

Entertainment, Arts and Sports Law Journal

A publication of the Entertainment, Arts and Sports Law Section of the New York State Bar Association

Letter from the Chairman

The EASL Section has never had a more active year than 2006. This year alone, the Section presented no fewer than sixteen substantive programs—that’s almost one program every three weeks! In addition, most of them were accredited for MCLE credits. The average price of each of the fifty or so credits offered? Maybe twenty bucks, including a breakfast, lunch or a snack. Did someone say, “membership has its rewards?”



Alan D. Barson

At the EASL Section’s Annual Meeting each January, the Section Chair customarily introduces the members of

the Executive Committee to the general Section membership and acknowledges their many contributions during the previous year. Yet such a cursory acknowledgment, however sincere, could never adequately convey how appreciative I am and, I believe, you—the Section’s membership—are, to the chairs of the various committees for their selfless efforts in organizing first-rate programs featuring authoritative speakers who discuss the most significant topics of the day. Nor is there time during the Annual Meeting to recap the year’s accomplishments and heap the praise on those who contributed to the Section’s success in other ways.

If there ever was a year for which this condition demands to be addressed, 2006 was it.” So, on behalf of

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SPECIAL: ANNUAL MEETING ISSUE

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a grateful EASL Section, a heartfelt thank you, in almost alphabetical order, to:

- **Committee on Alternative Dispute Resolution, Judith A. Bresler and Judith B. Prowda**, Co-Chairs, for presenting two programs, “Nuts & Bolts of an AAA Arbitration” and “ADR with Dean John D. Feerick”;
- **Copyright and Trademark Committee, Jay Kogan and Neil J. Rosini**, Co-Chairs, for presenting two programs, “Keeping it Real: The Use of Existing Products, Places, People, Cultural Icons, and Other Recognizable Elements in Film, Television, Books, Comics and Other Creative Works” and “Calculating Damages In Copyright and Trademark Actions”; and in collaboration with the Music and Recording Committee;
- **Music and Recording Committee, Stanley H. Schneider, Gary E. Redente** and yours truly, the program “Copyright and Business Aspects of Music and Ringtones” (in collaboration with the Copyright and Trademark Committee);
- **Committee on Literary Works and Related Rights, Richard S. Mandel and Jennifer Unter**, Co-Chairs, for presenting two programs, “Trade Sanctions and the First Amendment” and “Interminable Agency in Author-Agent Agreements”;
- **Committee on Fine Arts, Judith B. Prowda**, Chair, for presenting two programs, “Art Insurance in a Post-Hurricane Katrina Environment” and “Photography and Graphic Arts—From Copyright Infringement to Model Releases”;
- **Legislation Committee, Steven H. Richman**, Chair, for keeping the Executive Committee up-to-date with legislative initiatives in Albany that can potentially affect entertainment, arts and sports law practitioners;
- **Committee on Motion Pictures, Mary Ann Zimmer and Stephen B. Rodner**, Co-Chairs, for presenting “Play it Again, Sam: Applying the New Musical Reality to Film and Television Music”; and two additional programs in collaboration with the Television and Radio Committee (see below);
- **Television and Radio Committee, Barry D. Skidelsky and Pamela Jones**, Co-Chairs, “Truth & Lives on Film: Legal Issues Concerning Depicting Real Persons and Events in a Fictional Medium” and “Everything You Ever Wanted to Know About Pre-Broadcast Review”;
- **Committee on Sports, Ayala Deutsch and Anthony J. Dreyer**, Co-Chairs, for presenting, in collaboration with Fordham Law School Sports Symposium, the “10th Annual Symposium on Current Legal Issues in Sports”;
- **Committee on Theatre and Performing Arts, Jason P. Baruch and Diane F. Krausz**, Co-Chairs, for presenting “Theatrical Financing —An Overview”;

- **Membership Committee, Rosemarie Tully**, Chair, for continually developing ways to better communicate with our current membership and attract new members;
- **Young Entertainment Lawyers Committee, Jennifer Romano Bayles**, Chair, for presenting “Recording Artist Agreements: A Mock Negotiation”;
- **Pro Bono Committee, Elisabeth K. Wolfe and Elissa D. Hecker**, Co-Chairs, for organizing legal clinics with the Volunteer Lawyers for the Arts and other worthy organizations, the Mentor/Mentee Program and the EASL Speakers Bureau;
- **Publications Committee, Elissa D. Hecker**, Chair, for editing and publishing the *EASL Journal* three times each year;
- **Programs Committee, Michele Cerullo and Tracey P. Greco**, Co-Chairs, for organizing the EASL Section’s 2006 Annual Meeting, “Videogaming & Cybergambling: Legal Issues Impacting the Videogaming and Online Gambling Industries” and the Spring Meeting, “The Practical Business, Tax & Legal Aspects of the Limited Liability Corporation/Limited Liability Partnership”; and
- **Joyce Dollinger, Michael Poster and Marc Reisler**, with whom I had the privilege of co-chairing the EASL Section’s Fall Meeting, in collaboration with the CMJ Music Marathon 2006, the all-day, 7-MCLE credit “Music and Business Law Seminar.”

We also owe a special *thank you!* to **Juli Turner** and **Christy Douglas** at the NYSBA in Albany, who provide us with really great support and assistance with coordinating the logistics of the Section’s meetings and programs as outlined above, and extra kudos to Juli for organizing the ten or so Executive Committee meetings that take place each year.

As I write this, plans are well under way for the 2007 Annual Meeting, to be held on January 22 at the New York Marriott Marquis, which will explore “The Impact of Digital Technologies on the Entertainment Business.” I look forward to seeing you there!

Alan Barson
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Alan D. Barson, Esq., practices entertainment, copyright and trademark law. He is based in New York City, and represents creative and executive talent in the motion picture, television, home video, book, recording, music publishing, licensing, touring, theatre and new media industries. In addition to serving as Chairman of the Entertainment, Arts and Sports Law Section of the New York State Bar Association, Alan co-chairs the Section’s Music and Recording Committee and is a Section Delegate to the Association’s House of Delegates.

In Appreciation: Stanley Rothenberg

To me, Stanley was like Jehovah—brilliant and somehow concealed. I had asked Stanley what he regretted. He said just two things: that he did not go out-of-town to college, and that he did not author a study for the new Copyright Act of 1976. How lucky he was that these things were his only spoken regrets.

He was a senior partner in intellectual property in a major law firm, Moses & Singer. He taught as an adjunct in four law schools, Fordham, Brooklyn, Cardozo and Seton Hall. He wrote books and articles in the field that both of us share: copyright law. He was the president of the Copyright Society of the U.S.A., chairperson of the Literary Property Committee of the City Bar, and many times a consultant to the Register of Copyright. He was a star!

He was a wonderful father to Michael, Seth and David. His brother, Alan and his cousin, Shelly were his life-long friends. As the closest of friends, I can attest to his generosity. And he loved Carol, his companion for 21 years. Carol's devotion to him was intense and steadfast. Her being a doctor added years to Stanley's life.

He was a perfect co-teacher in our class at Fordham Law School. And both of us gave each other comfort on so many legal problems. From Harvard Law School on, he was irreplaceable.

His odyssey in this American century was amazing. From Brooklyn, to N.Y.U., then Harvard Law, Fulbright to Amsterdam, Army in Germany, Columbia Pictures, Warner Bros., then Heit, Rothenberg and Gerber, and finally Moses & Singer. And happiness with Carol in Dobbs Ferry. Our society permits advancement for merit, and Stanley had merit in spades.

I speak for everyone in the copyright bar—we shall miss his comments, his questions and his superb mind. We salute him!

—Eulogy delivered by
Alan J. Hartnick

Editor's Note

This Annual Meeting issue of the Journal is dedicated to the living memory of Stanley Rothenberg, who passed away in November. To have known Stanley was to have known greatness, only tempered by a quiet modesty. As Alan Hartnick eulogized to several hundred mourners at Stanley's funeral, and as was reported in the New York Times' obituary, Stanley lived a wonderful and creative life that impacted so many. He will be missed, but will live on in his works and the memories and hearts of all who were fortunate to have known him.



This issue of the *Journal* features analyses of the pending "Copyright Modernization" legislation, which is of great interest to practitioners in our practice areas. In addition to articles by Robert Clarida and Michael Einhorn, who write about orphan works and compulsory licensing, respectively, I have chosen to publish nine comments submitted in response to the Copyright Office's Notice of Inquiry regarding orphan works, reflecting the various stances taken by entertainment industry trade groups.

I am very excited to write about the book that will be published by the NYSBA, entitled *Entertainment Litigation: Understand the Issues and Avoid the Courtroom*.

This book is being sponsored by EASL to provide a user-friendly resource for its members. The book includes such topics as:

- ADR
- Anatomy of a Copyright Infringement Claim
- Artist-Manager Conflicts
- Contracts Without an Express Obligation
- Intellectual Property Overview
- Rights of Publicity and Privacy
- Trademarks for Artists and Entertainers
- Litigating Domain Name Disputes

- Trademark Issues
- Lanham Act
- A Business Owner's Guide to Avoiding Website Pitfalls
- Internet Legal Issues
- Artist-Dealer Relations: Representing the Visual Artist
- Case analyses of recent and important decisions, such as *Martha Graham*, *American Library Association*, *Rossi*, *Google* and several sports issues.

Peter Herbert (former Chair of EASL's Litigation Committee) and I, as co-editors of the book, in addition to all of the wonderful contributors, expect that this will become a useful handbook for practitioners in the entertainment, art and sports law fields. Please see Peter's article within this issue of the *Journal* (p. 9) for more details as to the history behind the book.

Regarding my last Editor's Note: I am still interested in receiving articles from and/or opening a discussion about issues surrounding plagiarism. Please feel free to email your articles and thoughts on this subject to me.

**THE NEXT EASL JOURNAL DEADLINE
IS FRIDAY, JANUARY 12, 2007**

Elissa

Elissa D. Hecker of the Law Office of Elissa D. Hecker, located at 90 Quail Close, Irvington, NY 10533, practices in the fields of copyright, trademark and business law. Her clients encompass a large spectrum of the entertainment and corporate worlds. In addition to her private practice, Elissa is Immediate Past Chair of the EASL Section. She is also Co-Chair and creator of EASL's Pro Bono Committee, a frequent author, lecturer and panelist, a member of the Copyright Society of the U.S.A (CSUSA) and a member of the Board of Editors for the Journal of the CSUSA. Elissa is the recipient of the New York State Bar Association's 2005 Outstanding Young Lawyer Award. She can be reached at (914) 478-0457 or via email at: EHeckerEsq@yahoo.com.

NYSBA Guidelines for Obtaining MCLE Credit for Writing

Under New York's Mandatory CLE Rule, MCLE credits may be earned for legal research-based writing directed to an attorney audience. This might take the form of an article for a periodical, or work on a book. The applicable portion of the MCLE Rule, at Part 1500.22(h), states:

Credit may be earned for legal research-based writing upon application to the CLE Board, provided the activity (i) produced material published or to be published in the form of an article, chapter or book written, in whole or in substantial part, by the applicant, and (ii) contributed substantially to the continuing legal education of the applicant and other attorneys. Authorship of articles for general circulation, newspapers or magazines directed to a non-lawyer audience does not qualify for CLE credit. Allocation of credit of jointly authored publications should be divided between or among the joint authors to reflect the proportional effort devoted to the research and writing of the publication.

Further explanation of this portion of the rule is provided in the regulations and guidelines that pertain to the rule. At section 3.c.9 of those regulations and guidelines, one finds the specific criteria and procedure for earning credits for writing. In brief, they are as follows:

- The writing must be such that it contributes substantially to the continuing legal education of the author and other attorneys;
- it must be published or accepted for publication;
- it must have been written in whole or in substantial part by the applicant;

- one credit is given for each hour of research or writing, up to a maximum of 12 credits;
- a maximum of 12 credit hours may be earned for writing in any one reporting cycle;
- articles written for general circulation, newspapers and magazines directed at non-lawyer audiences do not qualify for credit;
- only writings published or accepted for publication after January 1, 1998 can be used to earn credits;
- credit (a maximum of 12) can be earned for updates and revisions of materials previously granted credit within any one reporting cycle;
- no credit can be earned for editing such writings;
- allocation of credit for jointly authorized publications shall be divided between or among the joint authors to reflect the proportional effort devoted to the research or writing of the publication; and
- only attorneys admitted more than 24 months may earn credits for writing.

In order to receive credit, the applicant must send a copy of the writing to the New York State Continuing Legal Education Board, 25 Beaver Street, 8th Floor, New York, New York 10004. A completed application should be sent with the materials (the application form can be downloaded from the Unified Court System's Web site, at this address: <http://www.courts.state.ny.us/mcle.htm> (click on "Publication Credit Application" near the bottom of the page)). After review of the application and materials, the Board will notify the applicant by first-class mail of its decision and the number of credits earned.

**Get CLE Credit:
Write for the *EASL Journal!***

The New York State Bar Association
Entertainment, Arts and Sports Law Section
Law Student Initiative

The Entertainment, Arts and Sports Law (EASL) Section of the New York State Bar Association has an initiative giving law students a chance to publish articles both in the *EASL Journal* as well as on the EASL Web site. The Initiative is designed to bridge the gap between students and the entertainment, arts and sports law communities and shed light on students' diverse perspectives in areas of practice of mutual interest to students and Section member practitioners.

Law school students who are interested in entertainment, art and/or sports law and who are members of the EASL Section are invited to submit articles. This Initiative is unique, as it grants students the opportunity to be *published and gain exposure* in these highly competitive areas of practice. The *EASL Journal* is among the profession's foremost law journals. Both it and the Web site have wide national distribution.

To foster an interest in entertainment, art and sports law as a career path, the EASL Section invites law students who are Section members to participate in its Law Student Initiative.

Requirements

- **Eligibility:** Open to all full-time and part-time J.D. candidates who are EASL Section members.
- **Form:** Include complete contact information; name, mailing address, law school, law school club/organization (if applicable), phone number and e-mail address. There is no length requirement. Any notes must be in *Bluebook* endnote form. An author's blurb must also be included.

- **Deadline:** Submissions must be received by **Friday, January 12, 2007.**
- **Submissions:** Articles must be submitted via a Word e-mail attachment to: eheckeresq@yahoo.com or via mail to:

Elissa D. Hecker, Esq.
Editor, *EASL Journal*
90 Quail Close
Irvington, NY 10533

Topics

Each student may write on the subject matter of his/her choice, so long as it is unique to the entertainment, art and sports law fields.

Judging

Submissions will be judged on the basis of quality of writing, originality and thoroughness.

Winning submissions will be published in the *EASL Journal*. All winners will receive complimentary memberships to the EASL Section for the following year. In addition, the winning entrants will be featured in the *EASL Journal* and on our Web site, and all winners will be announced at the EASL Section Annual Meeting.

**Deadline:
Friday, January 12, 2007**

Pro Bono Update

By Elisabeth K. Wolfe

Next EASL-Sponsored VLA Clinic Slated for March 28, 2007

Since September 2002, EASL has sponsored VLA Legal Clinics which take place at VLA's offices, located at 1 E. 53rd Street in New York City. EASL has sponsored between two and four clinics each year, and anywhere between 10 and 20 experienced EASL attorneys staff each clinic. The clinics run for approximately three hours, with the first half-hour appointment beginning at 4:00 p.m., and the last at 6:30 p.m. The clinics are open to all individuals and art organizations that are VLA Members.

The clinics provide VLA members with the opportunity to meet one-on-one with volunteer attorneys for 30 minutes. During such private appointments, attorneys respond to inquiries about any arts-related legal matters that members have.

In the past, members have presented issues in the areas of copyright, trademark, and contracts, among others. For example, one artist who has been offered a contract may seek assistance in understanding its basic terms, while another may need to ascertain whether her intellectual property rights are being infringed. Exploring

alternatives for starting for-profit and not-for-profit business entities is also a common matter. VLA staff attorneys are always present at the clinics to answer any questions.

EASL attorneys generally resolve a large number of matters (approximately 70 percent) at the initial clinic consultations. Upon an attorney's recommendation, VLA places those matters requiring further legal assistance on the VLA Case List for pro bono placement, as long as the member financially qualifies for pro bono services in accordance with VLA's guidelines.

This clinic is a wonderful way to make a difference! The next EASL-sponsored clinic will be held on Wednesday, March 28, 2007, from 4:00 p.m. to 7:30 p.m. Volunteer attorneys must have insurance through their firms or individually, and have at least four years of practicing experience. There are two time shifts: 4:00 to 5:30 p.m. or 5:30 to 7:30 p.m. Interested attorneys please e-mail elisabethwolfe@mac.com.

Elisabeth K. Wolfe is Pro Bono Committee Co-Chair of NYSBA's Entertainment, Arts and Sports Law Section.

Wish you could take a recess?



If you are doubting your decision to join the legal profession, the New York State Bar Association's Lawyer Assistance Program can help.

We understand the competition, constant stress, and high expectations you face as a lawyer. Dealing with these demands and other issues can be overwhelming, which can lead to substance abuse and depression.

NYSBA's Lawyer Assistance Program offers free and confidential support because sometimes the most difficult trials happen outside the court.

All LAP services are confidential and protected under Section 499 of the Judiciary Law.



NEW YORK STATE BAR ASSOCIATION
Lawyer Assistance Program
1.800.255.0569 lap@nysba.org

EASL Section and BMI Offer Law School Scholarship

The Entertainment, Arts and Sports Law Section of the New York State Bar Association, in partnership with BMI, will fund up to two partial scholarships to law students committed to practicing in one or more areas of entertainment, art or sports law.

The Phil Cowan/BMI Scholarship fund looks to provide up to two \$2,500 awards on an annual basis in memory of Cowan, a past Section chair. Each candidate must write an original paper on legal issues of current interest in the areas of entertainment, art or sports law. The competition is open to all students attending accredited law schools in New York State along with Rutgers and Seton Hall law schools in New Jersey. In addition, up to ten other law schools at any one time throughout the United States shall be selected to participate in the competition on a rotating basis. Students from other "qualified" law schools should direct questions to the deans of their respective schools.

The paper should be 12-15 pages in length, including footnotes, double-spaced, in *Bluebook* form. Papers should be submitted to each law school's designated faculty member. Each school will screen its candidates' work and submit no more than three papers to the Scholarship Committee. The committee will select the scholarship recipient(s).

Submission deadlines are the following: October 1st for student submissions to their respective law schools for initial screening; November 15th for law school submission of up to three papers to the committee. The committee will determine recipient(s) on January 15th. Scholarships will be awarded during the Section's Annual Meeting in late January.

Payment of scholarship funds will be made directly to the recipient's law school and credited to the student's account.

Law School Scholarships

The committee reserves the right to award only one scholarship, or not to award a scholarship, in any given year.

The scholarship fund is also pleased to accept donations, which are tax-deductible. Donation checks should

be made payable to The New York Bar Foundation, designating that the money is to be used for the Phil Cowan Memorial/BMI Scholarship, and sent to Kristin O'Brien, Director of Finance, New York State Bar Foundation, One Elk St., Albany, N.Y. 12207.

Cowan chaired the EASL Section from 1992-94. He earned his law degree from Cornell Law School, and was a frequent lecturer on copyright and entertainment law issues.

About BMI

BMI is an American performing rights organization that represents approximately 300,000 songwriters, composers and music publishers in all genres of music. The non-profit-making company, founded in 1940, collects license fees on behalf of the American creators it represents, as well as thousands of creators from around the world who chose BMI for representation in the United States. The license fees collected for the "public performances" of its repertoire of approximately 4.5 million compositions are then distributed as royalties to BMI-member writers, composers and copyright holders.

About the EASL Section

The more than 1,700 members of the Entertainment, Arts and Sports Law Section of the NYSBA represent varied interests, including issues making headlines, being debated in Congress and heard by the courts today. The EASL Section provides substantive case law, forums for discussion, debate and information-sharing, pro bono opportunities, and access to unique resources including its popular publication that is published three times a year, the *EASL Journal*.

About the NYSBA

The 72,000-member New York State Bar Association is the official statewide organization of lawyers in New York and the largest voluntary state bar association in the nation. Founded in 1876, NYSBA programs and activities have continuously served the public and improved the justice system for more than 125 years.

Upcoming *EASL Journal* Deadline: Friday, January 12, 2007

EASL Section Litigation Handbook: *Entertainment Litigation: Understand the Issues and Avoid the Courtroom*

By Peter Herbert

Elissa D. Hecker and I have co-edited a handbook for entertainment practitioners entitled *Entertainment Litigation: Understand the Issues and Avoid the Courtroom*, based on a series of semi-annual lectures that I gave over a period of 15 years to the students at Georgetown University Law Center. It contains contributions from numerous distinguished lawyers in their relevant fields. To introduce our Section members to the book, which will be published under EASL's sponsorship, I am offering a preview of my Foreword. The premise of the book is that by understanding in simple terms the issues that commonly lead to litigation, one is best equipped to avoid the courtroom. I hope you find this effort of ours of some practical value.

Foreword

The hindsight of more than thirty years of entertainment and intellectual property litigation experience indicates to me that litigated disputes generally involve certain issues that are central to a creative artist's career, and that by offering a basic, practical understanding of these common issues, creative artists and their representatives will gain some insight as to how to avoid the courtroom. These issues are most easily identified by asking the question, "what does an entertainer or creative artist need for a healthy dispute-free career?" I would suggest: representatives who are free of conflicting interests; agreements for their services that expressly require both parties to perform stated obligations as a condition of maintaining the relationship; agreements that clearly recite the terms of service, including the amount and conditions of compensation, the credits to be accorded the artist and the artist's copyright interest in the work, where applicable; protecting the artist's copyrightable works through proper registration and enforcement of rights; protecting the artist's name and likeness that has gained public recognition through licensing activity, quality controls and the monitoring and prevention of unauthorized uses; protecting the artist's trademarks, logos, domain names and other indicia that identify the artist as the source of goods or services; protecting the artist's reputation by assuring appropriate "credit" for work performed, including preventing others from taking credit for what the artist has created and from wrongfully trading off the name of the artist in relation to work performed by others; effective merchandising of the artist's products and services through traditional and emerging technologies; and careful review of accounting statements provided under the artist's service and licensing agreements with

third parties. While each industry, whether it be recording, music publishing, motion picture, television, live theatrical, book publishing, fine art or merchandising, has its own special customs and practices, these areas of protection are common to them all.

Just as the artist's transactional representative must fully appreciate the legitimate needs of the parties with whom the artist contracts, the litigator must understand and appreciate the legitimate positions of the adversary and educate the client as to its reasonable expectations. The bulldog litigator who ignores this responsibility under the belief that trial by combat will necessarily maximize his client's advantages, even with the best of intentions, may blindly play a tune that eventually will be "tin" to a judge's ear, and perpetuate an all-consuming litigation that saps his client's creative energy and resources at the expense of the artist's career and financial interests. In most cases in which injury to reputation or professional integrity is not involved, constructive litigation should produce positive results for both parties by minimizing their respective losses. Other cases that do involve a potential injury to reputation or a compromise of fundamental values are not susceptible of easy practical resolution and must be pursued to conclusion.

The genesis of this handbook was an outline of a three-hour lecture on entertainment litigation that I delivered twice a year for more than fifteen years to the students at Georgetown University Law Center. Salient principles were brought to life through discussions of cases in which I was personally involved over the years. The more esoteric cases included *Bartok v. Boosey & Hawkes* (establishing the meaning of a "posthumous work" under the Copyright Act); *The Harry Fox Agency v. Mills Music* (defining the scope and effect of the termination provisions of the Copyright Act); *Childress v. Taylor* (establishing the test for "joint authorship" under the Copyright Act); *Frank Music v. Compuserve* (examining whether a passive server is a contributory infringer of music copyrights by reason of facilitating file sharing on its bulletin board); *Groucho Marx Productions v. Day in Hollywood Company* (extending the right of publicity to an unlicensed use of the Marx Brothers' personae on the Broadway stage); *Hoepker v. Kruger/ The Whitney Museum* (application of First Amendment protection to museum merchandise sold to promote an ongoing museum exhibition) and *Hogarth v. Edgar Rice Burroughs* (application of "work for hire" to Tarzan illustrations).

More practical issues were the subject of *Bourne v. The Walt Disney Company* (interpreting the scope of arcane publishing licenses with respect to Disney's historic movie songs); *Woods v. Universal Pictures* (the unlicensed use of an architectural design as a movie set in the film "Twelve Monkeys"); *Estate of Presley v. RCA* (recovery of unpaid record royalties); *Stephen King v. New Line Cinema* (improper use of Stephen King's name in the credits of the film "The Lawnmower Man"); *The British Museum v. Lerner & Loewe* (entitlement to "My Fair Lady" royalties in countries where the underlying copyright in "Pygmalion" had entered the public domain); severing Bruce Springsteen, Ben Vereen and the Allman Brothers from unproductive management relationships; reacquiring for songwriters/performers Nick Lowe and Bob James music and recording catalogs that were either not being actively published or where record royalties were consistently not paid; recovering compensation due actor Sterling Hayden for his performance in the motion picture "Venom," or opera singer Cornell MacNeil for his overtime work in the film "La Traviata," or the band Pink Floyd as the result of an underestimation of concert attendance that could only be corrected with an analysis of aerial photographs. Playing cops and robbers outside of Madison Square Garden to effect seizure of bootleg Rolling Stones merchandise added a very risky business to the mix.

Looking back over these cases and others, it seemed that what might be useful to the legal and business community was a handbook that addressed in a simple,

accessible way, the basic issues that inspire disputes in the entertainment and intellectual property arenas so that, with this knowledge and awareness, artist representatives could minimize their clients' risks of litigation.

I am grateful to Elissa D. Hecker, Immediate Past Chair of the Entertainment, Arts and Sports Law Section of the New York State Bar Association, whose amazing energy and insight sparked the interest of the Section in this project. Her editorial skills and attention to all aspects of the project's development was critical to my own incentive and therefore to making this handbook come to life. I want to extend my gratitude to distinguished attorneys Robert W. Clarida, Judith A. Bresler, Peter Glass, Joel L. Hecker, Judith B. Prowda, Roger Deitz, and to my splendid and talented partners and associates at Hinckley, Allen & Snyder LLP in Boston, Providence and New Hampshire, specifically, intellectual property specialists Deborah Benson, Amy Spagnole and Brent Canning, all of whom responded to my calls and generously offered their time and talent to make this handbook possible. And my thanks to Miriam Tauber, Alexis N. Mueller and Brendon McKeon, the research assistants who contributed case synopses to the book.

I hope this handbook will be seen as a work in progress to be periodically supplemented with emerging areas, issues and cases of practical significance, and that it will serve to bring further understanding of the commonly litigated issues so that litigation may be avoided and disputes creatively and promptly resolved.

Available on the Web *EASL Journal*

www.nysba.org/EASLJournal



Back issues of the *Entertainment, Arts and Sports Law Journal* (2000-present) are available on the New York State Bar Association Web site

Back issues are available in pdf format at no charge to Section members. You must be logged in as a member to access back issues. Need password assistance? Visit our Web site at www.nysba.org/pwhelp. For questions or log-in help, call (518) 463-3200.

***Entertainment, Arts and Sports Law Journal* Index**

For your convenience there is also a searchable index in pdf format.

To search, click "Find" (binoculars icon) on the Adobe tool bar, and type in search word or phrase. Click "Find Again" (binoculars with arrow icon) to continue search.

Introduction

By Robert W. Clarida

The “Copyright Modernization Act of 2006,” now pending in Congress, contains a proposed amendment to the Copyright Act regarding the issue of orphan works, copyrighted works whose owners are difficult or impossible to locate. Since such works cannot be cleared, they present significant legal risks to anyone who might wish to make use of them. As a result, the public is denied the benefit of access to these works, even though in many cases there is no copyright owner who would object to their uses. The bill, which grew out of a January 31, 2006, *Report on Orphan Works*¹ (“Report”) from the Copyright Office, proposes several statutory changes.

“The basic approach of . . . [the Copyright Modernization Act of 2006] . . . is to encourage the use of orphan works by limiting the damages and injunctive relief to which users might be subject if a copyright owner were to emerge and pursue an infringement action.”

The basic approach of the bill is to encourage the use of orphan works by limiting the damages and injunctive relief to which users might be subject if a copyright owner were to emerge and pursue an infringement action. To be eligible for this favorable treatment, a user must do two things: perform a diligent search for the owner before using the putative orphan work, and provide attribution to the author and copyright owner. As set forth in proposed new section 514(a), possible remedies will be reduced,

Notwithstanding sections 502 through 505, where the infringer: (1) prior to the commencement of the infringement, performed a good faith, reasonably diligent search to locate the owner of the infringed copyright and the infringer did not locate that owner, and (2) throughout the course of the infringement, provided attribution to the author and copyright owner of the work, if possible and as appropriate under the circumstances.

Where the above conditions are met, proposed section 514(b) defines the limitations on remedies to which an orphan work user might be subject:

(1) Monetary Relief. (A) no award for monetary damages (including actual damages, statutory damages, costs or attorney’s fees) shall be made other than an order requiring the infringer to pay reasonable compensation for the use of the infringed work; *provided*, however, that where the infringement is performed without any purpose of direct or indirect commercial advantage, such as through the sale of copies or phonorecords of the infringed work, and the infringer ceases the infringement expeditiously after receiving notice of the claim for infringement, no award of monetary relief shall be made.

(2) Injunctive Relief. (A) in the case where the infringer has prepared or commenced preparation of a derivative work that recasts, transforms or adapts the infringed work with a significant amount of the infringer’s expression, any injunctive or equitable relief granted by the court shall not restrain the infringer’s continued preparation and use of the derivative work, provided that the infringer makes payment of reasonable compensation to the copyright owner for such preparation and ongoing use and provides attribution to the author and copyright owner in a manner determined by the court as reasonable under the circumstances; and (B) in all other cases, the court may impose injunctive relief to prevent or restrain the infringement in its entirety, but the relief shall to the extent practicable account for any harm that the relief would cause the infringer due to the infringer’s reliance on this section in making the infringing use.

Monetary damages are limited in all cases to “reasonable compensation,” which the Report indicates should generally be equal to a license fee the parties would hypothetically have negotiated before the infringing use.² In addition to a ceiling on damages, the Report proposes further that there can be no monetary damages at all where a user derives no direct or indirect commercial advantage from the use and stops it promptly upon receipt of notice from the copyright owner.

“If enacted, [proposed section 514(c)] . . . should prevent the courts from allowing the orphan works considerations to influence fair use determinations, but it remains to be seen if the courts will be conscientious in keeping the two doctrines separate.”

The limits on injunctive relief are based on a fundamental distinction between uses which incorporate the orphan work into a derivative work having “significant” new expression, and uses which essentially re-publish the orphan work in its original form. Generally speaking, derivative works are not subject to injunctive relief, but re-publications are, on the theory that enjoining a derivative work would restrict the user’s own expression and hinder the use of orphan works for such purposes.

Proposed section 514(c) makes the point that “[n]othing in this section shall affect rights, limitations

or defenses to copyright infringement, including fair use, under this title.” If enacted, this should prevent the courts from allowing the orphan works considerations to influence fair use determinations, but it remains to be seen if the courts will be conscientious in keeping the two doctrines separate.

The orphan works provisions are part of the larger “Copyright Modernization” bill, which stalled in the House Judiciary Committee before it could be marked up in advance of the October recess. The measure may have to wait until the new Congress convenes in January 2007.

Following are some of the comments submitted by trade groups to the Copyright Office regarding this pending legislation. All comments may be found at the Copyright Office’s website under “Report on Orphan Works” <http://www.copyright.gov>.

Endnotes

1. Available online at www.copyright.gov.
2. Report at 116.

Robert W. Clarida is a partner in the New York law firm of Cowan, Liebowitz & Latman, P.C., and speaks and writes frequently on copyright law. He is the chairperson of the Copyright and Literary Property Committee of the Association of the Bar of the City of New York, and Co-Chair of the Copyright Committee of the NYSBA Intellectual Property Section.

Graphic Artists Guild

The Graphic Artists Guild is honored and pleased to have the opportunity to submit our comments, opinions and suggestions on the important issue of orphan works to the U.S. Copyright Office and to Congress.

The Graphic Artists Guild promotes and protects the economic interests of its members. It is committed to improving conditions for all creators of graphic art and raising standards for the entire industry. The Guild is a national union that embraces creators at all levels of skill and expertise who produce graphic art intended for presentation as originals or reproduction.

The Copyright Office has provided an excellent background on the historical legislative progression that has created “orphaned” copyrighted works on their website. Questions covering an exhaustive array of difficult situations and concerns for both original creators of intellectual property, corporate copyright owners and people seeking to use copyright protected works have been put forth for comment. All of these merit discussion with the different groups of individuals affected by this issue. The Guild will address only issues and concerns that pertain to our group—original creators.

We have chosen to compose our reply so as to directly address the questions posed on the Copyright Office website.

1. Nature of the Problems Faced by Subsequent Creators and Users

What are the difficulties faced by creators or other users in obtaining rights or clearances in pre-existing works? What types of creators or users are encountering these difficulties and for what types of proposed uses? How often is identifying and locating the copyright owner a problem? What steps are usually taken to locate copyright owners? Are difficulties often encountered even after the copyright owner is identified? If so, this is an issue that the Copyright Office also invites you to address.

Without a reprographic royalties licensing and distribution organization in the U.S. for visual works, (e.g., the equivalent of ASCAP for music), a user must engage in a buckshot approach to try to locate the copyright holder of a visual work. Contacting the Copyright Office and Internet searches such as Google are a start, but there is no clear, reliable source. As a result, tracking down a copyright owner may cost the user quite a bit of money. From the point of view of individual creators, this whole argument has nothing to do with copyright and everything to do with money. The EXPENSE of tracking down

the owner of a copyright is the big issue, and this argument falls in line with the general attempt by art users to cheapen the cost of using created material.

For obvious privacy issues, the U.S. Copyright Office could not be expected to try to track down “unlocatable” creators by requesting residence information from either the IRS or the SSA.

A possible solution might be a group registration effort by the Copyright Office. Artists should be able to register with the Copyright Office as creators. Any use of their product should have to be registered by the user of that image. The burden of proving their right to make use should fall on the user and not solely on the creator. This would strengthen the value of created product, enhance the value, and stop the abuse by users who use art without permission because they know the legal process will grind an artist down before he ever proves his ownership.

2. Nature of Orphan Works: Identification and Designation

How should an orphan work be defined? Should orphan works be identified on a case-by-case basis, looking at the circumstances surrounding each work that someone wishes to use and the attempts made to locate the copyright owner? Should a more formal system be established? For instance, it has been suggested that a register or other filing system be adopted whereby copyright owners could indicate continuing claims of ownership to the copyrights in their works.

On the other hand, the establishment of a filing system whereby the potential user is required to file an intent to use an unlocatable work has also been suggested. Would the Copyright Office or another organization administer and publish such filings? For instance, would the Copyright Office publish lists of these notices on a regular basis, similar to the lists of notices of intent to enforce restored copyrights filed with the Office? Questions arising from these different approaches are set forth in the next sections.

Case-by-Case Approach

The “ad hoc” or “case-by-case” approach, like that adopted in Canada, would set forth parameters for the level of search that would need to be undertaken in order to establish that a particular work is “orphaned.” Ensuing questions include the nature of those parameters. Should the focus be on whether the copyright holder is locatable? What efforts need be made to locate a copyright holder before it can be determined that the owner is not locat-

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able? Would a search of registrations with the Copyright Office (or any other registries as described below) and an attempt to reach the copyright owner identified on the work if any (plus any follow up) be sufficient? What other resources are commonly consulted to locate a copyright owner, and what resources should be consulted? Do resources like inheritance records, archives, directories of authors or artists need to be searched? Should there be an obligation to place an advertisement seeking the owner? Should factors such as the age of the work (which is discussed below), how obscure the work is or how long it has been since a publication occurred be taken into consideration?

An orphan work would be a work that is still protected within its term of copyright, but for which the copyright owner cannot be contacted for a variety of reasons by a user who seeks permission to use the work.

But the issue of usage of orphan works is not as simple for all concerned as it appears at first glance. And, as is the case of all copyright issues of the past century, the individual creator is caught in the middle of a tug of war between corporate copyright owners and users. Artists want to earn a living from their work. Copyright enables them to do so by licensing usage of their work for a fee. But the Work-For-Hire [WFH] copyright provision in the U.S. also enables businesses to hire artists to create original work where the business immediately owns the copyright to the artist's work, and the artist receives neither the right to license their work nor licensing fees. Therefore, there are actually two separate classes of copyright owners in the U.S.: original creators ("authors") and owners by assignment, who are often corporations.

The issue of orphan works is made complex by the existence of these two classes of copyright owners. Upon closer evaluation, the broad title of orphan works also consists of two distinct categories:

1. Works created by individual living authors who still own their copyright, or are deceased and their copyright has passed to their heirs, and are unlocatable either because they have not kept their contact information current with the U.S. Copyright Office, their name is not on their work, or they never registered their work at all. These copyright owners are simply unlocatable.
2. Works created under a Work-For-Hire agreement (or where the author's rights were bought out in full), where a business or corporation owned the copyright, and that business or corporation is defunct and its assets—including intellectual property rights—were not sold or assigned to anyone else. In this circumstance, these works are truly

orphaned in that no one owns the copyright although the term of copyright has not expired, and therefore these works are not in public domain.

The Copyright Office could easily determine which of these two categories applies to any particular work.

The issues raised regarding orphan works in *Kahle v. Ashcroft* bring to the front burner the necessity of addressing copyrighted works that have been orphaned. Closer examination reveals that there are myriad unique situations that merit individual consideration for very compelling reasons, especially within the second category of works. The dilemma of either permitting or denying use of orphan works really cannot be resolved with an all or nothing ruling. There need to be provisions to accommodate specific circumstances in which either the copyright owner of a WFH no longer exists (such as a defunct corporation) although the copyright has not expired, or the unlocatable copyright owner would neither be harmed by nor would have a reasonable objection to a particular usage.

The Canadian Copyright Board (CCB) has already recognized this, and has added a provision and process to Canadian Copyright Law to enable use of published orphan works under certain circumstances. The Graphic Artists Guild supports the CCB approach to dealing with published orphan works on a case-by-case basis. The CCB has been admirably judicious and conservative in its grants to use *published* orphan works. In exchange for being issued a limited usage license and paying a licensing fee, the user is indemnified from a copyright infringement lawsuit within the designated period of time their usage is permitted.

The Canadian Copyright Board is not rescinding copyright of orphan works. The CCB is actually acknowledging that copyright protection still exists, and that a potential user cannot simply use an orphan work without being granted legal permission. The CCB is in effect acting as an agent of the [absent] copyright owner, and granting [or not] a license and fee on their behalf, with the stipulation that a legitimate copyright owner can still collect their fee.

Efforts to locate a copyright holder should include searching Copyright Office records of registry, and resources like inheritance records, archives, and directories of authors or artists. Placing public notices in newspapers is not likely to yield results.

Registration of copyright owners, as suggested in the "Formal Approach," would be the most obvious solution, although at this time the U.S. does not have a statutory mandate requiring such registration. The Graphic Artists

Guild would like to see this registry operated and maintained by the U.S. Copyright Office, and not by a private agency. We are concerned that a privately owned and operated agency might be influenced by the financial might of corporate copyright owners over individual creators, or not be held to the higher standards of financial transparency of a government agency.

Requiring the Copyright Office to keep track of usage of published orphaned works it grants to licensees puts the responsibility to claim fees upon the copyright owner or their heirs by contacting the Copyright Office. This is reasonable. Expanding the staff of the Copyright Office to review petitions to use published orphan works would increase the budget of the Copyright Office. Perhaps the Copyright Office should hold the licensing fees paid for usage of "orphan works," and use those monies to cover the expenses after the claim limit has expired. Or, perhaps if an appropriate royalty agency exists (such as ASCAP for musical works), it should collect the licensing fees and hold the money for an unlocatable copyright owner (the Canadian policy). In the situation of a work orphaned by a defunct corporation, there is actually no one who could legally claim a licensing fee, so this fee ought to be paid to some agency that will benefit all creators: the Copyright Office. This would also help keep the copyright registration fee low, and therefore affordable to individual creators.

The incentive for a creator to register would be the ease of opportunity to license their works. But, under the current system, unless a creator has registered the copyright of a particular work, they would not be granted the same legal protection in the event of an infringement of an unregistered work. Until the 1976-enacted Work-For-Hire clause is abolished, which would result in the definition of all creators as sole authors, a Registry of Authors would simply be a directory with contact information to be used by those seeking permission to use a work. If a user did not check the Registry, that would certainly forfeit their declaration that the work was "orphaned," and would automatically deem any unauthorized usage of work belonging to a registered author an infringement and illegal. This is a strong motivation for both authors and users to take advantage of such a registry.

3. Nature of Orphan Works: Age

Should a certain amount of time have elapsed since first publication or creation in order for a work to be eligible for "orphaned" status? If so, how much time? It might be helpful, in determining what an appropriate time period would be, to note some of the different benchmarks for term requirements that history and international conventions suggest. For example, under the 1909 Act, a work was to be renewed in the 28th year after

publication. Current copyright law provides a presumption after the shorter of 95 years from publication or 120 years from creation that the work is in the public domain unless the Copyright Office's records indicate otherwise (and the Copyright Office issues a certified report to that effect). Current copyright law provides another benchmark in the right to terminate grants of transfers or licenses after 35 (and up to 40) years after the grant or publication date. Under existing international treaties, the term of protection for works measured other than by the life plus 50 term is generally 50 years from publication. The Copyright Term Extension Act of 1998 extended terms in the U.S. by 20 years, but at the same time recognized that certain uses should still be allowable in those last 20 years, namely uses by libraries and archives of certain works that are neither available at a reasonable price nor subject to normal commercial exploitation.

Would the last 20 years of the copyright term, or any of the other benchmarks or time periods noted above, be an appropriate measure for eligibility as an orphan work? Should it be the same for all categories of works, or different depending on the nature of the work? What if the term for a particular work is unknown or uncertain? If the copyright owner is not known or cannot be found, there will certainly be instances where the date of creation or death of the author will be unknown. Can it be presumed at a certain point that a work has entered into the period in which it can be recognized as an orphan work?

Specifically, this provision provides that in the last 20 years of the term of any published work, a library or archive, including a nonprofit educational institution that functions as such, may make any copyright use of the work (other than create derivative works) for purposes of preservation, scholarship or research, if it has determined on the basis of reasonable investigation, that (i) the work is not subject to normal commercial exploitation, (ii) a copy cannot be obtained at a reasonable price, and (iii) the copyright owner or its agent has not provided notice with the Copyright Office that neither (i) or (ii) applies to the work.

4. Nature of Orphan Works: Publication Status

Should the status of orphan works only apply to published works, or are there reasons for applying it to unpublished works as well? In Canada, for example, the system for unlocatable copyright owners only applies to published works. What are the reasons for applying it to unpublished works? If orphan work status would apply to unpublished works, how would such a system preserve the important right of first publication recognized by the Supreme Court in *Harper & Row*? What are the negative consequences of applying such a system to unpublished works?

The Graphic Artists Guild believes that a consistent age timeline should be applied to all works, and that U.S. Copyright Law should be consistent with the Berne Convention and Article 12 (Term of Protection) of the TRIPS Agreement. Published works should be protected for 50 years after the date of publication. Fifty years from publication would be a reasonable measure for a Work-For-Hire work created for a corporation, such as a film.

The Guild opines that only published works should be considered for “orphan” status. Records of published works are more easily traceable than unpublished works, and a user would have a realistic chance of either locating the last recorded copyright owner or determining the genuine status of the work. The copyright owners of unpublished works are intrinsically extremely difficult to trace, and in many instances the age of the work would be impossible to pinpoint. We must also defer to the rights of a creator to decide which of their works they would have wanted to be released for publication, and respect their privacy and personal judgment as to any number of possible reasons they did not publish a particular work.

The existing provisions for libraries and archives are sufficient as they are.

5. Effect of a Work Being Designated “Orphaned”

However a work is identified and designated as “orphaned,” what would be the effects of such designation? Under systems for a mandatory, formal registry of maintained works, like the 1909 Act, the right to assert one’s exclusive rights vis à vis others could similarly be lost, in whole or in part, if the work was not contained on the registry. Should this loss of rights apply only to the particular work at the time of use, or only to the particular use or user, or would it effect a permanent loss of rights as against all uses and users?

Other possibilities include imposing a limitation on remedies for owners whose works are “orphaned”—without affecting the copyright itself. For instance, under the Canadian approach, the Copyright Board sets the license fees and other terms for the use and collects the payments on behalf of the copyright owner should one ever be identified. Under that approach, users could be confident that their use of the work would not subject them to the full range of remedies under the Copyright Act, but only an amount akin to a fee for use. At the same time, copyright owners would not be concerned about the inadvertent loss of rights from failure to pay the fee or take other requisite action. Domestically, the Copyright Clearance Initiative of the Glushko-Samuelson Intellectual Property Law Clinic of American University’s

Washington College of Law is currently developing a proposal that would limit the liability for users of orphan works and not result in any loss of copyright per se on the part of the copyright owner. Under that proposal, only a recovery of a reasonable royalty would be allowed in infringement actions with respect to orphan works where good faith efforts have been made to locate the copyright owner. Are there other approaches that might be used? If a reasonable royalty approach is used, how should it be determined in any given case? To settle disputes as to the appropriate fee, is traditional Federal court litigation the right dispute resolution mechanism, or should an administrative agency be charged with resolving such disputes or should another alternative dispute resolution mechanism be adopted?

If a work were to be designated “orphaned,” that would legally open the door for permission of *limited one-time use* of the work by a particular user, who would be granted official and recorded permission by the Copyright Office. The Copyright Office could levy an appropriate licensing fee, as determined by a survey of authors in the appropriate field, to be collected by a legitimate copyright owner should they come forward within a reasonable time period. Anyone who uses an orphaned work without explicit permission and paying a usage fee would be an infringer just as in any other situation, as would anyone who uses a work without permission that has not been designated “orphaned” by the Copyright Office.

Since the Copyright Office would in effect be acting as an Agent on behalf of the copyright owner of an “orphaned” work, perhaps the Copyright Office should also be given the legal authority to bring an infringement suit against an unlawful user. Any monetary damages collected in a prevailing suit, after legal expenses are paid, should be held for the copyright owner should they come forward within a reasonable time period; the same process as holding a licensing fee for an “orphaned” work. Knowing that the U.S. Copyright Office would pursue an infringement lawsuit in lieu of an unlocatable author would be a significant deterrent to unauthorized use.

The Copyright Clearance Initiative of the Glushko-Samuelson Intellectual Property Law Clinic of American University’s Washington College of Law is reasonable.

The Copyright Office review process should be extremely judicious as to whom it grants permission, and only for very limited usage. Some examples of permitted usage we would agree with would be:

- Saving and restoring deteriorating original works created on perishable materials is an obvious necessity.

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- Permitting works with historical or biographical significance to be used for historical, cultural or documentary purposes (such as an historical exhibit or topical documentary motion picture) should be allowed.
- Permitting limited use and reproduction of architectural or engineering plans as necessary for restoration, maintenance, repair or insurance evaluation is necessary for public safety and historic preservation.
- Permitting limited use by an accredited academic institution for educational/teaching purposes.

The Copyright Office should specifically deny permission for unlimited usage, usage outside the U.S., and requests from merchandising companies or other users whose sole purpose for usage is to generate profit from sales of a protected work for personal financial gain.

The Canadian Copyright Board model seems like a win-win solution, and a huge incentive both for creators to register their work and for users to petition the Copyright Office for permission and still be responsible for paying a licensing fee should the copyright owner turn up.

6. International Implications

How would the proposed solutions comport with existing international obligations regarding copyright? For example, Article 5(2) of the Berne Convention generally prohibits formalities as a condition to the “enjoyment and exercise” of copyright. For any proposed solution, it must be asked whether it runs afoul of this provision. Would a system involving limitations on remedies be consistent with the enforcement provisions of the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) or the prohibition against conditioning the enjoyment or exercise of copyright on compliance with formalities of TRIPS and other international agreements to which the U.S. is party? Would such proposals satisfy the three-step test set forth in TRIPS, Article 13, requiring that all limitations and exceptions to the exclusive rights be confined to “certain special cases that do not conflict with the normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the right holder”? Are there any other international issues raised by a proposed solution?

Provisions that have been discussed in this comment letter appear to comply with Article 13 of the TRIPS Agreement. The only exception might be whether or not permission of usage of American “orphan” works for accredited academic institutions for educational/teaching purposes should include all member countries of TRIPS.

In Conclusion

There is a world of difference between a university library being granted a time-limited license to digitize and post on its website the hometown magazine/newspaper from the turn of the century [this is orphaned because the publisher is defunct], with a limited window of time permitted for copyright heirs of the writers to claim their fee from the university library, and Professor Lessig’s assertion that Joe Shmo is being denied his right to free speech or is being hindered from being creative because copyright protection prohibits him from plagiarizing another writer’s old work to use it as his own.

What is the alternative? *Kahle v. Ashcroft* demands that copyright term extensions (in compliance with Berne) be repealed, and all works renewed automatically under the 1992 Copyright Renewal Act be declared public domain. This all or nothing mandate would throw the baby out with the bathwater. What would happen if the U.S. continues to deny usage of orphan works? Exactly what is already happening: people are using copyrighted works without permission because they cannot locate the copyright owner or because the copyright owner no longer exists; and they’re not paying any licensing fee to anyone. Should a living copyright owner turn up and discover this, they have to incur the expense of a lawsuit to get paid a usage fee (and damages if they’re lucky), which isn’t likely to happen because litigation is so expensive. End result: the copyright owner isn’t likely to get any licensing/usage fee from the infringer at all. But anyone using the orphaned works of a defunct/non-existent copyright owner is in the clear! He can use the copyrighted work without permission and for free without any concern of being sued for infringement because *there’s no one to sue him*. There is absolutely nothing stopping people from doing this. It’s as if the copyright doesn’t exist. Allowing the U.S. Copyright Office to act as an Agent on behalf of unlocatable or defunct *published* “authors” is preserving the copyright of the work. But the Copyright Office must exercise tremendous discretion when it grants permission to use published “orphan work.”

The Authors Guild, Inc.

Pursuant to the Notice of Inquiry published by the Copyright Office in the Federal Register on January 26, 2005, the Authors Guild, Inc. hereby submits these Reply Comments on behalf of its 8,200 members who are published book authors and freelance journalists. Throughout its history, the Guild has—when commenting to this office, to Congress and to the courts on copyright policy—of necessity taken a balanced approach to copyright protections. Time and again we have weighed the need to safeguard the livelihoods of our members, which copyright helps secure, against the needs of those of our members who make use of others' copyrighted works in their own. This need for balance typically arises in matters of fair use policy, where the Guild consciously errs on the side of broad fair use (in the traditional, transformative use sense), including, in recent decades, aggressively backing the explicit extension of fair use rights to unpublished works.

Mindful of this need for balance, we submit these Reply Comments to make five major points:

1. While orphan works present a problem to some authors, the impact of the problem on free expression and our culture appears to have been overstated by some commenters. The overwhelming majority of published writers—85%—have “never” or “rarely” failed to reach a rightsholder to request permission, according to our recent Copyright Permissions Survey, a two part survey to which more than 2,100 published writers responded. We further discuss the striking results of this survey below.
2. Although the problem of orphan works might be relatively small with respect to the creation of new literary works, it is certainly not insignificant. Two-thirds of respondents to the Copyright Permissions Survey who had asked for copyright permissions in the course of their writing careers believed that finding some means of allowing them to use orphan works would appreciably ease their work as writers. The Authors Guild largely agrees with several commenters' proposals to limit the legal liability of users of orphan works who demonstrate they made a diligent search for the rightsholders before using the works.
3. This limitation on liability and the scope of permitted uses after a diligent search for the rightsholder have to be crafted with extreme care, so they do not, in effect, amount to forfeiture of copyright.

Moreover, for uses for which there is no meaningful compensation—for example, for online digital archives of works—injunctive relief must be available as an alternative to accepting a nominal license fee. A rightsholder who is temporarily unfindable by a particular method of diligent search should not face the penalty of having her work consigned to the quasi-public domain of such archives, which may well drain the work of all other licensing value. The prospect of such injunctive relief, fortunately, should not be daunting for the truly diligent compiler of a digital archive: instances of emergent rightsholders will be rare. Emergent rightsholders would not have a substantial effect on the value of the archive.

4. We urge the Copyright Office to establish a publicly available, searchable database in which users of orphan works would need to file a simple form affirming that they made a diligent search for the rightsholder and describing the steps they took to locate the rightsholder. Such a database would:
 - a. Help keep users honest, since they would know that their affirmations of diligence would be on public display, easily accessible to the rightsholders they assert are unfindable.
 - b. Help identify abusers of the system. A user who failed to make a diligent search in one instance may well be a repeat offender.
 - c. Help establish useful means of reaching rightsholders.
 - d. Help guide the Copyright Office in establishing any new regulations with respect to the use of orphan works.

The Guild strongly opposes, however, the right of any user to piggyback another's affirmation of diligence. Affirmations of others' diligence should be no evidence of the particular user's diligence; distinct users should be responsible for their own independent diligent search for rightsholders.

5. The law should not establish artificial licensing schemes.

The Authors Guild is ready and eager to provide the Copyright Office with any further assistance it can as it addresses the issue of orphan works.

Interests of the Authors Guild

Founded in 1912 as the Authors League of America, the Authors Guild is the nation's largest and oldest organization of published authors. Our membership includes journalists, historians, biographers, novelists, poets, children's book authors, academic and textbook authors. Sixty-six percent of our membership writes nonfiction books; 40% are freelance journalists; and 44% write or translate fiction, poetry or drama (many members write in more than one of these categories).

The Authors Guild's mission is to promote the professional interests of authors in various areas, especially copyright, freedom of expression and publishing contracts. In the area of copyright, the Guild has worked for appropriate domestic and international copyright protection and to secure fair financial and non-monetary compensation for authors' valuable work. Guild attorneys annually advise hundreds of members about their (and their publishers') legal obligations, including those arising out of their publishing contracts.

In pursuit of this mission, the Guild co-founded and along with other writers' organizations participates in the Authors Registry, a database of approximately 30,000 published and unpublished writers. As a payment agent for secondary rights royalties, the Registry has distributed more than \$3.5 million to writers in its ten years. Annually, it conveys thousands of permissions requests to registrants.

The Authors Guild appreciates that the Copyright Office seeks to address the issue of orphan works as defined in its Notice of Inquiry.¹ In trade, business and academic publishing, writers typically have to warrant to their licensees that they have secured the necessary legal permissions to use others' copyrighted works in their manuscripts. If an author's publisher is sued for infringement, the author of the offending work usually is obligated to indemnify the publisher for its costs including attorneys' fees, even if she is ultimately found not liable. For this reason, under current copyright law authors are ill advised to use works for which they can't get permission.²

Orphan works pose problems for some authors, and therefore to their readers, as the initial comments show they do for documentarians, archivists, librarians, broadcast and film preservationists and other creators. At the same time, our members rely on their own copyrights for their livelihoods as writers. We believe that historically strong protection of copyright has been the engine, not the obstacle, driving the enormous creative output of artists in the United States. Any diminishment of copyright for a class of works or of owners must be undertaken with extreme caution and should be narrowly tailored to advance that interest.

Nature of the Problems Faced by Authors and Journalists

Several of the initial comments to the Notice of Inquiry assert on the basis of anecdotal evidence that creators and the public are deprived of a substantial number of orphan works. The Authors Guild surveyed its membership to find out the degree to which professional writers are affected. More than 2,100 authors responded to the first part of the survey, more than 1,300 of whom have requested permission to use others' copyrighted works in their writing careers. (In the more extensive Phase II, 1,239 published writers completed the survey. More than two-thirds of the respondents had published nonfiction books for adults, and more than two-thirds had published freelance articles. More than one-half had published five or more books, and more than 45% had published 20 or more freelance articles.) The results of this copyright permissions practices survey suggest that the problem is not nearly as bad—at least for authors of literary works—as some of the commenters seem to believe.

Eighty-five percent of the respondents to Phase I of the survey who have sought permission to use others' copyrighted works, and 89% of the respondents to Phase II, "never" or "rarely" failed to reach the rightsholder they sought.³ All in all, the survey demonstrates that the copyright permissions regime functions pretty well for writers.⁴

Published writers would like to see something done to allow use of orphan works, however. Two-thirds of respondents who had sought the right to use others' copyrighted works agreed that their work as writers would be appreciably eased if the orphan works issue were effectively addressed. Forty-five percent of such writers agreed that easier use of orphan works would appreciably improve the quality of their published work.

Limitation of Liability for the Truly Diligent User Makes Sense

Although the survey demonstrates that the problem of orphan works occurs much less often than many appear to assume, we strongly believe the public should not lose access to the significant number of works that are "orphaned." It is essential to narrowly tailor a solution to the orphan works problem that is mindful of its prevalence and that is based on empirical evidence, not assumptions. Above all, the law must not take away the rights of owners who could be found by a truly diligent search. An owner who cannot be readily located should not be deemed guilty of "neglecting" or abandoning his or her work. In our huge and complex society, a John Smith who wrote a novel ten years ago that is out of print today could well value his copyright and deserves the opportu-

nity to reap the rewards of the work he created, even if he is difficult to track down.

The Authors Guild favors action that would allow the use of orphan works efficiently while protecting the interests of all concerned parties. We largely agree with the approach proposed by the Association of American Publishers, the Association of American University Presses and the Software & Information Industry Association (the “AAP Comments”) and with numerous other commenters. The best way to give users access to orphan works and to fully protect copyright is to limit the liability of any user who demonstrates a good faith, diligent effort to locate the owner. Specifically, we propose that the Copyright Act be amended to eliminate statutory damages, profits, attorneys’ fees and criminal liability against copyright infringers who demonstrate they made a diligent, unsuccessful search for owners and could not find them. The user’s liability should be limited to the equivalent of a fair and reasonable license fee.⁵

Limiting damages to a reasonable license fee protects both the economic interests of owners who later come forward to claim their works and of users who act diligently and in good faith.

Scope of Use and Availability of Injunctive Relief in Certain Cases

Because of the potential for abuse, a diligent searcher should not be permitted to grant secondary use licenses. Potential derivative works licensees should have to make their own diligent search for the owners of orphan works. Nor should subsequent users be able to rely on an earlier user’s search, for the reasons set forth in the AAP Comments. Given the increasing access to information technology provides, it would not seem at all remarkable for a later search, even one that followed the same steps as an earlier search, to turn up a rightsholder that was previously obscure.

We agree with the AAP Comments that that statute should preserve certain infringement remedies—attorneys’ fees, statutory damages—against a diligent searcher who unreasonably refuses to pay a fair license fee. We would go farther, however, and preserve the right to injunctive relief in certain cases in the interest of justice. For example, certain commercial and nonprofit entities that submitted initial comments have asserted their intent to digitize entire libraries. Most of them advocate changing the law to make it possible for them to freely digitize and distribute orphan works permanently.

We appreciate the value of such archives. But in those rare cases in which an orphan work rightsholder comes forward, the on-going existence of free or nominal-cost

digitized copies could do irreparable harm to the financial value of an out of print work. A reasonable license fee, if interpreted to be some percentage of the income such a use might generate, could well be nominal. The continued online availability of the work, however, could render the copyright valueless. This seems a severe penalty for being temporarily unreachable by the particular user’s diligent means. In such instances, the rightsholder should be able to obtain injunctive relief—enjoining continued use of the work—in lieu of a reasonable licensing fee.

We also advocate additional remedies, including injunctive relief, against a diligent searcher who wrongfully claims credit for the authorship of the orphan work.

Diligent Search Requirements

We do not believe that the statute or regulations can or should determine what constitutes a diligent search; there are too many unique owners, situations and potential users for this to make sense. As some commenters have observed, most affected industries have already established ways to search for obscure owners, and they should be allowed to continue establishing standards and methods. When there is a dispute, the courts are best equipped to determine whether a search was adequately diligent based on evidence of industry standards and the totality of circumstances. Therefore, we agree with the AAP Comments that Congress should not prescribe minimum or “safe harbor” standards for what constitutes a diligent search.⁶

Some commenters propose that copyright owners be required to take affirmative steps to register their ownership in works after a period of time—from 5 to 28 years from copyright appears to be the range of proposals—or else lose their rights to control or get fair compensation for their works.⁷ One group even argues for mandatory renewal registration 50 years after copyright, a proposal this group has already introduced in Congress.⁸ These commenters suggest that an “opt in” system would bring every rightsholder who values their copyright to make themselves known and available, thereby eliminating the orphan works problem.

These proposals are unjustifiably overbroad, and they would unfairly affect individual owners much more than corporations and institutions. Moreover, they would not help substantially more good faith users than if the statute were amended to limit liability for diligent searchers, but they would harm many more owners than the liability limitation. By requiring affirmative action by copyright owners, they would amount to a reinstatement of the registration requirement abolished in the 1976 Act, likely violating our international treaty obligations to eliminate formalities that interfere with the enjoyment and exercise

of copyright. We urge the Copyright Office to reject this approach.

Affirmation of Diligent Search Database

We favor the establishment of a searchable database of would-be users' affirmations of diligent searches for rightsholders prior to their use of the works. The affirmations could be simple to complete online and would include, to the extent known, the title of the work, the name of the author, rightsholder (if different), a description of the work, the proposed use and the steps the user has taken to find the author. If these affirmations were posted in a searchable database similar to the Copyright Office's post-1977 registration records, obscure owners who value their copyrights could learn of a potential licensee's intent or use and contact that party to negotiate. For potential users, the wealth of information about search methods the database would provide would be invaluable. In disputes over the adequacy of a search, the parties would have ample access to industry standards. The affirmations should remain searchable in the database indefinitely, to help later users and orphan works owners, as well as Congress and the Copyright Office.

To further protect owners' interests, the statute or regulations could require that the notice of intent be filed within a reasonable period of time before the use is made. In their initial comments, the Science Fiction and Fantasy Writers Association recommends six months. That might be reasonable in some cases, but in others would-be users such as magazine writers might need clearance more quickly than that to meet their deadlines. We think this matter requires further study.

The Law Should Not Impose Artificial Licensing Schemes and Arbitrary Damages Limits

We believe the limited liability for diligent searchers approach makes better sense than the "ad hoc" system of regulatory licensing used in Canada. First, a liability limit would not require the establishment of any new bureau-

cracies. Second, the Canadian model imposes a license fee on users whether or not an owner comes forward. This fee amounts to an unnecessary tax on users if no owner comes forward, and it could especially hinder libraries wishing to digitize orphan works in their collections. Third, by encouraging the parties to negotiate a license fee, the proposal would let relevant industry standards instead of an unrelated third party determine the fairest outcome. An arbitrary statutory limit, such as the \$100 to \$500 suggested by some commenters, would effectively penalize owners who could not be found, necessarily leading to unfair results, and ignores the reality that Congress or the Copyright Office cannot determine what any given market will bear. We strongly oppose any such limits.

Endnotes

1. We confine these remarks to the issue of orphan works as defined in the Notice of Inquiry. We strongly oppose any attempt to amend the law to diminish protection for works that are not orphan works, which would threaten the basic tenets of copyright and clearly breach our international treaty obligations.
2. The use we describe here naturally does not include fair use, which is a complete defense to infringement.
3. These figures roughly correspond to those submitted by Brigham Young University in its initial comments (owner not identified in 6% of cases).
4. Of those authors who have sought permission, 90% have "never" or "rarely" been refused permission.
5. The Authors Guild strongly agrees with the AAP Comments that states and municipalities, which under current law are subject only to injunctive relief if they infringe copyright, should not be allowed to avail themselves of the "diligent search defense" unless they waive their sovereign immunity from damages for infringement.
6. If the Copyright Office should help coordinate industry discussions among interested parties to establish "best practices" for conducting diligent searches, the Authors Guild is quite willing to participate.
7. A variation proposed by some libraries, Google, and digital archivists such as JSTOR suggests owners of orphan works should permanently lose some or all of their exclusive rights if they cannot initially be identified or located.
8. H.R. 2601, the Public Domain Enhancement Act.

Directors Guild of America

On behalf of the Directors Guild of America (“DGA”) I am pleased to submit these comments in response to the Notice of Inquiry on Orphan Works.¹

Founded in 1936 by the most prominent directors of the period, the DGA today represents over 13,000 directors and members of the directorial team who work in feature motion pictures, television, commercials, documentaries and news. The DGA’s mission is to protect the creative and economic rights of directors and members of the directorial team—working to advance their artistic freedom and ensure fair compensation for their work.

We welcome this inquiry into the issue of orphan works.² A variety of sources have cited anecdotal evidence to suggest that the inability to license orphan works may constitute a significant problem.³ However, there has not yet been a comprehensive, objective inquiry into the extent of the problem. The Copyright Office is to be commended for seeking to develop such a factual record.

Since we do not have knowledge of the extent of the orphan works problem, we do not address that issue in our comments. Rather, we limit these comments to the issue of what legislative, regulatory or other recommendations the Copyright Office should make if it finds the existence of a problem that merits a solution. Further, since our members’ expertise and interests relate primarily to motion pictures, we limit these comments to the legislative, regulatory or other recommendations the Copyright Office should adopt with regard to orphan motion pictures.⁴

If the Copyright Office Endorses a Proposal to Increase the Public’s Access to Orphan Motion Pictures, the Rights of Directors and Screenwriters Must Be Protected

Directors and screenwriters have contractual interests in motion pictures, as well as creative and moral rights, which should be protected if a motion picture is determined to be an orphan work for whatever reason. The names of the director and screenwriter are credited in each motion picture, and a simple administrative process can be established that would enable the public to seek an appropriate license to use the motion picture where the copyright holder no longer exists or cannot be found.

Making Orphan Motion Pictures Available to the Public Could Impinge the Contractual Rights of Creators

Under typical industry practice in the United States, directors and screenwriters are employed by movie studios on a “work for hire” basis; accordingly, they do not hold the copyright to the movie. They do, however, have various economic and creative rights established both in the collective bargaining agreement negotiated by their respective guilds, and in specific contractual arrangements they enter into with the copyright holder.⁵ For example, the Directors Guild Basic Agreement with the film and television industry establishes a number of creative rights for directors as the one individual who is in charge of all creative decisions in a film project. Those creative rights extend beyond the theatrical release of the film to include creative participation in subsequent edits of video, television, airline, and foreign market versions of motion pictures. Under the Basic Agreement, the director’s creative rights over a motion picture extend to all licensees, assignees and purchasers of a motion picture. In addition, individual directors often negotiate their own contracts with copyright owners that specify still more expansive creative rights in a motion picture.

Similarly, the DGA collective bargaining agreement establishes certain minimum economic benefits that apply to all guild directors working on motion pictures. Directors often negotiate further financial terms specific to each motion picture. As part of the collective bargaining agreement, the Directors Guild and its member directors have a right to the payment of residuals, which are payments to the Guild and to the director from all non-theatrical revenue from the picture in perpetuity. Residual payments from copyright can extend for many years after a motion picture is released as long as the motion picture generates revenues.

In addition, individual directors negotiate their own economic packages called participations, which are also based on a share of revenues earned from the motion picture.

As provided for in DGA’s Basic Agreement with the industry, the right of directors to receive residual payments is protected through copyright mortgages recorded at the Copyright Office. These security interests serve as financial assurances to directors that the obligation of copyright holders to pay residuals will extend to whoever earns revenue from the motion picture.

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The same type of continuing creative and economic interests exists with respect to screenwriters who are members of the Writers Guild of America (“WGA”).

Screenwriters, through their Guild, have a continuing economic interest in residuals established in their collective bargaining agreement, and in participations established through individual contract negotiations. Their interests in residuals are also typically secured through copyright mortgages recorded at the Copyright Office.

If as a result of legislation or regulation, the public is given access to works that are determined to be orphaned it is quite conceivable that such open access would undermine the creative rights and economic interests of the creators of the motion picture, the director and screenwriter. While in some cases a motion picture may be orphaned because the copyright holder determines it has no continuing economic value, or insufficient value to justify the expense of protecting the copyright, the motion picture could still have value to the creators.

Regardless of the interests of the copyright holder in maintaining a copyright, the creators will have a continuing interest in protecting the motion picture from distortion and manipulation in such a way that undermines the creative reputation of the director and screenwriter. Furthermore, while a multinational corporation copyright owner may lose interest in a motion picture producing modest revenue streams, individual directors and screenwriters invariably will attach greater value to maintaining the protection of copyright for such revenues.

It is further worth noting that Congress recently added new protections for the transfer of copyright ownership in a motion picture subjecting the transferees to continuing obligations to make residual payments negotiated under collective bargaining agreements, in section 406 (Assumption of Certain Contractual Obligations) of the Digital Millennium Copyright Act of 1998.⁶ The law imposes such obligations if the transferee knows or has reason to know at the time of the transfer that a collective bargaining agreement was or will be applicable to the motion picture. It would be inconsistent with the purpose behind this recently enacted law for the Copyright Office to propose changes to the copyright law that gives the public access to an orphan work while removing the continuing obligations to make residual payments to the creators.

Making Orphan Motion Pictures Available to the Public Could Impinge the Moral Rights of Creators

Although not firmly established in U.S. law, the Berne Convention’s provision on moral rights⁷ provides certain

protections to creators, including the right of attribution—to receive or decline credit for the work—and the right of integrity—to prohibit distortion or mutilation of the work that would undermine the creators’ reputation. Where the United States has enacted specific moral rights protections, in the Visual Artists Rights Act of 1990⁸ (“VARA”), it has limited the protection to authors of “works of visual art” and specifically excluded works made for hire. The United States is a signatory to the Berne Convention, and the implications of the limited statutory reach of VARA are not clear, as stated by the Copyright Office in its 1996 study assessing the impact of the waiver provisions contained in the legislation.

Nations that are members of the Berne Convention for the Protection of Literary and Artistic Works are required to meet a minimum level of protection, as set forth in the Berne Convention’s Article 6bis. The multilateral treaty does not address waiver of moral rights; waiver is neither sanctioned nor prohibited, and individual member nations may implement the Berne Convention in their own ways.⁹

The study goes on to point out other places where moral rights receive protection in the United States:

Although moral rights were not recognized in U.S. copyright law prior to the enactment of VARA, some state legislatures had enacted moral rights laws, and a number of judicial decisions accorded some moral rights protection under theories of copyright, unfair competition, defamation, invasion of privacy, and breach of contract. Such cases have continued relevance, not only for historical interest, but also for precedential value because state and common moral rights protection was not entirely preempted by VARA.¹⁰

More recently, in her 2004 testimony before the House Judiciary Committee on the Family Movie Act,¹¹ the Register of Copyrights alluded to “fundamental principles of copyright, which recognize that authors have moral rights.”¹²

The Register also commented that:

But beyond our treaty obligations, the principles underlying moral rights are important. The right of integrity—the author’s right to prevent, in the words of Article 6bis of the Berne Convention—the “distortion, mutilation, or any other modification of, or other derogatory action in relation to [his or her] work, which would be prejudicial to his honor or

reputation" is a reflection of an important principle. . . . I can well understand how motion picture directors may be offended when a product with which they have no connection and over which they have no control creates an altered presentation of their artistic creations by removing some of the directors' creative expression. This is more than a matter of personal preference or offense; it finds its roots in the principle underlying moral rights; that a creative work is the offspring of its author, who has every right to object to what he or she perceives as a mutilation of his or her work.¹³

While those views were stated with regard to the ability of companies to market software that edits movies under the Family Movie Act, they are also applicable in the case of orphan works. If the Copyright Office proposes to make orphan works available to the public a user should not have the right to make changes to a motion picture without the ability of the creators to prevent such action.

This discussion is not presented to advance the case for federal legislation firmly establishing that directors and screenwriters have moral rights in the motion pictures they create. The point is that new legislation or regulatory authority that gives the public full, unimpeded access to orphan motion pictures, including the ability to modify the orphan motion picture, implicates important copyright principles that require the interests of directors and screenwriters to be taken into account. The Copyright Office should not pursue a legislative or regulatory solution that gives the public rights in orphan works at the expense of directors and screenwriters.

If Limitations on the Rights of Copyright Holders in Orphan Motion Pictures Are Deemed Necessary, DGA Proposes that Directors and Screenwriters Be Given the Right to Grant Licenses for Use of Orphan Motion Pictures

The Directors Guild proposes that locatable, credited directors and screenwriters of orphan motion pictures be given the right to grant non-exclusive licenses in those works to subsequent users. The creation of such a limited right for directors and screenwriters is easily implemented and well justified in the case of orphan motion pictures. It will facilitate licensing of orphan motion pictures, while preserving and protecting the interests of directors and screenwriters.

DGA Proposal Is Limited to the Licensing of Orphan Motion Pictures

The distinct means of creating and owning motion pictures make them particularly appropriate for the DGA proposal.

Motion pictures are typically created as works made for hire¹⁴ in which the employer rather than the creator takes ownership of the copyright.¹⁵ Thus, the fact that the copyright owner of a motion picture cannot be located has no bearing on whether the creators can be found.

In short, the DGA proposal for allowing the director and screenwriter to license subsequent uses of an orphan motion picture operates uniquely well in the context of motion pictures because they are works made for hire, where copyright ownership is typically separated from creatorship.

Only Directors and Screenwriters Should Be Given the Right to Grant Licenses to Use Orphan Motion Pictures

By giving only the credited director and screenwriter the right to grant licenses in orphan motion pictures, we believe that this solution minimizes any potential harm to the interests of both copyright holders in motion pictures and creators, while it also facilitates the licensing and lawful use of orphan motion pictures.

A rule that provides the director and screenwriter with the right to grant licenses for uses of an orphan motion picture solves the primary problem identified with orphan works. It provides those who wish to license use of an orphan work with a mechanism to obtain such a license even though the copyright holder cannot be located. Further, while our proposal contemplates that the director and screenwriter will have the same ability as the copyright holder to grant or deny such licenses, we believe that creation of this mechanism will enhance the availability of orphan motion pictures to the public.

A motion picture that has been orphaned because it has no value to a corporate copyright owner will still have value to the director and screenwriter. As the creators, they have continuing substantial economic and creative interests in the work.

As noted above, modest licensing royalties are likely to be more significant to the individual director and screenwriter than to the corporate motion picture owner. Thus, the creators may have significant pecuniary incentives to grant licenses in orphan works while the corporate copyright holder might find the costs of granting such licenses to outweigh the benefits.

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As creators, the director and screenwriter are uniquely capable of understanding the needs, financial situation, and creative vision of another creator who wishes to license the use of an orphan motion picture.

Directors and screenwriters are often, if not always, more easily identifiable and locatable than the copyright owner of a motion picture. The directors and screenwriters of a motion picture are prominently listed in the credits of every motion picture giving the public sufficient knowledge from whom to seek the license. Even in the unusual case where the potential user has no access to the motion picture, but somehow knows he or she wants to make use of it anyway, information is available from the DGA and WGA to identify the director and screenwriter. Furthermore, Internet search engines provide voluminous information that identifies the creators of motion pictures.¹⁶

By contrast, the identity of the copyright holder in a motion picture is not always readily apparent from the motion picture credits. Copyright ownership changes frequently, as could the name of the production company. A common practice in the motion picture industry is to establish a production company for each production of a motion picture.

Once the motion picture has been completed, the production company typically transfers ownership of copyrights in a motion picture to one or more other entities, and each entity may receive a different set of rights.¹⁷ Thereafter, due to corporate mergers or asset sales, ownership of the copyrights in a motion picture may change hands several times. Since there is no legal requirement that these transfers of ownership be registered, there may be no public record of the current ownership of a motion picture.

In sum, the creators of a motion picture are eminently more identifiable and locatable than the copyright holder. Therefore, the existence of a problem with locating the copyright owner of a motion picture does not indicate that a similar difficulty will exist with identifying and locating the director and screenwriter.

For all the above reasons, vesting the licensing right with the director and screenwriter of a motion picture will make orphan works more available to the public.

Other Aspects of the DGA Proposal that Facilitate Public Access to Orphan Motion Pictures

To facilitate public access to orphan motion pictures we propose that any single credited director or screenwriter be given the right to grant a non-exclusive license for use of the motion picture. Since motion pictures typically credit separate directors and screenwriters, this ap-

proach gives a potential licensee a choice of parties from which to obtain a license, and thus increases the likelihood of locating at least one creator who will grant a license.

Providing any director or screenwriter with the right to grant a non-exclusive license mirrors the rights of joint authors under current law. Though the Copyright Act is silent on the issue, several courts have found that joint authors have the right to individually grant non-exclusive licenses as long as they share any royalties generated with, and account to, their co-authors.¹⁸

We recommend that, once located and contacted, the director and screenwriter should have the same ability as a copyright holder to grant or deny a license. In other words, we do not intend our proposal to operate as a compulsory obligation to license. Even though constituted as a discretionary right, the DGA proposal will greatly facilitate the licensing of orphan motion pictures.

The DGA proposal contemplates that the director and screenwriter be given only a right to grant licenses. We do not propose that the creators become the copyright holder in an orphan motion picture, but they should be able to seek remedies in court to protect against unauthorized use of the orphan work. We also propose that a license from the creators insulate the licensee from potential copyright infringement liability for licensed uses.

The DGA proposes that the right of the director and screenwriter to grant licenses for use of orphan motion pictures be considered a right that is personal to the creators. Thus, the proposal contemplates that the licensing right is non-transferable and non-descendable.

While the director or screenwriter may appoint an agent to grant licenses on their behalf, the creators should not be able to sell or otherwise transfer that right to another person.

Any Copyright Office Proposal to Make Orphan Works Available to the Public, Including the DGA Proposal, Should Protect the Continuing Interests of the Copyright Holder

In the event that a copyright holder comes forward to claim ownership of a work that has been identified as an orphan work, procedures should be established for restoring the rights of the copyright holder. In that event, all rights that the creators have in the orphaned motion picture established pursuant to this proposal would be extinguished. However, any license that the creators grant to a licensee under the orphan works procedures would remain in effect, unless it was granted with knowledge that the copyright holder was still in existence and intended to protect its rights under the copyright.

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Conclusion

If the Copyright Office decides to propose a legislative or regulatory initiative to deal with orphan works, it should protect the creative and economic interests of motion picture directors and screenwriters by permitting them to grant non-exclusive licenses for the use of orphan motion pictures. This protection of the rights of creators can be established through a simple process that facilitates the availability of orphaned works to the public, while protecting the interests of copyright holders that may emerge later to claim ownership of the copyright.

While we believe this proposal is workable and well designed, we do not profess to have anticipated every possible nuance or concern. Thus, should the Copyright Office wish to do so, we welcome the opportunity to further develop this proposal.

Endnotes

1. Federal Register: January 26, 2005 (Volume 70, Number 16).
2. For the purpose of these comments, we assume the term "orphan work" means a copyrighted work whose owner cannot be located. We do not, however, express an opinion on what test must be utilized to determine whether a copyright owner can be located.
3. <http://www.centerforsocialmedia.org/rock/finalreport.htm>;
<http://www.law.duke.edu/cspd/contest/Winners/index.html>.
4. We refer to "motion pictures" as that term is defined in section 101 of the Copyright Act. Directors Guild of America and Writers Guild of America members are involved with the creation of motion pictures made both for theatrical release and as television programming.
5. This proposal is limited to directors and screenwriters of motion pictures. It does not include composers because we believe that their ability to collect performance and other royalties for subsequent uses of a musical composition contained in a motion picture is adequately protected by ASCAP, BMI and other organizations.
6. Public Law 105-304, title IV, § 406(a), October 28, 1998.
7. Berne Convention for the Protection of Literary and Artistic Works, Art. 6bis.
8. Public Law 101-650.
9. Waiver of Moral Rights in Visual Artworks, U.S. Copyright Office, 1996, Executive Summary at page 2; <http://www.copyright.gov/reports/exsum.html>.
10. Executive Summary at page 3.
11. H.R. 4586, 108th Congress.
12. Statement of Marybeth Peters, Register of Copyrights, before the Subcommittee on Courts, the Internet and Intellectual Property of the House Judiciary Committee, June 17, 2004.
13. *Id.*
14. *See* 17 U.S.C. § 101.
15. *See* 17 U.S.C. §§ 201(a) and (b).
16. *E.g.*, The Internet Movie Database at www.imdb.com.
17. For instance, financiers of a motion picture often agree in advance to separately allocate the rights to North American and European distribution of the motion picture.
18. *Shapiro, Bernstein & Co. v. Jerry Vogel Music*, 221 F.2d 569 (2d Cir. 1955), modified 223 F.2d 252 (2d Cir. 1955). *Edward B. Marks Music Corp. v. Wonnell*, 61 F. Supp 722 (S.D.N.Y. 1945).

American Society of Media Photographers

Introduction

The following comments are respectfully submitted by the American Society of Media Photographers (ASMP) in response to the U.S. Copyright Office's Notice of Inquiry (70 FR 3739) concerning "orphan works." ASMP was founded in 1944 to protect and promote the interests of those professional photographers who earn their living by making photographs intended for publication. It now has more than 5,000 members in the United States and around the globe and includes many of the world's best and best-known photographers in its ranks. ASMP plays an active role in carrying out its mission in the legislative, judicial, administrative and industrial arenas, and it is the world's largest organization of its kind.

It is ASMP's position that the integrity of copyright protection must be maintained for the common good. The founding fathers of this country recognized that fact when they wrote the Constitution, and the need for strong copyright protection has been recognized by every Congress since the first. It is ASMP's belief that the inability of a prospective user to identify and/or locate a copyright owner, or in some cases to ascertain the copyright status of a given work, is a legitimate problem that needs to be acknowledged and dealt with, for the common good. It has been ASMP's experience that the costs, both hard and soft, of copyright infringement litigation are excessively burdensome to all involved, and ASMP believes that litigation should be viewed as a viable alternative only when all other reasonable methods of resolving a problem have been exhausted. Later in these comments we will put forth a proposal that we believe is a fair and workable approach to the use of orphan works, that will reduce the risk of litigation, and that will benefit both users and owners of copyrighted works.

It is also ASMP's belief that, unfortunately, those forces that are fundamentally opposed to the concept of copyright will use the legitimate problem of orphan works as an illegitimate opportunity to try to undermine the very foundations of the current copyright system. They will try to use this occasion to reinsert a system whereby copyrights must be registered at the peril of loss of copyright protection, a system that was specifically repudiated by Congress when it enacted the Copyright Act of 1976 and that has been rejected by every Congress since then. Turning back the clock to such a system would create unworkable and unconscionable burdens on individual creators, and even worse, it would almost certainly violate multiple international treaties to which the United States is a party and by which it is bound. It

is ASMP's hope that the forces that oppose the existence of copyright and that seek to erode it will be seen for what they are and that their proposals will be treated accordingly.

In evaluating the following comments and proposals, it must be kept in mind that ASMP has put them forth within the context of its area of experience and expertise: the creation and use of photographs that are made for publication in the various media. We do not address issues that may arise if and when these comments and proposals are applied to other types of copyrighted works.

Preliminary Suggestions

Before addressing the issue of orphan works directly, we wish to resurrect a suggestion that ASMP has made previously to the Copyright Office and that might alleviate at least one aspect of the orphan work problem. That suggestion is that the Copyright Office, or some other governmental agency, should establish a registry of copyright holders. It would be simply a central directory, presumably online, of the names and contact information for all copyright holders who wish to register voluntarily and to update their contact information from time to time. There would be no requirement for registering, and there would be no penalty for any failure to register or to maintain current, accurate information. However, the obvious advantages to copyright holders in making themselves easy to locate would appear to be enough incentive to convince large numbers of them to register themselves and to keep their listings current. In that way, where the names of authors or other copyright holders are known, a quick search of an online directory might take many works out of the orphan work category easily and inexpensively.

A second change within the Copyright Office that might be incorporated into the current re-engineering project and that could help to take thousands of visual works out of the orphan category would be to provide an image recognition search tool. That, combined with the anticipated system of on-line registration, and possibly the digitization of existing deposit copies, would make many copyright holders suddenly and instantly identifiable and locatable. Based on meetings that ASMP has had with software and service vendors, it appears that viable technology for usable image recognition programs is now beginning to become available. Both of these suggestions are freestanding and independent of each other and of the proposal that follows.

Orphan Works

General Description of Proposal

Turning to the substance of this inquiry, it should first be noted that, unlike the two suggestions mentioned above, any change along the following lines would require federal legislation to amend the Copyright Act and could not be implemented by the Copyright Office without such legislation. It is ASMP's position that any determination of what qualifies as an orphan work must be made on a case-by-case basis and that absolute rules and formulas would constitute a procrustean and unacceptable approach. It is also ASMP's position that any provision dealing with orphan works should apply only to published images.

The following is a very general outline of an approach that ASMP considers fair and workable, one that maintains the careful balance of interests that is the lynchpin of copyright protection in the United States:

1. A published work would be considered an orphan work when,
 - A. It has not been registered at the Copyright Office, and
 - B. After conducting a duly diligent search, the author or other copyright holder, or a duly authorized agent, cannot be located.
2. When a published work is considered an orphan work, any entity that desires to use the work must pay a reasonable licensing fee and thereby obtain an orphan work license for the proposed uses before any use can be made. Obtaining such a license and adhering to its terms will make the licensee's use of the work deemed to be made with the copyright holder's permission. The failure to obtain an orphan work license in advance or to adhere to the terms of the license will subject the user to all of the remedies that are available under the Copyright Act for violations of copyrights in non-orphan works.

ASMP believes that such an approach protects the rights of copyright holders while facilitating the public's access to works that might otherwise be unavailable.

As with all legislation, the devil is in the details. The following are ASMP's thoughts as to how an approach like the one outlined above might be implemented. However, there are many details that cannot be addressed until there have been significant amounts of additional investigation, consideration, research and consensus building. Until it is clear that such an approach might become a reality, that kind of research and development would not be an appropriate use of resources.

Duly Diligent Search

One of the first elements in defining an orphan work under ASMP's proposal is the fact that its copyright status and paternity cannot be established after a duly diligent search. Here, "due" diligence is a high standard. The level of diligence must be high because of the high value of copyrighted works to their owners. To understand the value of each copyrighted work to its creator, one must first understand some basics of the context in which those works are produced.

Individual creators like photographers are uniquely pressured by economic forces on all sides. They are independent contractors, primarily sole proprietors, who earn their livings by licensing the use of their photographs. As such, they are subject to all of the burdens of sole proprietors running small businesses: no ability to organize legally for collective bargaining or other pricing purposes, no insurance or other employee benefits, no job security, no paid vacations, etc. In addition, they have to incur high educational and training costs, as well as a very large investment in equipment that remains a continuing expense because of rapidly and continually changing technologies.

Conversely, the clients and others to whom they license their photographs are typically large, powerful business entities. In recent years, the trend towards mergers, acquisitions and other forms of consolidation on the client side have served only to exacerbate the difference in bargaining power between photographers and their clients. This, along with other changes in business models affecting professional photography, has resulted in substantial price pressure on the fees that photographers can charge for the use of their photographs. Compounding that situation is the loss of revenues caused by rapidly increasing levels of infringements through digital means. Because of the costs of litigation, most of those infringements constitute simply a loss of revenue, with few tools available for recoupment.

At the same time, the costs of doing business have consistently been going up at an extraordinary rate. A couple of decades ago, a rule of thumb for professional photographers was that the fee typically earned by an editorial photographer for a day's work was approximately enough to buy one professional 35mm camera body, in those days \$500-\$600. Today, the pay level for editorial photographers has remained essentially unchanged, meaning that the photographer is actually earning less for a day's work than he or she did 20 years ago. Meanwhile, the cost of a current, professional-level digital camera body is roughly \$4,000-\$5,000, up to as high as \$8,000, roughly 10 to 15 times the cost of what its equivalent was. The costs of the digital hardware and software to support that camera are at least equally astonishing.

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For those reasons, it has become more and more difficult for the professional photographer to earn a reasonable living from his or her craft. Photographers need the fees that they can get from licensing the residual rights to every photograph that they possibly can. The loss of revenue from just a few photographs can often have a noticeable financial impact on a professional photographer.

Because of these factors, there must be a high standard of duty imposed on someone who wishes to use a photograph before he or she can do so without negotiating a license directly with the copyright owner and without liability for infringement. The full details of what would constitute a duly diligent search have not yet been fully fleshed out. However, it would include, at a minimum, a use of the tools normally available to most people with access to computers and the Internet. It should go without saying that such a search would include a search of the records of the Copyright Office.

Where the name of the photographer or other copyright holder is known, a complete Internet search would be required, including the use of search engines and online telephone and address directories. It would also include using print and other telephone directories when there is any information available or discovered concerning the photographer's geographic locations. In addition, the prospective user would be required to contact every trade association or other professional group to which the photographer or other copyright holder might reasonably be expected to belong.

Where the name of the photographer or other copyright holder is not known, if the photograph came from any kind of work bearing any identifying information, that information must be pursued. For example, if the photograph came from a book, magazine or other collective work, any named publishers and/or other contributors to that publication must be contacted. If there are no such people or entities identified with the photograph, or if those inquiries prove fruitless, a scan of the image would be used in connection with an image recognition program and web crawler. Such programs and services are now available in the marketplace and appear to be viable technologies. If such a search is unsuccessful, a comprehensive Internet search using search engines that look for photographs based on key words describing the major elements and characteristics of the photograph must be used.

These steps do not constitute an exhaustive list, they are merely preliminary concepts that need to be expanded and developed, if there is additional support for this proposal. In any event, all steps in the search must be documented, and the documentation must be submitted in connection with the request for an orphan work

license discussed below. Needless to say, if any of these steps produced the information necessary to try to obtain a copyright license, the orphan work status would no longer apply to the photograph.

It should also be noted that if an image has, in fact, been registered at the Copyright Office, it cannot qualify as an orphan work, irrespective of whether a duly diligent search has disclosed the registration and irrespective of the fact that an orphan work license may have been erroneously issued. A photographer who has sought the maximum protection available under the Copyright Act and who has gone to the efforts required to obtain that protection should never be placed in a position where that protection is lessened for any reason.

Licensing

Once it has been demonstrated that all due diligence has been used in an effort to identify and contact the copyright holder without success, a license must be negotiated, paid for and issued. The first obvious question is who should be charged with negotiating the terms, collecting the fees, issuing the licenses, and eventually distributing the funds? Once again, it should be kept in mind that this proposal is a broad-brush description of a concept, and there are many details and alternatives that cannot be addressed in a comment of this nature.

It is ASMP's proposal that these tasks be handled by the Copyright Office, either internally or through some other entity established and/or supervised by it. This single-source approach would centralize, and therefore simplify, the process. Both copyright users and copyright holders would know immediately where to go to seek licenses and to receive payments of fees, respectively. There would be no need for users to identify and approach multiple entities, based upon the characteristics of various orphan works.

Obviously, the Copyright Office does not currently have the information or resources necessary to negotiate prices and licenses for photographs. Fortunately, however, there are several software programs and services for pricing the licensing of existing photographs that are readily available and that are heavily relied upon in the industry. These could be used as the basis for both pricing and establishing the terms and conditions of the licenses.

The next question is what happens to the fees that are collected? Since the Copyright Office or its affiliate would be functioning essentially as a licensing agent for the copyright holders, it should be entitled to a reasonable fee for its services. For example, 50% of each licensing fee might be an appropriate level of compensation. In addition, the entity should be entitled to charge the users an additional transaction fee per license.

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The photographers' shares of the licensing fees would be held in trust or escrow by the Copyright Office or its licensing agency for the photographers. Collected fees would be tracked by as much identifying information as possible, including scans of the photographs. Photographers and other rights holders would be able to search those records in multiple ways to identify their photographs that had been licensed. Upon identifying such photographs, the photographers and other rights holders would produce documentation supporting their claims that they are entitled to the copyright holder's share of the licensing fees for those photographs. Such documentation would have to be sufficient to establish that the persons requesting payment are, in fact, the copyright holders to those particular photographs. Exactly what documentation would be required is one of those issues that is too complex to try to resolve at this stage of the current proceedings. In any event, given the numerous possible ways in which entitlement might be documented, it appears likely that the determination will have to be made on a case-by-case basis after examining all of the relevant facts and circumstances. Presumably, there would have to be provision for at least one level of review of the determination.

During the time that the money is being held, it should be invested, and the return on the investment should be distributed along with the licensing fee. That leads to the next question, which is what happens to the photographers' shares of the licensing fees that are not claimed, i.e., how long does the Copyright Office or other agency hold those funds in trust or escrow for photographers who do not come forward, and what does it do with those funds at the end of that period? Given the long

duration of copyright protection, it would be inappropriate for the funds to be removed from the trust or escrow category after only a short period of time. Obviously, this kind of specification needs to be examined and discussed. However, at least as an initial proposal, a period of 20 or 21 years after the license fee is paid appears to be a reasonable starting point.

The question of who is ultimately entitled to any unclaimed photographer funds has a number of potential answers, many of which have plausible arguments in their support. It is ASMP's position that the unclaimed licensing fees for photographs should be used in a manner and for a purpose that will benefit the class of owners of copyrights to photographs as a whole. One possible way that could be accomplished would be by using the funds to run an ongoing program of copyright education aimed at the public to make them aware of the copyright laws and the need to follow and uphold them. Such a program would be run by, or under the auspices of, the Copyright Office.

Summary

As stated at the outset, ASMP believes that our system of copyright protection must be preserved and that the problem of orphan works should be addressed fairly. ASMP believes that the proposal outlined above would achieve both of those goals, fairly and reasonably. We thank the Register and her staff for this opportunity to participate in these discussions, and we look forward to engaging in an interesting, challenging, and beneficial dialogue.

Association of American Publishers, the Association of American University Presses, and the Software & Information Industry Association

Pursuant to the Notice of Inquiry published by the Copyright Office in the Federal Register of January 26, 2005 (pp. 3739-3743), the Association of American Publishers, the Association of American University Presses, and the Software & Information Industry Association (hereinafter collectively referred to as “the Joint Reply Commenters”) jointly submit these Reply Comments on behalf of themselves and their members regarding the Copyright Office’s examination of orphan works issues.

Introduction

Based on our review of the many Comments filed in initial response to the Notice of Inquiry, it is clear that a diverse group of stakeholders have an equally diverse range of ideas regarding how the uncertain status of orphan works may be addressed so that users of such works will not be needlessly discouraged from incorporating them in new creative efforts or making them available to the public. Although the Joint Reply Commenters have made an effort to assess the merits of each submitted proposal concerning the designation and use of orphan works, we believe it is neither necessary nor appropriate for us to attempt to respond to all of them in this submission.

In order to make our Joint Reply Comments as useful as possible to the Copyright Office, we have tried to focus them on issues that are relevant to refining and possibly creating consensus around the basic elements and overall approach of the proposal contained in our own jointly submitted Comments (OW0605-AAP-AAUP-SIIA). Thus, we have refrained from responding to submitted Comments that propose to deal with orphan works in ways that seem excessively complex, discriminatory, costly or bureaucratic (e.g., OW0597-CPD2; OW0643-STM-CreativeCommons) and thus appear to be wholly inconsistent with our goal of developing a relatively simple, uniform, cost-effective and self-executing way to address the problem.

The Copyright Clearance Initiative (“CCI”) proposed by the Glushko-Samuelson Intellectual Property Clinic of the Washington College of Law at American University (OW0595-Glushko-Samuelson) warrants prominent discussion in our Joint Reply Comments insofar as it appears to be (with a few key exceptions) generally in accord with

the overall approach to orphan works that was proposed in our own Joint Comments, and appears at least initially to have garnered the broadest support among all proposals submitted during the Comment stage of this proceeding (i.e., OW0641-ACLS; OW0665-ARLIS-NA; OW0653-AAU; OW0647-CAA; OW0658-LCA; OW0634-HRRC-CEA; OW0584-NHA; OW0655-NetCoalition; OW0594-Albrecht; OW0676-AHA; OW0610-ArtMuseums [in part]; OW0629-PublicKnowledge [in substantial part]).

Comparing the CCI and AAP-AAU-SIIA Proposals to Address “Orphan Works”

The core issue presented by the Copyright Office’s Notice of Inquiry is how should U.S. law permit a user of a work protected by copyright to engage in a proposed use of the work that implicates the exclusive rights of the copyright owner when such use would not be authorized by any of the statutory limitations or exceptions applicable to such rights, and the user cannot identify and locate the copyright owner for purposes of obtaining permission for such use.

In their respective approaches to this problem, the CCI proposal and the proposal submitted in our Joint Comments seem to be nearly congruent in sharing the following key premises:

- Both take a “minimalist” approach that is intended to require the fewest possible changes to current U.S. copyright law, no impact on U.S. obligations under international copyright agreements, and the least possible bureaucratic impact on governmental entities and on owners and users of copyrighted works.
- Both would permit all kinds of copyrighted works, including unpublished as well as published works, regardless of their age or national origin, to be considered for treatment as an orphan work under the same standard.
- Both would permit use of an orphan work without discrimination regarding the type of use or the status of the user (e.g., for-profit or not-for-profit) after the would-be user has made a reasonable but unsuccessful search to identify and locate the copyright owner for permission.

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- Both would urge that the standard for what constitutes a “reasonable search” should be flexible, and statutorily-defined only in general terms that make the determination of reasonableness depend on the facts and circumstances surrounding the efforts in each instance.
- Neither would require the user of an orphan work to file a search report or a notice of intent-to-use the orphan work.
- Both would provide that, if the copyright owner of the orphan work should come forward after the post-search use of the work has been commenced by the now-“qualified” user, the emergent copyright owner should be able to claim payment for the use but should be entitled only to a limited remedy that does not include the statutory damages or injunctive relief ordinarily available for copyright infringement.
- Both would provide that, once the copyright owner of the orphan work has come forward and challenged the post-search use of the work by the “qualified” user, new uses of the work by that user would require affirmative authorization but ongoing uses previously commenced could continue without such authorization.
- Both would provide that there should be an independent advance duty to conduct a “reasonable search” in connection with each distinct use of an orphan work that implicates the rights of the copyright owner.
- Both would reject the Canadian approach to orphan works—with its governmental administrative requirements, up-front license and payment requirements, and inapplicability to unpublished works—as inadequate to serve as a model for U.S. law.

The differences between the two proposals do not appear to reflect major differences of perspective in terms of the competing interests of owners and users of copyrighted works. With the possible exception of their respective approaches to what kind of payment an emergent copyright owner may collect from a “qualified” user, none of the differences appears to be irreconcilable.

The Joint Reply Commenters offer the following observations regarding the differences we see between the approach set forth in our Joint Comments and the approach in the CCI proposal, as we understand it.

Reasonable Search Issues—The Joint Reply Commenters agree with the proponents of the CCI approach

that a legislative solution to encourage the use of orphan works should place the affirmative responsibility for due diligence “squarely on the user” by requiring the user to conduct a reasonable efforts search to obtain permission from the copyright owner before using the “orphan work.” However, the CCI proposal may go too far in this respect in requiring the would-be user to “retain detailed documentation of his or her search” in order to have his or her use qualify for orphan work treatment; conversely, it does not go far enough in its allocation of the burden of proof regarding satisfaction of the “reasonable search” standard.

While it is certainly appropriate to require that a would-be orphan work user should be able to document the steps that were taken in a reasonable search to obtain permission from the copyright owner prior to use of the work, it would be unwise and unfair to impose specific requirements for “retention” of “detailed documentation” of the efforts undertaken in that search if this would mean that the failure to satisfy such requirements in any respect, even years after the use of the work, could potentially subject the user of an orphan work to full infringement liability for that use. Would-be orphan work users should certainly be advised that they may have to provide documentation of their reasonable search efforts if the copyright owner should emerge after use of the orphan work has commenced subsequent to such a search. However, recognizing that under both proposals a court would have to determine whether the search efforts in a given instance had met the statutory “reasonableness” standard, it seems unnecessary to specifically require retention. In any case, any statutory requirements regarding retention of search documentation should be flexible and generally stated; if any specific requirements for documentation or retention are imposed, perhaps there should be a reasonable limitation on the time period for required retention.

Regarding the burden of proof in litigation, the CCI proposal would give the user the “initial burden of proving the efforts that he or she made to locate the owner prior to commencing use,” but then would shift the burden to the copyright owner “to prove that, under all the facts and circumstances, those efforts were not ‘reasonable.’” This formulation would split the burden of proof into its factual and legal components and, by imposing the latter duty on the copyright owner, would be tantamount to creating a rebuttable legal presumption that the statutory standard has been satisfied once the user has shown that certain search efforts actually had been made. This is inconsistent with the notion of placing the affirmative responsibility for due diligence “squarely on the user.” The user should not only have the burden of proving the efforts made to locate the owner prior to commencing use, but should also have the burden of proving that, under

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all the facts and circumstances, those efforts satisfied the statutory “reasonable search” requirement.

The CCI proposal and the approach put forth in our Joint Comments also differ somewhat on a third issue concerning “reasonable search” requirements. The CCI approach posits that every potential user of an orphan work would have “an independent duty” to satisfy himself or herself that reasonable efforts to locate the owner of the work have been made, but that a subsequent user who “was aware of a previous use” of the same orphan work could determine whether any further search effort would be necessary to satisfy the “reasonableness” standard based upon what he or she was able to learn about the efforts in the failed search conducted by the prior user.

In discussing the subsequent user’s awareness of a previous use of an “orphan work,” the CCI proposal does not appear to suggest that a potential user has an affirmative duty to determine whether there have been any prior users. Such an affirmative duty, in any event, would be difficult, if not impossible, to fulfill in the absence of a requirement for a would-be user to file a report on his or her search efforts—a requirement that is rejected by both the CCI proposal and the approach urged by the Joint Reply Commenters.

However, the CCI proposal could risk allowing (and even encouraging) a subsequent user to rely on the unverified and unadjudicated claimed search efforts of a prior user; or, in order to avoid that problem, it could create pressure to establish formal documentation and retention requirements. Notwithstanding its apparent intent, this formulation of an “independent duty” with respect to conducting a reasonable search could actually lead to an opposite result in which subsequent users, as a matter of practice, do *not* make any independent effort to find the copyright owner *other than* to determine whether previous search efforts were made by a prior user. In turn, this situation could have the unfortunate effect of perpetuating the mistaken notion that orphan work is a designation which, once applied, adheres to the work in question and creates a *status* for that work that governs all of its future uses by all users, instead of reflecting the more accurate and appropriate notion that the designation applies to the work only in connection with a particular use by a particular user or users.

The Joint Reply Commenters do not suggest that a subsequent would-be user could *never* reasonably rely on the search efforts of a prior “qualified” user that were reasonably proximate in time to his or her own preparations to undertake a search for the copyright owner. We are only urging that any discussion of this issue should avoid conveying the idea that a subsequent would-be user can

satisfy his or her own reasonable search obligation simply by reference to the previous search efforts of a prior user.

Rather than risk undesirable results, the law should make clear that the “independent duty” regarding a reasonable search for the copyright owner prior to using an orphan work attaches to each *use* of the work, rather than to each *user*. The “ongoing use” and “successor-in-interest” concepts put forth, respectively, in the CCI proposal and in the approach urged in our Joint Comments should ensure that each user who qualifies to use an “orphan work,” based on conducting a reasonable but failed search for the copyright owner, as well as that user’s licensees, will not be unfairly burdened by excessive search requirements. The same is true for the general notion that a single use of an orphan work can involve multiple users.

This formulation of the “independent duty” to conduct such a search would ensure that a reasonable legal process established to provide for the use of orphan works without undue risks of infringement liability will not degenerate into a means by which such works are treated, in common practice, as though they were no longer subject to copyright protection.

Two other issues regarding “reasonable search” requirements warrant brief discussion. The CCI proposal regarding general statutory language relating to the “reasonable efforts search” urges that what constitutes a reasonable effort should be addressed “only in general terms, since specific instances will depend on the type of work involved, *the nature and resources of the user*, and other surrounding circumstances.” (emphasis added) The Joint Reply Commenters agree with this reasoning, *provided* that the highlighted language is not intended to mean that the statutory provisions should employ any categorical distinctions in applicable “reasonable search” requirements for different types of users or uses (based, e.g., on whether they are for-profit or not-for-profit). A standard of “reasonableness, in the totality of the circumstances” should mean just that.

The CCI proposal also suggests that the determination and conduct of a “reasonable efforts search” could be advanced by “statements of ‘best practices’ developed by professional organizations in various relevant disciplines,” as well as by “associations representing creators” devising and making available “Internet-based tools by which their members could publicize their identities, their current contact information, and the bodies of work over which they claim copyright.” While these suggestions do not appear to be inconsistent with the approach put forth in our Joint Comments, we take no position on their merits pending further consideration of what such efforts would entail and how workable the results might be in practice. In the meantime, we agree with the more pre-

liminary suggestion in some Comments (e.g., OW0646-MPAA; OW0687-RIAA) that roundtables of interested parties might be convened, perhaps on a sector-by-sector basis, to survey the available resources for such searches and to consider the possibility of working toward commonly accepted “due diligence” standards.

Designation and Attribution—The CCI proposal would require that, in order to maintain the status of a “qualified” user, a person who uses an orphan work after conducting a reasonable efforts search must “indicate” their status in such use and provide “summary attribution information, to the extent known, consistent with applicable professional standards for crediting sources.” In addition, if the copyright owner comes forward, the “qualified” user would be required to “take reasonable steps to update” the attribution information associated with its use of the work.

Insofar as there is no general requirement in U.S. copyright law for the user of a copyrighted work to have to publicly indicate its basis for using the work (i.e., whether the use is based on an exclusive or non-exclusive license, or an exemption or other statutory limitation on the rights of the copyright owner), it is unclear why the “qualified” user of an orphan work should be required to do so in that instance. Without the promulgation of a specific form for indicating orphan work usage, it is possible that such a designation requirement could be misleading, rather than informative. However, the imposition of such specific requirements, as previously noted, would be inconsistent with the minimalist approach and desire for flexibility urged by the CCI proponents and the Joint Reply Commenters.

Similarly, while it may be appropriate to require attribution information where the copyright owner is known, it is unclear whether a “to the extent known” standard that is not tied to a reasonable degree of certainty will prove to be more misleading than helpful in practical use. Moreover, the notion of requiring attribution to be made “consistent with applicable professional standards for crediting sources,” particularly when coupled with the requirement that the “qualified” user “would always be responsible for providing as complete an attribution of the work as was practically possible at the time,” would appear to add a matter of formality that could prove daunting and ultimately discouraging to many would-be users. If any attribution requirement is to be included in an orphan works statutory scheme, the Joint Reply Commenters would urge that it should be limited to a good-faith effort to include such information about ownership as is known by the user with reasonable certainty and appropriate to the type of work in which the orphan work was used.

Limitations on Remedies—Undoubtedly, the single issue on which the approaches put forth by the Joint Reply Commenters and in the CCI proposal most significantly differ is the basis on which an emergent copyright owner can claim payment for use of an orphan work by a “qualified” user. While our Joint Comments urged that the copyright owner should be entitled to a “reasonable licensing fee or royalty (as determined by reference to market practices),” this approach was explicitly rejected by the CCI proponents in favor of limiting the copyright owner’s payment to the lesser of actual damages or an award of \$100 per work used, up to a maximum of \$500 for any group of works claimed by a single owner and subject to a single use.

As we understand the reasoning of the CCI proponents, their opposition to the approach urged by the Joint Reply Commenters is based on the claims that there is “no reliable standard by which one can predict” what a court might think is a reasonable license fee for the unauthorized use of an “orphan work,” and that this alleged vacuum will discourage use of such works by introducing “an unpredictable element into the mix, subjecting even the most conscientious qualified users . . . to uncertain future liability.” We respectfully disagree with these claims, and the proponents’ conclusion that “this outcome is clearly unacceptable” given the objective of encouraging the use of “orphan works.”

As even the CCI proponents will likely agree, it can reasonably be expected that the issue of copyright infringement remedies will not arise in the vast majority of uses of an orphan work by a “qualified” user under a properly crafted statutory scheme. This expectation is inherent in the very concept of an orphan work and can be confidently predicted if the “reasonable efforts search” requirements advocated by both CCI proponents and the Joint Reply Commenters are implemented in good faith by would-be users of such works.

In the relatively few cases where the matter is likely to arise, the claim that there is “no reliable standard” by which one can predict a court’s calculations, as well as the fear that such calculations would be “fraught with difficulties” based on the variety and nature of the factors to be considered, are overblown. The issue of compensation, in the first instance, would be between the copyright owner and the “qualified” user; a court asked to resolve the dispute where those parties could not reach agreement would look to evidence of industry and market practices in seeking to determine the amount that a willing customer would agree to pay a willing vendor at that time in the relevant market for the rights at issue. While there are, concededly, numerous factors to be considered in making such a determination, the courts are not strangers to

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the task of considering them, and there are ample extant judicial precedents that explain exactly how the courts undertake the relevant analyses. Such fees certainly can be predictable within a reasonable range set by actual market practices.

We agree that a statutory scheme to promote use of orphan works should encourage use by minimizing uncertainty concerning the potential liability that users of such works may risk in the event that the copyright owner should come forward after the use has commenced. However, the goal of minimizing such uncertainty for the user should not be achieved in a manner that risks manifest unfairness to the copyright owner, especially when the risk to the user posed by the copyright owner coming forward to establish infringement liability under such a scheme is properly discounted by its likelihood of occurrence.

The \$100/\$500 caps on damages that the CCI proposal would establish are wholly arbitrary, and would be inadequate to the task of equitably addressing the kinds of situations that can be expected to arise in today's market. Indeed, the unfairness of such limitations to the copyright owner can be readily understood if one considers how little incentive they would give a copyright owner to pursue judicial redress in the case of a "qualified" user who has simply refused to pay even these trivial amounts. By setting the caps so low, this approach would encourage a user to refuse to make any payment to the copyright owner because the user and the copyright owner would both know that the costs of pursuing an award of damages in court would greatly exceed the amount of the damages that could be awarded by the court. This problem is exacerbated by the CCI proposal's categorical exclusion of the availability of an award of attorney's fees against a "qualified" user, and explains why our Joint Comments expressly urged that there should be an exception to the general unavailability of attorney's fees and court costs "if and to the extent that the court finds such fees and costs are incurred as a result of bad faith or other unreasonable behavior on the part of the user" after the copyright owner has come forward and made a claim for payment.

The capped damages approach urged in the CCI proposal would fail to equitably address the fact that certain uses of certain types of works have a much greater market value than other uses of other types of works. It would, for example, require the same payment for use of a single photograph in a newly published book as for redistributing an entire "orphan" motion picture for theatrical release. The proposal would also fail to equitably address situations where the use of the orphan work by

the "qualified" user has effectively precluded the copyright owner from making the most profitable use of the work in today's market.

While the "reasonable licensing fee or royalty" approach is clearly not as certain as the capped damages approach, it is clearly more fair because it is more flexible. In addressing the issue of what compensation may be claimed by the copyright owner who comes forward after a "qualified" user has commenced use of the copyrighted work, a statutory scheme to promote the use of orphan works should utilize a damages standard that is fair, even if not precisely determinable in advance, rather than one that is certain but unfair.

As consideration of an appropriate statutory scheme for orphan works continues, it could be the case that this issue cannot be fully and fairly addressed by choosing to adopt one of these approaches to the exclusion of the other. It could, for example, prove beneficial to consider the possibility that a general standard which makes a "reasonable licensing fee or royalty" available to the emergent copyright owner might, in some cases, be subject to a "capped damages" limitation in connection with certain uses and types of "orphan works." The Joint Reply Commenters would certainly be willing to explore that possibility so that both fairness and certainty can be built into the statutory model.

Issues Raised by Other Submitted Comments

Definition of Orphan Work—Many of the Comments submitted in response to the Notice of Inquiry contained different views regarding the nature of orphan works and how this should be reflected in a statutory definition of the term.

The Joint Reply Commenters did not find persuasive the reasoning of those Comments that urged exclusion of "unpublished works" (e.g., OW0519-Goldstein-Ginsburg) and "foreign works" (e.g., OW0646-MPAA; OW0687-RIAA) from eligibility for orphan works treatment. To the extent that their arguments are based on considerations of personal privacy or some other public policy based outside copyright law, we are unconvinced that the public interest in promoting the use of orphan works should be restricted by such policies in ways that do not generally apply to restrict the use of copyrighted works. To the extent that their arguments are based on the difficulties of determining the publication or copyright status of a work, it seems clear that attempting to exclude such works from treatment as orphan works on that basis will not solve the problem, but simply create different levels of uncertainty regarding their treatment.

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It should be recognized that the vast majority of works entitled to copyright protection are likely to be “unpublished works” whose authors did not introduce them into the market simply because they were created for private uses that involved little or no thought to their status as copyrighted works. But, given the important public interest in some of this material as the fodder for histories, biographies, textbooks, anthologies, and virtually all other genres of literary works, we see no persuasive reason for categorically excluding them from eligibility for orphan works treatment.

Similarly, we are not convinced by arguments to exclude “foreign works” based on difficulties in tracing their provenance or in determining their copyright status with certainty. Difficulties in tracing provenance are, after all, at the heart of the orphan works issue; the difficulties in connection with foreign works are likely to be those of degree more than kind, and do not warrant their categorical exclusion from eligibility for orphan works treatment. As for the copyright status of foreign works, we have seen no explanation for why this problem would be substantially different in the context of orphan works treatment than it would be for any other use of such works that would have legal implications for the owner and user.

Some Comments urged that copyright law should similarly provide special treatment for use of works that are “out-of-print” (e.g., OW0457-StanfordUniversity; OW0643-STM-CreativeCommons; OW0669-FMC-AF-TRA-AFM) and “works made for hire” (e.g., OW0547-GAG; OW0621-DGA). The Joint Reply Commenters reject these arguments. The “out-of-print” status of a work does not make it any less subject to copyright protection, and in the new era of print-on-demand digital technologies, the declaration that a work is “out-of-print” may be rapidly losing any practical meaning. As for “works made for hire,” we see no justification for such works to be treated differently from other copyrighted works insofar as a copyright owner either can or cannot be located for purposes of obtaining permission to use the work.

Still other Comments proposed to shape eligibility for orphan works treatment based on considerations such as where the copyright owner “is unlikely to have a continuing commercial interest in the work” (e.g., OW0639-Verba) or “does not provide reasonable means of obtaining permission and has not taken steps to exploit the

commercial value of the work” (e.g., OW0625-JHU), or where a work has “indeterminate copyright status” due to a lack of clarity in applicable law (e.g., OW0630-LOC). The Joint Reply Commenters do not consider any of these asserted reasons to be a justifiable basis for subjecting a work to orphan works treatment or similar special treatment under copyright law.

Reasonable Search Requirements—Other Comments suggested that certain entities should be permitted to engage in “bulk or mass clearance” of works under orphan works treatment (e.g., OW0610-ArtMuseums; OW0657-InternetArchive), or that only limited “due diligence” should be required in searches conducted by libraries and other special users (e.g., OW0457-StanfordUniversity; OW0625-JHU; OW0680-JSTOR). These proposals call for unjustified discriminatory treatment, and are inconsistent with the Joint Reply Commenters’ support for making the treatment of orphan works as uniform and equitable as possible, regardless of the nature of the work, the status or identity of the user, or the particular use to which the work will be put.

Use of an Orphan Work—Similarly, other Comments (e.g., OW0610-ArtMuseums) urged limitations on the kinds of uses that might be made of an orphan work (e.g., only by not-for-profit entities; only for non-commercial, non-infringing purposes). These proposals also call for unjustified discriminatory treatment among users or uses that are inconsistent with the Joint Reply Commenters’ support for making the treatment of orphan works as uniform and equitable as possible, regardless of the nature of the work, the status or identity of the user, or the particular use to which the work will be put.

Conclusion

Both as copyright owners and users of the copyrighted works of others, the Joint Reply Commenters look forward to our continued participation in the Copyright Office’s efforts to develop a fair and workable approach to the orphan works problem. We are, of course, willing and available to answer any questions that the Copyright Office may have concerning the Joint Comments and Joint Reply Comments that we have submitted, and would appreciatively request the opportunity to participate in any hearings, roundtable discussions, or other further processes that the Copyright Office may deem warranted in pursuit of its objective.

Electronic Frontier Foundation

The Electronic Frontier Foundation (“EFF”) respectfully submits these reply comments in response to the Copyright Office’s Notice of Inquiry (“NOI”) regarding orphan works (“OWs”) dated January 21, 2005, and the Initial Comments submitted pursuant to that Notice on March 25, 2005.

Electronic Frontier Foundation (EFF) is a nonprofit public interest organization dedicated to protecting civil liberties and free expression in the digital world. With over 10,000 members, EFF represents the interests of technology users in both court cases and the broader policy debates surrounding the application of law in the digital age. EFF opposes misguided legislation, initiates and defends court cases preserving individuals’ rights; launches global public campaigns; introduces leading edge proposals and papers; hosts frequent educational events; engages the press regularly; and publishes a comprehensive archive of digital civil liberties information at one of the most linked-to websites in the world, www.eff.org.

I. Nature of the Problem and Solutions Proposed

As noted in the NOI, the issue of OWs has increasingly come to the attention of artists, writers, producers, distributors, librarians, archivists, and a whole host of content creators and users. From the initial comments submitted, there is no doubt that the inability to license OWs is a substantial and tangible barrier to achieving the full constitutional mandate of copyright to “promote the Progress of Science.” Thus, the only serious questions that remain from the NOI are how to address the scope and character of the solution to this problem.

A number of different answers to these questions were proposed in the Initial Comments. Many proposed solutions have merit and EFF encourages the Copyright Office and Congress to conduct a full exploration of them. Several of these solutions, however, have components that present serious and troubling consequences. Each is noted below to help the Copyright Office recognize the pitfalls that might await it and its users if they were to be incorporated into the solution to the OW problem.

A. Escrow Accounts

A number of the proposals (e.g., Science Fiction and Fantasy Writers of America and The Harry Fox Agency (“HFA”)) suggest that a possible solution to the orphan works problem would be the creation of an escrow ac-

count where OW users can deposit fees that will later be paid to copyright owners who come forth. This solution is both inefficient and ineffective. First, the primary purpose of addressing the OW problem is to further copyright’s constitutional purpose by removing barriers to dissemination and creative use of works, not by imposing new barriers. Requiring that all users of any orphan work pay a significant fee to a non-copyright owner third party would impose such a burden and have a chilling effect on exactly the kind of activity (creation and dissemination of copyrighted works) that the copyright community is trying to solve here.

This is especially true in situations where, if the copyright owner had been available, little or no fee would have been charged for permission to use the work. This is a non-trivial possibility for many of the works at issue. For example, many works under a Creative Commons copyright license merely require attribution for commercial exploitation by others, not compensation. Requiring payment into an escrow account to use works where the copyright owners are interested solely in attribution would force an unnecessary and inefficient transfer of funds to an entity that has no interest in the transaction to begin with.

Second, there is no way to predict what the proper escrow amount would be for each work. Millions of works are potentially subject to orphan status, from software to movies to musical compositions to web site postings. To set a single escrow deposit amount for all of these diverse works would fail to recognize the individual investment, creativity, and circumstances involved in each. For example, a single web log (“blog”) posting would rarely be worth a \$1,000 escrow deposit while a full-length motion picture might be worth that, or more. Moreover, even if a single escrow figure were agreed upon for orphan works, this could come dangerously close to price fixing the value of all copyrighted orphan works, an outcome antithetical to the premise of a free market. It would be more efficient, equitable, and respectful to allow each copyright owner or her agent to individually address what compensation, if any, best suits use of their work after it has become orphaned.¹

Third, escrow accounts will cause needless and burdensome litigation between the copyright owners and the escrow administrators. As efforts like CARP and activities like those of ASCAP, BMI, and SESAC have demonstrated, collection, administration, and distribution of copyright

payments can be highly contentious. EFF believes the goal of a viable OW solution should be to minimize the risk of litigation, not expand it. While some litigation between OW owners and OW users will be inevitable, introducing a third-party escrow system into the mix would actively contribute to additional conflicts and court actions.

Finally, as the Recording Industry Association of America notes in its initial comment, none of the escrow proposals address the issue of administrative costs. Who pays for collection, accounting, and distribution fees? Who pays for litigation over proper use of the fees? The OW user? The OW copyright owner? EFF believes it would be unfair to impose these costs on either party, especially since (in contrast to current PRO structures) neither has ever given permission for the third party to undertake such a role.

B. Orphan Status Should Be Determined by the Difficulty of Ownership Identification, Not Type of Work at Issue

Numerous proposals attempt to draw distinctions between those works that should be subject to any proposed OW solution and those that should not. For example, HFA argues that musical composition works should categorically be exempt from any OW solution because many of those works are housed within HFA's online database. This approach, however, misses the connection between the problem and the solution, as outlined in the NOI. If we adopt a proper definition of orphan works, then no work will be improperly subject to an OW solution that doesn't suffer from the OW problem. For example, any musical composition in the HFA database would not be an orphan work per se because one can find the rightsholder in the database.² Therefore, none of the OW solutions would apply to it and HFA and its clients would have nothing to fear.³ However, for musical compositions that do not appear in the HFA database and do qualify as orphans, an OW solution is appropriate. Categorical exemptions run the risk of being either over inclusive or under inclusive by their very approach.

C. There Should Be No Restrictions on Use of Orphan Works

The pursuit of creativity is at the heart of the Copyright Act. Thus, any orphan works solution should maximize the creative potential of those who legitimately qualify for OW use. If one imagines that, had the user

been able to find the copyright owner, she would have been able to acquire (at some price) all of the various permissions she sought, then there is no reason to restrict the uses she can enjoy because the work has been orphaned.

This includes any of the exclusive rights set out in section 106 of the Copyright Act, as those are the rights that would have been subject to the hypothetical permission discussion with the missing copyright owner.

D. Contractual Obligations of a Copyright Owner Are Not Relevant to the Issue of Orphan Works

Two commentators, the Directors Guild of America ("DGA") and the Writers Guild of America ("WGA"), discuss the importance of respecting certain "creative rights" with regard to motion picture orphan works such as residual payments from the copyright holder of the motion picture to the writer or director. However, this discussion has nothing to do with orphan works. Rather, this is simply an issue of how the copyright holder chose to contractually compensate its employees or independent contractors. Use of a copyrighted work by a third party, whether with permission or without, does not violate any of these so-called "rights" as they are not infringements of any copyright owned by the writer or director. Even mass infringement of a motion picture by commercial bootleggers would not give rise to any cause of action that the DGA or WGA members could pursue; therefore, use of an orphan work cannot implicate their rights either. If anything, the creation of an OW solution would give directors and writers additional incentive to help OW users find the copyright owner of the work in question to ensure payment on their contractual obligations.

Endnotes

1. This is not to say that the same problem would arise in the context of a cap on potential damages in an infringement action by the copyright owner against the OW user. There, there would still be a range of possible payments, from nothing up to the cap. Thus, any compensation arrived at by the parties or the courts would still be subject to individualized factors and market forces.
2. This would also apply to any work registered with accurate contact information in the Copyright Office database. Any copyright owner who wishes to guarantee that her work is not orphaned can simply verify that the Office has her correct contact information.
3. In fact, if anything, this would promote the business of organizations like HFA, ASCAP, BMI, and SESAC, as they could market themselves as capable of preventing any work they administer from becoming an orphan.

National Music Publishers' Association, Inc. and The Harry Fox Agency, Inc.

The National Music Publishers' Association, Inc. ("NMPA") and The Harry Fox Agency, Inc. ("HFA") submit these reply comments to supplement our initial comments, which we submitted on March 25, 2005 ("Initial Comments"), in response to the Copyright Office's Notice of Inquiry examining issues raised by orphan works dated January 26, 2005 (the "Notice"¹). NMPA and HFA greatly appreciate the opportunity to make recommendations to the Copyright Office concerning the orphan works issue and, specifically, to assist in formulating a pragmatic and workable resolution to the limited problems posed by orphan works with respect to the musical work copyright.

The comments submitted in response to the Notice, while raising several legitimate issues, confirm that the problem of orphan works with respect to the musical work copyright is minimal and does not justify any limitations—whether the loss of copyright or limitation of a copyright owner's remedies—on the musical work copyright. As our Initial Comments demonstrated, Congress has established a statutory framework to ensure that musical works are widely available to the public. Moreover, any person who wishes to obtain a compulsory license for a musical work for which the copyright owner cannot be found can do so under the Copyright Act by submitting a notice of intention to obtain a compulsory license to the Copyright Office.² Thus, any orphan works issues presented can be resolved through existing provisions of the Copyright Act and, with respect to uses not already covered by the compulsory license, through the proposed limited licensing scheme discussed in our Initial Comments.

I. NMPA's and HFA's Reply to Comments Submitted to the Copyright Office

With respect to the comments submitted to the Copyright Office, we note as an initial matter that many of the expressed concerns may be addressed by providing better access to information about musical works and where to locate owners of musical works. We thus believe that initiatives by the Copyright Office to educate potential users about copyright law and relevant rights organizations would be useful in addressing the orphan works issue. For example, would-be users should have increased access to information concerning how to license musical works, including through links to publicly available databases containing information about copyrighted works and their owners.

With respect to orphan musical works, we support a carefully tailored solution that does not erode existing copyright protections. Save the Music/Creative Commons' proposal undermines copyright law and is an attempt to circumvent the Supreme Court's decision in *Eldred v. Ashcroft*³ upholding the Copyright Term Extension Act of 1998, as well as prior term extensions and Congress' abolition of the copyright renewal requirements and other formalities. Save the Music's proposal to amend existing copyright law and require copyright owners to register their works within a 25-year period following publication is inconsistent with prior copyright term extensions. The term extensions granted by Congress and upheld by the Supreme Court are particularly important with respect to the musical work copyright.

As we explained in our Initial Comments, songwriting has always been a profession characterized by a high degree of failure, a low probability of success, constant threats to rights, and, in most cases, little—and frequently delayed—remuneration. A song may be created and exist for some time before it is given life in a commercially successful sound recording, and may be given renewed life in subsequent recordings. Many musical works are exploited late in their copyright term. For example, after being featured in the 1987 film, *Good Morning, Vietnam*, Louis Armstrong's 1968 recording of the song, "What A Wonderful World," written by George David Weiss and Bob Thiele, again became a popular hit and enjoyed renewed commercial success.

Similarly, Herbie Hancock wrote and recorded "Cantaloupe Island" in 1962. Thirty years later, in 1993, Us3 released its first major hit, "Cantaloop," featuring a sample from Hancock's "Cantaloupe Island." Sheryl Crow's recent hit single is a cover of the Cat Stevens classic "The First Cut is the Deepest," written originally in the late 1960s. In fact, "The First Cut is the Deepest" has had two commercial revivals: the first in a 1976 Rod Stewart release and the second in Crow's release. In some cases, a song that never makes it onto a commercial release is "discovered" and becomes a hit. Robert Hazard wrote and recorded a demo of "Girls Just Want to Have Fun" in 1979. The song was never released, but in the 1980s, Cyndi Lauper covered the song, which became an enormous hit and pop perennial.

The songwriters and their music publishers would be severely prejudiced under any scheme, like the one proposed by Save the Music, that effectively requires that

works be recognized and exploited early in their copyright term in order to be protected.

Experience shows that the copyright owners—typically the music publishers—have the greatest economic incentive to invest in promoting and exploiting their mature musical repertory precisely because of their ability to earn royalties by licensing such works. A scheme that would impose registration obligations on copyright owners would perversely encourage publishers to abandon works rather than invest in their exploitation. This would diminish rather than enhance the musical domain.

In addition, we believe that the reintroduction of formalities (by imposing obligations on copyright owners to register or renew their works, among other things) would undermine the current copyright scheme. The 1976 Act specifically eliminated certain formalities in an effort to broaden the scope of copyright protection. The reintroduction of such formalities would unfairly deny protection to creators of musical works, especially those without resources to comply with formalities. Moreover, the reintroduction of formalities would violate the United States' international copyright obligations under the Berne Convention and TRIPs Accord, which prohibit the imposition of formalities as a precondition to copyright protection.

Furthermore, many proposals suggest making unpublished works available by expanding the definition of orphan works to encompass unpublished works. But we believe that to do so would be inconsistent with existing compulsory license provisions and Supreme Court precedent,⁴ not to mention an invasion of copyright owners' rights. Copyright owners have long held the exclusive rights to determine whether, and how, to commercially exploit their works or otherwise make them publicly available. Maintaining the copyright owners' control and the right of first publication secures important economic and privacy interests. Alternatively, making unpublished works available as orphan works would deprive copyright owners of their right to withhold their expression from commercial exploitation.

Finally, we note that archivists and librarians, among others, have raised legitimate concerns about facilitating academic pursuits and research by digitizing their collections. While we agree that any solution to the orphan works problem should accommodate the goal of making rare works available over the Internet for academic purposes, we believe that this issue might be addressed through existing provisions of the Copyright Act. For example, Section 108, which permits educational institutions, libraries and archives to reproduce, distribute, display or perform copyrighted works, as well as other

provisions concerning the digitization of archival material and the creation of backup copies, could be amended and broadened to encompass musical works, provided that such use of musical works could be appropriately limited to educational and archival purposes.

Whatever solution is developed, the Copyright Office should be mindful that access to these works currently is controlled by location, requirements of secure physical access, membership in the research community and/or other formal and informal measures in order to best protect the integrity of the copyright in the works. We believe that the Copyright Office must carefully consider the risks that digitizing and making copyrighted musical works easily and electronically available, and potentially accessible for unauthorized copying, pose to the integrity of the copyrights at issue, and ensure that such actions are not taken without safeguarding the works. The making available of digitized, copyrighted musical works through Internet-accessible libraries or archives must be for legitimate research purposes only. Such uses cannot be allowed to compete with, or substitute for, commercial uses such as the nascent subscription music services now being offered on some college campuses as an alternative to illegal file-sharing.

II. NMPA's and HFA's Proposed Solution

Many of the identified orphan works issues can be resolved through NMPA's and HFA's proposed licensing mechanism set forth in our Initial Comments. Our proposal: (1) provides a licensing mechanism that does not otherwise affect the duration of the musical work copyright or the subsistence of any exclusive rights granted pursuant to the Copyright Act; (2) is consistent with the current statutory scheme for licensing musical works; (3) provides fair compensation for the uses sought in order to both comply with treaty obligations and compensate the owner if he or she becomes commercially active again; and (4) importantly, maintains the rights of the copyright owner to control first publication.

As set forth in our Initial Comments, creators and would-be users should make efforts to identify and locate the owners of copyrighted musical works by taking at least the following steps: (1) a search of registrations in the Copyright Office and the Copyright Office archives; (2) a search of various publicly accessible databases maintained by HFA, ASCAP and BMI (indeed, millions of musical works are included in the extensive databases maintained by HFA, ASCAP, BMI and others as part of their administration of their various licenses, which contain the titles and licensing information for domestic and foreign musical works in the organizations' repertoires, and the writers and music publishers behind them); (3) review of

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copyright notices on and label copy of sound recordings of such musical works; and (4) making reasonable efforts to contact any owners (and their successors-in-interest, heirs or assigns, as the case may be) identified through the searches listed in steps (1), (2) and (3) above, either directly or through their authorized agents.

Moreover, musical works should not be available for licensing unless they have been published and until a certain period of time has passed. After that period, those who wish to use previously published musical works for which owners cannot be located without violating otherwise valid copyrights would register the musical work and their desired use, along with evidence of such work's orphan status, e.g., certification of the requisite searches, and obtain a license from an agent designated for this purpose. Potential users would also need to certify the source of and published status of the musical work for which a license is sought. Licensed uses would be posted on a public database so owners would have an opportunity to assert their ownership interest and reclaim licensing of their works.

There remain, however, several issues that must be considered before our proposal could be implemented. So that the Copyright Office may properly consider our proposal, we note a number of them here:

- Any solution must be administratively feasible. NMPA's and HFA's proposal should be implemented on an experimental basis at first to best evaluate and gauge its feasibility.
- The licensing mechanism we outline must be funded properly in light of the fact that many of the uses sought may not generate significant licensing income. Funding would be necessary for both the initial development costs of the licensing system and for ongoing maintenance. In addition to royalties, transactional fees sufficient to fund the licensing system once it was developed could be charged to those who wished to use orphan musical works. After three years (congruent with the statute of limitations for copyright infringement actions), the designated agent should be able to transfer royalties back into the system to help subsidize maintenance costs if no owner has claimed the musical work. The designated agent must be protected from any liability resulting from its role as designated agent, including through certain exemptions from liability under federal and state laws, including any otherwise applicable antitrust limitations. Users must satisfy the due diligence

requirements with respect to the age and published status of the work and their attempts to identify and locate copyright owners, as set forth above, and certify their compliance with such requirements. Orphaned works would be licensed only to the requesting user with no limitation on the copyright of the work. Each subsequent potential licensee would need to comply with all of the search and certification requirements. Licenses would be for limited terms and renewable so long as the work remained unclaimed. For compulsory uses, the compulsory rate should apply. For noncompulsory uses, the designated agent should be empowered to set royalty rates for licenses, consistent with the prevailing market rates for such uses. The designated agent should also set the term of the license and other conditions appropriate for the intended use. In setting rates, the designated agent should consider the intended use and whether it is noncommercial, such as for academic purposes.

- With respect to the claims process, there should be a procedure to validate copyright owners and to redress false claims of ownership. A confirmed copyright owner should be able to reclaim the ability to license the musical work from the designated agent on a going-forward basis.
- Congress or the Copyright Office should consider whether users should be subject to penalties for false certifications and whether licenses granted should be invalidated or revoked.

As demonstrated both above and in our Initial Comments, allowing a designated agent to issue licenses for orphan works would maintain the integrity of the copyright laws by keeping orphan musical works under copyright protection for their full terms while also providing for their exploitation and use. In addition, allowing a designated agent to issue licenses for orphan works would eliminate potential users' exposure to liability for copyright infringement. For these reasons, we believe that our above proposal would address any limited orphan works issues that may exist with respect to the musical work copyright.

Endnotes

1. 70 Fed. Reg. 3,739.
2. 17 U.S.C. § 115(b)(1); 37 C.F.R. § 201.18.
3. 537 U.S. 186 (2003).
4. See *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539 (1985).

The Recording Industry Association of America (RIAA)

The Recording Industry Association of America (RIAA) welcomes this opportunity to respond to the Copyright Office's Notice of Inquiry (NOI) on Orphan Works, 70 Fed. Reg. 3739 (January 26, 2005).¹ We commend the Office for undertaking an inquiry into this area, and look forward to working with the Office as this inquiry continues. In this inquiry, the goal should be to develop a system that will facilitate the use and public dissemination of copyrighted materials whose owners cannot be located (or in many cases even identified) despite a reasonable level of due diligence. At the same time, any new system should not serve as a substitute for diligent clearance efforts, and so must contain safeguards for the legitimate interests of copyright owners. RIAA believes that, with careful design and the input of representatives of both users and copyright owners, it should be possible to develop and implement such a system.

1. Nature of the Problems Faced

Whenever the connection between copyright owner and copyrighted work cannot be made, users are deprived of the opportunity to license the work and creators are deprived of the opportunity to reap the benefits of such licensing. Accordingly, the music industry generally works hard to avoid orphaning its works. Federal copyright subsists in sound recordings only if they were first recorded on or after February 15, 1972.² The labels and packaging materials for recordings issued since 1972 almost invariably identify the owner of copyright in the phonorecord, and the same information is contained in readily accessible metadata that accompany legitimate downloads of sound recordings made available online. As will be discussed in more detail below, databases concerning copyright in post-1972 sound recordings are relatively comprehensive and accessible, and there are other reference sources that are helpful in identifying copyright owners of sound recordings. Moreover, while we have not collected empirical data concerning this question, we perceive that, relative to other types of works, the copyrights in a high proportion of sound recordings are registered.

As a result, it is rare to encounter insurmountable difficulties in locating the owners of these copyrights to seek clearance for use of these recordings. We are certainly not aware that parties who wish to reproduce or distribute recordings often encounter undue difficulties in identifying, locating or communicating with parties who are in a position to grant permission to do so. Of course, permission is not always granted, but we emphasize that the fact

that permission to use a work cannot be obtained does not make a work an "orphan." That term should be applied only when, after due diligence, the copyright owner cannot be located or even identified. By this definition, RIAA does not believe that post-1972 sound recordings released by its member companies should qualify as "orphan works" except in unusual and isolated circumstances.

Of course, record companies are both owners of copyrighted works and users of copyrighted works. Record companies respect the copyrights of others, and work diligently to identify, locate and obtain necessary licenses from copyright owners for the products they release. The copyrights record companies most often need to license are copyrights in musical works. As in the case of sound recordings, it is usually possible for a user of a musical work, with due diligence, to identify and locate the copyright owner, although it can be more challenging to identify and locate copyright owners of musical works who are not actively engaged in music publishing than it is to identify and locate active music publishers. The bottom line is that, so far as music is concerned, it is not clear to us that there is a significant orphan works problem.³

However, RIAA members do sometimes encounter orphan works problems. A typical situation involves archival material that we wish to use, usually in conjunction with a re-issue of older recordings, but also sometimes in the issuance of new material. For instance, in preparing a re-issue of recordings from as early as the 1920s or 1930s, a label may wish to include in the packaging or accompanying booklet excerpts from contemporary newspaper or magazine articles, old photographs, images of posters for long ago live performances by the featured artists, or other artwork from the era and region to which the music pertains. Much of the pictorial or graphic material is unsigned, and bylines for the text, if they exist at all, can be unreliable. Even if authors or artists can be identified with a reasonable degree of certainty, they or their heirs frequently cannot be located decades after the fact. Comparably effective substitutes that can be cleared are often not available.

This can create a significant roadblock to such a re-release. While there are exceptions, as a rule the market for re-issuance of older recordings is a relatively small one. Compilations or selections of these older recordings can never enjoy commercial success unless they are presented in a way that attractively situates the material in context for today's audiences. At the same time, limited consumer demand for older recordings requires that costs must be

held down as much as possible. When copyright owners cannot be identified and located with a reasonable level of diligence, a producer may be faced with the choice between the risk of liability for proceeding without having obtained clearances from all parties with a potential copyright interest and not using the material at all. The result is that producers must often release less appealing products because a copyright owner who could grant a license cannot be found.

A second and increasingly common category of problems involves audiovisual material, which can often be much more recent than the works discussed in the preceding example. One of the fastest growing formats for recording industry sales is DVD-Video, in which sound recordings are enhanced with live concert footage, artist interviews, and a wide range of other documentary audiovisual material.⁴ Because this material may not originally have been targeted for commercial release, the sources from which it is available often failed to obtain all the needed clearances, and it may well be necessary to track down the original videographers or other authors of this material. This sometimes can be impossible, even when the footage is only a few years old.

Finally, although the copyright owner of a musical work is usually identifiable and locatable with due diligence, or the section 115 compulsory license can be relied upon to re-issue a sound recording, this is not always the case. It should also be noted that the section 115 compulsory license does not extend to all uses of musical works—for example, use in audiovisual materials or printing of lyrics in liner notes. Thus, RIAA members sometimes encounter orphan works problems with respect to musical works as well.

Given these experiences, we understand the frustrations of trying to identify and locate copyright owners of orphan works. Accordingly, we would be interested in development of a broadly-applicable regime to ensure that, in appropriate circumstances, the inability to identify or locate a copyright owner with due diligence need not stand in the way of public access to creative works, while at the same time safeguarding the legitimate interests of copyright owners.

2. Nature of “Orphan Works”—Identification and Designation

The NOI seeks comment on the use of databases or registers under which “copyright owners could indicate continuing claims of ownership,” on one hand, and users could “file an intent to use an unlocatable work,” on the other. RIAA believes that both categories of registers could play important roles in a balanced, workable system for addressing the orphan works problem.

Registers of Copyright Claims

On the copyright owner side, databases that have the effect of expressing “continuing claims of ownership” already exist, notably the registration and recordation records maintained by the Copyright Office. Record labels are heavy users of the registration and recordation systems, both as registrants and as searchers when we need to identify the owners of copyrights in works we wish to use. Unfortunately, registration and recordation records prior to 1978 exist only in paper format and must be physically examined at the Copyright Office. If this proceeding were to facilitate the digitization of earlier registration and recordation records and their availability online, that by itself would be a valuable outcome that would reduce, though certainly not entirely eliminate, obstacles to identifying and locating copyright owners.

Many other relevant databases exist in the private sector, and increasingly these are becoming available to the general public, including those interested in using copyrighted works. For example, with respect to musical compositions, publicly accessible databases are maintained by the Harry Fox Agency⁵ and by performance rights organizations⁶ from which would-be users can seek to identify composers or music publishers. However, similar databases are less comprehensive, where they exist at all, for much of the non-musical material (e.g., graphic arts, audiovisual) which RIAA member companies are now unable to clear for use because the copyright owner cannot be identified or located.

The relevant issue for this proceeding is whether the databases or registers publicly available for particular types of works are sufficiently comprehensive to allow diligent users to identify and locate, in the vast majority of cases, the party from whom they can seek to obtain permission or a license for the use they wish to make of a work. The answer to this question will vary from one type of work to another. If the answer for a particular sector is “yes,” then consulting these databases may be considered an important factor in determining whether the user has exercised sufficient due diligence to warrant application of special rules that this proceeding may develop with regard to “orphan works.” For sectors where the answer is “no,” consideration should be given to the possibility of establishing a new register in which copyright owners could make themselves known, and which would-be users could consult as part of their due diligence inquiry.

Establishing and maintaining a new register, even in a single sector such as graphic works or audiovisual material, would be an ambitious undertaking and would raise many difficult questions about how to defray costs, ensure the reliability of data, and the like. Accordingly, RIAA suggests that the inquiry focus first on identifying

and cataloging the relevant databases and other resources that either are already available to most would-be users, or that could be made available without creating any new registers (e.g., putting pre-1978 Copyright Office records online). Roundtables of interested parties could be convened, on a sector-by-sector basis, to survey the available resources and to work toward commonly accepted standards of what constitutes due diligence in the clearance process. RIAA would be eager to participate in such a roundtable process with respect to types of works for which our members encounter “orphan works” problems, as well as in a roundtable on sound recordings. While we believe that significant resources for identifying and locating copyright owners for post-1972 sound recordings already are—or could be made—available, the creation of a new voluntary “continuing claim of ownership” register may be appropriate if interested parties conclude that such a new database is needed for a comprehensive “due diligence” search by would-be users. For example, it may be reasonable for an organization such as SoundExchange—which already maintains a database of sound recordings for digital performance purposes—to serve as a “certified” voluntary database through which users could check the copyright ownership status of a sound recording. (The same organization may also maintain a database for sound recording “intent to use” purposes, described below.)

It bears emphasis, however, that checking a single database should probably not be the only step that a would-be user would be expected to take in order to conduct a reasonably diligent search for a copyright owner. The roundtables should also be asked to examine other appropriate techniques to advance this goal. A number of such techniques are applicable to sound recordings, and are regularly used by record companies in their clearance efforts. For instance, where some identifying information about a work or its copyright owner is available, but it is out of date, reference sources can supply information such as the disposition of the catalog of a label that is no longer in business. When even the title of an instrumental recording is unknown, services are available that seek to match the aural or digital “fingerprint” of a particular recording with those in a comprehensive database. Consultation with an experienced musicologist may provide critical information in other cases. In developing common standards for what constitutes “due diligence” for any particular sector, the roundtables should look at the full range of use cases and available tools in an effort to determine which tools a would-be user should be expected to employ before concluding that a given work is “orphaned.” The entire exercise will be successful to the extent that it identifies the major tools for locating and identifying copyright owners, and gives users incentives

to employ these tools, not excuses for failing to make a thorough search.

“Notice of Intent to Use” List

On the other side of the “orphan works” equation, RIAA strongly supports the concept of requiring a would-be user to file, in a publicly accessible database, a “notice of intent to use” a copyrighted work whose copyright owner she has been unable, after a duly diligent search, to identify or locate. Such a requirement would protect the interests of copyright owners, who need only monitor this database in order to determine whether a work which they own is in jeopardy of receiving orphan work treatment.

While a number of difficult questions would need to be resolved before such an “intent to use” register could become operative, RIAA believes that a model along the following lines would be worth consideration. In order to file in this new register, a would-be user would have to:

- identify the work in question as specifically as possible (which may require posting of the work, perhaps in the form of samples such as thumbnails, very short excerpts, etc.);
- state the use that it has a bona fide intention of making;
- certify that it has taken steps (meeting a standard of due diligence previously determined to be applicable to that type of work) to identify and locate the copyright owner, but without success; and
- provide (and keep current) its contact information, so that the undiscovered copyright owner could interpose an objection before the use or seek compensation later.

After the work has appeared in the register for a pre-determined time period, if no copyright claimant has stepped forward to contact the would-be user, the work would be considered to have attained “orphan” status as to the identified use and user. As discussed below, while use of such a work without permission of the owner would remain infringing, even after the waiting period, remedies for infringement could be curtailed.

As copyright owners, RIAA members believe that it would be essential to impose such prerequisites (including a waiting period) before a work is classified as an “orphan” that can be used without permission, subject to the possibility of limited liability to pay compensation to the copyright owner later. As would-be users of such works, we believe such prerequisites would be reasonable.

ORPHAN WORKS: COMMENT LETTERS

The model must also incorporate safeguards to prevent abuses or over extension of the orphan works concept. For instance:

- A knowing material misrepresentation in a user's submission to the register, including a false certification that the pre-established due diligence steps have been taken, should be an independent violation of law, much like the prohibitions on knowing material misrepresentations in the notice and take-down process under section 512 of the Copyright Act.
- There must be a simple mechanism for removing the work from the register as soon as a party claiming to be the copyright owner steps forward, whether during or after the waiting period. (Penalties for knowing material misrepresentations in such claims of ownership should also be considered.)
- The register should operate on a per-use and per-user, not a per-work basis; if user A has placed the work on the register for one use, user B would not be excused from exercising due diligence in searching for the copyright owner in order to make a subsequent use. Among other reasons for this rule, the goal of an orphan works policy should be to encourage improvements in the tools available to identify and locate copyright owners, so a later user employing these improved techniques may be able to negate the earlier conclusion of orphan status.⁷

Finally, a number of other thorny issues about an intent-to-use register would need to be resolved, among them:

- What would the user be required to submit to identify the work in question, particularly when the title of a work is unknown and the work may not lend itself to straightforward textual description (as in the case of an abstract artistic work or instrumental recording and its associated musical work)?
- Who would operate the register, how would it be financed, and who would bear the risk of negligence or error in its operation?
- Should there be more than one such register and, if so, how would different registers be certified, supervised, and linked? How would the boundaries of their operation be set?

RIAA looks forward to participating in further discussions about the pros and cons of this approach.

3. Nature of "Orphan Works": Age

Although works that could qualify as "orphaned" under the procedure set out above (i.e., those whose copyright owners cannot be found through due diligence, and which have been posted to an "intent to use" register for a stated waiting period) would probably tend to be older rather than more recent, this correlation would certainly not be perfect. RIAA believes that it would not be wise to define "orphan works" solely by their age, but rather in a functional manner, as set out above.

4. Nature of "Orphan Works": Publication Status

While it is true, as the NOI points out, that including unpublished works in any orphan works system risks eroding the author's right of first publication, RIAA believes that inclusion of at least some unpublished works should be considered. Perhaps most important, where little information is available about a work, it may be unclear whether or not the work in question has been published. In addition, where works were created in a commercial context but simply not cleared for commercial release at the time (as might, for example, be the case for photographs of artists performing in a studio), the interest of an unlocatable copyright owner of such a work in controlling "first publication" is not really the same as that of an author of a literary work that has never seen the light of day or of a rehearsal "outtake" from a recording session never intended for release.

A more technical issue is that musical works embodied in sound recordings publicly distributed prior to 1978 may be deemed unpublished pursuant to 17 U.S.C. § 303(b), but a sound recording release would seem to blunt any concerns about control over "first publication." Accordingly, a blanket rule against treating *any* unpublished works as "orphaned" may be inadvisable. Conversely, where an unpublished work is slated for commercial release, it would be inappropriate to allow unauthorized release prematurely through an orphan works system. For example, as a result of leaks at recording studios, sound recordings are sometimes released without authorization before an album is finished or before the official "street date" for sale. It is essential that this kind of unpublished material, whose release causes significant harm to the music industry, be specifically excluded from any orphan works regime.

5. Effect of a Work Being Designated "Orphaned"

RIAA considers it important to maintain a clear distinction between orphan work status and the pub-

lic domain. A copyright owner should never forfeit its copyright in a work simply because the owner cannot be identified or located at a particular time. However, if some form of the procedure outlined above were to be instituted, then it would make sense that qualification as an orphan work should confer a certain safe harbor status upon the party that uses the work after exercising due diligence in an unsuccessful search for the copyright owner, files in the intent to use register, and waits the prescribed time period. If, after this waiting period, the copyright owner emerges, limiting her remedies against the user for infringement should be considered. For example, the investment that the user has made, and its reliance upon the orphan status that the work has attained, should be respected, perhaps by limitations on the issuance or timing of injunctive relief. It may be appropriate to limit monetary remedies to actual damages, or to a sum intended to substitute for a reasonable license fee.

However, none of these limitations should be applicable in cases in which the user has abused the orphan works process (e.g., by falsely certifying due diligence). Some presumption might be due the user's certification of due diligence before submitting the work to the "intent to use" register, but if the copyright owner comes forward with evidence showing that a duly diligent search would have identified and located her, the user should be exposed to the full range of infringement remedies.

Another mechanism to strike the proper balance that should be considered is to require anyone filing an "intent to use" notice to pay into escrow a sum intended to compensate a copyright owner who asserts a successful infringement claim against the user of the work that is the subject of the notice. This would ensure that, at least to the extent of the deposit, the copyright owner could collect any damages judgment awarded. A variation on this approach would allow the user to reclaim the deposit if no infringement action has been initiated within a stated time period; this would give copyright owners an incentive to move as promptly as possible after discovering that their property had been classified as "orphaned."

Finally, a sunset provision should be adopted for any solution to the orphan works issue. The Copyright Office or some other entity should be directed to examine how the new system has worked in practice, with respect to different categories of works, and to report prior to the sunset date on whether the system should be maintained, extended, modified, or abandoned.

6. International Implications

Many of the issues discussed in this submission become much more complex in an international envi-

ronment. For instance, a keystone of the orphan works model described above is to reach general agreement that sufficient information resources are adequately available to would-be users to allow a consensus on what constitutes "due diligence." This may be harder to achieve with respect to foreign works, since few countries besides the U.S. have formal copyright registration systems, and none of them has as robust and comprehensive a system as the U.S. While many foreign authors do register their claims of ownership with the Copyright Office, many do not, and at least since 1988 one major incentive for doing so—the ability to bring an infringement action—is inapplicable to such authors. Furthermore, establishing a chain of title for foreign works is often much more complicated, and such works (unlike U.S. works) can even, under some circumstances, be restored to protection after having fallen into the public domain in the U.S.⁸ Accordingly, it would be prudent to apply the orphan works model—at least at first—only to works created in the U.S. or first published only here. Since these facts are not always determinable in the case of works whose authors are unidentified or unlocatable, some reasonable rule will need to be devised to handle these cases, including appropriate liability limitations for users who reasonably and in good faith (but mistakenly) believe that a particular orphan work has these ties to the U.S.

* * *

RIAA appreciates the opportunity to provide its perspectives and looks forward to participating further in this important proceeding.

Endnotes

1. The Recording Industry Association of America is the trade group that represents the U.S. recording industry. Its members create, manufacture and/or distribute approximately 90% of all legitimate sound recordings produced and sold in the United States.
2. Since pre-1972 U.S. sound recordings are protected only under state law, we assume that questions concerning their "orphan works" status are outside the scope of this proceeding.
3. We also note that the compulsory licenses provided by Sections 112, 114 and 115 of the Copyright Act have mechanisms for addressing orphan works, so current law permits a user to use an orphan work under those licenses.
4. The dollar value of shipments of such DVD products in 2004 was over \$560 million, an increase of nearly 52% from 2003, and more than double the 2002 level. See <http://www.riaa.com/news/newsletter/pdf/2004yearEndStats.pdf>.
5. See http://www.songfile.com/limited_license_search.html.
6. See, e.g., <http://repertoire.bmi.com/startpage.asp>.
7. Or B may simply make a more competent search than A. This outcome should be encouraged, not discouraged by allowing B to piggy-back on A's assertion of "orphan work" status.
8. See 17 U.S.C. § 104A.

Motion Picture Association of America

I am pleased to submit the following reply comment on behalf of the Motion Picture Association of America (MPAA), as part of the Notice of Inquiry (NOI). This comment responds to a number of initial round comments, and elaborates upon the initial comment MPAA filed. MPAA again commends the Copyright Office for initiating this inquiry on an important topic, and appreciates the opportunity to participate.

I. Introduction and Observations

As an initial matter, MPAA is struck by the remarkably broad agreement reflected in nearly all the initial round comments, recognizing that the orphan works issue is one worthy of attention. Furthermore, there is surprisingly widespread agreement on a general approach to addressing the problem. Most commenters agree that for at least some works, when it's established that their copyright owners cannot be located through "due diligence" or "reasonable efforts," liability should be eliminated or reduced for at least some otherwise infringing uses. However, a later emerging copyright owner should be able to return her work to the status quo, subject to some accommodations for a user's actions taken in reasonable reliance on the work's then status as an orphan.¹

As we noted in our initial comment, with few exceptions, motion pictures released by major U.S. studios are not orphan works.² The initial round comments of other parties bear this out, with very few claims that would-be users have been unable to identify and locate the parties empowered to grant permissions for uses of such works. To further assist those who may wish to make uses of commercially released motion pictures, we attach to this reply submission a listing of the library and rights clearance offices (or equivalent departments) and contact telephone numbers for each of MPAA's seven member companies.

Recognizing that there is broad support for the general outline of the approach sketched out above, we urge the Copyright Office to reject the view of a small number of outliers among the initial submitters who argue that orphan work status should apply, even to works whose right holders could be identified and located through the exercise of due diligence. These submitters would jettison the due diligence approach in favor of a mandatory registration system. Even if the right holder could be found and contacted by a reasonably diligent would-be user, they argue, the work should be stripped of virtually all protection if the right holder had failed, for whatever reason, to register the work at the right time, in the right way, in the right publicly accessible registry.³ In some cases, this open season on the works in question would be unlimited in duration; in other proposals, the right holder could rescue

the work from orphan status (at least prospectively) by complying with certain formalities. Some proposals would permit only specified non-commercial uses; others open the works to unlimited uses. Some permit the right holder to claim "nominal" compensation at some point in the future, while others leave no recourse whatsoever. What all these proposals have in common is that, to a greater or lesser degree, they would condition "the enjoyment and exercise" of copyright on compliance with a registration formality, and thus run directly afoul of the United States' treaty obligations.⁴ Under the Creative Commons proposal, for example, virtually nothing would be left for the copyright owner to "enjoy and exercise," especially if, as Creative Commons proposes, orphan status for failure to meet formalities were irrevocable.⁵

Some of these commenters clearly believe that the United States was wrong to eliminate copyright formalities from its law, make copyright renewal automatic, and extend the term of protection. Some of them have challenged these Congressional decisions, taken over the past quarter century or more, in litigation, in Congressional testimony, and in the pages of law reviews (of course!). It is evident (and some make no bones about it)⁶ that they are simply using this proceeding as another forum for their protests. Apart from the merits of their views, their advocacy is surely misplaced here. In fact, their proposals would not solve, or even seriously grapple with, the problem this proceeding seeks to address: how to avoid—and, to the extent unavoidable, how to accommodate—the market failure that occurs when a would-be licensee is unable to identify or locate the putative licensor of a work, with respect to a use that requires licensing. The mandatory registration proposals simply define the market failure (and a large segment of the market) out of existence by decreeing that henceforth, no licensing is required for some or all uses of a set of works defined by the fact that their right holders have not complied with certain formalities. MPAA urges the Copyright Office to set the proposals of these outliers to one side and to focus its attention on the difficult questions that need to be resolved in order to improve the current practices and processes for clearing rights in works, and, to the extent necessary, to flesh out a "due diligence" approach that is workable, predictable, and fair to right holders and users alike.

II. What Constitutes "Due Diligence" or "Reasonable Efforts?"⁷

Nearly all of the commenters agree that the specific steps required to achieve due diligence will vary by the type of work involved.⁸ For this reason, we initially proposed, and continue to believe, that convening sectoral

roundtables to assess available resources and develop best practices would be an advisable first step.⁹ Besides improving the current level of understanding of best practices among right holders and users and allowing the groups to learn from each other, such roundtables could identify which aspects of the problem may require legislative or regulatory change, and make such change better informed by practical realities.

The record of initial round comments underscores the breadth and variety of available resources to identify and locate right holders, especially Internet-based resources.¹⁰ The initial focus of any further inquiry should be on identifying and improving existing resources, starting with making the full complement of pre-1978 Copyright Office records available online.¹¹ Searching for copyright owners can sometimes be difficult and does require skill; the initial round comments present a decidedly mixed picture about the current skill levels of would-be users of copyrighted works, and their familiarity with the available tools. MPAA agrees with the Copyright Clearance Center that right holders for most materials likeliest to be reused are “findable with modest effort by skilled researchers.”¹² We should be working toward improving those skills and those tools in order to reduce the population of the orphanage, rather than throwing up our hands in defeat and proceeding directly to changing the rules to expedite processing of orphans.

It is worth emphasizing again that a copyright owner’s failure or refusal to license a work does not make that work an orphan. As we noted in our initial comment, “[s]ilence in response to a would-be user must not be presumed to be consent.”¹³ While many commenters agree with this position,¹⁴ some do not. For example, Professors Butler, Crews, et al., take the position that a work should be considered an orphan if the copyright owner, though identified and located, is “unresponsive” to requests for permission to license the work.¹⁵ Some submitters believe there should be (or perhaps that there already is) a blanket rule excusing any infringement if the user asked twice or three times and received no response.¹⁶ It must be clearly spelled out that failure to obtain permission from a right holder who has been identified and located does not render the work an orphan. In this regard, MPAA commends the Directors Guild of America for pointing out that, wholly apart from copyright, there may be contractual rights in a work that must be taken into consideration before permission can be granted.¹⁷

While clearly it would be impossible to specify, in legislation or regulations, a menu of queries that would achieve the necessary level of “due diligence” or “reasonable efforts” in any case, MPAA would support efforts to describe this level as specifically as feasible.¹⁸ We disagree with the Internet Archive that the “due diligence” stan-

dard must be capable of being satisfied wholly through automated searching systems.¹⁹ Determinations that a work is an orphan must be made on a case-by-case basis for each particular work in the context of the type of use sought. To assert, as Internet Archive seems to, that users are excessively burdened if any human intervention is required in the process of identifying and locating a right holder is, we believe, to fundamentally misunderstand the purpose of that process, which is to find the right holder.

Similarly, “reasonable efforts” should not be defined, for practical purposes, as “piggybacking” on the asserted efforts of others.²⁰ Instead, we agree with the Glushko-Samuelson comment that “every potential user of an ‘orphan work’ would have an independent duty to satisfy himself or herself that ‘reasonable efforts’ to locate its owner have been made.”²¹ In our view, this will almost invariably mean a new search. Prof. Perkins’s experience is instructive; where two respected institutions had come up dry, he was able to identify and locate the right holder quickly using Internet resources of which the previous searchers had perhaps been unaware.²² A liberal “piggybacking” rule would have led to an unfair result in this case. Similarly, the College Art Association notes that the second user’s “access to different and improved search technologies or . . . new or other leads” would be factors lessening the reasonableness of reliance upon the first user’s efforts.²³ The possibilities for abuse of any “piggybacking” rule are self-evident, and the requirement of imposing an independent duty to undertake “reasonable efforts” is in no sense onerous for a user who simply happens not to be the first one to need to seek out the right holder of a particular work.

III. All Users Should Be Eligible to Invoke Orphan Works Accommodations

The benefit of an orphan works regime should not, in general, be limited to particular users. Rather, any user who, after a duly diligent search, fails to identify or locate a copyright owner should be allowed to claim orphaned status of that work. Review of the initial comments leads us to support two important qualifications to this “all users” rule. First, the user must have legitimate access to a non-infringing copy of the work in order to claim orphan work status.²⁴ Additionally, because state agencies are not liable for monetary damages in copyright infringement cases, and monetary relief may be the only appropriate remedy in orphan works cases, we agree with the recommendation that state agencies must first waive their Eleventh Amendment immunity before claiming orphaned status in a work they are seeking to use.²⁵

IV. User Registration of Proposed Uses

Many commenters call for a system which would require users to register their proposed uses of orphan

works²⁶ or would at least provide strong incentives to do so.²⁷ MPAA supports encouraging the voluntary registration of uses of orphan works, and other steps best calculated to bring uses to the attention of right holders (e.g., encouraging marking of orphan works that are republished).²⁸ We understand the skepticism of some submitters about the usefulness of such a registry,²⁹ but think it would have some potential for bringing together right holders and users and thus prevent works from being declared orphans.

V. Voluntary Registry of Right Holders

MPAA finds it heartening that almost no commenter who put forward a due diligence model of determining orphan work status also proposed a mandatory registration requirement for copyright owners. Only the outliers who are focused on formalities for rights holders rather than reasonable efforts by users took this approach. MPAA agrees that any such registration model should not be mandatory, but voluntary, and that consulting such a registry should be a necessary, but not sufficient, element of due diligence for users.³⁰ It is not clear that all those advocating a voluntary registry are familiar with the Copyright Office's existing registration and recordation systems. The Copyright Office should consider to what extent a voluntary registration system could be integrated with or build on those existing databases.

VI. Remedial Limitations

While we support many aspects of the Glushko-Samuelson proposal, we part ways with it on the issue of what a right holder can recover for an infringing use made of an orphan work after a reasonable efforts search has been unsuccessful and before the right holder comes forward to claim it. The Glushko-Samuelson approach would cap remedies for infringement of claimed orphaned works at \$100 per work, up to \$500 for any number of works owned by a single copyright owner and used in a single (broadly defined) use.³¹ With such low remedies, and no possibility of obtaining actual damages or lost profits, no copyright owner would incur the cost of pursuing such a claim. This is the functional equivalent of complete immunity for use of works during their period of orphan status, which of course is what a number of other submitters advocate.³² MPAA is strongly opposed to this approach, particularly to the extent that the orphan works regime applies to a broad range of uses, including those of great commercial significance.

Upon a review of the initial comments, we believe the best approach is to allow the right holder to recover for the uses made during orphan status a sum intended to represent the payment that most likely would have been negotiated had the user succeeded in locating the owner—in other words, a reasonable licensing fee, to be

set by a court if the parties cannot agree upon it.³³ This is the best way to recreate, at least approximately, the market dynamic that disappears when the right holder cannot be located or identified prior to use, but that should be restored to the greatest extent possible once the right holder has been identified and located after the use begins. The reasonable license fee approach also has the advantage of imposing some self-regulation on litigation over these uses; if the use that was made does not have an especially significant impact on the value of the work in question, or otherwise would not normally command a high licensing fee, compensation for the uses made is likely to be folded into negotiations over future uses, rather than forming the basis for a lawsuit.

VII. Challenges to and Grandfathering of Orphan Work Status

Whether or not a user has exercised due diligence should be decided by an objective test which does not turn upon intent. Some commenters evidently disagree because they posit a distinction between “reasonable” and “pretextual” searches for a right holder in order to determine whether the work in question is an orphan.³⁴ This formulation confusingly brings into the equation the issue of intent, and does not reflect the reality—as evidenced by many of the submissions in this proceeding—that users may, without any evil intent or pretextual motive, carry out an unskillful, superficial, or truncated search that simply does not come up to the level of either “reasonable efforts” or “due diligence.” It is not fair that the right holder should bear the full risk of the likely occurrence of honest incompetence. Wholly apart from proof of “sham” or “pretext,” where the right holder can demonstrate that, had the user's efforts been reasonable or duly diligent, the right holder probably would have been identified and located, the liability limitations otherwise applicable to the use should become inoperative.

Several commenters, including Glushko-Samuelson, suggest that once the user shows what efforts she undertook to identify and locate the right holder, the burden would then shift to the right holder to “prove that, under all the facts and circumstances, those efforts were not reasonable.”³⁵ MPAA understands the justification for shifting this burden but would reserve judgment on it until the relevant “reasonable efforts” or “due diligence” standard has been more clearly delineated.

Finally, initial round commenters have divergent views on the extent to which uses initiated while a work is properly classified as an orphan may be allowed to continue without authorization after the right holder steps forward.³⁶ This is a complex issue, and MPAA notes the importance of maintaining a focus on the legitimate reliance interests of users.³⁷ In general, MPAA supports a conserva-

tive approach to this question. A model for what we suggest could be the consideration that is currently provided to “reliance parties” using previously unprotected material after a work’s copyright protection has been restored under 17 U.S.C. § 104A. In any case, we note that the pressure to distinguish sharply between “ongoing” and “new” uses could be relieved to some extent if it is accepted that the user must pay a reasonable license fee for the former (as well as obtaining permission for the latter) once the right holder steps forward. The broader “grandfathering” approach of the Public Knowledge and Glushko-Samuelson submissions is more problematic if the price the right holder must pay for being “unlocatable” at the time of the due diligence search is to lose both control over the use and virtually all compensation for it.

MCAA appreciates the opportunity to submit this reply comment on this very important topic and looks forward to working with the Copyright Office and the other participants in the future stages of this inquiry.

Endnotes

1. *See, e.g.*, Glushko-Samuelson Intellectual Property Law Clinic (Glushko-Samuelson), No. 595; Center for the Study of the Public Domain, Duke Law School (CSPD), No. 597; Kernochan Center for Law, Media and the Arts, Columbia University School of Law (Kernochan Center), No. 666. For the purposes of this memorandum, the abbreviated citation form gives the name of the submitter, index numbers assigned by the Copyright Office on its Orphan Works website, *see* Orphan Works Comments, at <http://www.copyright.gov/orphan/comments/index.html>, and where applicable, a page number referring to the pages of the specific submission.
2. *See* MPAA, No. 646, at 2-3.
3. *See, e.g.*, Creative Commons and Save the Music, No. 643; Google Inc., No. 681; Carnegie Mellon University Libraries, No. 537.
4. *See* Berne Convention, Art. 5.2 (“The enjoyment and the exercise of these rights shall not be subject to any formality.”); TRIPS, Art. 9.1 (incorporating Berne Art. 5.2 by reference).
5. *See* Creative Commons, No. 643, at 16-17 (failure to comply with formalities means work “may be used without the need for ask permission, and for a nominal fee” paid to a separate fund).
6. *See* American Film Heritage Association, No. 520.
7. In our initial comment, we referred to “due diligence” as the standard a user must meet in her search for the copyright owner. Other commenters, notably the Glushko-Samuelson comment, use the term “reasonable efforts.” Regardless of the label used the issues are the same, and we use the terms interchangeably in this reply comment.
8. *See, e.g.*, Glushko-Samuelson, No. 595, at 3; CSPD, No. 597, at 9; MPAA, No. 646 at 2.
9. *See also* UCLA Film and Television Archive, No. 638, at 6 (recommending that Copyright Office convene interested parties in order to establish “best practices” for orphan works users).
10. *See, e.g.*, Prof. James A. Perkins, No. 205, at 2-3 (Internet search enabled identification and location of heirs of deceased illustrator, and within a few days led to permission for use being granted).
11. *See* Kernochan Center, No. 666, at 2 (“Perhaps digitizing the pre-1978 records could facilitate efforts to locate copyright owners and reduce the scope of the ‘orphan works’ problem.”).
12. Copyright Clearance Center, Inc., No. 691, at 3.
13. MPAA, No. 646, at 2.
14. *See, e.g.*, Association of American Publishers, Inc. et al., No. 605, at 6; Microsoft Corporation, No. 695, at 2 n.1.
15. *See* Dwayne K. Butler, Kenneth D. Crews et al., No. 689, at 7 (“the lack of a reply should not prevent the public from learning and benefiting from the historical or teaching value of the letter”).
16. *See, e.g.*, MIT OpenCourseware, No. 651, at 1; National Library of Medicine, No. 654, at 2.
17. *See* Directors Guild of America, Inc., No. 621.
18. *See, e.g.*, CSPD, No. 597, at 9, calling for a “specified procedure for a good faith search. *See also* Orphan Film Symposium, No. 675; International Documentary Association, No. 686. IDA cautions—wisely in our view—against embodying such a “clear ‘how-to’ guide” in legislation, because what constitutes reasonable efforts “will evolve from year to year.” No. 686, at 3.
19. *See* Internet Archive, No. 657, at 1 n.1.
20. *See, e.g.*, Public Knowledge, No. 629, at 6 (“Congress should allow users to rely on the completed search of another user.”); Freeculture.org, No. 673, at 2 (“Once a work has been established as orphaned, subsequent users should not be forced to re-prove the designation in the absence of new evidence to the contrary.”).
21. Glushko-Samuelson, No. 595, at 11.
22. *See* Prof. James A. Perkins, No. 205, at 2-3.
23. *See* College Art Association, No. 647, at 36.
24. *See* Professional Photographers of America, No. 642, at 4.
25. *See* Association of American Publishers, Inc. et al., No. 605, at 9.
26. *See, e.g.*, CSPD, No. 597, at 8-10; Recording Industry Association of America, Inc., No. 687, at 5-7.
27. *See, e.g.*, Public Knowledge, No. 629; Art Museums, No. 610 (encouraging concurrent registration of uses).
28. *See, e.g.*, Art Museums, No. 610.
29. *See, e.g.*, Association of American Publishers, Inc. et al., No. 605.
30. *See, e.g.*, Glushko-Samuelson, No. 595, at 12 (rejecting registration requirement but noting that consulting a voluntary registry would be an “obvious component” of any “reasonable efforts” search).
31. *See* Glushko-Samuelson, No. 595, at 5.
32. *See, e.g.*, Google Inc., No. 681; Art Museums, No. 610.
33. *See also* Association of American Publishers, Inc. et al., No. 605, at 3 (“reasonable licensing fee or royalty (as determined by reference to market practices”).
34. *See, e.g.*, Glushko-Samuelson, No. 595, at 5 (“If the user’s efforts were proven to be pretextual rather than ‘reasonable,’ a full range of copyright remedies would be available to the copyright owner.”).
35. Glushko-Samuelson, No. 595, at 5.
36. *Compare* Carnegie Mellon University Libraries, No. 537, at 8 (“no further uses or distributions of the work without the permission of the copyright owner”) *with* Public Knowledge, No. 629, at 7 (“users who rely on a ‘reasonable effort’ defense should not be prevented from reprinting a book, making a DVD version of a movie, or otherwise continuing to disseminate the new work [incorporating or based on the formerly orphaned material] either in original format or in some slightly altered form subsequent to the owner’s resurfacing.”).
37. *See, e.g.*, UCLA Film and Television Archives, No. 638, at 7 (archive that has expended funds on activities related to preservation of an orphan work should be allowed to exhaust stock or proceed with scheduled events without liability).

An Introduction to Entertainment, Art, and Sports Law Mediation: Bringing Lawyers and Clients Into the Process and the Solution

By Roger M. Deitz

Why Not Arbitrate or Litigate?

Mediation is one of many alternative resolution processes. Early neutral evaluation, hi-low arbitration, mini trial, and single text negotiation are a few of many other possibilities. However, mediation offers unique opportunities to resolve entertainment, art, and sports disputes. The continuing relationships of parties and counsel, as well as the opportunity for creative solutions, are ideal for this acclaimed process.

Many clients and their counsel are justifiably critical of the most common forms of dispute resolution. Litigation is lengthy and expensive, and arbitration can be as well.

“Mediation takes power from the courts and arbitrators and vests it in the parties and their counsel.”

Originally an informal process, arbitration has become increasingly complicated. Hearings can last for days and are often sidetracked by collateral disputes. Document production, originally envisioned as cooperative and voluntary, has become contentious and adversarial. It can take months to seat a panel, and arbitrators are often challenged while hearings are in progress. Furthermore, the finality of an award is no longer assured.¹

Arbitration suffers from other weaknesses. Meaningful communication between the parties is usually non-existent. Discovery is incomplete. Witnesses are first observed at the hearing. Business interests and personal concerns are inadequately considered.

Although substantial commitments to arbitrator training and increases in arbitrator compensation are improving arbitrator competence, arbitration can be unpredictable.

The problems associated with arbitration and litigation are serious and prevalent enough to encourage the use of other approaches to dispute resolution. Perhaps the most attractive of these is mediation. In contrast to the dissatisfaction with traditional methods of dispute resolution, numerous studies show high satisfaction levels by *all* participants in mediation.²

Lawyers Have an Important Role in Mediation

Today, lawyers must be familiar with a broad range of dispute resolution processes in order to counsel clients in both present and future disputes.³ In some jurisdictions, the law requires lawyers to advise clients of dispute resolution choices.⁴

Numerous in-house counsel have stated publicly that they will not engage lawyers who lack familiarity with dispute resolution processes.⁵ Indeed, many progressive enterprises and government agencies have engaged lawyers with special ADR expertise on staff. Several large corporations have sought to motivate counsel through innovative billing arrangements and other economic inducements.⁶ These initiatives are hardly surprising. Clients are concerned with the escalating costs of traditional litigation⁷ and generally prefer solutions they craft themselves to judgments or awards imposed upon them.

This article introduces lawyers and their clients to mediation and seeks to answer frequently asked questions about this creative process. The techniques described here are a companion to, and not a substitute for, litigation and arbitration. Indeed, mediation often is pursued on a parallel track to litigation or arbitration and thorough knowledge of traditional processes will enhance the likelihood of a negotiated settlement.

Why Mediate?

Mediation takes power from the courts and arbitrators and vests it in the parties and their counsel. The agreement to mediate, selection of the mediator, time and place of mediation sessions, and allocation of costs are controlled by the parties and their counsel. Nothing is imposed. The parties can suspend negotiations and, indeed, walk away from mediation at any time.

It has been said that experienced counsel can settle disputes. Outside assistance is unnecessary.⁸ However, even experienced counsel cannot always appreciate an adversary's position or a defect in a client's case. Attorneys are often reluctant to bring reality to a client's unrealistic expectations. Sometimes counsel can reach agreement, but the clients continue to disagree. Communication may have broken down. Distrust may have made communication difficult. Sometimes, parties need a protected place to

meet and talk. The mediator can overcome barriers and provide such a supportive environment.

Change the Culture of Settlement

Clients who have not experienced the many benefits of a successful mediation may be reluctant to authorize what is perceived to be an additional and unnecessary expense. Attendance at mediation sessions and preparation may be perceived as burdensome.⁹ Clients often want to know why they must pay a mediator when direct negotiations can be pursued without extra cost.

The approach to conflict has shifted in communities where mediation has become integrated in dispute resolution. Lawyers have removed themselves from their adversarial orientation. Settlement negotiations have been transformed from a place where winning is the goal to a process where imaginative problem-solving can take place.¹⁰ The reason is obvious: Mediation works. Settlement rates, one measure of success, average upward of 80 percent. Parties working with experienced mediators achieve settlements in 95 percent of disputes.¹¹

What Is Mediation and How Does It Work?

Mediation Is Voluntary and Confidential

Mediation is facilitated negotiation. It is voluntary and confidential. Every statement, document, and other exchange of information and opinion is protected as a settlement communication. Nothing said to the mediator may be disclosed without the disclosing party's consent. In some jurisdictions, confidentiality is protected by statute.¹²

What is revealed in private caucuses remains confidential unless the mediator is specifically authorized to disclose part or all of this information. The ability to explore sensitive issues within the protection of total confidentiality is enormously helpful in resolving disputes.

The Parties Control the Process

The parties control the process. They decide when, where, and how long the mediation will take. For instance, mediation between an artist resident in London who travels frequently and a production company with offices and legal staff throughout the United States might be held at a convenient international gateway. Sessions can be scheduled on weekends, evenings, or even by telephone. None of these options are available in arbitration or litigation.

What Disputes Can Be Mediated?

All disputes can be mediated: employment, copyright, license, contract, partnership, and class actions. Indeed, any claim which could be the subject of arbitration or litigation can be submitted to mediation.

Why Use a Mediator?

A mediator can materially assist parties to resolve their differences. The cost of the neutral is almost always a small fraction of the fees and expenses that would have been incurred without mediation.

The mediator brings added value in many ways. The mediator provides a platform for discussions, a safe environment for the exchange of ideas, and an atmosphere conducive to resolution. An effective mediator will take an active role in discussions and keep the parties talking when they might otherwise abandon negotiations. A good mediator will identify the decision-makers and keep them informed and involved, discover underlying interests and make sure that those interests are satisfied in the resolution. A very good mediator will probe beneath the surface of the dispute, discover the emotional components of the problem, and make sure that they are addressed. An extraordinary mediator will persevere after the parties have given up all hope of settlement and will keep the parties engaged until resolution is achieved.

The Mediator

The mediator assists parties and their counsel:

- Fashion the resolution process
- Communicate
- Identify interests
- Overcome emotional obstacles and personality conflicts
- Explore settlement options
- Evaluate strengths and weaknesses of claims and defenses
- Consider alternatives to settlement
- Keep settlement talks alive
- Invent creative solutions
- Select a mutually agreeable resolution
- Memorialize the resolution
- Implement the resolution
- Honor the resolution

Why Is Mediation Successful?

Attitudes Are Changed

From the outset, the attitudes of parties and counsel are altered. The agreement to mediate is recognition of the benefits of negotiated resolution. This recognition and the commitment to the process redirect energies from conflict to resolution. From the start the parties collaborate in

selecting a mediator, setting the ground rules, fixing the place, and selecting dates. Since the parties establish their own rules:

- Experts may participate;
- Documents may be exchanged; and
- Non-party advisors may attend.

Counsel and Parties Work Together

Many mediators will confer with counsel and parties by telephone prior to meeting in person. Fundamental issues can be identified and questions about the mediation process answered. Additional concerns are often raised. At this early stage, an effective mediator will begin to help the parties work together. The mediator and counsel will discuss who will participate. The parties may agree on key documents that the mediator should review. *Ex parte* communication among counsel, parties, and the mediator is an essential part of mediation and is encouraged.

In great measure mediation works because parties participate. It is critical that the parties or party representatives with settlement authority attend. All parties must appreciate the risks and uncertainties of arbitration or litigation.

“The mediation is often the first time that the parties face each other. This is an excellent opportunity for them to speak directly.”

How Long Does Mediation Take?

Many disputes can be resolved in a single face-to-face meeting. If progress is made, subsequent caucuses and conferences can be conducted by telephone. Subject to the availability of parties and counsel, sessions can be scheduled any time. Disputes can be resolved quickly.

Commitment to the Process

While the mediation setting is relaxed and informal, it does involve a commitment of time and energy. Participation in mediation will be a new experience for parties who have previously been in litigation or arbitration. This is a practical preview of the inconvenience of attending hearings and is an important ingredient in resolution.

The Focus Is Understanding Interests

The mediation is often the first time that the parties face each other. This is an excellent opportunity for them to speak directly. It is not unusual for a dispute, at least in part, to be the result of a failure in communication or misperception of facts. The opening session provides an excellent opportunity to work through these issues.

The Mediator Brings New Perspectives

While some mediators prefer to work with all parties and counsel jointly, it is often helpful for each side to work with the mediator in separate private caucuses. In these sessions, the parties and their counsel share confidential information which the mediator will help evaluate. Such private sessions are a major component of mediation. Here the parties receive feedback, which is unavailable in court or arbitration.

The neutral’s views are advisory. Nevertheless, the neutral can be of enormous assistance, helping the parties assess critical aspects of the dispute. The neutral can also help counsel and clients explore the range of likely results of arbitration or litigation. The objective views of a person without a stake in the outcome can be especially helpful in dealing with clients or counsel whose expectations are either inflated or unrealistic.

For instance, there may have been an “at will” clause in an employment dispute. Most arbitrators will address this aspect of the case at the end of the arbitration of the case. Even then, the significance of the clause will only be known if the arbitrators render a reasoned award, which seldom occurs. In mediation, in contrast, the parties in the privacy of the caucus can explore the significance of every aspect of the case. The neutral’s role is not to rule, but rather to help the parties and their counsel evaluate the likely outcome of the dispute.

The Mediator Helps the Parties Identify Interests

An effective mediator helps the parties identify interests. These are ignored in court and in arbitration proceedings where the pleadings limit the issues, and evidence beyond the pleadings is properly subject to objection and often excluded.

The mediator helps the parties move past adversarial positions to understand their interests. Indeed, most cases will not settle unless all parties’ interests are addressed.

A party may need to understand events, to vent anger, to be heard, to justify events to others, or to have closure. A party may face regulatory inquiries; fear the impact of an adverse award upon other cases; need to keep an employee productive; fear publicity; or want to limit litigation expenses. Through mediation the parties may achieve a better understanding of events to improve internal compliance.

Both parties may fear testifying and cross-examination. Counsel may be skeptical of their clients as witnesses. Other interests may need to be satisfied. Satisfying the interests of non-parties may be critical to achieving settlement. These important interests are not considered in arbitration or litigation. An astute mediator, however, will quickly identify the parties’ concerns and help fashion a settlement that addresses their interests. The mediator

helps the parties invent creative solutions and open new opportunities to work together for mutual benefit.

Mediation Allows the Parties to Express Their Emotions

Mediation also allows the parties to explore the human side of the dispute. Parties often need to express anger. They will have the opportunity to eliminate this rage with a thoughtful and rational explanation of the events. An employer may be truly sorry that a long-standing employee, a friend, has brought suit. Litigation and arbitration do not permit the expression of remorse or demonstration of sympathy without the risk that it will be perceived as an admission of liability. In mediation, however, all parties can express their feelings openly.

With a hand of reconciliation extended, resolution is more easily achieved.

The Mediator Helps the Parties Craft a Durable Agreement

The mediator helps the parties craft a settlement, which may include non-monetary considerations and other relief not available in arbitration or litigation. Impractical promises and unrealistic expectations can be avoided. The mediator is “on station” to resolve conflicts which may arise in the implementation of the settlement.

The Cost Is Modest

The parties decide how to share the neutral’s fees, which are usually time- or project-based.

Mediation Creates Value

A mediator is often asked to evaluate the case: “Will we win or lose? What is the claim worth? What is our exposure?”

On occasion, the mediator is expected to advise each side regarding what the case is worth. This is early neutral evaluation, a process distinct from mediation in which the neutral evaluates the claim and offers his or her suggested resolution, which the parties may accept or reject. Much mediation is successfully conducted as early neutral evaluations to the satisfaction of the parties.

This, unfortunately, misses many opportunities of mediation to create value.

One of the advantages of mediation is its capacity to invent creative solutions, create new options, educate the parties, and build. To resolve a dispute and miss opportunities to build creatively is to miss the opportunity to create value.

Here are a few examples:¹³

- In a series of age discrimination cases, a methodology was constructed to resolve future claims.

- While settling a case of unsuitably recommended securities, other unfiled claims against the same broker were uncovered and steps were taken to resolve those claims.
- In the course of mediating the first of several cases, not only was the case at hand settled, but the defendant, who had never participated in mediation, was introduced to the mediation process which better enabled her to settle the remaining complaints.
- A long-standing and strained relationship between a firm’s office of general counsel and the regional supervisor whose approval was required on all settlements was materially improved through the creation of a collaborative matrix to resolve future claims.

It is important to think not only of the present dispute, but also of future claims. Mediation should be used as an opportunity to create an environment that will be conducive to future negotiations. A mediator with good process skills will constantly be alert to new opportunities and will conduct the mediation not only to settle the dispute, but also to create new value. Senior counsel and management will understand these possibilities and take full advantage of the enormous opportunities for mediation to create value-added benefits.

How to Select a Mediator

The selection of the mediator is the second most important decision the parties make, after agreeing to mediate. Unfortunately, dissatisfaction with mediation is often due to mediator incompatibility or mediator incompetence rather than a failure of the process.

Counsel and their clients must have confidence in the person they have chosen. A mediator might be selected because one or both of the parties have previously worked with the neutral. It is important to solicit the opinions of colleagues, speak with the prospective neutral and obtain a sense of his or her style. Are the parties comfortable with this person? The participants should enjoy working with the neutral they select. A good mediator will help the parties understand their interests and help them understand each other.

If counsel or a party becomes uncomfortable with the mediator, this concern should be shared with the neutral. Often this reveals important issues and opens new paths to resolution. In any event, the choice of the neutral is consensual. The parties can simply terminate the process or select another mediator.

The Advantages of Mediation

The interests that must be satisfied to reach resolution are often vastly different from the events that led to the

dispute. These interests are seldom considered in arbitration or litigation. Indeed, such subjects, which are often at the core of a successful settlement, will be excluded as irrelevant.

Consider mediation's many advantages:

- Encourages the exchange of information
- Explores new information
- Invents options for mutual gain
- Helps each party understand its own interests
- Helps each party understand the other's interests
- Enables the parties to know that their concerns are understood
- Separates the people from the problem
- Promotes a productive level of emotional expression
- Deals with differences in perceptions and interests between negotiators and principals
- Focuses on objective criteria
- Helps negotiators realistically assess alternatives to settlement
- Encourages flexibility
- Shifts the focus from the past to the future
- Gives the parties a stake in the outcome through participation in the process
- Stimulates the parties to suggest creative solutions
- Addresses (often in separate sessions) interests the parties are reluctant to disclose to each other and invents solutions that meet the interests of all parties

Conclusion

Traditional advocacy often magnifies conflict. Every available tool is unleashed and every available defense is placed in an adversary's path. Many of these efforts neither advance the client's interests nor produce results. Rather, they solidify an adversary's belief in the correctness of its position and often worsen relationships. The problems associated with this approach are sufficiently serious that alternatives should be considered.¹⁴

Offered the choice, it is not unreasonable to believe that most clients would prefer to actively participate in the resolution of their dispute, rather than be confined in a hearing room surrounded by experts, exhibits, lawyers, judges or arbitrators who will impose a resolution upon them.

Much mediation proceeds on a parallel track to litigation or arbitration. The informal exchange of information in mediation may facilitate early settlement or reduce the scope of those proceedings if settlement is not achieved. As mediation can proceed simultaneously with litigation or arbitration, it can be of significant usefulness even to experienced counsel able to quantify the strengths and weaknesses of their cases, but for tactical, strategic or interpersonal reasons, are not in a position to resolve certain disputes.

Mediation should not be viewed as an admission of an inability to resolve a problem.

"Mediation's potential for resolving disputes rapidly, privately, and informally and at modest cost with a minimum of animosity is well proven."

The documented success of mediation demonstrates that the addition of a neutral with training and experience in dispute resolution can be an important catalyst in bringing parties to agreement. Executives and their counsel have worked without reaching resolution only to discover that a short mediation session was all that was needed to bring about a successful conclusion.

Parties, counsel, and experts meet with the neutral privately. The mediator is an agent of reality, focusing the parties on matters they do not wish to acknowledge, such as the weakness of one side or the strength of the other's case. The mediator, acting as a confidential go-between, facilitates communication, which the parties are unable to achieve themselves.

Mediation's potential for resolving disputes rapidly, privately, and informally and at modest cost with a minimum of animosity is well proven. Experience demonstrates that through mediation, cooperating adversaries can resolve their client's disputes and can also achieve better results than by other means.

Endnotes

1. See *Halligan v. Piper Jaffray*, 148 F.3d 197 (2d Cir. 1998), cert. denied, 119 S. Ct. 1286 (1999).
2. *The Appropriate Resolution of Corporate Disputes: A Report on the Growing Use of ADR by U.S. Corporations*. Cornell/PERC Institute on Conflict Resolution, 1998. *Top General Counsels Support ADR: Fortune 1000 Lawyers Comment on Its Status and Future*, David B. Lipsky and Ronald L. Seeber. 8-APR Bus. L. Today 24.
3. The Association of the Bar of the City of New York in March 1996 adopted the following Statement of Principle:

Each practicing member of this Association should be knowledgeable about alternative dispute resolution processes and should advise the member's cli-

ents of the availability of any appropriate alternative to litigation so such clients can make an informed choice concerning resolution of present and prospective disputes.

Model Rule 1.4(b) of the ABA Model Rules of Professional Conduct provides in part: "A lawyer shall explain a matter to the extent reasonably necessary to permit the client to make informed decisions"

4. Colorado PRC 2.1 states:

In a matter involving or expected to involve litigation, a lawyer should advise the client of alternative forms of dispute resolution which might reasonably be pursued to attempt to resolve the legal dispute or to reach the legal objective sought.

5. See endnote 2 above.

6. Kenneth R. Feinberg, *Billing Reform Initiatives*, 59 Alb. L. Rev. 963 (1996); Jeffrey M. Rubin and Melissa G. Thompson, *An Overview of Alternative Billing Practices*, 6 Practical Litigator 75 (1995).

7. Robert T. Kenagy, *Whirlpool's Search for Efficient and Effective Dispute Resolution*, 59 Alb. L. Rev. 895 (1996).

8. For an explanation of the dangers of self-administered mediation, see *Fields-D'Arpino v. Restaurant Associates Inc.*, 98 Civ. 7902, *New York Law Journal*, March 25, 1999, and March 26, 1999 (law firm disqualified from representing a corporate client in a dispute that an associate of the firm had attempted to mediate and discovery regarding the mediation prohibited).

9. Unfortunately, not all counsel prepare themselves or their clients for mediation. To derive the full benefits of mediation, counsel and clients must identify interests and objectives, review the law and facts of the case, and honestly assess the possible consequences of proceeding to trial or arbitration. See Course Materials: Mediation Advocacy, October 1, 1999, a program of the Association of the Bar of the City of New York.

10. See Craig A. McEwen, Nancy H. Rogers, and Richard J. Maiman, *Bring in the Lawyers: Changing the Dominant Approaches to Ensuring Fairness in Divorce Mediation*, 79 Minn. L. Rev. 137, 1354; Carrie Menkel-Meadow, *Pursuing Settlement in an Adversary Culture: A Tale of Innovation Co-Opted or "The Law of ADR,"* 19 Fla. St. U. L. Rev. 1.

11. Although many view dispute resolution as mediation's principal goal, the opportunities of mediation extend far beyond settlement of the specific dispute. See discussion, *infra*.
12. *Folb v. Motion Picture Industry Pension & Health Plans*, 16 F. Supp. 2d 1164 (C.D.Cal. 1998).
13. These are composites and do not represent the facts of actual disputes.
14. Indeed, counsel may have an obligation under the Code of Professional Conduct and ethical rules to advise a client of litigation alternatives. See endnote 3 above.

Based in New York, Mr. Deitz has successfully resolved over 900 mediations of entertainment, copyright, securities, employment, class action, and other commercial disputes throughout the United States and internationally. Mr. Deitz served as Chair of the Committee on Alternative Dispute Resolution of The Association of the Bar of the City of New York and Chair of the Mediation Subcommittee of the National Association of Securities Dealers, Inc.'s National Arbitration and Mediation Committee. He is Co-Chair of the subcommittee for commercial disputes of the State of New York Unified Court System Advisory Committee on Alternative Dispute Resolution; Special Master of the Appellate Division of the Supreme Court of the State of New York; Distinguished Neutral of the CPR International Institute for Conflict Prevention and Resolution, and a frequent author and speaker on mediation and arbitration. Mr. Deitz is a director and member of the Executive Committee of Seeds of Peace, a not-for-profit organization that introduces dispute resolution skills to the children of nations in conflict. A version of this article was originally published by The American Bar Association.

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Copyright Functionality: When a Shoe Is Not a Shoe!

By Joel L. Hecker

It is undisputed that use of a two-dimensional copyrighted photograph or work of art to create a three-dimensional rendering of the photograph or work of art can constitute copyright infringement. An obvious example of this was the case *Rogers v. Koons*,¹ where Jeff Koons created a three-dimensional sculpture of puppies sitting on a bench that was directly derived from a copyrighted photograph. A new case has revisited this issue by holding that a three-dimensional utilitarian object, a shoe, which is not copyrightable in and to itself, cannot form the basis for copyright infringement. Thus, a shoe might not be a shoe after all!

Background Facts

The case, *Eliya Inc. v. Kohl's Department Stores*,² brought in the United States District Court for the Southern District of New York, involved the following facts:

The plaintiff, Eliya Inc. ("Eliya") is a company which designs and manufactures shoes. In 2004, it created an original shoe design consisting of patterned stitching on the front and sides of the shoe, a strap with visible stitching, and a sole with a pattern of spots that wrapped around the shoe, extending up the back, sides, and front.

Eliya called this design (with some originality) "SHOE" and registered the copyright to it with the United States Copyright Office. Thereafter, it fashioned a line of shoes based on the SHOE design, which it has been promoting and selling since August 2004.

In October 2005, when Eliya became aware that Kohl's was manufacturing and selling a line of shoes using a substantially similar design, Eliya sent the usual cease and desist letter. After Kohl's refusal to accede to Eliya's demands, plaintiff commenced this lawsuit, alleging copyright infringement as well as various trademark infringement-related claims.

Kohl's moved to dismiss the case for failure to state a cause of action under each of the seven legal theories. United States District Court Judge Lynch dismissed the copyright infringement claims but denied the motion as to the trademark-related claims. This article will address the copyright aspects of the case.

Copyright Infringement Claims

To state a claim for copyright infringement, a plaintiff must establish that it owns a valid copyright and that there was unauthorized copying of the copyrighted work. It was conceded for purposes of the motion to dismiss (where the facts must, of course, be interpreted mostly

favorably to a plaintiff) that Eliya had a valid copyright registration. However, that registration was, as established by the certificate itself, for a two-dimensional rendition of the shoe design from a side view. The details of the design were visible in the drawing, including the strap.

The Court stated that, strictly speaking, Eliya did not allege that Kohl's copied the two-dimensional registered design but rather that Kohl's created a functional three-dimensional shoe. The Court further observed that Eliya had no copyright in an actual shoe, only a two-dimensional representation of one.

In support of this finding, the Court looked to the language of the Certificate of Copyright Registration, which stated that the nature of the work was an "etching." In addition, plaintiff checked the box on the certificate for a two-dimensional artwork.

However, the Court specifically pointed out that this creation of a three-dimensional object from a two-dimensional etching did not, in and of itself, doom the infringement claim under existing law, as we saw in the *Rogers v. Koons* puppies situation.

The Court cited to a United States Second Circuit Court of Appeals decision in *Knitwaves, Inc. v. Lollytogs Ltd.*,³ where Knitwaves copyrighted designs for two sweaters, one with a "puffy leaf" pattern and the other depicting a squirrel and leaves. That Court held that Lollytogs had infringed these copyrighted designs by reproducing the leaves and squirrels on its own line of sweaters.

The Court in the SHOE case, while agreeing with the *Knitwaves* decision, refused to extend it. It stated that *Knitwaves*, while preventing the reproduction of the squirrels on the surface of sweaters, clearly did not prevent that defendant from creating an actual squirrel or an actual leaf which resembled those depicted in the actual designs.

Concept of Functional Articles

The Court then discussed what was actually the heart of the case, that copyright does not extend to an intrinsically utilitarian functional article. That is to say, an article, which in and of itself has a useful function—such as a shoe—is not protected under copyright absent the ability to use that article separate and apart from the copyright claim itself.

An example used by the Court to explain this differentiation, from the United States Supreme Court decision in *Mazer v. Stein*,⁴ is a lamp which has an artistic base. In

that situation, the copyright protected base could actually be physically separated from the useful article (the lamp) and be capable of existing independently as a work of art. This legal principle had previously been stated in another case in the following terms: "When a component of a useful article can actually be removed from the original item and separately sold, without adversely impacting the article's functionality, that physically separable design element may be copyrighted."⁵

Coming back to the case at hand, the Court found that the design elements in SHOE were neither physically nor conceptually separable. The Court further explained that removing the strap, stitching, or sole of a shoe would, to some degree, adversely impact use of the shoe, either because it would fall off or fall apart.

To close the circle, the Court stated that unlike a fanciful design on the base of a lamp, or the ornamentation on a belt buckle, the features of the SHOE design were not purely aesthetic and therefore not sufficiently independent of its functional purpose as a shoe. The Court concluded that the design feature of SHOE did not represent independent artistic expression as would images displayed on the shoe's surface. Rather, these features reflected design decisions regarding how best to implement a shoe's functional purpose.

Conclusion

The concept of intrinsic utilitarian function in copyright law is simple to state but obviously not simple to administer. The attempt by the plaintiff to extend the SHOE design, which was copyrightable, to the actual shoe in which the artistic designs were, in effect, necessary elements of the product, was rejected by this Court.

Accordingly, a SHOE is not always a shoe!

Endnotes

1. *Rogers v. Koons*, 751 F. Supp. 474 (S.D.N.Y. 1990), *aff'd*, 960 F.2d 301 (2d Cir. 1992), *cert. denied*, 506 U.S. 934, 113 S.Ct. 365 (1992).
2. *Eliya Inc. v. Kohl's Department Stores*, U.S. District Court, Southern District of New York, Docket No. 06 Civ. 195, Judge Lynch, (N.Y.L.J., September 21, 2006, p. 26, col. 3).
3. *Knitwaves, Inc. v. Lollytogs Ltd.*, 71 F.3d 996, 999 (2d Cir. 1995).
4. *Mazer v. Stein*, 347 U.S. 201 (1954). Another example given by the Court is where a belt buckle, which is obviously a useful article to hold up an item of clothing, is conceptually separable if the design reflects purely aesthetic choices independent of the buckle's function.
5. *Chosun International, Inc. v. Christa Creations, Ltd.*, 413 F.3d 324, 329 (2d Cir. 2005).

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Copyrights as Collateral: Addressing the Reversion Risk

By Michael S. Poster

Intellectual property is frequently used as collateral in lending transactions. For certain borrowers, especially those in the entertainment industry, their copyrights are among their primary assets. However, many lenders are unaware of the termination and reversion rights which exist under the United States Copyright Act. Without taking these rights into account, lenders may structure loans with durations that go past reversion dates and with collateral that may cease to be owned by the borrower. This means that lenders may realize far too late that a significant piece of collateral may have suddenly disappeared, thus leaving them undercollateralized and causing borrowers to possibly be in default of loan covenants. This article outlines the primary termination rights that exist under the Copyright Act, including who may exercise these termination rights, when they may be exercised and the effects of termination.

There are four primary milestones in the life of a copyright that need to be considered: Years 28, 35, 56 and 75.

Duration of Copyright Protection

Copyrights are often grouped into “pre-1978” and “post-1978” works. This is because the Copyright Act of 1976 (the “1976 Act”) fundamentally changed many of the laws concerning the ownership, maintenance, duration and control of copyrights. Prior to the 1976 Act, copyrighted works were governed by the Copyright Act of 1909 (the “1909 Act”). The 1909 Act provided that copyrights were entitled to protection for 28 years; at the end of year 28, the author or owner needed to file a renewal application to maintain protection for an additional 28-year period (the so-called “renewal term”). The 1909 Act was later amended to extend the renewal term to 47 years, which was further extended to 67 years following passage of the Sonny Bono Copyright Term Extension Act in 1998. For post-1978 works, the term of copyright lasts for the life of the author, plus 70 years. One exception to this rule is copyrights created as “works made for hire” (discussed below), which have a fixed term of protection of 95 years from creation.

Works Made for Hire

These milestones—or any concerns regarding copyright reversions or terminations to individual authors—generally do not apply to “works made for hire.” Works made for hire (or “works for hire”) are a class of copyrighted works that are created “by an employee within the scope of his or her employment” or are “specially ordered or commissioned” for use in certain classes of works.¹ Works made for hire are deemed to have been

created from inception by the employer of the individual actually creating the work, and are not treated as having been transferred or assigned by such individual. Therefore these works are not subject to reversion to or termination by such individual. In order for a specially ordered or commissioned work to be considered to be a work made for hire, the individual creator and the employer *must* execute a written agreement to treat the work in this manner.² For this reason, many entertainment, media, software and other creative services companies require that employees and independent contractors enter into written work-for-hire agreements, and an important part of the legal due diligence process regarding copyrights is confirming that the chain of title for the works includes appropriate work-for-hire agreements, where applicable.

Year 28

As discussed above, the 1909 Act provided that an author needed to file a renewal application to maintain protection for the renewal term. Failure to file the renewal application resulted in the work falling into the public domain. The 1909 Act was later amended to remove the requirement that a renewal application be filed for works first published beginning in 1964 (i.e., works for which the initial 28-year period ended beginning in 1992). The 1976 Act eliminated the need for renewal filings on newly created copyrights. However, anyone valuing a catalog containing pre-1964 works (or works based on or derived from pre-1964 works) should check if renewal applications were timely filed to be sure the works, or underlying works, have not fallen into the public domain. This could be important if a client is considering investing in a catalog which contains films based on books or plays, for example, that have fallen into the public domain, because anyone can create new films based on the same underlying material, which could affect the market value of the earlier films.

A second important issue related to the 28-year milestone for pre-1978 works is whether the author died prior to the end of year 28. Under the 1909 Act, if an author granted the rights in a work for the renewal term, that grant did not vest with the grantee until the renewal term actually commenced (i.e., the beginning of year 29). As a result of the United States Supreme Court’s decision in *Stewart v. Abend*,³ if such an author died prior to the end of year 28, all of the rights in the work immediately and entirely reverted to the author’s heirs, regardless of any agreements between the author and the grantee. The reverted rights include, among others, the right to create and exploit derivative works (such as a film script based on a book or play).⁴

Abend is still very relevant today, especially for anyone lending against catalogs of motion pictures, television properties, theatrical productions or other derivative works. A factual and legal analysis needs to be undertaken to ensure that the rights to pre-1978 underlying works (e.g., scripts, books and articles) have not reverted to the original authors, and if they have, what effect this reversion will have on existing derivative works. If such a reversion has occurred, the owner of the derivative work (e.g., a film studio) will need to obtain a new grant of rights from the heirs of the author of the underlying work (e.g., the story on which the film is based) in order to continue to exploit the derivative work, including the right to make remakes and sequels. It should be noted that *Abend* issues only apply to pre-1978 underlying works, because the 1976 Act created a single term of copyright and abandoned the renewal concept for post-1978 works.⁵ Also important is that the publisher of a work which reverts under the *Abend* scenario retains the right to collect income with respect to pre-reversion exploitations of the work.⁶ For example, if a 1977 musical composition reverts to the composer's heirs in 2004, the publisher of the composition may continue to collect royalties from exploitations of the composition, such as public performances, synchronizations and mechanical reproductions, which occurred up until the time of the reversion. Any exploitations occurring after the reversion, even exploitations of existing pre-reversion arrangements, or for which the date of exploitation cannot be determined, are within the control of the composer's heirs.⁷

Year 35

As part of its overhaul of U.S. copyright law, the 1976 Act created a new series of statutory termination rights for authors and other grantors. These rights were created to help authors and other grantors by giving them a chance to reclaim rights which they might have given away cheaply at an earlier date due to a lack of bargaining power at the time. These rights do not apply to the creation as works made for hire, since the "author" of the work is deemed to be the party who commissioned it, or for conveyances by will.

The first opportunity for authors to exercise these rights is in between 35 and 40 years after a grant of rights.⁸ This termination right applies to any exclusive or non-exclusive grant of rights on or after January 1, 1978, and may only be exercised by the author(s) of the work, or the author's heirs (if the author is deceased). For example, if an author granted publication rights to a publisher in 1985, the author would have the right to terminate this grant during the period from 2020 through 2025. Subsequent grantees (e.g., a publisher to whom the author granted rights) may not exercise this right, other than executors or administrators of the author's estate. The termination right is exercised by giving notice to the grantee between two and ten years in advance of the effective date of the termination (i.e., between two and

ten years ahead of the date between years 35 and 40 in which the rights will revert). For example, if the author described above wanted to terminate the grant of rights in 2020, the author would be required to provide notice to the publisher between 2010 and 2018.

The effect of the termination is that any and all rights under copyright revert to the author(s) of the work. This termination is as simple as it sounds: any grantee (e.g., a publisher or record company) which exploits a copyrighted work and which is the recipient of a termination notice must cease exploiting the work on the termination date. One notable exception to this broad reversion addresses the *Abend* case: The statute provides that derivative works prepared under the original grant may continue to be exploited, but this does not include the right to create new derivative works based on the original work. For example, the result in *Abend* could not occur following a termination under the 1976 Act because the right to continue to exploit derivative works is preserved; however, the owner of a work based on an underlying work for which rights have been terminated could not create a new sequel, remake or other new work based on the underlying work.

A key issue to consider is that this termination right survives *notwithstanding any agreement to the contrary*. In other words, even if an author signed a contract granting rights for the full duration of copyright protection, including renewals, the author may still exercise these termination rights. Moreover, even if an author signs an agreement not to exercise these termination rights, such author may exercise them nonetheless. It remains untested as to whether a new agreement with an author purporting to grant additional rights (assuming there are rights which remain to be granted) would be considered a completely new grant which would effectively delay the exercise of termination rights for an additional 35 years.

Year 56

The 1976 Act provided for another termination right between 56 and 61 years after the date when copyright was originally secured.⁹ This termination right operates similarly to the year 35 termination right discussed above, but with a few key differences.

The year 56 termination right is limited to pre-1978 grants of rights, unlike the year 35 right which applies to grants made on or after January 1, 1978. However, unlike the year 35 termination right, the timing of the exercise of the year 56 termination right is based on the year in which the copyright was *secured*, not the year in which the rights were granted to a third party.

The year 56 termination right is exercisable by a greater range of rights holders. Unlike the year 35 termination right, the year 56 termination may be exercised by any grantee, in addition to an author (or author's heirs). However, the exceptions for works made for hire

and conveyances by will remain applicable. As with the year 35 termination, the year 56 right is exercised by giving notice to the grantee between two and ten years in advance of the effective date of the termination. For example, if the publisher of a 1960 song wanted to terminate an administration agreement for such song, the publisher would have the right to do so between 2016 and 2021. In order to effect such termination in 2016, the publisher would be required to provide written notice to the administrator between 2006 and 2014.

The effect of the termination is identical: a complete reversion of all rights granted under copyright to the grantor or author (depending on who exercised the right). The exceptions for existing derivative works also apply in this scenario. As with the year 35 termination right, the year 56 right may be executed regardless of any agreement to the contrary. However, if the termination is between a grantor and the original grantee (or its successor in interest), following delivery of the notice of termination (but before the termination has become effective), the grantor and such grantee may enter into a new grant of rights which will survive termination. The “original grantee” distinction could be important in a lending context because it could allow a borrower/publisher to negotiate for a new grant of rights from an author (thus avoiding a breach of a covenant), but it might not be available to a lender following foreclosure on the copyright collateral.

Year 75

The 1976 Act granted a final termination right between 75 and 80 years after the copyright was originally secured.¹⁰ This right operates nearly identically to the year 56 termination right, but its application is limited to a narrower class of works.

As with the year 56 termination, the year 75 termination is exercisable by the author (or the author’s heirs) or subsequent grantees and has the same effects as the year 56 termination.

In addition, the year 75 termination is limited to pre-1978 grants of pre-1978 works, and the timing of the termination right is based on when copyright was originally secured. However, the year 75 termination is limited to works which were in their renewal term (i.e., after their first 28 years of copyright) on October 27, 1998, and for which the year 56 termination window has expired. For example, the heirs of an author of a 1938 play who granted print publication rights in 1955 would be able to exercise termination rights between 2013 and 2018 because the play was already in its renewal term on October 27, 1998, and because the termination rights for years 56 to 61 had already expired. In order to effect such termination in 2013, the heirs would need to provide notice to the publisher between years 2003 and 2016.

Conclusion

Clearly, anyone structuring a loan which is secured in whole or in part by copyrights needs to be sure that the structure accounts for the terminations discussed above. The loss of a major copyright by a borrower could have devastating effects on the borrower and could result in the borrower’s inability to repay the loan, the violation of loan covenants and potential exposure to the lenders. It behooves anyone involved in these processes to become familiar with these termination schemes and to retain advisors who have the knowledge and experience to assess the termination risks associated with particular copyrights. The prudent lender must assume that well-established authors and their advisors are fully aware of the rights described above and when and how they may be exercised, and that they will likely exercise these rights (or use them as leverage in negotiations) when the opportunity arises. This should be taken into account in assessing the long-term value of any copyrights.

Endnotes

1. A commissioned work which meets the criteria discussed above may be considered a work made for hire if it is used “as a contribution to a collective work, as part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas.” (17 U.S.C. § 101).
2. *Id.*
3. 495 U.S. 207, 110 S. Ct. 1750 (1990).
4. The *Abend* case involved the rights to a short story which was the basis for the film “Rear Window.” Although the author granted rights to the renewal term, he died prior to its vesting. As a result, the rights to the story—including the right to exploit the script or the film based on the story—reverted to his heirs. Any further exploitations by the film studio were deemed to be copyright infringement. This concern over the vesting of renewal rights and their effect on derivative works is known among practitioners as an “*Abend* issue.”
5. The elimination of the need for a renewal filing for post-1964 works discussed above does not affect an *Abend* analysis. The elimination of the renewal filing was intended to help authors to avoid situations where works fell into the public domain because of the failure to timely file the renewal application, which was generally seen as a formality. The issue of a work falling (or not falling) into the public domain is separate from determining ownership of the rights in the work during the renewal term.
6. *Mills v. Snyder*, 469 U.S. 153 (1985).
7. *Woods v. Bourne Co.*, 60 F.3d 978 (2d Cir. 1995).
8. 17 U.S.C. § 203. The statute provides for variation of this timing depending on whether the work was published.
9. 17 U.S.C. § 304(c).
10. 17 U.S.C. § 304(d).

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Copyright at a Crossroads, Again! The Copyright Modernization Act

By Michael Einhorn, Ph.D.

The House Judiciary Subcommittee on Courts, the Internet, and Intellectual Property recently came to a temporary halt in its proposed new legislation—the Copyright Modernization Act of 2006 (“CMA”)—that would, *inter alia*, alter substantially the legal architecture under which digital music services may license reproduction rights for musical compositions.¹ If enacted, Title I of the proposed bill would have put into place a compulsory licensing mechanism by which music service providers could contract for all rights related to the reproduction and distribution of any musical composition used in any streaming or downloading activity. At a markup on September 26, co-sponsor Lamar Smith (R-TX) informed the full House Committee on the Judiciary that the bill would not be reported for a full vote. While Rep. Smith expressed confidence in carrying the Committee, he was less certain about victory on the House floor.² The sponsors promised a return next year.

“[T]he Committee here entirely reverses a previous historic consensus held—at least at variant points—by the record labels, music publishers, and the Copyright Office itself—that the compulsory licensing of musical compositions should end.”

This article examines how the impasse arose and reviews the terms of the prospective Copyright Modernization Act. If enacted, the new law would put into place an intricate legal and regulatory structure that could largely supplant the need for market valuations of digital rights for musical works. It would greatly extend the authority of the Copyright Office and its new Copyright Royalty Boards. In so doing, the Committee here entirely reverses a previous historic consensus held—at least at variant points—by the record labels, music publishers, and the Copyright Office itself—that the compulsory licensing of musical compositions should end.

The Copyright Matrix

A musical composition is the underlying song written by a songwriter(s) and owned by a music publisher(s) to whom copyright(s) is passed.³ The composition (or work) is legally distinct from the sound recording, which is owned by the label and which bears the track performed

by a recording artist(s). Since rights in compositions and sound recordings are held by different parties, each Internet service provider must now arrange to get permissions from at least two distinct entities—publisher and label.⁴

As a legal matter, Section 106 of the Copyright Act of 1976⁵ grants to owners of musical compositions the rights to reproduce the copyrighted work in copies or phonorecords, prepare derivative works, and distribute recordings of the work to the public; the combination is termed the *mechanical right*.⁶ The Copyright Act also protects the related master use rights inherent in the reproduction and distribution of the sound recording that may be imprinted on vinyl, disks, tapes, or electronic media.⁷

In this historical world of analog distribution, record labels obtained mechanical rights in musical compositions from publishers ostensibly at the outset of production of the master recording. With mechanical rights secure, the label then recorded tracks, manufactured product, and sold units in stores and clubs. The label then passed negotiated reproduction royalties back to the publisher through a *mechanical rights organization* (“MRO”) assigned by the publisher to handle collections. The largest MRO is The Harry Fox Agency, Inc. (“HFA”), which is a division of the National Music Publishers’ Association, Inc. (“NMPA”). HFA domestically represents the song catalogs of almost 28,000 publishers, about 80 percent of the industry.⁸

As a rights owner, the publisher now has exclusive authority to license first-time reproductions of the work for any album release. Once a phonorecord of a composition is legally distributed in domestic markets, other performers and labels may legally record the same song without direct publisher permission. Secondary users of musical compositions must pay statutory fees to publishers that are established by a rate tribunal under 17 U.S.C. § 115.

Compulsory Licensing

The compulsory mechanical license for musical compositions was established in 1909. The legal provision emerged after the Supreme Court ruled in 1908 that player piano rolls were not legally “copies” of the original sheet music that publishers sold to live performers.⁹ Without copyright protection, music publishers could not receive payment for use of their tunes in the new mechanical technology, which was feared to displace the need for live performers and the sheet music they purchased from

publishers. To backfill the gap, Congress modified the Copyright Act in 1909 so as to require payments for the affected compositions, and to allow—without publisher approval—secondary uses of musical works so long as a compulsory license fee was paid.

The statutory rate was fixed at two cents per track, where it remained until 1978; it has been adjusted triennially since. Since January 2006, the statutory mechanical royalty fee has been the larger of 9.1 cents per song or 1.75 cents per minute.¹⁰ First time reproductions for independent publishers are commonly benchmarked to the statutory rate as well; recording artists often agree to 75 percent of the rate for their controlled compositions.¹¹

For all intents and purposes, the statutory license outgrew any real economic justification by the 1990s. For the lucky songwriter who created a popular tune, the statutory ceiling denied him the right to earn a premium rate for his accomplishment, and an offsetting compensation for the many other works that had no initial or ongoing appeal. Moreover, if a writer or publisher was adverse to a particular recorded use, or otherwise demanding of a high fee, the prospective artist/label could expectedly find other willing providers of suitable cover material, as publishers compete vigorously to place tracks on record albums.

In 1993, staff members of the House Subcommittee attempted to eliminate the compulsory license¹² with the concurrence of the Copyright Office.¹³ Nonetheless, some publishers and writers came to support the continuation, which they appreciated as a handy benchmark for licensing new songs to record labels.¹⁴

The Digital Performance Rights in Sound Recordings Act of 1995 (“DPRSRA”)¹⁵ then extended statutory mechanical licenses to all musical compositions that were imprinted in digital phonorecord deliveries (“DPDs”)—i.e., full downloads.¹⁶ As with physical reproductions, statutory licenses for a work can be activated only after a legitimate recording of the composition is distributed to the public in some other medium, usually CDs.¹⁷ The royalty rate for all digital deliveries made on or after January 1, 1998, was to equal the rate applied to physical reproductions (i.e., the “Physical Rate”).¹⁸

With present statutory rates on musical works, compensation on Apple’s iTunes now works as follows.¹⁹ The music service sells each download retail for a unit price of 99 cents. Of this total, some 65 cents are gross revenues recouped for the label. Of this total, some 9.1 cents covers the mechanical copyright in the musical composition. The remaining 56 cents are passed to the label to cover rights in the sound recording, which cover artist royalties, production costs, marketing, overhead, and label profits.²⁰ The mechanical payment for the composition then represents 14 percent (=9.1/65) of the label’s incoming licensing fee for DPDs on iTunes.

The Negotiating Impasse

While extending compulsory licensing to new DPDs, the DPRSRA did not add corresponding statutory licenses in two other delivery technologies—limited downloads and “on demand” streams—that some digital providers (such as Rhapsody and Yahoo!) now predominantly provide.²¹ Like DPDs and CDs, these technologies make music available at listener request and therefore compete implicitly with the choice-driven permanent download.

To accommodate the additional use rights for compositions in interactive streaming and limited download, the Recording Industry Association of America, Inc. (“RIAA”), NMPA and HFA reached an interim agreement in 2001 by which the publishers agreed to allow labels to embed works in tracks sold to the competing services.²² With an agreement to keep negotiating for a final deal, the record labels came to pay specified recoupable advances (\$1,000,000 for the first two years, \$62,500 for each additional month) and, when eventually determined, suitable royalties retroactive to the beginning of 2001.

Due to differences in legal interpretation, the labels and publishers were not able to come to a final agreement to convey needed rights. As a legal matter, the transmission of any content from an originating server to a hard drive necessarily implicates ephemeral and incidental reproductions in the server, cache, and random access memory that have no independent values outside of enabling digital transmission. The question then is what value to assign to these particular reproductions.

Record labels here followed the recommendations of the Copyright Office, which contended that reproduction rights in interactive streaming qualify for fair use, if not a statutory exemption.²³ The Office’s conclusion concurred with that of a European Union Directive, which had earlier exempted transient copies from the reach of the reproduction right,²⁴ and a number of consumer and technology advocates—such as Public Knowledge, the Electronic Frontier Foundation, and Consumer Electronics Association.

For their part, music publishers contended that the resulting interactive uses would enable full access to the work at any moment chosen by the user. With the build-out of wireless receiving devices, interactive streams would increasingly substitute for store sales and downloads; and material would be stored on centralized servers instead of hard drives and portable devices. From the publishers’ perspective, it was then appropriate to assign to the reproduction of an interactive stream a value that was congruent with its true worth as an economic substitute. The publishers’ position was apparently upheld legally by a Ninth Circuit decision involving software copies made into random access memory during upload.²⁵

The critical difference in interpretation led to a negotiating impasse between labels and publishers who came

to see the relative value of temporary reproductions quite differently. From the label position, all streaming transmissions are merely performances, and thus entitled only to the lower royalty fees associated with this lesser activity. From the publisher position, the same transmissions rightfully implicate reproduction rights, and were then cued off of royalties charged for full downloads.

From an economic perspective, the publishers are correct. Downloading and interactive streaming are economic substitutes; consumers choose among substitutes based on relative price ratios. To ensure that the relative price ratio is not distorted, it is then appropriate to affix license fees on competing activities in an equitable fashion. That is, copyright licenses should fix equal percentage fees on streaming and download revenues in the same amount; e.g., 14 percent of sound recording fees.²⁶

If a fictional legalism is enforced to vacate the reproduction right in the interactive stream, negotiating parties and regulators lose any real possibility of coordinating the related rights to one another. As copyright owners, music publishers would be the apparent losers if consumers shifted to interactive streaming, a phenomenon that they would have every financial reason to resist. It is then understandable why an impasse would result.

Legislative Resolution

As negotiations failed, record labels became unable to provide the same bundled rights for streaming or limited download services as they provided for full downloads. The market contained an evident disparity in the ease by which musical compositions could be licensed for contending online activities.²⁷ The consequences were predictable—smaller catalogs, consumer confusion, diminished industry profits, fear of vicarious infringement, heightened legal risk, and higher administration costs.

Indeed, senior executives of three online music services—RealNetworks, Napster and Sony Connect—agreed that licensing difficulties—not piracy—represented their single biggest business problem.²⁸ By the Digital Media Association's ("DiMA") count, its member services have been unable to acquire publishing licenses for more than 50 percent of the compositions that its members seek.²⁹ This contrasts with the aforementioned download services (e.g., iTunes), which have access to all prerecorded works through the statutory royalties established in DPRSRA.

To resolve the impasse, in 2004 the House Judiciary Subcommittee on Courts, the Internet, and Intellectual Property began hearings on legislative reform. Over the next three years, the Subcommittee heard from representatives of NMPA,³⁰ DiMA,³¹ and RIAA,³² as well as the Copyright Office.³³ On June 8, 2006, the Subcommittee approved a draft bill—the § 115 Reform Act ("SIRA")—which was co-sponsored by Reps. Lamar Smith (R-TX)

and Howard Berman (D-CA). The SIRA bill was combined on September 12 with the Orphan Works Bill and an additional provision for Copyright Protection Resources, to compose the Copyright Modernization Act of 2006 (H.R. 6052).³⁴ On September 26, the co-sponsors declined to report the bill out to the House floor for a debate and vote in the present Congressional term.

Now stretching to a full 85 pages of text, Title I of the CMA contains the modified version of the SIRA. Section 102 of the CMA would modify § 115(e) of the Copyright Act by establishing for music service providers a one-stop license—or "blanket license" § 102(e)(2)—for all mechanical rights in musical compositions related to the making and distribution of general and incidental digital phonorecord deliveries made available in the form of full downloads, limited downloads, interactive streams, and "any other form constituting a digital phonorecord delivery or hybrid offering." § 102(e)(1)(A).

"As copyright owners, music publishers would be the apparent losers if consumers shifted to interactive streaming, a phenomenon that they would have every financial reason to resist."

At present, the licenses would cover all reproduction rights related to digital delivery, including final copies made to hard drives as well as temporary copies made at the server, cache, and buffer. § 102(e)(1)(B). Although reproductions made during the course of a transmission remain theoretically licensable, users are granted an exemption from paying license fees. § 102(e)(3). Royalty amounts due for all other uses will be valued and paid retroactively to January 1, 2001. § 102(e)(6).

Under the terms of the present bill, the Copyright Office would appoint one General Designated Agent ("GDA"), which would be empowered to negotiate, litigate, and collect on behalf of publisher members that choose to join it. The GDA would be administered by the largest mechanical rights organization (as determined by royalties over the previous three years) and would be governed by a Board of Directors consisting of three publisher members and two professional songwriters that would be designated by the Copyright Office for staggered three-year terms. § 102(e)(9)(B).

The GDA would be appointed to blanket license to each digital music service provider a catalog containing all of the musical compositions of its registered members. However, the GDA may not strike blanket licenses with record labels or any other user entity. § 102(e)(4). Prospective licensees could also file individual applications for contracts related to specific identified activities

(e.g., DPDs, limited downloads, streams), which must be identified beforehand and not modified without notice. § 102(e)(4).

The Act also allows the Copyright Office to empower additional Designated Agents (“DAs”) to serve publishers that are not part of the GDA. An additional DA can be so qualified if it can demonstrate that its prospective total membership accounts for at least a 15 percent share of mechanical royalties collected during the previous three-year period. § 102(e)(9)(C). Publishers then presumably have a choice of as many as seven DAs.

Each rights owner must register its copyrighted works with exactly one DA in any year; the GDA is empowered to license publisher catalogs not otherwise registered. § 102(e)(9)(E). Licensees shall pay royalties to the DAs at negotiated rates and terms, with backup binding arbitration through the appointed judges of the new Copyright Royalty Board. § 102(e)(9)(D). DAs will pay royalties to members based on reported uses from each licensee.

Each DA may negotiate, arbitrate, collect, and engage in legislative efforts on behalf of member publishers. § 102(e)(9)(D). The costs of each agency would be shared between the digital music providers and the music publishers. § 102(e)(12). The Copyright Royalty Board can initiate ratemaking hearings no later than July 1, 2007, for all use activities not previously contracted for or in the process of prior arbitration. § 102(e)(8)(C). The Act also sets forth a process for Interim Rates to cover terms for contracts under arbitration. § 102(e)(8)(D).

Disputes among publisher members regarding the allocation of collected royalty funds are to be resolved within each Agency by a 12-member Dispute Resolution Board, which would include six publisher members from the DA and six independent songwriters appointed from outside. § 102(e)(11)(C). All members are to be named by the Copyright Office subject to nominations from the respective industry sectors. The bill prescribes numerical quotas to ensure some diversity between large and small publishers.

While a publisher may register its works with no more than one DA in any year, it may switch agencies at the end of each year. § 102(e)(9)(E). If dissatisfied with the particular operations of any DA, a member publisher also may come to negotiate rights for catalog involved in any particular activities licensed by an individual music service provider. § 102(e)(9)(E)(iv). In such a case, the DA must determine the value of the transaction and enact a carveout on the blanket fees charged to the affected service. § 102(e)(9)(E)(iv).

Performing Rights

The Act would not cover either sound recording rights controlled by the label, or any additional

performance rights in musical compositions (§ 103), which would be maintained. The latter requires some explication.

As a technical matter, each stream or download on a digital medium necessarily implicates a wired or wireless transmission. As a legal matter, such transmissions implicate a separate statutory construction, the performance right, which is *distinct from the mechanical rights described above*.³⁵ Purposely *untouched* by the legislation (§ 103) is the additional performance right associated with each musical composition.

In the analog world, reproductions and performances were distinct; the former came with the CD and the latter with a radio or television broadcast. The digital world is entirely reversed; both performance and reproduction are needed to enable any digital transmission. As both are necessary, there is then no separate value to either, and no meaningful way to apportion their relative worth.

The public performance right is now negotiated and collected separately by three contending performing rights organizations (“PROs”)—the American Society of Composers, Authors, and Publishers (“ASCAP”), Broadcast Music, Inc. (“BMI”), and SESAC.³⁶ As the agency catalogs are largely nonoverlapping, each digital music provider now must deal with each of these organizations.³⁷ If the CMA is passed, this will continue; i.e., each music provider would need to negotiate contracts with DAs, record labels, and PROs.

Since reproduction and performance are necessarily duplicative in digital transmissions, there is no purpose served in the duplex licensing of either component. The law could have immediately eliminated the problem by combining the two legal constructions from the analog world into a “making available” right, which is the complete and self-contained right to transmit a work through a wired or wireless digital medium. Such a right would be analogous to a digital transmission right advocated in the Information Infrastructure Task Force Paper of 1995.³⁸

Valuation

As pointed out by the Copyright Office, the present bill contains no procedural standards for valuing the catalogs of different DAs.³⁹ If two different DAs are to negotiate or litigate proper licensing fees before a Copyright Royalty Board, the respective amounts due to each agency should be based on some measure of relative worth.

How should this be done? Would it be proper to compare the relative number of downloads, streams, or some weighted composite of the two? How about the size of the total catalog that each publisher controls? Would airplay or physical sales have any consideration to reflect the overall appeal of the works? It is difficult to imagine how anyone could assign values to a catalog without

having any market history or ongoing awareness of its independent worth in other comparable licensing situations involving digital music.⁴⁰

Also lacking are standards for the eventual distribution of collected royalties to the members of each agency. Without any norms, the matters in each DA will be handled by a Dispute Resolution Board composed of six publishers and six songwriters appointed by the Copyright Office. To determine amounts due to each prospective claimant of agency royalties, the adjudicating parties would need to determine the relative worth of each member catalog, an issue made particularly difficult by a fixed size of the royalty pot. This also would be necessary to establish the worth of any carveout, as well as appropriate increases and decreases in annual license fees to compensate for publisher movement between DAs.

Without valuation standards, there will be difficult problems of allocation and resolution that would not so easily be resolved by any adjudicatory board of economists or accountants, let alone publishers and songwriters. It is difficult to see why a large publisher would continue to subject its disputes to decisions of a 12-member Board. It may more directly resolve its difficulties simply by licensing major parts of its catalog to individual services. This would mean that the DAs would dissolve.

Licensing Interfaces

If the bill is passed, copyrighted music for interactive uses alone will see four licensing interfaces (not counting the additional interfaces in noninteractive broadcast and digital transmission). As explained above, each service provider in need of a full catalog of musical compositions will negotiate with each publisher or DA in order to obtain *mechanical rights* for musical compositions. Second, each service provider will need to negotiate again with ASCAP, BMI, and SESAC to obtain the corresponding *performance rights* for the exact same works. Third, each service provider will also need to negotiate yet again with each record label in order to obtain the corresponding *reproduction right in the complementary sound recording*. Finally, each record label will continue to negotiate pass-through licenses with each publisher to cover the use of compositions that appear on physical product distributed through stores and record clubs.

But for the interjection of additional licensing strata between service providers and publisher intermediaries, publishers would expectedly have made all digital transmission rights available to labels much as they now accommodate store and club sales—i.e., at the time an album or track is first recorded. Generally speaking, these licenses can be transactional (i.e., per unit of use or subscriber), full blanket (i.e., full use deals that allow

the licensee the complete rights to use a catalog for any activity), or limited blanket (e.g., streaming only). As with movies, licensing here would be market-mediated without any need for government intervention.

Music publishers objected to comprehensive pass-through licensing for digital reproductions because, *inter alia*, they feared label accuracy and the resulting speed of collection and payment.⁴¹ However, with digital technology, publisher and label could have agreed to allow an independent trusted collection organization (such as Sound Exchange) to monitor all relevant use data of tracks, much as is now done for noninteractive streams used by webcasters. The same organization could have been empowered to collect royalties, audit relevant accounts, and dispense dollars.

“The present legislative impasse may give all parties several months to catch their breath and reassess their faith.”

Conclusion

With a profusion of legal definitions, the music industry is reaching what Harvard’s Michael Heller and Nobel Laureate James Buchanan term an anti-commons,⁴² the consequence in IP negotiation that results when the rights to complementary assets are diversely held. As a consequence, any one rights owner can hold up the sale of the final product, and extract some amount for its consent. The inestimable loss here appears in the foregone good deals that never come to be—apparently the case in 2001 through 2006.

The proffered solution of the CMA—compulsory licensing and complex administration—should raise some eyebrows. The mechanics of policymaking should not be assumed to be trivial. Quoting the seminal researcher Elinor Ostrom, “Instead of presuming that optimal institutional solutions can be designed easily and imposed at low cost by external authorities, . . . ‘getting the institutions right’ is a difficult, time-consuming and conflict-invoking process.”⁴³ It is then a difficult and uncertain process that consumes time, activates strong localized private interests, and leads to a “tyranny of small decisions” that trap the system in the wrong corner. The law here dispatches market resolution to the dustbin.⁴⁴

The present legislative impasse may give the parties several months to catch their breath and reassess their faith. One hopes that all parties can negotiate a resolution before Congress returns to session.

Endnotes

1. The present draft appears at <http://www.publicknowledge.org/pdf/cma-draft-20060911.pdf> (retrieved September 27, 2006).
2. At <http://www.publicknowledge.org/articles/89>.
3. Traditionally, music publishers were responsible for placing songs, negotiating deals, and collecting royalties on behalf of their writers. When a recording artist (such as Madonna) writes her own material, she may become her own publisher in order to assume complete control of her catalog. Other artist-writers may pass copyright to a publishing arm of their record labels. There are now apparently some 28,000 publishers in the U.S., although most of these are small individual operations. Each major record company has a publishing arm, and there are about ten additional independents of some considerable size.
4. For example, when Bing Crosby recorded Irving Berlin's "White Christmas," the record label owned rights in the Crosby sound recording, while the song's publisher (i.e., Irving Berlin Music Company) retained rights in the song.
5. 17 U.S.C. § 106 (2000).
6. The term mechanical right is historically derived from the time when records were mechanically and not electronically reproduced. The right to license the reproduction of music on television, video, and motion picture soundtracks is termed the synchronization right.
7. The Copyright Act defines "sound recording" as a work that results "from the fixation of a series of musical, spoken, or other sounds . . . regardless of the nature of the material subjects, such as disks, tapes, or other phono records, in which they are embodied." 17 U.S.C. § 101 (2000).
8. <http://www.harryfox.com/public/songfile.jsp>.
9. *White-Smith Music Publishing Company v. Apollo Company*, 209 U.S. 1 (1908).
10. 37 C.F.R. § 255.3 (2001).
11. A "controlled composition" is a musical composition owned by an artist featured on the record album who may earn artist royalties from the sale of the product.
12. The Patry Copyright Blog, <http://williampatry.blogspot.com/2006/05/section-115-amendment.html>.
13. Testimony, Marybeth Peters, Oversight Hearing on Copyright Office Views on Music Licensing Reform, June 21, 2005, at <http://judiciary.house.gov/Legislationlist.aspx>.
14. *Supra* note 12. Whatever their historic misgivings about the statutory license, the publishers here aimed to use § 115 to establish a digital right that could be administered independently of the record label. This would give them a potential interface with the digital service providers that used their compositions.
15. Public Law 104-39, 109 Stat. 336.
16. 17 U.S.C. § 115 (2000). A "digital phonorecord delivery" is each individual delivery of a phonorecord by digital transmission of a sound recording which results in a specifically identifiable reproduction by or for any transmission recipient of a phonorecord of that sound recording. 17 U.S.C. § 115(d) (2000).
17. 17 U.S.C. § 115(a)(1) (2000).
18. 17 U.S.C. § 115(c)(3)(A)(ii) (2000).
19. D. LaPolt, "Taking a Glance at New Media Deals in the Music Industry," August 2005, http://www.musicbizacademy.com/articles/dl_newmedia.htm.
20. *Id.*
21. An "On-Demand Stream" is an on-demand, real-time transmission made using streaming technology, such as Real Audio or Windows Media Audio. A "Limited Download" is a download made using technology designed to cause the downloaded file to be available for listening only, either during a limited time or for a limited number of times.
22. S. Bonisteel "RIAA, Songwriters Clear Away Music-Subscription Hurdles," Oct. 9, 2001, at http://www.findarticles.com/p/articles/mi_m0NEW/is_2001_Oct_9/ai_78998791. The royalty rate was to be determined from contracts between publishers and labels that would be eventually negotiated or arbitrated. In the interim, the RIAA agreed to pay HFA a nonrefundable advance payment of \$1 million to cover the first two years, and an additional \$62,500 for every month afterward. The advances were recoupable from due royalties and were then to be applied to any due licensing amounts.
23. U.S. Copyright Office, DMCA § 104 Report (2001). *Id.*, xxiii-xxvii, 132-46.
24. 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, 2001 O.J. (L167) 10, par. 33, Art. 5(1). *See also id.* at Art. 5(2)(d) (preservation of ephemeral recordings made by broadcasters permitted). Member States were to have implemented the Directive in their national laws by December 22, 2002. *Id.* at Art. 13(1).
25. *MAI Systems Corp. v. Peak Computer, Inc.* (9th Cir.), 991 F.2d 511 (1993). *See also Apple Computer, Inc. v. Formula Int'l, Inc.*, 594 F. Supp. 617, 621 [224USPQ 560] (C.D. Cal. 1984), (district court held that the copying of copyrighted software onto silicon chips and subsequent sale of those chips is not protected by fair use exemptions of 17 U.S.C. § 117); *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 260 (5th Cir. 1988) ("the act of loading a program from a medium of storage into a computer's memory creates a copy of the program"); 2 Nimmer on Copyright, § 8.08 at 8-105 (1983) ("Inputting a computer program entails the preparation of a copy."); Final Report of the National Commission on the New Technological Uses of Copyrighted Works, at 13 (1978) ("the placement of a work into a computer is the preparation of a copy").
26. This is only illustrative. Some additional compensation must be allowed for free sound recordings offered as part of a promotion. The publisher here may yet be entitled to some compensation.
27. The problem only exacerbates when different publishers own partial rights in the same composition. Here, the necessary rights may be split among two or more different publishers who may have contracts that require that a separate license be obtained from each. Larry Kenswill, Testimony, Oversight Hearing, March 8, 2005.
28. *Id.*
29. Potter, Testimony, March 8, 2005.
30. The National Music Publishers' Association, Inc. is the nation's largest trade association of music publishers. NMPA now includes over 600 members, which invariably includes the largest label-owned and independent publishers in the country. <http://www.nmpa.org/aboutnmpa/index.asp>.
31. The Digital Media Association is the trade association of 29 large music services and Internet radio entities, including AOL, Apple, MusicNet, Napster, Real Networks, and Yahoo. <http://www.digmedia.org>.
32. The Recording Industry Association of America is the trade association that represents the nation's largest record producers that produce over 80 percent of the material now purchased in record stores and online services. <http://www.riaa.com>.
33. Transcripts of all testimony are available at: Oversight Hearing on Digital Music Licensing and § 115 of the Copyright Act, House Subcommittee on Courts, the Internet, and Intellectual Property at <http://judiciary.house.gov/OversightTestimony.aspx?ID=300>.
34. <http://thomas.loc.gov/cgi-bin/query/F?c109:1:/temp/~c109419Yu0:e2471>.
35. 17 U.S.C. §101 defines a right of public performance—which is related statutorily to "a transmission of a performance of the work. . . to the public, by means of any device or process, whether the members of the public capable of receiving the performance . . . receive it

in the same place or in separate places and at the same time or at different times." (emphasis added).

36. The acronym no longer is meaningful.
37. This three-way architecture for the collection of performance royalties, and its related costs and independent regulatory structure, are an American oddity. All countries (except for Brazil) economize on efforts by permitting only one PRO to collect performance royalties. In control of performing rights for two non-overlapping catalogues, ASCAP and BMI now account for over 90 percent of all catalogued composition and are arbitrated by two independent Rate Courts administered in the Southern District of New York, which have no obligation to maintain any consistent set of techniques with the Copyright Office. By failing to appreciate scale economies in collection and negotiation, the expense/revenue ratio is quite high—13 percent (ASCAP) to 14.6 percent (BMI); Testimony, Jonathan Rich, Oversight Hearing on Public Performance Rights Organizations, <http://judiciary.house.gov/Legislationlist.aspx>; *Infra* note Hoyt Testimony, (retrieved August 11, 2006); BMI Posts World's Highest Performing Rights Revenues; Tops \$700 Million-Plus Milestone," <http://www.bmi.com/news/200509/20050912a.asp>.
38. B. A. Lehman, Intellectual Property and the National Information Infrastructure.
39. Marybeth Peters, Testimony, Oversight Hearing on Digital Music Licensing and Section 115 of the Copyright Act, House Subcommittee on Courts, the Internet, and Intellectual Property, May 16, 2006, at <http://judiciary.house.gov/OversightTestimony.aspx?ID=300> (hereinafter Oversight Hearings, May 16, 2006).
40. The historic track record on valuation is not reassuring. For example, Congress specified in the Digital Performance Rights in Sound Recording Act that the terms for preexisting subscription music services and satellite providers were to meet four specific policy objectives 17 U.S.C. § 801(b)(1). The Digital Millennium Copyright Act later specified two different criteria for similar performances of the exact same uses in new services, such as webcasting. 17 U.S.C. § 114(f)(2)(B). The same problem appeared earlier in criteria used to establish for compulsory licenses for distant transmissions used in cable and satellite programming, codified respectively in 17 U.S.C. § 111 and 17 U.S.C. § 119. A

Copyright Panel in 1999 concluded that the performance right in a sound recording used in a digital satellite service was worth less than the corresponding performance right in the musical composition. By contrast, the Audio Home Recording Act of 1992 established implicitly that sound recordings were worth twice the value of the underlying compositions. 17 U.S.C. § 1008.

41. David Israelite, Testimony, Oversight Hearing, May 16, 2006.
42. M. A. Heller, "The Tragedy of the Anticommons: Property in the Transition from Marx to Markets," 111 Harvard L. Rev. 621-688 (1998); J. M. Buchanan and Y. J. Yoon, "Symmetric Tragedies: Commons and Anti-Commons," 43 J. L & Econ.1 (2000). The problem is particularly pronounced in the fragmentation of rights in musical works.
43. E. Ostrom, *Governing the Commons: The Evolution of Institutions for Collective Action* (Cambridge University Press, 1990).

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