
**Statement of Professor Daniel Gervais, Vanderbilt University Law School
before the Subcommittee on Courts, Intellectual Property and the Internet
Committee on the Judiciary**

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A Case Study for Consensus Building: The Copyright Principles Project

May 16, 2013

Chairman Coble, Ranking Member Watt, Members of the Subcommittee, thank you for the opportunity to appear before you today. I commend the Subcommittee for its leadership in tackling this issue of utmost importance and economic significance to the United States.

A comprehensive review and modernization of our copyright system is necessary. If correctly undertaken and achieved on a timely basis, addressing digital rights, exceptions and enforcement, and numerous issues in the area of licensing and formalities has the potential to generate positive and much needed outcomes for this country. Any such review should also bear in mind that the United States is a major exporter of copyrighted material and a leader in global discussions on copyright issues.

I have been teaching domestic and international copyright and intellectual property law for 12 years.¹ Before that, I worked as Head of Copyright Projects at the World Intellectual Property Organization (WIPO) and Legal Office at the World Trade Organization (WTO) during the TRIPS negotiations. I was also Vice-President of Copyright Clearance Center, Inc. (based in Danvers, MA) and served as Vice-Chair of the International Federation of Reprographic Rights Organizations (IFRRO) and Deputy Secretary General of the International Confederation of Societies of Authors and Composers (CISAC), two international bodies specializing in copyright licensing. I have published several books, including a reference book giving a detailed analysis of the drafting history and present application of the TRIPS Agreement, approximately 30 book chapters and 60 articles on copyright and intellectual property, many dealing with particular aspects of copyright policy.

I live in Nashville, known to many as “Music City,” where I can see the impact that copyright policy has on songwriters, artists, and on their fans, publishers and record companies each and every day. Indeed, America is at its best when it produces and exports intellectual property. Copyright has been an important part of the US economy, as the success of US creators, book publishers, film and record companies, and many others over the past decades, have shown. As the transition to the digital realm continues, it is absolutely essential to get copyright policy right.

There are tremendous opportunities for growth in digital media, gaming, and online commerce, but there are also significant challenges. Most people already have one or more devices permanently connected to the Internet at work, home and/or school. This move from a one-to-many to a many-to-many infrastructure and the increased degree of reliance on shared computers (the “Cloud”) to store and access both private and commercial data and copyrighted material is a major shift, one that the current statute cannot easily accommodate.

Modernizing copyright law should not involve just trade-offs between those who want more rights and those who want more exceptions. Today’s copyright system should create benefits for *all* stakeholders. It should allow both amateur and professional creators to disseminate their work, without imposing an obligation on professional creators to provide their work for free or on amateurs to charge for theirs. Professional creators are best viewed as small businesses, and they should be treated with the respect they deserve.

¹ While I am a faculty member at Vanderbilt University, I am here in a personal capacity and I do not purport to speak on behalf, or represent the views, of Vanderbilt University.

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Copyright should allow many sustainable business models and entrepreneurs to flourish as they produce and distribute US goods and services that include copyrighted material around the world. Individual users should have fair access to copyrighted material and be able to take advantage of the almost infinite possibilities that the Internet offers.

This requires a review of most aspects of copyright and particularly rights, exceptions, enforcement, updated formalities and licensing. I examine each area in my comments in the following sequence to sketch what I believe to be a blueprint for a modernized copyright regime:

- The differences between “traditional” copyright and digital copyright;
- The modernization of rights, exceptions and enforcement;
- Licensing; and
- Formalities.

I wish to begin, if I may, by commenting on the revision process itself. There are basically three ways in which copyright revisions have proceeded in the past.

- 1) Small (targeted) changes to the statute to effect one or more smaller scale adjustments;
- 2) A “package” of new rights and new exceptions reflecting the interests of “both sides” of the copyright debate, as was done with the *Digital Millennium Copyright Act (DMCA)* in 1998;²
- 3) A comprehensive review of the statute focusing on fostering American domestic industries and international competitiveness.

Each of these options presents advantages and disadvantages. The first approach is the easiest to conceptualize and implement, but it may lack “balance,” and is almost necessarily insufficient in scope and depth. The second is likely to be more balanced but this package model risks taking the form of a patchwork of new rights and exceptions sought by stakeholders, with little regard for the actual overall operation of the statute, thus creating unintended consequences that have impacted the effectiveness of copyright. The interface of new rights and exceptions with existing ones can get lost in this mix, and with current practices. The package approach may thus fail to adequately consider whether the changes it effects will serve United States’ creators, copyright-based industries, and consumers.

As the Hon. Maria Pallante, the Register of Copyrights, noted in her testimony before this Subcommittee on March 20, 2013, the challenges are significant and will affect several industries:

“The issues are numerous, complex, and interrelated, and they affect every part of the copyright ecosystem, including the public at large. For reasons that I will explain, Congress should approach the issues comprehensively over the next few years as part of a more general revision of the statute.”³

² The DMCA was a significant achievement at the time, but much has happened since 1998.

³ Statement of Maria A. Pallante, Register of Copyrights, United States Copyright Office before the Subcommittee on Courts, Intellectual Property and the Internet Committee on the Judiciary, United States House of Representatives 113th Cong., 1st Sess. March 20, 2013. Available at

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It may indeed be time to embark on the process that will give us the “Next Great Copyright Act,” as was done three times in the past (Copyright Acts of 1790, 1909 and 1976).⁴ So much has happened since 1976 when personal computers, the Internet, the digitization of music, and the phenomenon of social media were yet realities.

At the same time, there is no need to rewrite the statute from scratch. The basic structure of the Act (definitions, rights & exceptions, ownership, duration, formalities, etc.) is sound. It can always be improved upon but I do not see a need to do so as a matter of priority. Rather, *a comprehensive set of balanced changes to existing provisions is what the current situation demands*. I explain possible changes of this nature below. The major adaptations that are needed fit neither the “small targeted change” model nor the “package” approach of simply adding rights and exceptions to an already complex—some might say messy—statute. The review can be comprehensive without being a complete overhaul.

Any revision should anchor its work in principles, as was done for example by the Copyright Principles Project (CPP), a project in which I was a participant and which forms the backdrop for this hearing.⁵ This way, each proposed change or issue could be measured against and/or informed by such principles, which could also serve as a roadmap. Based on those principles, several changes to the statute can be developed in a structured and balanced way. The CPP demonstrated how people with different opinions can agree on even very difficult issues in copyright on the basis of a structured discussion. In the following part of my statement, I focus not on the broad principles identified by the CPP-- with which I agree--, but rather on specific points.

Before moving on to specific areas, I would also submit that any revision should include an examination of (a) the transaction costs of changing the regulatory regime under which current businesses and stakeholders operate (the so-called “incumbents” as they rely on/are affected by “legacy regulation”) and (b) the unintended consequences and “second-level effects” that can be foreseen.⁶

Now I turn to the substantive issues.

1) **Digital copyright**

The CPP’s sixth principle provides the need for balance in dealing with digital copyright issues, recognizing both the opportunities and challenges that they create. Copyright legislation should take into account the specific nature and challenges of the Internet environment, the computing Cloud, and the role of interconnected devices (smart phones, tablets, even special eyeglasses) that people use to communicate and connect and that they also use to access, modify and distribute copyrighted material.

<http://www.copyright.gov/regstat/2013/regstat03202013.html>.

⁴ Maria A. Pallante, *The Next Great Copyright Act*, 37 COLUM. J.L. & ARTS (forthcoming Spring 2013), available at <http://www.law.columbia.edu/kernochnan/manges>.

⁵ Pamela Samuelson et al. *The Copyright Principles Project: Directions for Revision*, 25 BERKELEY TECH. L.J. 1, 6-7 (2010), available at http://www.law.berkeley.edu/files/bclt_CPP.pdf.

⁶ See Daniel Gervais, *The Regulation of Inchoate Technologies*, 47 HOUSTON L. REV. 665 (2010), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1710679.

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Copyright rules (both general and digital-specific) were designed before much was known about the operation of the Internet in practice. Yet, the statute makes a number of distinctions between the traditional brick-and-mortar and online environments. For example:

- Section 106(6) provides a right in sound recordings only for digital transmissions;
- Section 114 contains a compulsory license specifically for certain digital transmissions;
- Sections 1201-1205 are entirely “digital.” They provide many of the rights (and exceptions to those rights) adopted by the Digital Millennium Copyright Act.⁷

That is suboptimal in today’s environment in large measure because business models change and evolve very fast online. The copyright system should allow creators to get fair returns on their creative work *when such work is successful with their audience(s)*, and it should *let entrepreneurs compete fairly and innovate* on how business is done online. Without both these essential elements in balance, new models are unsustainable. Once sustainable, those business models can then be exported around the world.

Conversely, as the CPP Report notes, there are good reasons in certain cases to limit control by right holders. In part this is simply because the Internet is difficult to control. This is a statement of fact. It is also true, however, that in many cases, “control” even if possible may simply not be desirable. Let me briefly explain why I think this is so.

The World Wide Web is 20 years old this year, though as a way of distributing and accessing copyrighted material it dates back less than 15 years. For approximately ten of those 15 years, a number of technologists have promised “solutions” to limit and control how people use copyrighted digital material. That has not really happened. There are two main reasons for this. *First*, the Internet and digital technology more generally are very nimble, and measures to prevent or control access and use are often circumvented by users, especially when no equivalent legal option for access is available. Although such circumvention is not generally permitted under the DMCA, it is still quite common in practice. In some cases, consumers may actually feel justified in trying to copy material (say from an old computer to a newer one, or from one smart phone to another device) because they paid for the material and don't want to pay again for the same file on a new device. Yet, that transfer is often difficult and sometimes next to impossible to do because of technological locks—that is, unless authorized by the copyright holder—leading to what one might call “digital frustration.” *Second*, when online service providers launch copyright-based business which control what users can do on their various devices in a way that users consider too heavy-handed, those users may choose to do business with someone who imposes fewer restrictions or, if no such option is available, access material in other ways.

There is a divergence of opinions on the objectives to be achieved by a modernization of copyright rules. This is a matter of perspective and of how to define the issue. If the objective is, as I think it should be, to *maximize authorized access and use* of copyrighted material and, therefore, revenue streams for creators and all copyright-based businesses, then the efficacy of measures can and should be measured against that yardstick. The discussion does not always

⁷ Digital Millennium Copyright Act, Pub. L. No. 105-304, 112 Stat. 2860 (1998).

adopt that perspective, however. Another view revolves around *minimizing unauthorized uses and leakage*--as opposed to maximizing authorized uses. Those are fundamentally different ways of looking at the problem. To put the matter in the form of a question, should one increase enforcement measures and then evolve business models, or should a recognition of consumer expectations in business models be sought (meeting consumer demand and shaping it gradually) and then use enforcement against recalcitrant users and professional infringers?

As the National Academy of Sciences recent report on copyright revision mentions, it is possible and probably necessary to get empirical data before proceeding further:⁸

“This debate is poorly informed by independent empirical research. Although copyright law’s efficacy and second order effects are largely empirical questions amenable to systematically collected data subject to transparent analytical methods, this type of analysis is rarely conducted.”⁹

Recent business practices suggest that a number of online service providers are choosing to use “softer” Digital Rights Management systems (DRMs), which impose some limits without controlling all uses, combined with an increasing tendency to stream rather than download copies may reduce the scope of the problem. Still, the issue of digital rights and exceptions, and enforcement, should be reviewed as part of any comprehensive process.

2) Digital rights and exceptions, and enforcement

- Copyright is (now) everyone’s business

Before the Internet and digital devices became what is now probably the most widely used way of accessing copyrighted material, individual consumers and users had few reasons to think about copyright in their daily lives. Copyright was a set of rights for, and negotiated between, professionals such as authors, publishers, distributors, record companies, broadcasters, etc. Dealing with complexity was a normal cost of doing business. Individuals who purchased copies of works in the form of books, tapes or CDs had *ownership rights in those copies* and could resell them under the first-sale-doctrine. Copyright was mostly irrelevant as a practical constraint in the daily lives of most Americans.

That situation has changed dramatically. *Accessing a song online, downloading an ebook, streaming a movie generally requires a license.* Those licenses (based on copyright rights) often restrict the use(s) that individual users can make of the material. Conversely, *digital technology has also made it much easier to copy, modify and disseminate copies of material, including copyrighted material that belongs to others.* As a result, copyright now part of almost every American’s daily activities, from simple email to online database access to entertainment consumed at home. This may be a good reason to reduce the degree of complexity and/or enhance the clarity as to what is and is not allowed. Some sections of the

⁸ NATIONAL ACADEMY OF SCIENCES, BOARD ON SCIENCE, TECHNOLOGY, AND ECONOMIC POLICY, *COPYRIGHT IN THE DIGITAL ERA: BUILDING EVIDENCE FOR POLICY* (2013). Available at www.nap.edu/catalog.php?record_id=14686.

⁹ *Id.* at 1-2.

existing statute (§114 comes to mind, though fortunately that one is rarely relevant for individuals) have become virtually incomprehensible even for experts in the field.

Beyond the need to improve the *language* of the statute, there are major substantive issues that need to be addressed. The first is *whether the rights in section 106, in particular for digital uses, match current use patterns and needs*. Copyright policy should have as its lodestar the enhancement of American competitiveness in this field by providing balanced incentives to creators and copyright industries, while securing fair ways to access and use copyrighted material. Second, *all parts of the copyright statute act are potentially interrelated*. Consequently, a balanced discussion on copyright modernization should include both rights and exceptions.¹⁰ Remedies should be available to ensure that rights can be enforced appropriately when infringed.

- The international dimension

In 1989, the United States joined the *Berne Convention*, the most substantive copyright treaty (166 member States as of May 2013). That Convention, first negotiated in 1886, was last updated in 1971, well before personal computers, CDs and the Internet were part of our daily lives. In 1994, the United States signed the Agreement Establishing the World Trade Organization, which includes the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement). That Agreement is enforceable under the WTO dispute-settlement mechanism. TRIPS incorporated the substantive parts of the Berne Convention and added enforcement related provisions to international copyright law, but it added little in terms of new rights and enforcement, other than the “three-step test” designed to cabin exceptions and limitations that WTO members can adopt under international rules.

In 1996, two “Internet treaties” were negotiated under the auspices of WIPO, the *WIPO Copyright Treaty (WCT)* and the *WIPO Performances and Phonograms Treaty (WPPT)*, both ratified by the United States in 1999. Recent trade-based initiatives have tried to increase enforcement and in some cases also to tighten the policy space available to countries to enact new exceptions and limitations. The Anti-Counterfeiting Trade Agreement (ACTA) and the Trans-Pacific Partnership (TPP) are examples of this.¹¹ So-called “South-South” superregional consultations have also led people in a number of emerging and developing nations to propose the development of parallel instruments.

A new treaty creating a regime (exception) to improve access by visually disabled users negotiated under the aegis of WIPO is scheduled to be signed in Marrakech this summer. In parallel, a number of stakeholder groups and organizations have proposed other exceptions, including for libraries and archives.

¹⁰ I discuss this in greater detail in Daniel Gervais, *Making Copyright Whole: A Principled Approach to Copyright Exceptions and Limitations*, 5:1/2 UNIV. OTTAWA L. & TECH. J. 1-41 (2008). Available at <http://www.uoltj.ca/articles/vol5.1-2/2008.5.1-2.uoltj.Gervais.1-41.pdf>.

¹¹ ACTA was signed in October 2011 by Australia, Canada, Japan, Morocco, New Zealand, Singapore, South Korea, and the United States. In 2012, Mexico and the European Union signed as well. One signatory (Japan) has ratified the agreement. The TPP is being negotiated by Australia, Brunei, Chile, Canada, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam. Others (including Japan) may join at a later date.

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There is a risk that an array of “alternative norm-sets” will be developed. The result could be several levels and even “kinds” of copyright laws around the world, a patchwork of treaties and rules that will inevitably reduce certainty and increase transaction costs. This is not in the interest of US exporters. On the basis of a comprehensive review of the Copyright Act, the United States could take the lead in crafting a new treaty to update copyright norms, including tougher enforcement and a set of updated rights, exceptions and limitations for the digital age.

Let me now turn to some of the digital issues that a comprehensive review might usefully address.

- *Rights*

*Redesigned digital-era copyright should capture most forms of commercially significant uses of copyrighted material.*¹² A number of court decisions on the rights involved do not deal with what should be subject to an exclusive right, but rather with the technical nature of the use. They ask whether one or more copies are to be made; whether a public performance or display has taken place, etc.).¹³ This makes copyright unnecessarily complicated and outcomes are sometimes unpredictable and places the focus on peripheral rather than central issues. Rather, to quote the CPP, a “right to control communications of their protected works to the public, whether by transmission or otherwise,”¹⁴ something akin to a “making available right,” is what should be considered. In part, this is required to comply with the WCT and the WPPT.

The main reason to adopt a making available right is not treaty compliance. It is simply that this is the most commercially significant way of disseminating copyrighted works online. Aggregating it under public performance or determining whether a reproduction, display and/or distribution has taken place (the current situation) risks focusing the issue on the technical means used and not being technologically neutral. The underlying policy design should *not* focus primarily on language or technical means used, *but rather on whether a use is commercially significant*. I would define “commercially significant” in this context as uses that a right holder can normally expect to be able to perform himself or herself, or to license a third party to exploit. Then there are uses that copyright traditionally protects for non-economic reasons (or not just economic), such as the *right of first publication*. Those rights should be maintained and strengthened where necessary.

The United States is also obligated to protect *moral rights* under Article 6bis of the *Berne Convention for the Protection of Literary and Artistic Works*.¹⁵ This is mentioned in the CPP report.¹⁶ Again, this is not just a matter of compliance with international norms. Many creators value the right to be recognized as the author of their copyrighted work(s), even in

¹² As the CPP recommendation 6 has it: “Commercial use or commercial effect should be given weight in assessing whether an exclusive right has been infringed.” CPP report, at 33.

¹³ See e.g., *U.S. v. American Soc. of Composers, Authors, Publishers*, 627 F.3d 64 (2d Cir. 2010), cert. denied 32 S.Ct. 366.

¹⁴ CPP Report, *supra* note 5, at 38.

¹⁵ Berne Convention for the Protection of Literary and Artistic Works art. 7, adopted Sept. 9, 1886, S. Treaty Doc. No. 99-27, 1161 U.N.T.S. 3 (amended Sept. 28, 1979). The United States adhered to this treaty in November 1988 (effective as of March 1, 1989).

¹⁶ CPP Report, at 13.

noncommercial contexts.¹⁷ For example, 98% of authors using a Creative Commons license ask for attribution.¹⁸ *Users* can also derive value from knowing who created the work. When the United States joined the Convention it only adopted a very narrow moral right for certain works of visual art (section 106A). This limited adoption of moral rights was due in part to assurances received in a letter from the Director General of WIPO that moral rights could be effected using various state doctrines and trademark law.¹⁹ Since then, however, the Supreme Court has greatly reduced the applicability of trademark law in this context.²⁰

- Exceptions

If all commercially significant digital uses should by default be covered by an exclusive right, then when a use is *not* commercially significant and not subject to one of the few other interests that copyright protects (such as first publication), and especially when there is a public benefit to the use, the default rule should be that an exception or limitation should be available.

In many cases, *most of the work of adapting exceptions and limitations to the digital domain has been done by our courts under the fair use doctrine*. The flexibility of that doctrine has been used in mostly positive ways and it can be maintained as it currently exists. However, not all the work can be done by the fair use doctrine. There are cases where Congress should set appropriate limits in order to increase predictability. This would help smaller companies that want to start a new business using copyrighted material and are wondering which uses may need to be licensed. While major existing stakeholders have the resources to litigate the matter, not all users do. There may be a chilling effect on innovation as a result.

Today, individual users have to make difficult calls on the scope of fair use and risk litigation, including in the educational sector.²¹ Uncertainty about fair use may also limit investment by new businesses and competition and the formation of public-private partnerships to develop those archives. Consequently, Congress could have a role in providing both exceptions and guidance on licensing.²²

For these reasons, existing exceptions, including section 108 (libraries and archives) need to be revisited. *Digital libraries and archives* will become a major way to archive our cultural heritage but they will also become a major avenue to access copyrighted works.

Whether an exception for *education* is required is another interesting question. After passage of the 1976 Act, guidelines were agreed upon among authors, publishers and users on

¹⁷ See CPP report, at 66-67.

¹⁸ See Jeanne C. Fromer, *Expressive Incentives In Intellectual Property* 98 VA. L. REV. 1745, 1791 (2012).

¹⁹ See The Berne Convention: Hearings Before the Subcommittee on Patents, Copyrights and Trademarks of the Committee on the Judiciary United States Senate on S. 1301 and S. 1971, 100th Cong., 2nd Sess. at 323 (1988) (letter of Arpad Bogsch to Irwin Karp, Chairman of the National Convention, June 16, 1987).

²⁰ *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23 (2003). A comprehensive review should revisit this issue, bearing in mind the need for appropriate safeguards for works-made-for-hire, which have been an (unnecessary in my view) stumbling block to achieving a workable solution.

²¹ See *Cambridge Univ. Press v. Becker* (aka Georgia State), 863 F. Supp. 2d 1190 (N.D. Ga 2012).

²² The possible role of compulsory licensing is discussed below.

the scope of fair use precisely with the aim of providing greater clarity.²³ An effort launched in 1997 to adopt similar guidelines for the digital environment failed to reach consensus.²⁴ Perhaps it was too early and the environment was not understood well enough to proceed. 15 years later, things are different.

The issue of *search engine liability* may also merit review. Some courts, in particular the Court of Appeals for the Ninth Circuit, have applied the fair use doctrine quite liberally to search engines, for example in cases involving thumb nail reproduction of full images.²⁵ Without going into all the details here, a review of the operation of section 512(c)'s safe harbor might include an updated, specific liability exemption for search engines with proper safeguards that makes reliance on fair use (and the related uncertainty that this may generate) either unnecessary or, at least, a less central part of the equation.

An exception *allowing individual users to copy in order to move* legally-obtained material from one device to another should also be considered. The Supreme Court recently interpreted the first-sale doctrine as applying to (based on the facts of the case) imports of authorized physical copies of books.²⁶ A federal court later decided that this did not apply to digital copies.²⁷ That opinion seems correct because digital copies are not sold; they are licensed and their use is subject to contractual restrictions. Many consumers believe, however, that, if they have paid for a digital copy of a copyrighted work that copy is “theirs” and they should not have to pay again if they upgrade their computer, phone or tablet. Indeed, they may believe they can use that paid copy on all their devices, and possibly that they can also “resell” that copy to a third party--provided they do not keep a copy. Although some online service providers do provide ways to transfer files in this way, few provide all the options that consumers expect. This may warrant Congressional scrutiny and possibly a specific exception.

- Enforcement

A review of enforcement should be guided by the same principles. “*Professional*” pirates *should be held accountable under the full force of the law*. Penalties need to be severe in such cases. Unauthorized use by individual users in their private sphere (sometimes caused by misapprehension of, or lack of clarity about, the scope of fair use) is a different matter, however. The last 10 years or so have demonstrated that *enforcement works best if it follows an effort to adapt business models to consumer expectations*. Put differently, it works best not as a tool to coerce a majority of Americans but rather as a way to deal with users who disregard copyright law almost as a matter of “principle.” A review of this area should also include a clarification and update of the rules concerning statutory damages. The range of such damages and rather vague criteria should be reviewed.

²³ See Copyright Office, *Circular 21: Reproduction of Copyrighted Works by Educators and Librarians*, available at <http://www.copyright.gov/circs/circ21.pdf>.

²⁴ See *Final Report To The Commissioner On The Conclusion Of The Conference On Fair Use*, November 1998. Available at <http://www.uspto.gov/web/offices/dcom/olia/confu/confurep.pdf>.

²⁵ *Kelly v. Arriba Soft Corp*, 336 F.3d 811 (9th Cir. 2002); and *Perfect10 v. Google, Inc.*, 416 F. Supp. 2d 828 (C.D. Cal. 2006), *aff'd in part, rev'd in part sub nom. Perfect10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146 (9th Cir. 2007).

²⁶ *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S.Ct. 1351 (2013).

²⁷ *Capitol Records, LLC v. ReDigi Inc.*, 2013 WL 1286134 (S.D.N.Y., March 30, 2013).

3) Licensing

- The role of licensing

Copyright is a bundle of enforceable rights designed to be exploited in the marketplace by private enterprise, from individual professional creators to large global entertainment, broadcasting and Internet-based business. “Licensing” is a major way on which such exploitation takes place. means that an author or other copyright owner authorizes a third party to exploit all or part of the copyright rights. For example, a songwriter can license a Performing Rights Organization (or “PRO,” namely ASCAP, BMI and SESAC) to license a musical works for broadcasting. A book publisher might license a foreign publisher to translate and publish a book in a different language. A group of authors of book publishers might license a corporation to photocopy and make digital copies and use journal articles through centralized structure such as Copyright Clearance Center, Inc. (CCC).²⁸

A compulsory or statutory license (the two terms are basically interchangeable) is a tool used when a market has demonstrably failed. In eight cases, Congress has imposed such licenses. For example, section 115 contains such a license to make and distribute phonorecords (a system known as “mechanical rights”).²⁹ This compulsory license was first established for perforated player piano rolls.³⁰ Under this system a fee is paid (usually via a collective management organization such as the Harry Fox Agency) each time a song is commercially copied on a CD, etc.³¹ That license may still be useful in the digital environment, but that is a good example of old regulation woven into the fabric of copyright that needs to be reviewed. At the same time, a previous review of that license shows that doing this review of the statute “a la carte” may not be optimal. Including it as part of a comprehensive review of how compulsory licenses operate is a better option.³² This, like many other possible changes to the system, is also

²⁸ The difference between the PRO/SoundExchange model and CCC is that in the latter case the centralized structure is used to “connect” a user and a right holder but prices are set by right holders. In the former model, prices are generally set for a broad basket or “repertoire” of rights and each work is given the same value (though payment to right holders will usually depend on how many times each work has been used).

²⁹ The others are:

- Section 111 - Statutory License for Secondary Transmissions by Cable Systems
- Section 112 - Statutory License for Making Ephemeral Recordings
- Section 114 - Statutory License for the public performance of Sound Recordings by Means of a Digital Audio Transmission
- Section 118 - Compulsory License for the use of Certain Works in Connection with Non-Commercial Broadcasting
- Section 119 - Statutory License for Secondary Transmissions for Satellite Carriers
- Section 122 - Statutory License for Secondary Transmissions by Satellite Carriers for Local Retransmissions
- Section 1003 - Statutory Obligation for Distribution of Digital Audio Recording Devices and Media (Chapter 10).

³⁰ See Reforming Section 115 of the Copyright Act for the Digital Age, Statement of Marybeth Peters, Register of Copyrights, before the Subcommittee on Courts, the Internet, and Intellectual Property, Committee of the Judiciary (March 22, 2007). Available at `

³¹ The current rate is just shy of \$0.10 per copy (per song).

³² See *Section 115 Compulsory License: Hearing Before the Subcomm. on Courts, The Internet & Intellectual Property of the H. Comm. on the Judiciary*, 108th Cong. 1 (2004).

“amenable to systematically collected data subject to transparent analytical methods,” to quote the NAS report again.³³

- Licensing can maximize value and access

Licensing (as the above example shows, individually or through collective models) *has become the most important vehicle through which authors and other right holders make their works available to others*, and not always against payment.³⁴ Whether the Internet will perform adequately in years to come as a marketplace for copyrighted material is in large measure a function of whether licensing can work.

When creative material is valued at zero, then the aggregate value of copyrighted material is reduced. This may happen, for example, when business entities claim that using any and all professionally created material (in those cases, it is usually referred to as “content”) without paying for it. It is *not* in the interest of the United States as a major producer and exporter of creative material to value this export at zero. Conversely, when there are many copyright holders who must agree on a single business model for a single work and fail to do so or when they use their exclusive rights repeatedly in ways that do not maximize value, or prevent others from maximizing value, or when a licensing transaction is simply unreasonable, the aggregate value of creative material is not optimized and access to the material is diminished.

In cases where transaction costs are such that individual transactions are impossible or much too costly, collective or centralized systems usually work much better. When markets fail to respond, a compulsory license can be used, as in the eight above-mentioned cases in which Congress has made such a call. But whether the compulsory license, once adopted, should be permanent and inflexible is a valid question. In other words, whether the eight existing licenses are still required, need to be updated or whether new ones are required are matters that deserve immediate attention. This review should have but one goal: maximizing value and access, that is, generate sustainable revenue streams for creators and other right holders without imposing undue costs or constraints on users.

- Improving the licensing structure

Given the fast pace of technological change and related changes in the marketplace, and with the objective of maximizing the authorized dissemination and use of copyrighted material for the benefit of creators, right holders and the public, it seems that *leaving some discretion to a specialized agency, under the supervision of Congress*, to decide from time to time whether changes are required or even whether a license is needed at all is the best option. That agency (probably the Copyright Office) should be empowered to obtain and analyze data about market conditions and provide stakeholders an opportunity to participate in the process. Today, if a license is no longer needed, or needs to be adapted, legislative changes are required. By the same token, if a new market failure occurs, no remedy (short of amending the statute) is

³³ See *supra* note 8.

³⁴ For example, Creative Commons offers royalty-free standardized licensing options for those who want to limit certain uses of their works and/or require attribution, but not payment.

available. An agency should thus be authorized by Congress to address these issues in a timely and expert manner.

The Copyright Office currently has a limited rulemaking role, for example in regulating the reporting of monthly and annual statements of account under the compulsory license in section 115. The Copyright Office's rulemaking ability under section 1201, though quite narrow in scope, has proven to be a useful tool to understand the practical application of the DMCA, how it needed to be adapted to changing technology, and in many cases to provide a solution to a specific problem. For example, in the 2008-2009 rulemaking the Register suggested an exemption from the prohibition against circumvention of technological measures that control access to copyrighted works for:

“Literary works distributed in ebook format when all existing ebook editions of the work (including digital text editions made available by authorized entities) contain access controls that prevent the enabling either of the book's read-aloud function or of screen readers that render the text into a specialized format.”³⁵

This provides a good example of a specific issue that could not have been foreseen in 1998, but was addressed successfully in a rulemaking context.

Any modernization of licensing should ensure that copyright legislation is *business-model and technologically neutral*. That neutrality must be applied correctly. Technological neutrality implies a risk because the regulation will apply to technologies that have not yet been invented. It can be viewed as excessive if the unintended consequences are severe. This also calls for a greater role for flexible rulemaking to adapt some parts of the statute to ongoing changes on the basis of evidence and statements submitted by interested parties.

To take a specific example that may illustrate both points just mentioned, in the case of the *public performance of music*,³⁶ the statute currently draws a number of distinctions around which online service providers have organized their business models. The statute is far from neutral.

First, the public performance of *musical works* (music and lyrics), the rights to which usually belong to the songwriter and publisher, is often licensed via one of the US (PROs) and their counterparts in other countries.³⁷ Then, the statute provides a separate layer of rights in *sound recordings*. Typically, those rights are held by a record company, though they may also be owned or co-owned by the artist/performer. For some, but not all, digital uses, the rights in the sound recording are licensed by an entity designated by law, namely SoundExchange. Section 114 contains a statutory license for the public performance of sound recordings by means of *digital audio transmissions*. The statute makes two distinctions here, namely one

³⁵ *Rulemaking on Exemptions from Prohibition on Circumvention of Technological Measures that Control Access to Copyrighted Works*, 2008-2009, available at <http://www.copyright.gov/1201/2010/>.

³⁶ The reproduction of music under section 115 is discussed above.

³⁷ More details on this issue are available in Daniel Gervais, *The Landscape of Collective Management*, 24:4 COLUM-VLA J. L & ARTS 423-449 (2011), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1946997.

between subscription and non-subscription services; the other between interactive and non-interactive services. Some of these services can operate under the statutory license (and thus compete on the quality of services etc.). Others (for example, interactive services such as iTunes downloads or Spotify) require a negotiated license from or on behalf of right holders in every *sound recording* they wish to use. By contrast, the rights of songwriters or publishers in the musical work are usually licensed to those services via a PRO that typically has no reason to--and may not be allowed under antitrust laws--to refuse a license.

Whether this unnecessarily complex model makes sense going forward is questionable. A number of online service providers are operating very close to the line of the interactive/non-interactive distinction, trying to remain on the non-interactive side of the fence, where they can benefit from the compulsory license. This suggests that allowing the use of music with fewer limits but with usage reporting and fair compensation for creators and other copyright-based businesses would be a better way to encourage open competition and align new business models as closely as possible with user expectations of access to “everything on every device.” Again, the objective should be to maximize authorized uses and revenue streams without imposing undue costs or constraints on users.

4) Formalities

As United States law presently stands, *registration* is a pre-condition for bringing an infringement action (unless the work is foreign).³⁸ It serves to provide constructive notice that a work is under protection,³⁹ and makes available the recovery of statutory damages and attorney’s fees.⁴⁰ A defense of innocent infringement is unavailable if the work infringed bears notice of copyright protection.⁴¹ Recordation of transfers still provides constructive notice, but is no longer a prerequisite to an infringement action.⁴² The deposit requirement has been retained. However, failure to comply is penalized only with a fine, not forfeiture of copyright.⁴³

This system needs to be modernized. A real property analogy might help illuminate the issue. If one were to buy a car, the fact of the car’s existence is not one that most people would doubt (if the car was in front of them). Registration may confirm not the existence of a car, or work but useful “metadata.” For a car, that would be the model, place of manufacture, etc. For a copyrighted work, it could be the author, publisher, year and place of publication, etc. But the main point is that buying the car requires a determination by the buyer that the person selling the car actually has the title to the vehicle. This is where recordation comes into play.

The current copyright system creates incentives for work “manufacturers” to register new vehicles, but it is much less insistent on recordation of title. The consequences of a failure to register a work (e.g., loss of a claim for statutory damages and attorneys’ fees) or, conversely, the advantages of registering, are much greater than those associated with recordation of, or failure to record, a transfer. This situation causes several problems, not the least of which is

³⁸ 17 U.S.C. § 411.

³⁹ 17 U.S.C. § 410(c).

⁴⁰ 17 U.S.C. § 412.

⁴¹ 17 U.S.C. § 401(d).

⁴² 17 U.S.C. § 205(c)

⁴³ 17 U.S.C. § 407(d) (2000).

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millions of *orphan works* (works with no known or locatable owner). Even a diligent user who is willing to seek a license to use those works cannot get a license because no owner or licensor can be found. Yet, that person is still subject to statutory damages etc. That dysfunction may dissuade investment in businesses that want to use copyrighted material. It also makes the life of users generally more difficult, for no good reason. An update of copyright formalities could ameliorate this situation significantly.

There are significant constraints under international law to the imposition of formalities, however. Article 5 of the Berne Convention reads in part as follows:

“Authors shall enjoy, in respect of works for which they are protected under this Convention, in countries of the Union other than the country of origin, the rights which their respective laws do now or may hereafter grant to their nationals, as well as the rights specially granted by this Convention. *The enjoyment and the exercise of these rights shall not be subject to any formality.*”⁴⁴

Prioritizing recordation of transfers seems a good way forward. If done correctly, it would also be consistent with applicable international obligations. It would ensure that the owner of a work (like the owner of a car) can be identified. *Some remedies* (at least statutory damages and attorneys’ fees) *could be tied to a subsequent copyright holder’s recordation of transfers of title.* Using the language of the diligent search proponents (in the orphan works context), *diligent recordation* may be a significant part of the solution.⁴⁵ Provisions for confidentiality of material filed to support transfer (perhaps as with computer software registration now), and/or requiring an affidavit in lieu of confidential documents could be made.⁴⁶ Finally, the system should not apply to works not exploited or lawfully available in the United States.

Any such change would require a significant review of the Copyright Office’s systems, infrastructure and staff.⁴⁷ One option in this context would be to consider private/public partnerships and decentralized registration options, as is discussed in the report of the CPP:

“The new registry regime we envision would allow for private registries to exist for particular communities of copyright owners, and ideally, public and private registries

⁴⁴ Berne Convention, art. 5(1) and (2) [emphasis added].

⁴⁵ On the notion of “diligent search,” see US Copyright Office, *Legal Issues in Mass Digitization: A Preliminary Analysis and Discussion Document 26* (Oct. 2011), available at www.copyright.gov/docs/massdigitization/USCOMassDigitization_October2011.pdf (accessed April 29, 2013).

⁴⁶ For the same reasons, transferees should also have an obligation to keep their contact information up-to-date, as they do for Internet domain names, for example. See the *Whois Data Reminder Policy*, available at www.icann.org/en/resources/registrars/consensus-policies/wdrp/faqs (accessed April 24, 2013).

⁴⁷ As the Register of Copyrights noted in a recent keynote speech :

“The leadership and staff of the Copyright Office are keenly aware that recordation will require improvements to administrative infrastructure as well as the statute. In a public inquiry published last month (which I encourage all of you to read and respond to) we have asked a series of important questions about technology, design and related resources.”

Maria Pallante, *The Curious Case of Copyright Formalities* (April 2013). Available at <http://www.law.berkeley.edu/files/Pallante-BerkeleyKeynote.pdf>.

would be able and have incentives to share information about registered works, thereby increasing the social value of all of the registries.”⁴⁸

The key takeaways from the above are, I believe, straightforward. I want to leave you with five main messages:

1. A comprehensive review of the Copyright Act is urgently needed. This review must be undertaken and achieved correctly in policy terms and on a timely basis;
2. Copyright is a key ingredient of future US economic growth and competitiveness. As a major exporter of copyrighted material, the US should be a leader in global discussions on copyright modernization in a way that reflects the outcome of the comprehensive review of the statute;
3. Digital copyright presents unique challenges and opportunities to policy makers. The Internet and digital technology are generally more difficult to control, yet offer creators, copyright-based industries and individual users unprecedented ways of accessing, modifying and disseminating copyrighted material. Rights and exceptions need to be updated taking into account the dynamics of this new environment and the systemic nature of the statute (changes to one part are likely to affect its overall operation);
4. Licensing has become the most important vehicle for many businesses to disseminate and monetize copyrighted material. The compulsory licensing structure needs significant updates. Consideration should be given to a broader regulatory role for a specialized agency such as the Copyright Office;
5. A review of formalities should consider a heightened recordation requirement.

In closing, again I commend the Subcommittee and its leadership for this important endeavor. Thank you, and I invite any questions you may have.

⁴⁸ CPP, *supra* note 5, at 26.