websites* (Nov. 2, 2011), [http://www.ifpi.org/content/section\\_news/20111102.html](http://www.ifpi.org/content/section_news/20111102.html); IFPI, *Paysafecard works with police and industry to tackle pirate music websites* (Dec. 14, 2011), [http://www.ifpi.com/content/section\\_news/20111214.html](http://www.ifpi.com/content/section_news/20111214.html).

<sup>369</sup> See IFPI, *PhonpayPlus works with premium rate industry to combat infringing websites* (Nov. 2, 2011), [http://www.ifpi.org/content/section\\_news/20111102.html](http://www.ifpi.org/content/section_news/20111102.html).

<sup>370</sup> Another type of advertising that can confuse consumers into thinking websites dedicated to piracy are legitimate is "sponsored links"; links to websites that are displayed as a secondary result when a user searches keywords in a search engine. The links that are directly responsive to the user's search are considered "organic." The sponsored links are generally displayed to the user because the owner of the website has purchased one or more of the keywords used by the searcher so that its link will be displayed when that keyword is used. Sponsored links may lead to both legitimate websites and websites distributing primarily pirated material. Right holders have been responding to concerns about sponsored links to pirated material primarily through trademark law. See, e.g., *Rosetta Stone Ltd. v. Google, Inc.*, 676 F.3d 144 (4th Cir. 2012).

infringement.

Several private initiatives have been launched that should further this goal.<sup>371</sup> In 2010, the Interactive Advertising Bureau (IAB) created the Networks & Exchanges Quality Assurance Guidelines to standardize the information that advertising networks and exchanges provide to potential advertisers.<sup>372</sup> To be certified according to the Guidelines, networks and exchanges must inventory sites with content that is prohibited from sale, including infringing material.<sup>373</sup> The certification program will help legitimate advertisers limit the placement of their online ads to legitimate websites.

These Guidelines were followed by a Statement of Best Practices to Address Online Piracy and Counterfeiting issued by the Association of National Advertisers (ANA) and the American Association of Advertising Agencies (4A's) in May 2012, which was supported by the Administration.<sup>374</sup> The Statement advises marketers to include language in their media placement contracts and insertion orders to prevent ads from appearing on sites dedicated to infringement.

In July 2013, the Administration announced that a number of leading ad networks, with the support of the IAB and the Administration, had developed a set of voluntary best practices designed to cut off advertising revenue for websites dedicated to piracy.<sup>375</sup> The signatories agree to be certified under the IAB's Networks & Exchanges Quality Assurance Guidelines or otherwise maintain an independent vetting and auditing process and to accept and process notices from right holders alleging infringement by websites that participate in the ad network.<sup>376</sup>

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<sup>371</sup> A recent report by USC's Annenberg Innovation Lab highlights the powerful incentives, including brand protection, that are motivating advertisers to examine their role in online infringement. See Dawn C. Chmielewski, *Report Links Google, Yahoo to Internet Piracy Sites*, L.A. TIMES, Jan. 2, 2013, available at <http://articles.latimes.com/2013/jan/02/entertainment/la-et-ct-piracy-ads-20130102>. A follow-up reported that a number of prominent ad networks had "significantly reduced the number of infringing sites they are placing ads on." *USC Annenberg Lab Ad Transparency Report* (Feb. 14, 2013), available at [http://www.annenberglab.com/sites/default/files/uploads/USCAnnenbergLab\\_AdReport\\_Feb2013.pdf](http://www.annenberglab.com/sites/default/files/uploads/USCAnnenbergLab_AdReport_Feb2013.pdf); see also *USC Annenberg Lab Ad Transparency Report* (Mar. 29, 2013), available at [http://www.annenberglab.com/sites/default/files/uploads/USCAnnenbergLab\\_AdReport\\_Mar2013.pdf](http://www.annenberglab.com/sites/default/files/uploads/USCAnnenbergLab_AdReport_Mar2013.pdf); *USC Annenberg Lab Ad Transparency Report* (May 8, 2013), available at [http://www.annenberglab.com/sites/default/files/uploads/USCAnnenbergLab\\_AdReport\\_Apr2013.pdf](http://www.annenberglab.com/sites/default/files/uploads/USCAnnenbergLab_AdReport_Apr2013.pdf).

<sup>372</sup> IAB, Comments in Response to the USPTO & NTIA NOI on Copyright Policy, Creativity, and Innovation in the Internet Economy, at 2 (Dec. 10, 2010); IAB, *IAB Releases "Networks & Exchanges Quality Assurance Guidelines"* (June 24, 2010), available at [http://www.iab.net/about\\_the\\_iab/recent\\_press\\_releases/press\\_release\\_archive/press\\_release/pr-062410](http://www.iab.net/about_the_iab/recent_press_releases/press_release_archive/press_release/pr-062410).

<sup>373</sup> IAB Comments at 4.

<sup>374</sup> ANA, *Industry Groups Urge Marketers to Take Affirmative Steps to Address Online Piracy and Counterfeiting* (May 3, 2012), available at <http://www.ana.net/content/show/id/23407>; see also ANA, *Statement of Best Practices to Address Online Piracy and Counterfeiting*, <http://www.ana.net/content/show/id/23417>; 2013 Joint Strategic Plan *supra* note 112 at 36.

<sup>375</sup> See Victoria Espinel, *Coming Together to Combat Online Piracy and Counterfeiting*, WhiteHouse.gov, <http://www.whitehouse.gov/blog/2013/07/15/coming-together-combat-online-piracy-and-counterfeiting> (July 15, 2013).

<sup>376</sup> See Dave Jacobs, *Ad Networks Best Practices*, AOL Blog, <http://blog.aol.com/2013/07/15/ad-networks-best-practices> (July 15, 2013).

Steps have also been taken by individual entities. In June 2011, the largest worldwide digital advertising spender, GroupM, announced the creation of a list of 2,000 websites hosting illegal or pirated content, which it will not use for advertising for its clients.<sup>377</sup> According to one report, the list of banned websites has allowed GroupM to stop an estimated \$5 million of spending on those sites.<sup>378</sup> Other efforts are underway to develop helpful tools to assist advertisers in avoiding transactions with websites dedicated to piracy, such as a methodology for ranking websites based on infringement-related risk factors.<sup>379</sup>

Discussions also continue in the advertising industry about other approaches to the piracy problem, including improved access to information about infringing sites.<sup>380</sup> The Administration will continue to work to facilitate additional best practices that will help reduce the profitability of online infringement.<sup>381</sup>

#### 4. Search Engines

Search engines can also play a role in stemming the proliferation of online infringement, by taking steps that make it less efficient to operate a profitable business. According to surveys, a significant amount of Internet traffic to websites is driven by the first page of search results,<sup>382</sup> and the top results provided by large search engines often include many sites offering unauthorized copyrighted content.<sup>383</sup>

Technologies are being designed that can avoid unintentional infringement by consumers who simply click on the top links in their search, without deliberately seeking illegal content. For example, Google now excludes certain queries related to

<sup>377</sup> GroupM, *GroupM Adopts Aggressive New Anti-Piracy Policy for Digital Media Buys*, June 8, 2011, available at <http://www.groupm.com/pressandnews/details/652>; see also Katy Bachman, *Can GroupM Really Take a Bite Out of Crime?*, ADWEEK (June 9, 2011), available at <http://www.adweek.com/news/technology/can-groupm-really-take-bite-out-crime-132370>.

<sup>378</sup> Katy Bachman, *Ad Biz Takes Aim at Rogue Sites*, ADWEEK (May 15, 2012), available at <http://www.adweek.com/news/press/ad-biz-takes-aim-rogue-sites-140528>.

<sup>379</sup> See whiteBULLET <http://www.white-bullet.com/>.

<sup>380</sup> Bachman *supra* note 378.

<sup>381</sup> See Testimony of Victoria A. Espinel, IPEC, Office of Management and Budget, before the U.S. Senate Committee on the Judiciary 12 (May 9, 2012), available at <http://www.judiciary.senate.gov/pdf/12-5-9EspinelTestimony.pdf>; see also 2013 Joint Strategic Plan *supra* note 112 at 36-37.

<sup>382</sup> See Collin Cornwell, *The Importance of Page-One Visibility* (2010), available at <http://www.icrossing.com/sites/default/files/page-one-visibility.pdf> (finding that over 95% of site traffic arising from search engines derives from the first page of search results); Danny Goodwin, *Top Google Result Gets 36.4% of Clicks*, Search Engine Watch, <http://searchenginewatch.com/article/2049695/Top-Google-Result-Gets-36.4-of-Clicks-Study> (Apr. 21, 2011) (reporting results of studies finding that the top search results receive the most clicks).

<sup>383</sup> According to research done in England in 2010, 23% of consumers regularly download music illegally using a search engine as their means to find the content. Harris Interactive (Sept. 2010). Research in New Zealand highlights that 54% of users who illegally downloaded music said they found the unauthorized music through a standard search engine. Ipsos MediaCT (Oct. 2011). The International Federation of the Phonographic Industry (IFPI) found that searches for the top five artists in November 2011's Billboard Top 100 chart plus the term "mp3" (the dominant file format for digital music) resulted in the vast majority of results on the first page, on average more than 70%, constituting infringing sites. IFPI, *Digital Music Report 2012*, at 24, available at <http://www.ifpi.org/content/library/DMR2012.pdf>.

copyright infringement from its Autocomplete function, which uses algorithms to suggest complete search terms as soon as a user starts typing.<sup>384</sup> This policy has resulted in the exclusion of notorious infringing services like The Pirate Bay from Autocomplete results.<sup>385</sup> Search engines can also promote and/or demote certain listings within their search results. Google, for example, has begun to incorporate the number of valid DMCA takedown notices directed at a website in its search algorithm, essentially demoting repeat bad actors to lower positions in the results.<sup>386</sup> It remains to be seen whether this approach will be effective.<sup>387</sup>

Another possibility is eliminating direct links from search results while still leaving information about the site visible, a process known as “delinking.” This can limit unintentional consumer infringement by requiring the affirmative step of entering an address manually, rather than by a simple click of the mouse.

In the United Kingdom, a private sector group has proposed a voluntary code of practice for search engines that includes a number of these approaches, including the demotion of infringing sites in search engine rankings and boosting links to sites with legitimate content.<sup>388</sup> The UK government has chaired these discussions between right holders, internet companies and other stakeholders.<sup>389</sup>

## 5. Graduated Response

One approach to curbing infringement that has gained ground internationally in recent years has been “graduated response.”<sup>390</sup> This approach addresses infringing uses that cannot be reached through notice and takedown, as they do not involve content hosted by an ISP. It is designed to reach individual users of unauthorized P2P file-sharing and other decentralized services, in a less punitive, more scalable and educational way than bringing lawsuits.

<sup>384</sup> See Google, *Inside Search: Autocomplete*, <http://support.google.com/websearch/bin/answer.py?hl=en&answer=106230> (explaining without elaboration that Google excludes “a narrow class of search queries related to pornography, violence, hate speech, and copyright infringement”).

<sup>385</sup> See Dara Kerr, *Google Wipes Pirate Bay from Autocomplete Searches*, CNET, [http://news.cnet.com/8301-1023\\_3-57510052-93/google-wipes-pirate-bay-from-autocomplete-searches](http://news.cnet.com/8301-1023_3-57510052-93/google-wipes-pirate-bay-from-autocomplete-searches) (Sept. 10, 2012); Jennifer Martinez, *Google Blocks File-Sharing Terms*, Politico, <http://www.politico.com/news/stories/0111/48292.html> (Jan. 27, 2011).

<sup>386</sup> See Google Inside Search, *An Update to Our Search Algorithms*, <http://insidesearch.blogspot.com/2012/08/an-update-to-our-search-algorithms.html> (Aug. 10, 2012).

<sup>387</sup> One recent study by the recording industry has been skeptical. See RIAA, *Google's Move to Demote Pirate Sites - Is it Really Working?*, [http://riaa.com/blog.php?content\\_selector=riaa-news-blog&content\\_selector=riaa-news-blog&blog\\_selector=Googles-Move-&news\\_month\\_filter=2&news\\_year\\_filter=2013](http://riaa.com/blog.php?content_selector=riaa-news-blog&content_selector=riaa-news-blog&blog_selector=Googles-Move-&news_month_filter=2&news_year_filter=2013) (Feb. 21, 2013).

<sup>388</sup> See Josh Halliday, *Google and Bing Accused of Directing Users to Illegal Copies of Music*, THE GUARDIAN, Jan. 26, 2012, available at <http://www.guardian.co.uk/technology/2012/jan/26/google-bing-illegal-music>.

<sup>389</sup> *Id.*

<sup>390</sup> Early versions of this approach were sometimes referred to as a “three-strikes” system, based on the fact that they would impose a penalty of termination of a user’s account after three warnings. As the approach has evolved, this terminology has become inapt, as different versions require different numbers of warnings and the penalties involved are generally less draconian. See, e.g., Peter K. Yu, *The Graduated Response*, 62 FLA. L. REV. 1373, 1379-80 (2010).

While graduated response systems vary, they share the following common attributes: Right holders participate in public peer-to-peer networks to find Internet Protocol (IP) addresses that are being used to share their works without authorization. They then provide the addresses and information regarding the date and time of the infringement to the appropriate ISP. The ISP notifies the subscriber responsible for the account associated with that IP address that the account has been identified as engaging in infringing conduct. These initial notifications generally convey educational messages that provide the subscriber with information about how to secure her account and where to find legitimate services. If the same account is identified again, the warnings are escalated (or “graduated”). After a certain number of warnings, if the subscriber persists in ignoring them, there will normally be consequences of some sort to deter further infringement.

In the United States, the existing DMCA obligation to terminate accounts of repeat infringers<sup>391</sup> has been supplemented by a voluntary Copyright Alert System spelling out a process for handling repeat infringement short of termination.<sup>392</sup> In July 2011 a group of content owner representatives and major Internet service providers entered into an agreement aimed at addressing infringement taking place over P2P file-sharing networks.<sup>393</sup> The agreement created a common framework and best practices for alerting and educating subscribers about copyright infringement and taking measures to deter those who ignore repeated alerts.<sup>394</sup> The Copyright Alert System is being implemented by the Center for Copyright Information (CCI), and began operating in February 2013.<sup>395</sup> The Administration has encouraged this type of private agreement and supported this initiative.<sup>396</sup>

Some U.S. universities have also adopted an internal graduated response program to comply with the U.S. Higher Education Opportunity Act (HEOA) of 2008, which requires them as a condition of federal funding to develop copyright enforcement plans that

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<sup>391</sup> 17 U.S.C. § 512(i)(1)(A). See above at 59-61.

<sup>392</sup> There is some evidence that service providers are voluntarily becoming more active in identifying and removing infringing content because it is in their interest to do so. See, e.g., Annemarie Bridy, *Graduated Response and the Turn to Private Ordering in Online Copyright Enforcement*, 89 OR. L. REV. 81 (2010); Jeremy F. DeBeer & Christopher D. Clemmer, *Global Trends in Online Copyright Enforcement: A Non-Neutral Role for Network Intermediaries?*, 49 JURIMETRICS (Oct. 2009).

<sup>393</sup> See RIAA, *Music, Movie, TV and Broadband Leaders Team to Curb Online Content Theft* (July 7, 2011), available at [http://www.riaa.com/newsitem.php?content\\_selector=newsandviews&news\\_month\\_filter=7&news\\_year\\_filter=2011&id=2DDC3887-A4D5-8D41-649D-6E4F7C5225A5](http://www.riaa.com/newsitem.php?content_selector=newsandviews&news_month_filter=7&news_year_filter=2011&id=2DDC3887-A4D5-8D41-649D-6E4F7C5225A5).

<sup>394</sup> See CCI, Memorandum of Understanding, Copyright Alert System, at § 4 (July 6, 2011), available at <http://www.copyrightinformation.org/wp-content/uploads/2013/02/Memorandum-of-Understanding.pdf>; see also CCI, *Copyright Alert System FAQs*, <http://www.copyrightinformation.org/resources-faq/copyright-alert-system-faqs>. The Copyright Alert System has three components—notice to the ISP, a series of escalating alerts to the subscriber, and the imposition of a range of possible mitigation measures within the discretion of the ISPs.

<sup>395</sup> CCI, *Copyright Alert System Set to Begin*, <http://www.copyrightinformation.org/uncategorized/copyright-alert-system-set-to-begin/>. The CCI’s mission also includes educating the public about the laws governing the online distribution of copyrighted works and collecting and disseminating data regarding online infringement and the lawful means available to obtain copyrighted works. MOU, *supra* note 394, § 1 & Attachments A, B and D.

<sup>396</sup> Victoria Espinel, *Working Together to Stop Internet Piracy*, WhiteHouse.gov, <http://www.whitehouse.gov/blog/2011/07/07/working-together-stop-internet-piracy> (July 7, 2011).

include technology-based deterrents to infringement.<sup>397</sup> This can be a valuable educational tool to encourage college students to engage in legal consumption of copyright works online, and best practices have been developed to assist institutions in implementing their plans.<sup>398</sup>

Several governments, including those of France,<sup>399</sup> the United Kingdom,<sup>400</sup> New Zealand,<sup>401</sup> Taiwan,<sup>402</sup> and South Korea,<sup>403</sup> have incorporated some form of graduated response into their domestic laws. The process and elements vary from country to country, and the ultimate sanctions can include temporary suspension of the account, capping of bandwidth, monetary fines, or disclosure of information sufficient to allow the filing of a lawsuit.<sup>404</sup> A private graduated response program has also been adopted in Ireland, based on settlement of a lawsuit between Ireland's largest ISP and the Irish Recorded Music Association.<sup>405</sup>

<sup>397</sup> The HEOA conditions participation in federal financial aid programs on certification that the participating institution has developed plans to effectively combat the unauthorized distribution of copyrighted material, including through the use of a variety of technology-based deterrents. 20 U.S.C. § 1094(a)(29)(A).

<sup>398</sup> See, e.g., Educause, *HEOA Role Models*, <http://www.educause.edu/focus-areas-and-initiatives/policy-and-security/educause-policy/issues-and-positions/intellectual-property/heoa-role-models>. Schools appear to be employing these educational and deterrent systems. See TorrentFreak, *University of Illinois Disconnects Pirating Students, Staffer Asked to Leave*, <http://torrentfreak.com/university-of-illinois-disconnects-pirating-students-staffer-asked-to-leave-130129> (Jan. 29, 2013).

<sup>399</sup> France's graduated response system, overseen by the High Authority for the Distribution of Works and the Protection of Rights on the Internet (HADOPI), was the first. Loi n° 2009-1311 du 28 octobre 2009 [Law No 2009-1311 of 28 October 2009] (France) JO, 29 October 2009, 18290 art 7, amending Code de la Propriété Intellectuelle [Code of Intellectual Property] (France) art L335-7. HADOPI processes complaints of copyright infringement, sends warnings to accused infringers, and after the third warning may refer the case to a court for judicial review. The ultimate sanctions to be applied by the court originally included temporary suspension of the specific account used to infringe, but in July 2013 that sanction was eliminated, leaving in place the possibility of fines. See Rhonda Richford, *France Drops Key Part of Controversial Anti-Piracy Law*, HOLLYWOOD REP., July 9, 2013, available at <http://www.hollywoodreporter.com/news/france-drops-key-part-controversial-582266>.

<sup>400</sup> Digital Economy Act 2010 (UK) c 24.

<sup>401</sup> Copyright (Infringing File Sharing) Amendment Act 2011 (NZ).

<sup>402</sup> Copyright Act of Taiwan, art. 90quinquies.

<sup>403</sup> Korean Copyright Act art. 133bis, 133ter.

<sup>404</sup> In New Zealand, sanctions may include monetary damages up to \$10,000 or eventually account termination. Copyright (Infringing File Sharing) Amendment Act 2011 at 122O, 122R (NZ); see also James & Wells, *Controversial Copyright (Infringing File Sharing) Amendment Bill Passed into Law*, [http://www.jaws.co.nz/media-centre/2011/4/14/controversial-copyright-\(infringing-file-sharing\)-amendment-bill-passed-into-law.aspx](http://www.jaws.co.nz/media-centre/2011/4/14/controversial-copyright-(infringing-file-sharing)-amendment-bill-passed-into-law.aspx) (Apr. 14, 2011). In the U.K., the most recent proposed code would allow a right holder to seek a court order to learn information about the subscriber sufficient to pursue a direct infringement suit following the third notification to a subscriber in one year. See Ofcom, *Online Infringement of Copyright and the Digital Economy Act 2010: Notice of Ofcom's Proposal to Make by Order a Code for Regulating the Initial Obligations* (June 26, 2012), available at <http://stakeholders.ofcom.org.uk/binaries/consultations/online-notice/summary/notice.pdf>. And in South Korea, ISPs can be ordered to suspend accounts. Korean Copyright Act arts. 133bis, 133ter.

<sup>405</sup> As with the Copyright Alert System launching in the United States, the Irish graduated response system is overseen by private parties. Under this system, a subscriber's account can be suspended for 7 days after a third notice and for up to a year if infringement continues. Eircom, *eircom Statement on Illegal File Sharing*, [http://pressroom.eircom.net/press\\_releases/article/eircom\\_Statement\\_on\\_Illegal\\_File\\_Sharing/](http://pressroom.eircom.net/press_releases/article/eircom_Statement_on_Illegal_File_Sharing/).

Graduated response systems may be preferable to existing legal remedies in a number of respects. They provide useful information and offer an opportunity for infringers to reform without suffering any consequences, and they safeguard the subscriber's identity from the copyright owner's scrutiny. If they work well, they should serve as educational campaigns, deterring infringement and avoiding the need to apply penalties. They are not, however, without their critics. Chief among the concerns expressed are ensuring adequate due process, the potential for overbroad coverage, and the proportionality of the sanctions.<sup>406</sup> The Task Force believes that all of these concerns should be appropriately accommodated in any graduated response system.<sup>407</sup> If this is done, when combined with other approaches aimed at illegal sites and services, graduated response can make a meaningful contribution to moving consumers to legal options. We note that there are already initial indications of a positive impact in countries that have implemented this approach.<sup>408</sup>

The Task Force is encouraged by the progress that has been made through the cooperative efforts of right holders, ISPs, payment processors, ad networks and search engines to develop the voluntary initiatives discussed in this section. We encourage interested stakeholders to continue identifying and developing voluntary solutions that benefit all parties and that are consistent with the principles of privacy, free speech, competition, and due process. The Task Force will provide assistance to the IPEC as needed to help foster further developments in this area. Moreover, as requested in the IPEC 2013 Joint Strategic Plan, the USPTO will institute studies, based on public input and with the assistance of other relevant agencies, examining the effectiveness of voluntary initiatives in curtailing online infringement.<sup>409</sup>

#### D. Public Education and Outreach

One important component of efforts to curb online infringement is increased public

<sup>406</sup> See, e.g., Annemarie Bridy, *Graduated Response American Style: "Six Strikes" Measured Against Five Norms*, 23 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 1 (2012).

<sup>407</sup> See Victoria Espinel, *Working Together to Stop Internet Piracy*, WhiteHouse.gov, <http://www.whitehouse.gov/blog/2011/07/07/working-together-stop-internet-piracy> (July 7, 2011). The Copyright Alert System in the United States, for example, provides opportunities for appeal and arbitration, addresses only residential accounts (and not, for example, Internet cafes), and permits a range of moderate responses within the discretion of each individual ISP. See CCI, *What is a Copyright Alert?*, <http://www.copyrightinformation.org/the-copyright-alert-system/what-is-a-copyright-alert>.

<sup>408</sup> See Rhonda Richford, *France Examines Even Tougher Anti-Piracy Laws*, BILLBOARD, Feb. 28, 2013, available at <http://www.billboard.com/biz/articles/news/branding/1550425/france-examines-even-tougher-anti-piracy-laws>; Hadopi, *Hadopi, 1 ½ Year After the Launch* (March 2012), available at <http://hadopi.fr/sites/default/files/page/pdf/note17EN.pdf>; Brett Danaher, Michael D. Smith, Rahul Telang, & Siwen Chen, *The Effect of Graduated Response Anti-Piracy Laws on Music Sales: Evidence from an Event Study in France* (Jan. 21, 2012), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1989240](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1989240); Mark Tighe, *Eircom Cut Off 100 Illegal Downloaders*, THE SUNDAY TIMES (London), Mar. 6, 2012, available at <http://www.thesundaytimes.co.uk/sto/news/ireland/article988221.ece>; *Three Strikes Rule has 'Halved Piracy' in New Zealand*, BBC NEWS, July 23, 2012, available at <http://www.bbc.co.uk/news/technology-18953353>.

<sup>409</sup> See U.S. Patent and Trademark Office, *Request of the United States Patent and Trademark Office for Public Comments: Voluntary Best Practices Study* 78 Fed. Reg. 37210 (June 20, 2013); U.S. Patent and Trademark Office, *Extension of Comment Period for Request of the United States Patent and Trademark Office for Public Comments: Voluntary Best Practices Study* 78 Fed. Reg. 42758 (July 17, 2013).

education and outreach, both domestically and internationally. Such educational efforts should be balanced to include information about both rights and exceptions. Many right holder organizations, user groups and other stakeholders have developed educational materials for parents and teachers regarding the value of copyright and to help educate young people about how to legally access content online and use copyrighted materials.<sup>410</sup> Right holders have engaged in public awareness campaigns, with public service announcements about the impact of copyright infringement.<sup>411</sup> Nonprofit and educational organizations too are increasingly focusing on copyright education, including the benefits of fair use, working with a variety of audiences.<sup>412</sup>

The U.S. Government has also been active in providing public education in the digital space, including on copyright issues. In addition to HEOA (discussed above at 72-73) this includes a number of initiatives by the U.S. Copyright Office and the USPTO's Global Intellectual Property Academy (GIPA).<sup>413</sup> And enforcement actions themselves can serve to raise public awareness of the line between legal and illegal Internet uses, and the risks associated with infringing sites.

Finally, another promising tool for raising awareness is the identification for consumers of websites that offer legal content, extrapolating from existing certification programs that verify the legitimacy of media manufacturing plants.<sup>414</sup> One example of such a program is the UK-based Music Matters, which provides a “trustmark” to inform consumers that the marked websites are licensed.<sup>415</sup> Similar programs exist in France and Japan.<sup>416</sup> This information can help consumers identify

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<sup>410</sup> See, e.g., RIAA, *Programs for Educators*, [http://www.riaa.com/toolsforparents.php?content\\_selector=resources-programs-for-educators](http://www.riaa.com/toolsforparents.php?content_selector=resources-programs-for-educators); Campus Downloading <http://www.campusdownloading.com/index.htm>; Childnet Int'l, *Music, Film, TV and the Internet*, available at [http://www.childnet.com/ufiles/downloads\\_uk\\_edition.pdf](http://www.childnet.com/ufiles/downloads_uk_edition.pdf); Copyright Alliance Education Foundation, [https://copyrightalliance.org/education\\_foundation](https://copyrightalliance.org/education_foundation); Copyright Society of the U.S.A., *Copyright Kids*, <http://copyrightkids.org>; Electronic Frontier Foundation, *Teaching Copyright*, <http://www.teachingcopyright.org>; Copyright Clearance Center, *Education*, <http://www.copyright.com/content/cc3/en/toolbar/education.html>; Association of Research Libraries, *Know Your Copy Rights*, <http://www.knowyourcopyrights.org>.

<sup>411</sup> See, e.g., MPAA, Public Awareness Campaigns, <http://www.mpaa.org/contentprotection/public-service-announcements>.

<sup>412</sup> See, e.g., Stanford University Libraries, *Copyright and Fair Use*, <http://fairuse.stanford.edu>; Cornell University Copyright Information Center, <http://copyright.cornell.edu/training>; Harvard University Berkman Center for Internet and Society & Electronic Information for Libraries, *Copyright for Librarians*, [http://cyber.law.harvard.edu/copyrightforlibrarians/Main\\_Page](http://cyber.law.harvard.edu/copyrightforlibrarians/Main_Page); Massachusetts Institute of Technology OpenCourseWare, *Introduction to Copyright Law*, <http://ocw.mit.edu/courses/electrical-engineering-and-computer-science/6-912-introduction-to-copyright-law-january-iap-2006/index.htm>; University of Texas Libraries, *Copyright Crash Course*, <http://copyright.lib.utexas.edu>.

<sup>413</sup> See, e.g., USPTO Global Intellectual Property Academy, <http://www.uspto.gov/ip/training/index.jsp>; U.S. Copyright Office, *Taking the Mystery Out Of Copyright*, <http://www.loc.gov/teachers/copyrightmystery/#>.

<sup>414</sup> The Content Delivery and Security Association (CDSA), for example, established the first Anti-Piracy Certification and Compliance Program for the manufacture of optical media (CDs, DVDs, and CD-ROMS), analog media (tape and vinyl), and virtually every recording media format. See CDSA, *Copyright and Licensing*, <http://www.cdsonline.org/copyright-and-licensing-verification-program>.

<sup>415</sup> See Music Matters, <http://www.whymusicmatters.org>. IFPI maintains a central website that allows consumers around the world to locate licensed, legal music services in their countries. See Pro Music, <http://www.pro-music.org/legal-music-services.php>.

<sup>416</sup> See Hadopi Pur, [www.pur.fr](http://www.pur.fr); RIAJ, <http://www.riaj.or.jp/lmark/index.html>.

the wide variety of legal services available online. It can also be used by advertisers to make placement decisions or by search engines to raise a website's status in search results.

#### E. Conclusion and Next Steps

- **There are a number of legal tools already available to address online infringement.** Government actions like *Operation In Our Sites*, and private enforcement through litigation and DMCA remedies provide effective avenues to combat many types of infringement.
- **Current tools have a number of gaps and shortcomings, making them ineffective in some contexts.**
- **It is important to find workable fixes for these gaps and shortcomings.** While online infringement will never be eliminated entirely, the goal is to curb it sufficiently to support robust legitimate markets for copyrighted content.
- **There is no “silver bullet”; any successful plan to curtail online infringement will be multi-faceted.** It will be necessary to rely on a combination of legal tools, technology, private sector cooperation, and public outreach and education, along with the continued development of appealing legal offerings.
- **The Task Force recommends a number of steps to be taken to address the issues raised in this Section:**
  - The Task Force urges Congress to enact legislation adopting the same range of penalties for criminal streaming of copyrighted works as now exists for criminal reproduction and distribution;
  - The Task Force will solicit public comment and convene roundtables regarding the application of statutory damages in the context of individual file-sharers and secondary liability for large-scale online infringement;
  - The Task Force will establish a multi-stakeholder dialogue on how to improve the operation of the DMCA’s notice and takedown system;
  - The Task Force supports the Copyright Office’s improvement of the DMCA database of designated agents and its examination of possible small claims procedures to assist individual creators and SMEs in enforcing their rights online; and
  - The Task Force supports and encourages the development of voluntary private sector initiatives to improve online enforcement, and will monitor and evaluate the effectiveness of such initiatives to determine whether additional action should be considered.
  - The Task Force encourages enhancing public education and outreach efforts to inform consumers about both rights and exceptions and to encourage the use of legitimate online services.

## IV. Ensuring an Efficient Online Marketplace

The Internet has enabled the development of a vastly improved copyright marketplace, both by making more works available to more people in new and diverse ways, and by streamlining the process of licensing. These two aspects are intertwined: improving the efficiency of licensing should lead to increased availability of content through a wider range of services, and the more robust the online market becomes, the more incentive there will be to further improve licensing mechanisms. This Section will examine the Internet's growing use as a distribution platform and some of the issues that have been identified as hindering its full potential. It will then describe the evolution of online licensing mechanisms, and conclude by suggesting ways in which the government may facilitate the further development of this marketplace.

### A. Delivering the World's Creativity to Consumers Legally

Great strides have already been made toward fulfilling the Internet's promise, with legitimate services delivering a wide variety of works in a wide variety of formats. Yet there is still more to do. Consumers increasingly expect to have access online to the full range of content available in physical media, anywhere in the world. Today, some creative sectors have made more progress than others in fulfilling that expectation.

Moreover, the link between market development and piracy cannot be overlooked. Despite the increasing number of legitimate online services, such services continue to be hobbled by unfair competition from unlicensed ones. Many legitimate services are not yet profitable; others may have the potential for much greater growth. As discussed above, effective enforcement can create a more level playing field, enabling new business models to attract investment and thrive.

The converse is also true: the availability of licensed offerings is an important element in combatting online infringement. Providing consumers with attractive legal avenues to enjoy copyrighted content in the manner of their choosing decreases the lure of illegitimate services. Some promising indications of this effect are already being seen. For example, a 2011 survey in the United States found that "[o]f the 30% of Americans who have 'pirated' digital music files, 46% indicated that they now do so less because of the emergence of low-cost legal streaming services . . . . The comparable figure for video . . . is 40%."<sup>417</sup> And 40% of a survey group who had downloaded music via P2P

<sup>417</sup> The American Assembly, *Copyright Infringement and Enforcement in the US* at 4 (Nov. 2011), available at <http://piracy.americanassembly.org/wp-content/uploads/2011/11/AA-Research-Note-Infringement-and-Enforcement-November-2011.pdf>. Reports on Internet usage in Sweden, where the popular legal file-streaming service Spotify originated, have shown a "long-term trend [of] a sharp increase in legal streaming, while we see a reduction in illegal file sharing and downloading." IFPI, 2010 Digital Music Report at 15, available at <http://www.ifpi.org/content/library/dmr2010.pdf>. Other business models also appear to have reduced piracy. For example, in 2007, the largest Danish telecom launched a free "all you can eat" music download and streaming service. A survey of users showed that they were engaging in far less illegal music downloading. Analysis of network usage also suggests that legitimate services may help curb infringement; in the United States, as Netflix and YouTube have increased their relative share of network traffic, BitTorrent's (and filesharing in general) share of network traffic has decreased steadily. Sandvine Intelligent Broadband Networks, *Global Internet Phenomena Report 7*, 32 (2012), available at [http://www.sandvine.com/downloads/documents/Phenomena\\_2H\\_2012/Sandvine\\_Global\\_Internet\\_Phenomena\\_Report\\_2H\\_2012.pdf](http://www.sandvine.com/downloads/documents/Phenomena_2H_2012/Sandvine_Global_Internet_Phenomena_Report_2H_2012.pdf). See also Owen Thomas, *Online Video Piracy is Fading Away, Thanks to Netflix*, BUS. INSIDER, NOV. 7, 2012, available at <http://www.businessinsider.com/netflix-bittorrent-sandvine-report-2012-11>.

file-sharing networks in 2011 reported having stopped or downloaded less music in 2012; the biggest reason for the change was “the increase in free and legal music streaming services.”<sup>418</sup>

## 1. Today's Legal Offerings

U.S. creative industries are at the forefront in licensing new business models providing consumers with online access to copyrighted works. The following gives a snapshot of where these efforts stand today, in this country and around the world.

After the initial rapid take-off of P2P file-sharing (at a time when few lawful online services existed), the music sector was the first to launch online services. Beginning with the success of iTunes, the number of licensed digital music services grew globally from less than 60 in 2004 to more than 500 in 2011.<sup>419</sup> These services offer consumers a wide array of experiences, including à la carte downloads, monthly subscription services, free ad-supported streaming, music bundled with a mobile phone, cloud storage, digital radio services, and online simulcasts.<sup>420</sup> Most of these services are available on computers, smartphones, and other consumer electronic devices.

The film and television industry has been slower to launch online, but is quickly making headway.<sup>421</sup> The Motion Picture Association of America (MPAA) lists on its website over 50 sites where consumers can legitimately access movies and TV shows online in the United States.<sup>422</sup> The largest services are already well-established,

<sup>418</sup> See Lance Whitney, *Illegal Music Downloads Dropped in 2012, Says Report*, CNET, [http://news.cnet.com/8301-1023\\_3-57571318-93/illegal-music-downloads-dropped-in-2012-says-report](http://news.cnet.com/8301-1023_3-57571318-93/illegal-music-downloads-dropped-in-2012-says-report) (Feb. 26, 2013). The presence of spyware and viruses on P2P file-sharing networks was also cited as a factor.

<sup>419</sup> IFPI, *IFPI Digital Music Report 2011* at 13 available at <http://www.ifpi.org/content/library/dmr2011.pdf>; see also Pro Music, <http://pro-music.org/legal-music-services.php>.

<sup>420</sup> RIAA, *RIAA CEO To Tout “Transformed” Music Business To Congressional Panel Reviewing “Future of Audio”* (June 2012), available at [http://www.riaa.com/newsitem.php?content\\_selector=newsandviews&news\\_month\\_filter=6&news\\_year\\_filter=2012&id=61653611-420D-A290-7F6A-5BA99CF94721](http://www.riaa.com/newsitem.php?content_selector=newsandviews&news_month_filter=6&news_year_filter=2012&id=61653611-420D-A290-7F6A-5BA99CF94721).

<sup>421</sup> The later launch has been ascribed to a number of factors, including broadband capacity constraints and different patterns of consumer consumption. See, e.g., Miguel Helft, *Netflix to Deliver Movies to the PC*, NY TIMES, Jan. 16, 2007, available at [http://www.nytimes.com/2007/01/16/technology/16netflix.html?\\_r=0](http://www.nytimes.com/2007/01/16/technology/16netflix.html?_r=0); see also European Commission, *Audiovisual Media Services and Connected Devices: Past and Future Perspectives*, COM (2012) 203 final (May 2012), available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2012:0203:FIN:EN:PDE>. A further explanation may be the historical reliance on “windowing,” whereby films are released at different times through different media, which results in most films being available online later than they appear in theatres. In part to avoid these delays contributing to piracy, some studios have recently experimented with alternative release strategies that include making works available online or through cable on-demand at the same time, or even before, they are released in theatres. See, e.g., Adam B. Vary, *‘Bachelorette’ and the Video-on-Demand Revolution: How Digital Distribution is Changing Indie Cinema*, ENTERTAINMENT WEEKLY, Aug. 24, 2012, available at <http://insidemovies.ew.com/2012/08/24/bachelorette-video-on-demand-indie-cinema>; Mark Hachman, *Time Warner Offering Top New Movies via VOD, Same Day as Theaters*, PC MAG, Oct. 14, 2011, available at <http://www.pcmag.com/article2/0,2817,2394739,00.asp>; Ben Child, *Time Warner CEO Predicts Release Date Shift to Combat Piracy*, THE GUARDIAN, May 11, 2012, available at <http://www.guardian.co.uk/film/2012/may/11/release-date-piracy-time-warner>.

<sup>422</sup> See MPAA, *Get Movies & TV Shows*, <http://mpaa.org/contentprotection/get-movies-tv-shows>; see also Where to Watch, <http://www.wheretowatch.org/>. Similar lists are available in a number of other countries

expanding their programming lineups, and serving consumers in the United States and abroad.<sup>423</sup> More broadcast content is expected to be available online in the near future as copyright owners conclude negotiations with online video distributors.<sup>424</sup>

The online publishing market is also rapidly growing. The number of licensed services in the United States has increased dramatically in the past few years. According to a recent analysis, in mid-2011 over 1.5 million e-books were available online from legitimate sources,<sup>425</sup> including substantial catalogs of e-textbooks.<sup>426</sup> And libraries provided an alternate route; the American Library Association reports that in 2011 66% of public libraries offered free access to e-books, an increase of almost 30 percentage points over the previous two years.<sup>427</sup> The market for scientific, technical, and medical (STM) journals has changed fundamentally since publishers began creating online distribution platforms starting in the mid-1990s. Virtually all STM journals are now available online, and in many cases publishers and others have retrospectively digitized hard copy material back to their first volumes.<sup>428</sup>

The advent of cloud computing is transforming the business and entertainment software markets. Software delivery is shifting from a traditional licensing model where applications are installed on-premise to a per-user cloud-based software-as-a-service (SaaS) model.<sup>429</sup> According to some forecasts, by 2015, service-enabled software will account for approximately 24% of all new business software purchases, and 13.1% of worldwide software spending will be for SaaS delivery.<sup>430</sup> And whereas

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as well. See, e.g., MPAA - Canada, *Legal Content Sites*, <http://www.mpa-canada.org/?q=content/legal-content-sites>; Find Any Film, <http://www.findanyfilm.com>.

<sup>423</sup> Netflix reports that it is available in 40 countries, <http://ir.netflix.com/>; Amazon's Lovefilm operates streaming video on demand in the UK, Germany, Sweden, Denmark, and Norway, <http://corporate.blog.lovefilm.com/>; and YouTube is available in over 50 countries, <http://www.youtube.com/yt/press/statistics.html>. The Copyright Office recently found that individual broadcast programs are now widely available through streaming video services, a-la-carte downloads, and websites maintained by the major broadcast networks and sports rights owners. See Copyright Office, *Satellite Television Extension and Localism Act: Section 302 Report* at 121-27 (Aug. 29, 2011), available at <http://www.copyright.gov/reports/section302-report.pdf>.

<sup>424</sup> See, e.g., Brian Stelter, *A CBS Deal Bolsters Amazon's Challenge to Netflix*, NY TIMES, Feb. 11, 2013, available at <http://mediadecoder.blogs.nytimes.com/2013/02/11/amazon-and-cbs-announce-deal-on-rights-to-under-the-dome>; 'All My Children on Hulu: 'AMC,' 'One Life to Live' Heading to Hulu, iTunes in Spring, HUFFINGTON POST, [http://www.huffingtonpost.com/2013/01/25/all-my-children-hulu-itunes-one-life-to-live\\_n\\_2552320.html](http://www.huffingtonpost.com/2013/01/25/all-my-children-hulu-itunes-one-life-to-live_n_2552320.html) (Jan. 25, 2013).

<sup>425</sup> RÜDIGER WISCHENBART, THE GLOBAL EBOOK MARKET: CURRENT CONDITIONS & FUTURE PROJECTIONS 8 (rev. Feb. 2013) ("Global eBook Market").

<sup>426</sup> See CourseSmart, *About CourseSmart*, <http://www.coursesmart.com/overview>.

<sup>427</sup> Office of Information Technology Policy E-Book Task Force, *Frequently Asked E-Book Questions from Public Librarians* (June 2011), available at [http://www.ala.org/offices/sites/ala.org/offices/files/content/oitp/e-book\\_faq.pdf](http://www.ala.org/offices/sites/ala.org/offices/files/content/oitp/e-book_faq.pdf).

<sup>428</sup> Mark Ware & Michael Mabe, *The STM Report: An Overview of Scientific and Scholarly Journal Publishing* 3 (3d ed., Nov. 2012), available at [http://www.stm-assoc.org/2012\\_12\\_11\\_STM\\_Report\\_2012.pdf](http://www.stm-assoc.org/2012_12_11_STM_Report_2012.pdf)

<sup>429</sup> Brandon Butler, *Gartner: Cloud Putting Crimp in Traditional Software, Hardware Sales*, Network World, <http://www.networkworld.com/news/2012/071312-gartner-cloud-260882.html> (July 13, 2012).

<sup>430</sup> Amy Konary, *Licensing for SaaS Applications: ISVs Take to the Cloud*, IDC Vendor Spotlight (Jan. 2012), available at [www.safenet-inc.com/WorkArea/DownloadAsset.aspx?id=8589945627](http://www.safenet-inc.com/WorkArea/DownloadAsset.aspx?id=8589945627); see also Louis Columbus, *Roundup of Cloud Computing & Enterprise Software Market Estimates and Forecasts, 2013*,

entertainment software products ten years ago consisted almost entirely of console or PC games sold on disc, today game publishers have leveraged cloud capabilities to enable a range of new online business models and service offerings.<sup>431</sup>

This explosion of online services has added up to a substantial new revenue source for the creative industries. In 2004, the worldwide recording industry earned \$420 million from digital services; in 2012 it earned \$5.6 billion.<sup>432</sup> Online distribution of movies, which generated worldwide revenues of \$1.2 billion in 2006, is projected to reach \$7.6 billion by 2015.<sup>433</sup> In late 2012, e-books represented 20% of the overall market for trade sales, with net e-book sales in that sector increasing significantly from 12.6% in 2011.<sup>434</sup> Annual revenues generated from English-language STM journal publishing are estimated at about \$9.4 billion in 2011 (up from \$8 billion in 2008), with the digital share representing about 60%.<sup>435</sup> For the entertainment software industry, purchases of digital content accounted for 31 percent of game sales in 2011, generating \$7.3 billion in revenue in North America alone.<sup>436</sup>

It must be recognized, however, that these positive results represent only part of the picture; the question is whether all combined sources of revenue provide sufficient incentives for the production of creative works, despite the decline in physical sales in many sectors.<sup>437</sup> A healthy transition to the online marketplace will be complete when overall sales, regardless of business model, can support thriving creative industries.

## 2. Impediments to Licensing for Online Distribution

Despite the growth of licensed online services, a number of impediments have slowed

FORBES, Feb. 1, 2013, available at <http://www.forbes.com/sites/louiscolumbus/2013/02/01/roundup-of-cloud-computing-enterprise-software-market-estimates-and-forecasts-2013/>.

<sup>431</sup> Entertainment Software Association Submission to IPEC 6-7 (Aug. 10, 2012).

<sup>432</sup> IFPI Digital Music Report 2011, *supra* note 419 at 13; IFPI, *IFPI Digital Music Report 2013* at 6 available at [www.ifpi.org/content/library/dmr2013.pdf](http://www.ifpi.org/content/library/dmr2013.pdf). In the United States alone, those numbers are \$190 million in 2004 and over \$4 billion in 2011. See RIAA, RIAA CEO to Tout “Transformed” Music Business to Congressional Panel Reviewing “Future of Audio” (June 2012), available at [http://www.riaa.com/newsitem.php?content\\_selector=newsandviews&news\\_month\\_filter=6&news\\_year\\_filter=2012&id=61653611-420D-A290-7F6A-5BA99CF94721](http://www.riaa.com/newsitem.php?content_selector=newsandviews&news_month_filter=6&news_year_filter=2012&id=61653611-420D-A290-7F6A-5BA99CF94721); RIAA, *2012 Year-End Industry Shipment and Revenue Statistics* (“RIAA 2012 Year-End Shipment Statistics”) available at <http://76.74.24.142/4A176523-8B2C-DA09-EA23-B811189D3A21.pdf>.

<sup>433</sup> Paul Bond, *Film Industry, Led By Electronic Delivery, Will Grow in Every Category Though 2015: Report (Exclusive)*, HOLLYWOOD REP., June 14, 2011, available at <http://www.hollywoodreporter.com/news/film-industry-led-by-electronic-200881>.

<sup>434</sup> Global eBook Market, *supra* note 425 at 8-9.

<sup>435</sup> STM Report, *supra* note 428 at 99.

<sup>436</sup> See Entertainment Software Association, *Games: Improving the Economy* available at <http://www.theesa.com/games-improving-what-matters/economy.asp>.

<sup>437</sup> Even for those creative sectors where digital sales outpace physical sales today, total revenues may be significantly lower than they were in the pre-Internet environment. See Eric Pfanner, *Music Industry Sales Rise, and Digital Revenue Gets the Credit*, NY TIMES, Feb. 26, 2013, available at [http://www.nytimes.com/2013/02/27/technology/music-industry-records-first-revenue-increase-since-1999.html?\\_r=0](http://www.nytimes.com/2013/02/27/technology/music-industry-records-first-revenue-increase-since-1999.html?_r=0) (reporting worldwide music revenue increasing in 2012 for the first time since 1999 to \$16.5 billion, still far less than the highest historical revenue figures of \$38 billion).

their development. These relate primarily to whether the statutory licenses and collective licensing mechanisms for music still function properly in the digital age; how pre-digital contract terms should be interpreted; and how to ensure the ability to license smoothly across sectors and borders.

### *a) The Complexity of Music Licensing*

As noted above, the music industry has been at the forefront of new online distribution models. Before launching, however, digital music services must navigate an often-confusing licensing landscape, featuring a combination of statutory licenses and direct negotiations with right holders. Music licensing is particularly complex due to the existence of two categories of works – sound recordings and musical compositions – which must be separately licensed, the fact that the different rights in musical compositions are administered by different entities, and long-standing limitations on the ability to license multiple musical compositions in a single transaction.

#### *i) Licensing Musical Compositions*

While there is a statutory license in U.S. law that permits the reproduction and distribution of musical compositions (known as a “mechanical license”),<sup>438</sup> there is no statutory license for their public performance. Moreover, the different rights are administered by different entities in the U.S., sometimes by the right holders directly and sometimes through a collecting society.<sup>439</sup> This structure raises a number of issues.

First, the statutory license for the mechanical right is work-specific. Unlike many other countries, there is no blanket mechanical license for musical compositions, which would allow an entire repertoire to be licensed in a single transaction. Services that wish to use the Section 115 mechanical license must notify every right holder of their intention to rely on the license.<sup>440</sup> Moreover, although a virtually complete set of public performance licenses for musical compositions can be obtained through licenses with the three PROs,<sup>441</sup> antitrust law constrains the PROs from licensing the mechanical

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<sup>438</sup> 17 U.S.C. § 115. As with the Section 114 statutory license, the rates for the mechanical license are set through proceedings before the Copyright Royalty Board.

<sup>439</sup> Collective management organizations known as Performing Rights Organizations (PROs) exercise the public performance right on behalf of the publisher. The publisher directly administers the mechanical right (i.e., reproduction and distribution rights). The Harry Fox Agency (HFA) serves as a centralized administrator for the mechanical right for a number of publishers, but many publishers’ works are not available through HFA.

<sup>440</sup> 17 U.S.C. § 115(b). There are likely thousands of different right holders with whom to negotiate. See David Touve, *Music Startups and the Licensing Drag*, MUSIC BUS. J., Dec. 2012, available at <http://www.thembj.org/2012/12/music-startups-and-the-licensing-drag> (“Estimates of the number of points of contact for direct licensing or ‘noticing’ musical work copyrights vary substantially: from as few as 500 points, to as many as 6,000, to in excess of 30,000 potential points of contact.”). Of course, services may choose to negotiate directly with individual right holders, but that still requires contacting every right holder.

<sup>441</sup> The recent decisions by some major publishers to withdraw their rights from the PROs for streaming presents a potential complication moving forward. See Ed Christman, *Universal Music Publishing Plots Exit*

rights for works in their repertoire.<sup>442</sup>

In addition, new digital services are blurring the traditional lines between the different exclusive copyright rights. Many services engage in combined acts of reproduction, distribution, and public performance, and their users often enjoy hybrid formats for accessing music. As a result, the different administrators of different rights can all demand payment for a single use of a single right holder's work. As the Register of Copyrights explained in 2005:

[I]n many situations today it is difficult to determine which rights are implicated and therefore whom a licensee must pay in order to secure the necessary rights. Faced with demands for payment from multiple representatives of the same copyright owner, each purporting to license a different right that is alleged to be involved in the same transmission, licensees end up paying twice for the right to make a digital transmission of a single work. . . . But whether or not two or more separate rights are truly implicated and deserving of compensation, it seems inefficient to require a licensee to seek out two separate licenses from two separate sources in order to compensate the same copyright owners for the right to engage in a single transmission of a single work.<sup>443</sup>

This potential duplication has since been addressed to some extent. Courts have held that some digital distributions, including transmission of downloads and ringtones, do not implicate the public performance right, and therefore only the mechanical right must be secured.<sup>444</sup> But as digital uses continue to evolve, there will be continued questions over which rights are implicated by new services and how to deal with overlaps given the different licensing agencies for each right.

Stakeholders are attempting to resolve some of these issues through private negotiation. For example, in April 2012, organizations representing music publishers, major record labels and digital music services reached an agreement setting mechanical royalty rates for a variety of cutting-edge music services, such as paid locker services and music bundles.<sup>445</sup> The music publishers, record companies, and digital music services also agreed that non-interactive streaming does not implicate the

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from ASCAP, BMI, BILLBOARD, Feb. 1, 2013, available at <http://www.billboard.com/biz/articles/news/publishing/1537554/universal-music-publishing-plots-exit-from-ascap-bmi>.

<sup>442</sup> See, e.g., *United States v. Am. Soc'y of Composers, Authors and Publishers*, Civ Action No. 41-1395, Second Amended Final Judgment at IV(A) (S.D.N.Y. June 11, 2001).

<sup>443</sup> Statement of Marybeth Peters, the Register of Copyrights, before the Subcommittee on Courts, the Internet, and Intellectual Property, Committee on the Judiciary (June 21, 2005), available at <http://www.copyright.gov/docs/regstat062105.html>.

<sup>444</sup> See *U.S. v. Am. Soc'y of Composers, Authors & Publishers*, 485 F. Supp. 2d 438, 443-44 (S.D.N.Y. 2007) (transmitting digital downloads does not require public performance license); *In re Celco P'ship*, 663 F. Supp. 2d 363, 374 (S.D.N.Y. 2009) (transmitting ringtones does not require public performance license).

<sup>445</sup> See David Oxenford, *Music Royalty Settlement Announced on Mechanical Royalties - Not a Decision on Webcasting Rates*, Broadcast Law Blog, <http://www.broadcastlawblog.com/2012/04/articles/music-rights/music-royalty-settlement-announced-on-mechanical-royalties-not-a-decision-on-webcasting-rates/> (Apr. 11, 2012).

mechanical right, only the public performance right.<sup>446</sup> Although the threat of “double dipping” for other services was avoided by including a formula whereby any payments to the PROs for the public performance license can be subtracted from the royalties due for the mechanical license, a user would still need to make more than one stop to clear the necessary public performance and mechanical rights for a single use of a single composition.<sup>447</sup>

### *ii) Licensing Sound Recordings*

The licensing of sound recordings is generally less complex. In the case of certain non-interactive digital transmissions, there is a statutory license for the public performance of sound recordings.<sup>448</sup> Licenses for interactive transmissions and other uses like permanent downloads and ringtones must be individually negotiated.<sup>449</sup> Although these negotiations can be time-consuming, only a discrete number of licensors need to be approached – currently three major labels and several aggregators that negotiate on behalf of groups of independent labels.<sup>450</sup> Moreover, the sound recording right holders can grant all of the necessary licenses for a given use of a sound recording, while as discussed above, the mechanical and performance rights for musical works must generally be negotiated separately.

One complication is that sound recordings fixed prior to 1972 are not subject to federal copyright law but rather are protected by a variety of potentially inconsistent state laws. The Copyright Office recently concluded that federal protection should be extended to pre-72 recordings for a variety of reasons, including to allow users to benefit from exceptions in Title 17 and to facilitate licensing.<sup>451</sup>

### *iii) Practical Impact on Licensing*

The relative complexities of music licensing can be illustrated by listing the licenses that must be obtained before non-interactive and interactive streaming services can launch.

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<sup>446</sup> See DiMA, NMPA, RIAA, NSAI, and SGA, *Major Music Industry Groups Announce Breakthrough Agreement*, available at <http://www.riaa.com/newsitem.php?id=C9C68054-D272-0D33-6EDB-DF08022C7E3A>.

<sup>447</sup> Oxenford *supra* note 445.

<sup>448</sup> 17 U.S.C. § 114. See also *supra* pp. 10-12.

<sup>449</sup> Digital Performance Right in Sound Recordings Act, Pub. L. No. 104-39, 109 Stat. 336 (1995); S. REP. NO. 104-128, at 14 (1995). In 1998, the DMCA clarified that the digital performance right and corresponding statutory license applies to non-interactive webcasting services. The statutory license terms can be found in 17 U.S.C. § 114.

<sup>450</sup> See, e.g., Touve *supra* note 440 (estimating that “[b]etween ten and fifteen sound recording deals, across major owners and aggregators of these rights, are believed to be necessary for initial service launch”).

<sup>451</sup> See U.S. Copyright Office, *Federal Copyright Protection for Pre-1972 Sound Recordings 175-77* (Dec. 2011), available at <http://www.copyright.gov/docs/sound/pre-72-report.pdf>.

	Examples	Sound Recording Licenses	Musical Composition Licenses
Non-interactive streaming	Sirius XM, Pandora, iHeartRadio	Section 114 statutory license	Public performance licenses from PROs or individual publishers
Interactive streaming	Spotify, Rhapsody	Individual licenses from record companies and aggregators	Public performance licenses from PROs or individual publishers; Mechanical licenses from individual publishers (and/or HFA) <sup>452</sup>

In the years since the creation of the sound recording performance statutory license, a wide variety of non-interactive services have entered the market, providing a plethora of new ways for consumers to enjoy music online.<sup>453</sup> The royalties they pay for the use of sound recordings have become an important and growing revenue stream for right holders and creators, amounting to over \$450 million distributed in 2012.<sup>454</sup>

The interactive streaming market is also growing in the United States,<sup>455</sup> but there is untapped potential. Some of the more prominent interactive services have launched in the United States long after launching in other countries, or have not yet launched in

<sup>452</sup> Mechanical licenses are required for interactive streaming services because the services implicate both the reproduction and distribution rights.

<sup>453</sup> The Copyright Office maintains a list of services that are operating under the statutory license, which shows over 3600 such services as of mid-July 2013. See U.S. Copyright Office, *Notice of Use of Sound Recordings*, [http://www.copyright.gov/licensing/114\\_list.pdf](http://www.copyright.gov/licensing/114_list.pdf).

<sup>454</sup> See SoundExchange Press Release, *SoundExchange Ends Record-Setting Year with \$462 Million in Total Distributions* (Jan. 16, 2013) <http://www.soundexchange.com/2013/01/16/soundexchange-ends-record-setting-year-with-462-million-in-total-distributions/>. In 2011, approximately \$292 million in statutory royalties was distributed to artists and right holders, an almost three-fold increase from 2008. See SoundExchange 2011 Annual Report available at [http://www.soundexchange.com/wp-content/uploads/2012/07/2011-Annual-Report\\_FINAL\\_POST-AUDIT\\_ISSUED.pdf](http://www.soundexchange.com/wp-content/uploads/2012/07/2011-Annual-Report_FINAL_POST-AUDIT_ISSUED.pdf) and SoundExchange 2008 Annual Report available at <http://www.soundexchange.com/wp-content/uploads/2011/03/2008-Annual-Report-PDF-FINAL-03-29-10.pdf>. Under the terms of the statutory license for non-interactive services, the royalties are split evenly between the right holder and the artists, with the artist share split between the featured artist (45%) and the non-featured artists (5%). 17 U.S.C. § 114(g).

<sup>455</sup> In 2011, the last year that the RIAA separately reported revenue for interactive subscription services, revenues were \$241 million, from approximately 2 million subscribers. See RIAA, 2011 Year-End Shipment Statistics available at <http://76.74.24.142/FA8A2072-6BF8-D44D-B9C8-CE5F55BBC050.pdf>. The 2011 revenue represented a 13.5% increase from 2010. In 2012, the RIAA began reporting for the first time the combined total revenue from interactive services and streaming services that operate outside of the statutory license, which includes services like YouTube. Combined, those services generated \$570.8 million in 2012 and \$359.2 million in 2011. See RIAA 2012 Year-End Shipment Statistics *supra* note 432.

the United States<sup>456</sup> Although there are 20 million worldwide subscribers to interactive services, only 3.4 million are in the United States.<sup>457</sup> Moreover, as these services have grown in recent years, increasing attention is being paid to whether artists are being adequately compensated for the use of their works.<sup>458</sup>

The question is whether more can and should be done to streamline online music licensing. In 2005, Congress held hearings on music licensing reform. Although subsequent progress has been made to improve the licensing landscape, such as the April 2012 agreement, a number of concerns remain.<sup>459</sup> As the Register of Copyrights explained in 2005, the United States would benefit from being in line with the many countries where “[collective management] organizations license both the public performance right and the reproduction right for a musical composition, thereby creating more efficient ‘one-stop-shopping’ for music licensees and streamlined royalty processing for copyright owners.”<sup>460</sup> Creating such a system in the U.S. would, however, entail revisiting the antitrust constraints that prevent PROs from licensing both the mechanical and public performance rights.<sup>461</sup>

The Task Force believes that collective licensing, implemented in a manner that respects competition, can spur rather than impede the development of new business models for the enjoyment of music online. The time may be ripe to revisit whether legislative adjustments can help modernize the existing mechanical license for the digital age, for example by converting it into a blanket license, permitting a single license for a complete repertoire.<sup>462</sup> Congress has recently indicated that it will be exploring music licensing issues during the upcoming term, including questions of mechanical license reform, the digital sound recording right, and a broadcast performance right.<sup>463</sup> The Task Force anticipates that legislation on one or more of

<sup>456</sup> See Don Reisinger, *Spotify (finally) launches in the U.S.*, CNET News (July 14, 2011), available at [http://news.cnet.com/8301-13506\\_3-20079400-17/spotify-finally-launches-in-the-u-s/](http://news.cnet.com/8301-13506_3-20079400-17/spotify-finally-launches-in-the-u-s/); Don Reisinger, *Spotify competitor Deezer sets sights on U.S.*, CNET News (Dec. 21, 2012), available at [http://news.cnet.com/8301-1023\\_3-57560437-93/spotify-competitor-deezer-sets-sights-on-u-s/](http://news.cnet.com/8301-1023_3-57560437-93/spotify-competitor-deezer-sets-sights-on-u-s/).

<sup>457</sup> See IFPI Digital Music Report 2013 *supra* note 432 at 7; RIAA 2012 Year-End Shipment Statistics *supra* note 432. Moreover, in Europe, subscription services account for 20% of total digital revenues, which far exceeds the percentage in the U.S. See IFPI Digital Music Report 2013 *supra* note 432 at 7; RIAA, 2012 Year-End Shipment Statistics *supra* note 432.

<sup>458</sup> See, e.g., Ben Sisario, *As Music Streaming Grows, Royalties Slow To a Trickle*, The New York Times (Jan. 28, 2013), available at <http://www.nytimes.com/2013/01/29/business/media/streaming-shakes-up-music-industrys-model-for-royalties.html>.

<sup>459</sup> The possibility of comprehensive licensing reform was raised in a hearing on internet radio performance royalties in late 2012. See Statement of Representative Goodlatte, Music Licensing Part One: Legislation in the 112th Congress, Hearing Before the Subcommittee on Intellectual Property, Competition, and the Internet, Serial No. 112-158 at 1-2 (Nov. 28, 2012), available at [http://judiciary.house.gov/hearings/printers/112th/112-158\\_77042.PDF](http://judiciary.house.gov/hearings/printers/112th/112-158_77042.PDF).

<sup>460</sup> Statement of Marybeth Peters, the Register of Copyrights, before the Subcommittee on Courts, the Internet, and Intellectual Property, Committee on the Judiciary (June 21, 2005) <http://www.copyright.gov/docs/regstat062105.html>.

<sup>461</sup> See, e.g., *United States v. Am. Soc’y of Composers, Authors and Publishers*, Civ Action No. 41-1395, Second Amended Final Judgment at IV(A) (S.D.N.Y. June 11, 2001).

<sup>462</sup> See Maria Pallante, Manges Lecture *supra* note 31 at 20.

<sup>463</sup> See Statement of Representative Goodlatte, Music Licensing Part One: Legislation in the 112th Congress, Hearing Before the Subcommittee on Intellectual Property, Competition, and the Internet, Serial No. 112-

these issues will be introduced and looks forward to the Administration providing its views to Congress at the appropriate time.

**b) Old Contracts, New Uses**

Another problem relates to the application of old contracts to new forms of exploitation. Can transfers of rights that were executed prior to the development of digital network technologies be read to cover these new distribution methods, which may displace prior uses and offer significant revenue streams? This too is the latest iteration of a recurring question. “Disputes about whether licensees may exploit licensed works through new marketing channels made possible by technologies developed after the licensing contract – often called ‘new-use’ problems’ – have vexed courts since the advent of the motion picture.”<sup>464</sup>

Recent litigation over these issues has occurred in the context of how decades-old publishing contracts determine the right to publish e-books,<sup>465</sup> and the digital exploitation of musical compositions.<sup>466</sup> As each case generally turns on the specific language of the relevant contract, the courts will continue to develop a body of precedent.

**c) Licensing Across Borders**

In recent years, there has been much discussion of problems with cross-border online licensing. The issue arises from the tension between the territorial nature of rights and the increasingly global nature of online markets. The primary focus has been in the EU, where concerns have been raised that a lack of pan-European licensing could threaten the goal of a single European market with access on equal terms for consumers in all Member States.<sup>467</sup> Considerable work is being done to address these concerns, including a pending directive on collective management.<sup>468</sup>

In order to fully realize the potential of the Internet as a global marketplace for

158 at 2 (Nov. 28, 2012), available at [http://judiciary.house.gov/hearings/printers/112th/112-158\\_77042.PDF](http://judiciary.house.gov/hearings/printers/112th/112-158_77042.PDF).

<sup>464</sup> *Boosey & Hawkes Music Publishers, Ltd. v. Walt Disney Co.*, 145 F.3d 481, 486 (2d Cir. 1998).

<sup>465</sup> *Random House, Inc. v. Rosetta Books, LLC*, 150 F. Supp. 2d 613 (S.D.N.Y. 2001), *aff'd*, 283 F.3d 490 (2d Cir. 2002).

<sup>466</sup> *Reinhardt v. Wal-Mart Stores, Inc.*, 547 F. Supp. 2d 346 (S.D.N.Y. 2008); *Batiste v. Island Records, Inc.*, 179 F.3d 217, 223 (5th Cir. 1999); *Maljack Prods., Inc. v. GoodTimes Home Video Corp.*, 81 F.3d 881 (9th Cir. 1996).

<sup>467</sup> Each member state of the EU has its own copyright laws, its own collecting societies, and sometimes different right holders for the same work, with a total of more than 250 collecting societies for different rights. See European Commission, Press Release, *Proposed Directive on collective management of copyright and related rights and multi-territorial licensing – frequently asked questions* (July 7, 2012) available at [http://europa.eu/rapid/press-release\\_MEMO-12-545\\_en.htm](http://europa.eu/rapid/press-release_MEMO-12-545_en.htm).

<sup>468</sup> European Commission, Proposal for a Directive of the European Parliament and of the Council on the collective management of copyright and related rights and multi-territorial licensing of rights in musical works for online uses in the internal market, COM(2012) 372 final arts. 21-33 (July 11, 2012), available at [http://ec.europa.eu/internal\\_market/copyright/docs/management/com-2012-3722\\_en.pdf](http://ec.europa.eu/internal_market/copyright/docs/management/com-2012-3722_en.pdf) (establishing requirements for multi-territorial licensing by collective management organizations).

copyrighted content, it is important to ensure the availability of smooth cross-border licensing. While distribution platforms will each have their own strategies for where to commence operations and when, they will want maximum flexibility in making those decisions. The international initiatives discussed below seek to advance that goal.

## B. Moving Licensing Online

Online licensing can be more efficient and less time-intensive than traditional licensing involving real-time negotiations. Although such negotiations may continue to work well for mass commercial services, automated online licensing can be better suited to the Internet's countless low-value transactions. Many individual uses of copyrighted works in the digital environment would involve disproportionate transaction costs to determine ownership and seek clearances. For example, a university professor wishing to reproduce a painting on the cover of his course materials may not be able to invest the time and effort required to find and negotiate with the right holder, despite being willing to pay a reasonable fee. While online licensing is in its early days, mechanisms have begun to develop in a number of areas, most of them limited to a single category of work.

A number of these mechanisms are available in the music industry. For mechanical rights, there are services that enable recording artists to obtain online the mechanical licenses they need to record a cover of a song.<sup>469</sup> Online licensing is also available for public performance rights in musical works. Both ASCAP and BMI allow a music service to obtain a public performance license online—with some limitations depending on the size of the service.<sup>470</sup> Other services provide online “sync” licensing for sound recordings and the musical compositions they contain to permit their use in audiovisual works including videos, commercials, and video games.<sup>471</sup> And a number of independent record labels offer licensing of their catalogs directly through the Internet.<sup>472</sup>

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<sup>469</sup> The services operate as a one-stop shop for mechanical licenses for a catalog of musical works. A performer submits information about the song(s) she wants to record and how she wants to distribute the recording(s) and the services will get the license. See, e.g., Limelight at <https://www.songclearance.com/about/>; HFA Songfile at <http://www.harryfox.com/public/songfile.jsp>. These services are focused on independent recording artists.

<sup>470</sup> See ASCAP Websites & Mobile Apps License, <http://www.ascap.com/licensing/types/web-mobile.aspx>; BMI Klik-Thru Digital Licensing Center at <https://naxoasp01.bmi.org/licensing/nmwebsite.jsf>.

<sup>471</sup> A “sync” (short for synchronization) license permits the use of a song in the soundtrack of an audiovisual work; in other words, synchronized with moving images. Sync licenses must be obtained for both the sound recording and musical composition. See, e.g., Sir Groovy at <http://sirgroovy.com/services/music-licensing-online>; Rumblefish Music Licensing Store at <http://www.musiclicensingstore.com/>; Steve O’Hear, *SoundCloud Partners With Getty Images Music – Users Can ‘Sync’ License Tracks For Commercial Use*, Techcrunch (Oct. 9, 2012) <http://techcrunch.com/2012/10/09/soundcloud-partners-with-getty-images-music-users-can-sync-license-their-tracks-for-commercial-use/>; GreenLight Music Licensing at <http://www.greenlightmusic.com/music-licensing/education/how-it-works>.

<sup>472</sup> See, e.g., <http://magnatune.com/info/licensing>. An essential aspect to this type of online licensing is that these companies control the rights to both the master sound recordings and the underlying musical composition, thus permitting a one-stop licensing shop. Other record labels, such as the large U.K.-based Beggars Group, allow for the online submission of licensing requests, but only for the sound recording rights. See Beggars Group Licensing Requests at <http://licensing.beggars.com/>.

Online licensing is available for other types of works as well, in a wide variety of contexts and for a wide range of uses.<sup>473</sup> For print works, the Copyright Clearance Center (CCC) has led in providing sophisticated licensing tools.<sup>474</sup> In addition to an annual blanket license, CCC offers a “pay-per-use” service that allows users to obtain permissions online to use content from works published not only in the United States but in a number of countries around the world.<sup>475</sup> CCC also offers a service called RightsLink that allows individual right holders to provide automated licenses directly from their own websites.<sup>476</sup>

Services such as Getty Images, Flickr (a website hosting user-uploaded images), and Corbis enable online licensing of images and videos, with some available for a flat fee based on the size of the image, some subject to additional royalties, and some offered royalty-free.<sup>477</sup> Museums are also increasingly offering licenses online for reproductions of at least some of the works in their collections.<sup>478</sup>

One innovative and well-known mechanism for online licensing by any type of right holder is the Creative Commons.<sup>479</sup> Creative Commons was founded to address an unserved need: making it possible for copyright owners to grant blanket licenses to the public as a whole specifying ways in which their works may freely be used without payment. Three of the six current licenses are limited to non-commercial uses, and all are subject to the owner receiving credit. Creative Commons licenses are available for all categories of works, can be tailored as appropriate to the copyright owner’s

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<sup>473</sup> A less common approach focuses on the type of user rather than the type of work. Christian Copyright Licensing International, for example, offers online licenses for various uses of different types of works to churches (e.g., worship songs for congregational singing, stream or podcast recordings of worship music, license to use movie clips in church). See CCLI at <http://www.ccli.com/WhatWeOffer/ChurchCopyrightLicense.aspx>.

<sup>474</sup> CCC is the organization in the U.S. that licenses and collects royalties for the reproduction of written works. See Copyright Licensing Experts – Copyright Clearance Center at <http://www.copyright.com/content/cc3/en.html>. For more information on reprographic rights organizations, see WIPO Collective Management in Reprography (2005), available at [http://www.wipo.int/freepublications/en/copyright/924/wipo\\_pub\\_924.pdf](http://www.wipo.int/freepublications/en/copyright/924/wipo_pub_924.pdf).

<sup>475</sup> See Copyright Clearance Center at <http://www.copyright.com/search.do?operation=show&page=ppu>; Copyright Clearance Center, Pay-Per-Use Services at <http://www.copyright.com/content/dam/cc3/marketing/documents/pdfs/Search-Instructions-PPU.pdf>.

<sup>476</sup> RightsLink at <http://www.copyright.com/content/cc3/en/toolbar/productsAndSolutions/rightslink.html>.

<sup>477</sup> See, e.g., Getty Images, License Information at [http://www.gettyimages.com/Corporate/LicenseInfo.aspx?isource=usa\\_chp\\_userAssistance\\_licensing](http://www.gettyimages.com/Corporate/LicenseInfo.aspx?isource=usa_chp_userAssistance_licensing); Flickr at [http://www.gettyimages.com/creative/frontdoor/flickrphotos?isource=usa\\_nav\\_images\\_whatsnew\\_flickr](http://www.gettyimages.com/creative/frontdoor/flickrphotos?isource=usa_nav_images_whatsnew_flickr); Corbis Motion at <http://www.corbis.com/motion.com/>; Corbis Images at <http://www.corbisimages.com/>.

<sup>478</sup> See, e.g., Art Institute of Chicago Images at <http://www.artinstituteimages.org/index.asp>; Art Resource at <http://www.artres.com> (offering license for images of the collections of a large number of museums, including the Metropolitan Museum of Art and the National Portrait Gallery).

<sup>479</sup> Creative Commons at <http://creativecommons.org/>. The Creative Commons licenses were inspired in part by open source software and borrow some of the principles of those licenses. See Creative Commons – History at <http://creativecommons.org/about/history>; CC Wiki – Frequently Asked Questions at [http://wiki.creativecommons.org/FAQ#Can\\_I\\_use\\_a\\_Creative\\_Commons\\_license\\_for\\_software.3F](http://wiki.creativecommons.org/FAQ#Can_I_use_a_Creative_Commons_license_for_software.3F). Cf. Open Source Initiative – The Open Source Definition at <http://opensource.org/osd> (in the context of functional software, providing a blanket license permitting free redistribution, access to the source code and permission to create derivative works which are subject to the same terms as the original work).

preferences, and provide machine readable metadata.

### C. The Basic Building Blocks: Global Rights Information

The most basic prerequisite for obtaining licenses is reliable, up-to-date information about who owns what rights in what territories. Users need to find the right holders from whom to obtain permission, and right holders or their representatives need to be contacted to determine terms of use. As online businesses seek licenses for large repertoires of works to be offered in multiple countries in a variety of formats, and as multimedia uses become more common, the need for comprehensive globally-linked databases is growing.

#### 1. Access to Ownership Information

The U.S. Copyright Office and some foreign governments operate public registration systems that provide relevant information as to owners of rights. In addition, many private sector organizations have databases of such information, some but not all of which are open to the public. As a result of this combination of resources, described below, much information is currently available. Nevertheless, significant gaps remain.

##### a) *Public Registries*

There is clear public value from a registry of claims to copyright, giving would-be users notice of who claims what rights. The United States has long had such a system, beginning at a time when there were legal requirements for registration.<sup>480</sup> Today, copyright protection applies automatically to “original works of authorship fixed in any tangible medium of expression,”<sup>481</sup> whether or not they are registered with the Copyright Office.<sup>482</sup> Registration still provides meaningful benefits, however; it gives public notice of the claim to rights, and provides the owner with a certificate of registration serving as *prima facie* evidence of title and validity.<sup>483</sup> Moreover, registration is required for U.S. works before a civil infringement suit can be brought, and a failure to register in a timely manner will limit the available remedies for infringement.<sup>484</sup>

The Copyright Office also records documents related to transfers of ownership, and other documents that “pertain to a copyright” such as licenses, contracts and

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<sup>480</sup> Copyright Act of 1909 at §§ 9-22; Copyright Act of 1976, Pub. L. 94-553, 90 Stat. 2541, §§ 401-412. Those statutes generally required formal copyright notices and mandatory registration based on the type of work.

<sup>481</sup> 17 U.S.C. § 102(a).

<sup>482</sup> 17 U.S.C. § 408(a). The prior requirement in U.S. law was eliminated in order to comply with the prohibition on formalities in the Berne Convention. See Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, 102 Stat. 2853, 2859.

<sup>483</sup> 17 U.S.C. § 410(a).

<sup>484</sup> 17 U.S.C. §§ 408-412 (statutory damages and attorney’s fees are not available in a suit involving a work that is not registered by “the earlier of 3 months after the first publication of the work or 1 month after the copyright owner has learned of the infringement”).

certificates of corporate title.<sup>485</sup> Since 1988, recordation has been voluntary, but again there are statutory incentives to do so.<sup>486</sup>

The Copyright Office makes all registrations and recordings publicly available in physical forms and also through an online catalog for those works registered or recorded from 1978 to the present. Today more than 80 percent of applications for registration are filed electronically; those that are not are converted into digital form and made available online as well.<sup>487</sup> The online Copyright Office Catalog contains approximately 20 million records for works registered and documents recorded with the Copyright Office since 1978.<sup>488</sup>

For pre-1978 registrations, the Copyright Office maintains approximately 45 million physical cards, which are reproduced in a *Catalog of Copyright Entries* (CCE), published in printed format and on microfiche. The CCE does not, however, include pre-1978 recordings. It is available to the public at the Copyright Office, as well as at a number of libraries throughout the United States and online at the Internet Archive.<sup>489</sup> In addition, for a fee, the Copyright Office staff will search the registration and other recorded documents concerning ownership of copyright and provide a written report.

As a result of this history, the Copyright Office records are useful but limited sources of ownership information. Specifically, the records: (1) do not provide comprehensive coverage of all copyright-protected works; (2) give only certain facts existing at the time of registration or recordation;<sup>490</sup> (3) are not yet all available online; and (4) relate to the treatment of copyrights under U.S. law only, including as to rights and term of protection. Nevertheless they represent an important starting point for finding the owners of many works, particularly those of commercial value whose owners are likely to want a public record of their claims.

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<sup>485</sup> 17 U.S.C. § 205; see also U.S. Copyright Office, Circular 12: *Recordation of Transfers and Other Documents* available at <http://www.copyright.gov/circs/circ12.pdf>.

<sup>486</sup> As with the prior registration requirement, when the United States implemented the Berne Convention, it eliminated mandatory recordation for transfers of ownership. See Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, 102 Stat. 2853, 2857. The benefits of recordation include the following: (1) under certain conditions, recordation establishes priorities between conflicting transfers, or between a conflicting transfer and a nonexclusive license; (2) recordation establishes a public record of the contents of the transfer or document; and (3) recordation of a document in the Copyright Office provides the advantage of “constructive notice,” (*i.e.*, members of the public are deemed to have knowledge of the facts stated in the document and cannot claim otherwise). See U.S. Copyright Office, Circular 12 *supra* note 485 at 5.

<sup>487</sup> U.S. Copyright Office, *Priorities and Special Projects of the United States Copyright Office* at 3 (Oct. 2011) (“Priorities and Special Projects”), available at <http://www.copyright.gov/docs/priorities.pdf>.

<sup>488</sup> See U.S. Copyright Office, Circular 23: *The Copyright Card Catalog and the Online Files of the Copyright Office* available at <http://www.copyright.gov/circs/circ23.pdf> at 2. Because the Catalog does not contain the underlying documents recorded, however, it generally cannot be relied on to provide complete ownership information. Users or their agents can go to the Copyright Office to review the physical documents.

<sup>489</sup> See *id.*

<sup>490</sup> Copyright registrations generally contain the following elements: (1) title; (2) author(s); (3) copyright claimant or owner; (4) dates of creation, publication, and registration; (5) the category of work; and (6) registration number. See *id.* Recordations show only the facts reflected on the recorded documents. See U.S. Copyright Office, Circular 12 *supra* note 485.

The Copyright Office is aware of the legal and technological challenges that affect the quality and usefulness of its database, and has been deeply engaged over the past year with a multitude of stakeholders and technical experts to identify innovative improvements and business-to-business relationships that may be possible to pursue. It is examining ways to make registration easier for certain types of works including groups of related works and content disseminated online, such as website pages and blogs. It is also taking forward projects to improve online registration and recordation, as well as the scope, accuracy and searchability of the public databases.<sup>491</sup> Finally, the Office is digitizing older copyright assignments, licenses and other records relating to the chain of title.<sup>492</sup> These efforts will clearly make the U.S. public database more and more useful going forward, and it is important to ensure that the Copyright Office has sufficient resources to accomplish them. The Task Force supports the Copyright Office in examining the many business, legal, and technological means that may serve to improve copyright registration and recordation in the United States.

While the United States is not the only country with a public registration system, ours is the most extensive and publicly accessible.<sup>493</sup> Other countries may register only certain categories of works or only recently created works, may not record transfers, and may not make the data available online. Moreover, these systems exist as islands; no infrastructure has yet been put in place to allow them to communicate with each other.<sup>494</sup> WIPO has noted that “[t]he absence of voluntary national registration systems, together with the lack of communication or interaction among them, results in a highly asymmetric international scenario.”<sup>495</sup>

Given the benefits of a public registration system, particularly in the global network environment, calls have recently been made to reinstate a registration requirement in the United States and elsewhere.<sup>496</sup> The major obstacle to doing so is the existing framework of international treaties containing a prohibition on imposing formalities as

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<sup>491</sup> Priorities and Special Projects *supra* note 487 at 13; *see also* U.S. Copyright Office, *Technological Upgrades to Registration and Recordation Functions* at [http://www.copyright.gov/docs/technical\\_upgrades/](http://www.copyright.gov/docs/technical_upgrades/).

<sup>492</sup> Priorities and Special Projects *supra* note 487 at 15; Copyright Matters, *Copyright digitization: Moving right along!* (Mar. 22, 2013) at <http://blogs.loc.gov/copyrightdigitization/2013/03/copyright-digitization-moving-right-along/>.

<sup>493</sup> Reportedly, a U.S. certificate of registration is often relied on by courts in other countries as probative evidence of ownership and/or the validity of a copyright.

<sup>494</sup> Of the 48 WIPO member states with copyright registration systems, most do not record ownership transfers, and the majority of registries are not interconnected to other public or private copyright data systems. Only 16% have a public online search facility. WIPO, *Summary of responses to the Questionnaire for Survey on Copyright Registration and Deposit Systems*, Response to Question 1, Summary of Response, Annex A.4, p.3 available at [http://www.wipo.int/export/sites/www/copyright/en/registration/pdf/a4\\_charts.pdf](http://www.wipo.int/export/sites/www/copyright/en/registration/pdf/a4_charts.pdf).

<sup>495</sup> WIPO, *Copyright Registration and Documentation*, available at [http://www.wipo.int/copyright/en/activities/copyright\\_registration/index.html](http://www.wipo.int/copyright/en/activities/copyright_registration/index.html).

<sup>496</sup> Proponents of reinstatement have also pointed to the low standards for originality, the automatic nature of copyright protection, and the current long duration of rights. *See, e.g.*, Christopher Sprigman, *Reform(aliz)ing Copyright*, 57 STANFORD L. REV. 484 (2004); James Gibson, *Once and Future Copyright*, 81 NOTRE DAME L. REV. 167 (2005).

a condition to the enjoyment or exercise of rights.<sup>497</sup> Amending these treaties, even if possible politically and logistically, would be a task of many years. Nevertheless there is much that can and should be done more immediately to improve the coverage and utility of existing registration systems, promote the development of new and complementary ones, and ensure appropriate links between them. Among other things, consideration should be given to finding additional ways in which copyright owners can be incentivized to register their claims.<sup>498</sup>

In today's world, with the prevalence of blogs and social networks, as well as online financial transactions, members of the public are increasingly accustomed to using the Internet in their daily lives as a communications and marketing tool. Submitting an online registration application for examination can be as simple as clicking a link, and the benefits of publicly marking one's claim are amplified as it reaches the global Internet audience. Moreover, additional incentives may be provided without violating the prohibition on formalities, for example through further calibration of remedies and the availability of enhanced licensing options. The Task Force supports examination of such enhanced incentives for using the public registration and recordation systems administered by the Copyright Office.

### ***b) Private Databases***

There are also many private databases of ownership information in countries around the world, maintained by right holder membership organizations and other entities. What follows is an overview of major ongoing initiatives, involving databases already available or in development.

#### ***i) Membership Organizations***

Collective management organizations are an important resource for rights information. Given their role in collecting and distributing royalties, they need to ensure that the information is kept accurate and up-to-date, and to provide a mechanism for resolving disputes.

The most extensive online databases are in the music field. In the United States, the three PROs have databases covering all compositions in their respective repertoires available to the public on their websites.<sup>499</sup> HFA provides an online tool enabling the public to search for songwriter and publisher information for all songs that have been

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<sup>497</sup> Berne Convention at art. 5(2); TRIPS at art. 9; WCT at art. 3; WPPT at art. 20. The formalities originally included in the Berne Convention, "created considerable difficulties for authors and courts alike. . . . [I]t was possible for an author to lose protection under the Convention by reason of a trivial omission, such as failure to deposit the requisite number of copies of his work . . . . Accordingly, the logic of abolishing formalities altogether became more and more compelling." SAM RICKETSON & JANE C. GINSBURG, INTERNATIONAL COPYRIGHT AND NEIGHBORING RIGHTS: THE BERNE CONVENTION AND BEYOND 308 (Oxford University Press 2006).

<sup>498</sup> See, e.g., 17th Annual BCLT/BTLJ Symposium, Reform(aliz)ing Copyright for the Internet Age? (Apr. 2013) <http://www.law.berkeley.edu/formalities.htm>.

<sup>499</sup> ASCAP's database is called ACE and is available at <https://www.ascap.com/Home/ace-title-search/index.aspx>. BMI's database is called the BMI Repertoire and is available at <http://repertoire.bmi.com/startpage.asp>. SESAC's repertory database is available at <http://www.sesac.com/Repertory/Terms.aspx>.

registered with it.<sup>500</sup> As a result, the ownership of almost all musical compositions available for licensing in the United States can be found on one of these four websites.

As to sound recordings, the data offered to the public is not as comprehensive. SoundExchange, the collective management organization for the public performance of sound recordings in the United States, lists sound recordings whose uses have been reported to it for payment purposes, together with the artist and label.<sup>501</sup> Because SoundExchange administers the collection and distribution of performance royalties collected under the Section 112 and 114 statutory licenses for *all* sound recording right holders and performers, rather than representing particular right holders pursuant to agreements, it does not have a catalog of works to make available. And because its database is derived from information reported by the services subject to the statutory licenses, its accuracy and completeness is dependent on the quality of those reports.

In the audiovisual field, some limited online databases are maintained by U.S. labor unions. Their establishment was the result of a DMCA provision ensuring that purchasers of rights in motion pictures produced under a collective bargaining agreement would be responsible to pay residuals despite a lack of legal privity.<sup>502</sup> Purchasers are deemed to have knowledge that a motion picture was produced under a collective bargaining agreement, making them subject to residual obligations, if the union makes such information available through its website.<sup>503</sup> As a result, several unions, including the Writers Guild of America, West (WGAw), the Directors Guild of America (DGA), and the Screen Actors Guild-American Federation of Television and Radio (SAG-AFTRA), make available online databases that identify the original producers of motion pictures.<sup>504</sup> While this information is helpful, the original producer may no longer own the work and the databases do not purport to be comprehensive.

Progress has also been made in publishing and the visual arts. CCC has a database on its website where members of the public can ascertain the publishers of the works in its catalog.<sup>505</sup> The Photographer Registry, a joint project of several photographers associations, provides a database of information that is searchable by photographer name and by URL.<sup>506</sup> And information as to many visual works of art is available online through Artists Rights Society (ARS), a licensing and monitoring organization for over 50,000 visual artists in the United States.<sup>507</sup> Again, however, these lists are not

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<sup>500</sup> HFA Songfile, <http://www.harryfox.com/public/songfile.jsp>.

<sup>501</sup> SoundExchange PLAYS, <https://plays.soundexchange.com/index.php>.

<sup>502</sup> See 28 U.S.C. § 4001.

<sup>503</sup> *Id.*

<sup>504</sup> The WGAw database is available at <http://www.wga.org/coveredprojects/default.aspx>. The DGA database is available at <http://www.dga.org/Employers/SignatoryDatabase.aspx>. The SAG-AFTRA database is available at <http://www.sagaftra.org/search-signatory-database>.

<sup>505</sup> CCC, Get Permission, <http://www.copyright.com/content/cc3/en/toolbar/getPermission.html>.

<sup>506</sup> PPA AVA Copyright Holder Searchable Database, <http://photographerregistry.com/index.php>.

<sup>507</sup> The list of represented artists is available at <http://www.arsny.com/complete.html>. Instructions for obtaining a license are available at <http://www.arsny.com/procedures.html>. There is not an option for clearing rights online, but requests can be made via email.



reach using interoperable standards to communicate with one another.<sup>514</sup>

### a) *Global Information Resources*

Work is being done to address these issues, so far primarily in the music sphere. One leading example is a planned Global Repertoire Database (GRD) for musical works, spearheaded and funded by music publishers and collective management organizations. The GRD is intended to provide a single, comprehensive and authoritative source of information about the ownership and control of musical works worldwide.<sup>515</sup> It will accept registrations directly from publishers, composers and collective management organizations, and maintain a database of those registrations, with protocols to resolve disputes in ownership claims.<sup>516</sup> An operational GRD with some data is anticipated to be available in 2015.<sup>517</sup> In the field of sound recordings, PPL, the U.K. collective management organization, is in the process of building a Global Recordings Database. It has already compiled a database with information on over 5.6 million recordings released in the U.K. and is in the process of working with major record companies and a range of overseas music licensing companies to expand it to include worldwide data.<sup>518</sup>

There are also a number of databases that are operated by groups of collective management organizations that provide right holder information for multiple countries. These databases are not, however, publicly accessible, and are primarily designed to help the organizations find right holder information for works in other participating organizations' repertoires. Examples include the International Documentation on Audiovisual works (IDA),<sup>519</sup> and the Musical Works Information Database (WID),<sup>520</sup> both owned by the International Confederation of Societies of Authors and Composers (CISAC), which is composed of a group of collective management organizations from around the world.

Globally-linked databases can serve as a platform for cross-sector and cross-border

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<sup>514</sup> These shortcomings have been described and analyzed in two papers prepared for the U.K. government. Richard Hooper, *Rights and Wrongs: Is copyright licensing fit for purpose for the digital age?* (Mar. 2012), available at <http://www.ipo.gov.uk/dce-report-phase1.pdf> ("Hooper Report I"); Richard Hooper and Ros Lynch, *Copyright works: Streamlining copyright licensing for the digital age* (July 2012), available at <http://www.ipo.gov.uk/dce-report-phase2.pdf> ("Hooper Report II"). As noted in the Hooper Report I, one of the main problems in copyright licensing is "[t]he lack of common standards and of a common language for expressing, identifying and communicating rights information across the different creative sectors and across national borders." Hooper Report I at 7.

<sup>515</sup> Global Repertoire Database, <http://www.globalrepertoiredatabase.com/>.

<sup>516</sup> Hooper Report II *supra* note 514 at 41.

<sup>517</sup> PRS for Music, *Global Repertoire Database makes strong progress with plans for 2013 well underway* (Jan. 24, 2013) available at <http://www.prsformusic.com/aboutus/press/latestpressreleases/Pages/GlobalRepertoireDatabasemakesstrongprogresswithplansfor2013wellunderway.aspx>; see also Hooper Report II *supra* note 514 at 42.

<sup>518</sup> Tim Ingham, *License to Thrill*, MUSIC WEEK (Aug. 8, 2012); see also Hooper Report II *supra* note 514 at ¶¶ 67-70. The PPL database is available at <http://repsearch.ppluk.com/ARSSWeb/appmanager/ARS/main?cont=A>.

<sup>519</sup> IDA Communication Space, <http://www.ida-net.org/index.php>.

<sup>520</sup> Musical Works Information Database, <http://www.widb.com/default.asp>.

licensing. In 2011, a consultant commissioned by the U.K. government to review the country's intellectual property laws recommended the creation of a Digital Copyright Exchange (DCE), or "a network of interoperable databases to provide a common platform for licensing transactions."<sup>521</sup> A subsequent report on how best to implement this recommendation proposed in 2012 to create

a not-for-profit, industry-led Copyright Hub based in the UK that links interoperably and scalably to the growing national and international network of private and public sector digital copyright exchanges, rights registries and other copyright-related databases, using cross-sectoral and cross-border data building blocks and standards, based on voluntary, opt-in, non-exclusive and pro-competitive principles.<sup>522</sup>

The Copyright Hub's focus would not be on the high-value licensing that the Hooper Report found was already occurring with relative ease, such as the licensing of the catalog of a major record label by a digital music service. Instead, it is intended to focus "on the very high volume of automatable, low monetary value transactions coming mostly from the long tail of smaller users – the small digital start-up company wanting to use music and images and text creatively for its customers, the teacher in the classroom, a user posting a video on YouTube."<sup>523</sup> The project will be led and primarily funded by industry, with the government playing a facilitating and advisory role.<sup>524</sup> A launch group was established in late 2012, and the Copyright Hub's initial test phase went online in July 2013.<sup>525</sup>

Another cross-border initiative is WIPO's International Music Registry (IMR). The IMR is a collaborative process involving stakeholders from all parts of the music sector.<sup>526</sup> Unlike the GRD or the Global Recording Database, its goal is not to create an independent database, but rather to promote the advancement of music rights databases, and facilitate coordination between them, in order to develop robust information sources that can be easily used to obtain licensing information.<sup>527</sup> In other words, "[t]he IMR seeks to create an international system that provides a single access point to all the different rights management systems used around the world."<sup>528</sup> To date, WIPO has released a detailed scoping study and is conducting a series of roundtables on the IMR's scope and structure.<sup>529</sup>

<sup>521</sup> Hargreaves Report *supra* note 33 at 33.

<sup>522</sup> Hooper Report II *supra* note 514 at ¶ 7.

<sup>523</sup> *Id.* at ¶ 8.

<sup>524</sup> *Id.* at ¶¶ 162-165. The U.K. government recently provided £150,000 in funding to the Copyright Hub. See Press Release, *Government gives £150,000 funding to kick-start copyright hub* (Mar. 25, 2013) <https://www.gov.uk/government/news/government-gives-150-000-funding-to-kick-start-copyright-hub>.

<sup>525</sup> See The Copyright Hub, <http://www.copyrighthub.co.uk/>.

<sup>526</sup> See WIPO, Participants in the IMR Stakeholder Dialogue, [http://www.internationalmusicregistry.org/portal/en/who\\_we\\_are.html](http://www.internationalmusicregistry.org/portal/en/who_we_are.html).

<sup>527</sup> See Nicholas Garnett, *Study on the Role and Functions of the International Music Registry* at 5-6 available at [http://www.internationalmusicregistry.org/export/sites/imr/portal/en/pdf/imr\\_scoping\\_study.pdf](http://www.internationalmusicregistry.org/export/sites/imr/portal/en/pdf/imr_scoping_study.pdf).

<sup>528</sup> International Music Registry, <http://www.internationalmusicregistry.org/portal/en/index.html>.

<sup>529</sup> See Frequently Asked Questions, <http://www.internationalmusicregistry.org/portal/en/faqs.html>.

## **b) Standards**

A key component in creating interoperable databases and licensing platforms is the implementation of standards infrastructures. Common standards will facilitate linking databases and ensuring that accurate rights information can be communicated across sectors and borders. A range of standards already exist primarily focused on creating unique identifying information for works. Although a comprehensive review is beyond the scope of this paper,<sup>530</sup> the more notable standards include: (1) International Standard Recording Code (ISRC), which identifies sound recordings;<sup>531</sup> (2) the International Standard Work Code (ISWC), which identifies musical compositions;<sup>532</sup> (3) International Standard Audiovisual Number (ISAN), which identifies films, television shows, and other audiovisual works;<sup>533</sup> and (4) International Standard Book Number (ISBN), which identifies books.<sup>534</sup> Other standards have been developed for purposes beyond identification, including improving licensing and distribution of royalties.<sup>535</sup>

In light of these myriad standards across multiple types of works, it would be helpful to develop universal standards to streamline licensing, distribution, and payments. One goal of the WIPO IMR is to help develop such standards in the music context. In Europe, the European Publishers Council with partners from a range of content sectors has formed the Linked Content Coalition (LCC), focused on developing and implementing standards infrastructures to enable cross-industry and cross-border licensing. The LCC determined that this requires: (1) registries (i.e., the data of who owns what); (2) exchanges (i.e., the services providing the transactional interface between owners and users); and (3) a standardized communication layer (i.e., the standardized identification, metadata and messaging to communicate between the registries and the exchanges).<sup>536</sup> Because in its view the registries and exchanges should be and have been created by right holders, organizations, and entrepreneurs in response to market development, the LCC is focusing on the missing link – the standardized communication.<sup>537</sup> In April 2013, the LCC released a technical

<sup>530</sup> In 2011, WIPO produced a report that provides additional information about the operation of certain standards used in copyright databases. See WIPO, *Private Copyright Documentation Systems and Practices: Collective Management Organizations' Databases* (Preliminary Version) (Sept. 2011), available at [http://www.wipo.int/meetings/en/2011/wipo\\_cr\\_doc\\_ge\\_11/pdf/collective.pdf](http://www.wipo.int/meetings/en/2011/wipo_cr_doc_ge_11/pdf/collective.pdf).

<sup>531</sup> See IFPI, Resources-ISRC, [http://www.ifpi.org/content/section\\_resources/isrc.html](http://www.ifpi.org/content/section_resources/isrc.html).

<sup>532</sup> See ISWC International Agency, <http://www.iswc.org/>.

<sup>533</sup> See ISAN (International Standard Audiovisual Number), [http://www.isan.org/portal/page?\\_pageid=168.1&\\_dad=portal&\\_schema=PORTAL](http://www.isan.org/portal/page?_pageid=168.1&_dad=portal&_schema=PORTAL).

<sup>534</sup> See U.S. ISBN Agency, <http://www.isbn.org/standards/home/about/index.html>.

<sup>535</sup> Creative Commons licenses, for example, have standardized machine-readable elements that rely on the CC Rights Expression Language. See About the Licenses – Creative Commons at <http://creativecommons.org/licenses/>. DDEX is a partnership between record labels, collective management organizations, and digital service providers that has developed standards used primarily to improve efficiency in processing sales and usage data. See DDEX, <http://ddex.net/>.

<sup>536</sup> Project Plan: Linked Content Coalition at 2 (Oct. 27, 2011), available at [http://media.wix.com/ugd//bff7bc\\_ffefdfc161440b32d37e7bb227b8a4d2.pdf](http://media.wix.com/ugd//bff7bc_ffefdfc161440b32d37e7bb227b8a4d2.pdf).

<sup>537</sup> See Linked Content Coalition – FAQ, <http://www.linkedcontentcoalition.org/#faq/cxed>. As the LCC recently explained, “[t]he objective is to create something that would achieve what the banking sector’s ‘IBAN’ achieves. The IBAN allows transactions to take place between banks all over the world despite each

framework, which it is testing in collaboration with the European Commission and has made available for peer review.<sup>538</sup>

#### D. Role of Government

Building the online marketplace is fundamentally a function of the private sector, and that process is well underway.<sup>539</sup> In order to achieve its full promise, however, there remains a need for more comprehensive and reliable ownership data, interoperable standards enabling communication among databases, and more streamlined licensing mechanisms. Moreover, inefficiencies and structural anomalies in the complex music licensing system may need reform.

The Task Force expects that the private sector will continue to make progress toward resolving these issues. In the interim, there may be an appropriate and useful role for government in facilitating the process, whether by removing obstacles or taking steps to encourage faster and more collaborative action.

One possible area for government involvement is helping to provide better access to standardized rights ownership information. Already work is being done to improve the reliability of the public registration and recordation systems, but additional educational efforts and stronger incentives could further increase the use of the system and enhance its comprehensiveness. The expertise and resources of the private sector could also be drawn on to create innovative public/private partnerships improving or linking rights databases.

With respect to creating new platforms for online licensing, such efforts should continue to be primarily driven by the industries involved. But there may be ways in which the U.S. government can play a helpful role on both the domestic and international fronts. This could include pursuing the concept of a digital copyright hub similar to that under discussion in the U.K., launching the kind of multi-stakeholder dialogue recently launched in Europe as part the “Licences for Europe”

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bank having their own internal systems.” Linked Content Coalition, News Release, *Commission-Backed Project To Boost Digital Content Forges Ahead* (Nov. 19, 2012) available at [http://media.wix.com/ugd//bff7bc\\_b0233171da77596c3d436a98a1f5addf.pdf](http://media.wix.com/ugd//bff7bc_b0233171da77596c3d436a98a1f5addf.pdf).

<sup>538</sup> Linked Content Coalition, News Release, *Unique Industry Collaboration Launches New Rights Model To Improve Legal Access To Online Content* (Apr. 8, 2013) available at [http://media.wix.com/ugd//bff7bc\\_a0477746b9d46df1c923c96d66dba4f5.pdf](http://media.wix.com/ugd//bff7bc_a0477746b9d46df1c923c96d66dba4f5.pdf).

<sup>539</sup> Legislation introduced in Congress in 2012 contained a provision directing the Librarian of Congress, in consultation with the PTO and IPEC, to submit a report to Congress “that provides a set of recommendations about how the Federal Government can facilitate, and possibly establish, a global music registry that is sustainably financed and consistent with World Intellectual Property Organization obligations.” Internet Radio Fairness Act of 2012 (IRFA), H.R. 6480 at § 7. The PROs opposed this provision as “wholly unnecessary, particularly in light of ongoing international database initiatives led and funded by the world’s PROs, with the participation of music publishers and music users, to establish just such a registry”, and urged Congress to “allow the ongoing privately-driven initiative to proceed without government interference.” Letter to Honorable Bob Goodlatte and Honorable Mel Watt at 4 (Nov. 19, 2012), available at <http://www.ascap.com/Press/2012/~media/Files/Pdf/press/FINAL%20PRONSAI%20%20response%20to%20Music%20HearingChaffetz%20bill%20111912.pdf>.

initiative,<sup>540</sup> as well as participating in the development of international initiatives such as WIPO's IMR, and facilitating the involvement of U.S. stakeholders. The Task Force will solicit comments and convene roundtables on what role the government can or should play to improve and take forward the online licensing environment.

### E. Conclusion and Next Steps

- **There has been tremendous growth in the online copyright marketplace.** In recent years, numerous services have launched across copyright sectors to provide consumers with unprecedented access to content in a wide variety of formats.
- **Some obstacles remain, particularly in the area of music licensing.** The complexity of different works, different licensing mechanisms, and different administrators of different rights has led to overlaps and inconsistencies that may be impeding the development of legitimate services.
- **The Internet holds great promise in streamlining licensing transactions.** Online licensing mechanisms can significantly reduce the cost and difficulty of obtaining permissions, particularly for small-scale individual uses.
- **Access to reliable and comprehensive ownership information is essential.** Although information about rights ownership is publicly available from many sources, the databases are limited in scope and are not integrated or interoperable.
- **The Task Force recommends a number of steps to be taken to address the issues raised in this Section:**
  - The Task Force will provide input into any Congressional review of music licensing, particularly with respect to the mechanical license for musical compositions;
  - The Task Force supports the Copyright Office's work in improving the registration and recordation systems and supports the provision of enhanced incentives for using these systems; and
  - The Task Force will solicit public comment and convene roundtables regarding an appropriate role for the government to help to improve the online licensing environment.

## V. Conclusion

Continued engagement with all stakeholders is critical to evaluating and refining our national copyright policy. Accordingly, the Department of Commerce's Task Force will seek further public input on the issues identified in this report to determine how the current copyright framework can be improved to serve creators, right holders, service providers, consumers, innovation, and national economic goals.

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<sup>540</sup> See Licences for Europe, Structured stakeholder dialogue 2013 at <http://ec.europa.eu/licences-for-europe-dialogue/> (focusing on four areas: "Cross-border access and portability of services; User-generated content and licensing; Audiovisual sector and cultural heritage; [and] Text and data mining.")

## **Appendix A: Summary of Recommendations and Issues for Further Discussion and Comment**

### **1. *Issues on which the Task Force reiterates a previous Administration call for action:***

- Extending the public performance right for sound recordings to cover broadcasting.
  - For over thirty years, the Administration and Copyright Office have made repeated calls to create a public performance right for the broadcasting of sound recordings. Apart from the inability to obtain compensation in the United States, this omission has had a real impact on the balance of payments from abroad. While broad public performance rights are enjoyed by owners of sound recordings in most other countries, U.S. sound recording owners and performers have been unable to collect remuneration for the broadcasting of their works in those countries, due to the lack of reciprocal protection here.
- Adopting the same range of penalties for criminal streaming of copyrighted works to the public as now exists for criminal reproduction and distribution.
  - While the willfully infringing reproduction and distribution of copyrighted works can be punished as a felony, willful violations of the public performance right are punishable only as misdemeanors. This discrepancy is an increasingly significant impediment to the effective deterrence and criminal prosecution of unauthorized streaming. Since the most recent updates to the criminal copyright provisions, streaming (both audio and video) has become a significant if not dominant means for consumers to enjoy content online. The Administration and the Copyright Office have both called on Congress to amend the Copyright Act to ensure that illegal streaming to the public can be punished as a felony in the same manner as other types of criminal infringement.

### **2. *Additional issues on which the Task Force supports Congressional or regulatory attention, without specifying particular solutions:***

- Assessing the appropriateness of different rate-setting standards for the public performance of sound recordings by different types of digital music services.
  - Any reconsideration should focus broadly on the interests of all involved parties, taking into account the impact on creators and right holders as well as on different types of services.
- Reforming music licensing, with particular focus on the mechanical license for musical compositions.
  - The Task Force believes that collective licensing, implemented in a manner that respects competition, can spur rather than impede the development of new business models for the enjoyment of music online.

The time may be ripe to revisit whether legislative adjustments can help modernize the existing mechanical license for the digital age, for example by converting it into a blanket license, permitting a single license for a complete repertoire. Congress has recently indicated that it will be exploring music licensing issues during the upcoming term, including questions of mechanical license reform. The Task Force looks forward to the Administration providing its views to Congress at the appropriate time.

- Ensuring that consumers have the ability to unlock their cell phones, subject to applicable service agreements.
  - The decision in the most recent DMCA rulemaking not to continue the exemption for cell phone unlocking as applied to newly purchased phones has raised controversial issues of telecommunications policy. The Administration has made clear its position “that consumers should be able to unlock their cell phones,” while respecting the process undertaken by the Librarian of Congress. The Administration and Library of Congress agree that the DMCA rule-making process “was not intended to be a substitute for deliberations of broader public policy

**3. *Issues on which the Task Force will solicit public comments or establish multi-stakeholder dialogue, or on which it recommends additional work:***

- The legal framework for the creation of remixes.
  - The Task Force will solicit public comment and convene roundtables on issues related to the creation of remixes. Many remixes will qualify as fair use, or be covered by existing licenses. The question is whether the creation of remixes is being unacceptably impeded by legal uncertainty. There is today a healthy level of production, but clearer legal options might result in even more valuable creativity. Is there a need for new approaches to smooth the path for remixes, and if so, are there efficient ways that right holders can be compensated for this form of value where fair use does not apply? Can more widespread implementation of intermediary licensing play a constructive role? Should solutions such as microlicensing to individual consumers, a compulsory license, or a specific exception be considered? Are any of these alternatives preferable to the status quo, which includes widespread reliance on uncompensated fair uses?
- The relevance and scope of the first sale doctrine in the digital environment.
  - The Task Force will solicit public comment and convene roundtables on issues related to the first sale doctrine in the digital environment. The first sale doctrine as currently formulated does not apply to digital transmissions, and the Copyright Office concluded in 2001 that extending the doctrine to the digital environment was not advisable. Since the Copyright Office’s examination in 2001, much has changed. In

a world of increasingly digital distribution, the traditional field of application of the first sale doctrine may disappear, and the resale market become obsolete. The question is whether there is a way to preserve the doctrine's benefits, allowing the equivalent of sharing favorite books with friends, or enabling the availability of less-than-full-price versions to impecunious students. Will the market provide these opportunities, and if so, how? And are there any changes in technological capabilities that would alter any of the Copyright Office's 2001 conclusions?

- The application of statutory damages in the context of individual file-sharers and secondary liability for large-scale online infringement.
  - The Task Force reiterates the importance of statutory damages in online copyright enforcement, but believes that there are certain areas where recalibration of their scope may be appropriate. To that end, we will seek public comment and convene public discussions regarding the application of statutory damages in the context of: (1) individual file-sharers; and (2) secondary liability for large-scale online infringement.
- Improving the operation of the DMCA's notice and takedown system.
  - Although the notice and takedown system has generally worked well with respect to traditionally hosted online content, both right holders and ISPs have identified a number of ways in which its operation can become unwieldy or burdensome. One potential solution to ease the burdens involved with the notice and takedown system and improve results could be to create best practices for identifying infringing content and sending notices, for takedown procedures, and for ensuring that infringing content once removed does not immediately reappear. This would benefit right holders, ISPs and end users alike, by supporting a more efficient and reliable notice and takedown system. To that end, the Task Force will convene a multi-stakeholder dialogue involving right holders (both large and small), ISPs, consumer representatives and companies in the business of identifying infringing content, on how to improve the operation of the notice and takedown system.
- Supporting, monitoring, and evaluating the effectiveness of appropriate voluntary private sector initiatives to improve enforcement of rights online, to determine whether additional action should be considered.
  - The Task Force is encouraged by the progress that has been made through the cooperative efforts of right holders, ISPs, payment processors, ad networks and search engines to develop the voluntary initiatives discussed in this section. We encourage interested stakeholders to continue identifying and developing voluntary solutions that benefit all parties. The Task Force will provide assistance to the IPEC as needed to help foster further developments in this area. Moreover, as requested in the IPEC 2013 Joint Strategic Plan, the USPTO will institute

studies, based on public input and with the assistance of other relevant agencies, examining the effectiveness of voluntary initiatives in curtailing online infringement.

- Providing enhanced incentives for using the public registration and recordation systems administered by the Copyright Office.
  - In today's world, with the prevalence of blogs and social networks, as well as online financial transactions, members of the public are increasingly accustomed to using the Internet in their daily lives as a communications and marketing tool. Submitting an online copyright registration application for examination can be as simple as sending an email, and the benefits of publicly marking one's claim are amplified as it reaches the global Internet audience. Moreover, additional incentives may be provided without violating the prohibition on formalities, for example through further calibration of remedies and the availability of enhanced licensing options.
- Promoting enhanced public education and outreach to curb online infringement.
  - Increased public education and outreach, both domestically and internationally, is an important tool to help stop infringement. Such educational efforts should be balanced to include information about both rights and exceptions. Many right holder organizations, user groups and other stakeholders, including the U.S. government, have developed educational materials for parents and teachers regarding the value of copyright and to help educate young people about how to legally access content online and use copyrighted materials.
- The appropriate role for the government, if any, to help the private sector improve the online licensing environment.
  - The Task Force expects that the private sector will continue to make progress toward resolving online licensing issues. In the interim, there may be an appropriate and useful role for government in facilitating the process, whether by removing obstacles or taking steps to encourage faster and more collaborative action. One possible area for government involvement is helping to provide better access to standardized rights ownership information. With respect to creating new platforms for online licensing, such efforts should continue to be primarily driven by the industries involved. But there may be ways in which the U.S. government can play a helpful role on both the domestic and international fronts. The Task Force will solicit comments and convene roundtables on what role the government can or should play to improve and take forward the online licensing environment.

**4. *Issues currently being addressed by other actors which the Task Force supports and on which it will provide input as appropriate:***

- Copyright Office
  - Updating the Section 108 exception for libraries;
  - Reviewing copyright issues related to higher education, including distance education;
  - Updating the Chafee Amendment to ensure access to copyrighted works by individuals with print disabilities in the context of current technologies;
  - Examining the issues of orphan works and mass digitization to develop potential legislative solutions;
  - Improving the DMCA database of designated agents;
  - Examining the use of possible small claims procedures that can assist individual creators and SMEs in enforcing their rights online;
  - Improving the public registration and recordation systems, including through public-private partnerships;
  - Educating the public on fair use through creation of an index of major court cases, as proposed in the IPEC 2013 Joint Strategic Plan.
- IPEC
  - Helping to foster voluntary best practices for online enforcement between stakeholders, including right holders, ISPs, payment processors, and online advertising networks.
- Private Sector
  - Developing interoperable and connected online databases of ownership information and online licensing platforms;
  - Creating inclusively developed fair use guidelines for various user communities;
  - Establishing voluntary cross-industry initiatives such as the Copyright Alert System.

**5. *Issues that are in the process of being further interpreted by the courts:***

- The meaning of “public performance” in the context of new video streaming technologies;
- The treatment of temporary reproductions;
- The scope of the distribution right as applied to making works available online;
- The meaning of elements of the DMCA’s safe harbors for service providers, primarily the knowledge standard and provisions on termination of repeat infringers’ accounts;
- How old contracts apply to new uses in the digital environment.

## **Appendix B: Acknowledgements, Symposium Panelists and Notice of Inquiry Respondents**

The Internet Policy Task Force extends its thanks to all of our colleagues throughout the Executive and Legislative branches who have provided valuable feedback and consultation during the development of this report. We offer special thanks to all of the individuals and private sector organizations who participated in our public Symposium on Copyright Policy, Creativity & Innovation in the Internet Economy, and those who submitted written comments to the Notice of Inquiry that served as the basis for this report.

### *Symposium Panelists (as identified in the Symposium agenda)*

Jonathan Band, Policybandwidth

Susan Cleary, Independent Film & Television Alliance

Rick Cotton, NBC-Universal

Sarah Deutsch, Verizon

Ken Doroshov, Entertainment Software Association

Keith Epstein, AT&T

Joshua Friedlander, Recording Industry Association of America

Marianne Grant, Motion Picture Association of America

Leslie Harris, Center for Democracy and Technology

Thomas Hesse, Sony

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Scott Martin, Motion Picture Association of America

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Gene Mopsik, American Society of Media Photographers

Brian Napack, MacMillan

Thomas Rubin, Microsoft

Piotr Stryszowski, Organisation for Economic Cooperation and Development

Harlan Yu, Princeton University

*Notice of Inquiry Respondents*

American Association of  
Independent Music  
American Business Media  
American Federation of Musicians of  
the United States and Canada  
American Federation of Television  
and Radio Artists  
Association for Competitive  
Technology  
Association of American Publishers  
AT&T  
Attributor Corporation  
Beachbody, LLC  
Business Software Alliance  
Center for Democracy and  
Technology  
Computer & Communications  
Industry Association  
Consumer Electronics Association  
Copyright Clearance Center  
Creative Commons  
Digital Media Association  
Digital Society  
Directors Guild of America  
EDUCAUSE  
Electronic Frontier Foundation  
Entertainment Software Association  
Etopia Press  
Fantasy & Science Fiction  
Future of Music Coalition  
Google, Inc.  
Independent Film & Television  
Alliance  
Information Technology and  
Innovation Foundation  
Institute of Intellectual Property and  
Social Justice

Interactive Advertising Bureau  
International Alliance of Theatrical  
and Stage Employees  
Internet Commerce Coalition  
Library Copyright Alliance  
Media Education Lab  
Michigan State University  
Motion Picture Association of  
America, Inc.  
Mozilla  
MySpace Music  
National Cable &  
Telecommunications Association  
National Music Publishers'  
Association  
NetCoalition  
New America Foundation  
Pink Visual  
Public Knowledge  
Recording Industry Association of  
America  
Screen Actors Guild  
SESAC, Inc.  
Sher Music Co.  
Sloane & Company  
Software & Information Industry  
Association  
TechAmerica  
The Copyright Alliance  
Total-Knowledge.com,  
Culturedialogue.org  
TuneCore  
U.S. Chamber of Commerce  
University of Michigan Library  
Visa, Inc.  
Writers Guild of America West

Zack Aab  
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Spencer Andersen  
Marc Anderson  
Michael Anderson  
Steven Anderson  
Troy Anderson  
Adrian Archer  
Madeleine Archer  
Ivan Arguello  
Michael Armstrong  
Eric Arntson  
Anthony Arquette  
Christian Ates  
Stephen Ausmus  
Zachary Averyt  
Brian Ayotte  
Farhad Badri  
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William Barbano  
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Cory Barnett  
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Andrew Barrett

Andy Barton  
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Jared Beymer  
Bert Bingham  
Joe Bivins  
Tara Blaize  
Robert Blankenship  
Abraham Blea  
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Victoria Blisse  
Warren Blyth  
Daniel Bogan  
Bob Bolin  
Drew Bond  
Douglas Bonham  
Derek Book  
Adam Boser  
Steven Boss  
Sharon Boullion  
Tim Boysen  
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Brian Breczinski  
Brenna  
Matthew Bresnahan  
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Martin Brinkley  
Kevin Britts  
Jarod Brody  
Jared Brogan  
Nicholas Brosz  
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Matthew Brown  
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James Burns  
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Yancy Burns  
Travis Burr  
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Elise Chand  
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Rowena Cherry  
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Beth Cornelison	Jonathan Dorfman	Brian Flesher
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Jennifer Crafton	Justin Dow	Drew Fontenot
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Shannon Credeur	Alan Drysdale	Adrienne Fox
Carolyn Crooke	Jason Duchette	Keith Foy
David Cross	Nicholas Dumdie	Michael Franks
Dustin Cross	Taylor Duncan	Will Freeman
Eric Cruz	Jesse Dubinsky	Derek Frelow
Christina Cuevas	Nikki Duncan	Ian Freman-Lee
Benjamin Cunningham	Taylor Dutch	Brian Frenz
John Curzon	Allen Dutra	Christine Fritzinger
Taylor Cvetkovich	Nahum Dyer	Adam Fry
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Tyler Raymond  
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Brian Redden  
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Tara Reis  
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Michael Revello  
Edwin Reyes  
Matthew Rhea  
Austin Rich  
Corey Richardson  
Greyson Richey  
Jonathan Richter  
Rob Richter  
Al Rizzo  
Justyn Roberts  
Garrett Robbins  
Alan Roberson  
Fletcher Robertson  
Paul Robertson  
Edward Robinson  
Manuel Rodriguez  
Dameon Rogers  
Selena Rolfes  
Dominic Romito  
Damian Romney  
Frances Romney  
Hugues Ross  
Kyle Rought  
Daniel Rousett  
Bryan Roush  
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Nicholas Rynearson  
Dan Sadler  
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Ivan Sarmiento  
James Sarvey  
Paul Sanderson  
Lorenzo Scarpelli  
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Scott Schiller  
Gus Schilling  
Brian Schnack  
Brian Schriener  
Fredrick Schroeder  
Andrew Schutts  
Robert Schwahn  
Ian Scott  
Nathan Scott  
Ben Seymour  
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Kenneth Shangle  
Thomas Shanks  
Alex Shapiro  
Brian Shea  
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John Sherman  
Shane Shiffman  
Wes Shockley  
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Logan Smith  
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Jason Sorensen  
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Michael Sorentino  
Nathan Speer  
Dresk Spidflisk  
Ashley Spinner-Vincent  
Christian Spring  
Susan Squires  
Roger Stafford  
Harrison Stahl  
Eli Stamp  
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James Stephens  
Dakota Stevens  
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Theresa Stillwagon  
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Maia Strong  
Dan Supinski  
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Diane Sypnier  
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Nicole Taylor  
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Sean Thom  
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Wyatt Thompson  
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Quaisha Thornton  
Tyler Thorsten  
Michael Tice  
Richard Tietjens  
Craig Tingley  
David Tinker  
David Tompkins  
Carlos Torres  
Tyler Troyer  
Thomas Tucci  
Nathanial Tucker  
Adam Tuggle  
Alan Turk  
Joseph Turner  
Paul Turner  
Robert Underwood  
Katharine Uvick  
Sarah Uvick  
Joe Vadalma  
Adolfo Valdez  
Andres Vallejo  
Ian Van Stralen  
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Justin Vollrath  
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Seth Walker  
Benjamin Walsh  
Charlie Walter  
Zach Walton  
Matt Wang  
David Ward  
Jeremy Warneck  
Trevor Watson  
Elizabeth Webster  
Nicholas Weih  
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Missy Welsh  
Jonathan Wheeler  
Peirce White  
Theodore Wirth  
Jennifer Whiteside  
Eric Wichman  
Nathan Wiehoff  
Andrew Willeford  
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Brenna Williams  
David Williams  
James Williams  
Julian Williams  
Keifer Williams  
Qaey Williams

Ryan Williams  
Shermaine Williams  
Chris Williamson  
Michelle Willingham  
Robert Willis  
Jimmy Wills  
Jason Wilson  
Mary Wilson  
Alex Wintrow  
John Wise  
Zachary Wiseman  
Sebastian Wittenstein  
Richard Witzer  
Cody Wolack  
Lorena Wolfe  
John Womack  
Chris Wood  
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Ira Yamchuk  
Susan Yarina  
Maisey Yates  
Pamela Yeagely  
David Yeakle  
Jason York  
Cora Zane  
Kevin Zeher  
Kenneth Zike  
Daniel Zipfel  
Glenn Zorn  
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# THE NEXT GREAT COPYRIGHT ACT

Twenty-Sixth Horace S. Manges Lecture

by

Maria A. Pallante<sup>1</sup>

## I. INTRODUCTION

Tonight my topic is the next great copyright act, but before I speak about the future, I would like to talk a little about the past, including the role of the Copyright Office in past revision activities. In my remarks, I will address the need for comprehensive review and revision of U.S. copyright law, identify the most significant issues, and suggest a framework by which Congress should weigh the public interest, which includes the interests of authors. I also will address the necessary evolution of the Copyright Office itself.

Those of you who have been to our offices in Washington know that we have a conference room featuring portraits of the former Registers of Copyright dating back to 1897.<sup>2</sup> When guests are seated at our table, the former Registers preside on high, wearing a variety of expressions and overseeing complex conversations about copyright law in the digital age. Sometimes I think they would be startled by the discussions we have, but then again it might all sound familiar.

### *Solberg (1887-1933)*

Thorvald Solberg was the first and longest-serving Register of Copyrights. He seems inspired in his portrait, and for good reason. Solberg was a visionary leader, a champion of authors' rights, and an early advocate for the United States' adherence to the Berne Convention for the Protection of Literary and Artistic Works ("Berne Convention").<sup>3</sup> Under his care, the Copyright Office grew from a handful of employees to more than a hundred professional staff, and took on the many assorted roles that are still critical to the mission of the Office today. Solberg and his team administered the copyright registration system, managed the public records of copyright information, facilitated the delivery of books and other copyright deposits to the Library of Congress (the "Library"), served as substantive experts within the U.S. government, provided

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<sup>1</sup> Maria A. Pallante is Register of Copyrights of the United States and Director of the U.S Copyright Office. This is an extended version of the lecture delivered on March 4, 2013 at Columbia University. See 37 COLUM. J.L. & ARTS (forthcoming Spring 2013). The author would like to recognize the dedicated public service of the past and present staff of the U.S. Copyright Office.

<sup>2</sup> The U.S. Copyright Office is located on Capitol Hill in the James Madison Memorial Building of the Library of Congress, Washington, DC. Images of the portraits described herein are available for viewing at <http://www.copyright.gov/docs/2013MangesLectureSlides.pdf>.

<sup>3</sup> The Berne Convention for the Protection of Literary and Artistic Works, September 9, 1886, *as revised* at Paris on July 24, 1971 *and as amended* Sept. 28, 1979, 102 Stat. 2853, 1161 U.N.T.S. 3 (entered into force in the United States March 1, 1989).

policy advice to Congress, and represented the United States at international meetings.<sup>4</sup> He was Register during the revision process that led to the 1909 Act, in which copyright term was extended to a total period of fifty-six years subject to renewal registration, but he began broaching the subject of automatic protection as early as the 1920's.<sup>5</sup>

*Kaminstein (1960-1971)*

Abraham (Abe) Kaminstein was Register during another key period for copyright revision. In his portrait, he stands in front of his law books, looking knowledgeable and perhaps a little impatient. He spent eleven years working with Congress and with stakeholders on revision issues, presiding over roundtables and legal studies and helping to mold many of the provisions that were enacted in the Copyright Act of 1976 ("1976 Act" or "Copyright Act"). In fact, the revision process began in the 1950's,<sup>6</sup> during Arthur Fisher's tenure as Register, and did not conclude until five years after Kaminstein's departure, when Barbara Ringer was Register.

What might be obvious today, but nonetheless is instructive, is that the long revision process that led to the 1976 Act reflected a spectrum of issues, from small or technical fixes to wholly new or controversial provisions. Small decisions were important then, as they can be now, because they added a degree of certainty to the statute, making it more user-friendly for those who need to interpret and rely upon its provisions. An example is the decision in 1976 to set the end of the copyright term on the last day of the calendar year.<sup>7</sup>

More tedious were the issues where policy consensus was achieved in principle, but later compromised or undermined by over-negotiation. A good example here is termination.<sup>8</sup> In copyright, the concept of termination is rooted in the equitable principle that authors should share in the long-term value of their works. The policy is sound, but the provisions as enacted are almost incomprehensible on their face, particularly for the authors, widows, widowers, children, and other heirs who need to navigate them.

The termination provisions are important for another reason, however. They show that Congress sometimes will migrate policy principles into a new context. In the 1976 Act, Congress was moving to a singular and significantly longer term of protection, and phasing out the renewal periods and renewal registration requirement in the law. At the same time, Congress recognized that the renewal period had provided authors with a

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<sup>4</sup> See generally 1 WILLIAM F. PATRY, COPYRIGHT LAW AND PRACTICE § 1.41 (2000); see also, John Y. Cole, *Of Copyright, Men & A National Library*, 28 QUARTERLY JOURNAL OF THE LIBRARY OF CONGRESS 114, 134 (1971).

<sup>5</sup> See Thorvald Solberg, *The Present Copyright Situation*, 40 YALE L.J. 184, 195 (1930).

<sup>6</sup> See PATRY, *supra* note 4, § 1.72.

<sup>7</sup> Under the 1909 Copyright Act, a copyright expired twenty-eight years (or fifty-six years if the copyright was renewed) after the date of first publication with notice or after the date of registration (in the case of unpublished works). See 1909 Act, 17 U.S.C. § 24 (repealed 1978). Under the current statute, copyright expires at the end of the calendar year in the year of expiration. See 17 U.S.C. § 305.

<sup>8</sup> 17 U.S.C §§ 203, 304.

legal trigger to renegotiate problematic licensing terms with their publishers and producers.<sup>9</sup> Thus, in crafting the termination provisions, Congress was acknowledging the need for a new legal framework, but also was carrying over and reinventing a compelling policy objective.<sup>10</sup>

Of course, the 1976 Act generated many discussions about exceptions and limitations, and if today's climate is any indication, they were not without complexity or controversy. Questions before Congress included whether and how to incorporate significant judicial doctrines into the statute and whether and how to provide special treatment and specific guidance to discrete communities. Congress would codify the fair use doctrine, reaffirm the first sale doctrine, and create specific exceptions for libraries and archives,<sup>11</sup> but would choose to defer any specific exceptions for educational use, concluding that such a treatment "is not justified."<sup>12</sup> These decisions reflect the work ethic of Congress when legislating copyright law for a new era. Congress looks to the equities of the statute as a whole and not just to the immediate interests before it.

Finally, and again instructive, there were deliberations on an array of topics that shifted and departed from the previous legal framework and therefore were at the more challenging end of the revision spectrum. In the end, Congress would codify divisibility, extend the copyright term<sup>13</sup> (a policy change strongly supported by Horace Manges,<sup>14</sup> incidentally), and relax formalities.<sup>15</sup> In doing so, Congress was adapting the law to the times. It was not exactly fashioning solutions out of whole cloth, but it did a tremendous job in blending the world standards and pressures of global copyright law with the particular principles and practices of American democracy.

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<sup>9</sup> This was more theoretical than practical, as many authors bargained away the renewal interest in advance. *But see Stewart v. Abend*, 495 U.S. 207, 235-36 (1990) (holding that derivative work rights for renewal terms did not belong to assignees with which the author had earlier contracted because the author died before the renewal date).

<sup>10</sup> Congress also considered restricting the duration of licenses, for example, by limiting an author's license to periods of no more than ten years at a time. *See* U.S. COPYRIGHT OFFICE, STUDY NO. 31, RENEWAL OF COPYRIGHT, at 209 (1961) ("U.S. COPYRIGHT OFFICE, STUDY NO. 31").

<sup>11</sup> *See* 17 U.S.C. §§ 107-109.

<sup>12</sup> H.R. REP. NO. 94-1476, at 66-67 (1976).

<sup>13</sup> Article 7 of the Berne Convention requires a minimum term of protection of fifty years following the death of the author. The United States' term extension put the country more on par with the sixty-four countries that were already Berne members in 1976. *See* World Intellectual Property Organization, Contracting Parties, Berne Convention, *available at* <http://www.wipo.int/export/sites/www/treaties/en/documents/pdf/berne.pdf>.

<sup>14</sup> U.S. COPYRIGHT OFFICE, COPYRIGHT LAW REVISION, STUDY NO. 30, DURATION OF COPYRIGHT, at 93 (1961) ("The most important improvement would be a single term of copyright. Life of the author plus a 50 year term would have certain advantages, among them that the whole body of an author's work (including revisions) would go out of copyright at the same time and that there would be a uniformity with the system utilized in leading European countries.") (statement of Horace Manges).

<sup>15</sup> *See, e.g.*, 17 U.S.C. §§ 405, 406 (providing that errors in a copyright notice or the omission of a copyright notice would not necessarily invalidate the copyright in a published work).

*Ringer (Register 1973-1980 / Acting Register 1993-1994)*

In 1973, Barbara Ringer, a Copyright Office lawyer who was already heavily involved in the revision process, became Register. Like Kaminstein, she worked closely with congressional leadership, including long-time copyright steward Robert Kastenmeier, who was deeply involved in much of the 1976 revision process while he was Chairman of the House Subcommittee on Courts, Intellectual Property and the Administration of Justice, and Senator John McClellan who also was very involved in all aspects of the reform effort as Chairman of the Senate Judiciary Committee.<sup>16</sup> Ringer and her team were involved in resolving last minute negotiations of the new law, documenting the significant legislative history, and implementing sweeping changes to the registration practices and related operations of the Copyright Office.

Ringer's portrait is very formal. Staring into the distance, she looks elegant but pensive, and perhaps a little concerned. Ringer was a staunch protector of authors and their role in a civilized society, and she began to worry about the future of the law, including what she saw as a growing effort by some to erode the copyright system by attempting to cast it as an obstacle rather than as a means to the dissemination of knowledge. She wrote passionately about this in her well-known article entitled *The Demonology of Copyright*.<sup>17</sup>

*Peters (1994-2010)*

Ringer was not wrong that copyright discussions were changing, both in complexity and tone, and she was not wrong to be uneasy. By the time my predecessor Marybeth Peters became Register in 1994, the world was well on its way to unprecedented technological change and therefore dramatic upheaval for copyright markets and copyright law. The times required Congress to act more boldly than before, not only to affirm core principles of copyright protection but also to provide guidance and direction to good faith intermediaries. The Digital Millennium Copyright Act ("DMCA"),<sup>18</sup> enacted in 1998, was innovative in this regard. Among other things, it created a notice-and-takedown procedure for copyright owners and online intermediaries, a corresponding safe harbor from liability,<sup>19</sup> and legal protection for technological protection measures.<sup>20</sup>

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<sup>16</sup> Rep. Kastenmeier served in the House of Representatives from January 3, 1959 to January 3, 1991 and was Chairman of the Subcommittee on Courts, Intellectual Property, and the Administration of Justice from 1969 to 1990. Senator McClellan represented the State of Arkansas in the Senate from 1942 until his death in 1977. He served on a number of committees and his greatest contribution arguably is his work on the Judiciary Committee, which included a complete overhaul of the criminal code (in addition to comprehensive copyright reform).

<sup>17</sup> See BARBARA A. RINGER, *THE DEMONOLOGY OF COPYRIGHT: SECOND OF THE R.R. BOWKER MEMORIAL LECTURES* (R.R. Bowker Co. 1974).

<sup>18</sup> Pub. L. No. 105-304, 112 Stat. 2860 (1998).

<sup>19</sup> 17 U.S.C. § 512.

<sup>20</sup> 17 U.S.C. § 1201.

As is the case today in matters of complex copyright policy, passage of the DMCA harnessed expertise from throughout the government.<sup>21</sup> The Clinton Administration negotiated the Internet treaties and released a series of papers for public discussion, Congress negotiated their implementation into U.S. law, and a number of amendments were entrusted to the Copyright Office to administer, including a rulemaking procedure to address the intersection of the anticircumvention provisions and noninfringing uses.

By the way, Peters is fittingly optimistic in her portrait.

## II. WHY IT IS TIME FOR REVISION

In American copyright law, there have been revisions and then there have been revisions. As a general matter, Congress introduces bills, directs studies, conducts hearings, and discusses copyright policy on a fairly regular basis, and has done so for two centuries. But revision of the comprehensive sort is an entirely different matter. It requires a clear and forward-thinking set of goals and a sustained commitment from Congress, most certainly over multiple sessions. As Solberg observed in 1926, there comes a time when the “subject ought to be dealt with as a whole, and not by further merely partial or temporizing amendments.”<sup>22</sup>

In general, major copyright revisions require Members of Congress, including especially the committee leaders who are responsible for the governance of intellectual property, and their staffs, to have a meaningful degree of fluency in the substance of copyright law. While high level or even philosophical discussions do have a place in policy discussions, amending the law eventually comes down to the negotiation of complex and sometimes arcane provisions of the statute. Some of these provisions are challenging for copyright experts, let alone for elected officials who have a multitude of other national and international responsibilities. Add to this the intensity with which interested parties across the copyright spectrum sometimes make their views known, and the public’s confusion if not aversion when it comes to copyright issues,<sup>23</sup> and it is little wonder that Congress has moved slowly in the copyright space.

### *Recent Years*

In terms of enacted legislation, Congress primarily has made minor adjustments or technical corrections in recent years. Consider, for example, the Copyright Cleanup,

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<sup>21</sup> See Information Infrastructure Task Force, Working Group on Intellectual Property Rights, *Intellectual Property and the National Information Infrastructure: A Preliminary Draft of the Report of the Working Group on Intellectual Property Rights* (1994); Information Infrastructure Task Force, *Global Information Infrastructure: Agenda for Cooperation* (1995).

<sup>22</sup> Thorvald Solberg, *Copyright Law Reform*, 35 YALE L.J. 48, 62 (1926).

<sup>23</sup> See Jane C. Ginsburg, *How Copyright Got a Bad Name for Itself*, 26 COLUM. J. & ARTS 61, 61-62 (2002) (“I have a theory about how copyright got a bad name for itself, and I can summarize it in one word: Greed. Corporate greed and consumer greed.”).

Clarification, and Corrections Act of 2010,<sup>24</sup> the Satellite Television Extension and Localism Act of 2010,<sup>25</sup> the Temporary Extension Act of 2010,<sup>26</sup> followed by the Continuing Extension Act of 2010,<sup>27</sup> and three webcaster settlement acts in 2002, 2008, and 2009.<sup>28</sup>

Where Congress was able to act more substantively, its focus was directed at the growing problem of piracy in the digital environment — for example the ART Act of 2005,<sup>29</sup> which addressed camcording in movie theatres, and the PRO-IP Act of 2008,<sup>30</sup> which enhanced certain civil remedies and criminal sanctions, improved funding and resources for several federal enforcement programs, and created the position of the Intellectual Property Enforcement Coordinator (“IPEC”).

Certainly, Congress is acting responsibly when it makes discrete adjustments to the copyright law from time to time, but its more valuable role always has come from reviewing, and addressing as appropriate, the larger policy themes and developments that require attention. In this regard, the last sustained period of copyright activity was fifteen years ago, a period that produced the DMCA and the Copyright Term Extension Act,<sup>31</sup> as well as concomitant changes to the library and archives exception. During this time, Congress, though legislating in a charged atmosphere, acted on copyright policy with authority, leaving a very visible and very far-reaching imprint on the development of both law and commerce. In the age of the Internet, where technology can so quickly affect the creation and communication of creative materials, these global reviews may need to happen more frequently.

#### *Preparatory Work*

The next great copyright act would not require Congress to start from scratch because, since 1998, it has put in motion a steady stream of preparatory work on core issues. For example, Congress has had more than a decade of debate on the public performance right for sound recordings,<sup>32</sup> and given serious consideration to improving

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<sup>24</sup> Pub. L. No. 111-295, 124 Stat. 3180 (2010).

<sup>25</sup> Pub. L. No. 111-175, 124 Stat. 1218 (2010).

<sup>26</sup> Pub. L. No. 111-144, 124 Stat. 42 (2010).

<sup>27</sup> Pub. L. No. 111-157, 124 Stat. 1116 (2010).

<sup>28</sup> Small Webcaster Settlement Act of 2002, Pub. L. No. 107-321, 116 Stat. 2780 (2002), Webcaster Settlement Act of 2008, Pub. L. No. 110-435, 122 Stat. 4974 (2008); and Webcaster Settlement Act of 2009, Pub. L. No. 111-36, 123 Stat. 1926 (2009).

<sup>29</sup> Pub. L. No. 109-9, 119 Stat. 218 (2005).

<sup>30</sup> Prioritizing Resources and Organization for Intellectual Property Act of 2008 (“PRO-IP Act”), Pub. L. No. 110-403, 122 Stat. 4256 (2008).

<sup>31</sup> Sonny Bono Copyright Term Extension Act, Pub. L. No. 105-298, 112 Stat. 2827 (1998).

<sup>32</sup> See, e.g., *Ensuring Artists Fair Compensation: Updating the Performance Right and Platform Parity for the 21st Century: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the H. Comm. on the Judiciary*, 110th Cong. (2007) (statement of Marybeth Peters, Register of Copyrights); *The Performance Rights Act and Parity among Music Delivery Platforms: Hearing Before the S. Comm. on the Judiciary*, 111th Cong. (2009) (statement of Marybeth Peters, Register of Copyrights); and *Internet*

the way in which musical works are licensed in the marketplace.<sup>33</sup> These issues are ripe for resolution.

Similarly, Congress has requested that the Copyright Office prepare a number of formal studies and analyses and conduct public inquiries and roundtables on important issues. Although none of these were undertaken for the purpose of a comprehensive revision, they provide Congress with a fair amount of background on issues that would be relevant to the next great copyright act. Consider the following Copyright Office studies, for example:

- An early report on the issue of digital first sale;<sup>34</sup>
- A major study and ongoing recommendations on orphan works solutions;<sup>35</sup>
- Multiple reports on reforming or possibly eliminating the statutory licenses for cable and satellite retransmission under sections 111, 119, and 122;<sup>36</sup>
- An analysis of termination provisions in the context of pre-1978 contracts;<sup>37</sup>
- An analysis of the legal and business issues relating to mass digitization;<sup>38</sup>

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*Streaming of Radio Broadcasts: Balancing the Interests of Sound Recording Copyright Owners with those of Broadcasters, Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the H. Comm. on the Judiciary, 108th Cong. (2004) (statement of Marybeth Peters, Register of Copyrights).*

<sup>33</sup> Congress has introduced legislation and held multiple hearings on reforming the statutory license for reproducing and distributing musical works under section 115. *See Section 115 Reform Act (SIRA) of 2006, Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the H. Comm. on the Judiciary, 109th Cong. (2006).*

<sup>34</sup> U.S. COPYRIGHT OFFICE, DMCA SECTION 104 REPORT: A REPORT OF THE REGISTER OF COPYRIGHTS PURSUANT TO § 104 OF THE DIGITAL MILLENNIUM COPYRIGHT ACT (2001) (the “SECTION 104 REPORT”), available at [http://www.copyright.gov/reports/studies/dmca/dmca\\_study.html](http://www.copyright.gov/reports/studies/dmca/dmca_study.html).

<sup>35</sup> U.S. COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS (2006) (the “ORPHAN WORKS REPORT”), available at <http://www.copyright.gov/orphan/orphan-report-full.pdf>.

<sup>36</sup> U.S. COPYRIGHT OFFICE, SATELLITE TELEVISION AND LOCALISM ACT, § 302 REPORT (2011) (the “SECTION 302 REPORT”), available at <http://www.copyright.gov/reports/section302-report.pdf>; U.S. COPYRIGHT OFFICE, SATELLITE HOME VIEWER EXTENSION AND REAUTHORIZATION ACT SECTION 109 REPORT (2008), available at <http://www.copyright.gov/reports/section109-final-report.pdf>, and U.S. COPYRIGHT OFFICE, SATELLITE HOME VIEWER EXTENSION AND REAUTHORIZATION ACT § 110 REPORT (2006), available at <http://www.copyright.gov/reports/satellite-report.pdf>.

<sup>37</sup> U.S. COPYRIGHT OFFICE, ANALYSIS OF GAP GRANTS UNDER THE TERMINATION PROVISIONS OF TITLE 17 (2010), available at <http://www.copyright.gov/reports/gap-grant-analysis.pdf>.

- A report on the federalization of protection for pre-1972 sound recordings;<sup>39</sup>
- A pending analysis on the propriety of a resale royalty for visual artists;<sup>40</sup> and
- A pending study on solutions for enforcement of small copyright claims.<sup>41</sup>

Finally, Congress has introduced a number of bills that have not moved much over the years, on a variety of issues that it may or may not wish to consider further. For example, in the past ten years, bills have been introduced that would extend copyright-like protection to fashion designs,<sup>42</sup> exempt churches from infringement liability for showing football games,<sup>43</sup> add a fair use exemption to section 1201,<sup>44</sup> require a nominal fee to retain copyright protection after fifty years,<sup>45</sup> and require new standards for Copyright Royalty Judges with regard to webcasting.<sup>46</sup> A general revision effort would offer everyone the opportunity to step back and consider issues both large and small, as well as the relationship of these issues to the larger statute and the importance or unimportance of international developments.

### *The Courts*

It should come as no surprise that courts also are reflecting the wear and tear of the statute. In some areas, courts have picked up where Congress left off. Thus in the context of peer-to-peer networks, courts have fashioned the concept of inducement as part of the secondary liability analysis, and in the context of the DMCA, courts have interpreted section 512's knowledge standards.<sup>47</sup> In other areas, courts appear to be struggling with existing statutory language. Consider the Second Circuit's 2008

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<sup>38</sup> U.S. COPYRIGHT OFFICE, LEGAL ISSUES IN MASS DIGITIZATION: A PRELIMINARY ANALYSIS AND DISCUSSION DOCUMENT (2011) (the "MASS DIGITIZATION REPORT"), available at [http://www.copyright.gov/docs/massdigitization/USCOMassDigitization\\_October2011.pdf](http://www.copyright.gov/docs/massdigitization/USCOMassDigitization_October2011.pdf).

<sup>39</sup> U.S. COPYRIGHT OFFICE, FEDERAL COPYRIGHT PROTECTION FOR PRE-1972 SOUND RECORDINGS (2011), available at <http://www.copyright.gov/docs/sound/pre-72-report.pdf>.

<sup>40</sup> See Resale Royalty Right: Notice of Inquiry, 77 Fed. Reg. 58,175 (Sept. 19, 2012).

<sup>41</sup> See Remedies for Small Copyright Claims: Notice of Inquiry, 76 Fed. Reg. 66,758 (Oct. 27, 2011).

<sup>42</sup> H.R. 5055, 109th Cong. (2006); H.R. 2033, 110th Cong. (2007); S. 1957, 110th Cong. (2007); H.R. 2196, 111th Cong. (2009).

<sup>43</sup> S. 2591, 110th Cong. (2008).

<sup>44</sup> H.R. 107, 108th Cong. (2003).

<sup>45</sup> H.R. 2601, 108th Cong. (2003).

<sup>46</sup> H.R. 6480, 112th Cong. (2012); S. 3609, 112th Cong. (2012).

<sup>47</sup> See, e.g., *Viacom Int'l, Inc. v. YouTube, Inc.*, 676 F.3d 19 (2d Cir. 2012); *Columbia Pictures Indus., Inc. v. Fung*, 2009 U.S. Dist. LEXIS 122661 (C.D. Cal. 2009).

*Cablevision* holding on public performances,<sup>48</sup> which indicates that a performance is not made “to the public” unless more than one person is capable of receiving a *particular* transmission (*i.e.*, a transmission made using a unique copy of a given work). As the Solicitor General’s Office noted, “[s]uch a construction could threaten to undermine copyright protection in circumstances far beyond those presented.”<sup>49</sup> Moreover, this comes at the very time that copyrighted works are increasingly disseminated via streaming, thus making the public performance right more important than ever.

In some cases, courts have expressed their opinions about the statute directly in their decisions. For example, in *Authors Guild v. Google Inc.*, the Southern District of New York stated that “[t]he questions of who should be entrusted with guardianship over orphan books, under what terms, and with what safeguards are matters more appropriately decided by Congress than through an agreement among private, self-interested parties.”<sup>50</sup> In *Sony BMG Music Entertainment v. Tenenbaum*, the First Circuit observed that Congress might wish to examine the application of the Copyright Act regarding statutory damages.<sup>51</sup> In a case involving streaming video, the Seventh Circuit noted the difficulty of determining when a public performance begins and stated that “[l]egislative clarification of the public-performance provision of the Copyright Act would therefore be most welcome.”<sup>52</sup> And in *Golan v. Holder*, the Supreme Court observed that Congress may need to consider legislative solutions to offset “[o]ur unstinting adherence to Berne.”<sup>53</sup>

### *Readability*

Finally, we need a clearer copyright act for a rather simple reason: more and more people are affected by it. Because the dissemination of content is so pervasive to life in the 21<sup>st</sup> century, copyright issues are necessarily pervasive as well — from fair use in education to statutory licenses for new businesses, to the parameters of liability and enforcement online and in the home. Regulations and education could certainly help in some instances. However, if one needs an army of lawyers to understand the basic precepts of the law, then it is time for a new law.

## III. REVISION ISSUES

The next great copyright act must be forward thinking but flexible. It should not attempt to answer the entire universe of possible questions, but, no matter what, it must

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<sup>48</sup> *Cartoon Network, LP v. CSC Holdings, Inc.*, 536 F.3d 121 (2d Cir. 2008).

<sup>49</sup> Brief of the United States as *Amicus Curiae* at 20-21, *Cable News Network, Inc. v. CSC Holdings, Inc.*, No. 08-448 (U.S. 2009).

<sup>50</sup> 770 F. Supp. 2d 666, 677 (S.D.N.Y. 2011).

<sup>51</sup> 660 F.3d 487, 490 (1st Cir. 2011), *cert. denied*, 132 S. Ct. 2431 (2012).

<sup>52</sup> *Flava Works, Inc. v. Gunter*, 689 F.3d 754, 761 (7th Cir. 2012).

<sup>53</sup> *Golan v. Holder*, 132 S. Ct. 873, 894 (2012) (noting the long term of copyright term as a factor in current problems like orphan works).

serve the public interest. Thus, it must confirm and rationalize certain fundamental aspects of the law, including the ability of authors and their licensees to control and exploit their creative works, whether content is distributed on the street or streamed from the cloud.

This control cannot be absolute, but it needs to be meaningful. After all, people around the world increasingly are accessing content on mobile devices<sup>54</sup> and fewer and fewer of them will need or desire the physical copies that were so central to the 19<sup>th</sup> and 20<sup>th</sup> century copyright laws. Thus, Congress has a central equation to consider today: what does and does not belong under a copyright owner's control. Congress also will want to consider the exceptions and limitations, enforcement tools, licensing schemes, and the registration system it wants for the 21<sup>st</sup> century.

## Major Issues

### *Exclusive Rights*

Among the specific issues at play are the application of longstanding but evolving exclusive rights, such as reproduction and distribution, as well as the application and evolution of the public performance right on the Internet (for example, to authorize the streaming of music, movies, television shows, or sporting events).<sup>55</sup>

Starting with the latter, I would be remiss if I did not underscore the Copyright Office's long history of supporting a more complete right of public performance for sound recordings, commensurate with the rights afforded to other classes of works in U.S. law and provided for in virtually all industrialized countries around the globe.<sup>56</sup> As noted above, this is an issue on which Congress has spent many years deliberating. Owners of sound recordings are disadvantaged under current law in that they enjoy an

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<sup>54</sup> See, e.g., International Telecommunications Union, *ITU releases latest global technology development figures* (Feb. 27, 2013) ("ICT Facts and Figures report predicts that there will soon be as many mobile-cellular subscriptions as people inhabiting the planet, with the figure set to nudge past the seven billion mark early in 2014. More than half of all mobile subscriptions are now in Asia, which remains the powerhouse of market growth, and by the end of 2013 overall mobile penetration rates will have reached 96% globally, 128% in the developed world, and 89% in developing countries"), available at [http://www.itu.int/net/pressoffice/press\\_releases/2013/05.aspx](http://www.itu.int/net/pressoffice/press_releases/2013/05.aspx).

<sup>55</sup> The 1976 Act's exclusive rights are set forth in 17 U.S.C. § 106. Also at play may be the distinction between commercial and noncommercial activities or some reasonable definition thereof, and the distinction between published and unpublished works, which continues to affect the operation of core provisions.

<sup>56</sup> "Many countries of the world, and virtually all industrialized countries, recognize performance rights for sound recordings, including performances made by means of broadcast transmissions. . . . These countries recognize the incredible value of a recording artist's interpretation of a musical composition or other artistic work." *Ensuring Artists Fair Compensation: Updating the Performance Right and Platform Parity for the 21<sup>st</sup> Century*, Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the H. Comm. on the Judiciary, 110th Cong. (2007) (statement of Marybeth Peters, Register of Copyrights), available at <http://www.copyright.gov/docs/regstat073107.html>.

exclusive right of reproduction and distribution but not public performance.<sup>57</sup> Moreover, because of the disparity in royalty obligations, there is an increasingly stark economic disadvantage for businesses that offer sound recordings over the Internet. Congress has done quite a lot of thinking on this already. How to craft a final resolution should be squarely on the table of comprehensive revision.

The scope of the distribution right also is a central theme today, as courts work through whether and how it may be implicated and enforced in relation to use of works over the Internet.<sup>58</sup> One key issue in the courts is the degree to which a claimed violation of the exclusive right to authorize distribution of a work requires a showing of actual dissemination of a work or whether the act of making the work available online is sufficient.<sup>59</sup>

### *Incidental Copies*

The reproduction right could also use a makeover, but for a different reason. The reproduction right has been a valuable tool in enforcement proceedings, helping to ameliorate the confusion or inadequacies of other provisions, particularly in the context of peer-to-peer file sharing or illegal streaming.<sup>60</sup> However, new technologies have made it increasingly apparent that not all reproductions are equal in the digital age. Some copies are merely incidental to an intended primary use of a work, including where

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<sup>57</sup> In 1995, a limited right to perform a sound recording publicly by means of a digital audio transmission was added at 17 U.S.C. § 106(6) in order for the United States to comply with Article 15 of the WIPO Performances and Phonograms Treaty, but no comparable right exists with respect to the public performances of sound recordings over the air by traditional broadcasters.

<sup>58</sup> See Peter Menell, *In Search of Copyright's Lost Ark: Interpreting the Right to Distribute in the Internet Age*, 59 J. OF THE COPYRIGHT SOC. OF THE U.S.A. 1, 6 (2011); David O. Carson, *Making the Making Available Right Available 22nd Annual Horace S. Manges Lecture*, 33 COLUM. J.L. & ARTS 135, 150 (2010); Robert Kasunic, *Making Circumstantial Proof of Distribution Available*, 18 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 1145 (2008).

<sup>59</sup> See, e.g., *Universal City Studios Prods. LLP v. Bigwood*, 441 F. Supp. 2d 185 (D. Me. 2006) (holding that defendants violated plaintiff's exclusive right to distribute copyrighted works "by using KaZaA to make copies of the Motion Pictures available to thousands of people over the internet"); *Interscope Records v. Duty*, 2006 WL 988086, at \*2 (D. Ariz. Apr. 14, 2006) (holding that the "mere presence of copyrighted [works] in [defendant's] share file may constitute copyright infringement"); *Motown Record Co. v. DePietro*, 2007 WL 576284, at \*3 (E.D. Pa. Feb. 16, 2007) (finding that infringement of the distribution right can be based on actual distribution or by an offer to distribute, i.e., proof that the work was "made available" by the defendant); *Atlantic Recording Corp. v. Anderson*, 2008 WL 2316551, at \*7 (S.D. Tex. Mar. 12, 2008) (holding that making copyrighted works available for download via a peer-to-peer network contemplates "further distribution," which is a violation of the distribution right); *Elektra Entm't Group, Inc. v. Barker*, 551 F. Supp. 2d 234 (S.D.N.Y. 2008) (stopping short of endorsing a full "making available" right, but accepting that an offer to distribute a work for the purpose of its further distribution or public performance constitutes an infringement of the distribution right). But see *London-Sire Records, Inc. v. Doe*, 542 F. Supp. 2d 153 (D. Mass. 2008) (concluding that "defendants cannot be liable for violating the plaintiffs' distribution right unless a 'distribution' actually occurred"); *Atlantic Recording Corp. v. Howell*, 554 F. Supp. 2d 976 (D. Ariz. 2008) (concluding that "[m]erely making an unauthorized copy of a copyrighted work available to the public does not violate a copyright holder's exclusive right of distribution").

<sup>60</sup> See Carson, *supra* note 58 at 150.

primary uses are licensed, and these incidental copies should not necessarily be treated as infringing.

The 1976 Act recognized and addressed the incidental nature of certain copies by providing fact-specific exceptions and limitations in sections 112 (for making ephemeral recordings of certain works in order to facilitate broadcast transmissions) and 117 (for making a copy of a computer program – such as a “read-only” copy – that is essential for the utilization of that work). The DMCA did the same in section 512 (for the intermediate and temporary storage of copyrighted material in the course of transitory digital network communications and system caching) and in section 117 (for making an incidental copy of a computer program when maintaining or repairing a machine that contains an authorized copy of that program).<sup>61</sup>

In 2001, the Copyright Office examined the issue in a report known as the Section 104 Report. There, the Office noted the uncertainty around temporary copies of works in the context of digital commerce, and the fact that “courts had strayed away from formulating a general rule defining how long a reproduction must endure to be ‘fixed,’ deciding instead on a case-by-case basis whether the particular reproduction at issue sufficed.”<sup>62</sup> The Section 104 Report recommended the enactment of several additional exemptions for the creation of copies that are incidental to licensed use.<sup>63</sup>

Because incidental or transient copies are made by consumers on a daily basis and in a variety of otherwise lawful activities involving consumer electronics and computer programs, there may be room for yet further discussion of this issue.<sup>64</sup> In any event, as the confusion over incidental copies has persisted, this is an area where Congress could provide a voice of reason.

### *Enforcement*

A 21<sup>st</sup> century copyright act requires 21<sup>st</sup> century enforcement strategies. These must respect the technical integrity and expressive capabilities of the Internet as well as the rule of law. It is possible and necessary to combine safeguards for free expression, guarantees of due process, and respect for intellectual property in the copyright law. As the Supreme Court recognized, “the Framers intended copyright itself to be the engine of free expression.”<sup>65</sup>

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<sup>61</sup> In 1998, the Computer Maintenance Competition Assurance Act amended section 117 by inserting headings for subsections (a) and (b) and by adding subsections (c) and (d). Pub. L. No. 105-304, 112 Stat. 2860, 2887.

<sup>62</sup> SECTION 104 REPORT, *supra* note 34 at 111.

<sup>63</sup> *See id.* at 141.

<sup>64</sup> *See e.g.*, Samuelson Law, Technology & Public Policy Clinic at U.C. Berkeley School of Law and the Stanford Cyberlaw Clinic on behalf of Public Knowledge, *Copyright Reform Act: Providing an Incidental Copies Exemption for Service Providers and End-Users* (March 31, 2011), available at: <http://www.publicknowledge.org/files/docs/craincidentalcopies.pdf>.

<sup>65</sup> *Harper & Row Pubs., Inc. v. Nation Enters.*, 471 U.S. 539, 558 (1985).

In short, the next great copyright act presents an opportunity. All members of the online ecosystem should have a role, including payment processors, advertising networks, search engines, Internet service providers, and copyright owners. These strategies can be a mix of legislative solutions and complementary voluntary initiatives,<sup>66</sup> but where gaps in the law exist Congress should not be absent.<sup>67</sup>

One critical issue is the ability of law enforcement to prosecute the rising tide of illegal streaming in the criminal context.<sup>68</sup> Streaming implicates the copyright owner's exclusive right of public performance: it is a major means by which copyright owners license their rights in sporting events, television programs, movies, and music to customers, who in turn access the content on their televisions, smart phones, tablets, or video consoles.<sup>69</sup> Under current law there is a disparity that may have once been of little consequence but is today a major problem: prosecutors may pursue felony charges in the case of illegal reproductions or distributions, but are limited to misdemeanor charges when the work is streamed, even where such conduct is large scale, willful and undertaken for a profit motive.<sup>70</sup> As a practical matter, prosecutors have little incentive to file charges at all, or to pursue only those cases where the rights of reproduction and distribution are also at issue. This lack of parity neither reflects nor serves the digital marketplace.<sup>71</sup>

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<sup>66</sup> For example, a number of rights holders and service providers recently announced a voluntary "Copyright Alert System" that will help educate the public and address online infringing occurring on certain networks. See <http://www.copyrightinformation.org/>.

<sup>67</sup> For example, Congress has looked at the sufficiency of enforcement mechanisms in cases where bad faith actors are offering infringing content to U.S. consumers from websites controlled outside of the United States, a situation where the proposed solutions have generated a great deal of controversy and which are, at very least, as complex as the problem itself. See, e.g., *Promoting Investment and Protecting Commerce Online: Legitimate Sites v. Parasites, Part 1, Hearing Before the Subcomm. on Intellectual Property, Competition, and the Internet of the H. Comm. on the Judiciary*, 112th Cong. (2011); *Targeting Websites Dedicated to Stealing American Intellectual Property, Hearing Before the S. Comm. on the Judiciary*, 112th Cong. (2011).

<sup>68</sup> See OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE, SPECIAL 301 REPORT, 11 (2011) (noting the problem of illegal streaming and linking sites); and ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, PIRACY OF DIGITAL CONTENT, CASE STUDY: THE SPORTS OWNERS SECTOR, 90 (2009) (discussing streaming of sporting events).

<sup>69</sup> According to one recent study, video streaming traffic alone now accounts for more than one quarter of all Internet traffic and is among the fastest growing areas of the Internet. See Envisional, *Technical Report: An Estimate of Infringing Use of the Internet 3*, 19 (2011).

<sup>70</sup> See 18 U.S.C. § 2319(b)(1).

<sup>71</sup> See *Promoting Investment and Protecting Commerce Online: The ART Act, The NET Act and Illegal Streaming: Hearing Before the Subcomm. on Intellectual Property, Competition, and the Internet of the H. Comm. on the Judiciary*, 112th Cong. (2011); see also Administration's White Paper on Intellectual Property Enforcement Legislative Recommendations at 10 (March 2011), available at [http://www.whitehouse.gov/sites/default/files/ip\\_white\\_paper.pdf](http://www.whitehouse.gov/sites/default/files/ip_white_paper.pdf) ("To ensure that Federal copyright law keeps pace with infringers, and to ensure that DOJ and U.S. law enforcement agencies are able to effectively combat infringement involving new technology, the Administration recommends that Congress clarify that infringement by streaming, or by means of other similar new technology, is a felony in appropriate circumstances.").

Mechanisms for small copyright claims are also an active topic and the current focus of a Copyright Office study.<sup>72</sup> Under current law, copyright lawsuits are reserved to the federal courts. While this ensures consistency in the treatment of federal subject matter, it can also be quite costly and time consuming, effectively preventing the enforcement of many infringement claims of authors and others who do not have or cannot justify expending the resources. The question is whether Congress should create a streamlined adjudicative process to assist copyright owners with claims of small economic value.<sup>73</sup>

This brings me to statutory damages. Some would eliminate the precondition in section 412 of the Copyright Act that limits the availability of statutory damages to those who register with the Copyright Office in a timely manner.<sup>74</sup> They believe that it places an undue burden on the people who need statutory damages the most but are least likely to be aware of the condition, namely authors. Cost is also an issue, particularly for prolific creators like photographers, who may be unable to register each and every work under a separate application and have for years enjoyed a reduced rate through a group registration option. This gives photographers the ability to claim statutory damages, but often without providing effective public disclosure of what the group registration covers. Section 412 also acts as a filter, reducing the number of claims from copyright owners and the level of exposure for infringers. Unfortunately, it does this for bad faith actors and good faith actors alike.

Section 412 was designed as a precaution and an incentive in 1976 — a time when the law was moving to automatic protection and many were worried about the ramifications for authors, the public record and the Library of Congress' collection. Section 412 thus creates a bargain: the copyright owner preserves his ability to elect statutory damages in exchange for registering, thereby ensuring a more complete public record of copyright information and a better collection for the Library of Congress.

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<sup>72</sup> See <http://www.copyright.gov/docs/smallclaims/>. Congress has asked the Copyright Office to study the challenges of the current system for resolving small copyright claim disputes, as well as possible alternative systems, and to report back by the end of September 2013.

<sup>73</sup> The Copyright Office is not the only government agency investigating the issue of smaller-value intellectual property claims. The U.S. Patent and Trademark Office is conducting a review of small patent claims. See Request for Comments on Patent Small Claims Proceedings in the United States, 77 Fed. Reg. 74,830 (Dec. 18, 2012). The issue is also not limited to the United States; the United Kingdom has instituted a special track for smaller-value intellectual property claims. See *New small claims track for businesses with IP disputes*, <http://www.ipo.gov.uk/about/press/press-release/press-release-2012/press-release-20121001.htm>.

<sup>74</sup> Section 412 provides that, with certain exceptions, statutory damages and awards of attorney's fees are not available to the copyright owner when: (1) infringement of copyright in an unpublished work commenced before the effective date of its registration; or (2) infringement of copyright commenced after first publication of the work and before the effective date of its registration, unless such registration was made within three months after the first publication of the work. See 17 U.S.C. § 412.

Whether and how section 412 has achieved these goals may be ripe for review again.<sup>75</sup> Certainly, the public database is important and the Library's collection is critical. However, if statutory damages are to remain tethered to registration, then the public record will need to be much more useful to prospective licensees than it is now. To this end, one professor has suggested that the recordation function in the law could be improved by requiring exclusive licensees to record their licenses promptly or risk their rights defaulting back to the grantor.<sup>76</sup>

More globally, arguments abound on the subject of statutory damages, suggesting that they are either too high, too low, too easy, or too hard to pursue. Statutory damages have long been an important part of copyright law to ensure that copyright owners are compensated for infringement, at least where actual damages are unworkable. The Copyright Act of 1790 included a provision awarding the copyright owner fifty cents for every sheet of an unauthorized copy that was printed, published, or imported or exposed to sale.<sup>77</sup> Statutory damages should remain squarely in the next great copyright act irrespective of section 412. However, there may be plenty to do on the edges, including providing guidance to the courts (*e.g.*, in considering whether exponential awards against individuals for the infringement of large numbers of works should bear a relationship to the actual harm or profit involved), and finding new ways to improve the public record of copyright ownership.

#### *The Digital Millennium Copyright Act*

A general review of copyright issues in the 21<sup>st</sup> century would be incomplete without a review of the DMCA. On the one hand, it is our best model of future-leaning legislation. On the other hand, fifteen years have passed and the world – including most notably the Internet – has evolved. Thus, if only for the exercise of establishing how the DMCA is working, including how affected parties have implemented its provisions and courts across the country have applied it, Congress should take stock of the last decade and a half.

The section 512 safe harbors in particular have generated more than their fair share of litigation on issues such as eligibility for the safe harbor, inducement, and monitoring.<sup>78</sup> Some of these issues were imaginable at the time at the time of their

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<sup>75</sup> See THE LIBRARY OF CONGRESS, ADVISORY COMMITTEE ON REGISTRATION AND DEPOSIT, REPORT OF THE CO-CHAIRS, ROBERT WEDGEWORTH AND BARBARA RINGER, at 6 (1993) (“ACCORD REPORT”).

<sup>76</sup> Jane C. Ginsburg, *The U.S. Experience with Copyright Formalities: A Love/Hate Relationship*, 33 COLUM. J. L. & ARTS 311, 345-46 (2010); see also Directive 2006/116/EC of the European Parliament and of the Council of 12 Dec. 2006, at 1 (offering a longer term of protection where the author is identified).

<sup>77</sup> See U.S. Copyright Act of 1790, 1 Stat. 124 (1790).

<sup>78</sup> See, *e.g.*, *UMG Recordings, Inc. v. Shelter Capital Partners LLC*, Case No. 09-55902, at 33 (9th Cir. Mar. 14, 2013) (concluding that “merely hosting a category of copyrightable content, such as music videos, with the general knowledge that one’s services could be used to share infringing material, is insufficient” to prove that a website had actual knowledge of infringing activity); *Viacom Int’l, Inc. v. YouTube, Inc.*, 676 F.3d 19 (2d Cir 2012) (distinguishing actual knowledge – or subjective awareness of specific infringing acts – from “red flag” knowledge, which the court described as an objective standard turning on whether the service provider was aware of facts from which a reasonable person would infer the existence of

enactment, and others were not. There are other concerns that go more generally to the question of whether the burdens of notice and takedown are fairly shared between copyright owners and intermediaries.

The DMCA also created legal protections for the technological protection measures used by copyright owners, as well as a triennial rulemaking process by which proponents could make the case for temporary exemptions to such measures, to allow circumvention in certain cases where it is necessary to permit noninfringing activity.<sup>79</sup> The Copyright Office has conducted five rulemakings since 1998.<sup>80</sup> Each rulemaking is conducted *de novo* and includes an evidentiary record developed during the proceedings. Congress intended the rulemaking to provide “a fail-safe mechanism”<sup>81</sup> for noninfringing uses, including fair uses. Like much of Title 17, the mechanisms of the rulemaking may benefit from congressional review at this time, but it generally has served the Nation well.

During the last proceeding, concluded in 2012, the Copyright Office recommended, and the Librarian granted, six exemptions that ran the gamut of technological issues. These included exemptions for persons with print disabilities using assistive technologies like screen readers, as well as exemptions for teachers and documentary filmmakers accessing protected motion pictures in the course of their work.

When the Copyright Office has not recommended exemptions, it has been because the balancing of the factors set forth in section 1201 did not favor doing so – that is, because the legal or evidentiary standards (or both) had not been met. In the most recent rulemaking, the Office recommended against granting an exemption to permit “jailbreaking” of videogame consoles because the proponents did not establish that there were adverse effects stemming from the prohibition – namely because the record revealed myriad alternatives to achieve the proponents’ intended purpose which did not require circumvention. In the context of unlocking cell phones, the Copyright Office was again asked to consider the exemption that it had crafted in two of the previous four

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specific infringing acts); *Columbia Pictures Indus., Inc. v. Fung*, 2009 U.S. Dist. LEXIS 122661 (C.D. Cal. 2009) (concluding that a file-sharing service that actively induced infringement was ineligible for the safe harbors because the safe harbors are intended to protect passive good faith conduct).

<sup>79</sup> See 17 U.S.C. § 1201.

<sup>80</sup> The Conference Report on the DMCA states:

[T]he determination will be made in a rulemaking proceeding on the record. It is the intention of the conferees that, as is typical with other rulemaking under title 17, and in recognition of the expertise of the Copyright Office, the Register of Copyrights will conduct the rulemaking, including providing notice of the rulemaking, seeking comments from the public, consulting with the Assistant Secretary for Communications and Information of the Department of Commerce and any other agencies that are deemed appropriate, and recommending final regulations in the report to the Librarian.

H.R. REP. NO. 105-796 at 64 (1998); see also <http://www.copyright.gov/1201>.

<sup>81</sup> H.R. REP. NO. 105-551, Pt. 2, at 36 (1998).

rulemakings. It concluded that the exemption should continue for “legacy” phones, *i.e.*, phones already purchased by consumers on or before January 26, 2013, but was unable to extend the recommendation to new phones in light of the evidentiary record, which demonstrated that carriers were offering unlocked cell phones in the marketplace, and that consumers could therefore choose to purchase them over the next three years.<sup>82</sup> While the rulemaking process is necessarily narrow, it sits at a dynamic intersection of technology, emerging markets, the protection of intellectual property, fair use, and other nonfringing activities. It therefore often serves as a barometer for policy concerns and policy action beyond the confines of the statute.<sup>83</sup>

### *Digital First Sale*

The doctrine of first sale has been a part of the copyright law for more than one hundred years, but it could benefit from congressional attention at this time, at least with respect to digital copies but also possibly with respect to the importation and exportation of physical copies in certain circumstances. First sale is rooted in the common law rule against restraints on the alienation of tangible property and is codified in section 109 of the 1976 Act. It provides that “the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.”<sup>84</sup>

As for its role in the digital realm, the Copyright Office conducted an early study for Congress in 2001.<sup>85</sup> In part, the Office addressed the question of whether the first sale doctrine should be modified to allow users to transmit digital copies of creative works without the consent of copyright owners. At that time, the Office recommended against doing so, noting that transmission of works interfered with the copyright owners’ control,

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<sup>82</sup> See U.S. COPYRIGHT OFFICE, SECTION 1201 RULEMAKING: FIFTH TRIENNIAL PROCEEDING TO DETERMINE EXEMPTIONS TO THE PROHIBITION ON CIRCUMVENTION, RECOMMENDATION OF THE REGISTER OF COPYRIGHTS, at 45-47, 79 (Oct. 2012) (“RECOMMENDATION OF THE REGISTER OF COPYRIGHTS”), available at [http://www.copyright.gov/1201/2012/Section\\_1201\\_Rulemaking\\_2012\\_Recommendation.pdf](http://www.copyright.gov/1201/2012/Section_1201_Rulemaking_2012_Recommendation.pdf).

<sup>83</sup> See, *e.g.*, Official White House Response, It’s Time to Legalize Cell Phone Unlocking (March 4, 2013), available at <https://petitions.whitehouse.gov/response/its-time-legalize-cell-phone-unlocking>; and Statement from the Library of Congress (March 4, 2013), available at <http://www.loc.gov/today/pr/2013/13-041.html>. As of this writing, several bills are pending. The Copyright Office has also from time to time noted other issues of public policy in the context of the rulemaking analysis, including most recently the need to update provisions for persons who are blind or have other print disabilities or for security research or preservation. See, *e.g.*, RECOMMENDATION OF THE REGISTER OF COPYRIGHTS, *supra* note 82 at 24,

<sup>84</sup> 17 U.S.C. § 109(a). There are also some issues in the physical world involving importation, geographical licensing, and the segmentation of international markets. In *Kirtsaeng v. John Wiley & Sons*, 654 F.3d 210 (2d Cir. 2011), now before the Supreme Court, the Second Circuit held that a U.S. publisher can prevent an importer from bringing foreign-made textbooks into the United States for resale in this country. Some stakeholders, including libraries, charities, and commercial resellers have suggested they would benefit from greater certainty in this area (regardless of how the Supreme Court rules in *Kirtsaeng*).

<sup>85</sup> See SECTION 104 REPORT, *supra* note 34.

but acknowledged that the issues may require further consideration at some point in the future.<sup>86</sup> The report explained:

In order to recommend a change in the law, there should be a demonstrated need for the change that outweighs the negative aspects of the proposal. The Copyright Office does not believe that this is the case with the proposal to expand the scope of section 109 to include digital transmissions. The time may come when Congress may wish to address these concerns should they materialize.<sup>87</sup>

More than a decade later, the doctrine of first sale may be difficult to rationalize in the digital context, but Congress nonetheless could choose to review it. On the one hand, Congress may believe that in a digital marketplace, the copyright owner should control all copies of his work, particularly because digital copies are perfect copies (not dog-eared copies of lesser value) or because in online commerce the migration from the sale of copies to the proffering of licenses has negated the issue. On the other hand, Congress may find that the general principle of first sale has ongoing merit in the digital age and can be adequately policed through technology — for example, measures that would prevent or destroy duplicative copies. Or, more simply, Congress may not want a copyright law where everything is licensed and nothing is owned.

#### *Exceptions and Limitations*

There are many discussions to be had about exceptions and limitations and their place in the next great copyright act. These include updating baseline standards for libraries and archives, crafting a digital age Chafee Amendment (for print disabilities), addressing the ecosystem of higher education institutions and markets, and possibly considering clarity in personal use activities. These issues should be viewed as complements to the fair use provision.<sup>88</sup>

The Copyright Office has been focused on library exceptions for several years, and its work on orphan works generated several hearings in past sessions of Congress and ongoing interest in the intellectual property community.<sup>89</sup> These issues are the subjects of ongoing public inquiries, symposia, and recommendations. Likewise, the question of special provisions for persons who are blind or have other print disabilities has been front

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<sup>86</sup> See *id.* at 73.

<sup>87</sup> *Id.* at xx.

<sup>88</sup> Section 108(f)(4) includes an express savings clause for fair use, stating that “[n]othing in this section . . . in any way affects the right of fair use as provided by section 107.”

<sup>89</sup> See Letter from David J. Kappos, Under Secretary of Commerce for Intellectual Property, to Maria A. Pallante, Register of Copyrights (Jan. 2013) (expressing his support for the “work that the U.S. Copyright Office is doing to examine the problem of orphan works” and noting that “it is in the leadership interests of the United States to explore solutions”), to be reprinted in U.S. COPYRIGHT OFFICE, ORPHAN WORKS ANALYSIS, Part II (forthcoming 2013).

and center over the past few years, including in Geneva, in the courts, in the 1201 rulemaking, and in a government study, and is ripe for review.<sup>90</sup>

Higher education activities could also benefit from congressional direction. As I noted in my introduction, Congress deferred the option of a general education exception in 1976. However, it did enact a special exception for distance education in 2002,<sup>91</sup> following a study from the Copyright Office.<sup>92</sup> Unfortunately, the complexity of the provision, as enacted, has largely undermined its usefulness in the eyes of many educators. Congressional review of higher education – which is so dynamic – would be beneficial, especially because the legal framework must ultimately support and encourage a variety of copyright objectives, including: markets that produce quality educational materials; affordable licensing schemes; open source materials; the reasonable application of fair use; library exceptions; academic freedom, including the freedom of faculty to disclaim copyright in their own works; and formats that are accessible to persons with print disabilities.

### *Licensing*

That brings me to licensing. Congress is aware that the development of newer and more efficient licensing models is essential to the digital marketplace and the many submarkets that comprise it. Some of this does not require legislation and should merely be encouraged, *i.e.* by reviewing the growth of direct licensing, microlicensing, voluntary collective licensing, and private and public registries.<sup>93</sup> In other instances, Congress may need to consider legislating new forms of licensing regimes as appropriate, for example, by updating or in some cases repealing compulsory licenses or perhaps enacting extended collective licensing models.<sup>94</sup>

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<sup>90</sup> See RECOMMENDATION OF THE REGISTER OF COPYRIGHTS, *supra* note 82, at 16; SCCR 25/2/Rev (Feb. 22, 2013), Draft Text of an International Instrument/Treaty on Limitations and Exceptions for Visually Impaired Persons/Persons with Print Disabilities, *available at* [http://www.wipo.int/edocs/mdocs/copyright/en/sccr\\_25/sccr\\_25\\_2\\_rev.doc](http://www.wipo.int/edocs/mdocs/copyright/en/sccr_25/sccr_25_2_rev.doc) (text of draft instrument currently in negotiation at the World Intellectual Property Organization); Report of the Advisory Commission on Accessible Instructional Materials in Postsecondary Education for Students with Disabilities (December 2011), *available at* [www2.ed.gov/about/bdscomm/list/aim/meeting/aim-report.doc](http://www2.ed.gov/about/bdscomm/list/aim/meeting/aim-report.doc).

<sup>91</sup> See 17 U.S.C. § 110(2).

<sup>92</sup> See U.S. COPYRIGHT OFFICE, REPORT ON COPYRIGHT AND DISTANCE EDUCATION (1999), *available at* [http://www.copyright.gov/reports/de\\_rprt.pdf](http://www.copyright.gov/reports/de_rprt.pdf).

<sup>93</sup> In 2011, the Copyright Office, at the direction of Congress, explored in public hearings whether, after more than thirty-five years of experience with statutory licenses facilitating the retransmission of broadcast signals by cable and satellite providers, the time had come to eliminate the licenses in favor of one or more marketplace licensing mechanisms. The Office concluded that, while business models based on sublicensing, collective licensing, and/or direct licensing may be relatively undeveloped in this context, they are feasible alternatives to secure the public performance rights necessary to retransmit copyrighted content in most instances. See SECTION 302 REPORT, *supra* note 36.

<sup>94</sup> Extended collective licensing would require Congress to enact a framework by which works are made available for certain purposes without the need for case by case or prior permission, but in which representatives of the various stakeholder negotiate fees, mechanisms for opting out, and other key terms. For more information, see MASS DIGITIZATION REPORT, *supra* note 38.

Music reform is a particularly important licensing topic. The mechanical license for musical works – over a century old and currently embodied in section 115 of the Act – was established by Congress out of a concern that a single entity might monopolize the piano roll market by buying up exclusive rights. Over time, this compulsory license – with its government-established rate – has become deeply embedded in the music industry. In the deliberations leading to the adoption of the 1976 Act, then-Register Kaminstein suggested that monopoly was no longer much of a concern and the license should perhaps be repealed.<sup>95</sup> But music publishers did not ultimately pursue that possibility (opting instead for an adjustment to the two-cent rate to two and three-quarters), and the license remains with us today.

Although amended in 1995 to clarify that it covers digital phonorecord deliveries as well as physical formats, the basic song-by-song licensing mechanism of the mechanical license has remained unchanged for over one hundred years. But because digital service providers have varying business models ranging from on-demand streaming services to permanent downloads to music bundled with other products, the rates adopted under section 115 have become increasingly complex. In recent years, some music publishers – especially larger ones – are choosing to license their reproduction and distribution rights, and even their public performance rights, directly to digital services instead of through third-party administrators such as The Harry Fox Agency, ASCAP, BMI, or SESAC. Meanwhile music services tell us that it is essential to have the full repertoire of musical works available to be a viable player in the digital marketplace.<sup>96</sup>

In 2006, Congress considered legislation, the Section 115 Reform Act (or “SIRA”), that would have changed the section 115 licensing structure to a blanket-style system for digital uses, but it was not enacted. It may be time for Congress to take another look.

Congress is already taking another look at section 114, the statutory licensing provisions for webcasters, satellite radio, and others seeking to engage in the digital performance of sound recordings.<sup>97</sup> As the November 2012 hearing before the House

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<sup>95</sup> See U.S. COPYRIGHT OFFICE, REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW, at 32-36 (1961), available at <http://www.copyright.gov/reports/annual/archive/ar-1961.pdf>.

<sup>96</sup> Even this abbreviated overview points to some significant questions about the section 115 license in the digital age. The questions span a wide range of issues, from the workability of a song-by-song licensing framework to the desirability of one-stop licensing options for both reproduction and public performance, among many others. See *Hearing Before the Subcomm. on Intellectual Property of the S. Comm. on the Judiciary*, 109th Cong. (2005) (statement of Marybeth Peters, Register of Copyrights); *Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the H. Comm. on the Judiciary*, 109th Cong. (2005) (statement of Marybeth Peters, Register of Copyrights).

<sup>97</sup> See Internet Radio Fairness Act of 2012 (“IRFA”), H.R. 6480, 112th Cong. (2012). Proponents of IRFA argue that Internet radio is disadvantaged under the current Copyright Royalty Board system and urge that what they perceive as the more flexible factors set forth in 17 U.S.C. § 801(b) for satellite radio and other digital users be substituted for the “willing buyer/willing seller” standard currently applicable to webcasters. The legislation has drawn substantial opposition, including from the artist community, who

Subcommittee on Intellectual Property, Competition and the Internet made abundantly clear, the rate setting concerns of the webcasting community cannot be viewed in isolation; they are tied to the overall statutory licensing structure and even the scope of exclusive rights afforded for sound recordings under the Copyright Act.

To make a long story short, Congress could make a real difference regarding gridlock in the music marketplace and viewing the issues comprehensively, in the context of the next great copyright act, may be most productive.

#### *Deposits for the Library of Congress*

The Library of Congress receives books, films, music, and other copyright deposits through two separate provisions of the Copyright Act: 1) section 407 deposits, which are the works copyright owners submit to the Copyright Office for purposes of copyright registration; and 2) section 408 deposits, which are those that the copyright owners of published works are required to submit for the national collection within three months of publication and which the Copyright Office has legal authority to demand in instances of noncompliance. The provisions complement each other and both should remain in some form in the next great copyright act. They may, however, require some fresh thinking, particularly as to the evolving state of the Library's collection needs.

With respect to the registration system, the Library enjoys a unique place in the copyright law, as it has been both the custodian and a key beneficiary of the system since 1870.<sup>98</sup> However, its ability to evolve in the 21<sup>st</sup> century is directly tied to its ability to collect and preserve a variety of content, including digital content. In the past, in some instances, the Copyright Office was able to align the format requirements for copyright deposits with the specific needs of the Library. For example, under the discretionary authority granted to the Register of Copyrights, the Office created special group options for newspapers in 1992, making it easier for newspapers to register but also facilitating the formats the Library desired for preservation (in this example microfilm) and would have had to otherwise purchase.<sup>99</sup>

As a matter of law, copyright registration predates the Library, of course, and has other longstanding functions. Registration is *prima facie* evidence of copyrightability and copyright ownership, a condition of the availability of statutory damages, and a catalyst for the public record of copyright information. The authoritative determination of copyrightability provides guidance to the courts in a number of areas, including questions related to the scope of protection and any limitations or presumptions reflected

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have emphasized the lack of a terrestrial performance right for radio. Both sides, in other words, are arguing for parity in the royalty rate structure across different platforms.

<sup>98</sup> Congress transferred responsibility for registration to the Library in 1870, following eighty years in the district courts, and in doing so turned copyright deposits into a national collection. The Copyright Office was created within the Library in 1897, leading to the appointment of Thorvald Solberg as Register.

<sup>99</sup> Activities like this largely are carried out by the Register in accordance with the statute, except in instances where regulations are finally promulgated, in which case the Librarian, as head of the agency for purposes of the Constitution and reflected in the statutory framework, signs the final rule. See 17 U.S.C. § 702.

in the certificate. Registration certificates are frequently required by businesses to conclude intellectual property transactions, secure insurance policies, and settle matters of litigation, not only within the United States but also in deal making and litigation around the globe. It therefore must be evaluated broadly, against the objectives of the greater copyright law. In the words of one study group, while important, “[l]ibrary acquisitions policy should not drive copyright registration policy.”<sup>100</sup>

In fact, as the Library seeks to acquire and preserve websites, electronic serials, and the other kinds of 21<sup>st</sup> century authorship, registration may not be enough of a tool. Instead, the mandatory deposit provisions may need to play a greater role generally, and may need granular adjustments to make them viable in the digital environment. For example, many digital works may not be “published” within the meaning of the “best edition” requirements of current law, placing them outside the parameters of the mandatory deposit provisions. It is also true that the formats required by the Library may not be the formats that actually are published by the copyright owner, and it is further true that the Library’s collection of digital deposits may require clearer rules regarding the security of files and the conditions for making them available. In any event, the next great copyright act should ensure that the mandatory deposit provisions are flexible enough to support the needs of the national collection.

### **Thinking a Little More Boldly**

As with previous revisions, Congress may need to apply fresh eyes to the next great copyright act to ensure that the copyright law remains functional, credible, and relevant for the future. This does not require it to abandon core principles of the copyright system, but it may require some recalibrations as appropriate and workable in the greater legal framework.

#### *Offsetting Copyright Term*

Copyright term is a global issue and any discussion of U.S. term therefore should acknowledge international norms. Nonetheless, the current length of the term – the life of the author plus seventy years in most circumstances – is long and the length has consequences.<sup>101</sup> One has to assume that *Eldred v. Ashcroft*<sup>102</sup> is the last word as to whether life-plus-seventy is a constitutionally permissible term, however, from a policy perspective that is no longer the relevant question. The question now is how to make the long term more functional.

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<sup>100</sup> ACCORD REPORT, *supra* note 75.

<sup>101</sup> 17 U.S.C. § 302 (setting forth general term, including a term for works made for hire and pseudonymous and anonymous works of ninety-five years from the year of its first publication, or a term of 120 years from the year of its creation, whichever expires first). An informal count shows that approximately eighty countries (and probably more) have adopted life plus seventy years as the standard for works of authors and it is incorporated in 17 free trade agreements of the United States.

<sup>102</sup> 537 U.S. 186 (2003).

The Copyright Office is interested in pragmatic solutions in the next great copyright act. Thus the Office's 2006 orphan works proposal suggested limiting remedies when copyright owners are unlocatable — effectively freeing many works from the long tail of time.<sup>103</sup> Similarly, the Office appreciates section 108(h), which allows libraries and archives to copy, distribute, display, or perform any published work in its last twenty years of protection, for purposes of preservation, scholarship, or research. Of course, other limitations on the law, including fair use, effectively offset term as well, albeit in limited circumstances.

Perhaps the next great copyright act could take a new approach to term, not for the purpose of amending it downward, but for the purpose of injecting some balance into the equation. More specifically, perhaps the law could shift the burden of the last twenty years from the user to the copyright owner, so that at least in some instances, copyright owners would have to assert their continued interest in exploiting the work by registering with the Copyright Office in a timely manner.<sup>104</sup> And if they did not, the works would enter the public domain.<sup>105</sup>

#### *Making Room for Opt Outs*

The United States has long had opt-in licensing schemes that permit authors to license their exclusive rights by voluntarily opting into a collective management organization. Thus, we have the examples of ASCAP, BMI,<sup>106</sup> and SESAC in the music industry and the Copyright Clearance Center in the literary space. In the words of one professor, speaking here at Columbia just a couple of years ago, collective management organizations can be attractive because they “can put [the] Humpty Dumpty of rights back together again by allowing users to obtain all the rights necessary for a particular use.”<sup>107</sup>

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<sup>103</sup> See ORPHAN WORKS REPORT, *supra* note 35.

<sup>104</sup> As an aside, if U.S. history with respect to renewal registration of copyright is any indication, very few copyright owners — in this context, heirs and successors in interest not the author herself — will actually do so. See U.S. COPYRIGHT OFFICE, STUDY NO. 31 at 220, *supra* note 10. We believe further consideration of this proposal (and the various implementation issues it raises) would serve to improve the functioning of our copyright system.

<sup>105</sup> This should not, as far as I can see, present insurmountable problems under international law. The Berne Convention requires a minimum term of life-plus-fifty years, defers to member states as to the treatment of their own citizens, and provides the term of protection of the country of origin for the works of foreign nationals. See Berne Convention, Art. 7. At the same time, copyright owners who choose to assert their continued interests would have the full benefit of the additional twenty years, subject to the requirement of additional registration.

<sup>106</sup> Some collective management frameworks raise competition issues that would need to be reviewed and reconciled if collective licensing is part of the answer for consumers and market gridlock in the digital age. For example, both ASCAP and BMI operate under consent decrees with the U.S. Department of Justice designed to protect licensees from price discrimination or other anticompetitive behavior. See *United States v. Am. Soc’y of Composers, Authors and Publishers*, 2001 U.S. Dist. LEXIS 23707, 2001-2 Trade Cas. (CCH) ¶ 73,474 (S.D.N.Y. 2001); *United States v. Broadcast Music, Inc.*, 1994 U.S. Dist. LEXIS 21476, 1996-1 Trade Cas. (CCH) ¶ 71,378 (S.D.N.Y. 1994).

<sup>107</sup> Daniel J. Gervais, *Keynote: The Landscape of Collective Management Schemes*, 34 COLUM. J.L. & ARTS 591, 599 (2011); see also MASS DIGITIZATION REPORT, *supra* note 38.

By contrast, opt-out systems reverse the general principle of copyright law that copyrighted works should be reproduced or disseminated only with the prior approval of the copyright owner. It has become clear, however, that opt-out systems might serve the objectives of copyright law in some compelling circumstances if appropriately tailored and fairly administered, and if created with oversight from Congress. One potential opt-out system is a form of licensing known as extended collective licensing. Extended collective licensing allows representatives of copyright owners and users to mutually agree to negotiate on a collective basis and then to negotiate terms that are binding on all members of the group by operation of law. It has the potential to provide certainty for users and remuneration for copyright owners (for example in mass digitization activities) but would provide some control to copyright owners wanting to opt out of the arrangement.

Courts have affirmed the fact that fundamental changes like this are the domain of Congress because Congress is designed to weigh the equities of the public interest and to craft broadly applicable policies. A court, by contrast, must apply the facts and law as it finds them. This is why the Supreme Court noted in *Eldred v. Ashcroft* that “it is generally for Congress, not the courts, to decide how best to pursue the Copyright Clause’s objectives,”<sup>108</sup> and why Judge Chin, in rejecting the proposed settlement between Google and a class of authors and publishers, said that “the establishment of a mechanism for exploiting unclaimed books is a matter more suited for Congress” than the courts.<sup>109</sup> Among the questions Congress could consider are what kinds of uses might benefit from opt-out regimes (*e.g.*, certain kinds of uses in higher education, certain kinds of library access), and what the actual terms and opt-out mechanisms should entail.<sup>110</sup>

#### *Making the Law More Accessible*

Finally, as noted earlier, the copyright law has become progressively unreadable during the very time it has become increasingly pervasive.

When the Copyright Act was enacted, it contained seventy-three sections and the entire statute was fifty-seven pages long. Today, it contains 137 sections and is 280 pages long, nearly five times the size of the original. As former Register Marybeth Peters observed in 2007, the current “copyright law reads like the tax code, and there are sections that are incomprehensible to most people and difficult to me.”<sup>111</sup>

This is not merely a paradox; it is damaging to the rule of law.<sup>112</sup> The next great copyright act should be as accessible as possible.

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<sup>108</sup> 537 U.S. 186, 212 (2003).

<sup>109</sup> *Authors Guild v. Google Inc.*, 770 F. Supp. 2d 666, 677 (S.D.N.Y. 2011).

<sup>110</sup> See generally MASS DIGITIZATION REPORT, *supra* note 38.

<sup>111</sup> Rob Pegoraro, *Debating the Future of Music*, WASH. POST (Sept. 18, 2007), available at [http://voices.washingtonpost.com/fasterforward/2007/09/debating\\_the\\_future\\_of\\_music.html](http://voices.washingtonpost.com/fasterforward/2007/09/debating_the_future_of_music.html).

<sup>112</sup> The Section 108 Study Group found that many practitioners are confused by the basic organization of the library exception. See THE SECTION 108 STUDY GROUP REPORT at ix-x, 93-94 (2008). The same is true

#### IV. THE POLICY PROCESS

As Congress considers copyright revision, its primary challenge will be keeping the public interest in the forefront of its thoughts, including how to define the public interest and who may speak for it. Any number of organizations may feel justified in this role, and on many issues there may in fact be many voices, but there is no singular party or proxy.

Because there are many more stakeholders than in previous revisions, it will be both harder and easier for Congress to weigh the issues. Why revision will be difficult is obvious. Not since the industrial revolution has there been a force like the Internet, and it has changed both the creation and dissemination of authorship. The copyright world, which once had predictable and even pristine demarcations, has morphed dramatically.<sup>113</sup>

It is also difficult to separate the medium from the message. As one journalist has observed, “[t]echnology executives like to suggest that media companies are selling buggy whips in the age of the automobile, but that doesn’t hold up . . . So far, content generated by online businesses can’t compete with that from traditional media companies.”<sup>114</sup>

And then there is the common refrain that information wants to be free. Free information is good for the Internet and serves legitimate and important free speech principles. But in order to have a robust knowledge economy, we need content that is both professional and informal; we need content that consists of information, commentary, and entertainment, or sometimes all of these combined into one; and we need content that is licensed, content that is free, or in some cases, content that is licensed for free.

Although challenging, it is possible that Congress may actually find a world order like this to be more manageable in the long run. If the lines of special interests have blurred, if many actors have interrelated objectives, if many revenue models are decentralized, and if many advocacy or consumer groups are tied to one special interest or another, then the sum of these concerns may well approximate the greater goals of copyright law.

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in the world of musical works and compulsory licenses, which are supposed to replace a dysfunctional market, but not at the expense of usability. Sections 114 and 115 are highly technical and confusing: new business entrants and even established users struggle with interpreting the language, which is perhaps appropriately the subject of criticism. And then there is the *Kirtsaeng* case, in which the Supreme Court has been asked to interpret the phrase “lawfully made under this title” – five words that appear in five different sections of the Copyright Act – which have sparked intense debate over the first sale doctrine, importation, and geographical licensing.

<sup>113</sup> See Leyland Pitt et al., *Changing Channels: The Impact of the Internet on Distribution Strategy*, 42 BUS. HORIZONS 19 (1999).

<sup>114</sup> ROBERT LEVINE, *FREE RIDE: HOW DIGITAL PARASITES ARE DESTROYING THE CULTURE BUSINESS, AND HOW THE CULTURE BUSINESS CAN FIGHT BACK* 9 (2012).

Of course, government actors also have equities in copyright law and would be essential to the deliberation process of a general revision. As discussed above, the Copyright Office has a long history and deep expertise in the copyright law, has a direct advisory relationship with Congress, and has responsibilities for administering many copyright provisions.<sup>115</sup> The Office also interacts with many other agencies on a daily basis, which in turn have specific perspectives and statutory roles. This is how U.S. intellectual property policy works at the government level, and it is another reflection of the public interest.<sup>116</sup>

I would like to leave the topic of process by stating something that I hope is uncontroversial. The issues of authors are intertwined with the interests of the public. As the first beneficiaries of the copyright law, authors are not a counterweight to the public interest but are instead at the very center of the equation. In the words of the Supreme Court, “[t]he immediate effect of our copyright law is to secure a fair return for an ‘author’s’ creative labor. But the ultimate aim is, by this incentive, to stimulate artistic creativity for the general public good.”<sup>117</sup>

Congress has a duty to keep authors in its mind’s eye, including songwriters, book authors, filmmakers, photographers, and visual artists. This is because “[a] rich culture demands contributions from authors and artists who devote thousands of hours to a work and a lifetime to their craft.”<sup>118</sup> A law that does not provide for authors would be illogical — hardly a copyright law at all. And it would not deserve the respect of the public.

This does not mean that all authors want the identical legal treatment. On the contrary, the diversity of authorship is part of the fun when it comes to copyright law and the law should be accommodating. For example, some authors prefer receiving credit to receiving payment, and some embrace the philosophy and methodology of Creative Commons,<sup>119</sup> where authors may provide advance permission to users or even divest themselves of rights. The law must be flexible enough to accommodate these decisions.

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<sup>115</sup> See 17 U.S.C. § 701.

<sup>116</sup> The U.S. Patent and Trademark Office conducted a “listening tour” in 2008 and, with the greater Department of Commerce, is preparing a comprehensive discussion document (a green paper) on copyright issues in the digital environment. The National Academy of Sciences is preparing a report that examines research methodology in the context of copyright policy. See National Academy of Sciences, Board on Science, Technology, and Economic Policy (STEP), *The Impact of Copyright Policy on Innovation in the Digital Era*, project description available at <http://sites.nationalacademies.org/PGA/step/copyrightpolicy/index.htm>. The Department of Justice, the State Department, the Intellectual Property Enforcement Coordinator and other parts of the White House, and the Office of the United States Trade Representative also interact with the copyright system and the Copyright Office in one way or another and should be consulted.

<sup>117</sup> *Twentieth Century Music Corp. v. Aiken*, 422 US 151, 156 (1975).

<sup>118</sup> Scott Turow, Paul Aiken, and James Shapiro, *Would the Bard Have Survived the Web?*, N.Y. TIMES at A29 (Feb. 14, 2012).

<sup>119</sup> See <http://creativecommons.org/>.

## V. EVOLUTION OF THE COPYRIGHT OFFICE

Before I conclude, I would like to turn back to the Copyright Office itself. The Office has been at the epicenter of both the policy and the administration of copyright law since 1897 by virtue of its statutory duties, its close relationship with Congress, and its placement and origins in the national library. The Office has grown organically, meaning its functions today were no more planned or imaginable at the turn of the 20<sup>th</sup> century than was the explosion of the copyright system itself. Congress simply handed the Office things over time, both by design and by default.

The expertise of the Office is reflected in countless contributions over the last hundred years, including official studies, congressional hearings, treaty negotiations, trade agreements, policy recommendations, and legal interpretations, not to mention in the Copyright Act and its legislative history and in opinions of the courts.

Of course there is always more to do, and although Congress has long relied upon the expertise of the Copyright Office, it has been slow to increase the Office's regulatory role.<sup>120</sup> In fact, from 1897 to 1998, the role was largely, though not entirely, administrative, meaning most regulations addressed administrative questions, *i.e.*, rules pertaining to the registration process, the collection of fees, and the administration of certain aspects of compulsory licenses.<sup>121</sup> As more than one professor has noted, the Office has had very little opportunity to apply its expertise, leading Congress to write too much detail into the code on matters that are constantly changing, such as economic conditions and technology.<sup>122</sup>

Evolving the Copyright Office should be a major goal of the next great copyright act. In short, it is difficult to see how a 21<sup>st</sup> century copyright law could function well without a 21<sup>st</sup> century agency.<sup>123</sup> To the extent patent law offers any guidance, it is

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<sup>120</sup> See Terry Hart, *Copyright Reform Step Zero*, 19 INFO. AND COMM'N'S TECH. L. (2010) (noting that copyright law will continue to become increasingly unable to keep up with technological and other challenges while also becoming increasingly resistant to reform efforts).

<sup>121</sup> Some aspects of regulating compulsory licenses and registration have substantive impact, *e.g.* provisions relating to the application of section 115 to online streaming. See Compulsory License for Making and Distributing Phonorecords, Including Digital Phonorecord Deliveries, 73 Fed. Reg. 66,173 (Nov. 7, 2008).

<sup>122</sup> See Joseph Liu, *Regulatory Copyright*, 83 N.C.L. REV. 87, 93, 95-99 (2004) (suggesting that one of the reasons copyright provisions became obsolete is the lack of regulatory power in the Copyright Office); see also Elizabeth Townsend Gard, *Conversations with Renowned Professors on the Future of Copyright*, 12 TUL. J. TECH. & INTELL. PROP. 35, 65 (Fall 2009) (noting that "the Copyright Office is a rather unique entity because historically, it has not had much rulemaking or regulatory power") (quoting Professor Diane Zimmerman).

<sup>123</sup> The Constitution permits Congress to delegate certain activities to agencies under certain circumstances, provided that the delegation is not an end run around the distinct roles of the legislative and executive branches when it comes to deliberating upon and signing new laws. As Justice Blackmun explained:

[I]n our increasingly complex society, replete with ever-changing and more technical problems, Congress simply cannot do its job absent an ability to delegate power under broad general directives. . . . Accordingly, this Court has deemed it constitutionally sufficient if Congress clearly delineates the general policy, the public agency which is to

notable that the importance of the legal and business functions of the U.S. Patent and Trademark Office have been acknowledged over time, most recently through the amendments of the America Invents Act of 2011.<sup>124</sup>

In truth, many constituents want the Copyright Office to do better the things it already does, and to do a host of new things to help make the copyright law more functional.<sup>125</sup> For example, some people would like the Office to administer enforcement proceedings (such as a small copyright claims tribunal), offer arbitration or mediation services to resolve questions of law or fact (for example, where rights are murky or a license is unclear), issue advisory opinions (for example, on questions of fair use),<sup>126</sup> and engage in educational activities (like promulgating best practices or providing copyright guidance to teachers). The Office might also play a role in ensuring the governance or transparency of critical 21<sup>st</sup> century actors, such as content registries or collective licensing organizations.

There are some practical obstacles. Although migrating the Copyright Office to the next generation of services is a primary focus of Office staff at this time,<sup>127</sup> much will depend on technical capacity and resources.<sup>128</sup> Moreover, not everyone is optimistic

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apply it, and the boundaries of this delegated authority.

*Mistretta v. United States*, 488 U.S. 361, 372-73, 378 (1989) (internal citation omitted). The Justices have made it clear that in applying such authority, an agency may “exercise judgment on matters of policy,” including “the determination of facts and the inferences to be drawn from them in the light of the statutory standards” as well as “the formulation of subsidiary administrative policy within the prescribed statutory framework.” *Id.* at 378-79 (internal citation omitted); *see also Intercollegiate Broadcasting System, Inc. v. Copyright Royalty Board*, 684 F.3d 1332 (D.C. Cir. 2012), *petition for cert. filed* (Jan. 25, 2013) (concluding that the Library “is a freestanding entity that clearly meets the definition of ‘Department’” for purposes of the Appointments Clause and that the Library and the Copyright Royalty Board have the power to promulgate copyright regulations, to apply the statute to affected parties, and to set rates and terms on a case by case basis).

<sup>124</sup> For example, the statute authorizes the U.S. Patent and Trademark Office to deposit patent and trademark fees in excess of its annual appropriations into a reserve fund, from which the Office may access and spend said fees as needed to run its operations, irrespective of its annual appropriations from Congress. *See Leahy-Smith America Invents Act*, 112 Pub. L. No. 29 (2011).

<sup>125</sup> *See, e.g.*, Public Knowledge, *A Copyright Office for the 21st Century: Recommendations to the New Register of Copyrights* (Dec. 2010), *available at* <http://www.publicknowledge.org/files/docs/ACopyrightOfficeforthe21stCentury.pdf>.

<sup>126</sup> Some communities have begun to create and adopt fair use practices independently. *See, e.g.*, American University, Center for Social Media, <http://www.centerforsocialmedia.org/fair-use>.

<sup>127</sup> The Office is in the process of evaluating potential improvements and technical enhancements to the information technology platforms that support its registration and recordation functions, including its online registration system. The Office has identified a number of key focus areas, including improved system navigation and user interface, application of mobile technologies, improved process tracking, enhanced search capabilities, and bulk data transfer (often called “business-to-business” or “system-to-system”) capabilities. *See* U.S. Copyright Office, *Notice of Inquiry* (forthcoming March 2013).

<sup>128</sup> As an agency that supports both the marketplace and the nation’s cultural heritage, the Copyright Office is a bargain. However, it will need more resources to support the needs of the 21<sup>st</sup> century. Currently, two-thirds of the Office’s budget, less than \$40 million dollars, comes directly from spending authority, *i.e.*, congressional approval to spend the fees the Office collects for registration and other services for copyright

about the future of the Copyright Office. As recently as 2010, a group known as the Copyright Principles Project discussed the Office in meetings it held in Berkeley. They wrote:

The information that the Office currently collects and administers as part of the registration system is the kind that everyone expects to be accessible through something like a simple web search. More importantly, transactions involving copyrighted works often take place in the same hyper-efficient environment, and the parties to those transactions require access to copyright information at a speed and in a format that matches that efficiency. While the Office has observed and anticipated these developments and moved many of its functions and services online, the reality is that the functionality of the registry remains woefully behind what leading-edge search and database technologies permit.<sup>129</sup>

The Copyright Office agrees that a 21<sup>st</sup> century copyright law requires a 21<sup>st</sup> century agency.

## VI. CONCLUSION

It is a point of pride for the United States that our past great copyright laws have served the Nation so well. American experts are fond of pointing out that we have the most balanced copyright law in the world, as well as a robust environment of free expression and an equally robust copyright economy.<sup>130</sup>

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owners. These revenues are nowhere near the revenues generated by the patent system, but they reflect the fact that registration is optional. One-third of the budget, approximately \$15 to \$18 million dollars, comes from appropriated monies, and helps fund public services that are for the benefit of the public at large — for example the public records of copyright ownership, expiration, and transfers. These appropriated dollars should be further reviewed against another public benefit, the hundreds of thousands of deposits provided to the Library's collection at a value of \$30 million dollars a year.

<sup>129</sup> Pamela Samuelson et al., *Copyright Principles Project: Directions for Reform*, 25 BERKELEY TECH. L.J. 1175, 1203 (2010). The Project also queried whether registration should be decentralized and delegated to a series of private sector registries, with the Copyright Office moving to a new role of setting standards, both technical and legal.

<sup>130</sup> See Stephen E. Siwek, International Intellectual Property Alliance, *Copyright Industries in the U.S. Economy: The 2011 Report*, at 4 (Nov. 2, 2011) (reporting that core copyright industries contributed \$1.627 trillion to the U.S. economy in 2010, which accounted for 11.10% of total GDP), available at <http://www.iipa.com/pdf/2011CopyrightIndustriesReport.PDF>; Thomas Rogers & Andrew Szamoszegi, *Fair Use in the U.S. Economy: Economic Contribution of Industries Relying on Fair Use*, at 6 (CCIA 2011) (reporting that industries relying on fair use contributed an average of \$2.4 trillion to the U.S. economy in 2009 and 2009, which accounted for approximately 17% of total U.S. GDP), available at <http://www.cciainet.org/CCIA/files/ccLibraryFiles/Filename/000000000526/CCIA-FairUseintheUSEconomy-2011.pdf>.

Still, no law is perfect. The 1976 Act, which was a fair and remarkable achievement by many accounts, did not come close to the bleeding edge of technology. When all was said and done, Barbara Ringer acknowledged the shortcomings of the new law, calling it “a good 1950 copyright law.”<sup>131</sup> “It may be resilient enough to serve the public interest for some time to come,” she said, “[b]ut some of its inadequacies are already becoming apparent, and no prophet is needed to foretell the need for substantial restructuring of our copyright system before the end of this century.”<sup>132</sup>

Unfinished business may be difficult for policy experts but it is not always a terrible thing. In a framework as dynamic as copyright, it is not unreasonable and probably prudent for Members of Congress to legislate carefully in response to technological innovation rather than in real time. Congress needs to see the evolution of technology and related businesses with some objectivity, and to consider, as appropriate, the rulings and the frustrations of the courts, before it can move forward. When it *is* ready to move, however, Congress should do so with both great deference to the principles of the past and great vision for the future.

In closing, I would like to encourage Congress not only to think about copyright law but to think big. The next great copyright act is as exciting as it is possible. Most importantly, it is a matter of public interest.

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<sup>131</sup> Barbara Ringer, *Authors' Rights in the Electronic Age: Beyond the Copyright Act of 1976*, 1 LOY. L.A. ENT. L.J. 1, 4 (1981).

<sup>132</sup> *Id.*



# FEDERAL COPYRIGHT PROTECTION FOR PRE-1972 SOUND RECORDINGS

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A REPORT OF THE REGISTER OF COPYRIGHTS

DECEMBER 2011

House Appropriations Committee Print, Omnibus Appropriations Act, 2009  
(H.R. 1105; Public Law 111-8)  
DIVISION G—LEGISLATIVE BRANCH APPROPRIATIONS ACT, 2009, at 1769

Pre-1972 Sound Recordings.--The Register of Copyrights is directed to conduct a study on the desirability of and means for bringing sound recordings fixed before February 15, 1972, under federal jurisdiction. The study is to cover the effect of federal coverage on the preservation of such sound recordings, the effect on public access to those recordings, and the economic impact of federal coverage on rights holders. The study is also to examine the means for accomplishing such coverage. As part of this effort, the Register of Copyrights should publish notice of the study and provide a period during which interested persons may submit comments. The Register of Copyrights is to submit a report on the results of this study to the Committees on Appropriations of the House and Senate no later than two years after the enactment of this Act. The report should include any recommendations that the Register considers appropriate.

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**The Register of Copyrights of the United States of America**

United States Copyright Office · 101 Independence Avenue SE · Washington, DC 20559-6000 · (202) 707-8359

December 28, 2011

Dear Mr. President:

On behalf of the United States Copyright Office, I am pleased to deliver this Report to Congress, as required in the Explanatory Statement to the Omnibus Appropriations Act of 2009. See Public Law No. 111-8, 123 Stat. 524 (2010), at p. 1769.

As directed by Congress, the Report considers the desirability of and means for bringing sound recordings fixed before February 15, 1972, under federal jurisdiction, with consideration given to the effect of federal coverage on the preservation of such sound recordings, the effect on public access to those recordings, and the economic impact of federal coverage on rights holders. It also examines the means for accomplishing such coverage. Under current law, sound recordings fixed on or after February 15, 1972 are protected under federal copyright law, but recordings fixed before that date are protected by a patchwork of state statutory and common law.

The Report recommends that federal copyright protection should apply to sound recordings fixed before February 15, 1972. It proposes special provisions to address issues such as copyright ownership, term of protection, termination of transfers and copyright registration.

In reaching the recommendations contained in the Report, the Copyright Office engaged with many stakeholders, including representatives of libraries and archives, the recording industry, performers and musicians, the broadcast, cable and satellite industries, and other interested parties.

The Report is also available on the Copyright Office website at <http://www.copyright.gov/docs/sound/>.

Respectfully,

Maria A. Pallante  
Register of Copyrights

Enclosure

The Honorable Joseph Biden  
President  
United States Senate  
Washington, DC 20510



**The Register of Copyrights of the United States of America**

United States Copyright Office · 101 Independence Avenue SE · Washington, DC 20559-6000 · (202) 707-8359

December 28, 2011

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The Report is also available on the Copyright Office website at <http://www.copyright.gov/docs/sound/>.

Respectfully,

A handwritten signature in black ink that reads "Maria A. Pallante".

Maria A. Pallante  
Register of Copyrights

Enclosure

The Honorable John Boehner  
Speaker of the House  
of Representatives  
Washington, DC 20515

## ACKNOWLEDGMENTS

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June, Chris and Steve were the principal authors of the Report. David oversaw the entire process and the preparation of the Report, actively assisted by Chris. Associate Register for Policy and International Affairs Michele Woods and Deputy General Counsel Tanya Sandros played invaluable roles in providing substantive and editorial comments on the Report. Senior Counsel for Policy and International Affairs Karyn Temple Claggett also offered editorial input and was an active participant at the roundtable. Attorney-Advisor Erik Bertin reviewed and proofread the final draft. Christopher Reed, Senior Advisor to the Register, provided both policy and production assistance. Many thanks to legal interns Jenni Wisner and Emily Zandy for their research efforts in reviewing and updating the survey of state criminal antipiracy statutes.

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Maria A. Pallante  
Register of Copyrights

## TABLE OF CONTENTS

<b>ABBREVIATIONS</b> .....	v
<b>EXECUTIVE SUMMARY</b> .....	vii
<b>CHAPTER I: INTRODUCTION AND BACKGROUND</b> .....	1
A. The Pre-1972 Sound Recordings Report .....	2
B. The Pre-1972 Sound Recordings Issue .....	4
<b>CHAPTER II: LEGAL AND LEGISLATIVE HISTORY</b> .....	7
A. Federal Copyright Law and Sound Recordings until 1972 .....	7
B. 1971 Sound Recording Amendment .....	10
C. 1976 Copyright Revision Act .....	13
D. 1994 Uruguay Round Agreements Act .....	17
E. State Law Protection for Pre-1972 Sound Recordings .....	20
1. Criminal Record Piracy Statutes .....	20
a. <i>Examples of state criminal law statutes</i> .....	21
b. <i>Summary of state criminal record piracy provisions</i> .....	25
2. Civil Statutes .....	28
3. Non-Statutory Causes of Action .....	30
a. <i>Common-law copyright</i> .....	30
b. <i>Unfair competition/misappropriation</i> .....	35
c. <i>Conversion</i> .....	40
4. Right of Publicity .....	41
5. Variations among States with Respect to Civil Claims: Rights and Exceptions..	43
6. Availability of Punitive Damages for State Law Claims .....	46
7. Summary: Use of Pre-1972 Sound Recordings under State Law .....	47
<b>CHAPTER III: APPRECIATING THE CHALLENGES OF PRESERVATION AND ACCESS</b> .....	50
A. The Nature Of Pre-1972 Sound Recordings .....	50
1. Commercial and Noncommercial Recordings .....	50
2. Published and Unpublished Works .....	52
3. Availability and Location .....	54
4. Recording Media and Deterioration Rates for Pre-1972 Sound Recordings .....	56
B. Preservation of Pre-1972 Sound Recordings .....	59
1. Current Preservation Activities .....	60
a. <i>Libraries and archives</i> .....	60
b. <i>Record companies</i> .....	62
c. <i>Private collectors</i> .....	63
d. <i>Radio stations</i> .....	64
2. Preservation and the Law .....	64
a. <i>Federal Law</i> .....	65
b. <i>State Law</i> .....	68
c. <i>Risk Analysis</i> .....	69
C. Public Access to Pre-1972 Sound Recordings .....	70
1. Current Activities Providing Public Access .....	72
a. <i>Libraries and Archives</i> .....	72
b. <i>Record Companies</i> .....	74
c. <i>Private Collectors</i> .....	75

d. <i>Radio Stations</i> .....	75
2. Provision of Public Access and the Law .....	75
a. <i>Federal Law</i> .....	77
b. <i>State Law</i> .....	79
c. <i>Risk Analysis</i> .....	79
<b>CHAPTER IV: POLICY CONSIDERATIONS</b> .....	81
A. Certainty and Consistency in Copyright Law .....	82
1. Importance of Certainty and Consistency .....	82
2. The Impact of Federalization upon Certainty and Consistency in Copyright Law .....	85
a. <i>Users’ perspectives on the effect of a single set of federal exceptions</i> .....	85
b. <i>Right holders’ perspectives on the move from state to federal law</i> .....	87
c. <i>Application of the DMCA “Safe Harbor” of 17 U.S.C. § 512</i> .....	89
B. Preservation .....	90
1. Importance of Preservation .....	90
2. Impact of Federalization upon Library and Archives Preservation Activities .....	91
a. <i>Likelihood of increased preservation</i> .....	91
b. <i>Likelihood of decreased preservation, or no change in preservation activities</i> .....	93
C. Public Access .....	95
1. Importance of Public Access .....	95
2. Impact of Federalization upon Library and Archives Public Access Activities .....	97
a. <i>Types of access expected</i> .....	97
b. <i>Likelihood of increased public access</i> .....	97
c. <i>Likelihood of decreased public access</i> .....	100
D. Economic Impact on Right Holders .....	100
1. Value of Pre-1972 Sound Recordings .....	101
a. <i>Benefits and disadvantages of federal protection</i> .....	102
b. <i>Effect of exclusive rights</i> .....	103
c. <i>“Long tail” effect on commercial prospects of older recordings</i> .....	104
2. Settled Expectations in Business Transactions .....	105
a. <i>Existing contractual arrangements</i> .....	106
b. <i>Ownership, including transfer, termination, and registration</i> .....	107
c. <i>Potential for decrease in availability of pre-1972 sound recordings as a result of business burdens</i> .....	111
E. Alternatives To Federalization .....	111
1. Partial Federalization ( <i>e.g.</i> , only applying Sections 107, 108 and/or 114) .....	112
a. <i>Sections 107 and 108</i> .....	112
b. <i>Section 114</i> .....	113
2. Limits on Remedies .....	115
3. No Amendments to Federal Law, but Amendments to State Law Instead .....	116
4. No Amendments to Federal Law, but Use Private Agreements Instead .....	118
<b>CHAPTER V: DESIRABILITY OF FEDERALIZATION</b> .....	120
A. Certainty and Consistency in Copyright Law .....	122
B. Promotion of Preservation and Appropriate Public Access .....	124
C. Avoiding Economic Harm to Right Holders .....	126
D. Appropriate Application of Section 114 License and the “Safe Harbors” of 17 U.S.C. § 512 and the Communications Decency Act .....	128
1. Section 114 .....	129

2. Section 512 .....	130
3. Application of the Communications Decency Act .....	133
E. Alternatives to Federal Protection .....	135
<b>CHAPTER VI: MEANS OF BRINGING PRE-1972 SOUND RECORDINGS</b>	
<b>    UNDER FEDERAL JURISDICTION.....</b>	<b>139</b>
A. Ownership .....	139
1. Determining Ownership .....	140
a. <i>State vs. federal ownership rules</i> .....	141
b. <i>Effect of rule in some states equating physical ownership of master with ownership of all rights.....</i>	146
c. <i>Termination.....</i>	146
2. Recommendation.....	147
B. Term of Protection .....	149
1. Current and Proposed Terms of Protection .....	150
a. <i>50 years from publication.....</i>	151
b. <i>50 years from fixation.....</i>	152
c. <i>95 years from creation .....</i>	153
d. <i>Expiration in 2067 .....</i>	153
e. <i>Other alternatives .....</i>	154
2. Fifth Amendment Takings Claims .....	155
a. <i>Facial takings .....</i>	156
b. <i>As-applied takings .....</i>	157
3. Recommendation.....	162
C. Transition Period.....	167
1. Length of Transition Period .....	167
2. What Constitutes “Publicly Available” and “Notice Filed in the Office” .....	168
3. Recommendation .....	169
D. Registration.. ..	171
1. Stakeholder Concerns about Registration.....	171
2. Recommendation .....	173
<b>CHAPTER VII: RECOMMENDATIONS .....</b>	<b>175</b>
<b>APPENDIX A: NOTICE OF INQUIRY</b>	
<b>APPENDIX B: NOTICE OF INQUIRY – EXTENSION OF DEADLINE</b>	
<b>APPENDIX C: NOTICE OF PUBLIC MEETING</b>	
<b>APPENDIX D: COMMENTERS</b>	
<b>APPENDIX E: REPLY COMMENTERS</b>	
<b>APPENDIX F: PUBLIC MEETING PARTICIPANTS</b>	



## ABBREVIATIONS

<b>A2IM</b>	<b>American Association of Independent Music</b>
<b>ALA</b>	<b>American Library Association</b>
<b>ARL</b>	<b>Association of Research Libraries</b>
<b>ARSC</b>	<b>Association of Recorded Sound Collections</b>
<b>CDA</b>	<b>Communications Decency Act</b>
<b>EFF</b>	<b>Electronic Frontier Foundation</b>
<b>FMC</b>	<b>Future of Music Coalition</b>
<b>LOC</b>	<b>Library of Congress</b>
<b>MLA</b>	<b>Music Library Association</b>
<b>NAB</b>	<b>National Association of Broadcasters</b>
<b>NMPA</b>	<b>National Music Publishers Association</b>
<b>NRPB</b>	<b>National Recording Preservation Board</b>
<b>RIAA</b>	<b>Recording Industry Association of America</b>
<b>SAM</b>	<b>Society of American Music</b>
<b>SAA</b>	<b>Society of American Archivists</b>
<b>TRIPS</b>	<b>Trade-Related Aspects of Intellectual Property Rights</b>
<b>URAA</b>	<b>Uruguay Round Agreements Act</b>
<b>WTO</b>	<b>World Trade Organization</b>





*Wax cylinder*

### **EXECUTIVE SUMMARY**

In the Omnibus Appropriations Act of 2009, Congress instructed the Register of Copyrights (hereinafter “Copyright Office” or “Office”) to conduct a study on the “desirability and means” of extending federal copyright protection to sound recordings fixed before February 15, 1972 (“pre-1972 sound recordings”). Congress directed the Office to discuss several major points in the study, including: (1) the effect that federal protection would have with respect to the preservation of pre-1972 sound recordings; (2) the effect that federal protection would have with respect to providing public access to the recordings; and (3) the impact that federal protection would have on the economic interests of right holders of the recordings. Congress also requested “any recommendations that the Register considers appropriate.”

Although sound recordings were brought within the scope of federal copyright protection beginning in 1972, protection of pre-1972 sound recordings remains governed by a patchwork of state statutory and common law. States are permitted to continue protection for pre-1972 sound recordings until 2067, at which time all state protection will be preempted by federal law and pre-1972 sound recordings will enter the public domain.

The Copyright Office enjoyed significant input from stakeholders in the course of preparing this report. The Office solicited written comments and reply comments on a panoply of questions, including the current state of preservation and public availability, value in the marketplace, the Constitutional implications of federal protection, and the best methods to avoid harming the legitimate interests of right holders. The Office also held a two-day public roundtable for representatives of libraries and archives, the recording industry, performers, broadcasters and satellite radio, and other interested parties.

Among the conclusions of the Copyright Office is that the goals served by federalizing common law copyright for other types of works in 1976 would be served by bringing pre-1972 sound recordings into the federal statutory scheme as well. Indeed, Congress did not articulate grounds for leaving pre-1972 sound recordings outside the federal scheme and there is very little information as to why it did so. The Copyright Office also concludes that federalization would best serve the interest of libraries, archives and others in preserving old sound recordings and in increasing the availability to the public of old sound recordings. While many librarians and archivists are dissatisfied with the scope of the federal statutory privileges enjoyed by libraries and archives, these exceptions and limitations (sections 107 and 108 in particular) provide more certainty and, in general, more opportunity than state laws to preserve and make available sound recordings from many decades past. Moreover, pre-1972 sound recordings would enjoy the benefit of any future statutory amendments to exceptions and limitations in the Copyright Act, including updates to section 108 or orphan works legislation.

The principal objection offered by record companies – that federalizing protection for pre-1972 sound recordings would cast a cloud over existing ownership of rights in those recordings – is not insurmountable. Congress can address it by expressly providing that the ownership of copyright in the sound recording shall vest in the person who owned the rights under state law just prior to the enactment of the federal statute. Other concerns can also be resolved.

Here are the key points and legislative recommendations in the Report:

- The Copyright Office recommends that federal copyright protection should apply to sound recordings fixed before February 15, 1972, with special provisions to address ownership issues, term of protection, and registration. This will improve the certainty and consistency of copyright law, will likely encourage more preservation and access activities, and should not result in any appreciable harm to the economic interests of right holders.
- Federal copyright protection for pre-1972 sound recordings means that all of the rights and limitations of Title 17 of the U.S. Code applicable to post-1972 sound recordings would apply, including section 106(6) (public performance right for digital audio transmissions), section 107 (fair use), section 108 (certain reproduction and distribution by libraries and archives), section 110 (exemption for certain performances and displays), section 111 (statutory license for cable retransmissions of primary transmissions), section 112 (ephemeral recordings by broadcasters and transmitting organizations), section 114 (statutory license for certain transmissions and exemptions for certain other transmissions), section 512 (safe harbor for Internet service providers), Chapter 10 (digital audio recording devices), and Chapter 12 (copyright protection and management systems), as well as any future applicable rights and limitations (*e.g.*, orphan works) that Congress may choose to enact.
- The initial owner(s) of the federal copyright in a pre-1972 sound recording should be the person(s) who own(s) the copyright under applicable state law at the moment before the legislation federalizing protection goes into effect.
- Section 203 of the Copyright Act should be amended to provide that authors of pre-1972 sound recordings are entitled to terminate grants of transfers or licenses of copyright that are made on or after the date federal protection commences. However, termination of pre-federalization grants made under state law prior to federalization presents serious issues with respect to retroactivity and takings, so the Office does not recommend providing termination rights for grants made prior to federalization of protection.
- The term of protection for sound recordings fixed prior to February 15, 1972, should be 95 years from publication (with “publication” as defined in section 101) or, if the work had not been published prior to the effective date of legislation federalizing protection, 120 years from fixation. However,
  - In no case would protection continue past February 15, 2067, and
  - In cases where the foregoing terms would expire before 2067, a right holder may take the action described below to obtain a longer term.
- For pre-1972 sound recordings other than those published before 1923, a transition period lasting between six and ten years from enactment of federal protection should be established, during which a right holder may make a pre-1972 sound recording available to the public and file a notice with the Copyright Office confirming availability at a reasonable price and stating the owner’s intent to secure protection until 2067. If a right holder does this, the term of protection of the sound recording will not expire until 2067,

provided that the recording remains publicly available at a reasonable price during its extended term of protection.

- For sound recordings published before 1923, a transition period lasting three years from enactment of federal protection should be established, during which a right holder may make a pre-1923 sound recording available to the public and file a notice with the Copyright Office confirming availability at a reasonable price and stating the owner's intent to secure protection for 25 years after the date of enactment the legislation that federalizes protection. If a right holder does this, the term of protection of the sound recording will not expire until the end of the 25-year period, provided that the recording remains publicly available at a reasonable price during its extended term of protection.
- Regardless of a right holder's actions, all pre-1972 sound recordings should enjoy federal protection at least until the end of the relevant transition period described above.
- Regarding the requirement of timely registration in order to recover statutory damages or attorney's fees in an infringement suit, a transitional period of between three and five years should be established, during which right holders in pre-1972 sound recordings can seek statutory damages and attorney's fees notwithstanding the lack of registration prior to filing suit.
- Adjustments should be made or at least considered with respect to certain other provisions of the Copyright Act to take into account difficulties that owners of rights in pre-1972 sound recordings may encounter. Among those provisions are: section 405 (notice of copyright: omission of notice on certain copies and phonorecords), section 406 (notice of copyright: error in name or date on certain copies and phonorecords), section 407 (deposit of copies or phonorecords for Library of Congress), section 410 (*prima facie* weight of certificate of registration), and section 205 (regarding priority between conflicting transfers recorded in the Copyright Office).



*78 rpm shellac disc*

## **I. INTRODUCTION AND BACKGROUND**

### **A. The Pre-1972 Sound Recordings Report**

In 2009, Congress directed the Register of Copyrights to conduct a study on the desirability of and means for bringing sound recordings fixed before February 15, 1972 under federal jurisdiction. Specifically,

The study is to cover the effect of federal coverage on the preservation of such sound recordings, the effect on public access to those recordings, and the economic impact of federal coverage on rights holders. The study is also to examine the means for accomplishing such coverage. As part of this effort, the Register of Copyrights should publish notice of the study and provide a period during which interested persons may submit comments. The Register of Copyrights is to submit a report on the results of this study to the Committees on Appropriations of the House and Senate no later than two years after the enactment of this Act. The report should include any recommendations that the Register considers appropriate.<sup>1</sup>

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<sup>1</sup> See 155 CONG. REC. H2397 (daily ed. Feb. 23, 2009) (statement of Rep. Obey, Chairman of the House Committee on Appropriations, regarding H.R. 1105, Omnibus Appropriations Act of 2009). The deadline was extended from March 11, 2011 to December 31, 2011 at the request of the Copyright Office.

After internal study of the issue, in 2010 the Copyright Office issued a Notice of Inquiry<sup>2</sup> describing the issues to be addressed in the study and inviting the public to submit written comments on relevant questions such as (1) whether libraries currently treat pre-1972<sup>3</sup> sound recordings differently from federally copyrighted sound recordings for purposes of preservation and access; (2) whether federalizing protection would improve their ability to preserve and provide access to such recordings; and (3) the likely effects on the commercial value of those recordings, including on the scope of rights, the certainty and enforceability of protection, ownership of rights, and the term of protection. The deadline for initial comments was originally set for December 20, 2010, but was subsequently extended at the request of interested parties until January 31, 2011.<sup>4</sup> Reply comments were due on April 13, 2011.<sup>5</sup>

The Office received 59 initial comments<sup>6</sup> and 17 reply comments.<sup>7</sup> The comments represented organizations and individuals with diverse perspectives and experiences, including:

- **Sound recording libraries and organizations** (*e.g.*, Association of Recorded Sound Collections, Music Library Association, Society for American Music)
- **Other libraries, archives and library and archives associations** (*e.g.*, Library of Congress, American Library Association, Association of Research Libraries, Society of American Archivists)

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<sup>2</sup> 75 Fed. Reg. 67,777 (Nov. 3, 2010). Federal Register notices published by the Copyright Office during this study are included as Appendices A-C.

<sup>3</sup> As used in this report, “pre-1972” means before February 15, 1972, when sound recordings first became eligible for federal copyright protection.

<sup>4</sup> 75 Fed. Reg. 74,749 (Dec. 1, 2010).

<sup>5</sup> Originally the period for reply comments was set at 30 days, but that deadline too was extended at the request of the parties. See Appendix B; 76 Fed. Reg. 10,405 (Feb. 24, 2011).

<sup>6</sup> One of the comments, #57, groups together 231 copies of a form letter originated by Grooveshark. The form letter is available on Grooveshark’s website at <http://blog.grooveshark.com/post/2519052858/help-grooveshark-stay-alive> (last checked Dec. 1, 2011).

<sup>7</sup> Both the initial comments and the reply comments have been posted to the Copyright Office’s website and are available at <http://www.copyright.gov/docs/sound/>. Lists of commenters are attached as Appendices D and E.

- **Recording industry associations** (*e.g.*, American Association of Independent Music, Recording Industry Association of America)
- **Broadcasters and satellite radio** (*e.g.*, National Association of Broadcasters, Sirius XM)
- **Music publishers** (*e.g.*, National Music Publishers Association)
- **Songwriters and musicians organizations** (*e.g.*, Songwriters Guild of America, Future of Music Coalition)
- **Universities and academic institutions** (*e.g.*, University of Louisville, Syracuse University, Tulane University Law School, University of Utah Library)
- **Other organizations concerned about the legal treatment of pre-1972 sound recordings** (*e.g.*, Electronic Frontier Foundation, Starr-Gennett Foundation, Sound Exchange, Inc.)
- **Numerous individuals**

The Copyright Office also organized a two-day public meeting in Washington, D.C. on June 2 and 3, 2011, attended by 19 representatives of 13 organizations, as well as two individuals. These participants included representatives of all of the categories of commenters, and most of the organizations, listed above. (See Appendix F.) The Office subsequently met with several organizations and individuals to further explore some of the issues raised in the comments and in the meetings.

In the course of its research, the Office consulted a number of reports commissioned or sponsored by the National Recording Preservation Board, all published between 2005 and 2010.<sup>8</sup>

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<sup>8</sup> Rob Bamberger and Sam Brylawski, Nat'l Recording Preservation Board of the Library of Congress, *THE STATE OF RECORDED SOUND PRESERVATION IN THE UNITED STATES: A NATIONAL LEGACY AT RISK IN THE DIGITAL AGE 1* (2010) [hereinafter *NRPB REPORT*]; June M. Besek, *COPYRIGHT ISSUES RELEVANT TO DIGITAL PRESERVATION AND DISSEMINATION OF PRE-1972 COMMERCIAL SOUND RECORDINGS BY LIBRARIES AND ARCHIVES* (CLIR & Library of Congress 2005) [hereinafter, *BESK COMMERCIAL SOUND RECORDINGS STUDY*]; June M. Besek, *COPYRIGHT AND RELATED ISSUES RELEVANT TO DIGITAL PRESERVATION AND DISSEMINATION OF UNPUBLISHED PRE-1972 SOUND RECORDINGS BY LIBRARIES AND ARCHIVES* (CLIR & Library of Congress 2009) [hereinafter, *BESK UNPUBLISHED SOUND RECORDINGS STUDY*]; Tim Brooks, *SURVEY OF REISSUES OF U.S. RECORDINGS* (CLIR & Library of Congress 2005) [hereinafter, *BROOKS STUDY*]; Program on Information Justice and Intellectual Property, Washington College of Law, American University (under the supervision of Peter Jaszi with the assistance of Nick Lewis), *PROTECTION FOR PRE-1972 SOUND RECORDINGS UNDER STATE LAW AND ITS IMPACT ON USE BY*

This Report is the result of the Copyright Office’s research and public outreach concerning the legal treatment of pre-1972 sound recordings. The Report (1) explains the process by which the Office undertook its research; (2) describes the comments received as well as the views expressed at the public meetings; and (3) explain the Office’s recommendations and the reasons for them.<sup>9</sup>

### **B. The Pre-1972 Sound Recordings Issue**

The body of pre-1972 sound recordings is vast. Commercially released “popular” recordings come most readily to mind – from Frank Sinatra and Ella Fitzgerald to the Beatles and the Rolling Stones. But pre-1972 commercial recordings encompass a wide range of genres: ragtime and jazz, rhythm and blues, gospel, country and folk music, classical recordings, spoken word recordings and many others.<sup>10</sup> Some remain popular; others have long since faded from memory and are of interest only to scholars. There are, in addition, many unpublished recordings such as journalists’ tapes, oral histories, and ethnographic and folklore recordings. There are also recordings of old radio broadcasts, which were publicly disseminated by virtue of the broadcast, but in many cases are technically unpublished under the standards of the U.S. Copyright Act. These recordings are a rich aspect of this country’s cultural heritage, and it is important to ensure that they will be preserved and accessible for researchers and scholars, as well as to future generations.

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NONPROFIT INSTITUTIONS: A 10-STATE ANALYSIS (CLIR & Library of Congress 2009) [hereinafter, JASZI STUDY].

<sup>9</sup> In citing to the comments and the transcript of the public meeting, this Report follows the following conventions: For an initial comment, the institutional or individual author followed by the page number (*e.g.*, Society of American Archivists (SAA) at 10); for a reply comment, the same structure but with the word “Reply” (*e.g.*, SAA Reply at 6); for a citation to the public meeting transcript, the speaker, the letter T, a number indicating the first or second day, and the page number (*e.g.*, Schwartz T1 at 78).

<sup>10</sup> *See generally* BROOKS STUDY.

Congress brought sound recordings within the scope of federal copyright law for the first time on February 15, 1972. It provided protection on a prospective basis, leaving recordings first fixed before that date under the protection of state law. The issue was revisited during enactment of the 1976 Copyright Act, when Congress federalized protection for works that had been protected by state rather than federal copyright law but preserved the state law regime for pre-1972 sound recordings.<sup>11</sup> But Congress did provide some limitations on state law protection for sound recordings: the Copyright Act provides that states are entitled to protect pre-1972 sound recordings until February 15, 2067.<sup>12</sup> At that point, all pre-1972 sound recordings, no matter how old, will enter the public domain in one fell swoop and the dual regimes of protection for sound recordings will disappear.

As a consequence of this legal construct, there is virtually no public domain in the United States for sound recordings and a 55 year wait before this will change.<sup>13</sup> To put this in perspective, one need only compare the rules of copyright term for other works. For example, a musical composition published in 1922 would have entered the public domain at the end of 1997, but a sound recording of that same musical composition that was fixed the same year will remain protected for another 70 years, until 2067. In fact, sound recordings first fixed in 1922 will enter the public domain the same year as those first fixed between February 15 and December 31, 1972

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<sup>11</sup> Until the effective date of the 1976 Copyright Act, unpublished works were protected by state common law copyright, which lasted until a work was published. As discussed below, state law (including common law copyright as well as other common law doctrines and statutes) also protected sound recordings, whether or not they were published. *See infra* Chapter II.E.

<sup>12</sup> *See* 17 U.S.C. § 301(c); *see also Capitol Records, Inc. v. Naxos of America, Inc.*, 830 N.E.2d 250 (N.Y. 2005), discussed below.

<sup>13</sup> A few individual states have explicitly set shorter terms of protection (*see infra* Chapter II.E.2), but no pre-1972 sound recordings are in the public domain throughout the United States unless they were published between February 15, 1972 and March 1, 1989 without notice and without mitigating circumstances, or unless their right holders have dedicated them to the public domain.

(the first year they were eligible for federal protection). In each case, they will not enter the public domain until the end of 2067.<sup>14</sup>

To be clear, it is misleading to speak of state law as a single regime of protection. More accurately, it consists of multiple regimes of protection, sometimes vague and inconsistent, with the scope of rights and of permissible activities often difficult to discern. This patchwork of state protection has frustrated many libraries, archives and educational institutions, which are unclear at best whether they are legally permitted to preserve pre-1972 sound recordings, or provide access to them for researchers and scholars – at least to the same degree as later recordings.<sup>15</sup>

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<sup>14</sup> To make matters more complicated, it is not always clear which of the two regimes of protection for sound recordings, state or federal (or both), is applicable because, due to copyright restoration in certain circumstances, there are some recordings fixed prior to February 15, 1972 that have federal law protection as well. Foreign sound recordings whose copyrights were “restored” under the Uruguay Round Agreements Act, Pub. L. No. 103-465, 108 Stat. 4809, 4973 (1994) may begin to enter the public domain only at the end of 2041. *See infra* Chapter II.D.

<sup>15</sup> *See* NRPB REPORT at 131.



*Lacquer recorder*

## II. LEGAL AND LEGISLATIVE HISTORY

### A. Federal Copyright Law and Sound Recordings until 1972

Sound recordings as defined under federal copyright law are “works that result from the fixation of a series of musical, spoken, or other sounds, . . . regardless of the nature of the material objects, such as disks, tapes or other phonorecords, in which they are embodied.”<sup>16</sup>

Although sound recordings have existed since the mid-nineteenth century,<sup>17</sup> no federal copyright protection was available to them until 1972.<sup>18</sup>

As early as 1906, during the revision process that led to the 1909 Copyright Act, representatives of the then-leading record company, Victor Talking Machine Co., urged Congress

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<sup>16</sup> 17 U.S.C. § 101. The full definition of sound recordings is: “works that result from the fixation of a series of musical, spoken, or other sounds, but not including the sounds accompanying a motion picture or other audiovisual work, regardless of the nature of the material objects, such as disks, tapes or other phonorecords, in which they are embodied.” *Id.*

<sup>17</sup> According to the NRPB Report, the earliest identifiable sound recording was made in 1860, and the phonograph was invented in 1877. NRPB REPORT at 1, 133.

<sup>18</sup> For a thorough and insightful analysis of the legal status of sound recordings in the United States until 1957, see Barbara A. Ringer, COPYRIGHT LAW REVISION, STUDY NO. 26: THE UNAUTHORIZED DUPLICATION OF SOUND RECORDINGS, at 21-37 (Feb. 1957) [hereinafter, Ringer], available at <http://www.copyright.gov/history/studies/study26.pdf>.

to grant federal copyright protection to sound recordings.<sup>19</sup> They were unsuccessful in getting such a provision into any of the revision bills introduced from 1906 to 1908. But in 1908, the Supreme Court decided *White-Smith v. Apollo*,<sup>20</sup> holding that a piano roll was not a “copy” of the musical composition embodied in it because the composition could not be “read” from the roll with the naked eye. Therefore, according to the Court, the defendant did not infringe the musical composition in creating and reproducing the roll. Record companies apparently realized the inconsistency between the holding in *White-Smith* and their proposal to grant copyright protection for sound recordings (for which mechanical reproductions were the only means of fixation), and they abandoned that proposal.<sup>21</sup>

The 1909 Copyright Act, passed the following year, granted copyright owners of musical compositions rights with respect to mechanical reproductions of their compositions, for example, in records or piano rolls. Congress was concerned, however, that if musical composition owners had exclusive rights, record companies might be able to buy up the rights and monopolize the market with respect to particular musical compositions, so the mechanical right was made subject to a compulsory license. Once a music copyright owner authorized a mechanical reproduction of his composition, others could take advantage of the license to make their own mechanical reproductions, provided that they met the statutory requirements and paid the statutory rate.<sup>22</sup>

While the 1909 Act provided protection for copyright holders of musical compositions whose works were reproduced in sound recordings, it included no explicit protection for sound recordings *per se*. As a result, over the subsequent decades the courts and the Copyright Office

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<sup>19</sup> See Ringer at 3.

<sup>20</sup> *White-Smith Publ'g. Co. v. Apollo Co.*, 209 U.S. 1 (1908), *superseded by statute*, Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2541 (1976).

<sup>21</sup> Ringer at 4.

<sup>22</sup> An Act to Amend and Consolidate the Acts Respecting Copyright, Pub. L. No. 60-349, 35 Stat. 1075, § 1(e) (1909).

consistently refused to recognize copyright in sound recordings.<sup>23</sup> By the 1940s and 1950s, respected commentators, including Professor Zechariah Chafee<sup>24</sup> and Judge Learned Hand,<sup>25</sup> had expressed the opinion that there was no constitutional obstacle to protecting a sound recording as the writing of an author, even though its fixation may be unintelligible to the naked eye. They were in agreement, however, that the current law did not provide such protection.

In the absence of federal protection, states provided protection against duplication of sound recordings under common law theories, usually unfair competition or common law copyright, as discussed below.

The first bill to explicitly provide federal copyright protection for sound recordings was introduced in Congress in 1925,<sup>26</sup> and copyright revision bills that would have extended copyright protection to sound recordings (with varying restrictions) were introduced regularly thereafter through 1951.<sup>27</sup> In all, more than thirty bills to provide sound recordings with some form of copyright protection were introduced during this period, but none passed.<sup>28</sup> In a Copyright Office study published in 1957, Barbara Ringer (who later became Register of Copyrights) observed that the opposition to these bills was based on technical deficiencies and concerns about their constitutionality (both as to whether sound recordings were creative, and whether they were

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<sup>23</sup> See, e.g., *Aeolian Co. v. Royal Music Roll Co.*, 196 F. 926, 927 (W.D.N.Y. 1912) (“music rolls or records are not strictly matters of copyright”). The Court’s holding in *White-Smith Publ’g. Co. v. Apollo* – that a piano roll did not qualify as a copy of the musical composition embodied in it – was adopted in the 1909 Act not only with respect to whether a reproduction was an infringement, but also with respect to whether a reproduction met the fixation requirement. Melville B & David Nimmer, NIMMER ON COPYRIGHT, § 2.03[B][1] (2011) at 2-32 to -33 [hereinafter NIMMER ON COPYRIGHT].

<sup>24</sup> Zechariah Chafee, *Reflections on the Law of Copyright*, 45 COLUM. L. REV. 719, 735 (1945).

<sup>25</sup> *Capitol Records, Inc. v. Mercury Records Corp.*, 221 F.2d 657, 664 (2d Cir. 1955) (Hand, J. dissenting). The panel agreed that the Constitution permitted Congress to protect sound recordings and that it had chosen not to provide such protection, but Judge Hand dissented on preemption grounds.

<sup>26</sup> H.R. 11258, 68th Cong. (2d Sess. 1925).

<sup>27</sup> See Ringer at 21-37 for a detailed discussion of efforts to provide copyright protection for sound recordings from 1925-1951.

<sup>28</sup> See *id.*; see also Melvin L. Halpern, *The Sound Recording Act of 1971: An End to Piracy on the High ©’s?*, 40 GEO. WASH. L. REV. 964, 975 (1971-1972).

writings). She characterized the arguments on both sides as “dictated by economic self-interest, and revolv[ing] around the problem of radio broadcasting.”<sup>29</sup> She observed that there was “practically no direct opposition” to the principle that sound recordings should be protected against unauthorized duplication.<sup>30</sup>

As work began in earnest on a comprehensive revision of the 1909 Copyright Act, the possibility of protecting sound recordings received renewed attention. Barbara Ringer’s study, “The Unauthorized Duplication of Sound Recordings” was one of several studies commissioned by Congress to lay the groundwork for what became the 1976 Copyright Act. The contemplation was that sound recordings would be included in the copyright revision law that was then under development,<sup>31</sup> and copyright revision bills in the 1960s and early 1970s included protection for sound recordings, although the scope of that protection varied in the different bills.<sup>32</sup>

### **B. 1971 Sound Recording Amendment**

The general copyright revision process became stalled in the late 1960s and early 1970s. Congress, persuaded that the situation concerning sound recordings was becoming urgent, decided to bring sound recordings under the federal copyright law without waiting for the overall revision. On November 15, 1971 it passed the Sound Recording Amendment, which for the first time made sound recordings eligible for federal copyright.<sup>33</sup>

There were three principal reasons that Congress moved ahead on sound recordings without waiting for the general revision. First, record and tape piracy had climbed to alarming

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<sup>29</sup> Ringer at 37.

<sup>30</sup> *Id.*

<sup>31</sup> *See Report of the Register of Copyrights on the General Revision of the Copyright Law* at 18 (1961).

<sup>32</sup> *See, e.g., Copyright Law Revision, Part 3, Preliminary Draft for Revised U.S. Copyright Law* § 10 (Sept. 1964); S. 543, 91st Cong. (1st Sess. 1969); H.R. 2512, 90th Cong. (1st Sess. 1967); S. 597, 90th Cong. (1st Sess. 1967).

<sup>33</sup> Pub. L. No. 92-140, § 3, 85 Stat. 391, 392 (1971).

proportions as the use of audiotapes and audiotape recorders became increasingly popular and made it easier to make and distribute unauthorized recordings on a commercial scale. The House Report accompanying the 1971 Act estimated the annual volume from pirated sales “in excess of \$100 million” as compared with \$300 million annually from legitimate sales of prerecorded tapes.<sup>34</sup>

Second, although states had begun to pass criminal laws prohibiting the unauthorized commercial duplication and distribution of sound recordings,<sup>35</sup> in most states record producers still relied on unfair competition, “where the remedies available are limited.”<sup>36</sup> Moreover, the Supreme Court’s decisions in *Sears, Roebuck & Co. v. Stiffel*<sup>37</sup> and *Compco v. Day-Brite Lighting, Inc.*<sup>38</sup> had cast doubt on the validity of state protection.<sup>39</sup> Defendants in record piracy cases were arguing that state laws were preempted by the federal copyright scheme, even though Congress had chosen not to protect sound recordings.<sup>40</sup>

Third, a diplomatic conference to complete a treaty to combat record piracy was scheduled for late 1971, and Congress believed progress on the domestic front would be helpful to U.S. interests.<sup>41</sup>

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<sup>34</sup> H.R. REP. NO. 92-487, 92nd Cong. at 2 (1971).

<sup>35</sup> See *infra* Chapter II.E.

<sup>36</sup> H.R. REP. NO. 92-487 at 2. For example, state law was far from uniform, and states could not enjoin activities beyond their borders. See Halpern, *The Sound Recording Act of 1971: An End to Piracy on the High ©’s?*, 40 GEO. WASH. L. REV. at 975.

<sup>37</sup> 376 U.S. 225, 230 (1964).

<sup>38</sup> 376 U.S. 234, 238 (1964).

<sup>39</sup> See H.R. REP. NO. 92-487 at 2-3, 12-13; see also *Int’l Tape Mfrs. Assn v. Gerstein*, 344 F. Supp. 38, 49 (S.D. Fla. 1972), *vacated and remanded*, 494 F.2d 25 (5th Cir. 1974); *Tape Indus. Assn. v. Younger*, 316 F. Supp. 340, 346 (C.D. Cal. 1970), *appeal dismissed*, 401 U.S. 902 (1971).

<sup>40</sup> The preemption issue was not conclusively resolved until after the Sound Recording Amendment was passed, when the Supreme Court decided *Goldstein v. California*, 412 U.S. 546 (1973), discussed below.

<sup>41</sup> See H.R. REP. NO. 92-487 at 3, 11. The diplomatic conference led to the Geneva Convention for the Protection of Producers of Phonograms, Oct. 28, 1971, 25 U.S.T. 309.

The effective date of the Sound Recording Amendment was February 15, 1972,<sup>42</sup> four months after it was passed. It applied to sound recordings first fixed on or after that date. The law provided only a limited right with respect to sound recordings. Its principal provision was to grant sound recordings a reproduction right analogous to that provided for other works of authorship, thus giving record producers a new tool with which to combat outright duplication. However, the right to reproduce was “limited to the right to duplicate the sound recording in a tangible form that directly or indirectly recaptures the actual sounds fixed in the recording.”<sup>43</sup> Thus, the new law provided no protection against imitations of the performance. Moreover, it contained a significant temporal restriction: it had a “sunset provision” and protected only sound recordings first fixed on or after February 15, 1972 and before January 1, 1975.<sup>44</sup> It is apparent that Congress envisioned that protection for sound recordings would be folded into the copyright revision act then under consideration, making any extension of the sound recording amendment unnecessary.

The bill omitted any performance right for sound recordings, which had been a controversial issue in the revision process. At the same time, Congress refused to impose a compulsory license on sound recordings analogous to the one contained in the law for musical compositions, something that the bill’s opponents had sought. In both cases, Congress observed that those issues could be revisited in the general revision of the copyright law.<sup>45</sup> There was no discussion of Congress’s decision to protect sound recordings only on a prospective basis.

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<sup>42</sup> Pub. L. No. 92-140, § 3, 85 Stat. 391, 392 (1971).

<sup>43</sup> *Id.* § 1(a).

<sup>44</sup> *See id.* § 3.

<sup>45</sup> *See* H.R. REP. NO. 92-487 at 5; S. REP. NO. 92-72 at 3 (1971).

Shortly after the 1971 Sound Recording Amendment was enacted, its constitutionality was challenged in *Shaab v. Kleindienst*.<sup>46</sup> A three-judge district court rejected the plaintiff's main argument that sound recordings do not qualify as the "writings" of "authors."

The following year, the Supreme Court put to rest the question whether states could regulate pre-1972 sound recordings. In *Goldstein v. California*,<sup>47</sup> the Supreme Court held that California's record piracy law as it applied to pre-1972 sound recordings was not preempted by federal copyright law or the Constitution under its decision in *Sears and Compco*. The Court concluded that Congress had left the area of sound recordings "unattended," and states were free to act with respect to the regulation of pre-1972 sound recordings.<sup>48</sup> The *Goldstein* case led to the passage of many more state anti-piracy laws with respect to pre-1972 recordings,<sup>49</sup> and its rationale extended as well to state civil protection.

By the end of 1974 the copyright revision bill still had not become law, so Congress removed the January 1, 1975 sunset date for federal copyright protection of sound recordings.<sup>50</sup>

### C. 1976 Copyright Revision Act

The Copyright Revision Act was passed on October 19, 1976. It included sound recordings among the categories of protectable subject matter, although the scope of protection for sound recordings continued to be more limited than that for other works. The reproduction right was (and continues to be) limited to duplication of the actual sounds in the recording.<sup>51</sup>

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<sup>46</sup> 345 F. Supp. 589 (D.D.C. 1972).

<sup>47</sup> 412 U.S. 546 (1973).

<sup>48</sup> *Id.* at 569-70.

<sup>49</sup> See Sidney A. Diamond, *Sound Recordings and Phonorecords: History and Current Law*, 1979 U. ILL. L. F. 337, 349 (1979).

<sup>50</sup> Pub. L. No. 93-573, 88 Stat. 1873 (Dec. 31, 1974).

<sup>51</sup> See 17 U.S.C. § 114(b). There is a similar limitation with respect to the derivative work right in sound recordings. See *id.*

Sound recordings were granted no public performance right in the 1976 Copyright Act, although later enactments provided them with a performance right with respect to certain digital transmissions.<sup>52</sup>

Thus sound recordings fixed on or after February 15, 1972 were secure in their eligibility for federal copyright protection. The fate of pre-1972 sound recordings, however, was addressed separately in the law.

To create a unitary system of copyright, Congress in the 1976 Act preempted state law that provided rights equivalent to copyright. Specifically, section 301(a) of the Copyright Act provides:

On and after January 1, 1978, all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103, whether created before or after that date and whether published or unpublished, are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.

Congress exempted pre-1972 sound recordings from this general preemption provision and treated them separately under section 301(c) of the Copyright Act, which currently provides:

With respect to sound recordings fixed before February 15, 1972, any rights or remedies under the common law or statutes of any State shall not be annulled or limited by this title until February 15, 2067. The preemptive provisions of subsection (a) shall apply to any such rights and remedies pertaining to any cause of action arising from undertakings commenced on and after February 15, 2067. Notwithstanding the provisions of section 303, no sound recording fixed before February 15, 1972, shall be subject to copyright under this title before, on, or after February 15, 2067.

Why Congress decided to maintain two separate systems of protection for sound recordings is unclear.<sup>53</sup> There are at least two theories as to why Congress did not bring pre-1972

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<sup>52</sup> Digital Performance Right in Sound Recordings Act of 1995, Pub. L. No. 104-39, 109 Stat. 336 (1995), as amended by the Digital Millennium Copyright Act of 1998, Pub. L. No. 105-304, 112 Stat. 2860, 2905 (1998) (codified at 17 U.S.C. § 114).

recordings under federal law in 1976. The first is that Congress did not fully understand the implications of amending the bill as it then existed to add section 301(c) – in short, it was simply a mistake. Section 301 in S. 22, the general revision bill introduced in 1975, provided for preemption of state laws equivalent to copyright, but did not specifically exclude state laws concerning pre-1972 sound recordings.<sup>54</sup> The Justice Department, in the course of the 1975 hearings, had expressed concern that unless Congress excluded pre-1972 sound recordings from the general preemption provision, state anti-piracy laws related to those recordings would be abrogated, and the likely result would be “the immediate resurgence of piracy of pre-February 15, 1972 sound recordings.”<sup>55</sup> It suggested adding a provision to exclude from the sweep of federal preemption the state laws that protected pre-1972 sound recordings. Apparently in response to this concern, the Senate added such a provision to the pending bill.<sup>56</sup> Nimmer suggests that both the Justice Department and the Senate “overlooked” the fact that a resurgence of piracy would not

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<sup>53</sup> Commentary on the early revision bills reflected some uncertainty as to whether any preexisting sound recordings would qualify for federal copyright protection. Against the possibility that at least some might be eligible, Congress included a provision in the revision bill (§ 402(d)) that copyright notice would be required only once the federal law became applicable, so that an otherwise eligible recording would not be barred from protection for failure to use a notice in the past. *See, e.g.*, H.R. REP. NO. 89-2237 at 20, 39 (1966). The sound recording industry urged that preexisting recordings affirmatively be included in the revision bill. *See, e.g., Hearings on S. 597 Before the Subcomm. on Patents, Trademarks and Copyrights of the S. Comm. on the Judiciary*, 90th Cong. at 519 (1967) (Testimony of Clive Davis, CBS Records); *see id.* at 531-32 (Testimony of Henry Brief, RIAA). In 1969, Senator Harrison Williams offered an amendment to S. 543, the revision bill under consideration by the Senate in the 91st Congress. 115 CONG. REC. 8613, 8617 (Apr. 3, 1969). The amendment was principally designed to add a performance right in sound recordings, but it also included an amendment to section 303 of the draft bill to explicitly protect preexisting sound recordings. The performance rights amendment was accepted and became part of the revision bill in the Senate until 1974. Neither the portion of the amendment designed to include preexisting sound recordings under federal law nor section 402(d) survived the subcommittee vote, but the report provides no explanation. *See* S. REP. NO. 91-1219 at 7 (1970).

<sup>54</sup> S. 22, 94th Cong., § 301 (1st Sess. 1975).

<sup>55</sup> *Hearings on H.R. 2223 Before the Subcomm. on Courts, Civil Liberties and the Administration of Justice of the H. Comm. on the Judiciary*, Ser. No. 36, Part I at 137-38 (1975) [hereinafter, 1975 House Hearings].

<sup>56</sup> S. 22, 94th Cong. § 301(b)(4) (2d Sess. 1976).

otherwise have resulted because the revision bill in its then-current form conferred statutory protection on *all* sound recordings.<sup>57</sup>

However, it appears that the Recording Industry Association of America (“RIAA”) and the Copyright Office shared the Justice Department’s view that without the amendment to the preemption provision, pre-1972 sound recordings would be left without protection when the Copyright Revision Act went into effect. RIAA “strongly supported” the Justice Department’s proposed amendment.<sup>58</sup> The Register of Copyrights agreed that pre-1972 sound recordings “should not all be thrown into the public domain instantly upon the coming into effect of the new law.”<sup>59</sup> However, she expressed concern that under the Justice Department’s proposed amendment, sound recordings would have perpetual protection under state law, and suggested a revision to provide a future date of February 15, 2047 for preemption to take place.<sup>60</sup>

Subsequently, the House added an end date of February 15, 2047 for state law protection for pre-1972 recordings, together with a provision specifically excluding pre-1972 sound recordings from federal copyright protection.<sup>61</sup>

The second theory for why Congress did not bring pre-1972 sound recordings into federal copyright in 1976 is that Congress was simply following a long tradition of including new works

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<sup>57</sup> 1 NIMMER ON COPYRIGHT, § 2.10[B] at 2-178.4.

<sup>58</sup> 1975 House Hearings at 1397 (1975) (Addendum to Statement of Stanley M. Gortikov, Sept. 11, 1975).

<sup>59</sup> *Id.* at 1911 (testimony of Barbara Ringer, Register of Copyrights).

<sup>60</sup> *Id.* Concerning the 2047 end date, the Register stated: “This might seem like a long time, but I would point out that it is in comparison to eternity. . . .” *Id.*

<sup>61</sup> This date of February 15, 2047 allowed state law works created the last day before federal copyright protection went into effect – February 14, 1972 – to enjoy a full 75 years of protection. Seventy-five years was the maximum duration of protection for works copyrighted under the 1909 Act, as provided by the terms of the 1976 Act. Of course, under most state laws there is no expiration date for protection of pre-1972 sound recordings, so a sound recording created in either 1941 or 1971 would remain protected until 2047. When the Sonny Bono Copyright Term Extension Act, Pub. L. No. 105-298, 112 Stat. 2827 (1998) was passed, the date for preemption of state laws protecting sound recordings was extended by 20 years, to February 15, 2067.

under copyright only on a prospective basis.<sup>62</sup> This was the case, for example, with musical compositions in 1831<sup>63</sup> and photographs<sup>64</sup> in 1865.<sup>65</sup>

It is apparent from the legislative reports concerning the Sound Recording Amendment and the 1976 Copyright Act that Congress well understood it was leaving in place the state law regime for pre-1972 sound recordings, rather than bringing them under federal law. However, nowhere does Congress explain the considerations that, in its view, supported this result. This omission is particularly curious in light of Congress's articulated goal of a unitary system of copyright and its decision to implement that goal by bringing essentially all other works protected by state law copyright regimes into the federal system.

#### **D. 1994 Uruguay Round Agreements Act**

Despite this history, there are now some pre-1972 sound recordings that do enjoy federal copyright protection. When Congress implemented the TRIPS Agreement in the Uruguay Round Agreements Act (URAA),<sup>66</sup> passed in 1994, it "restored" copyright protection to certain works of foreign origin that were in the public domain in the United States on the effective date (which for most works was January 1, 1996).<sup>67</sup> This was done to comply with U.S. treaty obligations. Many

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<sup>62</sup> See Henry Lee Mann, *As Our Heritage Crumbles Into Dust: The Threat of State Law Protection for Pre-1972 Sound Recordings*, 6 WAKE FOREST INTELL. PROP. L. REV. 45, 51-54 (2006).

<sup>63</sup> Act of Feb. 3, 1831, Ch. 16, 4 Stat. 436.

<sup>64</sup> Act of Mar. 3, 1865, Ch. 126, 13 Stat. 540.

<sup>65</sup> In 1912 Congress amended the 1909 Copyright Act to include motion pictures, but the law was silent on the question of its applicability to earlier works. Act of Aug. 24, 1912, Ch. 356, 37 Stat. 488.

<sup>66</sup> The Uruguay Round Agreements Act, Pub. L. No. 103-465, 108 Stat. 4809 (1994), implemented U.S. obligations under the Trade-Related Aspects of Intellectual Property Rights Agreement, April 15, 1994, 33 I.L.M. 1199, Annex 1C of the Agreement Establishing the World Trade Organization ("TRIPS Agreement"), 33 I.L.M. 1143 (1994).

<sup>67</sup> This was the date of restoration for works whose source countries were members of the Berne Convention or the WTO on that date; for other countries, it is the date of adherence. See 17 U.S.C. § 104A(h)(2).

of those works had fallen into the public domain for failure to comply with U.S. formalities that used to be conditions for copyright protection, such as renewal registration or affixation of a valid copyright notice. However, among the works for which protection was “restored” were qualifying pre-1972 sound recordings of foreign origin, which had never before been eligible for federal copyright protection.

In order to be eligible for restoration, works had to meet several conditions, including (1) they could not, on the date of restoration, be in the public domain in their home country through expiration of the term of protection; (2) they had to be in the public domain in the United States due to noncompliance with formalities, lack of subject matter protection (as was the case for sound recordings),<sup>68</sup> or lack of national eligibility; and (3) they had to meet national eligibility standards, *i.e.*, the work had to be of foreign origin.<sup>69</sup> Specifically, to be restored a work had to have “at least one author or rightholder who was, at the time the work was created, a national or domiciliary of an eligible country, and if published, must have been first published in an eligible country and not published in the United States during the 30-day period following publication in such eligible country.”<sup>70</sup>

Restoration occurred automatically on the effective date.<sup>71</sup> As explained above, one of the conditions was that the sound recording in question could not be in the public domain in its home country on the effective date due to expiration of copyright term. Most foreign sound recordings are protected in other countries not by copyright, but under a “neighboring rights” regime which provides a 50-year term of protection.<sup>72</sup> As a result, most foreign sound recordings

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<sup>68</sup> See 17 U.S.C. § 104A(h)(6)(C)(ii).

<sup>69</sup> See 17 U.S.C. § 104A(h)(6).

<sup>70</sup> 17 U.S.C. §104A(h)(6)(D).

<sup>71</sup> 17 U.S.C. §104A(a)(1).

<sup>72</sup> Some countries offer a longer term of protection for sound recordings, and the number of countries that offer a longer term is about to increase dramatically. Earlier this year, the Council of the European Union issued a directive extending the term of protection for phonograms (sound recordings) to 70 years.

first fixed prior to 1946 were not eligible for restoration. Those that were protected in their home countries on January 1, 1996 got the term they would have received had they been copyrighted in the United States: 75 years from publication, later extended to 95 years.<sup>73</sup> This means, for example, that a foreign recording made in 1945 probably would have gone into the public domain in its home country by the end of 1995 and therefore was not eligible for U.S. federal copyright protection.<sup>74</sup> On the other hand, a foreign recording made in 1947 probably would have gone into the public domain in its home country by the end of 1997, but because its copyright was restored in the United States on January 1, 1996, it received a 75 year term (later extended to 95 years), so it will be protected by U.S. copyright law until the end of 2042.

It is theoretically possible that foreign sound recordings restored to federal copyright protection enjoy concurrent state law protection. Section 301(c) – which saves state laws concerning sound recordings from federal preemption until 2067 – was never amended to exclude foreign recordings.<sup>75</sup> However, the rationale underlying *Goldstein v. California* was that Congress “has left the area [legal protection of sound recordings] unattended, and no reason exists why the State should not be free to act.”<sup>76</sup> One might reasonably argue that Congress has not left the legal status of these restored foreign recordings “unattended,” so that state law is preempted by the URAA at least with respect to those recordings. This issue has not been

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Directive 2011/77/EU of The European Parliament and of The Council, 2011 O.J. (L. 265) (Sept. 27, 2011). All 27 member states of the European Union are required to implement the new extended term in their domestic laws no later than November 1, 2013. The extension is not retroactive, *i.e.*, it does not apply to sound recordings that are already in the public domain. Thus, a phonorecord first published on September 1, 1961 would not enjoy the newly-extended 70-year term of protection in the EU.

<sup>73</sup> See Uruguay Round Agreements Act, Statement of Administrative Action, H.R. REP. NO. 103-316 (1994), reprinted in 1994 U.S.C.C.A.N. 4040, 4290.

<sup>74</sup> However, such a recording may be eligible for state protection. See *Capitol Records, Inc. v. Naxos of America, Inc.*, 830 N.E.2d 250 (N.Y. 2005), discussed below.

<sup>75</sup> See 3 NIMMER ON COPYRIGHT, § 8C.03[E] at 8C-10.2 to 8C-10.3.

<sup>76</sup> 412 U.S. 546, 570 (1973) (footnote omitted).

addressed by the courts, and merely illustrates the potential complications, and inconsistencies, of dual systems of protection.

### **E. State Law Protection for Pre-1972 Sound Recordings**

State law protection for pre-1972 sound recordings is a complicated subject, and this Report provides only a brief overview.<sup>77</sup> The states provide protection for pre-1972 sound recordings through a patchwork of criminal laws, civil statutes and common law. Early cases relied on common law, principally the tort of unfair competition, to protect sound recordings from unauthorized duplication and sale.<sup>78</sup> By the 1950s, record piracy had become a serious problem, with pirates openly competing with record companies.<sup>79</sup> For that reason, attention shifted to legislation imposing criminal sanctions starting in the 1960s.

#### **1. Criminal Record Piracy Statutes**

In the 1960s, states began to pass laws making it a criminal offense to duplicate and distribute sound recordings, without authorization, for commercial purposes. New York was the first such state in 1967; California was the second, in 1968.<sup>80</sup> Several other states followed, and

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<sup>77</sup> For a more extensive overview of state law protection for pre-1972 sound recordings, see JASZI STUDY, BESEK UNPUBLISHED SOUND RECORDINGS STUDY, and BESEK COMMERCIAL SOUND RECORDINGS STUDY. A chart of state criminal laws, prepared initially by ARL and revised and updated by Copyright Office interns, as well as the texts of those laws, are available at [www.copyright.gov/docs/sound](http://www.copyright.gov/docs/sound).

<sup>78</sup> See, e.g., *Victor Talking Mach. Co. v. Armstrong*, 132 F. 711 (S.D.N.Y. 1904).

<sup>79</sup> Glenn M. Reisman, *The War Against Record Piracy: An Uneasy Rivalry Between the Federal and State Governments*, 39 ALB. L. REV. 87, 89 (1974).

<sup>80</sup> See 1968 Cal. Stat. ch. 585, p. 1256, codified as amended in CAL. PENAL CODE § 653h (West 2011); New York Law, L. 1967, ch. 680 § 59, initially codified in N.Y. GEN. BUS. LAW art. 29-D. That section was repealed in 1978 when the law became part of New York's Penal Code, L. 1978, ch. 445, codified in N.Y. PENAL LAW §§ 275.00–275.45 (McKinney 2011).

after the Supreme Court ruled in *Goldstein v. California*<sup>81</sup> in 1973 that state law protection of sound recordings was constitutional, many additional states passed such laws.

**a. *Examples of state criminal statutes***

Currently, nearly all states have criminal record piracy laws applicable to pre-1972 sound recordings.<sup>82</sup> Most state criminal laws prohibit, at a minimum, duplication and sale of recordings done knowingly and willfully with the intent to sell or profit commercially from the copies.<sup>83</sup> Many have express exceptions for activities such as broadcasting, archiving, and personal use. It is unclear how many cases are brought under these statutes, but they inform the protection for sound recordings under state law and provide a backdrop for commercial transactions.

Examples from four states – California, Michigan, New York and Tennessee – illustrate some of the different forms of criminal record piracy statutes.

*California.* California’s criminal record piracy statute provides:

(a) Every person is guilty of a public offense . . . who:

(1) Knowingly and willfully transfers or causes to be transferred any sounds that have been recorded on a phonograph record, disc, wire, tape, film or other article on which sounds are recorded, with intent to sell or cause to be sold, or to use or cause to be used for commercial advantage or private financial gain through public performance, the article on which the sounds are so transferred, without the consent of the owner.

(2) Transports for monetary or like consideration within [California] or causes to be transported within [California] any such article with the knowledge that the sounds thereon have been so transferred without the consent of the owner.<sup>84</sup>

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<sup>81</sup> 412 U.S. 546.

<sup>82</sup> 2 NIMMER ON COPYRIGHT, § 8C.03[C] at 8C-8 to -9; JASZI STUDY at 8. According to a survey prepared by the Association of Research Libraries and supplemented and revised by the Copyright Office, only Indiana and Vermont do not have some form of statute criminalizing piracy of sound recordings. See <http://www.copyright.gov/docs/sound/>.

<sup>83</sup> State laws generally also protect against creation and distribution of bootleg recordings – sometimes in the same statute that prohibits unauthorized duplication and distribution of existing sound recordings, and sometimes in a separate provision. See, e.g., BESEK UNPUBLISHED SOUND RECORDINGS STUDY, App. A. However, those laws, which relate to the recording of live performances without authorization, are not the focus of this Report.

<sup>84</sup> CAL. PENAL CODE § 653h(a) (West 2011).

In addition the law provides that

Every person who offers for sale or resale, or sells or resells, or causes the sale or resale, or rents, or possesses for [the purposes specified above], any article described in subdivision (a) with knowledge that the sounds thereon have been so transferred without the consent of the owner is guilty of a public offense.<sup>85</sup>

The statute provides an exemption for persons engaged in radio or television broadcasting who transfer sounds (other than from the sound track of a motion picture) in connection with “broadcast transmission or related uses, or for archival purposes.”<sup>86</sup>

The California law contains an “orphan works” exception for not-for-profit educational institutions or federal or state governmental entities that have as their primary purpose “the advancement of the public’s knowledge and the dissemination of information regarding America’s musical cultural heritage.”<sup>87</sup> It requires that the educational institution or government entity make “a good faith effort to identify and locate the owner or owners of the sound recordings to be transferred” and “the owner or owners could not be and have not been located.”<sup>88</sup> It provides that specific efforts must be taken to find the right holder.<sup>89</sup> Also, it provides that the

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<sup>85</sup> *Id.* § 653h(d). It is also an offense if, for commercial advantage or private financial gain, one knowingly advertises, offers for sale, etc. a recording whose cover or label does not accurately disclose the true name of the manufacturer and artist(s). *Id.* § 653w.

<sup>86</sup> *Id.* § 653h(g).

<sup>87</sup> That purpose must be “clearly set forth in the institution’s or entity’s charter, bylaws,” or similar document. *Id.* § 653h(h).

<sup>88</sup> *Id.*

<sup>89</sup> “In order to continue the exemption permitted by this subdivision, the institution or entity shall make continuing efforts to locate such owners and shall make an annual public notice of the fact of the transfers in newspapers of general circulation serving the jurisdictions where the owners were incorporated or doing business at the time of initial affixations. The institution or entity shall keep on file a record of the efforts made to locate such owners for inspection by appropriate governmental agencies.” *Id.*

exemption does not relieve an institution or entity of its contractual or other obligation to compensate the owners of sound recordings to be transferred.<sup>90</sup>

*Michigan.* Michigan’s record piracy statute provides:

[A] person, without the consent of the owner, shall not transfer or cause to be transferred sound recorded on a phonograph record, disc, wire, tape, film, or other article on which sound is recorded, with the intent to sell or cause to be sold for profit or used to promote the sale of a product, the article on which the sound is so transferred.<sup>91</sup>

...

A person, knowing or having reasonable grounds to know that the sound thereon has been transferred without the consent of the owner, shall not advertise, sell, resell, offer for sale or resale, or possess for the purpose of sale or resale, an article that has been produced in violation of [the provision above].<sup>92</sup>

The Michigan law contains an exception for persons who transfer sound or cause it to be transferred when:

- (a) Intended for or in connection with radio or television broadcast transmission or related uses.
- (b) For archival, library, or educational purposes.
- (c) Solely for the personal use of the person transferring or causing the transfer and without any compensation being derived by the person from the transfer.<sup>93</sup>

*New York.* New York Penal Law provides criminal liability for a person who

1. knowingly, and without the consent of the owner, transfers or causes to be transferred any sound recording, with the intent to rent or sell, or cause to be rented or sold for profit, or used to promote the sale of any product, such article to which such recording was transferred, or
2. transports within this state, for commercial advantage or private financial gain, a recording, knowing that the sounds have been reproduced or transferred without the consent of the owner. . . .<sup>94</sup>

In addition, it is an offense if someone

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<sup>90</sup> *Id.*

<sup>91</sup> MICH. COMP. LAWS ANN. § 752.782 (West 2011).

<sup>92</sup> *Id.* at §752.783.

<sup>93</sup> *Id.* §752.785.

<sup>94</sup> N.Y. PENAL LAW § 275.05 (McKinney 2011). This offense is entitled “Manufacture of unauthorized recordings in the second degree.” If done by someone who has been convicted of the same crime in the past five years, or who manufactures one thousand unauthorized recordings, it may qualify as a first degree offense with enhanced penalties. *Id.* § 275.10.

knowingly advertises, offers for sale, resale, or rental, or sells, resells, rents, distributes or possesses for any such purposes, any recording that has been produced or transferred without the consent of the owner. . . .<sup>95</sup>

The term “recording” is broadly defined to include any medium on which sound, images, or both can be recorded.<sup>96</sup> There are exceptions in the law for (1) any broadcaster who transfers recorded sounds or images in connection with or as part of a radio, TV or cable broadcast, or for the purposes of archival preservation, and (2) for “any person who transfers such sounds or images for personal use, and without profit for such transfer.”<sup>97</sup> The statute does not define the terms “broadcaster” or “archival preservation,” and there is no case law on this subsection that clarifies those terms.

*Tennessee.* Under Tennessee law, it is unlawful for any person to:

- (A) Knowingly reproduce for sale or cause to be transferred any recording with intent to sell it or cause it to be sold or use it or cause it to be used for commercial advantage or private financial gain through public performance without the consent of the owner;
- (B) Transport within this state, for commercial advantage or private financial gain, a recording with the knowledge that the sounds on the recording have been reproduced or transferred without the consent of the owner; or
- (C) Advertise, offer for sale, sell or rent, cause the sale, resale or rental of, or possess for one (1) or more of these purposes any recording that the person

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<sup>95</sup> *Id.* § 275.25. If done by someone who has been convicted of the same crime in the past five years, or the commission of that crime involved at least one thousand unauthorized sound recordings or at least one hundred unauthorized audiovisual recordings, it may qualify as a first degree offense with enhanced penalties. *Id.* § 275.30. Failure to disclose the origin of a recording is also an offense. *Id.* § 275.35.

<sup>96</sup> The definition in full provides:

“Recording” means an original phonograph record, disc, tape, audio or video cassette, wire, film, hard drive, flash drive, memory card or other data storage device or any other medium on which such sounds, images, or both sounds and images are or can be recorded or otherwise stored, or a copy or reproduction that duplicates in whole or in part the original.

*Id.* § 275.00(6).

<sup>97</sup> *Id.* § 275.45.

knows has been reproduced or transferred without the consent of the owner.<sup>98</sup>

“Recording” for purposes of the statute includes sound recordings in any medium.<sup>99</sup>

Tennessee law provides no statutory exceptions.

**b. *Summary of state criminal record piracy provisions***

*Commercial/For profit activity:* All of the statutes cited above require sales or commercial or “for profit” use or intent as a predicate to liability, and that appears to be true for the great majority of criminal statutes.<sup>100</sup> There are a small number of states, however, that do not explicitly require commercial activity for at least some offenses related to unauthorized use of pre-1972 sound recordings. For example, Alabama’s law makes it a felony to knowingly reproduce sound recordings (*i.e.*, to “transfer or cause to be transferred . . . any sounds recorded”) without the consent of the owner onto any medium “now known or later developed” for recording sounds, with the intent to sell or rent the recordings “for commercial advantage or private financial gain” or “to be used for profit through public performance.”<sup>101</sup> On the other hand Alabama also provides, without specific reference to commercial gain, that it is an offense “to manufacture, distribute, transport or wholesale” any recording with knowledge that the sounds or

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<sup>98</sup> TENN. CODE. ANN. § 39-14-139(b)(1)(A–C) (2011).

<sup>99</sup> The Tennessee statute provides:

“Recording” means a tangible medium on which sounds, images, or both are recorded or otherwise stored, including an original phonograph record, disc, tape, audio or video cassette, wire, film, memory card, flash drive, hard-drive, data storage device, or other medium now existing or developed later on which sounds, images, or both are or can be recorded or otherwise stored, or a copy or reproduction that duplicates, in whole or in part, the original.

TENN. CODE. ANN. § 39-14-139(a)(6) (2011).

<sup>100</sup> See JASZI STUDY at 12 (regarding the meaning of “commercial”).

<sup>101</sup> ALA. CODE § 13A-8-81(a)(1) (2011).

performances thereon were transferred without the owner's consent.<sup>102</sup> Georgia law provides that it is unlawful to "transfer or cause to be transferred any sounds or visual images recorded on a phonograph record, disc, wire, tape, videotape, film, or other article on which sounds or visual images are recorded onto any other phonograph record, disc, wire, tape, videotape, film, or article" without the consent of the owner of the master recording.<sup>103</sup> There is no explicit requirement of commercial gain or intent to profit. However, the law does exclude copies made solely for the personal use of the copier, provided no profit is derived from the copying.<sup>104</sup>

*Prohibited Activities.* The formulation of prohibited activities varies from state to state. Almost all states prohibit the act of duplicating without authorization (often referred to as "transferring the sounds"). Most states also prohibit advertising or offering for sale, and selling or otherwise distributing the unauthorized recordings. Some states also criminalize activities such as transporting sound recordings within the state (or possessing them) with knowledge that they are unauthorized, with intent to sell them.

*Exceptions.* The nature and number of exceptions available under criminal statutes vary from state to state. Most states have at least a few exceptions, the most common being exceptions for broadcasters to facilitate broadcast transmissions and/or for archival purposes, such as those found in the laws of California, Michigan and New York, discussed above.<sup>105</sup> But "broadcaster" is often undefined and the exception is usually limited to radio and television broadcasting, although in some states cable transmissions are also included.<sup>106</sup>

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<sup>102</sup> ALA. CODE § 13A-8-81(a)(3) (2011); *see also* JASZI STUDY at 24, 29.

<sup>103</sup> GA. CODE ANN. § 16-8-60(a)(1) (2011); *see also* IOWA CODE ANN. § 714.15 (West 2011); NEB. REV. STAT. ANN. § 28-1323 (West 2011).

<sup>104</sup> GA. CODE ANN. § 16-8-60(c)(3) (2011).

<sup>105</sup> All ten states surveyed in the Jaszi Study had an exception for broadcasters. *See* JASZI STUDY at 10.

<sup>106</sup> *See, e.g.*, DEL. CODE ANN. tit. 11, § 923(1) (West 2011); FLA. STAT. ANN. § 540.11(6)(a) (West 2011). North Carolina has extended its exception to webcasters. *See* N.C. GEN. STAT. § 14-433(c) (2010); JASZI STUDY at 10.

Many states (such as Michigan, whose statute is described above) also have an exemption for personal nonprofit or noncommercial use, sometimes limited to “in home” use.<sup>107</sup> Several states (such as California and Michigan, cited above) have exceptions for educational or library uses,<sup>108</sup> or for archival preservation that is not limited to broadcasters.<sup>109</sup> And then there are exceptions provided by only one or a very few states, such as for judicial proceedings,<sup>110</sup> law enforcement purposes,<sup>111</sup> and even, in one case, for sound recordings of bird and wild animal calls.<sup>112</sup>

Even without a specific exception, in almost all cases activities that are not undertaken for commercial advantage or private financial gain will not be within the scope of potential criminal liability. However, as the Jaszi Study points out, “[t]he word ‘commercial’ . . . is subject to a multitude of interpretations” and it is possible for a nonprofit institution to receive commercial benefits in any number of ways.<sup>113</sup>

Nevertheless, there are two important considerations about the criminal laws that provide considerable comfort to users with respect to activities that would be permitted if federal law were applicable. First, criminal laws are strictly construed.<sup>114</sup> So, where there is ambiguity, the law is likely to be construed in the user’s favor. Second, criminal laws are enforced by public

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<sup>107</sup> See, e.g., COLO. REV. STAT. § 18-4-605(1)(b) (2011); MO. ANN. STAT. § 570.245(2) (West 2011).

<sup>108</sup> See, e.g., NEB. REV. STAT. ANN. § 28-1325(4) (West 2011); W. VA. CODE § 61-3-50 (2011).

<sup>109</sup> See, e.g., NEV. REV. STAT. ANN. § 205.217(3) (West 2010); R.I. GEN. LAWS ANN. § 42-8.1-7 (West 2011).

<sup>110</sup> See, e.g., ALASKA STAT. § 45.50.900(b)(2) (2011); S.D. CODIFIED LAWS § 43-43A-4(3) (2011).

<sup>111</sup> See MASS. GEN. LAWS ch. 266, § 143D (2010).

<sup>112</sup> See S.C. CODE ANN. § 16-11-950 (2010).

<sup>113</sup> JASZI STUDY at 12.

<sup>114</sup> See, e.g., 73 Am. Jur. 2d Statutes § 194 (2011) (“Statutes imposing a penalty, or penal statutes, are generally subject to a strict construction”).

officials, who are unlikely to bring an action in circumstances that do not amount to commercial piracy.

## 2. Civil Statutes

A number of states have civil laws that address protection for pre-1972 sound recordings, directly or indirectly. Section 980(a)(2) of the California statute provides civil protection of pre-1972 sound recordings and is a good example:

The author of an original work of authorship consisting of a sound recording initially fixed prior to February 15, 1972, has an exclusive ownership therein until February 15, 2047, as against all persons except one who independently makes or duplicates another sound recording that does not directly or indirectly recapture the actual sounds fixed in such prior sound recording, but consists entirely of an independent fixation of other sounds, even though such sounds imitate or simulate the sounds contained in the prior sound recording.<sup>115</sup>

The few cases decided under § 980(a)(2) have viewed the section as conferring an intangible property interest in the sound recordings that can be protected in a misappropriation, conversion or unfair competition claim. They have distinguished the property interest protected by this statute from copyright protection which, under California law, terminates upon publication.<sup>116</sup>

Other states may provide civil protection under common law, but have statutory limitations on those actions. For example, federal law permits states to protect pre-1972 sound recordings until 2067, but Colorado’s law provides that “no common law copyright shall exist for a period longer than fifty-six years after an original copyright accrues to an owner.”<sup>117</sup>

California’s civil statute, cited above, provides protection only until 2047.<sup>118</sup>

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<sup>115</sup> CAL. CIV. CODE § 980(a)(2) (West 2011).

<sup>116</sup> See, e.g., *Lone Ranger Television, Inc. v. Program Radio Corp.*, 740 F.2d 718, 725 (9th Cir. 1984); *A&M Records, Inc. v. Heilman*, 75 Cal. App. 3d 554, 570 (Ct. App. 1977); see also JASZI STUDY at 34.

<sup>117</sup> COLO. REV. STAT. § 18-4-601(1.5) (2011).

<sup>118</sup> CAL. CIV. CODE § 980(a)(2) (West 2011). Delaware’s criminal piracy law provides protection only for a period of 50 years from the original fixation of a sound recording, but the law provides that it “shall neither enlarge nor diminish the rights of parties in civil litigation.” DEL. CODE ANN. tit. 11, §§ 923(3), 924 (West 2011).

Those limitations may also address the relationship between private actions and the provisions of state criminal law. Some states specifically provide that there is a private right of action for violation of the state criminal piracy provision.<sup>119</sup> A number of state laws specifically preserve civil actions by stating affirmatively that their criminal piracy law is not an exclusive remedy or that it does not abrogate civil actions.<sup>120</sup> Other states simply provide that the criminal piracy law does not enlarge or diminish civil remedies.<sup>121</sup>

A few states specifically prohibit certain types of claims in connection with pre-1972 sound recordings. For example, North Carolina has a statute that abrogates any common law rights to obtain royalties on the commercial use of sound recordings embodying musical performances once copies of the sound recordings are sold.<sup>122</sup> Essentially, this statute denies any common law performance right in sound recordings.<sup>123</sup> South Carolina has a similar law.<sup>124</sup>

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<sup>119</sup> See, e.g., ALA. CODE § 13A-8-85 (2011); N.C. GEN. STAT. § 14-436 (2010).

<sup>120</sup> See, e.g., IDAHO CODE ANN. § 18-7607 (2011); LA. REV. STAT. ANN. § 14:223.4 (2011); OR. REV. STAT. ANN. § 164.866 (West 2011).

<sup>121</sup> See, e.g., ARK. CODE ANN. § 5-37-510(f) (2011); TENN. CODE ANN. § 39-14-139(h) (2011); WASH. REV. STAT. ANN. § 19.25.020(3) (West 2011).

<sup>122</sup> North Carolina's statute provides in full:

When any phonograph record or electrical transcription, upon which musical performances are embodied, is sold in commerce for use within this State, all asserted common-law rights to further restrict or to collect royalties on the commercial use made of such recorded performances by any person is hereby abrogated and expressly repealed. When such article or chattel has been sold in commerce, any asserted intangible rights shall be deemed to have passed to the purchaser upon the purchase of the chattel itself, and the right to further restrict the use made of phonograph records or electrical transcriptions, whose sole value is in their use, is hereby forbidden and abrogated. Nothing in this section shall be deemed to deny the rights granted any person by the United States copyright laws. The sole intentment of this enactment is to abolish any common-law rights attaching to phonograph records and electrical transcriptions, whose sole value is in their use, and to forbid further restrictions of the collection of subsequent fees and royalties on phonograph records and electrical transcriptions by performers who were paid for the initial performance at the recording thereof.

N.C. GEN. STAT. § 66-28 (2010).

<sup>123</sup> This statute was apparently passed in response to *Waring v. Dunlea*, 26 F. Supp. 338 (E.D.N.C. 1939). See JASZI STUDY at 85-86. Despite this broad language, the North Carolina Court of Appeals in *Liberty/UA, Inc. v. Eastern Tape Corp.*, 180 S.E. 2d 414, 418 (N.C. Ct. App. 1971) held that the effect of

Finally, a number of states also have statutory unfair competition laws that may reach acts of record piracy if there is a likelihood of consumer confusion.<sup>125</sup>

### 3. Non-Statutory Causes of Action

Most states also have some form of non-statutory civil protection, although the precise nature of that protection varies from state to state. The two most prevalent theories for providing protection are common law copyright and misappropriation/unfair competition,<sup>126</sup> but courts have also protected sound recordings under other legal theories, such as conversion.<sup>127</sup> Sometimes people mistakenly refer to all forms of protection collectively as “common law copyright” or “common law protection.” But not all civil protection for sound recordings is common law – see the discussion of civil statutes, above – and a “common law copyright” claim differs from one grounded in unfair competition or conversion, as discussed below.

#### a. Common law copyright

*The Nature of Common Law Copyright.* Common law copyright refers to the protection historically provided by state law to unpublished works of authorship. It is not statutory, but is

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the statute was to eliminate “any common law right to restrict the use of a recording sold for use in this State” and interpreted “use” to mean “the use for which a recording is intended; *i.e.* the playing of the recording.” The court ruled that playing the recording publicly or privately was permitted, but rerecording it for sale was not.

<sup>124</sup> See S.C. CODE ANN. § 39-3-510 (2010).

<sup>125</sup> See, e.g., 815 ILL. COMP. STAT. 510/2 (2011); OHIO REV. CODE ANN. § 4165.02 (West 2011); see also JASZI STUDY at 14.

<sup>126</sup> “Unfair competition” embraces two principal torts: “passing off” and misappropriation. “Passing off” occurs when someone tries to market goods or services as those of another, to take advantage of the goodwill that the other person has developed in the marketplace. The misappropriation prong is more often applicable to unauthorized use of sound recordings, since generally the seller has no desire to mislead as to the source of the recordings, but rather wants to benefit from – *i.e.*, misappropriate the value of – another’s investment of time, talent and money. Most misappropriation claims are now preempted under section 301 of the Copyright Act, but those with respect to pre-1972 sound recordings survive because of section 301(c).

<sup>127</sup> See JASZI STUDY at 4, 19.

judge-made law, developed through judicial decisions. For most works, common law copyright protection disappeared in 1978 when the unitary, federal system of copyright took effect and unpublished works were brought under the federal scheme. For pre-1972 sound recordings, however, common law copyright remains relevant.

Traditionally, a work was protected by common law copyright only for as long as it was unpublished.<sup>128</sup> Upon publication, if a work met the requirements of federal law (*i.e.*, if it was published with a proper notice of copyright), it gained federal copyright protection. Otherwise, it went into the public domain. Sound recordings, however, were ineligible for federal protection until 1972. Rather than allow sound recordings to be thrust into the public domain when copies were distributed, states began amending their laws to ensure continued state protection, even though the recordings were published as defined by federal law. Some states, like New York, have done this by adapting their definition of “publication” so that sound recordings, regardless of how widely distributed copies may have been, would be deemed unpublished and therefore entitled to protection under the principles of common law copyright.<sup>129</sup> Other states, such as California, simply protected sound recordings that were published or otherwise made widely available under a different legal doctrine, such as unfair competition.<sup>130</sup>

Because common law copyright has long protected unpublished works, one might have reasonably expected states to confirm the application of common law copyright principles to the

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<sup>128</sup> For clarity, the terms “published” and “publication” will be used as defined in federal copyright law unless otherwise specified: “‘Publication’ is the distribution of copies or phonorecords of a work to the public by sale or other transfer of ownership, or by rental, lease or lending.” 17 U.S.C. § 101.

<sup>129</sup> The Supreme Court in *Goldstein* held that federal law concerning publication had no application to state law, indicating that states were free to define publication as they wished for state law purposes. 412 U.S. at 570 n.28.

<sup>130</sup> See, *e.g.*, *Lone Ranger Television*, 740 F.2d at 726 (copies of radio broadcasts are not eligible for common law copyright protection but may still be protected pursuant to a conversion or unfair competition claim, which “lies outside copyright”).

pre-1972 sound recordings that remain unpublished.<sup>131</sup> The reality is that there is little state law directed to unpublished sound recordings and nearly all of the state law cases involving pre-1972 sound recordings involve commercially published sound recordings.<sup>132</sup>

*Recent Common Law Copyright Cases.* The most notable case in recent years involving pre-1972 sound recordings was *Capitol Records, Inc. v. Naxos of America, Inc.*<sup>133</sup> At issue were recordings of classical music performances by Pablo Casals, Edwin Fischer and Yehudi Menuhin, originally made in the 1930s. Capitol, with a license from EMI, the successor of the original recording company, remastered the recordings, and was distributing them in the United States. Naxos obtained and restored the recordings in the UK, where they were in the public domain, and began marketing them in the United States in competition with Capitol. Capitol sued in federal court for unfair competition, misappropriation and common law copyright infringement. The district court granted summary judgment to Naxos because the recordings were in the public domain in the UK, where they were originally recorded.

When that decision was appealed, the U.S. Court of Appeals for the Second Circuit concluded that New York law was unclear in some important respects and certified three questions of state law to the New York Court of Appeals (the highest court of the state):

- (1) whether expiration of the term of protection in the country of origin precluded common law copyright protection in New York;
- (2) whether a cause of action for common law copyright infringement includes some or all of the elements of a claim for unfair competition; and
- (3) whether a claim for common law copyright infringement is defeated by a demonstration that plaintiff's work has little market value, and defendant's work

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<sup>131</sup> This is, of course, provided that any statute of limitations a state has provided with respect to such works has not lapsed. *See, e.g.*, COLO. REV. STAT. § 18-4-601(1.5) (2011).

<sup>132</sup> Note, however, that the Jaszi Study examined cases addressing common law copyright, not only with respect to pre-1972 sound recordings, but also as they had developed with respect to unpublished works prior to 1978.

<sup>133</sup> 4 N.Y.3d 540, 830 N.E.2d 250, 797 N.Y.S.2d 352 (N.Y. 2005).

can fairly be regarded as a new product, even though it uses components of plaintiff's work.<sup>134</sup>

The New York Court of Appeals accepted the case, and held that foreign sound recordings remain protected under "common law copyright" in New York until 2067, even though they may be in the public domain in their home country. Concerning the second question, the court explained that a common law copyright claim in New York "consists of two elements: (1) the existence of a valid copyright; and (2) unauthorized reproduction of the work protected by copyright."<sup>135</sup> It went on to state that "[c]opyright infringement is distinguishable from unfair competition, which in addition to unauthorized copying and distribution requires competition in the marketplace or similar actions designed for commercial benefit."<sup>136</sup>

Concerning the final certified question, the court concluded that even if the original recordings had "slight if any current market" and Naxos's work, because of the remastering, could fairly be regarded as a new product, it would not affect plaintiff's ability to enforce a state law copyright claim.<sup>137</sup> It ruled that Naxos's remastered recording could still infringe Capitol's copyright "to the extent that it utilizes the original elements of the protected performances."<sup>138</sup> It also observed in passing, with reference to federal copyright law, that Naxos's recordings were not independent creations and that under the fair use doctrine, reproduction of an entire work is generally infringing.<sup>139</sup>

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<sup>134</sup> *Capitol Records, Inc. v. Naxos of Am., Inc.*, 372 F.3d 471, 484-85 (2d Cir. 2004), *certified question accepted*, 3 N.Y.3d 666, 817 N.E.2d 820, 784 N.Y.S.2d 3 (N.Y. 2004), *and certified question answered*, 4 N.Y.3d 540, 830 N.E.2d 250, 797 N.Y.S.2d 352 (N.Y. 2005).

<sup>135</sup> 830 N.E.2d at 266.

<sup>136</sup> *Id.*

<sup>137</sup> *Id.* at 266-67.

<sup>138</sup> *Id.* at 267.

<sup>139</sup> *Id.*

In *EMI Records Ltd. v. Premise Media Corp.*,<sup>140</sup> a New York trial court, ruling on a motion for a preliminary injunction, considered the applicability of the fair use defense to a claim for infringement of common law copyright in a sound recording. Defendants had used an excerpt of John Lennon’s “Imagine,” a pre-1972 sound recording, in a documentary film entitled “Expelled.” The film attempts to counter criticism of the theory of intelligent design. The 99-minute documentary used a 15-second excerpt from Lennon’s 3-minute sound recording.

Plaintiffs argued that under common law copyright, any unauthorized use of a sound recording is actionable. Defendants argued that only a reproduction of the complete recording was an infringement. The court rejected both claims, but ultimately concluded that plaintiffs had established a *prima facie* claim of common law copyright infringement.<sup>141</sup> The court observed that New York cases have acknowledged the existence of a fair use defense to common law infringement claims but that no case had actually applied fair use in that context.<sup>142</sup> The court recognized that fair use was generally unavailable as a defense with respect to unpublished works, principally to protect the copyright owner’s right of first publication.<sup>143</sup> In the case of sound recordings, however, common law copyright protection exists regardless of publication, reasoned the court. “Thus, the erosion of the publication distinction in the context of sound recordings vitiates the underlying rationale preventing application of pre-publication fair use.”<sup>144</sup> Accordingly, the court held that fair use was available as a defense to plaintiffs’ copyright infringement claim.

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<sup>140</sup> 2008 N.Y. Misc. Lexis 7485 (N.Y. Sup. Ct. Aug. 8, 2008).

<sup>141</sup> *Id.* at \*9.

<sup>142</sup> *Id.* at \*10.

<sup>143</sup> *Id.* at \*13 (citing *Harper & Row, Publishers v. Nation Enterprises*, 471 U.S. 539, 551 (1985)).

<sup>144</sup> *Id.* at \*14.

The court turned for guidance to the federal law of fair use and specifically to the fair use factors in 17 U.S.C. § 107 and the cases interpreting them.<sup>145</sup> The court ruled that defendants were likely to prevail on their fair use defense, primarily because the use of the sound recording excerpt in the film could be seen as transformative, conveying a critical message about the song and the viewpoint it represents, and because there was little likely market effect from defendants' use. Accordingly, the court denied the preliminary injunction.<sup>146</sup>

Although just a trial court decision on a preliminary injunction motion, the *EMI* case illustrates a judicial willingness to recognize a fair use defense in a common law copyright infringement action, at least when recordings have been made available to the public.<sup>147</sup>

**b. *Unfair competition/misappropriation***

Many states have protected published pre-1972 sound recordings under common law unfair competition principles. The tort of unfair competition has evolved over time. Traditionally, three elements were required to establish the tort: (1) the plaintiff and defendant had to be in competition with one another; (2) the defendant must have “appropriated a business asset that plaintiff had acquired by the investment of skill, money, time and effort”;<sup>148</sup> and (3) the

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<sup>145</sup> *Id.* at \*18. The statutory factors, set out in 17 U.S.C. § 107, are:

- (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 as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.

<sup>146</sup> The court also denied defendants' motion to dismiss, holding that plaintiffs had adequately pleaded both common law copyright infringement and unfair competition because they argued, *inter alia*, that defendants used the recording in a manner that falsely suggested to the public that the use was authorized by the right holder. *Id.* at \*\*38, 40.

<sup>147</sup> Fair use developed as a common law doctrine, and only became part of the federal copyright statute in the 1976 Copyright Act. *See, e.g., Folsom v. Marsh*, 9 F. Cas. 342 (D. Mass. 1841).

<sup>148</sup> Ringer at 17.

defendant must have fraudulently “passed off” or “palmed off” the appropriated assets as those of plaintiff, causing the public to be confused as to the source of the goods.<sup>149</sup>

Over time the courts in many (but not all) states dispensed with the requirement of “passing off” in cases involving misappropriation in general (and sound recordings in particular), in part because it is difficult to establish: “there is rarely any incentive for the appropriator to represent the recording as anything except exactly what it is.”<sup>150</sup> In order to achieve equitable results, some courts also dispensed with the requirement of competition, because it is difficult for performers to establish that they are in competition with the appropriator. So the core of the tort as it applies to sound recordings is the misappropriation of plaintiff’s business asset.<sup>151</sup> Some courts still refer to this tort as unfair competition, others as misappropriation.

The following cases – from California, Illinois, Michigan, New Jersey and North Carolina – illustrate the application of unfair competition principles to sound recordings.<sup>152</sup>

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<sup>149</sup> *Id.*; see, e.g., *Victor Talking Mach. Co. v. Armstrong*, 132 F. 711 (S.D.N.Y. 1904).

<sup>150</sup> Ringer at 17. In many cases defendants tried to escape liability by affixing distinctive labels to avoid the charge of passing off, but those efforts were generally unavailing, as courts held that a claim for unfair competition could still lie. *Compare Columbia Broadcasting System, Inc. v. Melody Recordings, Inc.*, 341 A.2d 345 (N.J. App. Div. 1975) and *Capitol Records v. Erickson*, 2 Cal. App. 3d 526 (Ct. App. 1969) with *ABKCO Music, Inc. v. Washington*, 2011 U.S. Dist. LEXIS 120081 (E.D. Mich. Oct. 18, 2011) (discussed below).

<sup>151</sup> *Id.* “Passing off” remains a viable cause of action. Common law unfair competition in effect evolved into two principal torts: passing off, which requires a showing of consumer confusion, and misappropriation, which does not.

<sup>152</sup> Prior to *Capitol Records v. Naxos*, New York courts also protected pre-1972 sound recordings on common law unfair competition grounds. See, e.g., *Arista Records, Inc. v. MP3Board, Inc.*, 2002 U.S. Dist. Lexis 16165, at \*\*36-37, 2002 WL 1997918 (S.D.N.Y. Aug. 29, 2002) (plaintiff stated a claim for unfair competition under New York law against operator of an internet site that provided users with pirated copies of plaintiff’s pre-1972 musical recordings); *Capitol Records, Inc. v. Greatest Records, Inc.*, 252 N.Y.S.2d 553 (Sup. Ct. 1964) (entering temporary injunction against manufacture and distribution of unauthorized reproductions of Beatles albums and holding, *inter alia*, that the application of state unfair competition law to this field remains intact after the Supreme Court’s decisions in *Sears, Roebuck & Co. v. Stiffel Co.* and *Compco Corp. v. Day-Brite Lighting, Inc.*). In several of the cases discussed above, the courts struggled with the question whether *Sears* and *Compco* precluded a state law unfair competition claim with respect to sound recordings, and ultimately concluded that they did not. The Supreme Court in *Goldstein* concluded that those cases did not pose a bar to state protection of sound recordings. 412 U.S. at 569-70.

In *Capitol Records, Inc. v. Erickson*,<sup>153</sup> the court held that relief on the grounds of unfair competition could be granted in circumstances where someone “unfairly appropriates to his profit the valuable efforts of his competitor” even where the defendant did not “palm off” his products as those of his competitor.<sup>154</sup> The defendant had purchased tapes and recordings sold by the plaintiff, remastered them, and then sold tapes made from the new masters in competition with the plaintiff. The California trial court granted the plaintiff’s motion for a preliminary injunction, and the appellate court affirmed. The plaintiff had argued that labels on the tapes it sold, disclaiming any relationship with the plaintiff or the recording artists, protected it from a claim of unfair competition, a contention rejected by the court. Although there was a question of fact as to whether the labels were effective, the court found that the rights involved were not merely those of the public not to be misled but also rights as between plaintiff and defendant. The court concluded that defendant “unfairly appropriate[d] artistic performances produced by Capitol’s efforts” and “profit[ed] thereby to the disadvantage of Capitol.”<sup>155</sup>

In *Capitol Records, Inc. v. Spies*,<sup>156</sup> an Illinois appellate court held that the unauthorized recording and resale of commercial sound recordings constituted wrongful appropriation and unfair competition. The defendant had purchased plaintiff’s records and tapes in retail stores, then made and sold 1500 unauthorized copies. The court cited several cases, including *Capitol Records v. Erickson*, discussed above, in support of its conclusion that defendants had engaged in unfair competition. In the court’s view, the unfairness inhered in the fact that the defendants waited until the recordings, created by the plaintiff at great expense, became popular, and then appropriated the plaintiffs’ products to take advantage of the existing market.

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<sup>153</sup> 2 Cal. App. 3d 526 (Ct. App. 1969).

<sup>154</sup> *Id.* at 537-38.

<sup>155</sup> *Id.* at 537.

<sup>156</sup> 264 N.E.2d 874 (Ill. App. Ct. 1970). For further discussion of this case, see BESEK COMMERCIAL SOUND RECORDINGS STUDY App. n.13 and accompanying text.

In *A&M Records, Inc. v. M.V.C. Distributing Corp.*,<sup>157</sup> the U.S. Court of Appeals for the Sixth Circuit upheld the district court’s ruling that defendant’s alleged conduct constituted unfair competition under the common law of Michigan, rejecting defendant’s claim that plaintiffs lost their common law property rights when they distributed their recording.<sup>158</sup> The defendants had engaged in unauthorized duplication of the plaintiff’s sound recordings, which the defendants distributed under a different label. On the other hand, in *ABKCO Music v. Washington*,<sup>159</sup> decided in October 2011, a Michigan district court concluded that the gist of an unfair competition claim is “that the public is so misled that plaintiff loses some trade by reason of the deception.”<sup>160</sup> The court denied summary judgment to plaintiffs on their claim of unfair competition based on defendants’ use of plaintiffs’ pre-1972 sound recordings in an online audiovisual advertisement for a play. The plaintiffs claimed that the ad led the public to believe that the plaintiffs sponsored or supported the advertisement and the play. But in the court’s view, they provided no evidence to back up their allegations, nor did they cite case law to support a finding that defendants can be liable under a common law unfair competition theory for such conduct.

In *Columbia Broadcasting System Inc. v. Melody Recordings, Inc.*,<sup>161</sup> a record piracy case that arose in New Jersey, the court affirmed the trial court’s grant of summary judgment to CBS on common law unfair competition grounds, rejecting the defendants’ claim that because their

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<sup>157</sup> 574 F.2d 312 (6th Cir. 1978).

<sup>158</sup> *Id.* at 314.

<sup>159</sup> 2011 U.S. Dist. LEXIS 120081 (E.D. Mich. Oct. 18, 2011).

<sup>160</sup> *Id.* at \*30 (citing *Revlon, Inc. v. Regal Pharmacy, Inc.*, 29 F.R.D. 169, 174 (E.D. Mich. 1961)).

<sup>161</sup> 341 A.2d 348 (N.J. Super. Ct. App. Div. 1975).

recordings were clearly labeled, there was no palming off and therefore no unfair competition.<sup>162</sup>

The court observed that:

The actionable unfairness of this practice inheres in a combination of factors—the substantial investment of time, labor, money and creative resources in the product by plaintiff, the utilization of the actual product by defendant, the misappropriation or use of the appropriated product by defendant in competition with plaintiff, and commercial damage to plaintiff.<sup>163</sup>

In *Liberty/UA, Inc. v. Eastern Tape Corp.*,<sup>164</sup> a North Carolina appellate court held that record piracy constitutes unfair competition in that state. Defendants had copied plaintiff's records onto tapes and sold the tapes in competition with plaintiff. According to the court, defendants' appropriation of the fruits of plaintiff's initiative, skill, and investment provided them with a significant competitive advantage over plaintiff and damaged plaintiff's business.<sup>165</sup> The court found that "[t]his conduct . . . amounts to unfair competition and is subject to restraint."<sup>166</sup> Defendants also argued that the North Carolina statute mentioned above (which abrogates any common law rights to obtain royalties on the commercial use of sound recordings embodying musical performances once copies of the sound recordings are sold)<sup>167</sup> precluded the court from holding that defendants' conduct constituted unfair competition. The court held that the statute was designed to eliminate any common law right that would restrict playing a recording sold for use in the state. But to hold that the statute permitted duplicating a recording and selling it in

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<sup>162</sup> CBS had sued the defendants, who were copying CBS recordings and selling them – with defendants' own distinctive label – to distributors.

<sup>163</sup> *Id.* at 354. The court also rejected defendants' contention that the Supreme Court's decision in *Goldstein* permitted the states to regulate only through statutes, and not by common law. *Id.* at 351.

<sup>164</sup> 180 S.E.2d 414 (N.C. Ct. App. 1971).

<sup>165</sup> *Id.* at 415-16.

<sup>166</sup> *Id.* at 416.

<sup>167</sup> See N.C. GEN. STAT. § 66-28 (2010). See *supra* note 122 for the full text of the statute.

competition with the original “would, in our opinion, give a construction to the statute that was never intended.”<sup>168</sup>

Not all states have civil statutes or reported cases dealing specifically with the unauthorized use of sound recordings, but states generally recognize unfair competition torts, so presumably a cause of action could lie in appropriate circumstances.

### c. *Conversion*

The tort of conversion generally applies to the unauthorized and wrongful assumption of control of another’s personal property in a way that seriously interferes with or effectively repudiates the owner’s rights.<sup>169</sup> While in most states conversion applies only to tangible property and not to intellectual property,<sup>170</sup> a few states have recognized conversion claims with respect to the unauthorized duplication and distribution of pre-1972 sound recordings.

For example, in *A & M Records, Inc. v. Heilman*<sup>171</sup> defendant duplicated plaintiff’s records and tapes and distributed them without authorization. The California appellate court affirmed judgment for plaintiff, stating defendant’s conduct constituted unfair competition even though there was no “palming off.”<sup>172</sup> The court further concluded that the “misappropriation and sale of the intangible property of another without authority from the owner is conversion.”<sup>173</sup> Accordingly, the court held that there was a valid basis for placing a constructive trust on the money defendant made from selling copies of plaintiff’s recordings.

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<sup>168</sup> *Liberty/UA*, 180 S.E.2d at 418.

<sup>169</sup> 18 Am. Jur. 2d Conversion § 1 (2004).

<sup>170</sup> JASZI STUDY at 19 (citing 1 NIMMER ON COPYRIGHT § 1.01[B][1][i]).

<sup>171</sup> 75 Cal. App. 3d 554 (1977).

<sup>172</sup> *Id.* at 564.

<sup>173</sup> *Id.* at 570.

In *CBS, Inc. v. Garrod*,<sup>174</sup> another record piracy case, the court granted plaintiff’s motion for partial summary judgment on its conversion claim, holding that “[i]n Florida, an action for conversion will lie for a ‘wrongful taking of intangible interests in a business venture.’”<sup>175</sup>

#### 4. Right of Publicity

The right of publicity protects against unauthorized use of someone’s identity, which in some cases has been held to include duplication of a voice – at least where the voice is distinctive and recognizable. Many states protect an individual’s right of publicity through statutes, common law, or both, although such protection may flow from privacy laws rather than laws specifically denominated “right of publicity.” For example, New York protects the right of publicity by means of section 51 of its Civil Rights Law, which prohibits, *inter alia*, use of a person’s “name, portrait, picture or voice . . . within [New York] for advertising purposes or for the purposes of trade” without that person’s consent.<sup>176</sup> New York does not, however, recognize any common law right of publicity claims. Michigan has no statutory right of publicity, but does recognize common law right of publicity.<sup>177</sup> California provides both statutory protection for the right of publicity (which extends to name, voice, signature, photograph or likeness)<sup>178</sup> and common law protection, which may extend to aspects of an individual’s persona that its statute does not reach.<sup>179</sup>

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<sup>174</sup> 622 F. Supp. 532 (M.D. Fla. 1985), *aff’d*, 803 F.2d 1183 (11th Cir. 1986).

<sup>175</sup> *Id.* at 536 (citing *In re Estate of Corbin*, 391 So.2d 731, 732-33 (Fla. Dist. Ct. App. 1980)). The court also granted summary judgment on plaintiff’s other claims, including common law copyright, unfair competition and statutory theft.

<sup>176</sup> N.Y. CIV. RIGHTS LAW § 51 (McKinney 2011). Section 50 of New York’s Civil Rights Law is an accompanying criminal provision. *Id.* § 50.

<sup>177</sup> *See, e.g., Carson v. Here’s Johnny Portable Toilets, Inc.*, 698 F.2d 831, 834 n.1 (6th Cir. 1983).

<sup>178</sup> CAL. CIV. CODE § 3344 (West 2011).

<sup>179</sup> *See, e.g., White v. Samsung Electronics America*, 971 F.2d 1395, 1398 (9th Cir. 1992) (reversing summary judgment against game show hostess Vanna White in connection with an ad showing a blond

Although a few states, such as New York and California, explicitly include “voice” among the attributes of identity entitled to protection, most do not.<sup>180</sup> Some state laws do not list specific protectable attributes, but extend generally to, for example, “aspect[s] of an individual’s persona.”<sup>181</sup> In such cases, a distinctive voice might be entitled to protection even though “voice” is not specifically mentioned in the law. In certain circumstances, state courts have extended protection to forbid sound-alike recordings, thus providing broader protection than federal law provides for copyright-protected sound recordings.<sup>182</sup>

In general the right of publicity protects against use of someone’s identity for advertising or commercial purposes.<sup>183</sup> Record piracy clearly qualifies as use for commercial purposes, and therefore in some states a right of publicity claim might be asserted based on use of the performer’s voice. Nevertheless, plaintiffs in state law record piracy cases have generally relied instead on common law copyright and unfair competition claims.<sup>184</sup> Presumably this is in part because the right of publicity concerns not the use of a particular sound recording *per se*, but rather the use or imitation of a particular performer’s voice, sometimes in connection with the imitation of a particular recording. The owner of the right of publicity – the performer – will not

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robot in conjunction with a game board, and holding that the common law right of publicity “does not require that appropriations of identity be accomplished through particular means to be actionable”).

<sup>180</sup> See, e.g., FLA. STAT. § 540.08 (2011) (protecting name, portrait, photograph, or other likeness); VA. CODE ANN. § 8.01-40(A) (2011) (protecting name, portrait, picture).

<sup>181</sup> OHIO REV. CODE ANN. § 2741.02 (West 2011); see also 765 ILL. COMP. STAT. 1075/30 (2011) (protecting a person’s “identity”).

<sup>182</sup> Compare *Midler v. Ford Motor Co.*, 849 F.2d 460, 463 (9th Cir. 1988) (applying common law right of publicity to protect widely known professional singer from deliberate imitation of her distinctive voice in television advertisement) with 17 U.S.C. § 114(b) (exclusive right of the owner of a sound recording is limited to the right to duplicate in a manner that recaptures the actual sounds fixed in the recording).

<sup>183</sup> See, e.g., FLA. STAT. § 540.08 (2011) (providing protection against use of a person’s name, portrait, photograph or other likeness “for any commercial or advertising purpose”); 765 ILL. COMP. STAT. § 1075/10 (2011) (providing protection against use of an individual’s identity “for commercial purposes”); N.Y. CIV. RIGHTS LAW § 51 (McKinney 2011) (providing protection against use of someone’s name, portrait, picture or voice “for advertising purposes or for purposes of trade”).

<sup>184</sup> For a further discussion of state law rights of publicity in the context of pre-1972 sound recordings, see JASZI STUDY at 20-22.

necessarily be the owner of the common law rights in the recording or have standing to assert an unfair competition claim based on unauthorized use of the recording.

### **5. Variations among States with Respect to Civil Claims: Rights and Exceptions**

There are significant variations among states (and ambiguities in the law within states) concerning (1) the nature of the activities that might be deemed to unfairly compete with another or violate a common law copyright – *i.e.*, whether the “bundle of rights” is similar under state and federal law; and (2) whether exceptions exist under state civil law for certain uses, as they do under federal copyright law.

Concerning the former point, most of the reported cases deal with reproduction and distribution of copies of sound recordings, and it is clear that state law rights extend to such activities. But because most cases involve reproduction and distribution of entire recordings, there is no developed body of law addressing whether a “derivative work right” can be said to exist. A few cases suggest that copying less than an entire recording can be infringing. For example, in *EMI Records, Ltd. v. Premise Media Corp.*,<sup>185</sup> discussed above, the court rejected defendant’s argument that common law copyright protected only against reproduction of an entire sound recording, although it ultimately concluded that defendants’ copying of 15 seconds of plaintiffs’ recording was fair use. In *Bridgeport Music, Inc. v. Justin Combs Publishing*,<sup>186</sup> the court upheld a jury verdict against a defendant that sampled a portion of a pre-1972 sound recording in a new work. And in *Capitol Records v. Naxos*, discussed above, one of the questions certified to the New York Court of Appeals was whether a claim of common law copyright infringement was defeated by showing that plaintiff’s work has little market value and

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<sup>185</sup> 2008 N.Y. Misc. LEXIS 7485 (Sup. Ct. Aug. 8, 2008). See discussion *supra* in text accompanying notes 140-146.

<sup>186</sup> 507 F.3d 470 (6th Cir. 2007).

“defendant’s work, although using components of plaintiff’s work, is fairly to be regarded as a ‘new product.’”<sup>187</sup> The court concluded, in the context of common law copyright, that “even assuming that Naxos has created a ‘new product’ due to its remastering efforts that enhance sound quality, that product can be deemed to infringe on Capitol’s copyright to the extent that it utilizes the original elements of the protected performances.”<sup>188</sup>

A different result might prevail, however, if the claim were based in unfair competition rather than common law copyright. The federal district court that first heard the *Capitol Records v. Naxos* case dismissed plaintiff’s unfair competition claim for several reasons, among them that Naxos was not merely duplicating the recordings and capitalizing on plaintiff’s efforts, as was the situation in most record piracy cases.<sup>189</sup> Instead, the court concluded that Naxos had invested significant time, effort and money to produce high-quality restorations, of plaintiff’s recordings, which could not have been marketed in their pre-existing state.<sup>190</sup> While the New York Court of Appeals effectively reversed this case, the federal district court decision suggests that a derivative work right is on less certain ground where the asserted claim is unfair competition rather than common law copyright.

In general, state law does not appear to recognize a performance right in sound recordings. The Pennsylvania Supreme Court in *Waring v. WDAS Broad. Station*<sup>191</sup> suggested that one could obtain indirect public performance rights in sound recordings through the use of a restrictive legend on the sound recording prohibiting radio broadcast. Yet other states rejected

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<sup>187</sup> 830 N.E.2d at 254.

<sup>188</sup> *Id.* at 267.

<sup>189</sup> *Capitol Records, Inc. v. Naxos of America*, 262 F. Supp. 2d 204 (S.D.N.Y. 2003), *summary judgment granted*, 274 F. Supp. 2d 472 (S.D.N.Y. 2003), *question certified*, 372 F.3d 471 (2d Cir.), *certified question accepted*, 3 N.Y.3d 666, 817 N.E.2d 820, 784 N.Y.S.2d 3 (N.Y. 2004), *and certified question answered*, 4 N.Y.3d 540, 830 N.E.2d 250, 797 N.Y.S.2d 352 (N.Y. 2005).

<sup>190</sup> 262 F. Supp. 2d at 214-15.

<sup>191</sup> 194 A. 631 (Pa. 1937).

this conclusion. For example, in *RCA Mfg. Co. v. Whiteman*,<sup>192</sup> the Second Circuit declined to follow *Waring v. WDAS* and held that a record company had no power to impose such a restriction on use of the sound recordings because the common law property right in the performances ended with the sale of the records.

In *Waring v. Dunlea*, a federal district court in North Carolina did enforce a restrictive legend on sound recordings.<sup>193</sup> However, shortly after the case was decided, North Carolina enacted a statute that effectively overruled it.<sup>194</sup> South Carolina also enacted a statute to deny a public performance right in sound recordings.<sup>195</sup>

Until 1995 there was no public performance right in sound recordings under federal law, and it does not appear that, in practice, pre-1972 sound recordings had such protection. The current right provided by federal law applies only to digital audio transmissions (not to broadcasts) of copyrighted sound recordings. It is possible that a state court would entertain a claim for unfair competition or common law copyright infringement if, for example, it were faced with a claim that pre-1972 sound recordings were being made available through internet streaming, particularly if it were persuaded that the use was substituting for purchases of the plaintiff's recording. But no such case has yet arisen.<sup>196</sup>

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<sup>192</sup> 114 F.2d 86, 89-90 (2d Cir. 1940).

<sup>193</sup> *Waring v. Dunlea*, 26 F. Supp. 338, 339 (E.D.N.C. 1939).

<sup>194</sup> N.C. GEN. STAT. § 66-28 (2010), passed in 1939 and discussed in *Liberty/UA*, 180 S.E. 2d at 418. The court interpreted the statute to deny only public performance rights, but not reproduction rights. *See id.*

<sup>195</sup> S.C. CODE ANN. § 39-3-510 (2011). This law, originally passed in 1942, remains on the books. *See Ringer* at 9; Michael Erlinger, Jr., *An Analog Solution in A Digital World: Providing Federal Copyright Protection for Pre-1972 Sound Recordings*, 16 UCLA ENT. L. REV. 45, 55 (2009).

<sup>196</sup> It appears that at least some webcasters are making royalty payments for the use of pre-1972 sound recordings as part of the statutory royalties they pay to SoundExchange in connection with the digital performance of sound recordings pursuant to sections 112 and 114. SoundExchange at 4. Presumably this is done to diminish the risk that their webcasting of pre-1972 sound recordings might be considered actionable under state law.

As for exceptions, where state law is statutory there may be explicit exceptions, but not of the nature and scope of those provided in federal copyright law, as illustrated above in the discussion of state criminal and civil statutes. Where protection derives from common law, it is difficult to draw any conclusions about available exceptions, since most of the cases involve commercial, for-profit duplication and sale of complete sound recordings that substitute for sales by the right holders. So the courts have had little opportunity to define exceptions. *EMI v. Premise Media* indicates that common law courts are willing to apply the fair use doctrine in appropriate circumstances, but it is a single trial court decision.

### 6. Availability of Punitive Damages for State Law Claims

In those states that allow punitive damages in tort cases, a plaintiff who is successful on a claim for unfair competition may recover punitive damages.<sup>197</sup> *Nimmer on Copyright* states that punitive damages may also be available for common law copyright claims: “Even though punitive damages are not available for statutory copyright infringement, in the residual domain of common law copyright, exemplary damages may be recovered.”<sup>198</sup> In some cases, punitive damages have been awarded in connection with unauthorized uses of pre-1972 sound recordings. For example, in *Bridgeport Music v. Justin Combs Publishing*,<sup>199</sup> the court affirmed a jury verdict in which defendants were held liable for sampling plaintiff’s pre-1972 sound recording in defendant’s recording. Applying New York law, the Sixth Circuit held that “punitive damages for common law copyright infringement and unfair competition are available ‘where a wrong is

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<sup>197</sup> Restatement (3d) of Unfair Competition, § 36, comment (n); Thomas McCarthy, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 30:96 (4th ed. 2009).

<sup>198</sup> 4-14 NIMMER ON COPYRIGHT § 14.02[C][2]. See, e.g., *Roy Export Co. Establishment v. Columbia Broadcasting System, Inc.*, 503 F. Supp. 1137 (S.D.N.Y. 1980), *aff’d*, 672 F.2d 1095 (2d Cir.); *Williams v. Weisser*, 273 Cal. App. 2d 726, 743 (1969). In addition, “Under the law of most states, punitive or exemplary damages may be obtained in privacy and publicity suits.” 2 Thomas McCarthy, RIGHTS OF PUBLICITY AND PRIVACY § 11:36 (2d ed).

<sup>199</sup> 507 F.3d 470 (6th Cir. 2007).

aggravated by recklessness or willfulness.”<sup>200</sup> However, it vacated the damages award as grossly excessive.<sup>201</sup> In *GAI Audio of New York, Inc. v. Columbia Broadcasting System, Inc.*, a Maryland appellate court affirmed the jury’s award of punitive damages in a record piracy case where the “acts of unfair competition were practiced intentionally, wantonly and without legal justification or excuse.”<sup>202</sup>

### 7. Summary: Use of Pre-1972 Sound Recordings under State Law

There are several important points to be drawn from this brief discussion. First, state laws that relate to sound recordings are inconsistent. The variations in state criminal laws are discussed above. Concerning civil law, some states have statutes that address the unauthorized use of pre-1972 sound recordings. In most states, common law torts provide protection. Where the basis is unfair competition or misappropriation, the claims that can be brought under state law may be more limited than those that could be brought under federal copyright law, particularly in a state that still requires competition or passing off as part of the tort. The requirement in unfair competition cases that commercial harm to the right holder (and/or commercial benefit to the user) be established also limits possible claims. As a practical matter, many sound recordings will lose protection over time as their commercial value diminishes, even though state law can theoretically protect sound recordings until 2067. A few states terminate protection for sound recordings before 2067, but that may be of little value to users whose uses go beyond the state’s border.

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<sup>200</sup> *Id.* at 479-80 (quoting *Roy Export Co. v. CBS, Inc.*, 672 F.2d 1095, 1106 (2d Cir. 1982)).

<sup>201</sup> *See id.* at 486-90. On remand the district court remitted the amount of punitive damages to \$688,500 (twice the amount of compensatory damages) instead of the \$3.5 million the jury had awarded. *Westbound Records, Inc. v. Justin Combs Publishing, Inc.*, 2009 U.S. Dist. LEXIS 29507, \*\*5-8, 2009 WL 943516 (M.D. Tenn. Apr. 3, 2009).

<sup>202</sup> 340 A.2d 736, 755 (Md. App. 1975); *see also A&M Records v. Heilman*, 75 Cal. App. 3d 554, 571 (1977) (affirming award of punitive damages in a record piracy case where there was an “intentional pattern of misappropriation of property owned by others” as well as contempt of court).

Common law copyright provides greater protection for right holders, and correspondingly, greater challenges for users. For example, New York has chosen to provide common law protection for pre-1972 sound recordings, whether or not the recordings have been published.

Many other states simply have no civil law directly on point, so it is difficult to know how they might protect pre-1972 sound recordings. Even states that protect published recordings through unfair competition and similar torts may protect unpublished recordings under common law copyright.

One complicating factor is that common law protection is amorphous, and courts often perceive themselves to have broad discretion. So it is sometimes hard to know whether new uses might be problematic. As the Supreme Court of Wisconsin stated in permitting plaintiffs to proceed with an unfair competition claim for record piracy in the face of defendants' argument that the state could act in this area only through the legislature: "We conclude that it is the duty of this court to act in circumstances where it is apparent that a wrong has been committed. . . ." <sup>203</sup> The court observed that "unfair competition has evolved as a broad and flexible doctrine with a capacity for further growth to meet changing conditions." <sup>204</sup>

In short, the protections that state law provides for pre-1972 sound recordings are inconsistent and sometimes vague and difficult to discern. The laws lack clearly delineated exceptions, making it hard for users to predict with assurance the range of activities that are permissible and those that are likely to result in liability. In many states, activities concerning sound recordings that are not conducted for profit and have no commercial impact on the right holder are unlikely to result in liability. But the differences and ambiguities in state laws make it

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<sup>203</sup> *Mercury Record Productions, Inc. v. Economic Consultants, Inc.*, 64 Wis.2d 163, 218 N.W.2d 705, 715-16 (Wis. 1974).

<sup>204</sup> *Id.* at 716 (quoting *Metropolitan Opera Ass'n v. Wagner-Nichols Recorder Corp.*, 199 Misc. 786, 101 N.Y.S.2d 483, 488 (Sup. Ct. 1950), *aff'd*, 107 N.Y.S.2d 795 (App. Div. 1951)).

difficult to undertake multistate or nationwide activities, particularly for individuals and entities that are risk-averse or that lack the ability to conduct detailed legal analyses for each proposed new use.



*Lacquer disc*

### **III. APPRECIATING THE CHALLENGES OF PRESERVATION AND ACCESS**

#### **A. The Nature of Pre-1972 Sound Recordings**

The recordings addressed in this Report encompass every conceivable sound, from one person talking, to music played by orchestras of over 100 pieces; from a primitive wax cylinder field recording to the detailed sound-picture of a multitrack analog studio recording; from the music of small ethnic enclaves to million-selling pop hits; from improvisation to composition, and so on. Notably, unlike other works of authorship protected by federal copyright law, virtually no pre-1972 sound recordings have entered the public domain throughout the United States. State criminal and civil law appear to protect almost everything back to the very first sound recordings known to exist.

#### **1. Commercial and Noncommercial Recordings**

While the first sound recording is now known to have been fixed in 1860 by Frenchman Edourd-Leon Scott de Martinville,<sup>205</sup> sound recording in the United States famously began in

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<sup>205</sup> NRPB REPORT at 1.

1877 with Thomas Edison’s invention of the phonograph.<sup>206</sup> However, the sale of recorded sound did not get underway until 1889 when the North American Phonograph Co. first offered recorded music for public sale. It was joined later that year in the marketplace by the new Columbia Phonograph Co.<sup>207</sup> Sound recordings in the early years of the industry were manufactured on wax cylinders. Cylinders in the 1890s contained a single selection and sold – like single MP3s do today – for between \$1 and \$2.<sup>208</sup> However, most early-1890s cylinders were not heard in private homes but on public phonographs – the predecessors to jukeboxes – for a nickel.<sup>209</sup> In the early years of the 20th century, cylinders gave way to discs, which were easier to mass-produce, cheaper, more durable, and could hold twice as much music as an Edison cylinder, and a new breed of celebrity – the recording artist – emerged.<sup>210</sup> The disc – in varying sizes and durability – remained the primary consumer medium for sound recordings through 1972,<sup>211</sup> although the media upon which the recordings were made went through myriad changes over time before settling on multitrack magnetic tape.

Commercial music recordings tend to dominate discussions of copyright in sound recordings because of their popularity, their tendency to create emotional attachments, and their existence as the basis for a multi-billion dollar international industry, but they account for only a

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<sup>206</sup> See, e.g., WALTER L. WELCH & LEAH BRODBECK STENZEL BURT, FROM TINFOIL TO STEREO 8-18 (1994).

<sup>207</sup> See Tim Brooks, *Columbia Records in the 1890s: Founding the Record Industry*, 10 ASS’N FOR RECORDED SOUND COLLECTIONS JOURNAL, No. 1, 3, 5-6 (1978).

<sup>208</sup> See *id.* at 9.

<sup>209</sup> See *id.*

<sup>210</sup> See, e.g., DAVID SUISMAN, SELLING SOUNDS: THE COMMERCIAL REVOLUTION IN AMERICAN MUSIC 125-49 (2009).

<sup>211</sup> Of course, discs, either vinyl or compact, continued to be the primary medium well after 1972, but this report is only concerned with pre-1972 works.

small percentage of all pre-1972 works.<sup>212</sup> Noncommercial recordings, such as ethnographic field recordings, oral histories, private home recordings, and scientific audio experiments, while not as evident to the general public, are an enormous source of cultural and historical information, and come with their own unique copyright issues.

The first ethnographic recordings were made one year after the first commercial recordings, in 1890. Anthropologist Jesse Walter Fewkes recorded songs and speech from the Passamaquoddy, Zuni, and Hopi tribes with a wind-up Edison cylinder recorder.<sup>213</sup> Field recordings from 1890 into the 1930s exist mainly on wax cylinders. With the advent of the portable disc cutter, ethnomusicologists made their transcriptions on discs of varying quality, and once audiotape was made available commercially, it soon became the recording medium of choice – first in reel-to-reel and then in cassette form.<sup>214</sup> The development of tape recording, and in particular the portable cassette recorder, spurred ethnographic audio collecting to such a large degree that by 2000 approximately 90% of all sound recordings held in folkloric collections were on cassette.<sup>215</sup>

## 2. Published and Unpublished Works

Not only can pre-1972 sound recordings be either commercial or noncommercial, but they also can be either published or unpublished.<sup>216</sup> Most commercial recordings are, as one

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<sup>212</sup> See, e.g., Society of American Archivists (SAA) at 1.

<sup>213</sup> NRPB REPORT at 16-17.

<sup>214</sup> See *id.* at 17.

<sup>215</sup> See *id.* at 18 (citing COUNCIL ON LIBRARY AND INFORMATION RESOURCES, FOLK HERITAGE COLLECTIONS IN CRISIS 59-63 (2001)).

<sup>216</sup> In this discussion “publication” is used as defined in the federal copyright law:

the distribution of copies or phonorecords of a work to the public by sale or other transfer of ownership, or by rental, lease, or lending. The offering to distribute copies or phonorecords to a group of persons for purposes of further distribution, public

would expect, considered to be published works, and most noncommercial recordings are considered to be unpublished. According to the Society for American Archivists, of the 46 million sound recordings housed in American cultural institutions, the majority are unpublished.<sup>217</sup> Furthermore, such unpublished recordings “far surpass the number of commercially published sound recordings that have ever been released.”<sup>218</sup> The unpublished nature of most pre-1972 sound recordings raises special concerns. It often makes identification of a sound recording’s right holders difficult. Unpublished works also tend to exist in only one copy and to reside with a single individual or institution, making their preservation and the provision of public access much more important. In addition to “typical” unpublished works – field recordings, oral histories, and other single-copy recordings – there are also what might be called “pre-publication” works, such as those elements of commercial recordings that did not end up becoming part of the distributed version of a work.<sup>219</sup>

In addition, there are some commercial works that are considered unpublished, such as radio broadcasts. Despite their broad reach and significant popularity throughout the 20th and 21st centuries, radio programs have been, and still are, considered “unpublished” under copyright law because, with rare exceptions, they were not distributed in copies. Such works constitute a broad and important source of historical information, from first-hand reports of notable news events, to radio dramas, to one-of-a-kind transcriptions of performances by notable musicians.

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performance, or public display, constitutes publication. A public performance or display of a work does not of itself constitute publication.

This is important to note because, as will be shown below, states often assign different meanings to “publication.” In some states, commercial sound recordings are considered to be technically unpublished even when distributed to the public.

<sup>217</sup> SAA at 1.

<sup>218</sup> *See id.*

<sup>219</sup> *See, e.g.,* NRPB REPORT at 33 (quoting Paul West, vice president, studios and vault operations, digital logistics and business services, Universal Music Group: “Only 65 to 75 percent of what is in our library has ever been released”).

Unfortunately, because they were not distributed in copies, radio broadcasts are comparatively ill-represented in the nation's libraries and archives.<sup>220</sup>

### 3. Availability and Location

Some pre-1972 sound recordings are widely available to consumers through digital downloads, record stores, and new endeavors such as the Sony-Library of Congress "National Jukebox," where recordings made on thousands of pre-1925 cylinders and discs are posted online for free streaming.<sup>221</sup> However, in part due to corporate consolidation and lack of concern over the value of preserving recordings, many current record companies do not own physical copies of those sound recordings to which they own the rights.<sup>222</sup> Thus, these recordings must be sought out in libraries and archives. Other recordings, including many noncommercial and/or unpublished works, are also available to hear in person at archives or music libraries. These institutions hold an estimated 46 million recordings.<sup>223</sup> For commercial pre-1972 sound recordings, there is much duplication among institutions. But those works residing in institutional collections generally cannot, without permission from their copyright owners, be made widely available through the internet or other channels, since the various state laws do not generally include exceptions permitting such dissemination.<sup>224</sup>

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<sup>220</sup> See *id.* at 4 ("Many recordings believed to have been made of radio broadcasts are untraceable, and numerous transcription discs of national and local broadcasts have been destroyed.")

<sup>221</sup> The National Jukebox ([www.loc.gov/jukebox](http://www.loc.gov/jukebox)) is a project that makes thousands of early U.S. sound recordings available to the public for free streaming access. It consists of recordings made by labels now owned by Sony Music Entertainment, which provided the Library of Congress a *gratis* license. The actual recordings are from the collections of the Library's Packard Campus for Audio Visual Conservation, the University of California Santa Barbara, and other partners. The Jukebox was launched on May 10, 2011 with 10,000 recordings from the Victor Talking Machine Company, which date from the 1890-1925 "acoustical" era, and include the classical, popular, religious, spoken word, and "ethnic characterization" genres. More recordings are expected to be added in the coming years.

<sup>222</sup> See, e.g., Library of Congress (LOC) at 6-7.

<sup>223</sup> NRPB REPORT at 10.

<sup>224</sup> For the application of state sound recording protection to public availability, see *supra* Chapter II.E.

Many pre-1972 commercial sound recordings are in the hands of individual collectors, who hold what is estimated to be the majority of commercially issued sound recordings, including “some of the most significant, as well as rarest” items.<sup>225</sup> While at least one major collector has in the past taped items in his collection for interested listeners,<sup>226</sup> it is unknown how common such a practice is. Certainly private collectors are the sources of many record company reissues, as they have the cleanest or only copies of some titles.<sup>227</sup>

Finally, while there are a few significant collections of commercial radio broadcasts residing in libraries and archives in the United States, they are far from complete.<sup>228</sup> Availability of these collections is generally restricted to on-premises listening.<sup>229</sup> As for public radio and local radio stations, they retain thousands of hours of programming in their vaults, although the digitization of these programs has just begun.<sup>230</sup> One additional source for copies of radio broadcasts is private collectors, who are estimated to hold tens of thousands of recordings, many of which are not represented in institutional collections.<sup>231</sup>

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<sup>225</sup> NRPB REPORT at 35-36. The relationship between private collectors and institutions is described below. *See infra* Chapter III.C.1.c.

<sup>226</sup> Eddie Dean, *Desperate Man Blues: Record Collector Joe Bussard Parties Like It's 1929*, WASHINGTON CITY PAPER, Feb. 12, 1999, available at <http://www.washingtoncitypaper.com/articles/16690/desperate-man-blues>.

<sup>227</sup> *See id.*

<sup>228</sup> For example, a significant portion of NBC broadcasts from the 1930s through the 1970s is held at the Library of Congress, and smaller collections of ABC and Mutual Network transcriptions have been saved, but no extensive archive of CBS transcriptions is known to exist. NRPB REPORT at 21-22.

<sup>229</sup> *See id.* at 23, noting that dissemination of the NBC collection at the Library of Congress is “tightly restricted.”

<sup>230</sup> *See id.* at 26-29, describing the holdings of WNYC, WGBH, Pacifica, and WWOZ.

<sup>231</sup> *See id.* at 30.

#### 4. Recording Media and Deterioration Rates for Pre-1972 Sound Recordings

All sound recording media, from the earliest to the most recent, are at risk of deterioration or breakage that may render them unplayable. The chart below, prepared by the staff of the Library of Congress Packard Campus for Audio Visual Conservation, outlines the major media that were used to record sound prior to 1972, the major components of each medium's composition, and the chemical and/or physical processes that place them at risk.

Essential to the long-term survival of all audio media, but not listed below, are proper housing – shelving and packaging – of audio media, and appropriate temperature and humidity that do not fluctuate greatly. Improper storage conditions, such as excessive heat or exposure to water, are the most serious threats to long-term survival of all types of sound recordings.<sup>232</sup>

Medium	Period of Primary Use <sup>233</sup>	Content	Composition	Risks and Challenges
Wax cylinders	1890-1925	Commercial recordings of music and spoken word; ethnographic field recordings; dictation	Wax compound, metallic soap composite	Fungal growth can deteriorate and obstruct grooves. The organic plasticizer can experience exudation, causing crazing, <sup>234</sup> and shrinkage of playback surface is possible as plasticizer is lost. Wax cylinders are also fragile and susceptible to damage from improper

<sup>232</sup> Dietrich Schüller, *Audio and Video Carriers Recording Principles, Storage and Handling, Maintenance of Equipment, Format and Equipment Obsolescence*, [http://www.tape-online.net/docs/audio\\_and\\_video\\_carriers.pdf](http://www.tape-online.net/docs/audio_and_video_carriers.pdf) (2008); Indiana University Digital Library Program, *FACET Formats Document: Format Characteristics and Preservation Problems*, <http://www.dlib.indiana.edu/projects/sounddirections/facet/downloads.shtml> (2007); Bill Klinger, *Cylinder records: Significance, production, and survival*, <http://www.loc.gov/rr/record/nrpb/pdf/klinger.pdf/> (2007); AMERICAN FOLK LIFE CENTER, *1 THE FEDERAL CYLINDER PROJECT: A GUIDE TO FIELD CYLINDER COLLECTIONS IN FEDERAL AGENCIES* (1984).

<sup>233</sup> Please note that the date ranges here reference approximate years of *primary* use. For instance, wax cylinders were used for dictation into the 1960s, shellac 78-rpm discs were still being manufactured in the early 1960s, and lacquer discs were used to record broadcasts by the NBC radio network until 1970.

<sup>234</sup> Crazing is the making of small cracks on a surface. See *THE AMERICAN COLLEGE DICTIONARY* 283 (1968) (definition of “craze”).

Medium	Period of Primary Use <sup>233</sup>	Content	Composition	Risks and Challenges
				handling. Extremely fragile.
Celluloid cylinders (including Edison "Blue Amberol" cylinders)	1900-1929	Commercial recordings of music, spoken word, etc.	Nitrocellulose celluloid with plaster, cardboard, and other cores	The plaster core can expand through hydrolysis, making it difficult to mount the cylinder on the playback mandrel and can, in severe cases, cause the celluloid to break or split. The celluloid becomes more brittle with age. Catastrophic failure, such as found in nitrocellulose film, is uncommon.
Shellac discs, 78-rpm discs	1896-1950	Commercial recordings of music, spoken word, etc.	Shellac-bonded mineral powders; other resins also used	Until recently, believed to be chemically stable, though fragile. <sup>235</sup> Signal can be significantly affected by scratches, surface deformities, and groove wear. Mold or other fungal growth, heat, and water can damage and obscure grooves.
Aluminum discs	1925-1935	"Live" events; radio broadcast transcriptions	Aluminum	Oxidation; scarcity of playback hardware (styluses).
Lacquer and acetate discs	1936-1960	Radio broadcast transcriptions; studio master recordings	Aluminum, glass, or cardboard with a lacquer coating	Lacquer layer susceptible to plasticizer exudation and/or information layer delamination. Aluminum base susceptible to oxidation. Glass based discs, the predominant instantaneous audio medium during World War II, are extremely fragile. Cardboard base susceptible to water damage. Discs susceptible to crazing of lacquer layer regardless of base material.

<sup>235</sup> Discovering some degradation of shellac discs in its collection, the Bibliotheque nationale de France is researching the composition of 78-rpm records. Among the challenges to the project are the great disparity of compositions of recordings of different pressing companies, countries, and time periods. See Nguyen, et al, *Determining the composition of 78-rpm records: Challenge or fantasy?* 42 ASS'N FOR RECORDED SOUND COLLECTIONS JOURNAL, No. 1 (2011).

Medium	Period of Primary Use <sup>233</sup>	Content	Composition	Risks and Challenges
Wire recordings	1935-1945	Remote recordings of “live events”; oral histories; radio broadcast transcriptions	Steel or stainless steel	Technological obsolescence; mechanical damage to wire (tangling); rusting in rare cases. Early, pre-standardized sizes not compatible with common playback equipment. Playback equipment difficult to obtain and maintain in working order.
Vinyl and polystyrene discs (33-1/3- and 45-rpm)	1948-1990	Commercial recordings of music, spoken word, etc.	Vinyl (co-polymer of polyvinyl chloride and polyvinyl acetate) or polystyrene <sup>236</sup>	Chemically stable, though material is relatively soft. Susceptible to mechanical damage such as scratching and deformation due to improper storage and handling. Polystyrene becomes brittle with age.
Acetate tape	1950s-1960s	Restricted to use in Germany until late 1940s; radio broadcasting and recording industry until mid-1950s; also used in moving image industry and home recording.	Cellulose acetate (e.g., cellulose diacetate, cellulose triacetate)	Becomes brittle with age. Degrades in high humidity; both the tape base and the binders used are highly susceptible to hydrolysis, in extreme cases this is referred to as “vinegar syndrome,” as cellulose acetate is broken down to release acetic acid. Vinegar syndrome causes the tape base to shrink and deform; “cupping” is a common outcome of deformation. The information layer can also separate from the base. Both processes can severely inhibit playback.
Polyester tape, open reel and cartridge (including audio cassettes)	1965-2005	Commercial recordings of music, spoken word, etc.	Polyester tape within plastic shells	Binder hydrolysis and delamination of magnetic layer possible, especially in improper environmental conditions; mechanical failure of cassette shell; technological obsolescence, access to quality playback equipment becoming limited in the US. Stretching and deformation of base film layer possible, though not frequently reported.

<sup>236</sup> The great majority of “LP” discs are vinyl, while most 45-rpm discs are made from polystyrene.

The above chart provides some basis for understanding the urgency of users' preservation concerns, particularly regarding wax cylinders, lacquer and acetate discs, and acetate tape. It is interesting to note that more recently developed media are not necessarily more robust than older media, a point vividly illustrated by a comparison of the risks and challenges of shellac discs with polyester tape. Subsequent chapters will show how the various stakeholders perceive that federalization may (or may not) assist with the preservation and provision of access to pre-1972 sound recordings embodied on the media described above.

### **B. Preservation of Pre-1972 Sound Recordings**

In the 21st Century, the preservation of sound recordings means, for all practical purposes, *digital* preservation – specifically, copying a work from its native format to a digital medium. Preservation is extremely important because sound recordings represent a key component of our cultural heritage, and one that will be lost to posterity if efforts are not undertaken to preserve old recordings and migrate them from what are often volatile and obsolete media to more stable forms of fixation. It is this initial reproduction, and the related downstream potential of distributing multiple perfect copies via the Internet, that invites copyright law into the discussion. If preservation were nothing more than carefully cleaning and storing the original media, copyright would be irrelevant to preservation. But because reproduction onto digital media is becoming the most common means of preserving sound recordings (among other media), copyright issues cannot be avoided.

The nuts-and-bolts of digital preservation are quite complex. As a report by the National Recording Preservation Board describes it:

After capture of the source audio and creation of digital files, systems must protect the files and assure their integrity, which requires periodic migration of the files to new media, validations to assure that copies of the digital files are faithful to the previous generations, and further steps to assure that these files are

accessible in perpetuity. In other words, recorded sound preservation is a chain and process without end.<sup>237</sup>

The RIAA and A2IM agree that preservation is complex, noting that preparing a digital reissue includes:

the costs of storage, review in realtime (of analog recording media) for missing or incomplete metadata, data entry, cataloging, conversion/digitization using carefully preserved obsolete equipment and storage media (*i.e.*, preservation), and, related overhead costs including legal fees (for the recordings and/or for clearing underlying rights, such as compositions).<sup>238</sup>

Regardless of who is doing it, digital preservation is clearly a difficult endeavor requiring significant resources and technical skill.

### **1. Current Preservation Activities**

For preservation of pre-1972 sound recordings, there are four important entities to survey: record companies, libraries and archives, private collectors, and radio stations.

#### **a. *Libraries and archives***

Preservation of sound recordings by libraries and archives is a primary focus of this Report. These institutions and other stakeholders shared with the Copyright Office a great deal of information about practices, technology, costs, and frustrations with legal analysis. However, it is unclear in the context of “pure” preservation activities<sup>239</sup> whether the date a sound recording was first fixed and its corresponding legal status actually matter to libraries and archives. Some commenters report that the pre- or post-1972 status of a recording does not factor into a decision

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<sup>237</sup> NRPB REPORT at 9-10.

<sup>238</sup> RIAA/A2IM at 8.

<sup>239</sup> *I.e.*, activities focusing solely on preservation, without regard to access.

whether to digitize, and some report that it does.<sup>240</sup> There are also additional factors bearing upon preservation of sound recordings by libraries and archives, such as the availability of technology and money, specifically grant funding.<sup>241</sup> And such funding, as will be seen, is in part dependent upon the access that the institution can provide to its preserved works. In addition, librarians and archivists who deal with ethnographic materials must abide by the cultural and religious norms of those whose voices and stories are on the recordings.<sup>242</sup>

Much like a record company, a library or archive must have several sound recording preservation specialists in order to create and maintain durable and high quality digital copies. Only a few libraries – notably the Library of Congress and the University of California, Santa Barbara – have sufficient resources to preserve the multiple media types on which pre-1972 sound recordings reside, such as wax cylinders and lacquer discs. In one notable partnership between record companies and the Library of Congress – the National Jukebox – libraries are providing the original recordings and undertaking the digitization, while Sony is providing the permission to use the recordings that it owns. Because Sony now controls the catalogs of the

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<sup>240</sup> For assertions that the pre-1972 status of a recording does not affect its preservation, *see, e.g.*, Music Library Ass’n (MLA) at 6 (“[W]hile some libraries may consider the date of fixation when considering preservation activities under §108(c), in most cases this would not be an important consideration for preservation activities beyond isolated, single-item duplication.”) and SAA at 2 (“We have no data that would suggest that archives differentiate between pre-1972 and post-1972 recordings for preservation purposes, even when they may so differentiate for access purposes. Because of the complexity of laws governing sound recordings, few archivists are even cognizant of the difference in the legal status of pre-1972 and post-1972 recordings.”). For assertions that preservation decisions are affected by pre-1972 status, *see, e.g.*, Kenneth Crews at 5, n.12 (“I can affirm that some libraries do in fact treat early sound recordings differently because of the lack of federal protection, particularly for the purposes of preserving unique or scarce works.”) and Stephanie Roach at 2 (“the complexity of the inconsistent body of state laws that govern these recordings introduces needless delays – sometimes indefinitely – and hampers decision making regarding preservation and access for collections of pre-1972 sound recordings within archives, libraries, and other cultural heritage institutions in the United States.”).

<sup>241</sup> NRPB REPORT at 14.

<sup>242</sup> NRPB REPORT at 19.

large record companies of the acoustical era – pre-1925 – including that of Columbia, it effectively owns the rights in the majority of commercial recordings of that era.<sup>243</sup>

**b. Record Companies**

According to several comments submitted for this Report, record companies historically have not been concerned with preserving their sound recordings for future use.<sup>244</sup> One public meeting participant suggested that preservation is not properly the domain of record companies, who are established to manufacture and sell recordings.<sup>245</sup> Nonetheless, in recent years (perhaps spurred by the CD reissue boom in the 1990s), U.S. and foreign record companies have been taking a greater interest in their back catalogs and either reissuing titles themselves or licensing their works to other companies who serve more specialized markets. The decision as to what titles to reissue is driven in large part by what kind of a return on investment can be expected.<sup>246</sup> The question of whether a recording was fixed pre- or post-1972 is irrelevant for a record company reissuing its own works.

In their initial comment, RIAA and A2IM detailed the preservation work of some of the larger foreign and domestic record companies. Some of the highlights of the survey include EMI's plans to digitize tens of thousands of recordings released between 1923 and 1940, with approximately 5,500 remastered for commercial purposes; Warner Brothers' goal of digitizing every recording it released since the time of its founding in the late 1940s;<sup>247</sup> Sony's partnership

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<sup>243</sup> See *supra* note 220; see also Association of Recorded Sound Collections (ARSC) at 6 and <http://www.loc.gov/jukebox/about>.

<sup>244</sup> See, e.g., Brooks T1 at 108-09.

<sup>245</sup> Loughney T1 at 118 (“the commercial industry, they live within the strictures of the marketplace, and they can only invest in things that they believe will be commercially available, and they are not in the archive business in the sense of doing what libraries do.”).

<sup>246</sup> RIAA/A2IM at 8.

<sup>247</sup> See *id.* at 8-14; but see ARSC Reply at 7.

with the Library of Congress to digitize and make available for streaming to the public thousands of pre-1925 sound recordings;<sup>248</sup> and Universal Music Group’s decision to give its master recordings from 1929 to 1948 to the Library of Congress.<sup>249</sup>

RIAA and A2IM stressed in their initial comment that the time, effort, and resources required to do a quality reissue “can be prohibitive,” citing “storage, review of analog media for metadata, data entry, cataloging, conversion/digitization using obsolete equipment and storage media, and legal fees.”<sup>250</sup> Thus, its members focus on earning a return on their investment in deciding whether and what to preserve.

### c. *Private Collectors*

Private collectors were the first sound recording preservationists, in that they collected, cataloged, and maintained in good condition thousands of pre-1972 titles that otherwise would have been discarded or forgotten.<sup>251</sup> As a general rule, private collections often form the basis of public collections or collections that reside in larger institutional settings. Many private collections, however, are stored in less-than archival-quality conditions, vulnerable to poor handling and environmental damage.<sup>252</sup> And, while some private collectors of commercial sound recordings may make digital copies of titles in their collections, this practice is not “true” preservation of the sort practiced under generally accepted norms by librarians who have the professional duty of insuring continued playability and accessibility of the digitized copy.

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<sup>248</sup> <http://www.loc.gov/jukebox/about>.

<sup>249</sup> *Library of Congress Gets a Mile of Music*, N.Y. TIMES, Jan. 9, 2011, <http://www.nytimes.com/2011/01/10/arts/music/10masters.html>.

<sup>250</sup> RIAA/A2IM at 8.

<sup>251</sup> NRPB REPORT at 35-37. The NRPB Report divides private collectors into two groups: “record collectors,” who hold mainly rare, but not unique copies of commercial recordings, and “recorded sound collectors,” who hold both commercial recordings and unique items such as interviews, private recordings, and studio out-takes. *See id.* at 37-38.

<sup>252</sup> *See id.* at 38-39.

#### d. *Radio Stations*

There has been no systematic documentation of radio broadcasts, and few institutions work actively to support radio broadcast preservation. During the most popular years of radio (early 1930s through early 1950s), nobody envisioned an aftermarket for recordings of radio programs. And because most of these broadcasts were done live, there was little financial incentive to record them. In terms of history, the first 15 years of radio – roughly 1920-1935 – have left relatively few sound recordings, and those recordings that were saved were recorded on lacquer-coated discs until the advent of magnetic tape.<sup>253</sup> In later years more recordings were made and retained. For example, the Library of Congress and the University of Wisconsin have significant holdings of NBC radio programs that were recorded on what were called “transcription discs.”

Radio transcriptions were not only made by broadcast networks, but by third party transcription services, which used wire recorders that produced very fragile recordings. The largest resource for radio broadcasts from 1942 to the present is the Armed Forces Radio and Television Service transcriptions collection at the Library of Congress.<sup>254</sup> Other sources of radio broadcast recordings are National Public Radio stations, local radio stations, and individual enthusiasts, who hold tens of thousands of tape recordings.<sup>255</sup>

## 2. Preservation and the Law

To what extent does the law – both state and federal – permit preservation activities? All digital preservation activities require making copies. Thus, unless a library or archive has

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<sup>253</sup> *See id.* at 20-21.

<sup>254</sup> *See id.* at 24. AFRTS provided programming for US military forces overseas.

<sup>255</sup> *See id.* at 30.

permission from the right holder, copyright law (or related state law doctrines) will determine whether and to what extent the library or archive may lawfully make preservation copies. A discussion of those provisions follows.

**a. Federal Law**

Although federal copyright law is inapplicable to most pre-1972 sound recordings, it provides an important backdrop for understanding the legal status of pre-1972 sound recordings.

Congress has recognized that the ability of certain research libraries and archives to preserve cultural and historical works for posterity is in the public interest and has included provisions in the Copyright Act that, at the time of enactment, were appropriately tailored for this purpose. The primary provision is section 108, which was first enacted in 1976 and is in need of updating for the digital age. Section 108 was the subject of a major independent report co-sponsored by the Copyright Office and the Library of Congress's National Digital Information Infrastructure and Preservation Program in 2008, and updating it is a current priority of the U.S. Copyright Office.<sup>256</sup>

Section 108 provides explicit exceptions to and limitations on a right holder's exclusive rights for the benefit of libraries and archives. These exceptions are available only when they are "without any purpose of direct or indirect commercial advantage,"<sup>257</sup> and only by institutions open to the public or at least to researchers in a specialized field.

The part of section 108 pertaining specifically to preservation is subsection 108(b). It applies only to *unpublished* copyrighted works and allows libraries or archives to make up to three copies "solely for purposes of preservation and security or for deposit for research use in

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<sup>256</sup> *Priorities and Special Projects of the United States Copyright Office, October 2011 – October 2013*, at 8 (2011), available at <http://www.copyright.gov/docs/priorities.pdf>.

<sup>257</sup> 17 U.S.C. § 108(a)(1). In addition, any copy must include a notice of copyright, or if no copyright notice is found, a legend indicating that the work may be protected by copyright. *Id.*

another library or archives.”<sup>258</sup> The work must be currently in the collections of the library or archives, and any copy made in a digital format may not be made available to the public in that format outside the premises of the library or archives. Subsection 108(c) allows libraries and archives to make *replacement* copies of *published* works in their collection that are damaged, deteriorating, lost, or stolen, or the format of which has become obsolete.<sup>259</sup> Before a replacement copy is made, however, the library or archives must first make a reasonable effort to determine whether an unused copy is available on the market at a fair price. While subsection 108(c) is explicitly for replacement copying, in practice libraries and archives use it for preservation in the sense that it allows them to keep in circulation copies of works that otherwise would be inaccessible.<sup>260</sup> Digital copies made under subsection 108(c), like those made under subsection 108(b), may not be made available outside the premises of the library or archives.

An additional exception applying to published works is section 108(h), which allows libraries, archives, and nonprofit educational institutions under certain conditions to “reproduce, distribute, display, or perform in facsimile or digital form ... for purposes of preservation, scholarship, or research” copies of any published work in its last 20 years of federal copyright protection. This exception is not available if the work is subject to normal commercial exploitation or a copy or phonorecord can be obtained at a reasonable price.

It should be noted here that there is widespread agreement among libraries, archives, and right holders that section 108 is inadequate to address preservation and access issues in the digital realm, although there is a wide variety of views as to how it should be amended.<sup>261</sup>

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<sup>258</sup> 17 U.S.C. § 108(b).

<sup>259</sup> A format is considered obsolete “if the machine or device necessary to render perceptible a work stored in that format is no longer manufactured or is no longer reasonably available in the commercial marketplace.” 17 U.S.C. § 108(c).

<sup>260</sup> Section 108 Study Group, *Section 108 Study Group Report* at 53 (2008). For a discussion of why section 108 treats published and unpublished works differently *see id.* at 18-19.

<sup>261</sup> *See id.* at i-xiv.

Apart from section 108, libraries and archives may also, in appropriate cases, use the fair use doctrine (section 107 of the Copyright Act) in order to make preservation copies.<sup>262</sup> Fair use provides an exception to the Copyright Act’s exclusive rights (reproduction, preparation of derivative works, distribution, public performance, public display, and digital public performance for sound recordings<sup>263</sup>) for certain purposes.<sup>264</sup> Whether or not a use is fair is a fact-specific inquiry, including consideration of:

(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 as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work.<sup>265</sup>

Determining fair use is not a mechanical process, and whether or not a particular preservation activity is a fair use depends upon the nature of that activity. Some libraries and archives may rely on the flexibility of fair use in evaluating their digitization plans. However, what some see as flexibility others may experience as uncertainty, and this difference in perception is frequently attributable to one’s level of risk aversion. An institution with little appetite for stretching the boundaries of fair use, for example, may appreciate the relative certainty of section 108, despite its restrictions.

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<sup>262</sup> 17 U.S.C. § 108(f)(4) (“nothing in this section in any way affects the right of fair use as provided by section 107.”)

<sup>263</sup> 17 U.S.C. § 106.

<sup>264</sup> Section 107 lists examples of uses that may be fair – criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research. However, these uses are not automatically considered fair uses; indeed, the statute clearly states that courts must consider the statutory factors “[i]n determining whether the use made of a work in any particular case is a fair use.” 17 U.S.C. § 107. And other non-enumerated uses may also qualify as fair use.

<sup>265</sup> 17 U.S.C. § 107.

**b. State Law**

In the absence of permission, the various state laws that protect pre-1972 sound recordings generally lack specific provisions allowing libraries and archives to make preservation copies.<sup>266</sup> Indeed, the structure of statutory state law protection is fundamentally different than federal law, partaking of many different criminal and civil approaches, with some commonalities among the states and some differences. The two largest differences between state and federal protection of sound recordings are (a) the use in the states of “common law copyright,” meaning law based entirely upon judicial decisions, and not codes enacted by the legislature, and (b) the states’ use of misappropriation/unfair competition laws.

The one facet of state protection of pre-1972 sound recordings that has a modicum of similarity from state to state is found in criminal anti-piracy statutes. A 10-state survey conducted in 2009 found that states tended to follow language pioneered by the California and New York legislatures, namely:

Each of the 10 states has similar requirements of knowledge [that the distribution is taking place] and lack of consent of the owner. Even more important, the statutes in all 10 states contain explicit language stating that the unauthorized use must be made with “intent to sell,” for “commercial profit,” or some other language indicating a commercial nature to the unlawful activity.”<sup>267</sup>

State law regarding what qualifies as “commercial” is either unknown or unclear.<sup>268</sup> However, it would seem that library and archives digitization (divorced from access) is an archetypal example of noncommercial activity. There have been no criminal piracy charges brought against a library or archive in any state, so the exact application of the law as pertaining to pre-1972 sound recordings in a cultural repository remains undeveloped.

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<sup>266</sup> For a full discussion of the state law landscape, *see supra* Chapter II.E.

<sup>267</sup> JASZI REPORT at 9 (internal citations omitted).

<sup>268</sup> *See id.* at 12 (“Overall, there seems to be a dearth of case law relating directly to the scope of permitted noncommercial use.”).

Comments by the stakeholders overwhelmingly indicate that it is not any specific provision of any state’s law that affects preservation decisions, but simply the multitude of different laws and the lack of interpretation and analysis that deters preservation activities.<sup>269</sup> Some states provide more guidance than others. For example, in 2008 the Supreme Court of New York (a trial court) recognized the federal fair use exception as a defense to a common law claim of infringement of a sound recording.<sup>270</sup> It is also useful to note that, to the degree that common law copyright and associated state laws hinder preservation, it appears that technological barriers and lack of funding hinder it significantly as well.<sup>271</sup>

### c. *Risk Analysis*

A substantial amount of digital preservation activity occurs regardless of the apparent ambiguity of, and confusion over, state law pertaining to pre-1972 sound recordings. The University of Utah Library commented that it feels more able to digitize under its state’s law than it would under federal law – an example of an entity looking at its state’s legal landscape and determining that, while it is not crystal clear, it is clear enough to justify the risk of forging ahead with digitization.<sup>272</sup> In addition, many entities are likely forging ahead without concern one way or the other about state law.<sup>273</sup>

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<sup>269</sup> See, e.g. LOC at 4; Syracuse Univ. Library at 4-5; Roach at 2; *but see* J. Willard Marriott Library, University of Utah at 2 (“According to Utah’s Unauthorized Recording Practices Act, libraries and other collecting institutions in the State of Utah are permitted to copy and distribute pre-1972 recordings.”).

<sup>270</sup> *EMI Records Ltd. v. Premise Media Corp.*, 2008 N.Y. Misc. LEXIS 7485, at \*\*14-15 (Sup. Ct. Aug. 8, 2008).

<sup>271</sup> See, e.g., NRPB REPORT, at 11-14 (discussing barriers to preservation of sound recordings revealed by surveys).

<sup>272</sup> See University of Utah at 2-3; *see also* Association of Research Libraries/American Library Association (“ARL/ALA”) Reply (discouraging federal protection for pre-1972 sound recordings, and asserting that, so long as fair use applies, the lack of explicit exceptions and their attendant restrictions in state law is better for preservation).

<sup>273</sup> See SAA at 2 (“Because of the complexity of laws governing sound recordings, few archivists are even cognizant of the difference in the legal status of pre-1972 and post-1972 recordings. Almost all archivists

Certainly, in the general context of copyright law, there are users of copyrighted materials who are risk-averse and those who are not. Libraries and archives tend to be risk-averse,<sup>274</sup> a fact which has not been lost on the Copyright Office or the right holders themselves.<sup>275</sup> Note, for example, the observations of the RIAA and A2IM, commenting that state protection of pre-1972 sound recordings should not inhibit and is not inhibiting preservation activities, even in cases where libraries and archives may be in technical violation of the law.

When these right holder groups also claimed that “to our knowledge, no public or private institution has been sued (or threatened with a lawsuit) by an RIAA or A2IM member for undertaking preservation activity; nor should any reputable archive be so threatened,”<sup>276</sup> that assertion received a mixed response. While the ARL and ALA did not object to the record companies’ assertion,<sup>277</sup> SAA and MLA took great exception. They stated that such an attitude fostered disrespect for copyright law,<sup>278</sup> and would be little more than cold comfort to libraries and archives who were interested in providing access as well as undertaking preservation.<sup>279</sup>

### C. Public Access to Pre-1972 Sound Recordings

The degree of public access to pre-1972 sound recordings varies widely depending upon the age of the recording, whether it is published or of a commercial nature, its popularity, who is

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assume that their ability to ‘format shift’ material for purposes of preservation is a given in existing law, both Federal and state, and act accordingly. If a sound recording is in the collection and it needs to be preserved, archivists will try to preserve it.”).

<sup>274</sup> See, e.g., *id.* at 2 (“Congress and the Copyright Office should remove any legal impediments that may discourage libraries and archives from preserving sound recordings.”).

<sup>275</sup> See Pallante T1 at 72-73 (“I think part of what you are saying is that librarians and archivists and museum curators shouldn’t be so risk adverse, but I have to tell you that as a former museum attorney myself, you are not going to change that...[T]hey are very risk averse and conservative.”).

<sup>276</sup> RIAA/A2IM at 19.

<sup>277</sup> ARL/ALA at 3, note 9.

<sup>278</sup> SAA Reply at 4.

<sup>279</sup> MLA Reply at 4.

providing the access, and how one defines “public access” in the first place. For older recordings, access does not necessarily utilize digital technology. For example, a library may allow listeners to privately study an LP in its listening room, or an individual may purchase a used 45 rpm single at a yard sale. By contrast, when dealing with works preserved through digitization, the question of public access will draw on the digital copy and therefore raise issues about the application of copyright law to the work. Examples of access derived from digital technology include the distribution of copies of a CD by the right holder in the sound recording, to listening to a digital copy transmitted to a library reading room from the library’s network server, to the performance via streaming of an MP3 by a web site.

How broadly one defines the question of public access plays a significant role in determining how much of the pre-1972 recorded patrimony is “available.” For example, in his 2005 Survey of Reissues of U.S. Recordings, Tim Brooks distinguished “availability” of pre-1972 sound recordings (which he defined as meaning one can locate but not necessarily be able to play a copy) from “accessibility” (meaning the recording is available on CD or for purchase or download through the Internet).<sup>280</sup> On this basis he determined that, for recordings within the scope of his study released between 1890 and 1964, an average of 14% are made publicly accessible (*i.e.*, reissued) by their right holders.<sup>281</sup> Apparently not considered by Mr. Brooks are recordings that can be heard solely on-site at a library or archives.<sup>282</sup> Under this view, almost all field recordings and other scholarly recordings would be considered inaccessible to the public, as would the vast majority of commercial recordings housed in libraries and archives. Clearly,

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<sup>280</sup> BROOKS STUDY at 1-2.

<sup>281</sup> *See id.* at 7. The scope of the Brooks study was “recordings for which there is documented historic interest,” which encompassed “seven major fields of study,” but not, for example, pop vocals. Brylawski T1 at 113-14. All recordings within the scope number about 400,000; the random sample size was 1,500. BROOKS STUDY at 3-4.

<sup>282</sup> BROOKS STUDY at 14; Brooks T1 at 197.

however, such recordings enjoy the same level of accessibility that many other works of authorship receive, to those who live near or travel to the libraries and archives housing them.

Another example illustrates the tensions involved in addressing accessibility. One attempt at making early commercial recordings more accessible is the Sony-Library of Congress “National Jukebox” partnership described above.<sup>283</sup> This endeavor allows users to stream at will thousands of acoustical-era recordings to their home computers. Were these recordings protected under federal law, such distribution would certainly qualify as a public performance, which the Copyright Act defines in part as

to transmit or otherwise communicate a performance or display . . . 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.<sup>284</sup>

However, for certain scholars such a public performance would not qualify as sufficient public access, because they may need to “get your hands on the file and hold the file and use and study the audio file” in order to analyze it.<sup>285</sup> “Streaming,” one public roundtable participant maintained, “simply doesn’t cut it.”<sup>286</sup>

## 1. Current Activities Providing Public Access

### a. *Libraries and Archives*

The 2005 survey of U.S. reissues quotes an expert as saying that of all recordings issued commercially in the United States, probably over 90% exist in some form today.<sup>287</sup> That same

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<sup>283</sup> See *supra* note 220.

<sup>284</sup> 17 U.S.C. § 101.

<sup>285</sup> Brooks T1 at 110-12.

<sup>286</sup> *Id.* at 110.

<sup>287</sup> BROOKS STUDY at 11 (citing Brylawski).

study indicates that right holding record companies are responsible for reissuing 14% of a sub-set of these works, while non-right holders have reissued 22%.<sup>288</sup> (Although, by the time this Report is read, these numbers will be more than seven years old, the author of the 2005 report asserts that he has seen no evidence that the percentage of physical reissues has risen.<sup>289</sup>) Where might the rest of these extant recordings be? One answer is libraries and archives.

To date, many libraries and archives appear to have been fairly conservative in providing public access to the pre-1972 sound recordings (and, for that matter, other works of authorship) in their care. However, if the comments and roundtable remarks from the Office’s proceedings are instructive, what libraries and archives appear to mean by public accessibility seems to be Internet access – from streaming to downloading – and not merely in-person listening. Streaming and downloading may be done with permission,<sup>290</sup> without permission (either out of ignorance of the law<sup>291</sup> or out of disregard for the law), or refrained from altogether.<sup>292</sup> This observation from the Library of Congress is representative of views expressed by scholars, librarians, and archivists:

Within the community of librarians and archivists having custody of sound recording collections, when faced with complex or unclear information on the copyright status or ownership of a pre-1972 sound recording relating to a public access request, the “safe” response is “No.”<sup>293</sup>

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<sup>288</sup> See *id.* at 7. Note that the titles reissued by right holders and by non-right holders likely duplicate one another to a certain extent.

<sup>289</sup> Brooks T1 at 110. Brooks also stated that online availability to pre-1972 sound recordings has changed, and that were the survey performed today online availability would have to be addressed. However, Brooks averred that “it is the belief of our members in our organization [ARSC] that limited or restricted – we would say heavily restricted – access is not the same thing as availability, certainly not for the purposes that scholars need it or even preservationists, perhaps.” *Id.* Hence, at least in the eyes of archivists, it is doubtful that the recordings being streamed through the National Jukebox would be considered “available.”

<sup>290</sup> The National Jukebox is one example of permission-based public access by means of streaming provided by a library, in this case with the cooperation and permission of the right holder.

<sup>291</sup> SAA at 4.

<sup>292</sup> MLA at 6.

<sup>293</sup> LOC at 5.

**b. Record Companies**

Record companies provide public access to pre-1972 sound recordings through reissuing these recordings on compact disc and as downloads.<sup>294</sup> Sometimes an entire album will be reissued intact, and sometimes, particularly for artists popular before the advent of the 33 $\frac{1}{3}$  rpm LP, the reissue will consist of a series of individual songs. As indicated in the previous section, record companies tend to reissue a recording only when they can be relatively sure of a return on their investment, given the costs of preparing a reissue. As the RIAA stated, cost “coupled with uncertainty about the commercial value of the vast majority of the recording, is the principal reason many recordings are not widely available.”<sup>295</sup>

Still, to the degree that providing public access to a pre-1972 sound recording means issuing a consumer-ready product, record companies appear to reissue *fewer* of their own works than do foreign labels and smaller U.S. ventures who apparently act without authorization.<sup>296</sup> Such other labels have, according to Tim Brooks’s survey, reissued 22% of the pre-1972 recordings surveyed, compared to 14% by right holders.<sup>297</sup>

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<sup>294</sup> As noted elsewhere, record companies have also cooperated in making very old sound recordings available for streaming through services such as the Library of Congress’s National Jukebox. *See supra* note 220.

<sup>295</sup> RIAA/A2IM at 8.

<sup>296</sup> BROOKS STUDY at 7-8.

<sup>297</sup> *See id.* It is important to note that the Brooks Report does not encompass all commercial sound recordings for the 1890-1964 time period, but instead is restricted to titles with “documented historic interest,” as represented in seven major genres: ragtime and jazz; blues and gospel; country and folk; ethnic; pop, rock, and R&B; classical; and other (including show music and spoken word). *See id.* at 3. This left “large bodies of recordings” outside the survey such as “every pop vocal that was made before 1965.” Brylawski T1 at 113-14. It was also noted at the public meeting that, had the total number of recordings issued in the U.S. been included in the study, the percentage of right-holder reissues would be “significantly less” than 14%. *Id.*

**c. *Private Collectors***

Librarians and scholars report that many private collectors are loath to put their collections in the hands of preserving institutions for fear that their lovingly curated 78s will fall into a “black hole” of inaccessibility.<sup>298</sup> Since such collections are not particularly accessible in their present locations, the main public access service provided by private collectors is that of lending titles from their collections to record labels to use as masters for digital reissue.<sup>299</sup>

**d. *Radio Stations***

To the degree that radio stations make publicly available their digitally preserved archives, it is likely through private appointments with researchers, or through libraries that have assumed stewardship of their recordings. In making radio broadcasts more accessible to more than just on-site researchers, libraries and archives must address not only copyright concerns but also performer and union contracts that may govern use beyond the initial airing of a program.<sup>300</sup>

**2. Provision of Public Access and the Law**

A point of interest among the librarians and archivists who submitted comments and spoke at the roundtable is that preservation activities are inextricable from the goal of providing public access. To some degree this is about the desire to provide access, and the degree to which access is part of the mission of many research or collecting institutions. On a related point, they stressed that access is often a condition of grant money for preservation projects. Such money becomes scarce when there is no potential for public access.<sup>301</sup>

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<sup>298</sup> See, e.g., NRPB REPORT at 40; Brooks T1 at 83.

<sup>299</sup> See Dean, *Desperate Man Blues*, *supra* note 225.

<sup>300</sup> NRPB REPORT at 22.

<sup>301</sup> See, e.g., Cockrell at 1; Roach at 3.

This section of the Report briefly describes the aspects of federal and state law pertaining to the provision of access, specifically access to a preservation copy or other digital copy.

Consistent with the ARSC's view that access requires the ability to closely analyze one's own copy of a work, the type of access sought by libraries, archives, and scholarly commenters was by means of digital downloads or physical reissues. Such activities, when done by libraries or archives without the permission of the right holder, are not currently within the scope of section 108 and, as the *Section 108 Study Group Report* demonstrates, including them within a statutory limitation or exception for libraries and archives is a very controversial topic.<sup>302</sup>

Of course, one need not concern oneself with legal exceptions allowing for provision of public access if one seeks and receives permission from the right holder. However, with some exceptions, permissions was not a subject raised by most stakeholders, in the written comments or at the public meeting. There was some indication by libraries and archives that permission for use of commercial recordings was difficult to obtain<sup>303</sup> and, of course, that permission for use of many field and ethnographic recordings was simply impossible as the performers had died. Representatives from RIAA suggested that seeking permission remains a productive method for making preservation copies and providing access, especially regarding those early recordings that are now gathered under the Sony corporate umbrella.<sup>304</sup> Another right holder pointed out that the National Jukebox preservation and audio streaming partnership between the Library of Congress

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<sup>302</sup> *Section 108 Report* at 57-60 (“Remote electronic access”).

<sup>303</sup> LOC at 7 (“In the case of both foreign and U.S. owned pre-1972 sound recordings, it is common to encounter rights holders who either no longer own any copies of recordings to which they hold the rights, or no longer have documentation of any kind that verifies their ownership interests. Likewise, it is common in regard to pre-1972 sound recordings of both foreign and U.S. origins, for there to be a lack of institutional memory within companies and/or documentation about the past sale or transfer of ownership of recordings to other parties. The effect on libraries, archives, etc., and members of the research public is confusion caused by cold information trails leading to long dead owners and record companies that have gone out of business.”).

<sup>304</sup> Chertkof T1 at 118-19.

and Sony was an example of a productive permission-based agreement for providing access to early sound recordings.<sup>305</sup>

**a. Federal Law**

Federal law provides an important backdrop for understanding the legal status of pre-1972 sound recordings, but again it is important to recall that it is currently inapplicable to most pre-1972 sound recordings. As discussed above, section 108 and fair use are the primary provisions of copyright law relied upon by libraries and archives to preserve and provide access to works. But it is the first sale doctrine in section 109 that authorizes the basic lending function of libraries. Section 109 states that,

Notwithstanding the [exclusive right of distribution], the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.<sup>306</sup>

In other words a library is entitled to lend copies that it owns, including copies made under the authority of section 108, subject to the restrictions of that section.

In particular, libraries and archives may not make available to the public, “outside the premises of the library or archives,” a digital preservation copy of an unpublished work or a digital replacement copy of a published work.<sup>307</sup> Although under certain conditions libraries may at a user’s request copy a portion of a work in their collections (or even a complete work if it cannot be obtained at a fair price), these exceptions are carefully restricted.<sup>308</sup> For example, they extend only to “the isolated and unrelated reproduction or distribution of a single copy or

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<sup>305</sup> Aronow T1 at 105-06.

<sup>306</sup> 17 U.S.C. § 109(a).

<sup>307</sup> 17 U.S.C. § 108(b)(2).

<sup>308</sup> 17 U.S.C. § 108 (d), (e).

phonorecord of the same material on separate occasions” and do not apply to systematic reproduction of multiple copies.<sup>309</sup>

However, there is one proviso to the copies-for-users subsections of section 108 that particularly affects libraries and archives with substantial recorded sound collections: those subsections do not apply to, *inter alia*, musical works.<sup>310</sup> Sound recordings frequently constitute performances of musical works; in other words, musical works are embodied in them. Since it is impossible to copy a sound recording without copying the musical work it embodies, it may not be copied for users pursuant to section 108 if the sound recording embodies a musical work that is still protected by copyright.<sup>311</sup>

In contrast, the section 108(h) exception for use of a work in its last 20 years of copyright protection does apply to the reproduction and distribution of sound recordings.

The question of availability of digitized pre-1972 sound recordings also would implicate section 110(2) of the federal copyright law if pre-1972 sound recordings were covered under title 17. This section permits a government body or “accredited nonprofit educational institution” to transmit “reasonable and limited portions” of a sound recording as part of distance education.<sup>312</sup> Section 110(2) is clearly an “access” provision, but it only provides access to a limited class of users, and under restricted circumstances. Moreover, because it only permits portions of sound recordings to be transmitted, it is of limited use to scholars of such materials.

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<sup>309</sup> 17 U.S.C. § 108(g).

<sup>310</sup> 17 U.S.C. § 108(i).

<sup>311</sup> Musical works are still protected by copyright if they were published after 1923 (provided that, if they were published in the United States before 1964, their copyrights were renewed). Prior to the enactment of the Copyright Renewal Act of 1992, title I of the Copyright Amendments Act of 1992, Pub. L. No. 102-307, 106 Stat. 264, a work for which copyright was secured prior to 1978 enjoyed an initial term of 28 years, subject to a renewal term only if the person entitled to renew the copyright submitted a renewal application to the Copyright Office during the 28th year of the initial copyright term.

<sup>312</sup> 17 U.S.C. § 110(2).

**b. State Law**

Just as the various state laws that protect pre-1972 sound recordings generally lack specific provisions allowing libraries and archives to make preservation copies, they also lack specific provisions permitting libraries and archives to provide access to those copies. The general discussion above of the uncertainty and lack of precedent in state law<sup>313</sup> applies as well to any public access activities.

**c. Risk Analysis**

While libraries may continue to preserve pre-1972 sound recordings in the face of ambiguous and inconsistent state law, they are less likely to provide public access to those recordings. Libraries and archives are particularly concerned about making those sound files generally available over the Internet because they believe that doing so could conceivably expose the posting institution to the laws of all 50 states.<sup>314</sup>

Of course, there will always be situations where an institution may determine that the risk of an infringement claim is relatively remote and that the importance of providing access to its digitized works justifies taking that risk. Such an institution may decide to post its preserved recordings on the Internet. For example, the Society of American Archivists spoke of

a highly-regarded repository that makes available on the Internet rare sound recordings of Jewish music. It does so in the apparent belief that U.S. sound recordings made before 1923 are in the public domain. The good news is that current practice has not harmed any rights owners; the repository has received only acclaim, with no reported complaints.<sup>315</sup>

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<sup>313</sup> See *supra* Chapter III.B.2.b.

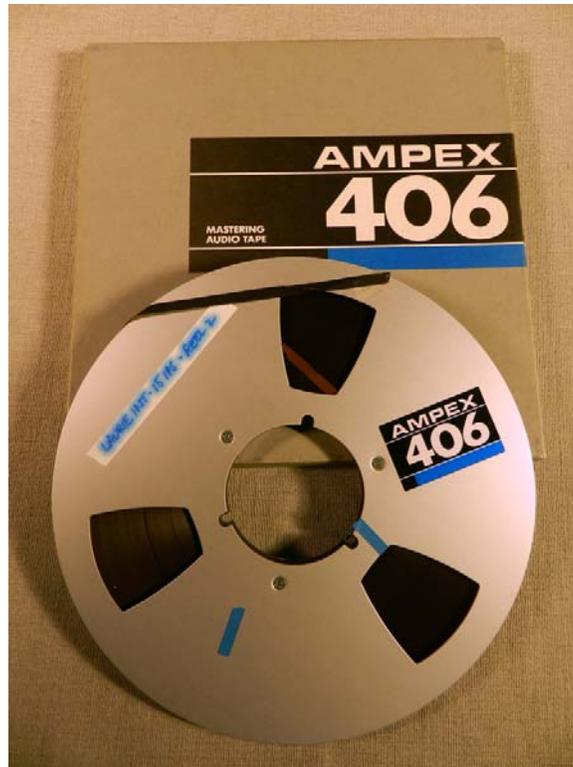
<sup>314</sup> See SAA at 11.

<sup>315</sup> *Id.* at 4.

In addition, the ARSC reported that the larger the institution, the more likely it is to be risk-averse.<sup>316</sup>

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<sup>316</sup> ARSC at 8.



*Tape reel*

#### IV. POLICY CONSIDERATIONS

There are many points of public policy to consider in determining the wisdom of federal protection for pre-1972 sound recordings. At the outset, there is the intelligibility of each regime: would federal protection improve the clarity, consistency and certainty of the law protecting pre-1972 sound recordings, or would those values be better achieved by retaining state law protection? The likely effects on preservation and public access must also be considered. All stakeholders support these goals, at least in the abstract, but disagree on how best to promote them. Likewise, stakeholders agree that any change in legal protection should not harm the reasonable economic interests of right holders. But such consensus still begs an important question: what economic interests are reasonable?

There are other questions with respect to the application of Title 17. This Chapter also addresses how section 512 (providing a limitation on liability for online service providers), and

section 114 (providing a statutory license for digital public performance of sound recordings) would interact with provisions providing federal protection for pre-72 sound recordings. Finally, this Chapter considers some alternative protection schemes proposed by stakeholders.

### **A. Certainty and Consistency in Copyright Law**

The majority of the stakeholder comments regarding the potential federalization of pre-1972 sound recordings mentioned the importance of certainty and consistency as policy lodestars by which to guide the recommendations of the Office.<sup>317</sup> While these are neutral values in the abstract, when applied to a particular issue they can cut more than one way. What appears consistent when measured against one set of facts may be a break from past practice, and thus inconsistent, from another perspective. The historical and policy importance of certainty and consistency (as well as neighboring values such as uniformity) to copyright owners and to users of copyrighted works is discussed below, along with an examination of stakeholders' views on how copyright law's certainty and consistency may be affected by putting pre-1972 sound recordings under federal protection.

#### **1. Importance of Certainty and Consistency**

Uniform national application has been a hallmark of copyright law since the first copyright law was enacted in 1790. The goal was underscored and strengthened by the Copyright Act of 1976, which extinguished – with the exception of pre-1972 sound recordings – the concept of state common-law copyright.<sup>318</sup>

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<sup>317</sup> See, e.g., LOC at 4; Aronow T1 at 106.

<sup>318</sup> See, e.g., ASRC Reply at 9-10 (“Uniformity has been widely recognized as essential to maintaining the marketability and, in the case of historic recordings, the continued existence of creative works. The very purpose behind Article I, Section 8 from which Congress derives its power to promulgate copyright law is inextricably rooted in the need for national uniformity of copyright law.”).

Until the Copyright Act of 1976, federal copyright law protected only published works,<sup>319</sup> with unpublished works covered in perpetuity by state common-law copyright. This dual system applied to sound recordings along with every other type of work. The 1976 Act, with the goals of (1) promoting national uniformity; (2) eliminating divisions in copyrightable subject matter by publication status; (3) applying the Constitutional rule of “limited times” to unpublished works; and (4) improving international copyright dealings,<sup>320</sup> eliminated state common-law copyright and moved all unpublished works, both past and future, into the federal copyright system. As explained in Chapter II above, this unification measure was not applied to sound recordings fixed before February 15, 1972.

In excluding pre-1972 sound recordings from federal protection, Congress appears to have departed from those goals. Regardless of why Congress made that decision – and the record sheds little light on Congress’s reasons – sound recordings in 1976 became the single inconsistency in what was intended to be a seamless national system of copyright protection. Additionally, what has grown out of that inconsistency is over a hundred years of a state-law regime upon which members of the RIAA and A2IM have come to rely.<sup>321</sup> So, while federal protection for pre-1972 sound recordings might be consistent with an overall federal policy of uniformity, it would arguably be *inconsistent* with the experience built up in the sound recording community with respect to state law.

Another issue for consideration is whether federalization of pre-1972 sound recordings would provide greater legal certainty than currently obtains. Most pre-1972 sound recordings are

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<sup>319</sup> There were some narrow exceptions. At the option of the copyright owner, certain works that typically were exploited not by means of publication, but rather by means of public performance or exhibition, were eligible for statutory copyright protection. Such works included lectures, etc., prepared for oral delivery; dramatic, musical, or dramatico-musical compositions; photographs; motion pictures; works of art; and plastic works or drawings. See 17 U.S.C.A. § 12 (repealed 1978).

<sup>320</sup> See S. REP. 94-473, at 112-14 (1975).

<sup>321</sup> See RIAA/A2IM at 26 (“This system may be complex, but at least there have been decades of litigation and precedent to resolve ownership issues under [state] laws.”).

protected only under state law, but that just begins the inquiry.<sup>322</sup> In each case one must consider which state's laws apply to the particular activities, what the law is in that state, how the laws apply to preservation and public access, and what defenses are available. In many cases the law is ambiguous.<sup>323</sup> The issues become more complicated if the intention of the library or archives is to post copies of a work to a broadly accessible website, where potentially multiple states' laws could apply.

It is undoubtedly true that federal law does not provide complete clarity, as the RIAA, A2IM, ARL, ALA, and others assert. Because of the limitations of section 108, libraries and archives increasingly rely on fair use in undertaking digital preservation, and the scope of the fair use doctrine in this context has never been adjudicated. Furthermore, the RIAA and A2IM assert that, after over one hundred years of state-law practice, assessing rights and licenses concerning pre-1972 sound recordings under federal law would lead to great uncertainty in how right holders continue to manage their assets and could potentially unsettle existing contractual relationships.<sup>324</sup>

Before addressing whether federal protection of pre-1972 sound recordings would provide greater certainty and consistency, it is worthwhile to consider potential consequences of legal uncertainty. An environment in which rules are ambiguous and differ by region leads to problems of both overprotection and underprotection. Overprotection – where users develop a risk-averse attitude toward socially productive uses of copyrighted works due to the lack of explicit exceptions – has been much discussed among the stakeholders in this study. They have argued that institutions will not undertake preservation and access programs without some

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<sup>322</sup> While most pre-1972 sound recordings are protected only under state law, the exception created by the copyright restoration provisions can lead to uncertainty as to which body of law to apply to a particular recording.

<sup>323</sup> For example, if a library's or archives' activities are looked at through the lens of a criminal law, then a defense that the activities are noncommercial appears likely to prevail. *See supra* Chapter II.E.1.b. Of course, it is far more likely that the activities would be looked at through a civil law lens, in which case the laws of most states offer no clear defenses although in many states the law of unfair competition would require that the defendant be in competition with the right holder. *See supra* Chapter II.E.2-5.

<sup>324</sup> RIAA/A2IM at 24-28.

certainty that doing so will be within the law.<sup>325</sup> Underprotection, in contrast, results when the lack of clarity concerning the scope of rights allows users to make uses that are unfair or unreasonable, but right holders are discouraged by the law's ambiguity from pursuing effective remedies.<sup>326</sup> Unsurprisingly, comments by libraries, archives, and scholars have not stressed this side of the coin. But, particularly when there is little likelihood that more concrete rules and exceptions will be imposed, underprotection may be attractive for users.

A set of rules that are certain and consistent go a long way to eliminating both under- and overprotection, because they make the law itself, rather than the level of risk one is ready to accept, the guiding principle.

## 2. The Impact of Federalization upon Certainty and Consistency in Copyright Law

### a. *Users' perspectives on effect of a single set of federal exceptions*

Many user groups (libraries, archives, and scholars) noted in their comments a number of ways in which they believe federal protection of pre-1972 sound recordings will improve consistency and certainty in copyright law. They believe that the availability of a single set of exceptions – exceptions with well-developed national jurisprudence – would encourage libraries and archives to make reasonable uses of pre-1972 sound recordings without having to seek permission. “The regularization of the law, the certainty of the law, the bright lines that the law would bring us,” said the ARSC, “outweigh whatever negatives.”<sup>327</sup> They predicted that federal

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<sup>325</sup> See, e.g., SAA at 3 (“The danger exists that if archivists come to understand the uncertain legal foundation on which their current behavior rests, they may become hesitant to continue with their preservation activities. Providing a clear legal basis for preservation, therefore, would encourage archivists to be less risk-adverse when it comes to preservation.”).

<sup>326</sup> But see ARL/ALA Reply at 6, providing a more critical view of the current federal exceptions and a more sanguine view of the state law regime.

<sup>327</sup> Brooks T1 at 18-19; see also Lipinski T1 at 59 (“One of the benefits that I see is uniformity and uniformity in the advantage of having a body of case law, for example, of theories that can be readily applied. I think that's a great advantage.”).

protection would produce specific benefits in the areas of preservation and provision of public access, detailed below.

Federal protection of pre-1972 sound recordings would also enable owners and users of those works to benefit from future applicable amendments to the Copyright Act (for example, an amendment to deal with the problem of orphan works, or amendments to section 108). This would not be the case with respect to state protections, and the gap between the treatment of pre-1972 sound recordings and all other works would only increase if such amendments are enacted but pre-1972 sound recordings remained governed by state law.

Not everyone in the library community has concluded that federalization would be beneficial to libraries and archives. The ALA and ARL pointed out that many of the same organizations pressing for federal protection have been critical of the scope of federal exceptions, specifically section 108.<sup>328</sup> They have argued that section 108 is too outdated to be truly useful with respect to preservation and making materials available to users in the digital age.<sup>329</sup> Indeed, the Library of Congress wrote that

As they now exist, Sections 108(b) and (c) [the preservation and replacement provisions, respectively] place recorded sound archivists who perform their duties to the highest professional standards, plus the libraries, archives, museums and other institutions for whom they work, at odds with the word of the law, if not its intention.<sup>330</sup>

Fair use would also be available under federalization. However, fair use is flexible – one might say uncertain – by design. It requires a case-by-case analysis, is extremely fact-specific, and for this reason does not lend itself to rules or policies for general application. Indeed, there is some irony in users seeking certainty in a statutory exception that may not allow uses to be made

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<sup>328</sup> ARL/ALA Reply at 4-5.

<sup>329</sup> LOC at 5.

<sup>330</sup> *See id.*

with any confidence. Still, the four factors of fair use, along with extensive case law, are not necessarily available under state law.

One final aspect of federal protection that is a potential drawback for users is the availability of statutory damages. Some users were clearly concerned about the possibility of large statutory damage awards, which may be obtained without necessarily demonstrating specific monetary or other losses. On the other hand, the statute does provide protections for libraries, archives and nonprofit educational institutions. Specifically, the Copyright Act provides that statutory damages shall be remitted (*i.e.*, reduced) if the person making the allegedly infringing reproduction reasonably believes it was fair use under section 107 and is an employee or agent of a nonprofit educational institution, library, or archives, acting within the scope of employment.<sup>331</sup>

**b. *Right holders’ perspectives on the move from state to federal law***

RIAA and A2IM predicted that federalization of protection for such recordings would lead to greater uncertainty – not just for right holders, but for users as well. They predicted that federal protection would cause an “administrative nightmare”<sup>332</sup> and result in “significant economic harm”<sup>333</sup> to right holders. A2IM commented that it was quite comfortable with the current state regime, and that “it’s something we understand,”<sup>334</sup> while Sony Music warned that moving to federal protection risked creating “more uncertainty rather than less uncertainty.”<sup>335</sup> Right holders’ objections to federal protection were phrased largely in terms of the economic

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<sup>331</sup> See 17 U.S.C. § 504(c)(2). Note, however, that remission only applies to acts of reproduction, not to the infringement of other exclusive rights.

<sup>332</sup> RIAA/A2IM at 26.

<sup>333</sup> See *id.* at 5.

<sup>334</sup> Bengloff T1 at 33-34.

<sup>335</sup> Aronow T1 at 106.

harm and interference with settled business expectations that might result. These issues are dealt with in detail in Chapter IV.D below.

RIAA also suggested that if pre-1972 sound recordings are brought under federal law, ambiguities concerning the interpretation of sections 107 and 108, coupled with the risk-averse nature of libraries, would result in fewer recordings being made available to the public.<sup>336</sup>

Another stakeholder asserted that because federal protection would provide a digital performance right to pre-1972 recordings, it would add another layer of complexity to libraries' and archives' digitization planning.<sup>337</sup>

RIAA and A2IM do not, of course, represent all right holders in pre-1972 commercial sound recordings, much less right holders of noncommercial or unpublished recordings. There is at least some evidence that non-affiliated owners may not all share their views. One stakeholder purporting to own the rights in approximately 800 pre-1972 sound recordings commented that it would prefer federal protection to the current state regime because it was “difficult and cost-prohibitive to pursue infringement litigation state-by-state.”<sup>338</sup> It does intuitively make sense that right holders, particularly smaller ones, would prefer federal protection simply on the grounds that it would be easier to manage one's assets on the basis of a single set of laws rather than 50 sets.

Like users, right holders also expressed concerns – albeit quite different ones – about statutory damages. Pre-1972 sound recordings are not currently registered with the Copyright Office (since they are not eligible for copyright protection) but would have to be registered in order to qualify for statutory damages and awards of attorney's fees. This would be a significant

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<sup>336</sup> RIAA/A2IM at 20-21.

<sup>337</sup> National Association of Broadcasters (NAB) Reply at 2-3.

<sup>338</sup> VAPAC Music Publishing Reply at 1.

undertaking. Moreover, RIAA indicated that it finds punitive damages available under state law more attractive than the prospect of statutory damages under federal law.<sup>339</sup>

*c. Application of the DMCA “Safe Harbor” of 17 U.S.C. § 512*

Section 512 of title 17, enacted as part of the Digital Millennium Copyright Act, provides certain limitations on liability for copyright infringement by online service providers. However, it is not settled whether the section 512 liability limitations apply to violations of the rights of owners of pre-1972 sound recordings.<sup>340</sup> If pre-1972 sound recordings were federalized, service providers would explicitly be entitled to the benefits of the section 512 safe harbor provisions with respect to those recordings.

In response to the Notice of Inquiry, only two stakeholders raised concerns regarding how the section 512 “safe harbor” limitations on liability for copyright infringement by online service providers may apply to the state law protection of pre-1972 sound recordings. The Electronic Frontier Foundation (EFF) noted the importance of the section 512 “safe harbor” provisions to online innovation. It suggested that Congress could not have intended that these provisions would not apply to pre-1972 sound recordings. At the same time it acknowledged that there remains some uncertainty because online service providers cannot easily predict whether a court would find the 512 “safe harbor” provisions applicable to certain copyright infringement claims under state law. It suggested that federalization would clarify that the section 512 “safe harbor” provisions apply to pre-1972 sound recordings.<sup>341</sup> At the roundtable, RIAA also

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<sup>339</sup> Pariser T2 at 456.

<sup>340</sup> Courts have split as to the applicability of section 512 to pre-1972 sound recordings. *See infra* Chapter V.A.2.c. However, none of the stakeholders referred to this split in authority.

<sup>341</sup> EFF at 6-7.

appeared to question whether the section 512 “safe harbor” provisions apply to pre-1972 sound recordings.<sup>342</sup>

## **B. Preservation**

### **1. Importance of Preservation**

Preservation of important cultural works is of great importance to the nation generally, and stakeholders interested in pre-1972 sound recordings are in agreement that they should be preserved. Preservation is often undertaken by specialized libraries and archives so that future stakeholders, such as reissue producers and scholars, will have access to a particular aspect of the national cultural patrimony. Preservation is also performed so that stakeholders in the present day may be able to use the recordings. As discussed above, in many cases the media on which these works are recorded are deteriorating,<sup>343</sup> in other cases they are so fragile that the kind of playing necessary for scholarly study is simply unfeasible.<sup>344</sup> And, as explained above, preservation of sound recordings today means digitization, which entails reproduction.<sup>345</sup>

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<sup>342</sup> Pariser T1 at 276.

<sup>343</sup> J. Willard Marriott Library, University of Utah at 1 (“Many sound recordings produced before 1972 require immediate duplication if they are to be preserved. Significant forms of physical degradation affecting ephemeral sound media – wire recordings, magnetic tape recordings, and acetate transcription discs – include permanent deformation and breaking, tearing, and delamination which can be irreparable. All duplication has to be performed in real time making all preservation projects time consuming and expensive. The media in question are already at high risk of loss simply because they reside on impermanent substrates.”); Buttler T1 at 46-47 (“I do know that some change needs to move forward or, otherwise, we're going to have a significant amount of material that is going to disappear from the historical record, and I don't think that's a good outcome just because we have a law that protects it for a really long time.”).

<sup>344</sup> See Loughney T1 at 69-70 (“I can testify to many formats now in the recorded sound collection of the Packard Campus of the Library of Congress that are deteriorating as we speak. These can be transcription disks, these can be wax cylinders, they can be more robust formats that have actually had quite a lot of longevity because they've been durable for four or five decades but are beginning to show signs of oxidation, shrinkage and all the other catalytic chemical reactions that can occur to these formats. Because they were never produced for longevity or for archival purposes; they were produced for home consumption and use in the marketplace, and it was never intended that they last forever.”).

<sup>345</sup> See *supra* Chapter III.B. Digitization brings its own set of problems. For example, the recordings must reside on a medium and in a format that can be easily migrated and transferred to more stable platforms as

## 2. Impact of Federalization upon Library and Archives Preservation Activities

Whether libraries and archives would engage in more preservation as the result of federalizing copyright protection for pre-1972 sound recordings appears to be an open question. Some representatives of libraries and archives contend application of a single set of norms – the federal copyright law – and the availability of the section 107 and 108 exceptions, would lead to more preservation activity with respect to pre-1972 sound recordings. However, opponents of federal protection asserted that it would discourage as much preservation activity as it would encourage, primarily for substantive reasons related to the federal exceptions.

### a. *Likelihood of increased preservation*

At the very least, the relative certainty and consistency of federal copyright law provides a structural incentive for increased preservation of pre-1972 sound recordings. If a library, for example, were considering a program to digitize certain out-of-print 1930s 78 rpm phonorecords of Ukrainian music, a decision to forge ahead would be made easier if the library had to consider only federal copyright law, *i.e.*, both the statute and its judicial interpretations. In the current environment, the library (or its counsel, if any) would at minimum have to consult the civil and criminal laws of the state in which it is located, along with the relevant judicial decisions which may not directly address sound recordings.<sup>346</sup> With some notable exceptions,<sup>347</sup> state civil and

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they develop, and that is not beholden to outdated or obscure hardware or software in order to be played. These are far from trivial issues.

<sup>346</sup> See, e.g., LOC at 3 (“uncertain legal treatment even for preservation copying . . . makes archive and education officials reluctant to fundraise for, or allocate resources for the acquisition and preservation of the culturally valuable material.”); Syracuse at 4-5 (“any attempt to clear rights for the purpose of archival digitization requires [a library] to research and analyze several different areas of state’s laws – across at least three eras – to determine their applicability, potential exceptions, and possible penalties. Doing this work requires such a tremendous resource allocation that many institutions . . . simply may choose not to make historical works available, thereby leaving a huge gap in the nation’s cultural memory.”).

criminal laws do not include guidance as to what exceptions might apply, whereas federal law provides a library-specific exception (section 108), a well-developed and continuously evolving limitation that has the added benefit of decades of judicial interpretation and commentary (section 107), and the possibility of a robust public domain. To the extent these federal provisions are available, one would have to reasonably conclude that libraries and archives would have more clarity, and therefore more ability to make long term resource allocations, with respect to preservation copying.<sup>348</sup>

State copyright law does not have anything resembling these exceptions.<sup>349</sup> Section 107 – fair use – would be beneficial because courts have already applied it to the digital environment and will continue to do so. In some ways, it serves as a safety net (though by no means a panacea) where certain facts may favor the user over the copyright owner but where the four corners of section 108 are inapplicable. As cases relating to digital copying wind their way through the courts, section 107 will continue to evolve and libraries and archives across the country should be better able to create policies and practices in response. To the extent that these decisions come from appellate courts, libraries and archives throughout the United States could find themselves in a position to create national standards, rather than state-by-state projects, for pre-1972 sound recordings.

Section 108(h) provides an option not available in state law: it permits libraries and archives (and nonprofit educational institutions) to reproduce or distribute copies or phonorecords

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<sup>347</sup> See, e.g., CALIF. PENAL CODE §§ 653h, 653w (providing limited exceptions for “not-for-profit educational institutions”); see also *EMI Records Ltd. v. Premise Media Corp.*, 2008 N.Y. Misc. LEXIS 7845, at \*\*14-15 (Sup. Ct. Aug. 8, 2008) (recognizing a fair use defense to copyright infringement of sound recordings in New York).

<sup>348</sup> SAA at 3 (“Providing a clear legal basis for preservation, therefore, would encourage archivists to be less risk-adverse when it comes to preservation. The explicit and broad preservation exception for unpublished material found in 108(b) would be a definite improvement over the current confused state of the law for the vast number of unpublished sound recordings housed in archival repositories.”).

<sup>349</sup> While it is likely that state courts presented with the issue would find that fair use is a defense to common law copyright infringement, we are aware of only a single state trial court case, *EMI Records Ltd. v. Premise Media Corp.*, supra note 140, in which fair use has actually been applied.

of a work for purposes of preservation, scholarship, or research in its last 20 years of federal protection when the work is not subject to normal commercial exploitation and a copy or phonorecord of the work cannot be obtained at a reasonable price. Additionally, some library groups have noted that digitization plans are more likely to receive approval from a library general counsel if based on the applicability of federal exceptions rather than state law.<sup>350</sup>

Presumably, these federal provisions would lead to better funding for preservation – at least relative to state law. Indeed, some libraries and archives believe that funding for preservation is often contingent on their ability to provide public access. Under this perspective, federal law is preferable.<sup>351</sup>

Moreover, in some circumstances, federalization could result in some pre-1972 sound recordings entering the public domain significantly earlier than 2067.<sup>352</sup> This would eliminate the legal barriers to preserving those recordings and making them available over the Internet.

**b. *Likelihood of decreased preservation, or no change in preservation activities.***

A number of commenters, both copyright owners and users, contended that federal protection for pre-1972 recordings was unlikely to change the amount of digital preservation, and in fact might discourage it. Some stakeholders commented that federal protection offers no preservation advantages over state protection. They maintained that, because neither state nor federal protection schemes inhibit legitimate preservation activities, moving pre-1972 sound

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<sup>350</sup> See Brooks T1 at 194 (“Under a consistent regime, whether you like it or not, but a consistent and well understood and well studied [regime], and I think most counsels would understand something about federal law on this level . . . you would have far more certainty at that level about not only whether they could make it available, but if they want to legally make it available, how to go about doing it and what the fair use exceptions are, that kind of thing.”).

<sup>351</sup> See LOC at 3; Roach at 3 (“by bringing this class of recordings under Federal law, some clarity would be lent to the copyright status of pre-1972 sound recordings. As a result, funding agencies may be more likely to provide grants or other funding to both preservation and access projects.”).

<sup>352</sup> See *infra* Chapter VI.D.

recordings under the federal system will make no practical difference.<sup>353</sup> Additionally, RIAA and A2IM stated that the effort involved in amending Title 17 to include pre-1972 sound recordings, and the resolution of the many legal issues, would divert right holders' attention and resources "from more effective means to improve preservation and access" (*i.e.*, partnerships with libraries and archives), hence leading to less preservation overall.<sup>354</sup> "Preservation can only be furthered by financial resources and better cooperation between rightsholders and archival institutions," they claimed, "rather than legal reforms."<sup>355</sup> This cooperation, maintained the right holder groups, is essential in order to provide libraries and archives with the money and technology they need to engage in best-practices digital preservation.<sup>356</sup>

ARL and ALA emphasized that the federal exceptions, particularly section 108, would limit preservation activities far more than state law currently does. They asserted that the risk of particular digitization activities being stymied by section 108's limits on the number of copies that can be made, or by its published/unpublished distinctions, was not worth the benefits of federal protection overall.<sup>357</sup> While they acknowledged that uses not currently allowed by section 108 might still be permitted by section 107, they pointed out that, regardless of the exception, statutory damages and other remedies not available at state law would apply to digitization activities found to be infringing. This, they asserted, presents risks that must be weighed against whatever rewards are offered by federal protection.<sup>358</sup>

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<sup>353</sup> RIAA/A2IM at 18-19 ("the RIAA and A2IM believe that in fact, since they know of no such instances of litigation for legitimate preservation activities by libraries or archives, that the copyright law – state or federal – is largely not a factor or hindrance, by itself, to preservation activity.").

<sup>354</sup> *Id.* at 2.

<sup>355</sup> RIAA/A2IM Reply at 2.

<sup>356</sup> RIAA/A2IM at 7.

<sup>357</sup> ARL/ALA Reply at 4-6 (use of section 108 "risks the loss of important cultural artifacts, and raises the costs of preservation considerably and unnecessarily").

<sup>358</sup> *See id.* at 2-3, 6; *see also* NAB Reply at 4 ("retroactive federal copyright protection for pre-1972 sound recordings could actually hinder preservation and access activities, as federalization would increase

## C. Public Access

### 1. Importance of Public Access

Providing some level of access to digitally preserved works is important because without it, preservation is often merely an academic exercise. Obviously, researchers and the public must have access to digitized pre-1972 sound recordings for the furtherance of public knowledge about our cultural patrimony, and for the light that these recordings can shine on the times in which they were recorded – basically, for the reasons we study film, literature, music, and any other product of the mind.<sup>359</sup> Access also propels the “progress of science” in that current creators are able to build upon what has come before.

A more nuanced point suggested by several stakeholders in the written and oral comments is that access is the key to obtaining funding for preservation.<sup>360</sup> At a practical level, granting organizations are seemingly reluctant to fund projects that will have no visible public benefit.<sup>361</sup> To the extent a project manager can apply funds not only to the preservation of

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remedies and could increase potential liabilities for infringement, thereby increasing the risk involved in judging the legality of any particular use”).

<sup>359</sup> One commenter noted that, as a scholar focusing on music of the late 19th Century through the 1930s, he could upload prints and photographs to the web, but not sound recordings, a situation that he found “often blocks the academic sharing of sources in ways that could offer the best grounding for a study’s interpretations; the best sense of key historical, aural contexts for those sources; the best platform from which other scholars might assess, recontextualize, reinterpret, and teach from those sources; and the richest means by which students and the public could explore and learn from documents of our musical past.” Lancefield at 1.

<sup>360</sup> See, e.g., LOC at 3 (“preservation funding is often tied to the ability to make material available to the public”); SAA at 3 (“the funding and scope of preservation programs are closely related to the extent to which the preserved items can be made readily available for research use”).

<sup>361</sup> See MLA at 3 (“donors generally expect tangible results which show the funds were spent wisely. This becomes especially important when seeking follow-up grants or permanent institutional funding. Results are typically measured in terms of the project’s impact: the number of people who have used the materials, the dissertations, articles or books that are generated from it, etc. A digitization project which saves materials for the future but which cannot make them widely accessible, does not tend to be viewed favorably”).

important sound recordings, but also to making them available for the public to listen to, funding is more likely.<sup>362</sup>

One example of the importance of public access to receiving grants is the National Endowment for the Humanities (NEH) guidelines for humanities collections and reference resources grants. These describe the NEH's expectation that the products of its grants will be publicly available, preferably through the Internet, and in fact forbid the use of grants for "preservation, organization, or description of materials that are not regularly accessible for research, education, or public programming."<sup>363</sup> The importance of public access to the awarding of NEH grants was emphasized by a program officer who said that for an application, failing to provide for availability of preserved materials would be a "fatal flaw."<sup>364</sup>

The key question, then, is not "should this be accessible?" but "when should this be accessible, in what way, and to whom?" Sometimes the rights of authors or other interested parties may caution against making preserved works immediately available to the public via the Internet, because of copyright or privacy considerations. At other times, immediate access may be appropriate, but perhaps only to select credentialed researchers, or only on the premises of the custodial institution. In general, some level of access appears to be a goal that all stakeholders in pre-1972 sound recordings can share.<sup>365</sup>

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<sup>362</sup> See Brylawski T1 at 51 ("But now as we compete for grants, as our institutions compete for grants with other institutions, those institutions that can provide access to their preserved materials are – we find are the ones that are getting funding. This was brought up in much of the oral testimony at the hearings in Los Angeles and New York that were conducted for the National Recording Preservation Board.").

<sup>363</sup> See <http://www.neh.gov/grants/guidelines/HCRR.html>, last visited Dec. 1, 2011.

<sup>364</sup> Phone conversation with Charles Kolb, Senior Program Officer, National Endowment for the Humanities, Division of Preservation and Access, Nov. 10, 2011.

<sup>365</sup> See RIAA/A2IM at 4 ("The RIAA and A2IM take great pride and care in the preservation of the recordings in their respective catalogs, and consider it a part of their civic responsibility to work on or assist with the preservation of and access to all historical recordings, whether of commercial interest or not").

## 2. Impact of Federalization upon Library and Archives Public Access Activities

### a. *Types of access expected*

When libraries, archives, and scholars speak of “access” it is not always clear whether they are referring to the entire spectrum of access, from on-premises only to posting on a website, or only to one or the other end of that spectrum. In the proceedings for this Report, some stated definitively that only physical reissues or downloads could meet the access needs of the scholarly community.<sup>366</sup> Others provided a range of access possibilities, from making digitized copies available to researchers and making copies for interlibrary loan, to creating digital exhibits and on-line curricula for independent learners.<sup>367</sup> In addressing public access, comments from the user community consistently asserted that they had no intention of impinging on commercial activity, which they conceded was the proper sphere of the record companies.<sup>368</sup>

### b. *Likelihood of increased public access*

Not every provision of public access to a work necessarily implicates an exclusive right. Nevertheless, most stakeholders from the user community maintained that federal protection would encourage the provision of public access.<sup>369</sup>

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<sup>366</sup> See Brooks T1 at 110-12 (“I would be skeptical of considering streaming with no right to actually use the source sound document as constituting availability. We can debate that, but I would question that. On the other hand, availability through something like iTunes or something where you could actually get your hands on the file and hold the file and use and study the audio file might [constitute availability].”); *but see* Starr-Gennett 7b at 2 (“Our goal as a not-for-profit educational institution is to interpret the contributions of Gennett Records partly by making digital versions of its recordings (as well as the actual records) available to researchers and by streaming the digital versions of the recordings to the general public through our own website or through arrangements with third parties.”).

<sup>367</sup> Harbeson T1 at 199-201.

<sup>368</sup> Loughney T1 at 203-04 (“It would be a real pressure valve to provide access without stepping on the rights of right holders or potential rights holders who might want to come in and relicense that material and reissue it, which I think is not our business and that’s your business, and we are happy to help you do it.”).

<sup>369</sup> See SAA at 5 (“Although the current provisions in Section 108, especially Sections 108(b) and 108(c), are inadequate at providing access in any meaningful way, the availability of provisions of Sections 108(d)

In copyright parlance, “access” can take the form of distribution (when a copy or phonorecord of a work is disseminated to the public “by sale or other transfer of ownership, or by rental, lease, or lending”)<sup>370</sup> or public performance (a limited right in the context of sound recordings, which extends only to public performances “by means of a digital audio transmission”).<sup>371</sup> Streaming, whether interactive or noninteractive, implicates the public performance right. The rights of distribution and public performance are exclusive rights of the copyright owner, although the public performance right for digital audio transmissions is subject to a statutory license for noninteractive transmissions.<sup>372</sup>

The distribution right is limited by section 109(a) of the Copyright Act (the “First Sale” exception),<sup>373</sup> which provides that the owner of any copy of a work may sell, lend, or otherwise dispose of it. This is the exception that allows libraries and used bookstores to operate without paying royalties to authors or other right holders – for instance, by lending copies of a CD. There is not, however, a federal exception expressly allowing libraries to publicly perform works over the Internet (*e.g.*, streaming).

Federalizing protection would make access to pre-1972 sound recordings through libraries lawful in many instances in which state law rules are unclear at best. To the degree that access is by means of an on-premises visit – for example, to listen to a non-digitized 78 or LP — federal protection would likely make little difference, since such listening has been going on for decades without any legal difficulties. If access involves listening to digitized sound recordings, such as by means of on-premises listening to an unpublished or replaced work copied under

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and 108(e) would provide a definite improvement in access to non-musical sound recordings for local and remote users”); MLA at 6.

<sup>370</sup> 17 U.S.C. § 106(3).

<sup>371</sup> 17 U.S.C. § 106(6).

<sup>372</sup> 17 U.S.C. § 114.

<sup>373</sup> 17 U.S.C. § 109(a).

section 108, then federal protection would certainly lead to (or at least make lawful) increased access. It would do so through the application of sections 108(b) and 108(c), which permit on-site access to copies made for preservation and replacement purposes. The same conclusion applies to certain uses of a sound recording in the last 20 years of its term of protection (section 108(h)), and to any uses that are legitimate under the fair use provision. These provisions would encourage the provision of public access, it was argued, by offering relatively clear and unambiguous exceptions that can be understood and implemented by libraries and archives.<sup>374</sup>

Additionally, federal protection might lead to increased access simply by virtue of putting pre-1972 sound recordings into the federal system. Once there, they will be eligible to benefit from any future changes to copyright law that may themselves directly affect public access, such as orphan works legislation or section 108 reform.

To the extent that federalization would result in some sound recordings entering the public domain before 2067 (discussed below in Chapter VI), access to those recordings would be substantially enhanced.

Much of the commentary from libraries and archives regarding public access under federal protection implicitly assumed that the fair use provision (section 107) would support greater public access.<sup>375</sup> The Office feels constrained to note, however, that unlike digital copying for preservation, as a general matter making protected works broadly available – particularly on the Internet – has a weaker claim to fair use since it risks undermining any current or future market for the work. Fair use does not ordinarily permit dissemination of a work in competition with the copyright owner or in ways that adversely affect the potential market for the work. On the other hand, fair use may permit a library, in appropriate circumstances, to make a

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<sup>374</sup> LOC at 5.

<sup>375</sup> *See, e.g.*, LOC at 5.

single copy of a copyrighted recording for a scholar or researcher even where the underlying work remains protected by copyright.

*c. Likelihood of decreased public access*

Some stakeholders argued that federal protection may lead to decreased rather than increased access to pre-1972 sound recordings.<sup>376</sup> Right holders argued that the tendency towards risk-aversion that currently restrains libraries and archives from using the gaps in state law to provide public access to their digitized works would operate in the same way under federal protection. They suggested that the uncertainty of fair use could further inhibit public access because it would hold users back.<sup>377</sup> “The better goal” than seeking federal protection, the right holders maintained,

is to encourage donation to public libraries and archives of master materials by record labels – large and small that cannot or are not able (for financial or other reasons) to preserve their own master materials – and to include access to such materials to the extent agreed upon. The same is true for bona fide record collectors and enthusiasts – of niche materials – to get more materials, especially rare cultural and historical materials, into public institutions, and ultimately to the general public.<sup>378</sup>

**D. Economic Impact on Right Holders**

The economic impact of federal protection on those who own the rights in pre-1972 sound recordings can be assessed in two ways. One way is to attempt to determine how federal protection will affect the value of pre-1972 sound recordings *per se*. That is, will the fact that a recording is protected by federal and not state law affect its worth in the marketplace? What aspects of federal protection will likely be most determinative? How does the nature of the effect change depending on what recording or group of recordings one is examining?

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<sup>376</sup> See RIAA/A2IM at 20-21; ARL/ALA at 4-6.

<sup>377</sup> RIAA/A2IM at 20-21.

<sup>378</sup> *Id.* at 21.

The second way of determining the economic impact of federal protection is to look at how federal protection might affect the settled business expectations of right holders. For example, if a contract is written with the expectation that state law will govern, what happens when the federal statute becomes the underlying law? Additionally, how would the federal rules governing initial ownership, transfer of ownership, termination of transfers and licenses, and registration affect a recording fixed under state law? The stakeholders had many views on these and related issues, which are set forth below.

### 1. Value of Pre-1972 Sound Recordings

The present value of pre-1972 sound recordings varies substantially. There is a small number (proportionate to the total number of sound recordings made) of commercial recordings that continue to prove remunerative to their owners, such as titles by Louis Armstrong, Bing Crosby, Frank Sinatra, Elvis Presley, and the Beach Boys, and record companies are continuing to reissue sound recordings for niche markets.<sup>379</sup> However, the vast majority of pre-1972 sound recordings are either unpublished (such as field recordings) or, if published, have ceased their commercial life.<sup>380</sup> In particular, scholars pointed to pre-1925 recordings, stating that “an average of fewer than 4% of historically important pre-1925 recordings have been reissued in any form by right holders, and the revenue from that 4% has to be tiny given the lack of marketing of such reissues.”<sup>381</sup> They also stated that

Fundamentally, older recordings that are still economically viable are nearly always those made within the lifespan of contemporary record buyers. This has been true throughout the history of the marketing of sound recordings.<sup>382</sup>

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<sup>379</sup> Bengloff T1 at 121-22.

<sup>380</sup> *See, e.g.*, SAA at 7.

<sup>381</sup> ARSC at 3.

<sup>382</sup> *Id.* at 4.

a. *Benefits and disadvantages of federal protection*

Stakeholders presented competing views of how federal protection would affect the economic value of pre-1972 sound recordings. Given that most pre-1972 sound recordings likely have little or no economic life at all, the discussion centered on commercially released recordings.

A primary concern about the economic effect of federal protection was the likelihood of early sound recordings entering the public domain, and thus becoming less profitable for their former right holders. ARSC maintained that right holders could still enjoy a modest income from selling public domain works, given that in many cases they would still own the master recordings and could lease these to reputable reissue labels.<sup>383</sup> ARSC also pointed out that public domain reissues could be useful in identifying recordings with unexpected commercial viability, which the former right holder could then exploit.<sup>384</sup> MLA cited the competitive trade in public domain books as evidence that earning money through works in the public domain is possible.<sup>385</sup> RIAA, however, disagreed, saying that once a recording is available for free downloads, with no copyright for the uploader or the distribution site to worry about, the business model for record companies is extinguished: “there is all but zero value to a record company in a public domain recording.”<sup>386</sup>

Some stakeholders also maintained that, while the entry of early sound recordings into the public domain might not redound to the profit of the (former) copyright owner, it could create economic value for third-party reissue labels.<sup>387</sup> Under this scenario, once libraries and archives

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<sup>383</sup> ARSC at 7.

<sup>384</sup> *See id.*

<sup>385</sup> Harbeson T1 at 179.

<sup>386</sup> Pariser T1 at 295.

<sup>387</sup> *See* MLA at 10 (“The commercial value of the recording and the commercial value to the current copyright holder are not the same thing. A copyright holder may, for lack of interest or knowledge, fail to exploit a work to its full commercial value. In such a case, the value to the owner would be less than the value of the recording. A measure of the commercial value of the recording should include not only the

preserve and make public domain sound recordings publicly accessible, such access will spur demand for consumer-ready packages of these recordings, which will help third-party labels<sup>388</sup> (as well as, one supposes, the “original” labels that chose to compete in this sphere).<sup>389</sup>

**b. *Effect of exclusive rights***

Federal protection would, for the first time, allow pre-1972 sound recordings to enjoy a defined set of unambiguous, though limited, exclusive rights. Specifically, the owner of a copyright in a sound recording enjoys the exclusive rights of reproduction, preparation of derivative works, distribution, and public performance via a digital audio transmission.<sup>390</sup> In contrast, the rights conferred by state law are typically either narrower or often ambiguous.<sup>391</sup> While some states’ civil statutes confer exclusive rights upon owners of copyrightable works,<sup>392</sup> most do not. The economic effect of these additional exclusive rights conferred by federal law is that their holders are granted monopoly power over certain actions, and can exercise this power to their financial benefit by selling copies of the recordings, or licensing the rights to make derivative works from the recordings.

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revenue it brings to the copyright holder, but all potential revenue that it could command.”); *see also* EFF at 12.

<sup>388</sup> *See* MLA at 10-11 (“bringing pre-1972 sound recordings under federal law best satisfies the Constitutional goals of copyright by insuring that as many lawfully-made recordings as possible are available to the public, whether it be through the marketplace or in libraries. Doing so can do no harm to the commercial viability of a recording; indeed, in some cases it may be beneficial by fostering renewed interest and demand.”).

<sup>389</sup> Harbeson T1 at 179.

<sup>390</sup> 17 U.S.C. § 106. The exclusive right of public display does not apply to sound recordings.

<sup>391</sup> *See supra*, Chapter II.E.

<sup>392</sup> CAL. CIV. CODE § 980(a)(2) (“The author of an original work of authorship consisting of a sound recording initially fixed prior to February 15, 1972, has an exclusive ownership therein until February 15, 2047, as against all persons except one who independently makes or duplicates another sound recording that does not directly or indirectly recapture the actual sounds fixed in such prior sound recording . . .”).

One notable aspect of federal protection that could well affect the value of pre-1972 sound recordings is the exclusive right “to perform the copyrighted work publicly by means of a digital audio transmission.”<sup>393</sup> This is the legal mechanism, along with section 114, that insures royalty payments (and, in cases falling outside section 114’s exceptions and its statutory license, exclusive rights) to owners of sound recordings that are publicly performed via the Internet or satellite radio. Like the rest of federal copyright law, the public performance right only applies to works protected by federal law. Thus, pre-1972 sound recordings that presently do not earn public performance royalties could become a significant revenue stream once incorporated into the federal statute.<sup>394</sup>

*c. “Long tail” effect on commercial prospects of older recordings*

A number of commenters, particularly ARSC, asserted that reissuing early (meaning, for the most part, acoustical-era) recordings is unlikely to be profitable. This point was made in the service of the argument that the movement of such early recordings into the public domain under federal protection would not negatively affect the record companies’ bottom line.<sup>395</sup> In response, members of the right holder community maintained that (1) there is no way to truly know what old music styles will become popular again, and (2) it is necessary to retain state protection until 2067 because the so-called “long tail” phenomenon suggests that these older works take longer to earn a return on their investment.<sup>396</sup>

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<sup>393</sup> 17 U.S.C. § 106(6).

<sup>394</sup> See Brylawski T1 at 174-75.

<sup>395</sup> See ARSC at 4.

<sup>396</sup> Bengloff T1 at 31, 33-34; see also Chris Anderson, *THE LONG TAIL: WHY THE FUTURE OF BUSINESS IS SELLING LESS OF MORE* (2006).

ASRC, citing to the Brooks Study findings that 4% of pre-1925 recordings have been reissued by right holders, with an increase to 12% for 1925-1939 recordings,<sup>397</sup> argued that these numbers showed that right holders historically have not put a lot of stock in the earning potential of early music reissues.<sup>398</sup> Both A2IM and NMPA made the point that one can never assume what will ultimately prove commercially viable, particularly for smaller labels catering to niche audiences,<sup>399</sup> and that it is too risky to base federal policy upon a presumption as to which pre-1972 sound recordings will have value in the future.<sup>400</sup>

Additionally, A2IM explained that under the “long tail” theory, a large number of heretofore-“niche” cultural products will earn as much as the small number of blockbuster works when viewed over a longer period of time, because it has become easier to exploit niche markets. Hence, it argued, pre-1972 sound recordings that would have been allowed to go out of print in the past are now being kept in the marketplace on the theory that they and their audience will find each other.<sup>401</sup> However, A2IM stated that bringing a high quality recording to market requires a financial investment, and in order for early recordings to earn the requisite return on investment they cannot be allowed to go into the public domain.<sup>402</sup>

## 2. Settled Expectations in Business Transactions

The second way in which federal protection might affect the economic value of pre-1972 sound recordings is by upsetting the settled business expectations of major sectors of the music

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<sup>397</sup> ARSC at 3.

<sup>398</sup> *See id.*

<sup>399</sup> Bengloff T1 at 121; Rosenthal T1 at 62-63.

<sup>400</sup> Rosenthal T1 at 62-63.

<sup>401</sup> Bengloff T1 at 31-34.

<sup>402</sup> *Id.* (“As technology changes, we have to go back and increase the number of kilobytes that are available so our music sounds like it should be sounding, be able to deliver it, bring it to market and a variety of other areas.”).

industry. Stakeholders had very different views on the degree to which settled business practices might be altered, as well as on what economic impact such alteration would cause. All of the commenting parties were united, however, in wanting the least possible amount of disturbance to the current record company business model. Contractual arrangements, ownership, transfer, termination, and registration were among the topics addressed.

**a. Existing contractual arrangements**

In their written comments, RIAA and A2IM pointed out that many of the pre-1972 sound recordings to which their members own the rights are licensed in both hard copy and in digital form through multiple contracts. These contracts are predicated upon state laws, and the right holders claimed that putting pre-1972 sound recordings under federal protection would “render many deals unclear (at best), make others more difficult to interpret, and would likely result in financial losses.”<sup>403</sup> The contents of entire catalogs, they warned, could be tied up in court, with the possibility that the recordings at issue would be withdrawn from public availability.<sup>404</sup> Beyond financially harming the recording industry and decreasing public access to pre-1972 sound recordings, RIAA also predicted that these complications would divert record companies from engaging in cooperative access programs with libraries and archives.<sup>405</sup>

In response to the expressed concerns about contract uncertainties, user groups stated that the contract issues “would continue to be resolved under state law as they had before” federal protection.

This raises an important point, that the degree to which contracts, as well as ownership, termination, and other matters discussed later in this Chapter are affected will be determined not

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<sup>403</sup> RIAA/A2IM at 31.

<sup>404</sup> Schwartz T1 at 23; *see also* Rosenthal T1 at 245-46.

<sup>405</sup> Schwartz T1 at 23.

by federal protection itself, but by the manner in which it is achieved – specifically, how federal copyright law will apply, and in what cases state laws would continue to control. These questions are addressed in detail in Chapter VI of this Report.

**b. *Ownership, including transfer, termination, and registration***

The RIAA and A2IM stressed in their written and oral comments the great degree to which questions of ownership (such as transfer and termination) and related responsibilities (such as registration) would be thrown into chaos upon the institution of federal protection for pre-1972 sound recordings. In other words,

all of the legal uncertainty and what we think would be litigation and other sorts of ways of sorting out how to deal with things like ownership and authorship and term and all that, it just detracts from the economic value of the rights.<sup>406</sup>

Recall that, when discussing preservation and access, libraries and archives were portrayed as overly risk-averse, and claimed they should not be forced to work under such legal uncertainty. In the discussion of how federal protection would affect ownership and related matters, the roles have switched, with record companies claiming they will be unfairly forced to face uncertainty, and user groups claiming that the cited risks being pointed out were overblown or nonexistent.

Regarding initial ownership (and it should be kept in mind that the following discussions will be expanded upon in Chapter VI), right holders expressed concern that what was clear under state laws would be unclear, or even invalidated, once ownership documents and chain of title were examined under federal law.<sup>407</sup> For example, it was noted that in some states ownership passes with the possession of the physical master recording, a situation that does not exist under federal law.<sup>408</sup> This conflict, warned the RIAA and A2IM, would lead to uncertainty and even

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<sup>406</sup> Chertkof T1 at 176-77.

<sup>407</sup> RIAA/A2IM at 26-27.

<sup>408</sup> RIAA/A2IM at 26; Feaster at 8-9.

litigation in the course of attempting to reconcile the state and federal standards.<sup>409</sup> Another ownership concern was related to “works-made-for-hire”: would a recording considered to be a work made for hire under state law at the time of its creation have to be reconsidered under the federal copyright law standards?<sup>410</sup> If such a reconsideration created a different ownership interest, how would this affect downstream contracts and licenses?<sup>411</sup> These conflicts, warned RIAA and A2IM, would lead to uncertainty and litigation in the course of attempting to reconcile the state and federal standards.<sup>412</sup>

The problems caused by differing interpretations of initial ownership would be compounded, according to the RIAA and A2IM, when considering transfer of title (how can you transfer if you do not know the owner?) and termination of transfers and licenses (when a deal is struck in the absence of a termination provision, is it fair to subsequently seek to terminate the transfer?).

Stakeholders representing users of pre-1972 sound recordings had varied responses to these right holders’ concerns. The SAA pointed out that a similar “federalization” of state-protected works (namely unpublished works) occurred by reason of section 301(a) of the Copyright Act of 1976, and that it was unaware of any cases involving such works that hinged upon state definitions of ownership.<sup>413</sup> SAA conceded, however, that determining whether or not a recording was a work made for hire would be difficult.<sup>414</sup> ARSC took another position on the work made for hire issue, saying that “early sound recordings were generally made under true

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<sup>409</sup> RIAA/A2IM at 27.

<sup>410</sup> *See id.* at 26.

<sup>411</sup> *See id.* at 24-25.

<sup>412</sup> RIAA/A2IM at 27.

<sup>413</sup> SAA at 7-8.

<sup>414</sup> *See id.* at 8.

employment conditions; these works would, therefore, qualify as works made for hire.”<sup>415</sup> ARSC also pointed out that, for commercial recordings, the vast majority of commercial recordings continue to be owned by a known entity, and that the real problem is in determining who owns orphan and unpublished works.<sup>416</sup> Finally, ARSC also asserted that ownership simply wouldn’t be affected by the advent of federal protection for pre-1972 sound recordings because

federal copyright in a pre-1972 sound recording would vest in the initial owner of the work as determined by the law of the state with the most significant relationship to the sound recordings and the parties, and no divestiture or transfer of rights would result.<sup>417</sup>

With respect to termination of transfers and licenses of rights in pre-1972 sound recordings, one stakeholder commented that even if federal protection applies, pre-1923 sound recordings should continue to be exempt from the termination provision on the grounds that termination in general is contrary to free-market principles.<sup>418</sup> Another disagreed, arguing that performers of pre-1972 sound recordings should enjoy the same right of termination that their post-1972 colleagues enjoy.<sup>419</sup>

Copyright registration was another issue that right holders raised. Timely registration is required to preserve a copyright holder’s ability to use the registration certificate as *prima facie* evidence of the validity of the copyright and the facts stated in the certificate.<sup>420</sup> Timely registration is also required for a copyright owner to be eligible for statutory damages and

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<sup>415</sup> ARSC Reply at 18.

<sup>416</sup> ARSC at 4-5.

<sup>417</sup> ARSC Reply at 13.

<sup>418</sup> Hoffman Reply at 1.

<sup>419</sup> Artist’s Reprieve Reply at 1-2.

<sup>420</sup> 17 USC § 410(c). The certificate has *prima facie* weight only if registration was made before or within five years after first publication of the work.

attorney's fees as the prevailing party in an infringement suit.<sup>421</sup> Under section 411 of the Copyright Act, a right holder may not sue for infringement of a U.S. work unless it first registers the work with the U.S. Copyright Office. While some right holders register only just before going to court, the preferred method is to register upon creation or publication,<sup>422</sup> which preserves the ability under section 412 to seek an award of statutory damages and attorney's fees. Obviously, no pre-1972 sound recordings have been registered, because federal copyright law does not apply to them. If federal protection applies, will registration become a problematic issue? A2IM noted that

To be able to defend your rights, you have to register your music. It would be a burden in terms of manpower, finances, and a variety of other ways for us to continue to protect our pre-1972 copyrights if they were federalized. A real cost burden.<sup>423</sup>

Alternatively, RIAA expressed concern that sudden imposition of a registration requirement would mean that pre-1972 sound recordings would be “devoid of effective remedies” under federal protection.<sup>424</sup> In response, ARSC said it would be “delighted” if federal protection produced a torrent of new sound recording registrations because it would “promote predictability and public access to these works, as well as aid in the preservation of historic recordings.”<sup>425</sup>

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<sup>421</sup> A prevailing plaintiff may seek an award of statutory damages and attorney's fees only if the infringed work was registered prior to the commencement of the infringement or within three months after first publication of the work. 17 U.S.C. § 412. Different rules apply to works that have been “preregistered” under section 408(f), but no pre-1972 sound recordings would qualify for preregistration. *See id.*

<sup>422</sup> Pariser T1 at 281.

<sup>423</sup> Bengloff T1 at 31.

<sup>424</sup> RIAA at 30.

<sup>425</sup> ARSC Reply at 18.

**c. *Potential for a decrease in availability of pre-1972 sound recordings as result of business burdens***

RIAA and A2IM warned that the burdens caused by a “protracted legislative process” could redirect their members’ resources away from cooperative preservation and access programs such as the Library of Congress’s National Jukebox.<sup>426</sup> They also raised the specter of “a freeze on availability of many pre-1972 sound recordings” due to difficulties in tracing ownership.<sup>427</sup> Finally, A2IM suggested that the costs of dealing with ownership issues and registration could mean “less and less investment” in indigenous American music of the sort that demonstrates “America’s cultural diversity and tradition.”<sup>428</sup>

Concerning the potential of a “freeze” on availability of pre-1972 sound recordings, ARSC pointed out that “even traditional categories of works prepared before 1978 require a case-by-case examination to determine the federal rights as of the date of preemption; the complete freeze suggested by the RIAA/A2IM has not resulted from such a requirement.”<sup>429</sup> The real source of scarce availability, ARSC said, is the confusion about which state laws apply and how to apply them.<sup>430</sup>

**D. Alternatives to Federalization**

Stakeholders were asked to address the possibility of bringing pre-1972 sound recordings under federal law only for limited purposes. The Notice of Inquiry noted that some stakeholders seek to ensure that current state law rights in pre-1972 sound recordings are subject to the fair use doctrine and the library and archives exceptions found in sections 107 and 108, respectively, of

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<sup>426</sup> RIAA/A2IM at 5.

<sup>427</sup> *Id.* at 27.

<sup>428</sup> Bengloff T1 at 31-34.

<sup>429</sup> ARSC Reply at 13.

<sup>430</sup> *See id.* at 14-15.

the Copyright Act. It also noted that some would like to subject pre-1972 sound recordings to the section 114 statutory license, but otherwise keep them within the protection of state law rather than federal copyright law. The Office received a variety of comments in response to the proposals referred to in the notice, as well as some new proposals for alternatives to federalization of pre-1972 sound recordings.

**1. Partial Federalization (e.g., only applying sections 107, 108 and/or 114)**

The Notice of Inquiry raised the possibility of bringing pre-1972 sound recordings under federal law only for limited purposes, *i.e.*, retaining state law protection for the recordings but subjecting them to the defenses provided by sections 107 and 108 of the Copyright Act and/or to the statutory license provided by section 114 of the Copyright Act.

**a. Sections 107 and 108**

Several parties, including SAA, LOC, RIAA and A2IM, expressed the view that partial federalization would be inappropriate. SAA offered that partial federalization would not resolve the current complexity that impedes preservation and access for pre-1972 sound recordings, but instead would merely add to the confusion and legal fees.<sup>431</sup> LOC agreed that partial federalization would lead to more confusion regarding the boundaries of federal and state protection.<sup>432</sup> RIAA and A2IM stated their belief that there are no advantages to providing partial federalization, and that overwhelming legal challenges would ensue.<sup>433</sup>

ARSC commented that partial federalization that simply applied the fair use doctrine and the library and archives exceptions found in sections 107 and 108 to currently held state rights in

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<sup>431</sup> SAA at 10-11.

<sup>432</sup> LOC at 12.

<sup>433</sup> RIAA/A2IM at 30-31.

pre-1972 sound recordings would be “extremely messy” in the real world. It added that such a proposal would unfairly privilege certain institutions, which did not fall within the section 108 criteria.<sup>434</sup> ARSC, while supporting full federalization, endorsed partial federalization to the extent necessary to ensure that First Amendment safeguards that are built into the current Copyright Act are applicable to pre-1972 sound recordings. In its view, without the fair use doctrine and the library and archives exceptions found in sections 107 and 108, state copyright laws regarding pre-1972 sound recordings could be subject to invalidation on Constitutional grounds.<sup>435</sup> MLA, while generally favoring complete federalization, reluctantly supported partial federalization over the *status quo*.<sup>436</sup>

**b. Section 114**

In 1995, Congress passed the Digital Performance Right in Sound Recordings Act of 1995 (“DPRA”)<sup>437</sup> which, for the first time, granted to copyright owners of sound recordings an exclusive right to make public performances of their works by means of certain digital audio transmissions, subject to a compulsory license for certain uses of these works codified in section 114 of title 17 of the United States Code. In the Digital Millennium Copyright Act of 1998 (“DMCA”),<sup>438</sup> Congress updated section 114 and expanded the scope of the compulsory license.

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<sup>434</sup> ARSC at 7. In its comment, ARSC identified organizations in Europe, where the “widespread availability of historical public domain recordings ... is precisely because *anyone* can make them available.” *Id.*

<sup>435</sup> ARSC Reply at 19-20. However, in its initial comment, ARSC observed that partial federalization that simply applied the fair use doctrine and the library and archives exceptions found in sections 107 and 108 to currently held state rights in pre-1972 sound recordings would be “extremely messy” in the real world. ARSC at 7.

<sup>436</sup> MLA at 15-16.

<sup>437</sup> Pub. L. No. 104-39, 109 Stat. 336 (1995).

<sup>438</sup> Pub. L. No. 105-304, 112 Stat. 2286 (1998). Section 112 of the Copyright Act, 17 U.S.C. § 112, was also amended to provide a statutory license for the making of certain “ephemeral” copies “used solely for the transmitting organization’s own transmissions originating in the United States” under the section 114

The result is that sound recordings are subject to a compulsory license for public performances by means of certain nonexempt, noninteractive digital subscription digital audio transmissions. All other public performances of sound recordings by means of certain digital audio transmissions, including interactive digital transmissions, are subject to an unfettered exclusive right.<sup>439</sup> The Office's Notice of Inquiry asked for input on the impact of bringing pre-1972 sound recordings into the section 114 statutory licensing mechanism, perhaps as an alternative to full federalization of protection for pre-1972 sound recordings.<sup>440</sup>

In its comments, SoundExchange stated that, while there is no need to completely federalize pre-1972 sound recordings, there would be a benefit to requiring statutory services to pay under the statutory license for pre-1972 sound recordings presently protected as a matter of state law. It estimated that pre-1972 sound recordings account for 10-15% of usage by services employing the section 114 license. It also observed that some services that publicly perform sound recordings by means of digital audio transmissions are already making statutory royalty payments under the section 114 license for pre-1972 sound recordings. It contended that such payments for public performance of pre-1972 sound recordings are appropriate, and that performances of pre-1972 sound recordings are subject to protection under state law, including a state law performance right.<sup>441</sup>

Both NAB and SiriusXM disputed SoundExchange's view that state law provides a public performance right in pre-1972 sound recordings.<sup>442</sup> NAB explained that SoundExchange was referring to statutory and case law that is designed to address bootlegging and establish

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statutory license. Because the section 112 statutory license and the section 114 statutory license go hand in hand, this Report shall not specifically discuss the section 112 license beyond this footnote.

<sup>439</sup> 17 U.S.C. § 114.

<sup>440</sup> Notice of Inquiry at 67780, 67781.

<sup>441</sup> SoundExchange at 4-6.

<sup>442</sup> SiriusXM Reply at 8-10; NAB Reply at 7-8.

reproduction and distribution rights and claims regarding unfair competition. It asserted that such law does not establish public performance rights.<sup>443</sup> SiriusXM added that requiring statutory services to pay under the statutory license for recordings currently protected under state law would provide an undeserved windfall for recordings created and paid for more than 40 years ago, at the expense of services like Sirius XM. It also noted that to the extent that any services are mistakenly making payments for public performance of pre-1972 sound recordings, that SoundExchange should not be accepting or distributing such payments.<sup>444</sup>

## 2. Limits on Remedies

At the public meeting, RIAA offered the concept of a registry containing data about pre-1972 sound recordings which libraries and archives sought to preserve and to which they sought to provide access.<sup>445</sup> This concept was also mentioned by Sony Music Entertainment, which suggested the possibility that libraries and archives could publicly state their intention to use certain identified works and have “some kind of potential immunity from litigation or prosecution or statutory damages.”<sup>446</sup> MLA expressed interest in the value of such a proposal, and at the same time agreed that many details would need to be addressed.<sup>447</sup>

In a discussion with the Office subsequent to the roundtable, the NMPA also raised the concept of limiting remedies for good-faith preservation and public access uses of pre-1972 sound recordings that are determined to be orphan works. As an alternative to a registry, NMPA suggested a requirement of due diligence in the user’s search for the owner of a pre-1972 sound

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<sup>443</sup> NAB Reply at 7-8.

<sup>444</sup> SiriusXM Reply at 5-6.

<sup>445</sup> Chertkof T1 at 153.

<sup>446</sup> Aronow T1 at 247-49.

<sup>447</sup> Harbeson T1 at 264.

recording, and suggested that the due diligence standard might vary according to the age of the work. Those who fulfilled the due diligence standard and used pre-1972 sound recordings that were therefore determined to be orphan works would be subject only to limited damages, perhaps only to injunctive relief.<sup>448</sup>

### 3. No Amendments to Federal Law, but Amendments to State Law Instead

At the public meeting, RIAA offered the possibility of amending state laws to provide explicitly that preservation copying and providing certain types of access for older sound recordings is permissible.<sup>449</sup> In response to this proposal, MLA raised concerns about the inevitable lack of uniformity that would result from pursuing legislative amendments to state laws to deal with what it perceives as a problem with broader scope. MLA noted that separate provisions in each state would require libraries and archives to operate in a manner that complied with the specifics of all, including the most restrictive, state provisions.<sup>450</sup> RIAA acknowledged MLA's concerns regarding uniformity, but suggested that amendments to state law were still a good way to begin to address libraries and archives' concerns.<sup>451</sup> It proposed that libraries, and archives and right holders work together to draft a model state law. It indicated that such a model state law could include "state fair use rights," and that the parties could jointly introduce it to the various state legislatures, beginning with the states that are already home to important preservation and archival facilities.<sup>452</sup>

The concept of a model state law received additional attention in a subsequent roundtable session. Tomas Lipinski of the School of Library and Information Science at Indiana University

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<sup>448</sup> Copyright Office meeting with NMPA (June 21, 2011).

<sup>449</sup> Schwartz T1 at 95-96.

<sup>450</sup> Harbeson T1 at 95-97.

<sup>451</sup> Schwartz T1 at 97.

<sup>452</sup> Chertkof T1 at 145-47.

suggested that approaching state law reforms in a manner similar to the Uniform Commercial Code could help address issues of uniformity in the accommodations provided to libraries and archives from one state to another. Mr. Lipinski acknowledged that the disadvantages of this approach would include the risk of non-adoption or variation, and the fact that some sound recordings would be covered by state law and some sound recordings would continue to be covered by federal law.<sup>453</sup> He also clarified that a model state law would need to establish fair use along the lines already established by federal case law.<sup>454</sup> Dwayne Buttler of University of Louisville acknowledged the value in a model state law approach, especially one that included fair use and accommodations such as those found in section 108. However, he also expressed concerns about accomplishing universal implementation of any model law.<sup>455</sup> ARL expressed its view that a model state law which filled in details regarding accommodations setting out fair use and other exceptions for libraries and archives would be a wonderful alternative to federalization.<sup>456</sup> While MLA reiterated its general opposition to solutions that fell short of full federalization, it also noted that state law reforms could help its members considerably, especially if such reforms included state fair use provisions.<sup>457</sup> RIAA reiterated its support for reforming state laws and expressed optimism about developing a dialogue and working relationship with libraries and archives that can address preservation of and access of pre-72 sound recordings.<sup>458</sup>

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<sup>453</sup> Lipinski T2 at 474-76.

<sup>454</sup> Lipinski T2 at 509.

<sup>455</sup> Buttler T2 at 481.

<sup>456</sup> Butler T2 at 482.

<sup>457</sup> Harbeson T2 at 477-78.

<sup>458</sup> Marks T2 at 485-87.

#### 4. No Amendments to Federal Law, but Use Private Agreements Instead

RIAA and A2IM pointed toward significant progress in the preservation of and access to pre-1972 sound recordings achieved through private two-party agreements, such as the National Jukebox and other private agreements with archives.<sup>459</sup> Sony Music Entertainment suggested that similar private agreements could yield further positive results and should be pursued in place of federalization.<sup>460</sup> Representatives of libraries and archives observed that private agreements, while laudable, are too limited in scope, since they address only those parties who enter into private relationships with right holders.<sup>461</sup>

In addition to private two-party agreements, RIAA raised the prospect of a third party entity, one that is not as risk-averse as libraries and archives, functioning as a clearinghouse that could provide digital access, in a manner similar to that provided by iTunes, to pre-1972 sound recordings for libraries and archives.<sup>462</sup> The Society for American Music (SAM) subsequently suggested the possibility of establishing a for-profit or non-profit trust that could receive donations or licenses from right holders that could be used to serve the preservation and access needs of libraries and archives.<sup>463</sup> MLA expressed concern with such a plan because of the poor quality of digital files for research purposes.<sup>464</sup>

In the public meeting, RIAA also introduced the notion of a consent-not-to-sue agreement that would be generally offered to libraries and archives for certain uses similar to those that would be included in a model state law.<sup>465</sup> While several libraries and archive groups

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<sup>459</sup> RIAA/A2IM at 16-17.

<sup>460</sup> Aronow T1 at 103-04.

<sup>461</sup> ARSC Reply at 3-4.

<sup>462</sup> Marks T2 at 488.

<sup>463</sup> Brylawski T2 at 499-500.

<sup>464</sup> Harbeson T2 at 503-04.

<sup>465</sup> Marks T2 at 488.

expressed interest in various private agreement models and a willingness to engage in further dialogue, the consent-not-to-sue proposal did not result in any specific positive or negative feedback from libraries and archive groups.

*Tape deck*

## V. DESIRABILITY OF FEDERALIZATION

While there are legitimate policy arguments on both sides of the question, the Copyright Office has determined that on balance, the better course of action is to bring pre-1972 sound recordings under federal jurisdiction.

When Congress abolished state common law copyright and brought almost all works of authorship within the scope of the federal copyright statute in the Copyright Act of 1976, it did so in order to substitute “a single Federal system for the present anachronistic, uncertain, impractical, and highly complicated dual system.” It concluded that “the bill would greatly improve the operation of the copyright law and would be much more effective in carrying out the basic constitutional aims of uniformity and the promotion of writing and scholarship.”<sup>466</sup>

Congress offered four reasons for abolishing the dual system: (1) to promote national uniformity and to avoid the practical difficulties of determining and enforcing an author’s rights under the differing laws and in the separate courts of the various States; (2) because “publication” no longer served as a clear and practical dividing line between common law and statutory protection; (3) to

<sup>466</sup> H. R. REP. NO. 94-1476, at 129 (1976).

implement the “limited Times” provision of the Copyright Clause, by abrogating the state law system of perpetual copyright for unpublished works; and (4) to “adopt a uniform national copyright system [that] would greatly improve international dealings in copyrighted material.”<sup>467</sup>

It is the first reason offered by Congress in 1976 that is most pertinent to whether pre-1972 sound recordings should be brought into the federal statutory scheme.<sup>468</sup> National uniformity of copyright law ensures that all users, consumers, intermediaries, and right holders are operating under a single, consistent set of laws. This has been the goal of copyright law since 1790, and federal protection for pre-1972 sound recordings would be the last step in making it a reality. A uniform national law also would ensure that all who operate under it would know what rights and exceptions apply to their activities.

National uniformity and clarity are particularly important in the digital era, when libraries and archives must reproduce works in order to preserve them and in many cases wish to make them publicly accessible by means of distribution of phonorecords or by transmissions of public performances. With a single set of applicable laws, even the most risk-averse institution can make informed decisions as to what laws and what exceptions apply to its activities.

Why Congress did not incorporate pre-1972 sound recordings into the federal statute in 1976 is an interesting question, but neither the stakeholders nor the Copyright Office have an answer to it. In fact, the reasons that compelled Congress to create a unitary federal copyright system in the 1976 Act justify inclusion of pre-1972 sound recordings in that federal system today. The policy considerations addressed above – certainty and consistency, preservation, public access, and avoiding economic harm – all fall on the side of seeking federal protection for pre-1972 sound recordings.

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<sup>467</sup> *Id.* at 129-30.

<sup>468</sup> However, reasons (3) and (4) are also applicable. Congress abrogated perpetual protection of pre-1972 sound recordings in the Copyright Act of 1976, but implementation of the recommendations set forth below would allow many of those works to enter the public domain before 2067. And bringing pre-1972 sound recordings into the federal statute will complete the process of adopting a national uniform copyright system, thereby facilitating international dealings in copyrighted material.

For those reasons, federalization should apply almost all parts of Title 17 to pre-1972 sound recordings, including for example section 106(6) (public performance right for digital audio transmissions), section 107 (fair use), section 108 (certain reproduction and distribution by libraries and archives), section 110 (exemption for certain performances and displays),<sup>469</sup> section 111 (statutory license for cable retransmission of primary transmissions), section 112 (ephemeral recordings), section 114 (statutory license for certain transmissions and exemptions for certain other transmissions), section 512 (safe harbor for Internet service providers), Chapter 10 (digital audio recording devices) and Chapter 12 (technological protection and copyright management information). Some parts of Title 17 will require modification to apply to pre-1972 sound recordings because the recordings were initially created, and in some cases exploited, outside the federal system.

To be clear, there are practical issues in implementing federalization, as noted by some stakeholders. However, the Office believes that those objections can be addressed. Likewise, while the Office appreciates the careful thought put into alternatives to federal protection, it finds that the proffered solutions would not go far enough to cure the difficulties caused by the current state-by-state regime.

#### **A. Certainty and Consistency in Copyright Law**

Both ARL and ALA have noted, and the Copyright Office agrees, that traditional library and archives activities are unlikely to violate state criminal sound recording piracy statutes. The Office, like the Section 108 Study Group, also believes that the section 108 exceptions for libraries and archives are out of date and should be updated.<sup>470</sup> However, these points do not compel the conclusion that the uncertainty of state law is preferable to federal protection. In fact,

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<sup>469</sup> Note, however, that most of the subsections of section 110 do not apply to sound recordings. Only sections 110(1), (2), and (5) apply to sound recordings, among other categories of works.

<sup>470</sup> See *supra* Chapter III.B.2.a.

the reluctance of many sound recording archivists and librarians to preserve and make accessible pre-1972 sound recordings in cases where state law does not explicitly prohibit acts of preservation leads to the opposite conclusion.

The permissible scope of activities in which libraries and archives can engage under state civil law is more ambiguous than under criminal law, due to the variations among the states and the lack of established copyright exceptions.<sup>471</sup> The possibility that a library's activities in one state might subject it to the laws of another state where the scope of protection is different – a significant risk when works are made available online – creates additional uncertainty. Such uncertainty unfairly favors those willing to test legal limits while disfavoring the risk-averse.

Federal protection would not eliminate the uncertainty, but it would equalize rights and exceptions that would be applicable to sound recordings of all vintages. Section 108(h) may be especially helpful: this provision offers a clear exception for libraries and archives to engage in reproduction or distribution activities “for preservation, scholarship, or research” in the last 20 years of the term of protection of any published work.<sup>472</sup> Given the concern that many commenters expressed regarding the length of copyright protection, this exception should prove quite helpful in providing broader access to many pre-1972 sound recordings.

RIAA and A2IM have asserted that federal protection will actually create more uncertainty for their member companies because of their long-standing reliance upon state law. The Office does not take this reliance lightly. However, (1) the member companies of RIAA and A2IM own but a small fraction of pre-1972 sound recordings (when non-commercial recordings are taken into account), and of these, but a small fraction appear to enjoy any degree of commercial viability, and (2) the record companies are presumably just as familiar with federal copyright law, given their post-1972 recordings, as with state law, and should be able to

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<sup>471</sup> It should be kept in mind that civil actions are much more likely than criminal prosecutions in the context of activities by libraries and archives.

<sup>472</sup> 17 U.S.C. § 108(h).

maneuver within the federal system. Additionally, one must weigh the *possibility* of uncertainty raised by RIAA and A2IM member companies under a federal system with the *actual* and *documented* uncertainty faced by libraries and archives under the multiple state systems. Finally, RIAA and A2IM raised the point that ownership of pre-1972 sound recordings may be difficult to resolve. Ownership challenges are real, but they can be addressed by stating that for all pre-1972 sound recordings newly brought into the federal system, the ownership on the day of enactment will be the same as the ownership on the day prior to enactment. (This would require a simple amendment to the Copyright Act and is further discussed below in Chapter VI.)

Most of the user groups who commented during the study stated that applying federal law would be, without more, a clear benefit simply from the perspective of providing consistent legal guidance. The Office agrees with this position, and believes that it conforms with the intent of Congress in 1976 when it sought to unify all kinds of copyrighted works (but one) under federal law. Moreover, once ensconced within the federal system, pre-1972 sound recordings will benefit from any changes made to Title 17 in the future, such as orphan works legislation or amendments to section 108.<sup>473</sup>

### **B. Promotion of Preservation and Appropriate Public Access**

The Office believes that preservation of and provision of access to pre-1972 sound recordings, as afforded by federal statutory exceptions to copyright law, would provide an important public benefit. This is particularly true given the fragile physical state of many such recordings and the inaccessibility of so much of the nation's audio heritage. The Office also credits the claims by libraries and archives that reliance upon federal exceptions will lead to more

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<sup>473</sup> These issues have seen considerable policy study and discussion in recent years and both are priorities of the U.S. Copyright Office. See *Priorities and Special Projects of the United States Copyright Office* at 7-8.

preservation and more public access, both from a structural (certainty and consistency of risk) and substantive (use of the section 108 and fair use exceptions) point of view.

As illustrated in Chapter IV, federal protection will likely save libraries and archives money and resources simply by virtue of providing a single source of law to consult when engaging in preservation or public access activities. Furthermore, the Office credits the argument that a legal advisor, such as a general counsel, will be more likely to approve a project that is consistent with federal norms that have been explicated in a statute and through litigation and commentary, rather than one based on uncertain or amorphous state law.<sup>474</sup>

A second structural element of federal copyright protection that is likely to encourage preservation and public access activities is the probability that if protection is federalized, some sound recordings will enter the public domain within the lifetime of today's practitioners. As explained below in Chapter VI.C., one key aspect of the Office's recommendations is that early sound recordings not available in the marketplace within a reasonable period after the effective date of legislation federalizing protection should enter the public domain at the end of a transition period. In addition, the terms of post-1923 works will expire – again, absent a showing of public availability – on the same schedule as other works of that vintage.

Substantively, the use of section 108 and the fair use exception should encourage more preservation and public access because they provide time-tested rules with which libraries and archives have experience. With respect to section 108, those rules offer specific safe harbors. And fair use offers the flexibility to address situations that do not meet the requirements of a section 108 provision but which nonetheless justify, under particular facts, an exemption from liability. One specific element of section 108 in particular should prove useful: the section 108(b) exception for making preservation copies of unpublished works. Because the majority of pre-1972 sound recordings are unpublished, risk-averse institutions with collections of such

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<sup>474</sup> See *supra* Chapter IV.C.2.a.

works would have clear legal guidance that digitizing for preservation and for deposit with other institutions under the terms of section 108(b) is a permissible activity.

“Access” is a term of art that itself raises complex questions of law and fact. As discussed above in Chapter IV.C, it can mean anything from making sound recordings available for on-premises listening to posting them online for downloading. Some commenters appeared to assume that federal protection, and fair use in particular, would necessarily permit the latter. In the Office’s view, federal protection would simply make providing public access to pre-1972 sound recordings subject to the same principles applicable to other categories of copyrighted works. In the case of sections 108 and 107, they may allow some limited online access, but they would not permit the mass posting of entire works on the Internet for unrestricted downloading or streaming.

The Office believes that all of these considerations are important. Moreover, they are as critical to access as they are to preservation. Federalization would allow preservation of and access to more pre-1972 sound recordings, as well as finally bringing all fixed works of authorship under a federal system. The key question addressed below is how to implement a federalization scheme without harming the economic interests of right holders.<sup>475</sup>

### **C. Avoiding Economic Harm to Right Holders**

In general, the Office believes that federalization along the lines proposed in this Report will not harm the reasonable economic interests of right holders because special provisions can be crafted to confirm ownership and term of protection. By “reasonable,” it should be understood that the Office seeks to preserve right holders’ ability to legitimately exploit economically viable

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<sup>475</sup> Bringing pre-1972 sound recordings into the federal system would also enhance access because online music services and satellite radio services operating under the section 114 statutory license would have clear authorization to make digital transmissions of public performances of those recordings.

assets, but not to prevent third parties from using pre-1972 sound recordings in ways consistent with federal copyright law.

Under a federal scheme, right holders will have their pre-1972 sound recordings subject to the same rights and exceptions as their post-1972 recordings, as well as the same provisions regarding damages and statutory licenses. Federal protection has largely developed in the United States because it is better for right holders, not worse, a fact supported by how strongly the recording industry fought for inclusion of sound recordings in the federal copyright law.<sup>476</sup> And just as users of protected sound recordings will benefit from any new exceptions and limitations Congress may enact in the future, so too will right holders enjoy additional rights that may develop, and in this case, additional rights that already exist in federal but not state law. The digital public performance right in section 106(6) is the prime example. This right is not explicit in state law and not yet recognized by any state courts but provides revenue for the owners of sound recordings under section 114.

Some right holders have suggested that, should early recordings go into the public domain before 2067, they would be deprived of anticipated revenue, even if such recordings have been commercially dormant for decades. This argument is based upon the “long tail” theory that the ability to keep works commercially available, and reach niche markets, allows the right holder to continue to earn revenue indefinitely. Certainly, the legitimate investments of right holders are important, but most of the recordings that would go into the public domain immediately upon (or soon after) federalization are so old, obscure, and poor-sounding to modern ears that they are mainly of interest to scholars and hobbyists, and would fail to earn a meaningful return on investment for a record company, particularly given the expense of preparing reissues that the RIAA and A2IM noted. History shows, in fact, that record companies have heretofore reissued

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<sup>476</sup> In fact, at least at times during the process that led to the general revision of the copyright law and the enactment of the Copyright Act of 1976, the recording industry supported bringing pre-1972 sound recordings into the federal statute. *See, e.g., Hearings on S. 597 Before the Subcomm. on Patents, Trademarks and Copyrights of the S. Comm. on the Judiciary, 90th Cong. at 519 (1<sup>st</sup> Sess. 1967) (Testimony of Clive Davis, CBS Records); see id. at 531-32 (Testimony of Henry Brief, RIAA).*

only a miniscule percentage of early recordings, presumably because it is not profitable to do so.<sup>477</sup>

Indeed, for pre-1925 (acoustical era) recordings, libraries and archives are well-situated to play a role in making available to scholars and enthusiasts those works that most record companies have elected not to reissue. While it is true that popular recordings remain popular longer (was any recording from the 1920s as popular in the 1960s as the Beatles, or the Rolling Stones, or Aretha Franklin, are today?), the likelihood of a profitable major label reissue of acoustical-era recordings appears vanishingly remote. Indeed, the fact that a work may enter the public domain while it is still earning money for its right holder is not necessarily a bad thing. As Professor Elizabeth Townsend Gard observed at the roundtable,

The [way the] system works is that you get a limited monopoly for a particular amount of time, and then when it's over, it goes into public domain. Even if it's making lots of money, it still goes into the public domain.<sup>478</sup>

Under this view, injecting into the public domain a work with earnings potential would not be contrary to copyright law and policy, but entirely consistent with it, even if the recording has some potential to earn a bit of money. The Office is aware that any federalization plan must be consistent not only with copyright law and policy, but also with the takings clause of the Fifth Amendment. That issue is explored below in Chapter VI.B.2.

#### **D. Appropriate Application of Section 114 License and the “Safe Harbors” of 17 U.S.C. § 512 and the Communications Decency Act**

The Copyright Office believes that all of the rights, limitations, and exceptions of Title 17 should apply to pre-1972 sound recordings, with the exception of certain sections dealing with

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<sup>477</sup> The Office's recommendation regarding term of protection for pre-1972 sound recordings – *see infra* Chapter VI.B.-C. – would allow right holders to retain copyright protection until 2067 for works that they keep reasonably available to the public until that date.

<sup>478</sup> Townsend Gard T2 at 430.

issues such as ownership, term of protection, and registration that should be specially modified to achieve the transition from state to federal law. Although some stakeholders, either at the roundtable or at separate meetings with Copyright Office staff, indicated some discomfort with the application of sections 114 and 512 of the Copyright Act to pre-1972 sound recordings, the Office concludes that both provisions should apply to pre-1972 sound recordings after federalization is effective. In contrast to sections 114 and 512, the Office does not believe the safe harbor of section 230(c) of the Communications Decency Act (“CDA”) should apply to digital transmissions of phonorecords or public performances of pre-1972 sound recordings. In any event, federalization would clarify the issue by subjecting the use of sound recordings to the safe harbor of section 512 rather than the broader CDA safe harbor.

### **1. Section 114**

In reviewing the potential application of section 114 to pre-1972 sound recordings, the Office believes that section 114’s statutory royalty requirements should apply to nonexempt, noninteractive digital transmissions of those recordings, thereby providing an additional revenue stream for older artists and works. It would also moot the question of whether state laws should provide a public performance right for pre-1972 sound recordings, a question for which diverse practices have emerged. That is, while some services operating under the section 114 license pay royalties for the transmission of public performances of pre-1972 sound recordings, others do not. It is not clear from the record whether those services pay royalties due to their reading of state law (or out of an abundance of caution due to the uncertainty as to what state law might require), because they do not realize that the rules may be different with respect to pre-1972 sound recordings, or because it is too difficult (or not cost-effective) to determine which sound recordings are not protected by federal copyright law and arguably do not require payment. With federalization of protection for pre-1972 sound recordings, all sound recordings would be treated the same for purposes of Section 114.

The Office thinks it is unreasonable for the age of a sound recording to dictate whether royalties are paid on public performances by means of digital audio transmissions, so long as copyright subsists in that sound recording. Bringing pre-1972 sound recordings within the scope of federal protection would subject them to the statutory license and provide online music services with an easy means to offer lawful public performances of those recordings while offering copyright owners and performers a reliable new source of income.

## 2. Section 512

The Office sees no reason – and none has been offered – why the section 512 “safe harbor” from liability for monetary and some injunctive relief should not apply to the use of pre-1972 sound recordings. The Office understands and is not unsympathetic to the fact that many copyright owners are dissatisfied with the way in which some courts have interpreted aspects of section 512. It may well be that in light of the quantitative and qualitative changes involving so-called “user-generated content” on the Internet as well as the practical difficulties, for both copyright owners and Internet service providers, of dealing with the unanticipated large volume of “take-down” notices generated in response to massive infringement on the Internet, Congress might want to take another look at section 512 to determine whether it requires updating or other refinements to reflect current conditions. To be clear, section 512 was innovative legislation when it was enacted in 1998 and the concept of providing safe harbors for certain good faith acts on the Internet remains a sound principle. The point for purposes of this Report is that there is no policy justification to exclude older sound recordings from section 512 or other future provisions of law to the extent other sound recordings – and for that matter other works of authorship – remain subject to its provisions.

One court has ruled that section 512 currently applies to pre-1972 sound recordings. However, the ruling in *Capitol Records, Inc. v. MP3tunes* was made on highly questionable

grounds.<sup>479</sup> The text of section 512(c) states that a “service provider shall not be liable for monetary relief, or, except as provided in subsection (j), for injunctive or other equitable relief, for infringement of copyright by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider” if the service provider complies with a number of requirements.<sup>480</sup> The court in *MP3tunes* stated that “[t]he text of the DMCA limits immunity for the ‘infringement of copyrights’ without drawing any distinction between federal and state law.”<sup>481</sup> The court in *MP3Tunes* made this determination despite the fact that section 301(c) states “[w]ith respect to sound recordings first fixed before February 15, 1972, any rights or remedies under the common law or statute of any State shall not be annulled or limited by this title until February 15, 2067.”<sup>482</sup> The court in *MP3Tunes* correctly observed that “section 301(c) does not prohibit all subsequent regulation of pre-1972 recordings.”<sup>483</sup> However, its conclusion that Congress did in fact subsequently regulate pre-1972 sound recordings in section 512(c) is difficult to square.

Section 512(c) does not include any provision explicitly limiting remedies available for owners of pre-1972 sound recordings. Instead, section 512(c) refers to “infringement of copyright”<sup>484</sup> which is defined in section 501(a) as the violation of “any of the exclusive rights of the copyright owner as provided by sections 106 through 122.”<sup>485</sup> The fact that the term “infringement of copyright” only refers to infringement of rights protected under title 17, and

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<sup>479</sup> *Capitol Records, Inc. v. MP3tunes, LLC*, \_\_\_ F.Supp.2d \_\_\_, 2011 U.S. Dist. LEXIS 93351, 2011 WL 5104616 (S.D.N.Y. Oct. 25, 2011).

<sup>480</sup> 17 U.S.C. § 512(c).

<sup>481</sup> *MP3tunes*, 2011 U.S. Dist. LEXIS 93351, at \*27.

<sup>482</sup> 17 U.S.C. § 301(c).

<sup>483</sup> *MP3tunes*, 2011 U.S. Dist. LEXIS 93351, at \*27.

<sup>484</sup> 17 U.S.C. § 512(c).

<sup>485</sup> 17 U.S.C. § 501(a).

does not include infringement of rights protected under common law or statute of any State, could not be more clear. The statute’s plain text reveals a narrow definition of “copyright infringement” which is buttressed by the language of section 301(c). The court in *MP3Tunes* concluded that such a narrow reading would be at variance with the policy of the DMCA as a whole and would “spawn legal uncertainty” and that therefore such an interpretation should be rejected. However, the court in *MP3Tunes* did not offer any evidence that Congress intended section 512(c) to apply to pre-1972 sound recordings.

The court in *MP3Tunes* not only ignored the plain text of the statute, it also ignored the general rule of statutory construction that exemptions from liability, such as those established in section 512(c), must be construed narrowly, “and any doubts must be resolved against the one asserting the exemption.”<sup>486</sup> Furthermore, the court’s interpretation of section 512(c) runs afoul of the “cardinal rule” of statutory construction that one section of a statute cannot be interpreted in a manner that implicitly repeals another section.<sup>487</sup> In light of these rules of statutory construction, any exemption of liability for violations of rights under the common law or statute of any State for pre-1972 sound recordings must be explicit in its intent to override the provisions of section 301(c).

The Office observes that numerous other limitations and exceptions in Title 17, including those in sections 107 and 108, are also express limitations on the right to recover for “infringement of copyright.”<sup>488</sup> Yet none of these exceptions in the federal copyright statute has ever been applied directly to any claims under state law. In short, it is for Congress, not the courts, to extend the Copyright Act to pre-1972 sound recordings, both with respect to the rights granted under the Act and the limitations on those rights (such as section 512) set forth in the Act.

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<sup>486</sup> *Tasini v. New York Times Co.*, 206 F.3d 161, 168 (2d Cir. 2000), *aff’d*, 533 U.S. 483 (2001).

<sup>487</sup> *Tennessee Valley Auth. v. Hill*, 437 U.S. 153, 189 (1978); *Auburn Hous. Auth. v. Martinez*, 277 F.3d 138, 145 (2d Cir. 2002).

<sup>488</sup> *See also* 17 U.S.C. §§ 110, 111(a), 112, 121(a), (c).

### 3. Application of the Communications Decency Act

The discussion concerning section 512 is related to another issue that was not raised in the Notice of Inquiry and comments or at the roundtable: whether the safe harbor of section 230(c) of the CDA applies to state law protection for pre-1972 sound recordings. Section 230(c) provides certain immunity from liability for providers and users of “interactive computer services” who publish information provided by others. Specifically, it states that “No provider or user of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information content provider.”<sup>489</sup> Concerning its effect on other laws, section 230(e) provides that no liability may be imposed under any state or local law that is inconsistent with section 230. In effect, section 230(e) provides blanket immunity from liability for providers and users of an “interactive computer service” who publish information provided by others. However, section 230(e)(2) of the CDA also provides that the law does not “limit or expand any law pertaining to intellectual property.”<sup>490</sup>

It is not settled whether the CDA limitations on liability apply to claims under state law that may arise from violation of the rights of owners of pre-1972 sound recordings, or whether such claims arise from a “law pertaining to intellectual property” and are thus outside the CDA liability limitations. The U.S. Court of Appeals for the Ninth Circuit, in *Perfect10, Inc. v CCBill, LLC*, held that the carve-out from the immunity provided in the CDA for laws pertaining to intellectual property applies only to federal intellectual property, and that therefore the CDA provides immunity for claims under state laws protecting intellectual property. The court stated that while the scope of federal intellectual property law is relatively well-established, state laws protecting “intellectual property” (including trademark, unfair competition, dilution, right of publicity and trade defamation) are by no means uniform. The court concluded that any

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<sup>489</sup> 47 U.S.C. § 230(c).

<sup>490</sup> 47 U.S.C. § 230(e)(2).

interpretation of the CDA that failed to immunize Internet service providers from claims arising under these diverse state laws would undermine Congress's goal of fostering the development of the Internet.<sup>491</sup>

Several other courts have declined to follow the reasoning of the Ninth Circuit in *Perfect10 v CCBill*, concluding instead that the CDA provides no immunity from claims under state laws protecting intellectual property.<sup>492</sup> In *Doe v. Friendfinder Network, Inc.*, the District Court for the District of New Hampshire noted that prior to the *Perfect 10* decision, the general consensus was that the CDA did not shield service providers from state intellectual property law.<sup>493</sup> Both the *Friendfinder Network* decision and *Atlantic Recording Corp. v. Project Playlist, Inc.* criticized the Ninth Circuit's failure to analyze the text of the statute.<sup>494</sup> The *Project Playlist* decision noted that the approach taken in *Perfect 10 v. CCBill LLC* appeared to be inconsistent with Ninth Circuit precedent governing statutory interpretation.<sup>495</sup> The courts in both *Project Playlist* and *Friendfinder Network* found that the language of the statute itself does not suggest that the carve-out from immunity in the CDA applies solely to federal intellectual property law, noting that Congress's use of the modifier "any" in setting forth which laws pertaining to intellectual property were to be carved out from the CDA immunity provisions does not suggest a limitation to federal intellectual property law. On the contrary, the modifier "any" constitutes expansive language and there is no indication that Congress intended a limiting construction.<sup>496</sup>

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<sup>491</sup> *Perfect 10, Inc. v. CCBill LLC*, 488 F.3d 1102, 1118-19 (9th Cir. 2007).

<sup>492</sup> See, e.g., *Universal Commun. Sys. v. Lycos, Inc.*, 478 F.3d 413 (1st Cir. 2007); *Atlantic Recording Corp. v. Project Playlist, Inc.*, 603 F. Supp. 2d 690 (S.D.N.Y. 2009); *Doe v. Friendfinder Network, Inc.*, 540 F. Supp. 2d 288 (D.N.H. 2008).

<sup>493</sup> See *Friendfinder Network, Inc.*, 540 F. Supp. 2d at 301-02 .

<sup>494</sup> See *id.*; *Project Playlist, Inc.*, 603 F. Supp. 2d at 703.

<sup>495</sup> See *Project Playlist, Inc.*, 603 F. Supp. 2d at 703.

<sup>496</sup> See *id.*; *Friendfinder Network, Inc.*, 540 F. Supp. 2d at 301-02.

No stakeholders specifically addressed the possible application of the CDA to the state law protection of pre-1972 sound recordings. However, there is little question that if pre-1972 sound recordings were brought under federal law, they would be excluded from the CDA. And as a matter of policy, that is the correct result. Congress properly determined that Internet service providers should not receive the CDA's more comprehensive immunity with respect to infringement of copyrighted works, but should be subject to the more limited safe harbor of section 501. Pre-1972 sound recordings should be treated no differently in this respect than post-1972 sound recordings, or any other works of authorship.

#### **E. Alternatives to Federal Protection**

The Copyright Office appreciates stakeholders' efforts to devise ways to encourage preservation and public access to pre-1972 sound recordings without amending the Copyright Act. Those suggestions include "partial federalization" – *i.e.*, applying only selected portions of federal copyright law to pre-1972 sound recordings, limiting remedies for infringement of orphan works, reforming the existing state laws governing pre-1972 sound recordings, confirming that the fair use defense is applicable to claims of violation of state laws protecting sound recordings – and negotiated agreements between record companies and libraries. However, each of the suggested alternatives falls short of federalization in terms of promoting legal uniformity, preservation, and public access.

The Office agrees with those stakeholders who opposed the concept of "partial federalization," or only applying sections 107 and 108 to pre-1972 sound recordings. Such an approach would only increase confusion regarding what parts of pre-1972 sound recording protection are governed by state law and what parts fall under federal law. This result would not promote clarity and consistency. Moreover, the Office sees no benefit in retaining state law rules for all aspects of protection for pre-1972 sound recordings other than certain selected exceptions

and limitations. Pre-1972 sound recordings should either be part of the federal statutory scheme or they should not be part of that scheme.

Regarding the proposal of limiting remedies for good-faith preservation and public access uses of pre-1972 sound recordings that are also orphan works,<sup>497</sup> the Office agrees that an orphan works provision would be a valuable addition to federalization, but it is not a substitute. An approach consisting only of limiting remedies for this group of works would leave too many non-orphan works unaddressed, and would, like partial federalization, increase confusion as to where to draw the line between federal and state protection.

Reforming state laws rather than amending federal copyright law is simply impractical, given the effort and uncertainty involved in trying to obtain consistent statutory reforms in all fifty states. Such an endeavor would be time-consuming and expensive, and achieving uniformity is highly unlikely. Moreover, even if uniformity in state statutory law were achieved, there would be no way to ensure uniformity in the decisions of the courts of all fifty states.<sup>498</sup> Additionally, only one state would have to reject a proposed model law for the purpose of the project to falter. Finally, given the Office's strong belief that the correct policy choice is to unify all copyright law under *federal* control, a state-by-state approach would be a major step in the wrong direction.

ALA and ARL have requested that the Office “confir[m] the availability of a flexible fair use doctrine under state law in all 50 states.”<sup>499</sup> Given that we are aware of only a single state court case – from a trial court – that has actually applied fair use to a common law copyright

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<sup>497</sup> See *supra* Chapter IV.E.2.

<sup>498</sup> While it is true that various federal district courts and courts of appeals may interpret federal laws differently, the Supreme Court ultimately can resolve those differences. But the Supreme Court has no power to resolve issues of state law, even in cases where the laws of all states are identical.

<sup>499</sup> ARL/ALA Reply at 1.

claim,<sup>500</sup> that is a rather ambitious request. Of course, the Copyright Office has no authority to confirm the substance of state law. Nonetheless, the Office believes that, under proper facts, it is likely that any state court would find that fair use is a defense that can be considered and applied under principles of state common law copyright. Note, however, that traditionally fair use was not available for unpublished works<sup>501</sup> – and for the most part state common law copyright has protected only unpublished works. But at least with respect to commercially distributed sound recordings, arguments based on the unpublished nature of a work are not very persuasive. Moreover, because fair use is a judge-made doctrine (merely codified after the fact in the Copyright Act of 1976), there is no reason to believe that state courts considering common law copyright claims would not find that the defense does exist under appropriate circumstances.

As noted above,<sup>502</sup> common law copyright is not the primary means by which pre-1972 sound recordings are protected under state law. The states more frequently protect those recordings under theories of unfair competition, which typically do not include a fair use defense, and through statutes that include no such defense.<sup>503</sup> However, some courts have constructed analogous defenses to torts separate from but similar to copyright.<sup>504</sup> It seems likely that in any case in which an action by a library or archives would be considered a fair use under federal copyright law, it would also likely be considered permissible under state law.

Finally, the Office applauds the recent agreements between record companies and the Library of Congress. Such agreements, however, should take place against the backdrop of

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<sup>500</sup> *EMI Records*, *supra* note 140.

<sup>501</sup> *See Harper & Row Publishers Inc. v. Nation Enterprises*, 471 U.S. 539 (1985); *EMI Records*, *supra* note 140.

<sup>502</sup> Chapter II.E.3.

<sup>503</sup> However, as discussed above, many activities that would qualify as fair use under federal law may not even be embraced in the tort. *See id.*

<sup>504</sup> *See, e.g., Comedy III Prods. v. Gary Saderup, Inc.*, 25 Cal.4th 387, 408, 21 P.3d 797, 106 Cal.Rptr.2d 126 (2001) (recognizing a modified fair use defense to a claim of violation of the right of publicity).

*federal* protection of all sound recordings, so that federal copyright exceptions can facilitate reasonable uses of recordings that are not covered by a use agreement.



*Wire recorder*

## **VI. MEANS OF BRINGING PRE-1972 SOUND RECORDINGS UNDER FEDERAL JURISDICTION**

It is not enough to conclude that pre-1972 sound recordings should be protected under federal copyright law. A number of decisions must be made with respect to how they are brought into the federal system, including issues involving ownership, term of protection, and registration. Indeed, an understanding of how these issues are to be addressed is crucial not only to determining whether it is feasible to federalize protection, but also to determining how to do so.

### **A. Ownership**

The Notice of Inquiry identified ownership of rights in pre-1972 sound recordings as a key issue. The Office sought information about how the various state law principles regarding

ownership of sound recordings compare with principles of copyright ownership under federal law. In particular, it requested information on the relevant state law principles of authorship and initial ownership, and how they compare with those of federal copyright law. This inquiry included issues surrounding application of work made for hire principles under state law. It also sought information on the relevant state law principles concerning transfers and how they compare with those under federal law. As discussed above, the Office also expressed a desire for input on how ownership issues might affect termination and reversion rights that are available to works under federal law.<sup>505</sup>

### **1. Determining Ownership**

Under federal law, the owner of rights in a sound recording will generally be, in the first instance, the performer(s) whose performance is recorded, the producer of the recording, or both. In addition, many sound recordings qualify as works made for hire under the Copyright Act of 1976, either because they are works prepared by employees in the scope of their employment, or because they were specially ordered or commissioned, the parties agreed in writing that the works would be works made for hire, and the works fall within one of nine specific categories of works eligible to be commissioned works made for hire.<sup>506</sup> If a work qualifies as a work made for hire, it is the employer or commissioning party who is the legal author and initial right holder, rather than the individual creator of the work.<sup>507</sup> Under the 1909 Act, the courts recognized the work for hire doctrine with respect to works created by employees in the course of their employment, and particularly from the mid-1960s on, they recognized commissioned works made for hire, under such standards as whether the work was created at the hiring party's "instance and expense" or

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<sup>505</sup> See *supra* Chapter IV.D.2.b.

<sup>506</sup> 17 U.S.C. § 101.

<sup>507</sup> The parties may agree otherwise in a signed writing. 17 U.S.C. § 201(b).

whether the hiring party had the “right to control” or exercised “actual control” over the creation of the work.<sup>508</sup> The Office sought information about the extent to which laws of the various states recognize the work made for hire doctrine with respect to sound recordings and, if so, the extent to which state laws differ from federal law.

Under federal copyright law, ownership of rights is distinct from ownership of the material object in which the copyrighted work is embodied. Transferring ownership of such an object – including the “original,” *i.e.*, the copy or phonorecord in which the copyrighted work was first fixed – does not convey rights in the copyright.<sup>509</sup> A transfer of copyright ownership must be made in a writing signed by the owner of the rights or by his or her authorized agent.<sup>510</sup> In contrast, some state laws provide (or for a period of time provided) that transferring the original copy of a work could operate as a transfer of copyright ownership, unless the right holder specifically reserved the copyright rights. This principle is sometimes referred to as the “Pushman doctrine” for one of the earliest cases in which it was applied.<sup>511</sup> The Office sought information about the extent to which such state law principles have been applied with respect to “master recordings” and how, if at all, they would affect who would own the federal statutory rights if pre-1972 sound recordings were brought under federal law.

**a. *State vs. federal ownership rules***

In their comments and at the roundtable, RIAA and A2IM cautioned that perhaps the most troublesome issue for federal copyright protection for pre-1972 sound recordings would be how to effectuate a transition of the rules regarding the vesting of ownership from existing state

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<sup>508</sup> See NIMMER ON COPYRIGHT § 5.03 (2011).

<sup>509</sup> 17 U.S.C. § 202.

<sup>510</sup> 17 U.S.C. § 204(a).

<sup>511</sup> *Pushman v. New York Graphic Soc’y, Inc.*, 287 N.Y. 302, 39 N.E.2d 249 (1942).

laws to federal law. They acknowledged that there is precedent for bringing works that are already in existence under federal copyright law at a later time. For example, the URAA restored copyright protection to certain works previously in the public domain (including foreign sound recordings). However, they noted that the URAA provisions restored ownership under federal law and vested it “initially in the author or initial rightholder of the work as determined by the law of the source country of the work.”<sup>512</sup> They pointed out that the question of “changing” ownership of rights from one party to another was not at issue under the URAA, but that it might become contentious in the case of federalized protection for pre-1972 sound recordings.<sup>513</sup>

RIAA and A2IM noted that if current federal law were applicable to pre-1972 sound recordings, vesting of initial ownership would have to be determined on a case-by-case basis. They predicted that such inquiries would require looking at the circumstances under which each recording originated to determine the owner (including, for example, to determine whether the work might be a work made for hire, or one jointly owned by the performers, producers and others). RIAA and A2IM noted that transfers, assignments, other contracts and corporate mergers would raise additional ownership questions. They remarked that the existing rights, remedies, licenses, representations and warranties and other provisions in contracts and licenses could be called into question. They suggested that such costly inquiries would be “ripe [sic] with errors, challenges and litigation,” which would likely result in a complete freeze on the availability of many pre-1972 sound recordings.<sup>514</sup>

RIAA and A2IM conceded that there is some, albeit very limited, precedent for dealing with existing contractual obligations that are changed by later provisions in title 17. They suggested that section 104A(f) could provide guidance on how to address contractual liability

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<sup>512</sup> RIAA/A2IM at 24 (citing 17 U.S.C. § 104A).

<sup>513</sup> RIAA/A2IM at 24-27; RIAA/A2IM Reply at 3-4.

<sup>514</sup> RIAA/A2IM at 27.

arising from new federal copyright protections for pre-1972 U.S. sound recordings. That section provides immunity to any person who had, prior to the effective date of restoration of copyright under the URAA, warranted, promised or guaranteed that a work did not violate an exclusive right granted in 17 U.S.C. § 106, under the assumption that the work was in the public domain.<sup>515</sup>

They suggested that similar provisions could be adopted, but thought that this would be a minor fix for a major problem – the uncertainties brought on for the many existing contractual relations, chains of title, rights and remedies for existing uses, licenses and the like.<sup>516</sup>

RIAA and A2IM pointed out that the system of state statutes and common law governing pre-1972 sound recordings vests a variety of rights, sometimes to different right holders than those who would be copyright owners under current federal law.<sup>517</sup> They acknowledged that the current system may be complex, but also noted that there have been decades of litigation and precedent to resolve ownership issues under the various state laws. They remarked that the existing system is understood and has been relied upon by the music industry and related industries for a century. RIAA and A2IM suggested that if this existing system were suddenly replaced by a new federal regime, the transition to new laws from these state law schemes for each sound recording would be an administrative nightmare.<sup>518</sup> A2IM noted that this would include the cost of updating ownership metadata, which is routinely relied upon in today's marketplace.<sup>519</sup>

At the roundtable, NMPA said that several of the concerns raised by RIAA and A2IM are shared by music publishers. It asserted that any changes in ownership of sound recordings could require publishers to change information in their databases “relating to old recordings right across

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<sup>515</sup> *See id.* at 32 (citing 17 U.S.C. § 104A(f)).

<sup>516</sup> *See id.* at 31-32.

<sup>517</sup> *See id.* at 26 (citing BESEK, COMMERCIAL SOUND RECORDINGS STUDY); Schwartz T1 at 25.

<sup>518</sup> RIAA/A2IM at 24-27.

<sup>519</sup> Bengloff T1 at 291.

the board,” requiring publishers to devote resources to address the costs of updating their records. NMPA added that uncertainty regarding ownership would be problematic for music publishers’ ability to promptly receive revenue for the use of their musical works by owners of sound recordings.<sup>520</sup>

ARSC disputed the detrimental effects claimed by RIAA and A2IM. It asserted that state law would continue to govern prior contracts and that ownership would therefore remain the same under federal protection for pre-1972 recordings. It also asserted that the standard term for recording agreements, including standard agreements used by owners of sound recordings to grant master use licenses, is limited in duration, and the term of federal copyright duration would generally extend well beyond the term of current contracts.<sup>521</sup>

ARSC pointed out that RIAA and A2IM failed to offer examples of contracts regarding pre-1972 sound recordings that would be undermined by federal protection. It added that even if such a case did arise, RIAA and A2IM correctly observed that the URAA safeguards in section 104A could provide a model for addressing such issues. ARSC also countered RIAA and A2IM statements that issues of initial ownership would be complicated by federalization. ARSC noted that ownership is not a particularly difficult question for commercial pre-1972 sound recordings, because virtually all such recordings were produced as works made for hire, and are now claimed by corporations rather than by individuals, a point which was also made independently by Patrick Feaster.<sup>522</sup> ARSC suggested that any new federal legislation for pre-1972 recordings should

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<sup>520</sup> Rosenthal T1 at 60-61, 86-87.

<sup>521</sup> ARSC at 4; ARSC Reply at 21 (citing legal practice guides, e.g., *Recording Agreements*, in 8 ENTERTAINMENT INDUSTRY CONTRACTS (Donald C. Farber & Peter A. Cross eds., 2008) (advising that the term of engagement “can range from a few hours to several years”) and Bonnie Greenberg, *Master Use Licenses*, in 9 ENTERTAINMENT INDUSTRY CONTRACTS (Donald C. Farber & Peter A. Cross eds., 2008) (estimating a term of five years for the use of a sound recording on network television versus three years for exploitation on cable television).

<sup>522</sup> ARSC at 4; Feaster at 8-13.

clearly indicate the source law governing the question of whether a work qualifies as a work made for hire.<sup>523</sup>

In response to the statement by RIAA and A2IM that evaluating ownership under federalization would require costly case-by-case analysis, which would diminish the availability of many pre-1972 recordings, ARSC pointed out that ownership of already-existing works other than sound recordings under the 1976 Act is determined as of the effective date of the Copyright Act (*i.e.*, ownership is based on the *status quo* that existed just prior to the effective date), and not by retrospective application of the Copyright Act to the date the works were created.<sup>524</sup> ARSC suggested that similar treatment could easily be implemented for any federalization of pre-1972 recordings. ARSC noted that although neither federal nor state rights in sound recordings were created under the 1909 Copyright Act, by analogy, prior state law could apply for pre-1972 recordings. Furthermore, it offered that even traditional categories of works prepared before 1978 require a case-by-case examination to determine the federal rights as of the date of preemption, and that no diminished availability of such works has been attributed to such analysis.<sup>525</sup>

The Starr-Gennett Foundation addressed the difficulty of case-by-case analysis of ownership by pointing out the challenges in determining both the facts surrounding creation of works as well as in the application of various state laws regarding transfers and corporate mergers. It suggested that federalization could ease the impact of current questions regarding ownership status of pre-1972 recordings, implying that federalization would mean that ownership would be determined under federal law.<sup>526</sup>

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<sup>523</sup> ARSC Reply at 13-15.

<sup>524</sup> *Id.* at 13-14.

<sup>525</sup> *Id.*

<sup>526</sup> Starr-Gennett Foundation 7b at 3.

**b. *Effect of rule in some states equating physical ownership of master with ownership of all rights***

ARSC stated that it is unaware of state cases that have invoked the Pushman doctrine, equating ownership of the original master recording with ownership of the sound recording. However, ARSC went on to note that a correspondent to the ARSC Journal raised this question in 2006, citing specific statutes of Connecticut, Georgia, Hawaii, Illinois, Alabama, Alaska, Arizona and California that indicate those states recognize some version of this principle. ARSC also acknowledged that it is theoretically possible that courts could apply the principle.<sup>527</sup>

Patrick Feaster provided an explanation of the historical methods of creation and duplication of pre-1972 sound recordings. This history provided information about the reasons why many state statutes concerning pre-1972 sound recordings equate ownership of the original master recording with ownership of the sound recording. Feaster noted that some sound recordings never had masters because they were never intended for mass duplication. He also pointed out that many masters were destroyed, yet duplicates survive. He suggested that federalization should include a requirement that owners be required to demonstrate ownership of a physical master as a condition to bringing a copyright claim.<sup>528</sup>

RIAA and A2IM stated that the Pushman doctrine applied to master recordings, at least in some states, and noted that federalization would pose difficulty and increased costs for investigations of chain of title.<sup>529</sup>

**c. *Termination***

Regarding the possibility of termination rights under a federal regime for protection of pre-1972 sound recordings, RIAA and A2IM stated that any uncertainty as to the initial and

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<sup>527</sup> ARSC at 4 (citing ARSC JOURNAL, Fall 2006 at 211-12).

<sup>528</sup> Feaster at 8-13.

<sup>529</sup> RIAA/A2IM at 27-28.

subsequent ownership (and authorship) of a sound recording would be exacerbated by the difficulty in addressing issues such as who, if anyone, had or has the ability to terminate any grant, how to treat joint author scenarios, and when and under what circumstances, if at all, works would be eligible for termination.<sup>530</sup>

Ivan Hoffman stated that any federalization of pre-1972 sound recordings should continue to exempt those recordings from the termination of transfer provisions. He noted that as of now, pre-1972 sound recordings are not subject to termination of transfer provisions and recommended against expanding such provisions to the detriment of current owners.<sup>531</sup>

Artist's Reprieve commented that termination of transfer provisions should extend to federalized pre-1972 sound recordings. It suggested that failure to provide such provisions may result in age discrimination against older artists as a direct result of a federal statute that grants federal copyrights (and permits copyright terminations) to younger artists who recorded post-1978.<sup>532</sup> The Office also heard informally from other representatives of recording artists from the pre-1972 era who pointed out the inequity of depriving them of termination rights enjoyed by those who performed on post-1972 sound recordings.

## 2. Recommendation

The concerns raised by RIAA, A2IM and NMPA deserve serious consideration. However, these concerns are based on the assumption that federalization would occur by incorporating pre-1972 sound recordings into the existing framework of the Copyright Act, without any modifications or accommodations. It appears that the copyright owners' concerns regarding ownership can be addressed by adopting a rule along the lines of ARSC's proposal, providing that ownership of newly federalized pre-1972 sound recordings should be determined

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<sup>530</sup> *See id.* at 29.

<sup>531</sup> Hoffman T1 at 228-33.

<sup>532</sup> Artist's Reprieve Reply at 1-2.

not by applying existing federal law retrospectively, but by applying state law as it exists as of the effective date of federalization. That is, whoever owned the rights immediately before pre-1972 sound recordings are given federal protection would own those rights when federal protection takes effect.

Determining ownership of pre-1972 sound recordings by deferring to the ownership as of the effective date of federalization would avoid creating new questions regarding ownership but instead would preserve the *status quo*, including any disputes regarding ownership that may or may not exist at the time of enactment. Following this path would prevent the imposition of undue administrative costs or the predicted freeze on the availability of many pre-1972 sound recordings. Determinations of initial ownership would be controlled by existing state laws, including the application of work for hire principles and the Pushman doctrine where it applies, as the rules in existence at the time of transfers and assignments that took place prior to federalization.

Termination rights pose a more difficult question. As both the House and Senate Reports on the Copyright Act of 1976 stated, termination provisions were included in the 1976 Act “because of the unequal bargaining position of authors, resulting in part from the impossibility of determining a work’s value until it has been exploited.”<sup>533</sup> The Office has long recognized that “[s]ince authors are often in a relatively poor bargaining position \* \* \* some other provision should be made to permit them to renegotiate their transfers that do not give them a reasonable share of the economic return from their works.”<sup>534</sup> As a general matter, the Office strongly supports termination rights as a means to give authors the opportunity to recapture the value of their authorship years after they have assigned the rights.

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<sup>533</sup> H.R. REP. NO. 94-1476, at 124 (1976); S. REP. NO. 94-473, at 108 (1975).

<sup>534</sup> See *Report of the Register of Copyrights on the General Revision of U.S. Copyright Law* 92 (1961).

However, to recognize termination rights for grants of copyright transfers or licenses that were made prior to the enactment of a statute granting federal copyrights would be unprecedented and would raise significant concerns relating to retroactive legislation and possible takings.<sup>535</sup> Because of those concerns, the Office is reluctant to recommend that termination rights should apply to any grants that have already been made with respect to pre-1972 sound recordings.<sup>536</sup> However, the termination right in section 203 should be applicable with respect to any grants made by authors after the effective date of any legislation that federalizes protection of pre-1972 sound recordings. In such cases, there could be no concerns about retroactivity or takings, since any post-effective date grants would be subject to the law in existence at that time. Addressing termination in this fashion would preserve the expectations of all parties with respect to pre-federalization grants.

### **B. Term of Protection**

The Notice of Inquiry identified the term of protection for pre-1972 sound recordings and related constitutional considerations as key issues. The Office sought information about how federal law regarding term of protection should apply to pre-1972 sound recordings. If the ordinary federal statutory terms were applied to pre-1972 sound recordings, then all works published prior to 1923 would immediately go into the public domain and many and perhaps most other works would go into the public domain prior to 2067, the date upon which current state protection is set to be preempted. Unlike under current law, works created between 1923 and 1972 and now protected under state law would not necessarily enjoy protection until 2067. Therefore, the Notice inquired whether it would be desirable to provide a term of protection for

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<sup>535</sup> See U.S. Copyright Office, *Analysis of Gap Grants under the Termination Provisions of Title 17* at 6 (2011), available at <http://www.copyright.gov/reports/gap-grant%20analysis.pdf>.

<sup>536</sup> There would presumably be no occasion to recognize termination rights for pre-1978 grants under section 304(c) or (d), since the premise for those provisions is that the authors, rather than the grantees, should obtain the benefit of the extensions of copyright term enacted in 1976 and 1998. No similar extension of term is proposed for pre-1972 sound recordings.

pre-1972 sound recordings that is different than the terms set forth for other works protected by federal copyright law, in order to ensure that federalization of pre-1972 sound recordings would not give rise to potentially successful takings claims under the Fifth Amendment. The Notice further inquired whether federalization would encounter constitutional problems such as due process or takings issues if all pre-1972 recordings were not provided with at least some minimum term of federal protection.

### **1. Current and Proposed Terms of Protection**

Currently, pre-1972 sound recordings may be protected by state law until February 15, 2067, at which point such protection is preempted by federal law. The duration of protection would potentially change if sound recordings were brought under federal copyright law and given the term applicable for other works. Specifically, the term of protection for a published pre-1972 sound recording presumably would be 95 years from publication.<sup>537</sup> An unpublished pre-1972 sound recording would have a term of the life of the author plus 70 years unless it is a work made for hire or is anonymous or pseudonymous, in which case the term would be 120 years from creation.<sup>538</sup>

When unpublished works other than sound recordings were incorporated into the federal copyright statute in 1978, older works were given an adjustment in the term of protection to take into account the fact that the potentially perpetual protection of such works under state law was being abrogated. Section 303 provided, as a transitional matter, that all unpublished works would get at least 25 years of federal protection, until December 31, 2002. Thus, a work created by an author who had died in 1929, 49 years before the effective date of the 1976 Act, might have been expected to enter the public domain at the end of 1979, 50 years after the death of the author. But

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<sup>537</sup> See 17 U.S.C. § 304.

<sup>538</sup> 17 U.S.C. § 303(a).

section 303 provided that copyright would subsist in the work until at least December 31, 2002, and that it would subsist for an additional 25 years – to the end of 2027 – if it was published before the end of 2002.<sup>539</sup> If a similar accommodation were to accompany federalization of pre-1972 sound recordings, sound recordings published in 1922 or earlier would not go directly into the public domain, but would continue to enjoy copyright protection for a prescribed period of years.

Most stakeholders proposed some modification of the current terms of protection to pre-1972 sound recordings.

**a. *50 years from publication***

Several stakeholders, including Nicola Battista, Feaster, and LOC, suggested a term of 50 years from the date of publication.<sup>540</sup> Under such a proposal, pre-1923 sound recordings would go directly into the public domain. In support of such a term, LOC noted that virtually all the commercial benefits accruing to right holders from historic sound recordings released in past decades occur within a period of fewer than 70 years.<sup>541</sup> LOC suggested that a term of protection under federal law longer than 50 years has not proved to be an incentive to right holders to keep historic recordings commercially available in the market place. LOC and Battista offered that the current protection for sound recordings until the year 2067 creates a “dead zone” during which culturally and historically important recordings are not commercially available, and are often lost, perhaps forever.<sup>542</sup> Finally, LOC and Battista noted that for some interested in listening to and researching older recordings, the lack of commercial availability of phonorecords authorized by

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<sup>539</sup> With the enactment of the Sonny Bono Copyright Term Extension Act in 1998, the additional 25 year period was extended by yet another 20 years, until the end of 2047.

<sup>540</sup> Battista at 2; Feaster at 1, 7; LOC at 10.

<sup>541</sup> LOC at 10.

<sup>542</sup> LOC at 10; Battista at 2.

the right holder creates an incentive to seek out copies produced in other countries with shorter terms of copyright protection, where they are already in the public domain.<sup>543</sup>

**b. 50 years from fixation**

EFF expressed a preference for a term of 50 years from the date of fixation. Under such a proposal, pre-1923 sound recordings would go directly into the public domain. EFF believed that the general rule of protection, where pre-1972 sound recordings do not enter the public domain until 2067, is too long and should be shortened under federal copyright law. EFF stated its view that 50 years is a reasonable length that is appropriate under the Copyright Clause's "limited times" provision.<sup>544</sup> It also suggested that making the terms of protection of sound recordings closer to the terms of protection of the underlying works, such as musical compositions, would clarify their status and better facilitate archiving and other productive uses.<sup>545</sup>

SAA also preferred a term of 50 years from the date of fixation, with pre-1923 sound recordings going directly into the public domain. SAA noted that because of the difficulty of establishing whether particular sound recordings were works made for hire, adopting the basic rules regarding term would not be a good solution. SAA pointed out that a term of 50 years from creation would be in compliance with most international agreements.<sup>546</sup>

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<sup>543</sup> *See id.*

<sup>544</sup> U.S. CONST. Art. I, § 8. cl. 8.

<sup>545</sup> EFF at 11-12.

<sup>546</sup> SAA at 8.

**c. *95 years from creation***

MLA suggested that 95 years from creation, regardless of whether the work is published or unpublished, would be a second best alternative to a 50 year term. It expressed the view that all pre-1923 works should fall into the public domain in order to mirror the protection afforded other classes of works.<sup>547</sup> In making this recommendation, MLA noted that when Congress indicated that pre-1972 sound recordings would enter the public domain in 2067, it clearly chose 2067 (originally 2047, but extended to 2067 in the Copyright Term Extension Act) to ensure a minimum 95 year term for all such recordings. According to the House Report on the 1976 Copyright Act, enacting a provision that takes away subsisting common law rights and substitutes statutory rights would be “fully in harmony with the constitutional requirements of due process” provided that the statutory rights endure for a reasonable period.<sup>548</sup> MLA reasoned that because Congress has already established a term of at least 95 years of potential protection under state law for pre-1972 sound recordings, Congress must have determined that a 95-year term would comply with the requirements of due process.<sup>549</sup>

**d. *Expiration in 2067***

While RIAA and A2IM generally opposed federalization, they expressed the position that the only way to create clarity with regard to term of protection is to base the term on the year of first fixation of any sound recording (because determining the date of “first publication” for very old recordings would be a nearly impossible factual task in many instances), or to fix an end of term (2067) that matches existing law. Under their proposal, all pre-1923 works would continue to enjoy protection until 2067. RIAA and A2IM concluded that legislation that cuts off

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<sup>547</sup> MLA at 12.

<sup>548</sup> H.R. REP. NO. 94-1476, at 139 (1976).

<sup>549</sup> MLA at 13.

protections for existing state- and common law-protected recordings would deny right holders of “all economically viable use of those works,” and takings claims would arise.<sup>550</sup>

*e. Other alternatives*

In their reply comment, Professor Elizabeth Townsend Gard and her 2011 copyright class at Tulane University School of Law suggested that sound recordings created before February 15, 1972 should enjoy a term that endures for 50 years from fixation. However, under their proposal, in no case would the term of copyright in such a work expire before five years from enactment of federalization, and if the work is made available to the public by the copyright holder within five years of enactment, the term of copyright would not expire before February 15, 2067.<sup>551</sup>

Professor Townsend Gard and her class pointed toward several benefits of such a term structure. They posited that a significant number of works that have no commercial value or known owner interested in commercialization would enter the public domain and would thus be available for unfettered preservation and access. They pointed out that the structure would allow right holders who saw value in their recordings to secure a term that lasted until 2067 by making the work available to the public during a reasonable transition period. Such owners would not be deprived of any property and no takings concerns would arise. Finally, they noted that the structure, based on date of creation, would reasonably allow the public to determine whether a work was under copyright protection.<sup>552</sup>

This proposal was the subject of much discussion during the June 3, 2011 roundtable. RIAA raised concerns that a requirement that the work must be made available to the public in order to secure protection until 2067 would lead to costly litigation as to whether that requirement

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<sup>550</sup> RIAA/A2IM at 29,33-34.

<sup>551</sup> Townsend Gard Reply at 22.

<sup>552</sup> *Id.*

had indeed been met.<sup>553</sup> Professor Townsend Gard responded to the litigation concern by noting that there was no significant litigation regarding compliance with section 303(a) after enactment of the 1976 Act.<sup>554</sup>

Professor Townsend Gard suggested that the reasonable transition period in and of itself may suffice to address takings concerns, a suggestion that was strongly disputed by RIAA.<sup>555</sup> The length of the transition period was also a disputed matter. ARSC stated that as its goal is access and preservation, it would not necessarily object to a reasonable transition period within which an owner may make the work available to the public in order to secure a longer term. At the same time it flatly rejected the notion that a transition period of 25 years was reasonable.<sup>556</sup>

## 2. Fifth Amendment Takings Claims

Before recommending the term of protection to be provided for pre-1972 sound recordings under federal law, it is necessary to review an additional issue: whether shortening the term of protection currently provided under state law would constitute a “taking” for which compensation must be paid.<sup>557</sup> Federalization of pre-1972 sound recordings would entail preempting state law protection, which would deprive owners of vested interests currently held under state law and therefore could raise Fifth Amendment takings claims. So long as the state law-based property right is replaced by a federal right of equal strength and duration, no issues should arise, but what would be the result if the federal term of protection were shorter than that which is currently enjoyed under state law?

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<sup>553</sup> Pariser T2 at 425-26.

<sup>554</sup> Townsend Gard T2 at 429.

<sup>555</sup> Pariser T2 at 439-41.

<sup>556</sup> Brooks T2 at 450-51.

<sup>557</sup> The Fifth Amendment provides that “No person shall be ... deprived of life, liberty or property without due process of law; nor shall private property be taken for public use without just compensation.” U.S. CONST. amend. V. *See generally* 1 NIMMER ON COPYRIGHT §1.11.

A takings claim may be facial or it may be “as applied.” In either type of claim, the property must be taken for the “public use.” The Supreme Court has embraced a broad interpretation of “public use” as “public purpose.”<sup>558</sup> Furthermore, the Court reiterated that its public use jurisprudence has eschewed rigid formulas and intrusive scrutiny in favor of affording legislatures broad latitude in determining what public needs justify the use of the takings power.<sup>559</sup> While there is no reported case law directly addressing whether the sort of alleged taking that may occur under federalization of pre-1972 sound recordings would be for the public use, this Report concludes that federalization would advance preservation of and access to copyrighted works. Such preservation and access appear to be a rational exercise of the Copyright Clause authority to promote the progress of science and useful arts, and a legitimate public purpose.<sup>560</sup>

**a. Facial takings**

A facial challenge requires a court to conclude that the mere enactment of legislation constitutes a taking. The test to be applied in a facial challenge is “fairly straightforward. A statute regulating the uses that can be made of property effects a taking if it ‘denies an owner economically viable use of his [property].’”<sup>561</sup> It is rare for facial takings claims to succeed because it is usually impossible to ascertain the economic impact of legislation until specific applications can be considered.<sup>562</sup> Not surprisingly, no stakeholders commented on whether federalization would give rise to facial takings claims.

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<sup>558</sup> See *Kelo v. City of New London*, 545 U.S. 469, 480 (2005).

<sup>559</sup> See *id.* at 483.

<sup>560</sup> See *Eldred v. Ashcroft*, 537 U.S. 186, 204 (2003) (Supreme Court’s substantial deference to Congress’s rational exercise of its Copyright Clause authority).

<sup>561</sup> *Hodel v. Va. Surface Mining & Reclamation Ass’n*, 452 U.S. 264, 295-96 (1981).

<sup>562</sup> See *General Agreement On Tariffs And Trade (GATT): Intellectual Property Provisions, Joint Hearing Before the Subcomm. on Intellectual Property and Judicial Administration of the H. Comm. on the*

**b. *As-applied takings***

Reviews of Fifth Amendment as-applied takings claims consider the claim of a particular party who asserts that he or she has been deprived of property as a result of the specific application of the statute to him or her. Such claims are generally assessed under the framework articulated in *Penn Central Transp. Co. v. City of New York*.<sup>563</sup> The principal consideration is “[t]he economic impact of the regulation on the claimant and, particularly, the extent to which the regulation has interfered with distinct investment-backed expectations.”<sup>564</sup> A further consideration is the nature of the governmental action. Interference with property that can be characterized as a physical invasion by government may be more readily found to be a taking than interference that arises from some public program adjusting the benefits and burdens of economic life to promote the common good.<sup>565</sup> Additional relevant points in analyzing a takings claim include the fact that “a reduction in the value of property is not necessarily equated with a taking;”<sup>566</sup> statutory provisions that “moderate and mitigate the economic impact” are relevant to the analysis;<sup>567</sup> and regulation of property rights does not constitute a taking when an individual’s reasonable, investment-backed expectations can continue to be realized as long as he complies with reasonable regulations.<sup>568</sup>

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*Judiciary and the Subcomm. on Patents, Copyrights and Trademarks of the S. Comm. on the Judiciary*, 103rd Cong. at 150 (1994)(“*GATT Hearing*”) (testimony of Christopher Schroeder, Counsel to the Assistant Attorney General, Office of Legal Counsel, U.S. Department of Justice).

<sup>563</sup> 438 U.S. 104 (1978). This brief discussion of takings is derived from Eva Subotnik and June Besek, *Fifth Amendment Considerations: Extending Federal Copyright to Pre-1972 Sound Recordings* (unpublished manuscript on file with author).

<sup>564</sup> *Penn Central*, 438 U.S. at 124.

<sup>565</sup> *See id.*

<sup>566</sup> *Andrus v. Allard*, 444 U.S. 51, 66 (1979).

<sup>567</sup> *Connolly v. Pension Benefit Guar. Corp.*, 475 U.S. 211, 225-26 (1986).

<sup>568</sup> *See U.S. v. Locke*, 471 U.S. 84, 107-108 (1985) (citing *Texaco, Inc. v. Short*, 454 U.S. 516 (1982) (“this

In the 1976 Copyright Act, Congress considered as-applied takings concerns similar to those raised by federalization of pre-1972 sound recordings when it removed perpetual protection for unpublished works and substituted limited terms of federal copyright protection. In the 1976 Act, Congress ensured that all works being brought under federal copyright would enjoy at least 25 years of protection, until the end of 2002.<sup>569</sup> If works were published on or before that date, they received another 25 years of protection, until 2027, a date that was extended by 20 years in the Sonny Bono Copyright Term Extension Act, thus affording protection until the end of 2047.<sup>570</sup>

The House Report on the 1976 Copyright Act explained the purpose of the provision, 17 U.S.C. § 303:

Theoretically, at least, the legal impact of section 303 would be far reaching. Under it, every “original work of authorship” fixed in tangible form that is in existence would be given statutory copyright protection as long as the work is not in the public domain in this country. The vast majority of these works consist of private material that no one is interested in protecting or infringing, but section 303 would still have practical effects for a prodigious body of material already in existence. Looked at another way, however, section 303 would have a genuinely restrictive effect. Its basic purpose is to substitute statutory for common law copyright for everything now protected at common law, and to substitute reasonable time limits for the perpetual protection now available. In general, the substituted time limits are those applicable to works created after the effective date of the law; for example, an unpublished work written in 1945 whose author dies in 1980 would be protected under the statute from the effective date through 2030 (50 years after the author’s death).

A special problem under this provision is what to do with works whose ordinary statutory terms will have expired or will be nearing expiration on the effective date. The committee believes that a provision taking away subsisting

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Court has never required [Congress] to compensate the owner for the consequences of his own neglect.”)).

<sup>569</sup> 17 U.S.C. § 303(a) provides:

Duration of copyright: Works created but not published or copyrighted before January 1, 1978  
(a) Copyright in a work created before January 1, 1978, but not theretofore in the public domain or copyrighted, subsists from January 1, 1978, and endures for the term provided by section 302. In no case, however, shall the term of copyright in such work expire before December 31, 2002; and, if the work is published on or before December 31, 2002, the term of copyright shall not expire before December 31, 2047.

<sup>570</sup> Pub. L. No. 105-298, 112 Stat. 2827 (1998).

common law rights and substituting statutory rights for a reasonable period is fully in harmony with the constitutional requirements of due process, but it is necessary to fix a “reasonable period” for this purpose. Section 303 provides that under no circumstances would copyright protection expire before December 31, 2002, and also attempts to encourage publication by providing 25 years more protection (through 2027) if the work were published before the end of 2002.<sup>571</sup>

Congress again considered as-applied takings concerns in 1994 in connection with the provisions of URAA,<sup>572</sup> which restored copyright protection to certain works of foreign origin that were in the public domain in the United States. This restoration arguably usurped the rights of “reliance parties”<sup>573</sup> whose rights to use certain public domain works may have been curtailed. In hearings addressing these provisions, Congress was advised that it could successfully address this concern by providing reliance parties with a reasonable period of time during which they could continue certain uses of restored works, and by limiting the liability reliance parties may face for their use of restored works.<sup>574</sup>

Several stakeholders addressed the notion that federalization would bring about as-applied takings claims. RIAA and A2IM observed that if federalization placed older sound recordings into the public domain, either immediately upon enactment or at some future date prior to 2067, it would raise serious takings concerns. They noted that there are many examples of back-catalog materials that have commercial viability, and asserted that reducing the term would cut off property rights in those recordings. They acknowledged that the economic impact of federalization is measured on an as-applied basis, and that it is therefore difficult to make broad predictions of the value of such takings. They noted that when previous copyright legislation, such as the URAA, raised potential takings concerns, provisions were included to

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<sup>571</sup> H.R. REP. NO. 94-1476, at 138-39 (1976).

<sup>572</sup> Pub. L. No. 103-465, 108 Stat. 4809, 4973 (1994).

<sup>573</sup> See 17 U.S.C. § 104A(h)(4).

<sup>574</sup> See 17 U.S.C. § 104A(d); see also *GATT Hearing*, *supra* note 562, at 159 (1994) (testimony of Christopher Schroeder, Counsel to the Assistant Attorney General, Office of Legal Counsel, U.S. Department of Justice).

diminish those concerns. In their initial comments, RIAA and A2IM stated that it is not clear how any similar fixes for right holders could be formulated to overcome the takings problems posed by federalization of pre-1972 sound recordings, which would touch a far wider set of right holders than those affected by the URAA.<sup>575</sup>

SAA commented that generally there was no need for additional protection for pre-1972 sound recordings because owners already had a significant, exclusive period of protection to exploit the works. However, SAA acknowledged that there may be some unpublished recordings for which extended protection may be appropriate. SAA suggested that it may be appropriate to treat such works in a manner similar to the way unpublished items were brought under federal copyright protection in the Copyright Act of 1976, where such works were given a minimum term of 25 years of federal protection and an extended term of protection if they were published within that twenty-five year period. However, SAA suggested that the window that is available to secure extended protection should be short – no longer than 5 years – and it should not extend to pre-1923 sound recordings.<sup>576</sup>

ARSC remarked that it did not see any need for federal protection of pre-1923 sound recordings because such works already had a significant period of protection under state law.<sup>577</sup> It went on to assert in its reply comment that federalization would not result in a total divestiture of rights, and thus no taking would occur. It added that even if a taking were found to exist, any compensation due would be extremely low.<sup>578</sup> Both ARSC and MLA concluded that pre-1923 recordings are clearly not valued by their owners, as evidenced by the almost complete unavailability of those recordings. They went on to question whether any just compensation is

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<sup>575</sup> RIAA/A2IM at 33-34.

<sup>576</sup> SAA at 9.

<sup>577</sup> ARSC at 6.

<sup>578</sup> ARSC Reply at 22-24.

due for takings of property which has *de minimis* economic value.<sup>579</sup> MLA added to its takings analysis in its reply comment, stating that right holders whose works may be injected into the public domain by federalization would not lose *all* economically productive use of their property. Instead, MLA maintained that such right holders would not be foreclosed from making use of the works; they just would not have exclusive rights.<sup>580</sup>

At the June 3, 2011 roundtable, much of the discussion regarding takings revolved around whether federalization could be instituted in a manner that provided “just compensation” for the extinguishment of ownership under state law. While “just compensation” is technically a remedial matter to be considered after a finding that a taking has in fact occurred,<sup>581</sup> it is relevant to consider whether provisions included as part of federalization, such as those that would enable right holders to obtain reasonable, investment-backed expectations, would prevent the finding of a taking under the criteria set forth in *Penn Central Transp. Co. v. City of New York*.<sup>582</sup>

Stakeholders who focused most intently on preservation and access, such as MLA and ARSC, suggested that application of the ordinary federal statutory terms to pre-1972 sound recordings should be sufficient to address any takings concerns. They proposed varying terms that should be available under federalization, which are discussed in further detail above. They also maintained that pre-1923 sound recordings could go immediately into the public domain without significant takings concerns because they had already enjoyed a significant term of protection, and because such works had only *de minimis* value.<sup>583</sup>

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<sup>579</sup> ARSC at 6; MLA at 13-14.

<sup>580</sup> MLA Reply at 8-9.

<sup>581</sup> An award of “just compensation” is the fair market value of the property at the time of the taking. *New York v. Sage*, 239 U.S. 57, 61 (1915).

<sup>582</sup> *Penn Centra* identified the principle criteria for determining a taking as “[t]he economic impact of the regulation on the claimant and, particularly, the extent to which the regulation has interfered with distinct investment-backed expectations” and the nature of the governmental action. 438 U.S. at 124.

<sup>583</sup> Brooks T2 at 450-451; Harbeson T2 at 451-53.

Participants representing right holders in pre-1972 sound recordings generally observed that the takings problem is directly proportionate to the degree to which state laws are affected, *i.e.* the more state laws are left intact, the less a taking would exist.<sup>584</sup> In response to the proposal by Professor Townsend Gard and her Tulane Law School copyright law class, which included suggestions for providing an avenue for right holders to secure protection for works until 2067,<sup>585</sup> RIAA acknowledged that if sound recording right holders were able to obtain a term of protection that lasted until 2067, federalization would “probably not” present a takings problem.<sup>586</sup> RIAA also commented that if federal copyright law covered pre-1972 sound recordings until 2067, then such legislation would not have “taken away rights, however grand or *de minimis* they may be, and we don’t have to worry about takings.”<sup>587</sup>

### 3. Recommendation

The Office recognizes that pre-1972 sound recordings are both numerous and unique, and that the economic impact of altering the current 2067 date for expiration of protection could vary widely. It is reasonable to conclude that at least in some cases, the reduction of term that would result from applying ordinary federal terms could produce a loss of significant economic value. Most pre-1972 sound recordings, however, have little or no economic value. The Office does not wish to advise Congress to protect all pre-1972 sound recordings under federal law until 2067 when only a fraction have economic value, particularly when it would be a significant public benefit to make the others widely available for study and research.

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<sup>584</sup> Pariser T2 at 424.

<sup>585</sup> Townsend Gard Reply at 22-23.

<sup>586</sup> Pariser T2 at 460-61.

<sup>587</sup> *Id.* at 424.

In the past, when Congress considered copyright legislation that might have curtailed parties' vested ownership interests, *e.g.* in the Copyright Act of 1976 and the URAA, it prudently chose to address right holders' reasonable investment-backed expectations in the legislation itself. The Office recommends similar prudent attention to the takings concerns raised here. It recommends providing an avenue for right holders to realize reasonable investment-backed expectations, in order to ensure that no unlawful takings occur as a consequence of federalization.

Federalization would provide a public benefit by enhancing preservation of and access to these old recordings that are an important part of our culture. The Office believes that federalization, in effect, constitutes a "public program adjusting the benefits of public life to promote the common good."<sup>588</sup> Having considered the views of the various stakeholders on the issue, the Office believes, in principle, that a term of protection for all pre-1972 sound recordings that extends until 2067 is excessive, and that pre-1972 sound recordings should have their term of protection harmonized with that of other works from the same time period. Absent takings clause considerations, the Office would therefore recommend that (1) all published pre-1923 sound recordings enter the public domain immediately, (2) other published pre-1972 sound recordings remain protected by copyright until 95 years after their date of first publication, and (3) unpublished pre-1972 sound recordings enter the public domain 120 years after they were created. However, as noted above, the Office understands the prudence of making adjustments to address takings concerns.

In order to ensure that federalization does not effect an unlawful taking, the Office recommends that all published pre-1972 sound recordings other than those first published before 1923 receive a term of protection of 95 years from publication, and that all unpublished pre-1972 sound recordings receive a term of 120 years from creation. However, in all cases, those recordings would be *eligible* for protection until February 15, 2067, when federal preemption of

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<sup>588</sup> *Penn Central*, 438 U.S. at 124.

state law protection is currently set to expire.<sup>589</sup> To secure the full term of protection until 2067, the right holder of a pre-1972 sound recording would have to take certain actions during a reasonable transition period, described in the section below.<sup>590</sup> The required actions include (1) making the work available to the public, and (2) providing notice to the Copyright Office that the work has been made available at a reasonable price and that the right holder intends thereby to secure a full term of protection.

For works first published before 1923, the Office cannot recommend that the term of copyright subsist until 2067. Such a term – of 144 years or more following publication – would be unprecedented and, in the view of the Office, unjustified. Moreover, since all such works are from the acoustical era and are usually of such low quality that relatively few of them are marketable, it is difficult to fathom how the right holder could offer a compelling justification for continuing to own exclusive rights for the next 55 years.<sup>591</sup> While a handful of pre-1923 works may still have some commercial value,<sup>592</sup> that in and of itself does not justify maintaining copyright protection for another half century. The fact is that all other works published before 1923 have entered the public domain. The Office sees no reason to create an anomaly by offering continued protection of such sound recordings until 2067. On the other hand, Congress recognized in the 1976 Copyright Act that providing at least an additional 25 years of protection for works protected at common law would constitute a “reasonable period” that would satisfy constitutional requirements of due process.<sup>593</sup> Following that precedent, the Office believes that

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<sup>589</sup> However, in all cases the term of protection for pre-1972 sound recordings would end no later than February 15, 2067, when federal preemption of state law protection is currently scheduled to end. Thus, the term of protection for an unpublished sound recording fixed in 1971 would end in 2067 rather than in 2091, 120 years after it was fixed. The rationale for this is that under current law, protection will end in 2067, and the Office sees no reason to extend the term even further.

<sup>590</sup> Chapter VI.C.

<sup>591</sup> See ARSC at 3; Brooks T2 at 347-48.

<sup>592</sup> See, e.g., Pariser T2 at 425 (recordings by Caruso and Sousa).

<sup>593</sup> H.R. REP. NO. 94-1476, at 139 (1976); see 17 U.S.C. § 303(a).

giving owners of rights in sound recordings published before 1923 an opportunity to retain exclusive rights for an additional 25 years after federalization of protection would constitute a similar reasonable period.

The Office therefore recommends that a right holder of a sound recording first published before 1923 should be permitted to obtain an additional 25 years of protection under federal law if, during a reasonable transition period (but one that is somewhat shorter than the transition period for other pre-1972 sound recordings), the right holder makes the work available to the public and notifies the Copyright Office of that fact and of its intent to secure protection for that 25-year period.

Requiring right holders to take some affirmative action to retain their rights in this situation is consistent with the Takings Clause.<sup>594</sup> In the case of pre-1972 sound recordings, right holders would only lose the benefit of extended protection if they fail to make their works available and provide notice of such use, requirements which are designed to advance the interests of preservation of and public access to sound recordings.

For published pre-1972 sound recordings, the recommended term of 95 years from publication is the term that the recordings would have if they had obtained a federal copyright upon first publication.<sup>595</sup> For unpublished works, the recommended term of 120 years from creation is the term the works would have received if they were anonymous or pseudonymous works or if they were created as works for hire and had entered the federal copyright system in 1978 along with other unpublished works previously protected under state law.<sup>596</sup> The Office believes that the 120-year term should apply even if the sound recording was not anonymous,

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<sup>594</sup> See *U.S. v. Locke*, 471 U.S. 84, 107-108 (1985) (citing *Texaco, Inc. v. Short*, 454 U.S. 516 (1982) (“this Court has never required [Congress] to compensate the owner for the consequences of his own neglect”)).

<sup>595</sup> See 17 U.S.C. § 304(a), (b).

<sup>596</sup> See 17 U.S.C. §§ 303, 302(c).

pseudonymous, or a work made for hire, and notwithstanding the general rule in Title 17 that unpublished works receive a term of the life of the (last surviving) author plus 70 years.<sup>597</sup> The Office believes that giving all unpublished pre-1972 sound recordings a fixed term of 120 years from creation,<sup>598</sup> rather than a term based on the year in which the author (or the last surviving co-author) died, is the best approach as a practical matter. This is due to a combination of factors such as the collaborative nature of sound recording authorship, the difficulties in calculating term of protection based upon the life of an author (or, in many cases, multiple authors) who may have died many decades ago, and the likelihood that many pre-1972 sound recordings were created as works for hire.

As indicated above, the process for assessing as-applied takings claims is articulated in *Penn Central Transp. Co. v. City of New York*. The principal consideration is “[t]he economic impact of the regulation on the claimant and, particularly, the extent to which the regulation has interfered with distinct investment-backed expectations.”<sup>599</sup> In the case of pre-1972 sound recordings, which are numerous and unique, the economic impact will vary widely, but it is reasonable to conclude that reducing the term for certain works may result in a loss of significant economic value.

Therefore, the recommendation includes an avenue for right holders to fulfill reasonable investment-backed expectations in the form of both a reasonable automatic transition term of federal protection and a means to exercise an option to extend protection to 2067 – an option likely to be exercised only for works with commercial value. The Office understands that providing such an opportunity for right holders to “moderate and mitigate the economic impact”

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<sup>597</sup> Sections 303 and 302(a) and (b) of the Copyright Act of 1976 would have provided a term of life of the author plus 50 years, with a minimum term ending at the end of 2002, but the Sonny Bono Copyright Term Extension Act of 1998 extended that term to life plus 70 years. Pub. L. No. 105-298, 112 Stat. 2827, section 102(b)(1) and (2)(1998) (amending 17 U.S.C. § 302(a) and (b)).

<sup>598</sup> Subject to an absolute end of protection on February 15, 2067 in all cases.

<sup>599</sup> *Penn Central*, 438 U.S. at 124.

significantly diminishes the legitimacy and likelihood of success of any takings claims that might be asserted.<sup>600</sup>

### C. Transition Period

The Notice of Inquiry pointed out that it may be necessary to provide a transition period to accommodate the switch from state protection of pre-1972 sound recordings to federal protection. The Office sought comments on whether provision should be made for recordings for which the statutory term of protection would already have expired, or would be expiring shortly, by providing federal protection for a “reasonable period,” possibly with an opportunity for a further extension of protection if the recordings are made available to the public during that interim period. As indicated above, Congress has in the past determined that taking away subsisting common law rights and substituting statutory rights for a reasonable period is fully in harmony with the constitutional requirements of due process.<sup>601</sup> However, it is necessary to determine what constitutes a “reasonable period.”<sup>602</sup>

#### 1. Length of Transition Period

There is some precedent on the question of what constitutes a reasonable transition period. Congress addressed the potential effects on vested rights in the 1976 Copyright Act, when it removed perpetual state law protection for unpublished works but provided that all unpublished works would continue to enjoy copyright for at least an additional 25 years. So far as the Office is aware, no takings claims were made as a result of this legislation.

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<sup>600</sup> See *Connolly v. Pension Benefit Guar. Corp.*, 475 U.S. 211, 225-26 (1986).

<sup>601</sup> See *supra* Chapter VI.B.2.b.

<sup>602</sup> To be clear, it is possible that providing a reasonable transitional period may in and of itself serve as providing reasonable just compensation for any taking of common law rights.

The stakeholders in the current proceeding held varying views as to what sort of transition period, if any, would be appropriate in the case of federalization of pre-1972 sound recordings. Professor Townsend Gard expressed the view that either a one-year or five-year transition period would be sufficient.<sup>603</sup> ARSC considered a brief transitional period to be acceptable, but cautioned that it would be unreasonable to provide for a term that would extend to 2067.<sup>604</sup> SAA stated that a five year transition period would be reasonable, but also expressed the view that it would be unreasonable to provide for a term that would extend to 2067.<sup>605</sup> Several parties said that a transition period of 25 years would be unreasonable and excessive.<sup>606</sup> In fact, no party endorsed a transition period of 25 years. However, stakeholders representing rights holders maintained their general opposition to federalization or to any shortening of the terms currently enjoyed under state law.

## **2. What Constitutes “Publicly Available” and “Notice Filed in the Office”**

The questions of what would qualify as making a sound recording “publicly available,” and what should be included in the “notice filed in the Office” for purposes of obtaining a term of protection that extends until 2067, were first raised at the roundtable. No stakeholders provided specific proposals. However, several raised concerns that should be considered in setting the requirements for obtaining protection until 2067. These concerns included whether merely making a recording available as a noninteractive stream could qualify as making the work “publicly available;” whether there would be an ongoing obligation for a right holder to state that

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<sup>603</sup> Townsend Gard Reply at 22-23; Townsend Gard T2 at 438, 440.

<sup>604</sup> Brooks T2 at 438-39.

<sup>605</sup> SAA at 9.

<sup>606</sup> Brooks T2 at 450-51; Harbeson T2 at 451-53.

it is still exploiting a work; the economic and procedural burdens of a notice requirement; and whether a notice requirement would constitute a type of formality.<sup>607</sup>

### 3. Recommendation

The Office recommends a transition period falling between six and ten years for all pre-1972 sound recordings other than those first published before 1923. Whether the period is closer to six years or closer to ten is a question on which affected parties should provide additional input. Such a transition period is somewhat longer than the range of one to five year transition periods preferred by non-right holder stakeholders and is well short of the 25-year minimum transition period provided in the 1976 Act. In addition, a six year transition period coincides with the existing statute of limitations for a takings claim as set forth in 28 U.S.C. § 2501, which would ensure that no right holder could initiate a takings claim after the opportunity to exercise the option to extend the term has expired. As a practical matter, providing for a transition period of at least six years would force right holders to decide whether to assert a takings claim before the end of the transition period. Few if any are likely to do so, since the option of obtaining the extended term by making the work available and notifying the Copyright Office would not be very burdensome. But providing for a transition period that is sufficiently long that a takings claim must be asserted by the end of that period would also have the benefit of obtaining finality on the takings issue in a relatively short period of time.

Works first published before 1923 warrant special consideration because, relative to other works of authorship under the Copyright Act, they would be in the public domain by now had they been federalized in 1976. Therefore, although a transition period is still prudent to address takings concerns, the Office recommends a shorter transition period of three years. A shorter period is justified for such works in light of (1) the likelihood that very few, if any, right holders will seek to extend the duration of their exclusive rights in those works, and (2) the great age of

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<sup>607</sup> Rosenthal T2 at 401; Schwartz T2 at 402-04; Townsend Gard T2 at 404-05, 408-09.

those recordings and the concomitant need to permit preservation activities unfettered by concerns that such activities might constitute copyright infringement.<sup>608</sup>

Concerning what constitutes making the work sufficiently available to qualify for protection until 2067 (or, in the case of works published before 1923, for an additional 25 years), the Office again recommends that additional input be sought from the affected parties. However, the Office believes that a work should be deemed available only if (1) it is available to the public at a reasonable price, and (2) phonorecords are available to users. The latter point is especially important. The Office does not believe that the requirement of making recordings available to the public should be satisfied merely by providing non-interactive streaming access to the works.<sup>609</sup> Many stakeholders asserted that making works available only by means of streaming does not provide sufficient access.<sup>610</sup> This suggests that the requirement should be met by distribution of phonorecords of the recordings, which could but need not be achieved solely by means of digital transmissions of phonorecords. As indicated above, the price must be reasonable.

The notice provided to the Office might be as simple as a notice similar to the one prescribed in 17 U.S.C. § 108(h)(2)(C) that a work is subject to normal commercial exploitation or that a copy or phonorecord of the work can be obtained at a reasonable price.<sup>611</sup> Alternatively, it might be satisfied by submitting an application to register the copyright in the sound recording, with a statement that the work has been made available to the public at a reasonable price.

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<sup>608</sup> See MLA at 6-7, 10; SAA at 2.

<sup>609</sup> It may be useful to seek further input as to whether provision of interactive (*i.e.*, “on-demand”) streaming ought to be sufficient to satisfy the requirements to secure protection through 2067. However, for reasons discussed immediately below, the Office is skeptical that such access should be considered sufficient.

<sup>610</sup> A number of commenters pointed out that research often requires the ability to physically handle phonorecords, for example to study them in greater detail, to filter elements out, and to occasionally adjust the rotation speed of cylinder and disk phonorecords. Brylawski T1 at 52; Brooks T1 at 110-12, T2 at 380-82; Loughney T2 at 348-49. It is not clear whether all of those acts, or their equivalents, could be achieved with a downloaded copy. Nevertheless, the Office is not inclined to recommend a requirement that the recordings be distributed in the form of tangible phonorecords.

<sup>611</sup> See 37 C.F.R. § 201.39.

Consideration should also be given to whether additional periodic notices should be required, to confirm that the sound recording continues to be available to the public.<sup>612</sup>

#### **D. Registration**

##### **1. Stakeholder Concerns about Registration**

Owners of copyrighted works who register their works in a timely manner are eligible for statutory damages and attorney's fees. Moreover, registration is a prerequisite for a suit for infringement of copyright in a United States work. While the Notice of Inquiry did not specifically seek input on registration issues, a handful of stakeholders offered views on the effect that federalization would have on copyright owners of pre-1972 sound recordings in light of the registration provisions of the Copyright Act.

RIAA and A2IM questioned whether federalization would require that an entire catalog of sound recordings must be immediately registered in order to ensure their ability to enforce rights in their recordings. They expressed concern that this would be an undue burden on right holders who would have to submit thousands of copyright registrations and recordations for these recordings, and on the Copyright Office, which would have to process them, within a short time after the law went into effect. They cited the requirements of section 411 of the Copyright Act, which establishes registration as a prerequisite for an infringement suit.<sup>613</sup> They also pointed to

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<sup>612</sup> RIAA suggested that a requirement of “you must assert the rights or you lose the rights” is “anathema to copyright law.” Schwartz T2 at 391, 402-04. However, the notice requirement suggested herein, and any possible additional periodic notices, would be required only if a copyright owner wishes to secure the additional benefit of an extraordinarily long term, one that is beyond (1) that which other works enjoy under U.S. copyright law, (2) that provided by the laws of most countries around the world, and (3) that which is required by international obligations. The Copyright Act already offers certain additional benefits that copyright owners may enjoy only if they comply with certain formalities. *See, e.g.*, 17 U.S.C. § 412 (registration as prerequisite for statutory damages and attorney's fees); 17 U.S.C. § 108(h)(2)(c) (notice by copyright owner that a work is subject to normal commercial exploitation or that a copy of the work may be obtained at a reasonable price makes inapplicable the privilege of libraries and archives to reproduce, distribute, display or perform copies or phonorecords of works during the last 20 years of copyright term).

<sup>613</sup> 17 U.S.C. § 411(a) provides, in pertinent part:

section 412, which sets forth “timely” registration as an eligibility requirement for statutory damages or attorney’s fees.<sup>614</sup> They stated that such provisions would have to be modified to accommodate registrations for pre-1972 sound recordings to avoid providing federal rights devoid of effective remedies.<sup>615</sup> Similar sentiments regarding the burdens of registration were expressed in the roundtable by A2IM and NMPA.<sup>616</sup>

In its reply comment, ARSC stated that it would be delighted if federalization encouraged thousands of copyright registrations. It claimed that federal registrations provide a means of enforcing compliance with other requirements of copyright; enhance publicly available information; increase the value of the works to proprietors and users; and aid title searches. It asserted that extending these inducements for registration and deposit to pre-1972 sound

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Except for an action brought for a violation of the rights of the author under section 106A(a), and subject to the provisions of subsection (b), no action for infringement of the copyright in any United States work shall be instituted until preregistration or registration of the copyright claim has been made in accordance with this title. In any case, however, where the deposit, application, and fee required for registration have been delivered to the Copyright Office in proper form and registration has been refused, the applicant is entitled to institute an action for infringement if notice thereof, with a copy of the complaint, is served on the Register of Copyrights.

<sup>614</sup> 17 U.S.C. § 412:

In any action under this title, other than an action brought for a violation of the rights of the author under section 106A(a), an action for infringement of the copyright of a work that has been preregistered under section 408(f) before the commencement of the infringement and that has an effective date of registration not later than the earlier of 3 months after the first publication of the work or 1 month after the copyright owner has learned of the infringement, or an action instituted under section 411(c), no award of statutory damages or of attorney’s fees, as provided by sections 504 and 505, shall be made for—

- (1) any infringement of copyright in an unpublished work commenced before the effective date of its registration; or
- (2) any infringement of copyright commenced after first publication of the work and before the effective date of its registration, unless such registration is made within three months after the first publication of the work.

<sup>615</sup> RIAA/A2IM at 30. They repeated these assertions at the public meeting. Schwartz T1 at 27, 95; Pariser T1 at 234-37, 273-79.

<sup>616</sup> Bengloff T1 at 281-84; Rosenthal T1 at 288-90.

recordings would promote predictability and public access to these works, as well as aid in the preservation of historic recordings.<sup>617</sup>

The application of registration requirements as well as other provisions of current law to pre-1972 sound recordings presents legitimate concerns. Specifically: sections 405 and 406 would need to be amended to clarify that the validity of a copyright in a pre-1972 sound recording is not affected by the distribution, before the effective date of the Berne Convention Implementation Act of 1988, of phonorecords of the sound recording without a copyright notice or with a defective copyright notice; section 407 regarding deposit requirements may need to be amended to accommodate instances in which best edition deposits are no longer available; section 410 regarding *prima facie* evidence of the validity of the copyright and of the facts stated in the certificate may need to be altered in recognition of the fact that registration of pre-1972 sound recordings will occur well beyond five years from first publication of the work; and section 205 regarding priority of conflicting transfers may need to be reconsidered in recognition of the fact that for over a century, transfers of ownership of rights in pre-1972 sound recordings have taken place without recording the documents of transfer with the Copyright Office.

## 2. Recommendation

The Office does not see a need to amend the section 411 requirement of registration as a prerequisite for an infringement suit for pre-1972 sound recordings.<sup>618</sup> If a pre-1972 sound recording is infringed, registration of the copyright could be made easily and quickly. However,

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<sup>617</sup> ARSC Reply at 18-19; *see also* Brooks T1 at 239-40.

<sup>618</sup> Some courts have erroneously interpreted section 411(a) as being satisfied merely by submitting an application, fee and deposit to the Copyright Office, rather than by the Office's issuance of a certificate of registration or its refusal to issue a certificate. *See, e.g., Cosmetic Ideas, Inc. v. IAC/Interactivecorp.*, 606 F.3d 612 (9th Cir.), *cert. denied*, 131 S.Ct. 686 (2010). *But see La Resolana Architects, PA v. Clay Realtors Angel Fire*, 416 F.3d 1195, 1202-04 (10th Cir. 2005). At most, a transitional amendment providing that, for a period of perhaps three to five years, an owner of a copyright in a pre-1972 sound recording could satisfy the requirements of section 411(a) simply by submitting the required elements to the Copyright Office, would remedy any short-term disadvantage experienced by copyright owners with respect to these newly federalized works.

the Office understands the desirability of modifying section 412 eligibility requirements for statutory damages and attorney's fees for pre-1972 sound recordings. Section 412 provides as a general matter that a copyright owner who prevails on a claim of copyright infringement is eligible to seek an award of statutory damages or attorney's fees if the infringed work was registered prior to the commencement of the infringement or within 3 months after the work was first published. For pre-1972 sound recordings that are infringed on or shortly after the date on which federal protection commences, a "timely" registration under section 412 would be difficult if not impossible to accomplish. To avoid placing an unreasonable burden on right holders to submit registration applications in the first days following the effective date of federal protection for pre-1972 sound recordings, and the resulting burden on the Copyright Office, the Office recommends a transitional provision that would permit, for a period of perhaps three to five years, owners of copyrights in pre-1972 sound recordings to seek statutory damages and attorney's fees notwithstanding their failure to register the copyright prior to the commencement of infringement. Such a provision would encourage registration within a reasonable time but make accommodations for copyright owners – as well as for the registration staff of the Copyright Office – faced with the sudden need to register great numbers of works in a short period of time.

While the Office does not at this time have specific recommendations for dealing with the remaining issues relating to registration of pre-1972 sound recordings, it has suggested in the preceding section how those issues might be resolved. Certainly none of those issues is insuperable, but they may require additional consideration and input from stakeholders.



*LP disc*

## VII. RECOMMENDATIONS

The U.S. Copyright Office hereby makes the following recommendations:

- Federal copyright protection should apply to sound recordings fixed before February 15, 1972, with special provisions to address ownership issues, term of protection, transition period, and registration.
- Federal copyright protection for pre-1972 sound recordings means that all of the rights and limitations of Title 17 of the U.S. Code applicable to post-1972 sound recordings would apply, including section 106(6) (public performance right for digital audio transmissions), section 107 (fair use), section 108 (certain reproduction and distribution by libraries and archives), section 110 (exemption for certain performances and displays),

- section 111 (statutory license for cable retransmissions of primary transmissions), section 112 (ephemeral recordings by broadcasters and transmitting organizations), section 114 (statutory license for certain transmissions and exemptions for certain other transmissions), section 512 (safe harbor for Internet service providers), Chapter 10 (digital audio recording devices), and Chapter 12 (copyright protection and management systems), as well as any future applicable rights and limitations (*e.g.*, orphan works) that Congress may choose to enact.
- The initial owner(s) of the federal copyright in a pre-1972 sound recording should be the person(s) who own(s) the copyright under applicable state law at the moment before the legislation federalizing protection goes into effect.
  - Section 203 of the Copyright Act should be amended to provide that authors of pre-1972 sound recordings are entitled to terminate grants of transfers or licenses of copyright that are made on or after the date federal protection commences. However, termination of pre-federalization grants made under state law prior to federalization presents serious issues with respect to retroactivity and takings, so the Office does not recommend providing termination rights for grants made prior to federalization of protection.
  - The term of protection for sound recordings fixed prior to February 15, 1972, should be 95 years from publication (with “publication” as defined in section 101) or, if the work had not been published prior to the effective date of legislation federalizing protection, 120 years from fixation. However,
    - In no case would protection continue past February 15, 2067, and
    - In cases where the foregoing terms would expire before 2067, a right holder may take the action described below to obtain a longer term.
  - For pre-1972 sound recordings other than those published before 1923, a transition period lasting between six and ten years from enactment of federal protection should be

- established, during which a right holder may make a pre-1972 sound recording available to the public and file a notice with the Copyright Office confirming availability at a reasonable price and stating the owner's intent to secure protection until 2067. If a right holder does this, the term of protection of the sound recording will not expire until 2067, provided that the recording remains publicly available at a reasonable price during its extended term of protection.
- For sound recordings published before 1923, a transition period lasting three years from enactment of federal protection should be established, during which a right holder may make a pre-1923 sound recording available to the public and file a notice with the Copyright Office confirming availability at a reasonable price and stating the owner's intent to secure protection for 25 years after the date of enactment of the legislation that federalizes protection. If a right holder does this, the term of protection of the sound recording will not expire until the end of the 25-year period, provided that the recording remains publicly available at a reasonable price during its extended term of protection.
  - Regardless of a right holder's actions, all pre-1972 sound recordings should enjoy federal protection at least until the end of the relevant transition period described above.
  - Regarding the requirement of timely registration in order to recover statutory damages or attorney's fees in an infringement suit, a transitional period of between three and five years should be established, during which right holders in pre-1972 sound recordings can seek statutory damages and attorney's fees notwithstanding the lack of registration prior to filing suit.
  - Adjustments should be made or at least considered with respect to certain other provisions of the Copyright Act to take into account difficulties that owners of rights in pre-1972 sound recordings may encounter. Among those provisions are: section 405 (notice of copyright: omission of notice on certain copies and phonorecords), section 406

(notice of copyright: error in name or date on certain copies and phonorecords), section 407 (deposit of copies or phonorecords for Library of Congress), section 410 (*prima facie* weight of certificate of registration), and section 205 (regarding priority between conflicting transfers recorded in the Copyright Office).

**APPENDIX A      INITIAL PUBLIC NOTICE**

U.S. National Income and Product Accounts (NIPAs) published by the Bureau of Economic Analysis (BEA). The output data are based on a value-added concept and come from product-side estimates of Gross Domestic Product.

The primary source of hours data is the BLS Current Employment Statistics (CES) program, which collects hours paid for nonsupervisory workers. These data are adjusted using data from the Current Population Survey, the National Compensation Survey, and other sources to account for differences between the desired concept of hours (hours worked for all employed persons) and the CES concept (hours paid for production and nonsupervisory employees).

For detailed industries, annual output measures represent the total value of goods and services produced, and are based primarily on data from the U.S. Census Bureau. These measures use a sectoral output concept, which differs from real gross output in that it excludes output that is shipped to other establishments in the same industry. As with the nonfarm business sector productivity, industry hours are constructed primarily from payroll data from the BLS CES survey, supplemented with data from the CPS and other Federal data sources.

Multifactor productivity is estimated in a conceptual framework based on the economic theory of the firm. This framework guides the construction and interpretation of the measures. For the private business and nonfarm business sectors, value added output is compared to inputs of labor and capital. For detailed industries, sectoral output is compared to capital and labor inputs as well as intermediate inputs of energy, non-energy materials and business services provided by establishments outside of each industry or sector.

### III. Desired Focus of Comments

Comments and recommendations are requested from the public on the following aspects of the BLS productivity measurement program:

- The scope and amount of detail covered by and published in the productivity datasets.
- The concepts and frameworks used in measuring outputs, inputs, and productivity.
- The sources of data used in productivity measurement.
- Areas of research that the BLS productivity program should emphasize.

In your recommendations to the productivity program, it would be particularly helpful if you could explain

how the changes would make the data more accurate or more useful.

Signed at Washington, DC, this 28th day of October 2010.

**Kimberley Hill,**

*Chief, Division of Management Systems,  
Bureau of Labor Statistics.*

[FR Doc. 2010-27727 Filed 11-2-10; 8:45 am]

**BILLING CODE 4510-24-P**

## LIBRARY OF CONGRESS

[Docket No. 2010-4]

### Copyright Office; Federal Copyright Protection of Sound Recordings Fixed Before February 15, 1972

**AGENCY:** Copyright Office, Library of Congress.

**ACTION:** Notice of inquiry.

**SUMMARY:** Congress has directed the Copyright Office to conduct a study on the desirability and means of bringing sound recordings fixed before February 15, 1972, under Federal jurisdiction. Currently, such sound recordings are protected under a patchwork of State statutory and common laws from their date of creation until 2067. This notice requests written comments from all interested parties regarding Federal coverage of pre-1972 sound recordings. Specifically, the Office seeks comments on the likely effect of Federal protection upon preservation and public access, and the effect upon the economic interests of rights holders. The Office also seeks comments on how the incorporation of pre-1972 sound recordings into Federal law might best be achieved.

**DATES:** Initial written comments must be received in the Office of the General Counsel of the Copyright Office no later than December 20, 2010. Reply comments must be received in the Office of the General Counsel of the Copyright Office no later than December 3, 2010.

**ADDRESSES:** The Copyright Office strongly prefers that comments be submitted electronically. A comment page containing a comment form is posted on the Copyright Office Web site at <http://www.copyright.gov/docs/sound/comments/comment-submission-index.html>. The Web site interface requires submitters to complete a form specifying name and organization, as applicable, and to upload comments as an attachment via a browse button. To meet accessibility standards, each comment must be uploaded in a single file in either the Adobe Portable Document File (PDF) format that contains searchable, accessible text (not

an image); Microsoft Word; WordPerfect; Rich Text Format (RTF); or ASCII text file format (not a scanned document). The maximum file size is 6 megabytes (MB). The name of the submitter and organization should appear on both the form and the face of the comments. All comments will be posted on the Copyright Office Web site, along with names and organizations.

If electronic submission of comments is not feasible, comments may be delivered in hard copy. If hand delivered by a private party, an original and five copies of a comment or reply comment should be brought to the Library of Congress, U.S. Copyright Office, Room LM-401, James Madison Building, 101 Independence Ave., SE., Washington, DC 20559, between 8:30 a.m. and 5 p.m. The envelope should be addressed as follows: Office of the General Counsel, U.S. Copyright Office.

If delivered by a commercial courier, an original and five copies of a comment or reply comment must be delivered to the Congressional Courier Acceptance Site ("CCAS") located at 2nd and D Streets, SE., Washington, DC between 8:30 a.m. and 4 p.m. The envelope should be addressed as follows: Office of the General Counsel, U.S. Copyright Office, LM-403, James Madison Building, 101 Independence Avenue, SE., Washington, DC 20559. Please note that CCAS will not accept delivery by means of overnight delivery services such as Federal Express, United Parcel Service or DHL.

If sent by mail (including overnight delivery using U.S. Postal Service Express Mail), an original and five copies of a comment or reply comment should be addressed to U.S. Copyright Office, Copyright GC/I&R, P.O. Box 70400, Washington, DC 20024.

**FOR FURTHER INFORMATION CONTACT:** David O. Carson, General Counsel, or Chris Weston, Attorney Advisor. Copyright GC/I&R, P.O. Box 70400, Washington, DC 20024. Telephone: (202) 707-8380. Telefax: (202) 707-8366.

### SUPPLEMENTARY INFORMATION:

#### Introduction

The Copyright Office is conducting a study on "the desirability of and means for bringing sound recordings fixed before February 15, 1972, under federal jurisdiction." When it enacted the Omnibus Appropriations Act of 2009, Congress directed the Register of Copyrights to conduct such a study and seek comments from interested parties. H. Comm. On Appropriations, H.R. 1105, Public Law 111-8 [Legislative Text and Explanatory Statement] 1769

(Comm. Print 2009). With this notice, the Copyright Office explains the background to the study and seeks public comment on whether pre-1972 sound recordings should be brought within the Federal copyright statute. The Office also poses a number of questions on specific topics relevant to the overall inquiry.

### Background

Sound recordings are “works that result from the fixation of a series of musical, spoken, or other sounds, but not including the sounds accompanying a motion picture or other audiovisual work, regardless of the nature of the material objects, such as disks, tapes or other phonorecords, in which they are embodied.” 17 U.S.C. 101. Until 1972, sound recordings were not among the works of authorship protected by the Federal copyright statute; they enjoyed protection only under State law. In 1971, Congress passed the Sound Recording Amendment, which provided that sound recordings first fixed on or after February 15, 1972, would be eligible for protection under Federal copyright law. Sound recordings first fixed prior to that date (pre-1972 sound recordings) continued to be protected under State law.

In 1976, when Congress passed the Copyright Revision Act, it created a unitary system of copyright, by bringing unpublished works (until then protected by State law) under the Federal copyright law, and preempting all State laws that provided rights equivalent to copyright. 17 U.S.C. 301(a). However, it explicitly excluded State laws concerning pre-1972 sound recordings from the general preemption provision, allowing those laws to continue in effect until 2047. 17 U.S.C. 301(c). That date was later extended by the Copyright Term Extension Act (CTEA) until 2067. Public Law 105–298, 112 Stat. 2827 (1998). On February 15, 2067, all State law protection for pre-1972 sound recordings will be preempted by Federal law and will effectively cease.

Thus, there are currently two primary regimes of protection for sound recordings: State law protects pre-1972 recordings, and Federal copyright law protects sound recordings of U.S. origin first fixed on or after February 15, 1972.

Federal law also protects pre-1972 sound recordings of foreign origin that were eligible for copyright restoration under the Uruguay Round Agreements Act (URAA). Public Law 103–465, 108 Stat. 4809, 4973 (1994). This legislation, passed in 1994 in order to implement U.S. obligations under the TRIPS (“Trade Related Aspects of Intellectual Property”) Agreement, “restored”

copyright protection to certain works of foreign origin that were in the public domain in the United States on the effective date, which for most works was January 1, 1996. Because most other countries provide a 50-year term of protection for sound recordings, generally only those foreign sound recordings fixed in 1946 and after were eligible for restoration under the URAA.

One consequence of the continued protection under State law of pre-1972 sound recordings is that there are virtually no sound recordings in the public domain in the United States. Pre-1972 sound recordings, no matter how old, can have State law protection until 2067, so that some sound recordings will conceivably be protected for more than 170 years. Even pre-1972 foreign sound recordings that were ineligible for copyright restoration because their term of protection had expired in their home countries are eligible for State law protection, at least in New York. See *Capitol Records, Inc. v. Naxos of America, Inc.*, 830 N.E.2d 250 (N.Y. 2005). Those sound recordings that do have Federal copyright protection will not enter the public domain for many years. For example, sound recordings copyrighted in 1972 will not enter the public domain until the end of 2067.

State law protection for pre-1972 sound recordings is provided by a patchwork of criminal laws, civil statutes and common law. Almost all States have criminal laws that prohibit duplication and sale of recordings done knowingly and willfully with the intent to sell or profit commercially from the copies. Most States also have some form of civil protection, sometimes under the rubric of “common law copyright,” sometimes under “misappropriation” or “unfair competition,” and sometimes under “right of publicity.” Occasionally these forms of protection are referred to collectively as “common law copyright” or “common law protection,” but in fact not all civil protection for sound recordings is common law—some States have statutes that relate to unauthorized use of pre-1972 sound recordings—and a true “common law copyright” claim differs from a claim grounded in unfair competition or right of publicity. In *Capitol Records, Inc. v. Naxos of America, Inc.*, the New York Court of Appeals (the highest court of the State) explained that a common law copyright claim in New York “consists of two elements: (1) The existence of a valid copyright; and (2) unauthorized reproduction of the work protected by copyright.” *Id.* at 563. It went on to state that “[c]opyright law is distinguishable from unfair competition, which in addition to unauthorized copying and

distribution requires competition in the marketplace or similar actions designed for commercial benefit.” *Id.*

The scope of civil protection varies from State to State, and even within a State there is often uncertainty because there are few court decisions that have defined the scope of the rights and the existence and scope of exceptions. What is permissible in one State may not be in another. This uncertainty is compounded by the unsettled state of the law concerning the activities that subject an entity to a State’s jurisdiction.

In general, Federal law is better defined, both as to the rights and the exceptions, and more consistent than State law. In some respects Federal law provides stronger protection. For example, owners of copyrighted works who timely register are eligible for statutory damages and attorneys fees. 17 U.S.C. 412, 504, and 505. In addition, copyright-protected sound recordings are eligible for protection under 17 U.S.C. 1201, which prohibits circumvention of technological protection that protects access to a copyrighted work. At the same time Federal law provides a more consistent and well-articulated set of exceptions. While some States include exceptions in their laws protecting sound recordings, the Federal “fair use” and library and archives exceptions—17 U.S.C. 107 and 108, respectively—are likely much more robust and effective in providing safety valves for the unauthorized but socially valuable use of copyrighted works.

### The Copyright Office Study

Faced with the uncertain patchwork of State laws that cover pre-1972 recordings, libraries, archives and educational institutions have voiced serious concerns about their legal ability to preserve pre-1972 recordings, and provide access to them to researchers and scholars.<sup>1</sup> A 2005 study concluded that copyright owners had, on average, made available on CD only 14 percent of the sound recordings they control that were released from 1890 through 1964.<sup>2</sup> Reissues of recordings from before World War II are particularly scarce. While the statistics and conclusions from that report are now five years old, the Copyright Office knows of no reason to believe that the

<sup>1</sup> See generally Rob Bamberger and Sam Brylawski, National Recording Preservation Board, *The State of Recorded Sound Preservation in the United States: A National Legacy At Risk in the Digital Age* (2010).

<sup>2</sup> Tim Brooks, National Recording Preservation Board, *Survey of Reissues of U.S. Recordings 7* (2005). For more recent years in that period, the percentage of recordings that were available reached 33 percent.

situation has changed significantly since that time.

Copies of many recordings from these eras reside in libraries and archives. Their custodians, however, are concerned that without the certainty of Federal copyright exceptions, the reproduction and distribution activities necessary to preserve and provide access to these recordings will lack clear legal bases. As a result, some have urged that consideration be given to bringing pre-1972 sound recordings under Federal copyright law, so that users have to contend with only a single set of laws.

When it directed the Register of Copyrights to conduct a study on the desirability of and means for bringing sound recordings fixed before February 15, 1972 under Federal jurisdiction, Congress specifically stated:

The study is to cover the effect of federal coverage on the preservation of such sound recordings, the effect on public access to those recordings, and the economic impact of federal coverage on rights holders. The study is also to examine the means for accomplishing such coverage.

H.R. 1105, Public Law 111–8 [Legislative Text and Explanatory Statement] 1769. As part of the study, the Register is to provide an opportunity for interested parties to submit comments. The Register's report to Congress on the results of the study is to include any recommendations that the Register considers appropriate.

The body of pre-1972 sound recordings is vast. Commercially released "popular" recordings come most readily to mind—from Rudy Vallee to Frank Sinatra and Ella Fitzgerald to the Beatles and the Rolling Stones. But pre-1972 commercial recordings encompass a wide range of genres: ragtime and jazz, rhythm and blues, gospel, country and folk music, classical recordings, spoken word recordings and many others. There are, in addition, many unpublished recordings such as journalists' tapes, oral histories, and ethnographic and folklore recordings. There are also recordings of old radio broadcasts, which were publicly disseminated by virtue of the broadcast, but in many cases are technically unpublished under the standards of the U.S. Copyright Act.

The Copyright Office requests that parties with an interest in the question of whether to protect pre-1972 sound recordings as part of the Federal copyright statute submit their comments on the issue and, in those comments, respond to the specific questions below. A party need only address those issues on which it has information or views,

but the Office asks that all answers be as comprehensive as possible.

### Specific Questions

#### Preservation of and Access to Pre-1972 Sound Recordings

The following questions are meant to elicit information about how Federal protection of pre-1972 sound recordings will affect preservation and public access.

##### Preservation

1. Do libraries and archives, which are beneficiaries of the limitations on exclusive rights in section 108 of the Copyright Act, currently treat pre-1972 sound recordings differently from those first fixed in 1972 or later ("copyrighted sound recordings") for purposes of preservation activities? Do educational institutions, museums, and other cultural institutions that are not beneficiaries of section 108 treat pre-1972 sound recordings any differently for these purposes?

2. Would bringing pre-1972 sound recordings under Federal law—without amending the current exceptions—affect preservation efforts with respect to those recordings? Would it improve the ability of libraries and archives to preserve these works; and if so, in what way? Would it improve the ability of educational institutions, museums, and other cultural institutions to preserve these works?

##### Access

3. Do libraries and archives currently treat pre-1972 sound recordings differently from copyrighted sound recordings for purposes of providing access to those works? Do educational institutions, museums, and other cultural institutions treat them any differently?

4. Would bringing pre-1972 sound recordings under Federal law—without amending the current exceptions—affect the ability of such institutions to provide access to those recordings? Would it improve the ability of libraries and archives to make these works available to researchers and scholars; and if so, in what way? What about educational institutions, museums, and other cultural institutions?

5. Currently one group of pre-1972 recordings does have Federal copyright protection—those of foreign origin whose copyrights were restored by law. (See the discussion of the URAA above.) In order to be eligible for restoration, works have to meet several conditions, including: (1) They cannot be in the public domain in their home country through expiration of the term of protection on the date of restoration; (2)

they have to be in the public domain in the United States due to noncompliance with formalities, lack of subject matter protection (as was the case for sound recordings) or lack of national eligibility; and (3) they have to meet national eligibility standards, *i.e.*, the work has to be of foreign origin. 17 U.S.C. 104A(h)(6). In determining whether a work was in the public domain in its home country at the time it became eligible for restoration, one has to know the term of protection in that country; in most countries, sound recordings are protected under a "neighboring rights" regime which provides a 50-year term of protection. As a result, most foreign sound recordings first fixed prior to 1946 are not eligible for restoration. To be of foreign origin, a work has to have "at least one author or rightholder who was, at the time the work was created, a national or domiciliary of an eligible country, and if published, [must have been] first published in an eligible country and not published in the United States during the 30-day period following publication in such eligible country." 17 U.S.C. 104A(h)(6)(D).

Does the differing protection for this particular group of recordings lead to their broader use? Have you had any experience with trying to identify which pre-1972 sound recordings are (or may be) so protected? Please elaborate.

6. Are pre-1972 sound recordings currently being treated differently from copyrighted sound recordings when use is sought for educational purposes, including use in connection with the distance education exceptions in 17 U.S.C. 110(2)? Would bringing pre-1972 sound recordings under Federal law affect the ability to make these works available for educational purposes; and if so, in what way?

7. Do libraries and archives make published and unpublished recordings available on different terms? What about educational institutions, museums, and other cultural institutions? Are unpublished works protected by State common law copyright treated differently from unpublished works protected by Federal copyright law? Would bringing pre-1972 sound recordings under Federal law affect the ability to provide access to unpublished pre-1972 sound recordings?

### Economic Impact

Likely economic impact is an important consideration in determining whether pre-1972 sound recordings should be brought under Federal law, and how that change might be accomplished. The questions below are intended to elicit information regarding

what revenue expectations copyright owners have with respect to pre-1972 sound recordings, and how these expectations would be affected by bringing these recordings under Federal protection. These questions are also intended to elicit information concerning the determination of ownership in such recordings.

#### *Value of the Recordings*

8. Are there commercially valuable sound recordings first fixed before 1923 (e.g., that would be in the public domain if the ordinary Federal term of protection applied) that would be adversely affected? Please describe these recordings, including whether or not they are currently under commercial exploitation (and if not, why not) and elaborate on the nature and extent of their commercial value.

9. Are there commercially valuable sound recordings first fixed from 1923–1940 that would be adversely affected? Please describe these recordings, including whether or not they are currently under commercial exploitation (and if not, why not) and elaborate on the nature and extent of their commercial value.

10. With regard to commercial recordings first fixed after 1940: What is the likely commercial impact of bringing these works under Federal copyright law?

11. Would there be any negative economic impact of such a change, e.g., in the scope of rights, or the certainty and enforceability of protection?

12. Would there be any positive economic impact of such a change, e.g., in the scope of rights, or the certainty and enforceability of protection?

13. What would be the economic impact of bringing pre-1972 sound recordings into the section 114 statutory licensing mechanism applicable to certain digital transmissions of sound recordings? Would there be other advantages or disadvantages in bringing pre-1972 sound recordings within the scope of the section 114 statutory license?

14. Does the uncertainty of different regimes under State law make it less practical for rights holders to bring suit under State law? Are you aware of any infringement suits concerning pre-1972 sound recordings brought in the past 10 years?

15. Would business arrangements concerning sampling of sound recordings be affected by bringing pre-1972 recordings under Federal law; and if so, how would they be affected? Are pre-1972 sound recordings currently treated differently with respect to sampling?

#### *Ownership of Rights in the Recordings*

It is worthwhile to explore State law principles applicable to authorship and ownership of rights in sound recordings to determine whether there would be any tension with Federal copyright law principles.

16. Under Federal law the owner of the sound recording will generally be, in the first instance, the performer(s) whose performance is recorded, the producer of the recording, or both. Do State laws attribute ownership differently? If so, might that lead to complications?

17. Under Federal law, some copyrighted sound recordings qualify as works made for hire, either because (1) they are works prepared by employees in the scope of their employment, or (2) they were specially ordered or commissioned, if the parties agree in writing that the works will be works made for hire, and the works fall within one of nine specific categories of works eligible to be commissioned works made for hire. 17 U.S.C. 101.<sup>3</sup> If a work qualifies as a work made for hire, it is the employer or commissioning party who is the legal author and initial rights holder, rather than the individual creator of the work. Prior to the January 1, 1978, the courts recognized the work for hire doctrine with respect to works created by employees in the course of their employment, and particularly from the mid-1960s on, they recognized commissioned works made for hire, under such standards as whether the work was created at the hiring party's "instance and expense" or whether the hiring party had the "right to control" or exercised "actual control" over the creation of the work.

To what extent does State law recognize the work made for hire doctrine with respect to sound recordings? To what extent does State law recognize commissioned works for hire, and under what standard? Have State laws in this respect changed over time? Is there any likelihood that, if Federal standards were applied, ownership of pre-1972 sound recordings would be attributed differently? Is there any reason to believe that, if pre-1972 sound recordings were to become protected under Federal copyright law, their ownership would then become subject to Federal work-made-for-hire standards?

<sup>3</sup>The types of works that can qualify as commissioned works for hire include: A contribution to a collective work, a part of a motion picture or other audiovisual work, a translation, a supplementary work, a compilation, an instructional text, a test, answer material for a test, or an atlas. 17 U.S.C. 101(2).

18. Under Federal copyright law, ownership of rights is distinct from ownership of the material object in which the copyrighted work is embodied. Transferring ownership of such an object, including the "original," i.e., the copy or phonorecord in which the copyrighted work was first fixed, does not convey rights in the copyright. 17 U.S.C. 202. A transfer of copyright ownership must be made in a writing signed by the owner of the rights or her authorized agent. *Id.* 204.

Some State laws provide (or for a period of time provided) that transferring the original copy of a work could operate as a transfer of copyright ownership, unless the rights holder specifically reserved the copyright rights. To what extent have these State law principles been applied with respect to "master recordings"? How if at all would they affect who would own the Federal statutory rights, if pre-1972 sound recordings were brought under Federal law?

19. If pre-1972 sound recordings were to be given protection under the Federal copyright statute, how would or should copyright ownership of such recordings be determined? Has the issue arisen with respect to pre-1978 unpublished works that received Federal statutory copyrights when the Copyright Act of 1976 came into effect?

20. What other considerations are relevant in assessing the economic impact of bringing pre-1972 sound recordings under Federal protection?

#### **Term of Protection and Related Constitutional Considerations**

##### *Term of Protection*

21. If pre-1972 sound recordings are brought under Federal copyright law, should the basic term of protection be the same as for other works—i.e., for the life of the author plus 70 years or, in the case of anonymous and pseudonymous works and works made for hire, for a term of 95 years from the year of its first publication, or a term of 120 years from the year of its creation, whichever expires first? Can different treatment for pre-1972 sound recordings be justified?

22. Currently, States are permitted to protect pre-1972 sound recordings until February 15, 2067. If these recordings were incorporated into Federal copyright law and the ordinary statutory terms applied, then all works fixed prior to 1923 would immediately go into the public domain. Most pre-1972 sound recordings, including all published, commercial recordings, would experience a shorter term of protection. However, as the date of the recording approaches 1972, the terms under

Federal and State law become increasingly similar. For example, a sound recording published in 1940 would be protected until the end of 2035 instead of February 15, 2067; one published in 1970 would be protected until the end of 2065 instead of February 15, 2067. In the case of one category of works—unpublished sound recordings whose term is measured by the life of author—there would actually be an extension of term if the author died after 1997. For example, if the author of an unpublished pre-1972 sound recording died in 2010, that sound recording would be protected under Federal law until the end of 2080.

In the 1976 Copyright Act, Congress made all unpublished works being brought under Federal law subject to the ordinary statutory term that the 1976 Act provided for copyrighted works: life of the author plus 50 years (later extended by the CTEA to life of the author plus 70 years). However, Congress was concerned that for some works, applying the ordinary statutory copyright terms would mean that copyright protection would have expired by the effective date of the 1976 Copyright Act, or would expire soon thereafter. Congress decided that removing subsisting common law rights and substituting statutory rights for a “reasonable period” would be “fully in harmony with the constitutional requirements of due process.” H.R. Rep. No. 94-1476, at 138–39 (1976). Accordingly, the 1976 Copyright Act included a provision that gave all unpublished works, no matter how old, a minimum period of protection of 25 years, until December 31, 2002. 17 U.S.C. 303. If those works were published by that date, they would get an additional term of protection of 25 years, to December 31, 2027 (later extended by the CTEA to 2047).

If pre-1972 sound recordings were brought under Federal copyright law, should a similar provision be made for those recordings that otherwise would have little or no opportunity for Federal copyright protection? If so, what would be a “reasonable period” in this context, and why? If not, would the legislation encounter constitutional problems (*e.g.*, due process, or Takings Clause issues)?

#### *Increasing the Availability of Pre-1972 Sound Recordings*

23. If the requirements of due process make necessary some minimum period of protection, are there exceptions that might be adopted to make those recordings that have no commercial value available for use sooner? For example, would it be worthwhile to consider amending 17 U.S.C. 108(h) to

allow broader use on the terms of that provision throughout any such “minimum period?” Do libraries and archives rely on this provision to make older copyrighted works available? If not, why not?

24. Are there other ways to enhance the ability to use pre-1972 sound recordings during any minimum term, should one be deemed necessary?

25. How might rights holders be encouraged to make existing recordings available on the market? Would a provision like that in section 303—an extended period of protection contingent upon publication—be likely to encourage rights holders to make these works publicly available?

#### **Partial Incorporation**

26. The possibility of bringing pre-1972 sound recordings under Federal law only for limited purposes has been raised. For example, some stakeholders seek to ensure that whether or not pre-1972 sound recordings receive Federal copyright protection, they are in any event subject to the fair use doctrine and the library and archives exceptions found in sections 107 and 108, respectively, of the Copyright Act. Others would like to subject pre-1972 sound recordings to the section 114 statutory license, but otherwise keep them within the protection of State law rather than Federal copyright law.

Is it legally possible to bring sound recordings under Federal law for such limited purposes? For example, can (and should) there be a Federal exception (such as fair use) without an underlying Federal right? Can (and should) works that do not enjoy Federal statutory copyright protection nevertheless be subject to statutory licensing under the Federal copyright law? What would be the advantages or disadvantages of such proposals?

#### **Miscellaneous Questions**

27. Could the incorporation of pre-1972 sound recordings potentially affect in any way the rights in the underlying works (such as musical works); and if so, in what way?

28. What other uses of pre-1972 recordings, besides preservation and access activities by libraries and other cultural institutions, might be affected by a change from State to Federal protection? For example, to what extent are people currently engaging in commercial or noncommercial use or exploitation of pre-1972 sound recordings, without authorization from the rights holder, in reliance on the current status of protection under State law? If so, in what way? Would protecting pre-1972 sound recordings

under Federal law affect the ability to engage in such activities?

29. To the extent not addressed in response to the preceding question, to what extent are people currently refraining from making use, commercial or noncommercial, of pre-1972 sound recordings in view of the current status of protection under State law; and if so, in what way?

30. Are there other factors relevant to a determination of whether pre-1972 sound recordings should be brought under Federal law, and how that could be accomplished?

Dated: October 29, 2010.

**David O. Carson,**  
*General Counsel.*

[FR Doc. 2010-27775 Filed 11-2-10; 8:45 am]

**BILLING CODE P**

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## **NATIONAL ARCHIVES AND RECORDS ADMINISTRATION**

### **Records Schedules; Availability and Request for Comments**

**AGENCY:** National Archives and Records Administration (NARA).

**ACTION:** Notice of availability of proposed records schedules; request for comments.

**SUMMARY:** The National Archives and Records Administration (NARA) publishes notice at least once monthly of certain Federal agency requests for records disposition authority (records schedules). Once approved by NARA, records schedules provide mandatory instructions on what happens to records when no longer needed for current Government business. They authorize the preservation of records of continuing value in the National Archives of the United States and the destruction, after a specified period, of records lacking administrative, legal, research, or other value. Notice is published for records schedules in which agencies propose to destroy records not previously authorized for disposal or reduce the retention period of records already authorized for disposal. NARA invites public comments on such records schedules, as required by 44 U.S.C. 3303a(a).

**DATES:** Requests for copies must be received in writing on or before December 3, 2010. Once the appraisal of the records is completed, NARA will send a copy of the schedule. NARA staff usually prepare appraisal memorandums that contain additional information concerning the records covered by a proposed schedule. These, too, may be requested and will be

**APPENDIX B**

**SUPPLEMENTAL PUBLIC NOTICE**

**Permanent Membership**

Chair—Deputy Secretary—Seth D. Harris  
 Vice-Chair—Assistant Secretary for Administration and Management—T. Michael Kerr  
 Executive Secretary—Director, Executive Resources—Crystal Scott  
 Alternate Vice-Chair—Director, Human Resources Center—Eugenio (Gene) Ochoa Sexton

**Rotating Membership**

ASP Kathleen E. Franks, Director, Office of Regulatory and Programmatic Policy—appointment expires on 09/30/12  
 BLS John M. Galvin, Associate Commissioner, Office of Employment and Unemployment Statistics—appointment expires on 09/30/2013  
 EBSA Sharon S. Watson, Director, Office of Participant Assistance—appointment expires on 9/30/12  
 EBSA Jonathan Kay, Regional Administrator (New York)—appointment expires on 9/30/13  
 ETA Grace A. Kilbane, Administrator, Office of Workforce Investment—appointment expires on 09/30/11  
 ILAB Marcia M. Eugenio, Director, Office of Child Labor, Forced Labor Human Trafficking—appointment expires on 09/30/12  
 MSHA Maureen Walsh, Director, Administration and Management—appointment expires on 09/30/12  
 OASAM Charlotte A. Hayes, Deputy Assistant Secretary for Policy—appointment expires on 09/30/12  
 OASAM Milton A. Stewart, Director, Business Operations Center—appointment expires on 09/30/12  
 OASAM Ramon Suris-Fernandez, Director, Civil Rights Center—appointment expires on 09/30/11  
 OCFO Karen Tekleberhan, Deputy Chief Financial Officer—appointment expires on 09/30/2013  
 OFCCP Sandra S. Zeigler, Regional Director (Chicago)—appointment expires on 9/30/12  
 OLMS Stephen J. Willertz, Director, Office of Enforcement and International Union Audits—appointment expires on 09/30/2012  
 OWCP Rachel P. Leiton, Director, Energy Employees' Occupational Illness Compensation—appointment expires on 09/30/11  
 SOL Katherine E. Bissell, Associate Solicitor for Civil Rights and Labor Management—appointment expires on 09/30/11  
 SOL Michael D. Felsen, Regional Solicitor, Boston—appointment expires on 09/30/12  
 SOL Deborah Greenfield, Deputy Solicitor—appointment expires on 9/30/12

SOL Jeffrey L. Nesvet, Associate Solicitor for Federal Employees' and Energy Workers' Compensation—appointment expires on 09/30/13  
 VETS Ismael Ortiz, Jr., Deputy Assistant Secretary—appointment expires on 9/30/12  
 WHD Cynthia C Watson, Regional Administrator (Dallas)—appointment expires on 09/30/13

**FOR FURTHER INFORMATION CONTACT:** Ms. Crystal Scott, Director, Office of Executive Resources, Room C5508, U.S. Department of Labor, Frances Perkins Building, 200 Constitution Ave., NW., Washington, DC 20210, telephone: (202) 693-7628.

Signed at Washington, DC, on 24th day of November 2010.

**Hilda L. Solis,**  
*Secretary of Labor.*

[FR Doc. 2010-30210 Filed 11-30-10; 8:45 am]

**BILLING CODE 4510-23-P**

**LIBRARY OF CONGRESS****Copyright Office**

[Docket No. 2010-4]

**Federal Copyright Protection of Sound Recordings Fixed Before February 15, 1972**

**AGENCY:** Copyright Office, Library of Congress.

**ACTION:** Notice of inquiry: Extension of comment period; extension of reply comment period.

**SUMMARY:** The Copyright Office of the Library of Congress is extending the time in which comments and reply comments can be filed in response to its Notice of Inquiry requesting public input on the desirability and means of bringing sound recordings fixed before February 15, 1972, under Federal jurisdiction.

**DATES:** Initial written comments must be received in the Office of the General Counsel of the Copyright Office no later than January 31, 2011. Reply comments must be received in the Office of the General Counsel of the Copyright Office no later than March 2, 2011.

**ADDRESSES:** The Copyright Office strongly prefers that comments be submitted electronically. A comment page containing a comment form is posted on the Copyright Office Web site at <http://www.copyright.gov/docs/sound/comments/comment-submission-index.html>. The Web site interface requires submitters to complete a form specifying name and organization, as applicable, and to upload comments as

an attachment via a browse button. To meet accessibility standards, each comment must be uploaded in a single file in either the Adobe Portable Document File (PDF) format that contains searchable, accessible text (not an image); Microsoft Word; WordPerfect; Rich Text Format (RTF); or ASCII text file format (not a scanned document). The maximum file size is 6 megabytes (MB). The name of the submitter and organization should appear on both the form and the face of the comments. All comments will be posted on the Copyright Office Web site, along with names and organizations.

If electronic submission of comments is not feasible, comments may be delivered in hard copy. If hand delivered by a private party, an original and five copies of a comment or reply comment should be brought to the Library of Congress, U.S. Copyright Office, Room LM-401, James Madison Building, 101 Independence Ave., SE., Washington, DC 20559, between 8:30 a.m. and 5 p.m. The envelope should be addressed as follows: Office of the General Counsel, U.S. Copyright Office.

If delivered by a commercial courier, an original and five copies of a comment or reply comment must be delivered to the Congressional Courier Acceptance Site ("CCAS") located at 2nd and D Streets, SE., Washington, DC between 8:30 a.m. and 4 p.m. The envelope should be addressed as follows: Office of the General Counsel, U.S. Copyright Office, LM-403, James Madison Building, 101 Independence Avenue, SE., Washington, DC 20559. Please note that CCAS will not accept delivery by means of overnight delivery services such as Federal Express, United Parcel Service or DHL.

If sent by mail (including overnight delivery using U.S. Postal Service Express Mail), an original and five copies of a comment or reply comment should be addressed to U.S. Copyright Office, Copyright GC/I&R, P.O. Box 70400, Washington, DC 20024.

**FOR FURTHER INFORMATION CONTACT:** David O. Carson, General Counsel, or Chris Weston, Attorney Advisor, Copyright GC/I&R, P.O. Box 70400, Washington, DC 20024. Telephone: (202) 707-8380. Telefax: (202) 707-8366.

**SUPPLEMENTARY INFORMATION:** To assist in the preparation of its study on federal protection for pre-1972 sound recordings, the Office published a Notice of Inquiry seeking comments on many detailed questions regarding various aspects of the study. See 75 FR 67777 (November 3, 2010). Initial

comments were due to be filed by December 20, 2010; reply comments were due to be filed by January 19, 2011.

The Copyright Office has received a request from the Recording Industry Association of America to extend the comment period to January 31, 2011, in order to allow sufficient time to gather relevant information from its member companies and to provide the Office with comprehensive comments. Given the need for more factual data regarding pre-1972 sound recordings, and the complexity of the issues raised by the Notice of Inquiry, the Office has decided to extend the deadline for filing comments by a period of 42 days, making initial comments due by January 31, 2011. The period for filing reply comments will be similarly extended, making reply comments due by March 2, 2011.

Dated: November 24, 2010.

**David O. Carson,**

*General Counsel.*

[FR Doc. 2010-30213 Filed 11-30-10; 8:45 am]

BILLING CODE 1410-30-P

## NUCLEAR REGULATORY COMMISSION

[EA-10-152; Project No. 52-0001; NRC-2010-0368]

### In the Matter of Toshiba America Nuclear Energy Corporation and All Other Persons Who Seek or Obtain Access to Safeguards Information Described Herein; Order Imposing Safeguards Information Protection Requirements for Access to Safeguards Information (Effective Immediately)

I

On June 12, 2009, the U.S. Nuclear Regulatory Commission (the Commission or NRC) published a rulemaking in the **Federal Register** (74 FR 28112), that requires applicants for a variety of licensing activities, including nuclear power plant designers, to perform a design-specific assessment of the effects of a large, commercial aircraft impact and to incorporate design features and functional capabilities into the nuclear power plant design to provide additional inherent protection with reduced operator actions. Section V of the **Federal Register** notice contains specific requirements for applicants for new nuclear power reactors. To assist designers in completing this assessment, the Commission has decided to provide the detailed aircraft impact

characteristics that reactor vendors and architect/engineers who have the need to know and who meet the NRC's requirements for the disclosure of such information should use as reasonable input in studies of the inherent capabilities of their designs.

The NRC derived these characteristics from agency analyses performed on operating reactors to support, in part, the development of a broadly effective set of mitigation strategies to combat fires and explosions from a spectrum of hypothetical aircraft impacts. Although the NRC did not select these detailed characteristics as a basis for designing new reactors, the staff is suggesting that designers use them as a starting point for aircraft impact assessments. As stated in the rulemaking, the Commission will specify, in a safeguards information (SGI) guidance document, the detailed aircraft impact characteristics that should be used in a required assessment of the new reactor designs. The agency is working to finalize the form and values of those detailed characteristics. On July 10, 2009, the NRC issued Draft Regulatory Guide (DG)-1176, "Guidance for the Assessment of Beyond-Design-Basis Aircraft Impacts," to assist applicants in the completion of the assessment. The agency did not receive any comments on DG-1176. The staff is currently finalizing the regulatory guide. In addition, the staff recognizes that no national or international consensus has been reached on the selection of appropriate characteristics for such analyses. Therefore, applicants should consider the information preliminary and subject to authorized stakeholder comment. The detailed aircraft characteristics that are the subject of this Order are hereby designated as SGI,<sup>1</sup> in accordance with Section 147 of the Atomic Energy Act of 1954, as amended (AEA).

On October 24, 2008, the NRC revised Title 10 of the *Code of Federal Regulations* (10 CFR) Part 73, § 73.21, "Protection of Safeguards Information: Performance Requirements," to include applicants in the list of entities required to protect SGI (73 FR 63546). The NRC is issuing this Order to Toshiba America Nuclear Energy Corporation (TANE) to impose requirements for the protection of SGI in addition to the requirements in the revised 10 CFR 73.21. These additional requirements include nomination of a reviewing official,

<sup>1</sup> SGI is a form of sensitive, unclassified, security-related information that the Commission has the authority to designate and protect under Section 147 of the AEA.

restrictions on the storage of SGI, and access to SGI by certain individuals.

To implement this Order, TANE must nominate an individual, known as the "reviewing official," who will review the results of the Federal Bureau of Investigation (FBI) criminal history records check to make SGI access determinations. The reviewing official must be someone who seeks access to SGI. Based on the results of the FBI criminal history records check, the NRC staff will determine whether this individual may have access to SGI. If the NRC determines that the individual may not be granted access to SGI, the enclosed Order prohibits that individual from obtaining access to any SGI. Once the NRC determines that the nominated individual may have access to SGI, and after TANE has completed the background check on the reviewing official and has determined that he or she is trustworthy and reliable, and has approved the individual as the reviewing official, that reviewing official, and only that reviewing official, can make SGI access determinations for other individuals who have been identified by TANE as having a need to know SGI and who have been fingerprinted and have had a criminal history records check in accordance with this Order. The reviewing official can only make SGI access determinations for other individuals; he or she cannot approve other individuals to act as reviewing officials. If TANE wishes to nominate a new or additional reviewing official, the NRC must first determine whether that individual may have access to SGI before he or she can act in the capacity of a reviewing official.

The regulations at 10 CFR 73.59, "Relief from Fingerprinting, Identification and Criminal History Records Checks and Other Elements of Background Checks for Designated Categories of Individuals," relieve certain categories of individuals from fingerprinting requirements. Those individuals include: (1) Federal, State, and local law enforcement personnel, (2) Agreement State inspectors who conduct security inspections on behalf of the NRC, (3) members of Congress, (4) employees of members of Congress or congressional committees who have undergone fingerprinting for a prior U.S. Government criminal history check, and (5) certain representatives of the International Atomic Energy Agency or certain foreign government organizations. In addition, the NRC has determined that individuals who have had a Favorably-decided U.S. Government criminal history check within the last 5 years or individuals

**APPENDIX C**      **NOTICE OF PUBLIC MEETING**

Department of Justice, Washington, DC 20044-7611 or by faxing or e-mailing a request to Tonia Fleetwood ([tonia.fleetwood@usdoj.gov](mailto:tonia.fleetwood@usdoj.gov)), fax no. (202) 514-0097, phone confirmation number (202) 514-1547. In requesting a copy from the Consent Decree Library, please enclose a check in the amount of \$32 for complete Consent Decree or \$15.75 for the Consent Decree without the appendices (25 cents per page reproduction cost) payable to the U.S. Treasury or, if by e-mail or fax, forward a check in that amount to the Consent Decree Library at the stated address.

**Robert E. Maher, Jr.**,  
*Assistant Section Chief, Environmental Enforcement Section, Environment and Natural Resources Division.*

[FR Doc. 2011-11174 Filed 5-6-11; 8:45 am]

**BILLING CODE 4410-15-P**

**DEPARTMENT OF LABOR**

**Employment and Training Administration**

**Workforce Investment Act of 1998 (WIA); Notice of Incentive Funding Availability Based on Program Year (PY) 2009 Performance**

**AGENCY:** Employment and Training Administration, Labor.

**ACTION:** Notice.

**SUMMARY:** The Department of Labor, in collaboration with the Department of Education, announces that four states are eligible to apply for Workforce Investment Act (WIA) (Pub. L. 105-220, 29 U.S.C. 2801 *et seq.*) incentive grant awards authorized by section 503 of the WIA.

**DATES:** The four eligible states must submit their applications for incentive funding to the Department of Labor by June 23, 2011.

**ADDRESSES:** Submit applications to the Employment and Training Administration, Office of Policy Development and Research, Division of Strategic Planning and Performance, 200 Constitution Avenue, NW., Room N-5641, Washington, DC 20210, *Attention:* Karen Staha and Luke Murren, Telephone number: 202-693-3733 (this is not a toll-free number). Fax: 202-693-2766. *E-mail:* [staha.karen@dol.gov](mailto:staha.karen@dol.gov) and [murren.luke@dol.gov](mailto:murren.luke@dol.gov). Information may also be found at the ETA Performance Web site: <http://www.doleta.gov/performance>.

**SUPPLEMENTARY INFORMATION:** Four states (see Appendix) qualify to receive a share of the \$10.2 million available for incentive grant awards under WIA

section 503. These funds, which were contributed by the Department of Education from appropriations for the Adult Education and Family Literacy Act (AEFLA), are available for the eligible states to use through June 30, 2013, to support innovative workforce development and education activities that are authorized under title IB (Workforce Investment Systems) or Title II (AEFLA) of WIA, or under the Carl D. Perkins Career and Technical Education Act of 2006 (Perkins IV), 20 U.S.C. 2301 *et seq.*, as amended by Public Law 109-270. In order to qualify for a grant award, a state must have exceeded its performance levels for WIA title IB and adult education (AEFLA). (Due to the lack of availability of PY 2009 performance data under the Carl D. Perkins Vocational and Technical Education Act of 1998 (Perkins III), the Department of Labor and the Department of Education did not consider states' performance levels under the Perkins Act in determining incentive grants eligibility.) The goals included employment after training and related services, retention in employment, and improvements in literacy levels, among other measures. After review of the performance data submitted by states to the Department of Labor and to the Department of Education, each Department determined for its program(s) which states exceeded their performance levels (the Appendix at the bottom of this notice lists the eligibility of each state by program). These lists were compared, and states that exceeded their performance levels for both programs are eligible to apply for and receive an incentive grant award. The amount that each state is eligible to receive was determined by the Department of Labor and the Department of Education, based on the provisions in WIA section 503(c) (20 U.S.C. 9273(c)), and is proportional to the total funding received by these states for WIA Title IB and AEFLA programs.

The states eligible to apply for incentive grant awards and the amounts they are eligible to receive are listed in the following chart:

State	Amount of award
1. Arizona .....	\$3,000,000
2. Minnesota .....	3,000,000
3. North Dakota .....	1,210,964
4. Texas .....	3,000,000

Dated: May 2, 2011.

**Jane Oates**,  
*Assistant Secretary for Employment and Training.*

[FR Doc. 2011-11191 Filed 5-6-11; 8:45 am]

**BILLING CODE 4510-FN-P**

**LIBRARY OF CONGRESS**

**Copyright Office**

[Docket No. 2010-4]

**Federal Copyright Protection of Sound Recordings Fixed Before February 15, 1972**

**AGENCY:** Copyright Office, Library of Congress.

**ACTION:** Notice of public meeting.

**SUMMARY:** The Copyright Office will host a public meeting to discuss the desirability and means of bringing sound recordings fixed before February 15, 1972 under Federal jurisdiction. The meeting will provide a forum, in the form of a roundtable discussion, for interested parties to address the legal, policy, and factual questions raised so far regarding pre-1972 sound recordings. It will take place on June 2 and 3, 2011 at the Copyright Office in Washington, DC. In order to participate in the meeting, interested parties should submit a request via the Copyright Office Web site.

**DATES:** The public meeting will take place on Thursday, June 2, 2011 from 9 a.m. to 5 p.m. and Friday, June 3, 2011 from 9 a.m. to 1:30 p.m. Requests for participation must be received in the Office of the General Counsel of the Copyright Office no later than Monday, May 16, 2011 at 5 p.m. E.D.T.

**ADDRESSES:** The public meeting will take place in the Copyright Office Hearing Room, Room LM-408 of the Madison Building of the Library of Congress, 101 Independence Ave., SE., Washington, DC. The Copyright Office strongly prefers that requests for participation be submitted electronically. A public meeting page containing a request form is posted on the Copyright Office Web site at <http://www.copyright.gov/docs/sound/>. Persons who are unable to submit a request electronically should contact Attorney-Advisor Chris Weston at 202-707-8380.

**FOR FURTHER INFORMATION CONTACT:** David O. Carson, General Counsel, or Chris Weston, Attorney-Advisor, Copyright GC/I&R, P.O. Box 70400, Washington, DC 20024. *Telephone:* (202) 707-8380. *Telefax:* (202) 707-8366.

**SUPPLEMENTARY INFORMATION:****Background**

Congress has directed the U.S. Copyright Office to conduct a study on the desirability and means of bringing sound recordings fixed before February 15, 1972 under Federal jurisdiction. Currently, such sound recordings are protected under a patchwork of state statutory and common laws from their date of creation until 2067. The legislation mandating this study states that it is to:

cover the effect of federal coverage on the preservation of such sound recordings, the effect on public access to those recordings, and the economic impact of federal coverage on rights holders. The study is also to examine the means for accomplishing such coverage.

H.R. 1105, Public Law 111–8 [Legislative Text and Explanatory Statement] 1769.

On November 3, 2010, the U.S. Copyright Office published a Notice of Inquiry seeking comments on the question of bringing pre-1972 sound recordings under Federal jurisdiction. 75 FR 67777 (November 3, 2010). The notice provided background as to why state law protection of pre-1972 sound recordings has not been preempted, unlike state law protection of other kinds of potentially copyrightable works. It also discussed the belief of some in the library and archives community that the absence of a Federal protection scheme for sound recordings has impeded the preservation and public availability of these recordings. In an attempt to understand the various effects that federalizing protection for pre-1972 sound recordings might have, the notice posed 30 specific questions to commenters regarding preservation and access, economic impact, term of protection, constitutional considerations, and other aspects of federalization.

The Copyright Office received 58 comments in response to its inquiry, along with 231 copies of a form letter. The Office subsequently received 17 reply comments. All comments, along with the notice of inquiry, are available at <http://www.copyright.gov/docs/sound/>. The comments ran the gamut from general policy arguments to proposals for new legislative language and, as anticipated, illuminate a variety of experiences and perspectives. Some comments raised new legal questions, and others deepened the Office's understanding of the number and variety of pre-1972 sound recordings at issue. The Copyright Office is holding a public meeting in order to permit interested parties to present their views

and discuss areas of agreement and disagreement through a roundtable discussion.

**Requests for Participation**

The Office has divided up the topics it wishes to discuss into nine sessions—five on June 2, 2011 and four on June 3, 2011—and briefly describes them below. These descriptions only note the major issues for each session and do not necessarily list every subject appropriate for discussion.

*Day 1, Session 1—Assessing the Landscape:* What are the legal and cultural difficulties—as well as benefits—attributable to state law protection of pre-1972 sound recordings?

*Day 1, Session 2—Availability of Pre-1972 Sound Recordings:* What is the true extent of public availability of pre-1972 sound recordings? In relation to the overall availability of such recordings, how significant are rights-holder reissue programs and recent donations to the Library of Congress?

*Day 1, Session 3—Effects of Federalization on Preservation, Access, and Value:* What benefits would federalization have with respect to preservation of and public access to pre-1972 sound recordings? Are those benefits quantifiable (i.e., in economic or cultural terms)? How would federalization affect the economic and cultural value of pre-1972 sound recordings? Are such effects quantifiable?

*Day 1, Session 4—Effects of Federalization on Ownership and Business Expectations:* What effects would federalization have with respect to ownership status, publication status, contracts, termination rights, registration requirements, and other business aspects of pre-1972 sound recordings? To what extent would these results depend on the manner in which federalization might be effected?

*Day 1, Session 5—Effects of Federalization on Statutory Licensing:* As a matter of logic, policy, and law, should pre-1972 sound recordings be eligible for the section 114 statutory license? Can and should they be subject to the section 114 statutory license if they are not otherwise brought into the Federal statutory scheme?

*Day 2, Session 1—Term of Protection:* Assuming that copyright protection for pre-1972 sound recordings is federalized, what are the best options for the term of protection of federalized pre-1972 sound recordings? Should pre-1972 recordings be considered separately? What about unpublished recordings? If federalized pre-1972 sound recordings are given shorter

terms than they had under state law, should term extensions be offered as an incentive to rights-holders who make their recordings publicly available within a specified period of time?

*Day 2, Session 2—Constitutional Considerations:* Is it appropriate to grant Federal copyright protection to works already created, fixed, and in some cases published? Are there circumstances under which federalization of pre-1972 sound recordings would effect a “taking” under the Fifth Amendment? If so, how could this be addressed in the legislation?

*Day 2, Session 3—Alternatives to Federalization:* What alternatives to federalization, if any, should be considered and why?

*Day 2, Session 4—Summing Up:* In light of this public meeting and of the comments received, please sum up your views on (1) whether pre-1972 sound recordings should be brought within the protection of Federal copyright law and (2) in the case of federalization, what adaptations to existing law would be necessary or advisable.

Requests to participate should be submitted online at <http://www.copyright.gov/docs/sound/>. The online form asks for the requestor's name, organization, title, postal mailing address, telephone number, fax number, and an e-mail address, although not all of the information is required. The requestor should also indicate, in order of preference, the sessions in which the requestor wishes to participate. Depending upon the level of interest, the Copyright Office may not be able to seat every participant in every session he or she requests, so it is helpful to know which topics are most important to each participant. In addition, please note that while an organization may bring multiple representatives, only one person per organization may participate in a particular session. A different person from the same organization may, of course, participate in another session.

Requestors who have already submitted a comment, or who will be representing an organization that has submitted a comment, are asked to identify their comments on the request form. Requestors who have not submitted comments should include a brief summary of their views on the topics they wish to discuss, either directly on the request form or as an attachment. To meet accessibility standards, all attachments must be uploaded in either the Adobe Portable Document File (PDF) format that contains searchable, accessible text (not an image); Microsoft Word; WordPerfect; Rich Text Format (RTF); or ASCII text file format (not a scanned

document). The name of the submitter and organization (if any) should appear on both the form and the face of any attachments.

Nonparticipants who wish to attend and observe the discussion should note that seating is limited and, for nonparticipants, will be available on a first come, first served basis.

Dated: May 4, 2011.

**Maria A. Pallante,**

*Acting Register of Copyrights.*

[FR Doc. 2011-11224 Filed 5-6-11; 8:45 am]

**BILLING CODE 1410-30-P**

## NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

[Notice (11-045)]

### NASA Advisory Council; Task Group of the Science Committee; Meeting

**AGENCY:** National Aeronautics and Space Administration.

**ACTION:** Notice of meeting.

**SUMMARY:** In accordance with the Federal Advisory Committee Act, Public Law 92-463, as amended, the National Aeronautics and Space Administration (NASA) announces a meeting of the Task Group of the NASA Advisory Council (NAC) Science Committee. This Task Group reports to the Science Committee of the NAC. The Meeting will be held for the purpose of soliciting from the scientific community and other persons scientific and technical information relevant to program planning.

**DATES:** Wednesday, May 25, 2 p.m. to 4 p.m., Local Time.

**ADDRESSES:** This meeting will take place telephonically and by WebEx. Any interested person may call the USA toll free conference call number 800-369-3194, pass code TAGAGMAY25, to participate in this meeting by telephone. The WebEx link is <https://nasa.webex.com/>, meeting number 993 198 285, and password tagag\_May25.

**FOR FURTHER INFORMATION CONTACT:** Ms. Marian Norris, Science Mission Directorate, NASA Headquarters, Washington, DC 20546, (202) 358-4452, fax (202) 358-4118, or [mnnorris@nasa.gov](mailto:mnnorris@nasa.gov).

**SUPPLEMENTARY INFORMATION:** The agenda for the meeting includes the following topic:

—Organizing Analysis Groups to Serve the Needs of More than One NASA Mission Directorate.

It is imperative that the meeting be held on these dates to accommodate the

scheduling priorities of the key participants.

Dated: May 2, 2011.

**P. Diane Rausch,**

*Advisory Committee Management Officer,  
National Aeronautics and Space Administration.*

[FR Doc. 2011-11163 Filed 5-6-11; 8:45 am]

**BILLING CODE 7510-13-P**

## NUCLEAR REGULATORY COMMISSION

[Docket Nos. 50-250 and 50-251; NRC-2011-0094]

### Florida Power & Light Company; Turkey Point, Units 3 and 4; Notice of Consideration of Issuance of Amendment to Facility Operating License, and Opportunity for a Hearing and Order Imposing Procedures for Document Access to Sensitive Unclassified Non-Safeguards Information

**AGENCY:** Nuclear Regulatory Commission.

**ACTION:** Notice of license amendment request, opportunity to comment, opportunity to request a hearing, and Commission order.

**DATES:** A request for a hearing must be filed by July 8, 2011. Any potential party as defined in Title 10 of the Code of Federal Regulations (10 CFR) 2.4 who believes access to Sensitive Unclassified Non-Safeguards Information (SUNSI) is necessary to respond to this notice must request document access by May 19, 2011.

**ADDRESSES:** Please include Docket ID NRC-2011-0094 in the subject line of your comments. Comments submitted in writing or in electronic form will be posted on the NRC Web site and on the Federal rulemaking Web site <http://www.regulations.gov>. Because your comments will not be edited to remove any identifying or contact information, the NRC cautions you against including any information in your submission that you do not want to be publicly disclosed.

The NRC requests that any party soliciting or aggregating comments received from other persons for submission to the NRC inform those persons that the NRC will not edit their comments to remove any identifying or contact information, and therefore, they should not include any information in their comments that they do not want publicly disclosed.

You may submit comments by any of the following methods:

- *Federal Rulemaking Web site:* Go to <http://www.regulations.gov> and search for documents filed under Docket ID NRC-2011-0094. Address questions about NRC dockets to Carol Gallagher 301-492-3668; e-mail [Carol.Gallagher@nrc.gov](mailto:Carol.Gallagher@nrc.gov).

You can access publicly available documents related to this notice using the following methods:

- *Mail comments to:* Cindy Bladey, Chief, Rules, Announcements, and Directives Branch (RADB), Office of Administration, *Mail Stop:* TWB-05-B01M, U.S. Nuclear Regulatory Commission, Washington, DC 20555-0001.
- *NRC's Public Document Room (PDR):* The public may examine, and have copied for a fee, publicly available documents at the NRC's PDR, Room O1-F21, One White Flint North, 11555 Rockville Pike, Rockville, Maryland 20852.

- *NRC's Agencywide Documents Access and Management System (ADAMS):* Publicly available documents created or received at the NRC are available online in the NRC's Library at <http://www.nrc.gov/reading-rm/adams.html>. From this page, the public can gain entry into ADAMS, which provides text and image files of NRC's public documents. If you do not have access to ADAMS or if there are problems in accessing the documents located in ADAMS, contact the NRC's PDR reference staff at 1-800-397-4209, 301-415-4737, or by e-mail to [pdr.resource@nrc.gov](mailto:pdr.resource@nrc.gov). The application for amendment, dated October 21, 2010, contains proprietary information and, accordingly, those portions are being withheld from public disclosure. A redacted version of the application for amendment, dated December 14, 2010, is available electronically under ADAMS Accession No. ML103560167.

- *Federal Rulemaking Web site:* Public comments and supporting materials related to this notice can be found at <http://www.regulations.gov> by searching on Docket ID: NRC-2011-0094.

**FOR FURTHER INFORMATION CONTACT:** Jason C. Paige, Project Manager, Plant Licensing Branch II-2, Division of Operating Reactor Licensing, Office of Nuclear Reactor Regulation, U.S. Nuclear Regulatory Commission, Washington, DC 20555. *Telephone:* 301-415-5888; *fax number:* 301-415-2102; *e-mail:* [Jason.Paige@nrc.gov](mailto:Jason.Paige@nrc.gov).

#### SUPPLEMENTARY INFORMATION:

#### I. Introduction

The U.S. Nuclear Regulatory Commission (NRC or the Commission)

**APPENDIX D**      LIST OF PARTIES SUBMITTING INITIAL COMMENTS

## APPENDIX D: INITIAL COMMENTS

Document	Organization/Comment
1	Michael Fitzgerald
2	Bill Hebden
3	Courtney Chartier
4	Phil Gries
5	R. Fay
6	Susan Hoffius
7a	Starr Gennett Foundation
7b	David J. Fulton, Starr-Gennett Foundation
8	Aaron A. Fox
9	Al Schlachtmeyer
10	Alison Stankrauff
11	Tanya Merchant
12	Benjamin Irwin
13	Darren Walters
14	Jean Dickson
15	Zoe Waldron
16	Deborah Campana
17	Dale Cockrell
18	Jodi Allison-Bunnell
19	Michael Burch
20	Lynn Hooker
21	Cristobal Diaz Ayala
22	Cynthia Varady
23	Henry Sapoznik
24	Peggy Davis
25	Sherry L. Mayrent
26	Abigail O. Garnett
27	Brian Lee Corber
28	Doug Pomeroy

29	Mark Slobin
30	Demetrio Wazar
31	Geoff Canyon
32	Louis Zell
33	Julie King
34	Max Cantor
35	Nathan Lambson
36	Maurice Saylor
37	Robert C. Lancefield
38	Nicola Battista
39	Helen R. Tibbo, Society of American Archivists
40	Rachel Evangeline Barham
41	Thad E. Garrett
42	Tim Brooks, Association of Recorded Sound Collections
43	Winston Barham
44	Eric Harbeson, Music Library Association
45	K. Matthew Dames, Syracuse University
46	Kenneth Crews
47	Lizabeth A. Wilson, University of Washington Libraries
48	Patrick Feaster
49	Patrick Loughney, Library of Congress
50	Randy Silverman & Alison Mower, University of Utah
51	Recording Industry Association of America and American Association of Independent Music
52	Stephanie M. Roach
53	Steven R. Englund, Sound Exchange, Inc.
54	Abigail Phillips, Electronic Freedom Foundation
55	Joel Brian Kellum - Comment 1 and Comment 2
56	Alex Cummings
57	Grooveshark form letter
58	Steven Smolian

**APPENDIX E**      LIST OF PARTIES SUBMITTING REPLY COMMENTS

## APPENDIX E: REPLY COMMENTS

Document	Organization/Comment
1	James A. Armstrong
2	Ivan Hoffman
3	Ryland Hawkins, Author Services, Inc.
4	Eric N. Burns, Conversation in Black
5	Eric D. Leaner, VAPAC Music Publishing, Inc.
6	Helen R. Tibbo, Society of American Archivists
7	The Association of Research Libraries and the American Library Association
8	Eric Harbeson, The Music Library Association (MLA)
9	Tim Brooks, Association for Recorded Sound Collections
10	Patrick Loughney, The Library of Congress
11	Future of Music Coalition
12	David Oxenford & Jane Mago, National Association of Broadcasters
13	Elizabeth Townsend Gard & the 2011 Copyright Class at Tulane University Law School
14	Recording Industry Association of America and American Association of Independent Music
15	Bruce Rich & Cynthia Greer, Sirius XM Radio, Inc.
16	J. Gregg Gautereaux, Artist's Reprieve LLC
17	Joel Kellum

**APPENDIX F**      LIST OF MEETING PARTICIPANTS

## **APPENDIX F: PUBLIC MEETING PARTICIPANTS**

**Gil Aronow, Sony Music Entertainment**

**Richard Bengloff, American Association of Independent Music**

**Tim Brooks, Association for Recorded Sound Collections**

**Sam Brylawski, Society for American Music**

**Peggy Bulger, American Folklife Center, Library of Congress**

**Brandon Butler, Association of Research Libraries**

**Dwayne Buttler, University Libraries, University of Louisville**

**Susan Chertkof, Recording Industry Assn of America**

**Michael DeSanctis, SoundExchange, Inc.**

**Elizabeth Townsend Gard, Tulane University Law School**

**Eric Harbeson, Music Library Association**

**Ivan Hoffman, attorney**

**Adam Holofcener, Future of Music Coalition**

**Tomas Lipinski, School of Library & Information Science, Indiana University**

**Patrick Loughney, Library of Congress**

**Steve Marks, Recording Industry Association of America**

**David Oxenford, National Association of Broadcasters**

**Jennifer Pariser, Recording Industry Association of America**

**Jay Rosenthal, National Music Publishers Association**

**Charles Sanders, Songwriters Guild of America**

**Eric Schwartz, Recording Industry Association of America**

## **LEGAL ETHICS FOR ENTERTAINMENT LAWYERS**

### I. Introduction of Panel

- a. Former Chief Justice of the Texas Supreme Court, Wallace Jefferson
- b. Steve McConnico, Partner, Scott Douglas McConnico
- c. Lawrence A. Waks, Partner, Jackson Walker – Moderator

### II. Perspective of Panel – Generally

- a. Chief Jefferson – as a justice, a judge, what type of legal ethics issues have you reviewed and opined on?
- b. Steve, you are one of the most well-known defenders of lawyers in malpractice and related claims, could you give us your general perspective on legal ethics issues as they might relate to the entertainment business?

### III. Conflicts of Interest

- a. Simultaneous representation, e.g., representing a band, a band company, a band and its management
- b. Label and artist
- c. Writer and publishing company
- d. Film production company, film financier, case and crew, distributor, P&A, etc.
- e. Former clients (departed band member, eg.)

### IV. Competence

- a. New York and California law – where do you need vs. have to be licensed?
- b. Unique regulations, eg., California talent agency rules; NY and California statutes on minor contracts
- c. Union/Guild issues
- d. International issues/laws – language and custom challenges

### V. Cutting Edge

- a. The law isn't keeping up with technology and digital content/delivery

- b. How do you get the law established in new areas, what can you ethically advocate?

VI. Fee Arrangements

- a. Often “novel” in entertainment area
- b. Who pays fees? Parents? Label or studio? Insurer? Who is client?
- c. Back-end? Deferrals, points, royalty shares [Hoover-Slovacek case], contingent interest in contracts

VII. Multiple Roles

- a. Lawyer/Agents
- b. Lawyer/Managers
- c. Lawyer/Band member/Actor

VIII. Confidentiality

- a. Unique confidentiality concerns
- b. Extraordinary precautions/measures

## ENTERTAINMENT LAW ETHICS

Kenneth J. Abdo, Esq.<sup>1</sup>

Jack P. Sahl<sup>2</sup>

### A. INTRODUCTION

Entertainment law is a highly competitive practice in which lawyers often assume non-traditional roles and responsibilities. Marketing, advertising, selling (shopping), packaging, networking and deal-making are common business activities for agents, managers and lawyers. As a result, lawyers sometime resemble agents and managers. However, lawyers are distinguished from others because lawyers are governed by codes of professional behavior.

Unlike agents and managers, lawyers must be highly educated and trained. They must pass a bar examination before being licensed to practice law. Their qualifications and character are scrutinized prior to entering law school and before taking the bar exam. After becoming licensed, most states require lawyers to continue legal education and training to maintain licensure.

Lawyers' achievements are often overshadowed by criticism of self-interest, greed and incompetency. As a result, grievances and malpractice claims are filed against entertainment lawyers.<sup>3</sup> A violation of the code threatens his or her reputation, license, and livelihood.

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1. **Kenneth J. Abdo** is a senior shareholder and Vice President of Lommen, Abdo, Cole King & Stageberg, P.A., Minneapolis, Minnesota where he practices entertainment law full time. He is a past Chair of the American Bar Association's Forum on the Entertainment & Sports Industries. He was an Adjunct Professor of Entertainment Law at William Mitchell College of Law, St. Paul, Minnesota, for eleven years. Mr. Abdo is a voting member, Chicago Chapter Governor and past Chair of the Entertainment Law Initiative (ELI) of the National Academy of Recording Arts and Sciences (The Recording Academy®). He is a published author and national lecturer. He is a co-writer of the standard law school textbook "The Law and Business of the Entertainment Industries" (Don Biederman, et al./Praeger). The firm's clients include Grammy®, Oscar®, Emmy®, Spirit® and Peabody® Award winners. Research assistance for this article was provided by Timothy C. Matson, Esq. and Melissa Biederman, Esq.

2. **Jack P. Sahl** is a professor at the University of Akron School of Law, Akron, Ohio where he teaches Professional Responsibility and Entertainment Law. He also often consults on entertainment and professional responsibility matters. Before becoming a law professor, he worked full time in the music industry. Professor Sahl regularly lectures on professional responsibility in the United States and abroad. He is a member of the publications Board of the American Bar Association's Center for Professional Responsibility and the Ohio State Bar Association's Legal Ethics and Professional Conduct Committee. Professor Sahl is also the Deputy Director of the Miller Institute of Professional Responsibility, a research center studying lawyer and judicial conduct.

3. See e.g., John P. Sahl, *The Public Hazard of Lawyer Self-Regulation: The Struggle to Reform Ohio's Disciplinary System*, 68 U. Cinc. L. Rev. 65 (1999) (noting examples of criticism of lawyers and recommending disciplinary reforms).

Lawyers' reputations depend on their ability to build and maintain professional relationships. However, along with public and professional scrutiny, references to entertainment (and all) lawyers such as "counselor," "advocate," "champion" and even "mouthpiece" reflect the critical valued and powerful roles that lawyers perform. Despite the jokes and jabs, the standard of living that many lawyers enjoy reflects the significant value that society attaches to quality legal services.

Entertainment attorneys who aggressively represent clients often test the limits of permissible professional conduct. Given the highly competitive and entrepreneurial nature of the entertainment business, it is not surprising that entertainment lawyers are the subject of complaints before disciplinary authorities and the courts. This article addresses the realities and concomitant ethics issues often encountered by entertainment lawyers.

## **B. PROFESSIONAL CONDUCT**

Given increased complexity of the law, advanced technology, sophisticated and litigious clients, practicing law today involves significant risks.<sup>4</sup> One source predicts that recent law school graduates "will be the subject of three or more claims of legal malpractice before finishing a career."<sup>5</sup> Thus, lawyers should have professional liability insurance and understand how their insurance policies define the practice of law to insure that the policies cover their activities.<sup>6</sup>

Professional responsibility is one of the most rapidly changing fields in law. There have been changes to the ABA Model Rules of Professional Conduct (1983) (MRPC), a code of ethical conduct that has been adopted in some version by more than 45 states.<sup>7</sup> States that

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4. See Sahl, *supra* note 3, at 66 (noting that a decline in the high rate of grievances against lawyers is unlikely given these factors and an increase in public dissatisfaction with lawyers).

5. RON E. MALLIN & JEFFREY M. SMITH, *LEGAL MALPRACTICE* x (1989) (hereinafter Mallen).

6. A lawyer's professional liability policy "is not written for 'negligence,' but for certain 'acts, omissions or errors' in rendering professional services." *Id.* at vol 4, 299. Courts have liberally defined the phrase, professional legal services, for purposes of covering lawyers' activities. If the client's principal purpose for retaining the lawyer is the rendition of legal services, "then the rendition of non-legal services that are incidental to the task are included" in the insurance policy. *Id.* at 302-03. A lawyer retained for non-legal purposes, such as, investing a client's funds or selling limited partnership interests for commissions, is not entitled to coverage. *Id.* at 304-05. Thus, depending on the context, a lawyer's advice to a client about selecting a home in the "Hamptons" or selling a client's songs to publishers or advertising companies, may not constitute the rendition of legal services.

7. JAMES E. MOLITERNO, *CASES AND MATERIALS ON THE LAW GOVERNING LAWYERS* 26 (2000). A significant amount of entertainment business occurs in California and New York, the locations of many entertainment companies and creative talent. Although California does not follow the MRPC format, it has promulgated rules and statutes many of which are similar to the MRPC. New York follows the format of the older ABA ethical code, the MCPR. Since the MRPC are widely adopted, this article focuses on the MRPC with references to the California Business and Professions Code ("CBPC") and Rules of Professional Conduct of the State Bar of California ("RPCC").

follow a version of the older ABA Model Code of Professional Responsibility (1974) have revised portions of their codes that often track the MRPC. Courts adjudicating malpractice actions, and disciplinary authorities considering grievances, often use these codes to evaluate the propriety of lawyer conduct. Another change concerns the American Law Institute, which recently completed its new Restatement of the Law Governing Lawyers. The Restatement has identified important issues beyond the ABA's ethical codes.<sup>8</sup> In addition, in 1998 the ABA created the Ethics 2000 Commission to consider changes to the MRPC. The Commission held numerous hearings throughout the nation and released its report at the end of 2000. The report recommended numerous changes to the MRPC.<sup>9</sup>

In 2002, the American Bar Association adopted substantial revisions to the MRPC. The name and format of the amended Rules are the same as in 1983. Very few states follow the MRPC as amended in 2002, but many have established committees to review the changes. This article refers to the amended Model Rules, unless stated otherwise.

Lawyers should conduct "professional responsibility audits" of their practices to insure that they are complying with state ethical codes concerning the practice of law.<sup>10</sup> For example, some states have particular rules concerning direct mail solicitation and advertising, which lawyers will want to review for compliance purposes.<sup>11</sup> Records of a lawyer's audit of his or her practice may become useful evidence of the lawyer's efforts to comply with ethical standards if the lawyer becomes the subject of a grievance or a malpractice complaint.

#### A. Establishing an Attorney-Client Relationship

Courts and disciplinary authorities have found that the attorney-client relationship exists as soon as the client reasonably relies on the attorney's advice. As a result, attorneys should be careful about casually offering advice on legal matters. An attorney should formally establish a professional relationship with a client and memorialize it in writing.<sup>12</sup> At the initial meeting with the client, the attorney should

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8. MORGAN & ROTUNDA, PROBLEMS AND MATERIAL ON PROFESSIONAL RESPONSIBILITY 13 (7<sup>th</sup> ed. 2000)(hereinafter MORGAN)( identifying malpractice and liens to secure payment for legal services as some of the subjects not covered in MRPC); ABA/BNA LAWYERS' MANUAL ON PROFESSIONAL CONDUCT, 301:111 (1998) (reporting that some commentators believe the ALI's Restatement (Third) of the Law of Lawyering might create yet another standard of care for judging lawyers' conduct in malpractice actions).

9. See MORGAN, *supra* note 8, at 12 n.9.

10. There are legal consultants and companies, such as, the PLI, that will provide professional responsibility seminars to law firms and lawyers to promote compliance with states' ethical rules for practicing law.

11. Some states require that solicitation letters be in envelopes with the phrase, "Advertisement Only," in red ink and ten point type or more. See OCPR DR 2-101(F)(e). A few states require internet advertising to be pre-screened by bar committees. See Part 7 of the Texas Disciplinary Rules.

12. See MRPC, Rule 1.5 (b) (suggesting that with new clients that lawyers communicate in writing the basis of

not give advice unless the attorney is prepared to accept responsibility for the consequences of the "client's" reliance thereon.<sup>13</sup> Lawyers should be especially careful not to give advice at "beauty contest" interviews by parties seeking to hire lawyers, because they may be liable for incorrect advice and may also be precluded from representing the clients' opponents for conflict of interest reasons.<sup>14</sup> Ideally, the attorney should inform a prospective client at the initial meeting that he or she is not providing legal advice, and should reiterate this point in a follow-up letter thanking the person for his or her interest. This follow-up letter may also include the terms of a retention agreement that should have been discussed at the initial meeting. The retention agreement should clearly outline the scope and conditions of the lawyer's representation as well as the basis for the fee if the client decides to employ the attorney.<sup>15</sup> A comprehensive and precise retention agreement defines the expectations of the attorney and the client, facilitates good client relations, and protects the attorney against claims of wrongdoing based on the client's unreasonable expectations.

#### B. MRPC 1.1 - A Lawyer's Duty of Competence

Once an attorney agrees to represent a client, MRPC 1.1 requires the lawyer to provide competent representation.<sup>16</sup> Competence requires the legal knowledge, skill, thoroughness, and preparation reasonably necessary for the representation. The Comment to MRPC 1.1 states that in determining the competency of a lawyer to handle a matter, "relevant factors include the relative complexity and specialized nature of the matter, the lawyer's general experience, the lawyer's training and experience in the field in question, and the preparation and study . . ." the lawyer can give to the matter.<sup>17</sup> The comment also recognizes that it may be necessary to associate or consult with a more experienced lawyer or even refer the matter to another lawyer. As a result, consultations even among more experienced entertainment lawyers are common and highly advisable. Lawyers should be careful

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the fee); *see also Id.* at (c) (requiring written contingent fee agreements that are signed by the client).

13. Togstad, et al. v. Vesely, Otto, Miller & Keefe, 291 N.W.2d 686 (Minn. 1980); *see Croce v. Kurnit* *infra* note 32.

14. Bridge Products, Inc. v. Quantum Chemical Corporation, 1990 WL103200 (N.D. Ill.); DCA Food Industries, Inc. v. Tasty Foods, Inc., 626 F.Supp. 54 (W.D. Wis. 1985).

15. MRPC, Rule 1.2 "Scope of Representation." For example, a lawyer may agree to negotiate the terms of a management contract for a client but not to handle his divorce. *Id.*; at 1.2(c) (permitting a lawyer to "limit the scope of representation if the limitation is reasonable under the circumstances and the client gives informed consent.").

16. As a matter of law, the attorney owes the client a fiduciary duty of care, diligence and loyalty. *See* Daniel J. Pope & Suzanne Lee, *Breach of Fiduciary Duties and Punitive Damages*, 66 Def. Couns. J. 257 (1999).

17. *See* MRPC, Rule 1.1, Comment 1. Otherwise, no attorney would be competent to accept a first case. *See* CBPC §6092, RPCC, Rule 3-110.

in making referrals or associating counsel because they might be liable for incompetent referrals or associations.

Some states provide for the involuntary deactivation of a practitioner's license in the event of mental incompetency or habitual use of drugs.<sup>18</sup> Many bar associations have substance abuse committees that confidentially assist lawyers with substance abuse and mental health issues.

C. Conflicts of Interest - *What's going on?*<sup>19</sup>

1. Conflicts of interest in the entertainment industry have increasingly attracted significant attention. The public and the profession seem to have insatiable appetites for following lawsuits filed by famous artists against their famous lawyers.<sup>20</sup>

The unconventional culture of the entertainment business is conducive to conflicts of interest and other lawyer misconduct. The business is fast-paced, highly competitive, and intense. It is commonly described as “incestuous” with a premium attached to “who you know” as much as “what you know.” The entertainment business also tends to be dominated (at least at the corporate top) by a small number of resilient power-brokers.<sup>21</sup> It is not unusual for these individuals to be fired or to resign from their positions only to resurface in a similarly powerful position at another company. Informed entertainment lawyers follow the trade journals and other media to track the frequent movement of business people within the industry as such changes often create conflicts of interest and other potential ethical problems.

Some observers feel that conflicts of interest may be beneficial to parties. For example, a prominent entertainment attorney who represents a successful producer and a famous actor may unite them (as some agents do) in a “package” deal to secure box-office success. Although the package deal brings together clients with possibly differing interests, the combination ultimately makes the producer, actor, lawyer, and studio more successful. Everyone wins. For a less famous talent, the package is very valuable

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18. See CBPC §6190.

19. The late, great Marvin Gaye, 1971, Tamala Records.

20. One observer has stated the following about the recent interest in conflicts cases: “[s]ue the lawyers when not paying them does not work.” The increase in conflict of interest cases and related lawsuits have been, in part, on non-entertainment lawyers who do not understand the business culture. McPherson, *Conflicts in the Entertainment Industry? . . . Not!*, 10, NO.4 ENT. & SPORTS L. J. 5. (Winter 1993) (hereinafter McPherson).

21. In a TIME magazine article, super-agent Michael Ovitz was quoted, “[I]ook this industry created conflicts of interest.” TIME, *The Ultimate Mogul*, p. 54, April 19, 1993.

because it could launch their career. There is always the risk however, that attorneys may protect their special relationships with the studio and others in package deals by promoting more prominent clients at the expense of less famous clients.<sup>22</sup>

2. *MRPC 1.7 sets forth the general rule governing conflicts of interest:*

a. *Except as provided in paragraph (b), a lawyer shall not represent a client if the representation involves a concurrent conflict of interest. A concurrent conflict of interest exists if:*

(1) *the representation of one client will be directly adverse to another client; or*

(2) *there is a significant risk that the representation of one or more clients will be materially limited by the lawyer's responsibilities to another client, a former client or a third person or by a personal interest of the lawyer.*

b. *Notwithstanding the existence of a concurrent conflict of interest under paragraph (a), a lawyer may represent a client if:*

(1) *the lawyer reasonably believes that the lawyer will be able to provide competent and diligent representation to each affected client;*

(2) *the representation is not prohibited by law;*

(3) *the representation does not involve the assertion of a claim by one client against another client represented by the lawyer in the same litigation or other proceeding before a tribunal; and*

(4) *each affected client gives informed consent, confirmed in writing.*

D. Simultaneous Representation. Under MRPC 1.7(a), an attorney's simultaneous representation of a music manager who is a prior client and an artist in negotiating their artist-management contract raises serious conflicts of interest issues. Some commentators contend that attorneys should decline joint representation in this context because of the inherent conflict in the positions of the parties.<sup>23</sup> The parties' interests with

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22 McPherson, *supra* note 20.

23. E.g. Jack P. Sahl, *Ethics for Entertainment Lawyers: Avoiding Conflicts of Interest*, 12<sup>TH</sup> ANNUAL INTERNATIONAL FOLK ALLIANCE CONFERENCE. (Cleveland Rock & Roll Hall of Fame, 2/11/2000) (suggesting

respect to certain contract provisions, such as the duration of the contract, may be directly adverse. Even if the parties' interests are not directly adverse, a concurrent conflict of interest may exist if there is a significant risk that the attorney's responsibilities to the earlier client, the manager, may materially limit the attorney's representation of the artist and violate 1.7(a). The manager's attorney should ask the artist to retain independent counsel to facilitate the negotiation of the contract, to help ensure the enforcement of an eventual agreement, and to avoid personal liability for violating the conflict of interest rules. Another, perhaps less prudent, option is for the manager's attorney to obtain written informed consent from both clients of any conflicts of interest.<sup>24</sup> It is important to note that some conflicts are nonconsentable.<sup>25</sup> Comment 14 to MRPC 1.7 describes a nonconsentable conflict as one in which, "the lawyer involved cannot properly ask for such agreement or provide representation on the basis of the client's consent."<sup>26</sup>

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that lawyers should generally avoid dual representation of managers and artists in negotiating the terms of a personal management contract).

24. Author John Grisham sued his attorney for breach of fiduciary duty and malpractice, in part, for not advising him of the conflicts of interest in the attorney's simultaneous representation of both Grisham and his agent. Grisham claimed he retained the lawyer on the advice of his agent and that the attorney failed to inform Grisham that he did not have to renew his original agreement with the agent. *See* Richard E. Flamm & Joseph B. Anderson, *Conflict of Interest in Entertainment Law Practice, Revisited*, 14 ENT. & SPORTS L. J. 3 (1996) (discussing Grisham v. Garon-Brooke Assocs., Inc., Action No. 3:96 CV045-B (N.D. Miss. 1996) (hereinafter Flamm)).

25. MRPC, Rule 1.7, Comment 14. Billy Joel sued his former New York lawyers claiming \$90 million in damages. Joel charged attorney Grubman with conflict of interest, alleging that Mr. Grubman represented the singer while also representing his manager, top executives of his recording label, CBS Records (now Sony Music), and the merchandising company which holds the franchise for t-shirts and other items. Grubman's firm alleged that any conflicts were fully disclosed. Joel's conflict of interest claims also include an allegation that Grubman paid kick-backs to Billy Joel's manager in order to retain Joel as a client. Joel also claimed breach of contract, fraud, breach of fiduciary duty, and legal malpractice against his former attorney. Grubman was hired by Billy Joel's manager (and former brother-in-law) to represent Joel in negotiations with CBS Records. In a separate action, Joel also sued his former manager. The matters were settled for an undisclosed amount. Joel v. Grubman, 1992, Case No. 261-55-92 N.Y. Sup. Ct.

26. A television producer sued his former law firm alleging that the firm secretly represented other clients whose interests conflicted with his. Producer Phillip DeGuere, Jr. claimed that CBS contracted with him as writer and executive producer on "The Twilight Zone" series. CBS canceled the series after taping only nine of the 22 episodes it had ordered. DeGuere claimed that, under the contract, the network owed him \$900,000 but that upon counseling with his law firm, he agreed to accept \$250,000 in cash and a commitment for a different 13-week series in a subsequent season. DeGuere claimed he did not know that at the same time the law firm was representing him against CBS, the firm was also representing Columbia Pictures against CBS in a deal for the purchase of the daytime drama, "The Young and The Restless". DeGuere's suit claimed that, because CBS paid a premium price for the soap opera, it was forced to cut development of new shows, including a new television project produced by DeGuere, hence limiting CBS' ability to perform under the terms of his settlement agreement with him. DeGuere's attorney stated that the law firm should not be representing studios when they are also representing talent who must negotiate deals with those studios. Persistence of Vision, Inc. v. Ziffren, Brittenham & Branca, 1992, L.S. Sup. Ct. Case No. BC021603. Jimi Hendrix' father sued his long-time attorney and the foreign investment companies that purportedly granted rights to the late guitarist's favorable masters and copyrights. Hendrix alleged that Leo Branton, Jr. concealed the true nature of various agreements regarding Jimi Hendrix' recordings and copyrights and often acted in direct conflict of interest. Hendrix v. Branton, April 16, 1993, U.S. Dis. Ct. Wash.

1. *The Comments to MRPC 1.7 - A Better Understanding of Conflicts of Interest:*

The conflict of interest rules are designed to protect and advance two important values - confidentiality and undivided loyalty - in the attorney-client relationship.<sup>27</sup> These two values overlap and are at the core of the lawyer's fiduciary duty to clients. Both values are disregarded by a lawyer who harms a client by sharing the client's confidences with the client's adversary - reflecting obvious disloyalty.

The Comments to MRPC 1.7 provide additional insight concerning the lawyer's ethical duty of loyalty to the client.

The Comment to MRPC 1.7(a) indicates that an attorney is generally prohibited from representing a client when that representation involves a concurrent conflict of interest. "Thus, absent consent, a lawyer may not act as an advocate in one matter against a person the lawyer represents in some other matter, even when the matters are wholly unrelated."<sup>28</sup> Another less obvious example involves several parties forming a partnership. The safest practice is for each partner to secure separate counsel in negotiating or reviewing the partnership agreement. Alternatively, MRPC 1.7 expressly provides that after full disclosure of the potential conflicts of interest, the parties can waive such conflicts of interest by giving their informed consent, confirmed in writing, to multiple representation. Of course, if a direct conflict of interest does arise between the parties during the negotiation of the partnership agreement, or litigation erupts among the parties, the Comment to MRPC 1.7 suggests that unless the lawyer has obtained the informed consent of the client under the conditions of 1.7(b), the attorney ordinarily must withdraw in order to safeguard the confidentiality of the parties pursuant to MRPC 1.6. It

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27. See MRPC, Rule 1.6 (requiring lawyers to protect client confidences and listing exceptions to the general rule).

28. *Id.* At Rule 1.7, Comment [6]; see Cinema 5, Limited v. Cinerama, Inc., 528 F.2d 1384 (2d. Cir. 1976) (establishes the general standard in federal courts that a lawyer cannot sue an actively represented client of another firm in which the attorney is a partner). *But see* Universal City Studios v. Reimerdes, 98 F. Supp. 2d 449 (S.D.N.Y. 2000). In Reimerdes, Time Warner sought the disqualification of a lawyer who represented a defendant in a suit by the movie studios against the defendant who posted a computer program over the Internet that defeats the encryption system for DVD's. *Id.* 450-51. The same lawyer represented Time Warner and other defendants in an unrelated suit involving the rights to the term, "Muggles," from the Harry Potter books. *Id.* The federal judge in the Southern District of New York denied Time Warner Entertainment's disqualification motion because Time Warner had improperly delayed the filing of its motion to unfairly prejudice the defendant. *Id.* at 455. In addition, there was no evidence that the defendant's lawyer was privy to any of Time Warner's secrets because of the lawyer's work for Time Warner involving the "Muggles" case. *Id.* See also Stan Soocher, *Bit Parts* 16 Enter. Law & Fin. 8 (May 2000) (briefly discussing Reimerdes).

is important to note that the representation of multiple parties is not uncommon and not always impermissible in the entertainment business. For example, it may be permissible for a lawyer to negotiate a recording contract for a manager and the members of a group with a third party record label.

The Comment to MRPC 1.7(a) explains that loyalty to the client is also compromised “when there is significant risk that the representation of one or more clients will be materially limited by the lawyer’s responsibilities to another client, a former client or a third person or by a personal interest of the lawyer . . . .”<sup>29</sup> In such a case, the lawyer is unable to recommend or carry out an appropriate course of action for the client. For example, a lawyer representing a personal manager in an artist management contract cannot ethically acquiesce to a shorter duration of the contract because the artist’s father, a builder, has promised to give the lawyer a good rate on remodeling his home.

Subdivision (b) of MRPC 1.7 permits a lawyer to represent a client notwithstanding the existence of a concurrent conflict of interest if (1) the lawyer reasonably believes that the lawyer will be able to provide competent and diligent representation to each affected client; (2) the representation is not prohibited by law; (3) the representation does not involve the assertion of a claim by one client against another client represented by the lawyer in the same litigation or other proceeding before a tribunal; and (4) each affected client gives informed consent, confirmed in writing. It is often very difficult to anticipate, and thus to inform the individuals in the group about, all of the possible future conflicts of interest that may arise among them.<sup>30</sup> When a lawyer is in doubt about undertaking or continuing representation because of a conflict of interest concern, he or she should consult with other lawyers, preferably experts in professional responsibility. If the lawyer is still concerned about the representation, he or she should decline representation until the new client responsible for the conflict of interest obtains independent counsel.

The Comments to MRPC 1.7 acknowledge that conflicts of interest in contexts other than litigation may be difficult to assess. “Relevant

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29. MRPC, Rule 1.7(a)(2).

30. See Flamm *supra* note 24 at n.16 citing , Adler v. Manatt, Phelps, Phillips & Kantor, L.A. Supr. Ct. BC O5307 (Apr. 1992) and noting that the former drummer of Guns’n Roses sued a law firm for malpractice and other causes for damages resulting from his signing an agreement with other members of the band)

factors in determining whether there is significant potential for material limitation include the duration and intimacy of the lawyer's relationship with the client or clients involved, the functions being performed by the lawyer, the likelihood that disagreements will arise, and the likely prejudice to the client from the conflict. The question is often one of proximity and degree."<sup>31</sup> Thus, the evaluation of lawyer conduct in the entertainment industry will involve to some degree the custom and nuances involved in the business as well as the MRPC and its Comments. For example, if the lawyer represents a corporation which may "loan-out" the services of the artist or manager shareholder, the Comments warn of the potential for conflict if the lawyer also serves on the corporation's board of directors.

2. *Reviewing Other Noteworthy Conflicts of Interest Issues:*

a. Business transactions. On its face, MRPC 1.8 appears to state clearly that a lawyer shall not enter a business transaction with a client unless (1) the transaction is fair and reasonable to the client, (2) the client is advised in writing of the desirability of seeking and is given a reasonable opportunity to seek the advice of independent legal counsel on the transaction, and (3) the client gives informed consent, in a writing signed by the client, to the essential terms of the transaction and the lawyer's role in the transaction, including whether the lawyer is representing the client in the transaction.<sup>32</sup> Does entering into a shopping agreement for a contingent fee from income derived from a record contract, the sale of a book, or some similar deal constitute entering a business transaction? The attorney should disclaim in the shopping agreement that the parties are entering into a joint business venture, to help ensure that the lawyer does not violate the ethical rules concerning a business transaction with a client.<sup>33</sup>

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31. MRPC, Rule 1.7, Comment [26].

32. The widow of the late popular songwriter and singer, Jim Croce, sued in New York Federal Court claiming unconscionability and breach of fiduciary duty against Croce's publishers, managers and an attorney on managerial and personal services contracts. At the initial meeting, an attorney was introduced to the Croces as "the lawyer" and reviewed the contract terms. The Croces were aware that the attorney had a business relationship with the publishers and managers on the transaction. Although the attorney was clearly not the Croces' lawyer and the Court upheld the contracts, the Court found the attorney liable for all of Croce's legal fees in challenging the contracts. The Court held that the attorney had breached a fiduciary duty to the Croces by failing to advise them to seek independent counsel. The lesson of the Croce case is that a lawyer who stands to profit from a business enterprise may find himself in a fiduciary relationship with a non-client by failing to advise independent counsel at the outset. The case has also inspired the inclusion of an acknowledgment in management contracts that the artist has been advised of the opportunity to seek independent counsel. Croce v. Kurnit, 565 F.Supp. 884 (S.D.N.Y. 1982), *aff'd.*, 737 F.2d 229 (2nd Cir. 1984).

33. See RPCC, Rule 3-300.

b. Payment for attorney fees by another. MRPC 1.8(f) permits someone other than the client to pay the lawyer for his services if the client gives informed consent and there is no interference with the lawyer's independent professional judgment and relationship with client, including the need to protect client confidences. For example, a manager could pay a lawyer to represent an artist in divorce proceedings. It is even possible, although not especially advisable, that a manager could pay a lawyer to represent an artist and negotiate a personal management agreement with the manager's lawyer. If the fee arrangement creates a conflict of interest for the lawyer, then the lawyer must comply with MRPC 1.7.34 (1.8 comment 12 says this).

c. Attorney interest in literary rights. MRPC 1.8(d) precludes a lawyer from making or negotiating an agreement with the client prior to the conclusion of the representation which gives the lawyer literary or media rights to a portrayal or account based in substantial part on information relating to the representation. In the context of on-going litigation, the conclusion of representation occurs when there is a non-appealable final judgment. It is important to note that the rule does not prohibit a lawyer representing a client in a transaction concerning literary property from accepting as his fee an ownership interest in the property.<sup>35</sup>

d. Conflicts in representing former clients. Like practicing in small communities, the "incestuous" entertainment industry gives rise to potential conflicts of interest with respect to representing a party against a former client. MRPC Rule 1.9 and its Comments state that a conflict of interest arises with a former client when the lawyer's representation of a new client bears a "substantial relationship" to the matter of the representation that the attorney provided to a former client.<sup>36</sup> Disqualification of a lawyer from the subsequent representation is for the protection of the former client. The lawyer should either withdraw from representation or seek the former client's informed consent regarding the conflict of interest, realizing that in some cases a waiver will be difficult because of the risk that the

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34. MRPC, Rule 1.8, Comment 12.

35. MRPC, Rule 1.8, Comment [9].

36. The "substantial relationship" test was developed in T.C. Theater Corp. v. Warner Brothers Pictures, 113 F.Supp.265 (S.D.N.Y.1953) (holding that if the matters or cause of action of the new representation are substantially related to the former representation, "the Court will assume that during the course of the former representation confidences were disclosed to the attorney bearing on the subject matter of the [new] representation" *Id.* at 268-69). See MRPC, Rule 1.9, Comment [3].

lawyer will harm the former client by using the former client's confidences. The former client's informed consent must be confirmed in writing.<sup>37</sup> In this type of conflict of interest situation, the lawyer is advised to have as full and frank a discussion as possible with parties, keeping in mind the need to preserve each client's secrets and confidences.

## C. AGENTS, MANAGERS AND LAWYERS

The practice of entertainment law is quite broad. It includes litigators, estate planners, tax professionals, in-house counsel, and deal makers - entrepreneurial attorneys who facilitate business deals. The functions of agents, managers, and entrepreneurial entertainment lawyers often overlap. These functions are not easily distinguishable. Personal managers are given powers-of-attorney and function much like a lawyer. They counsel their artists on business and career matters and enter into contracts on their behalf. Agents, who must be licensed in most states, endeavor to procure employment for the artist. The licensing requirement and the narrow definition of their job induces some agents to broaden their involvement and income by becoming agent or managers. Lawyers are often positioned to assume all these roles, as representative, counselor and attorney-in-fact.<sup>38</sup>

### A. Textbook Definitions of Roles<sup>39</sup>

Agents procure employment for artists in the entertainment fields. At common law, "agents" are persons authorized by a principal to act on behalf of that principal under the principal's control.<sup>40</sup> A music agent's work, unlike an agent in the

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37. MRPC, Rule 1.9(a) & (b)(2). An action was filed by Steve Fagnoli, a former manager for the musician, Prince, alleging a conflict of interest stemming from the Ziffren firm's formerly representing Fagnoli from 1981 to 1986, then later representing Prince during a time when Fagnoli sued the musician and his corporations. The suit alleged that the Ziffren firm disclosed to Prince some of Fagnoli's confidential communications protected under the attorney/client privilege. The Ziffren firm had helped Prince and Fagnoli settle a dispute during their representation of Prince and at the invitation of Fagnoli. In granting the law firm summary judgment, the Court noted that the parties had entered into a release including conflict of interest claims after the parties settled their dispute. Fagnoli v. Ziffren, Brittenham & Branca, 1992, Case No. BC068280 L.A. Sup. Ct.

38. Lawyers may have to obtain licenses if they procure employment. There are a number of articles providing guidance for the attorney who wishes to become an agent, manager, or both. *See, e.g.*, RAYMOND L. WISE, LEGAL ETHICS 185 (2d ed. 1970); James O'Brien III, *Regulation of Attorneys Under California's Talent Agencies Act: A Tautological Approach to Protecting Artists*, 80 CALIF. L. REV. 471 (1992); Bruce S. Stuart, *Swifties, Shifties, and That E-Biz Jazz: The Ethical Roles of Attorney/Literary Agents*, HASTINGS COMM/ENT.L.J. 245 (Winter, 1996).

39. DONALD E. BIEDERMAN, ET AL., LAW AND BUSINESS OF THE ENTERTAINMENT INDUSTRIES (3d ed. 1996).

40. W. EDWARD SELL, AGENCY, (1975). THE RESTATEMENT (SECOND) OF AGENCY §424, subd. 1 (1958) defines agency in any enterprise as a *fiduciary* relationship created from the client (principal)'s consent that the agent may act on the client's behalf and subject to the client's control. This means that, besides being liable for breaches of statutorily-imposed duties, an agent is liable for the common law breach of the fiduciary duties of

film or book publishing industries, is generally limited to soliciting and procuring engagements for live performances, personal appearances and, perhaps, endorsements. Agents for musical talent are also subject to the strictures of the American Federation of Musicians ("AF of M"), an international trade union. The AF of M requires that agents confine their efforts to procuring employment, and require that they be licensed by the AF of M. Unlicensed agents are forbidden from doing business with the AF of M, and severe penalties are incurred for musicians doing business with unlicensed agents. Almost as important to this discussion is the AF of M's limits on the fees agents or personal managers can receive. Agents are allowed a *maximum* of fifteen percent of an artist's gross receipts. A personal manager, defined by the AF of M as having only to do with the development of the artist's career in giving advice and guidance, can only receive *five* percent over the agent's percentage of the artist's gross receipts. Related exploitations by agents may include merchandising deals at performances or arranging for films of live performances.

Personal Managers are the artist's principal career advisors in all business affairs, including daily management to strategic career development planning. Personal managers often oversee the hiring of other managers to deal with other aspects of the artist's career. Personal managers often hire the business manager. Business managers, usually accountants, manage business and personal finances. While the business manager manages the money, the personal manager focuses his/her efforts on how the money is earned. This focus often leads a personal manager to delve into the agent's realm of procuring employment. A personal manager involved in procuring employment may be subject to sanctions as an unlicensed agent.<sup>41</sup>

Lawyers are engaged to protect the legal interests of their clients. The rules of professional conduct may be the attorney's chief impediment stumbling to becoming establishing him or herself as an agent or manager. The MRPC govern conflicts of interest and the duty of loyalty. Both may be compromised when an attorney assumes the roles of counselor and agent/manager.<sup>42</sup>

## B. Practical Roles<sup>43</sup>

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good faith, fair dealing, and loyalty.

41. See, e.g., Chinn v. Tobin, California Labor Comm'r Case No. 17-96 (1997); Waisbren v. Peppercorn Productions, Inc., 48 Cal. Rptr. 2d 437 (1996); Mandel v. Liebman, 303 N.Y. 88 (1951); Raden v. Laurie, 262 P. 2d 61 (Cal. 1953). See also Don Biederman, *Agent or Manager? There is a Difference . . . Isn't There?*, 15 No.9 ENT. L. REP. 3 (Feb., 1994); Fred Jelin, *The Personal Manager Controversy: Carving the Turf*, 7 No.1 ENT. L. REP. 3 (June, 1985) (hereinafter Jelin).

42. See also Joseph B. Anderson and Darrell D. Miller, *Professional Responsibility 101*, 11 ENT. & SPORTS LAW 8 (Summer 1993) (discussing an earlier article on legal ethics as applied to agent/managers, see McPherson, *supra* note 20).

43. Harold Orenstein & David Guinn, ENTERTAINMENT LAW & BUSINESS: A GUIDE TO THE LAW AND BUSINESS

Practically speaking, the roles of agent, manager and lawyer are not easily distinguishable. Conflicts arise when the parties switch or merge roles. For example, the lawyer who also acts as a personal manager must proceed carefully given the potential for conflicts of interest and the possibility that the lawyer-client relationship will be adversely affected by the artist's frustrations with unrealized career expectations.<sup>44</sup>

Much like a lawyer or a personal manager, agents create or reject employment opportunities and influence an artist's career and image. Agents negotiate deals, or "package" deals, by using business and personal relationships to bring artists together with other creative talent for tours, sponsorships, recordings and other business. Agents are responsible for the collection, accounting, and distribution of money, just like a business manager. Agents are paid by commissioning the artist's gross income from employment procured by the agent usually at 10% to 15% rate.

Personal managers may procure employment like an agent. The music industry is a particularly appropriate setting for considering lawyers who also act like personal managers or agents because the role of a personal manager developed out of a need for business assistance by artists in the music industry.<sup>45</sup> In addition, musicians need contracts and information which are often provided by the personal manager. Managers negotiate recording contracts while agents book the artist's performances or services.<sup>46</sup> Finally, managers nurture the artist's career and often become a producer of the artist's talents. Managers have usually represented a coterie of talent and may use one or more of his clients to produce an event or to assist him in developing a particular artist's career.

Unlike agents, personal managers are not required to register with state administrative agencies. Unlike lawyers, there is no legally enforced code of professional conduct or licensing process for managers. Yet, managers do not operate wholly without restraints. In California, a manager who procures

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PRACTICES OF THE ENTERTAINMENT INDUSTRY (1996).

44. Who must and who need not be licensed often turns on whether the person in question is providing the services of an agent or of a manager, or both. For example, booking agents in New York are required to be licensed as employment agencies under N.Y.S. §171 (1997). However, personal managers need not have a license. *See also Friedkin v. Harry Walker, Inc.*, 395 N.Y.S. 2d 611 (1977) (holding that agents who did not manage their clients' careers but only secured employment for them were required to be licensed as employment agencies under §171, as procuring employment for their client was not merely incidental to their job); *Gervis v. Knapp*, 43 N.Y.S. 2d 849 (1943) (finding that infant singer's guardian could not disaffirm a contract as unenforceable which was entered into on infant's behalf by a personal manager who was not licensed because licensing was not required of a manager who was "primarily a manager").

45. *See Jelin, supra* note 41.

46. *Id.*

employment must be licensed as a "talent agency." The Labor Commission of California has jurisdiction over manager-artist contracts, subject to California Supreme Court review.<sup>47</sup> Finding work for artists in New Jersey requires a manager to be licensed as a "booking agency."<sup>48</sup> Unlike agents, managers may have powers of attorney to bind their artist to deals managers negotiate on their artist's behalf. Managers, therefore, commission a large percentage of the gross income of the artist earned in the entertainment fields, usually 15% to 25%.<sup>49</sup>

Lawyers may package deals through relationships, shop talent and creative material, advise on money matters, recommend individuals or businesses for assistance, protect the client's financial interests, and intentionally or inadvertently exercise a greater degree of control over the client than is customary in other law practices. Lawyers may bill hourly or a contingency fee if work is done on a speculative basis (such as shopping and negotiating a record deal), or a combination of both. (Refer to section IV of this outline). Certain entertainment lawyers fit the textbook and practical definition of both agents and managers. This is not weird or wrong. It is a fact. Lawyers who wish to perform these services must do so within the applicable guidelines and restrictions governing all lawyers.

### C. Licensing Regulations and Rules

Many states require agents - persons providing employment opportunities - to be licensed. California and New York have the most comprehensive laws regarding the licensing and regulation of entertainment agencies.<sup>50</sup> In order to be licensed, agents must demonstrate, in part, their good character and competency in the business of providing work. Among other requirements, agents may also have to show proof of the nature and location of the agent's business. The statutes also address agency agreement forms, fees, disposition of grievances and penalties. Penalties for violating the statutes are court-enforced with criminal misdemeanor and/or civil penalties, which include voiding contracts and ordering the return of commissions. Cases establish that persons operating in violation of the statutes in New York and California<sup>51</sup> are nevertheless exposed to statutory penalties whether they are licensed

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47. *Id.* at 4.

48. N.J.S. §34:8-43 (1997). This statute also governs agents.

49. This commission is subject to the guidelines established by the American Federation of Musicians ("AF of M"), an international trade union. The AF of M sets a ceiling of fifteen percent (of an artist's gross receipts) for agents working with members of the union. Personal managers are limited to five percent of the gross, over and above the agent's percentage. BY-LAWS OF THE AMERICAN FEDERATION OF MUSICIANS OF THE UNITED STATES AND CANADA, ART. 23, §2 (revised Sept. 15, 1987).

50. California Labor Code §§1700 et seq.; New York General Business Law §§170 et seq.

<sup>51</sup>51. Waisbren v. Peppercorn Productions, Inc., et al., 48 Cal. Rptr.2d 437 (1996); Pine V. Laine, 321 N.Y.S. 2d 303 (1st Dept. 1971); Buchwald v. Superior Court of San Francisco, 62 Cal. Rptr. 364 (Ct.App. 1st Dist. 1967); Anita Baker v. BNB Associates, Ltd., Case No. TAC 12-96, California Labor Commission,

by the state or not. These cases demonstrate how talent can assert non-compliance with the applicable licensing statute and void management contracts *ab initio*. Remedies available to the talent include recovering all commissions paid to managers proven to have in effect operated as unlicensed agents. State labor commissions (established for the protection of employees) issue licenses and enforce the statutes.

Managers who do not assume agency functions do not require licensing in California or New York.<sup>52</sup> However, managers must be careful to structure their employment procuring activities so that they will comply with these and other requirements that such activities are permissible if they are "merely incidental" to their actions as manager. It is advisable to include language in a management contract to the effect that the artist acknowledges that the personal manager is not an employment agency or theatrical agent and that the personal management duties do not include securing or soliciting employment for the artist. Formally recognizing the cross-over function of agents and managers, the California statute exempts from its definition of "talent agency" (and, therefore, exempts from licensing) managers who procure, offer or promise to procure recording contracts for music artist. California further allows an unlicensed person to act in conjunction with and at the request of a licensed talent agency in the negotiation of an employment (recording) contract (emphasis supplied). The New York statute specifically exempts from its definition of "theatrical employment agency" (and, therefore, exempts from licensing) the business of managing where such business only "incidentally" involves seeking employment. The California statute also specifically empowers talent agencies to "counsel or direct artists in the development of their professional careers." Therefore, California agents may manage while managers (with narrow exceptions) cannot function as agents without complying with the licensing requirements. By not enacting statutes specifically addressing the entertainment agencies, some states have left the regulation of agents and managers to general employment statutes and common law. Common law imposes fiduciary duties of loyalty, good faith, and fair and honest dealing on all agents and managers and lawyers.<sup>53</sup>

Lawyers are licensed by the state judiciary, which is also responsible for promulgation and enforcement of the applicable rules of professional conduct and for deciding legal malpractice cases. As previously noted, most state rules emulate the provisions contained in the American Bar Association Model Rules of Professional Conduct (Model Rules) which are the reference standard in this discussion.

#### D. Music Lawyer as Manager or Agent

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determination date 12-27-96.

52. Mandel v. Liebman, 303 N.Y. 88 (1951); Raden v. Laurie, 262 P.2d 61 (Cal. 1953).

53. Detroit Lions, Inc. v. Argovitz, 580 F.Supp. 542 (E.D. Mich. 1984). A non-lawyer sports agent violated conflicts of interest standards when negotiating on behalf of a player with a team in which the agent was also part owner; Croce v. Kurnit, 565 F.Supp. 884 (S.D.N.Y. 1982), *aff'd* 737 F.2d 229 (2d Cir. 1984).

Lawyers can serve as agents or managers while simultaneously practicing law. In the music industry, lawyers procure recording contracts for their clients and help manage their career by participating in career strategy and deal making. Unlike agents, lawyers usually do not regularly book personal appearances for their clients. Thus, lawyers often tend to act more like managers than agents. Personal management requires daily and detailed attention to the personal affairs and logistics of an artist. Because an experienced music lawyer may know the business better than an inexperienced manager, the attorney who has a proactive relationship with the artist and manager may find himself or herself making recommendations, facilitating relationships, creating opportunities, and advising the manager as well as the artist. By doing so, the lawyer becomes, in effect, part of the management team. In some cases, the attorney may be invited by both artist and management to take on duties which are generally the prerogative of artist management. This usually means representation on a contingent fee basis and greater involvement with the artist's daily affairs in addition to providing general legal counsel. By limiting the work a lawyer can dedicate to other legal clients, the attorney may become more like a company general counsel or "in-house" lawyer.

Lawyers are agents and it is axiomatic that an attorney's authority to represent clients creates an agency and fiduciary relationship. Attorneys who regularly (and not "incidentally") make deals on a speculative basis in return for a contingent payment may still be required to be separately licensed as an agent under the applicable statute of the state in which the attorney's principal place of business is located. This should obviate the need for the attorney/agent to register as an agent elsewhere. However, should an attorney/agent establish an office or agency in a state in which he or she is not licensed to practice law, licensing under that state's rules as an agent (and certainly as an attorney, if the intention is to practice law) will be required.

In Chinn v. Tobin,<sup>54</sup> the California Labor Commissioner ruled that an attorney who owned a production company was not procuring employment as an agent for an artist/client when he hired the artist to be in one of his productions. The Commissioner held that an attorney having an ownership interest in the employment is functioning as an employer, not as an agent "with third parties" within the meaning of the Act. However, conflict of interest issues were raised but not resolved by the Commissioner.

#### E. Special Considerations Regarding Lawyer Conduct

##### 1. *Merging the Roles of Various Entertainment Representatives:*

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54. Chinn v. Tobin, California Labor Comm'r Case No. 17-96 (1997).

Lawyers' ethical obligations are extensive and often long-lasting.<sup>55</sup> These obligations also create challenges for entertainment lawyers who perform services often rendered by other personnel, such as agents. The general rule is that entertainment attorneys who also act as agents or managers are still subject to their states' codes of professional conduct to the extent that any of their activities involve the delivery of legal services.<sup>56</sup> Lawyers cannot merely switch titles to avoid their ethical responsibilities. As a result, lawyers have taken different approaches to dealing with what is perceived as a competitive disadvantage in the entertainment business when acting in these other roles.<sup>57</sup> Some attorneys argue that when they act as an agent or a manager they are not providing legal services and, therefore, are not subject to the codes of professional conduct. This approach has some risk as lawyers' professional liability policies may not cover all of their services. Other attorneys formally establish separate businesses that render financial advice, career advice, or solicit employment opportunities. The attorneys may incorporate the businesses and employ full-time personnel but they expressly do not provide legal services.

As long as attorneys are licensed to practice law, they are subject to their states' codes of professional conduct for even their non-professional activities. Lawyers must be very careful when creating separate business enterprises to make sure that these are not used to circumvent the lawyer's ethical obligations. For example, a lawyer could create a separate talent agency and then solicit in-person talent for the agency. The lawyer could not use such solicitation however to develop clientele for his law practice.

## 2. *Advertising and solicitations.*

MRPC 7.2 and 7.3 governs lawyer advertisement and solicitation.<sup>58</sup> In general, lawyers can mail written advertisements and solicitations directly to prospective clients providing they are truthful and non-deceptive.<sup>59</sup>

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55. *See Swidler & Berlin and Hamilton v. United States*, 524 U.S. 399 (1998) (holding that the attorney-client evidentiary privilege continues after the client's death).

56. It is also worth noting that Rule 5.4 of the MRPC prohibits lawyers from forming a partnership with a non-lawyer if any of the activities of the partnership or the professional corporation involves the practice of law. Similarly, a lawyer cannot permit non-lawyers to own shares of a professional corporation that he is involved in that delivers legal services. *Id.*; *see also* RPCC Rule 1-310.

57. Some contend that the applicability of the law profession's ethical codes to lawyers performing non-law services is not a settled area. *See* Robert E. Fraley & F. Russell Harwell, *Sports Law and the "Evils" of Solicitation*, 9 Loy. L.A. Ent. L.J. 21 (1989).

58. *See* RPCC, Rule 1-400. *See generally*, Jack P. Sahl, *The Cost of Humanitarian Assistance: Ethical Rules and the First Amendment*, 34 St. Mary's L. J. 795 (2003) (noting the increased emphasis on marketing by the legal profession and examining the history of lawyer advertising ).

59. MRPC, Rule 7.1; *see Shapero v. Kentucky Bar Association*, 486 U.S. 466 (1988); *see also Florida Bar v.*

Lawyers may also advertise through recorded or electronic communication, including public media.<sup>60</sup> Lawyers “shall not by in-person, live telephone, or real-time electronic contact solicit professional employment from a prospective client when a significant motive for the lawyer's . . .“ contact is pecuniary gain, unless the person contacted is a lawyer or has a family, close personal, or prior professional relationship with the lawyer.”<sup>61</sup> Lawyers also cannot state or imply that they are specialists in a field of law, such as entertainment law, unless the lawyer has been certified as a specialist by an organization that has been approved by an appropriate state authority or that has been accredited by the American Bar Association and the name of the certifying organization is clearly identified in the communication.<sup>62</sup>

Entertainment lawyers can communicate or promote their legal services in several ways in hope of developing their practice. The most effective way is to establish a strong reputation for providing competent and efficient legal work with the general public as well as the profession. Satisfied clients will return with more work and they will refer new clients. Lawyers should create a profile in the arts and entertainment community by attending performances and other related events, for example, awards ceremonies and benefits. Lawyers should volunteer their service for arts organizations, for example, by serving on the board of directors. Authoring entertainment law articles, attending continuing legal education programs, speaking to groups, and traditional advertising - notices in trade magazines or firm brochures - are all ways to network and to develop an entertainment practice.

### 3. *Referrals and fee splitting.*

Many entertainment lawyers rely on referrals for their services from a variety of sources, including previous clients, lawyers, agents, managers, and personnel with entertainment companies. Referrals with conditions attached, for example, a desire to be retained as the client’s manager or agent, raise serious conflict of interest issues. In addition, lawyers are prohibited from paying persons to refer clients.<sup>63</sup> MRPC 1.5(e) does permit lawyers to refer

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Went For It, Inc., 515 U.S. 618 (1995) (upholding a limited 30-day ban on written solicitation by lawyers to accident victims and their families to protect privacy of state’s citizens and the “flagging reputation of state’s lawyers”). *See generally* Bates v. State Bar of Arizona, 433 U.S. 351 (1977).

60. MRPC, Rule 7.2(a).

61. *See* MRPC, Rule 7.3(a); *see* RPCC, Rule 1-400.

62. MRPC, Rule 7.4 (d).

63. MRPC, Rule 7.2(b); *see* RPCC, Rule, 1-320.

cases to other lawyers or to associate lawyers in their cases and share the fee. The clients must agree to the arrangement, including the share each lawyer will receive, and the agreement must be confirmed in writing.<sup>64</sup> The lawyers' share must reflect their work or their assumption of joint responsibility in the case.<sup>65</sup> MRPC 1.5(e)(3) requires that the total fee be reasonable.

#### **D. COMPENSATION FOR ATTORNEY SERVICES AND AGREEMENTS**

Entertainment lawyers deal in the development of creative material. Their relationships with talent and entertainment companies are important to developing a successful practice. Lawyers market or "shop" talent and their creative properties to companies for purchase, license and ultimately for commercial exploitation. Shopping talent and their properties is highly speculative work - only a very small percentage of talent or their properties ever achieve commercial success. Since many entertainment clients cannot afford to retain lawyers on an hourly basis for their services, including shopping their creative work, clients and lawyers instead often agree to a contingency fee arrangement. A comprehensive retention agreement for legal services should unambiguously address scope of representation and the basis of payment. A separate shopping agreement may also be considered if this is the primary or only service provided by the attorney.

Unlike employment contracts with managers and agents, clients can terminate employment contracts with lawyers at any time.<sup>66</sup> If a client terminates his or her lawyer, the lawyer is generally entitled to only quantum meruit recovery. Lawyers offer a broad range of professional services and it may be useful to have a specific contractual provision regarding the lawyer's shopping services and compensation. To help ensure that a lawyer's work is covered by his or her professional liability insurance, the retention agreement should specify that the client is retaining the lawyer primarily for law-related services.<sup>67</sup> If the retention agreement provides for compensation based on an hourly rate, the rate for the lawyer's services will vary depending on a several factors, including the complexity of the representation, the lawyer's unique skills and experience, and the value for such services in a particular geographical area. Representation of a more national or international nature may generate higher hourly rates than for more local work. Lawyers' hourly rates for entertainment work can range from \$200 to 400 per hour - with lawyers on the east and west coasts earning more within the range.

A customary contingent fee ranges from 5% to 10% of the defined gross compensation of the client and rarely exceeds 10%. The exact percentage depends, in part,

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64. MRPC, Rule 1.5(e)(2).

65. MRPC, Rule 1.5(e) (1)-(3).

66. MRPC, Rule 1.16, Comment [4] (stating that clients have the right to discharge, with or without cause, their attorneys).

67. *See supra* note 6.

on the client's record for commercial or critical success and the likelihood that the lawyer's efforts will be successful. For example, it is reasonable with a superstar to take a lower percentage of the gross compensation and with a new or "baby act" to insist on 10%. Successfully shopping a new artist to a recording contract with a small, local, independent record company is a situation in which a lawyer might charge 10% of the artist's gross compensation. A lower contingency fee is expected if coupled with a reduced hourly fee. In both the hourly rate and the contingency fee arrangements, the client usually pays the out-of-pocket costs.

In the contingency fee circumstance, the definition of gross compensation is important and a source of great controversy. In many entertainment contracts, gross compensation is defined broadly. It may exclude, however, income that is not derived from or enhanced by the lawyer's professional services. For example, when representing a book author, it may be appropriate for the lawyer to include in gross compensation income from book publishing and also proceeds from television, a motion picture, or personal appearances. The lawyer wants to apply the contingency rate or commission to as much of the client gross compensation that is reasonable in the industry and under the MRPC. This may be justified because first, the book deal created all the other commercial opportunities for the client-author and second, the lawyer's legal services are being used in these other areas. It is worth noting, that it may be in the client-author's best interests to exclude some streams of income, such as proceeds from music, theatrical, or other "unrelated" sources. Like managers, agents and entertainment companies, lawyers are reluctant to limit the possible sources or streams of income. They usually insist on a percentage of the gross compensation from any source, whether known or yet to be discovered, especially given the trend in multimedia and the crossover nature of entertainment products in new technology. Lawyer contingency agreements, like personal management contracts, may also contain a "sunset" provision. It requires the client to pay the contingency fee for the lawyer's past services even after the representation is terminated, usually for a period of six to twelve months. In addition and distinct from the sunset provision, the lawyer may negotiate and receive an ongoing commission on the client's proceeds derived from deals that the lawyer helped to procure for the client. The commission may be for a limited period or extend for so long as the artist receives royalties from that source.

Model Rule 1.5 requires hourly and contingent fees to be reasonable.<sup>68</sup> Attorneys can consider the following criteria in determining a reasonable fee: "the time and labor required, the novelty and difficulty of the questions involved, the skill requisite to perform the legal service properly; . . . the fee customarily charged in the locality for similar legal services; the amount involved and the results obtained; . . . the experience, reputation, and the ability of the lawyer or lawyers performing the services required; and whether the fee is fixed or contingent."<sup>69</sup> These criteria offer attorneys great flexibility and protection in charging fees. Thus, it is not unusual to find entertainment lawyers in different parts of the country charging

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68. See RPCC, Rule 4-200.

69. MRPC, Rule 1.5(a)(1)-(8).

similar fees for national or international projects because of the unique skill and experience they share in the field.

Contingent fee agreements must be in writing, signed by the client, and “state the method by which fees are to be determined, the percentage or percentages that shall accrue to the lawyer in the event of settlement, trial or appeal, litigation and other expenses to be deducted from the recovery, and whether such expenses are deducted before or after the contingent fee is calculated. The agreement must clearly notify the client of any expenses for which the client will be liable, whether or not the client is the prevailing party.”<sup>70</sup> Contingent fees tend to produce more income for attorneys than hourly fees. This is permissible, in part, because there is often a risk with contingent fees that the attorney will not be paid because the representation is unsuccessful. For many entertainment attorneys, the potential value of a deal or successful representation dictates the amount or reasonableness of a contingency fee.<sup>71</sup>

Entertainment attorneys often assist in the personal management of a client. Managers frequently bill between 15% and 25% of a talent’s gross income for their services. Attorneys assuming managerial responsibilities may wish to consider the customary amounts that managers are paid in setting a reasonable contingency fee.

In some entertainment fields, it is customary for the talent’s services to be provided by a "loan-out" corporation, a "personal services" corporation, or some other entity, owned and controlled by the talent. Such entities include production, music touring and merchandise companies. The lawyer’s Engagement Letter of Agreement should either acknowledge or anticipate the representation of these entities by including them as parties or having a contractual provision that designates the lawyer as the counsel for the entities upon their formation.

## **E. SANCTIONS**

State supreme courts regulate the right to practice law even for lawyers who never appear in court.<sup>72</sup> These courts establish codes of professional conduct and disciplinary systems to protect the public and the bar. Federal courts usually defer to state admission standards in admitting lawyers and admission is only necessary for those lawyers who practice in a particular federal court.<sup>73</sup> Both state supreme and federal courts can discipline lawyers.

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70. *Id.* at (c).

71. Some types of practices, such as personal injury or debt collection, have contingency fees that the range from 33% to possibly 50%.

72. Morgan, *supra* note 8, at 41.

73. *Id.*

There are two principle methods by which the public can hold lawyers and judges accountable for their misconduct.<sup>74</sup> The first method is filing a lawsuit against an attorney for civil liability.<sup>75</sup> Most lawsuits filed against attorneys are for negligence, a fiduciary breach, breach of contract or fraud.<sup>76</sup> Successful plaintiffs in lawyer liability cases are entitled to attorneys' fees and to punitive damages when the attorney's conduct involves gross negligence or malice.<sup>77</sup>

The second method of holding lawyers accountable involves the states' disciplinary systems. Clients and others can file a grievance against an attorney with the state authority responsible for reviewing lawyer conduct, for example, the statewide disciplinary counsel. These authorities often rely on assistance from state and local bar associations to receive, review, investigate, prosecute, and hear grievances. Grievances and sanctions against lawyers have increased in recent years. The range of sanctions for lawyer discipline include: disbarment, suspension, formal reprimand, informal reprimand and a fine. One or more of these sanctions may be applied to an attorney for one significant violation or an accumulation of lesser violations of a state's professional conduct code.

### **Case Sera Sera**

In May 1956, Jerome B. Rosenthal entered into a retainer Agreement with Doris Day Melcher and continued to present her as an attorney, business manager, business adviser and agent until his services were terminated in July 1968. Later that year, Doris Day Melcher and her son, Terrence Melcher, filed a complaint with the state bar against Rosenthal. Disciplinary proceedings resulted in the State Bar Court unanimously recommended that he be disbarred. The case presents facts instructive of what lawyers also functioning as an agent and manager should not do and what can happen when they do.

The Supreme Court of California, in affirming the disbarment, held that Rosenthal

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74. Judicial immunity largely insulates judges from civil liability for their official conduct.

75. See Mallen, *supra* note 5, at 554-55. Lawsuits against lawyers for professional liability are generally referred to as malpractice actions. Although there is little consensus or discussion about the meaning of legal malpractice, it commonly describes a kind of tortious conduct. *Id.* at 2. Liability for professional negligence is certainly included within the meaning of malpractice. *Id.* at 3-5.

76. The most common action brought against attorneys is for negligence. The essential elements of a negligence claim are: "(1) the employment of the attorney or other basis for imposing a duty; (2) the failure of the attorney to exercise ordinary skill and knowledge; and (3) that such negligence was the proximate cause of damage to the plaintiff;" and (4) actual damages. *Id.* at 607-08. As part of a lawyer malpractice action, courts have traditionally required the plaintiff to show that but for the attorney's conduct the client would succeeded in the underlying claim. See, Kituskie v. Corbman, 714 A.2d 1027 (Pa. 1998) (holding that the uncollectability of a judgment in the underlying action is an affirmative defense to a malpractice claim against an attorney); see also Morgan, *supra* note 8, at 89 (discussing lawyer malpractice claims and the so-called "suit-within-a-suit" requirement).

77. Patrick v. Ronald Williams, P.A., 402 S.E.2d 452 (N.C.App. 1991); see Togestad v. Vesely, Otto, Miller & Keefe, 291 N.W.2d 686 (Minn. 1980); 4 DUNNELL MINN. DIGEST *Attorneys* §11.00 (4th ed. 1989).

engaged in transactions involving undisclosed conflicts of interest, took positions adverse to his former clients, overstated expenses, doubled billed for legal fees, failed to return client files, failed to provide access to records, failed to give adequate legal advice, failed to provide clients with an opportunity to obtain independent counsel, filed fraudulent claims, gave false testimony, engaged in conduct designed to harass his clients, delayed court proceedings, obstructed justice and abused legal process.<sup>78</sup>

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78. Jerome B. Rosenthal v. State Bar of California, 43 Cal.3d 612, 238 Cal.Rptr. 377 (1987). *Que Sera, Sera* (Whatever Will Be, Will Be), Doris (Kappelhoff) Day, from the film "The Man Who Knew Too Much" (1955) (song also recorded for Columbia Records).