

## ORPHAN WORKS AT THE DAWN OF DIGITIZATION

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### I. INTRODUCTION

[1] The past two decades have witnessed breathtaking increases in computing power, as well as equally impressive strides in manufacturing efficiency and technological innovation.<sup>1</sup> Powerful, cheap, and interconnected, modern personal computers, smart phones, and e-readers are rapidly sculpting a landscape of ubiquitous computing.<sup>2</sup> From shopping online to streaming movies, from social networking to online dating, and from paying bills to reading digitized books, the average American now expects the convenient digitization of historically analogue

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<sup>1</sup> See generally Mark Weiser, *Hot Topics: Ubiquitous Computing*, IEEE COMPUTER 71 (1993), available at <http://www.cc.gatech.edu/~keith/classes/ubicomplexity/pdfs/foundations/weiser-hot-topics.pdf>.

<sup>2</sup> Ubiquitous computing is a model of human-computer interaction in which monolithic desktops are replaced by a variety of small, integrating computing devices that integrate computer functionality with aspects of daily life. See *id.* at 71.

practices and media. In the workplace, this trend has expressed itself through a strong push toward paperless practices.<sup>3</sup> In the music and movie industries, this trend has heralded the increasing abandonment of physical tapes, CDs, and DVDs in favor of instant and on-demand services such as iTunes and Netflix.<sup>4</sup> In the market for books and print media, this trend has evinced itself in the explosive popularity of e-readers and digital books.<sup>5</sup>

[2] The digital book infrastructure has proven particularly interesting, developing rapidly. While the digital makeover provides new and exciting possibilities for readers, at the same time it creates a headache for the legal world.<sup>6</sup> Books historically have been defined as sets “of written, printed,

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<sup>3</sup> *See id.*

<sup>4</sup> *See* Jonathan C. Tobin, *Licensing as a Means of Providing Affordability and Accessibility in Digital Markets: Alternatives to a Digital First Sale Doctrine*, 93 J. PAT. & TRADEMARK OFF. SOC'Y 167, 180-81 (2011).

<sup>5</sup> *See id.* at 171.

<sup>6</sup> New technologies were not always welcomed with open arms, but were usually painted as the enemies. The first clear example of this was *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417 (1984). Sony introduced the VTR, which offered consumers the capability to videotape a television show for later viewing, which concerned movie studios for two reasons: (1) they believed this “time-shifting” capability violated their copyright protection; and (2) the studios wanted to sell their own line of videodisc players that did not contain the “time-shifting” capability. *See id.* at 420-21, 442; *see also* Edward Lee, *Technological Fair Use*, 83 S. CAL. L. REV. 797, 798-99 (2010) (stating that in a 5-4 decision, the Supreme Court held that home time-shift recordings were a permissible fair use). At the time, what the movie studios did not foresee was how important the VCR was to their survival. By 1999, 88.6 percent of all U.S. households owned a VCR, *Nielsen Study Shows DVD Players Surpass VCRs*, PR NEWSWIRE, <http://www.prnewswire.com/news-releases/nielsen-study-shows-dvd-players-surpass-vcrs-57201447.html> (last visited Dec. 18, 2011), and rental and sale of videos became the “largest source of revenue for the [U.S.] movie industry.” Edward Lee, *The Ethics of Innovation: p2p Software Developers and Designing Substantial Noninfringing Uses Under the Sony Doctrine*, 62 J. BUS. ETHICS 147, 148 (2005).

or blank sheets bound together into a volume,”<sup>7</sup> and while theoretically the value of the book is not the cost of the paper, but the content of the words,<sup>8</sup> that maxim has never before been tested in any rigorous sense. The e-book model marks a sea of changes for print media, as the content of an e-book exists separately from any physical form.<sup>9</sup> Free from the tangibility-constraints that both benefited and hindered paper books, e-books strain copyright laws’ ability to accommodate this new media and the conventions it entails.<sup>10</sup> Similar to many advances in technology that decrease the costs of reproduction and distribution of intangible works, the development of e-books require a reassessment of the proper legal protection for creators.

[3] Recent developments in copyright law only complicate emerging issues in the digital book model.<sup>11</sup> Steady increases in the length of copyright protection in the United States, as well as the erosion of barriers to obtaining copyrights, have greatly expanded the set of creative works protected by legal restrictions on appropriation and distribution.<sup>12</sup> At the same time, elimination of formal recordation and notice requirements and

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<sup>7</sup> *Book*, MERRIAM-WEBSTER, <http://www.merriam-webster.com/dictionary/book> (last visited Mar. 21, 2011).

<sup>8</sup> See Jeffrey A. Trachtenberg, *E-book Readers Face Sticker Shock*, WSJ (Dec. 15, 2011), <http://online.wsj.com/article/SB10001424052970204336104577096762173802678.html> (describing how consumers are willing to pay more than \$12.99 for a digital book).

<sup>9</sup> *Id.*

<sup>10</sup> See *infra* Section II.

<sup>11</sup> See *supra* text accompanying note 6; sources cited *infra* note 12.

<sup>12</sup> These changes occurred primarily under the Copyright Amendments Act of 1992, Pub. L. No. 102-307, 106 Stat. 264 (codified as amended at 17 U.S.C. §§ 101-512 (1992)) and the Sonny Bono Copyright Term Extension Act of 1998, Pub. L. No. 105-298, 112 Stat. 2827 (codified as amended at 17 U.S.C. §§ 101-512 (1988)). For any work published after 2002, the term of the copyright is the life of the author plus 70 years, and for corporate authors, 95 years from publication or 120 years from creation (whichever expires first). 17 U.S.C. § 302 (1988).

the extension of copyright terms have resulted in considerable public confusion over the ownership of many copyrighted materials.<sup>13</sup> Through passage of time, unrealized protection, or disinterest, many owners of copyrights have failed to maintain an accessible link to their protected works.<sup>14</sup> The existence of absentee owners falls particularly hard on users who would appropriate a copyrighted work for their own use, but who cannot negotiate a license due to the prohibitive costs of trying to locate and contact owners that have abandoned their works, but not their copyright protection.<sup>15</sup> This class of protected works with absentee owners is now so prevalent that it commands its own title: “orphan works.”<sup>16</sup>

[4] The current copyright regime significantly hinders the social value and creative impact of orphan works. Copyright protection, unabated by an author’s abandonment, hangs as a veritable Sword of Damocles over would-be appropriators, foreclosing many valuable uses and derivations of orphan works.<sup>17</sup> This limitation has particularly hindered enterprises engaged in the digitization of analogue media.<sup>18</sup> By far the most widely known example of the difficulties of orphaned works for innovators in digitization is the plight of Google Book Search (“GBS”).<sup>19</sup>

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<sup>13</sup> See U.S. COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS: A REPORT OF THE REGISTER OF COPYRIGHTS 15-16 (2006), available at <http://www.copyright.gov/orphan/orphan-report.pdf>.

<sup>14</sup> See *id.* at 28.

<sup>15</sup> See generally *id.* at 15.

<sup>16</sup> *Id.* at 1.

<sup>17</sup> *Id.* at 15-16.

<sup>18</sup> See, e.g., Bernard Lang, *Orphan Works and the Google Book Search Settlement: An International Perspective*, 55 N.Y.L. SCH. L. REV. 111, 113 (2010).

<sup>19</sup> *Id.*

[5] In 2004, Google undertook the ambitious and risky project of scanning millions of books, including orphan works, to be made available online.<sup>20</sup> Recognizing the increasing demand for instant access to information in a digital format, Google partnered “with more than forty major research libraries and thirty thousand publishers.”<sup>21</sup> Google has already scanned and digitized the contents of more than twelve million books,<sup>22</sup> pushing the limits, or the lack thereof, of copyright law on the digitization of orphan works.

[6] In 2005, the Authors Guild—on behalf of a class of all U.S. copyright holders—as well as the Association of American Publishers, filed lawsuits against GBS for copyright infringement.<sup>23</sup> The parties reached an agreement in the form of an Amended Settlement Agreement (“ASA”),<sup>24</sup> which the Southern District Court of New York preliminarily approved on November 19, 2009.<sup>25</sup> The provisions of the ASA not only proposed a settlement between the parties for any past infringement, but also proposed a forward-looking business arrangement between the plaintiff class and GBS that provided GBS a license to scan all out-of-print books published before May 5, 2009.<sup>26</sup> Importantly, this license conferred permission from copyright holders to digitize books in exchange for a profit-sharing structure.<sup>27</sup> The ASA would have made it possible to scan

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<sup>20</sup> See *Authors Guild v. Google Inc.*, 770 F. Supp. 2d 666, 670 (S.D.N.Y. 2011); Lang, *supra* note 18.

<sup>21</sup> Pamela Samuelson, *Google Book Search and the Future of Books in Cyberspace*, 94 MINN. L. REV. 1308, 1308 (2010).

<sup>22</sup> *Authors Guild*, 770 F. Supp. 2d at 670.

<sup>23</sup> *Id.*

<sup>24</sup> *Id.* at 671.

<sup>25</sup> *Id.*

<sup>26</sup> See *id.* at 671-72.

<sup>27</sup> See *Authors Guild*, 770 F. Supp. 2d. at 671-72.

all out-of-print books protected by U.S. copyright law by defining the class plaintiff as including “all persons (and their heirs, successors, and assigns) who, as of January 5, 2009, own a U.S. copyright interest in one or more Books or Inserts implicated by a use authorized by the ASA.”<sup>28</sup> The court rejected the ASA on March 22, 2011.<sup>29</sup>

[7] In rejecting the ASA, the court admitted the benefits of GBS’s creation and maintenance of a digital library, but asserted the ASA would “simply go too far.”<sup>30</sup> The court stated that the “licensing” portion of the ASA, as it is applied to orphan works, would “result in the involuntary transfer of copyrights . . . as copyrighted works would be licensed without the owners’ consent.”<sup>31</sup> The court also asserted that the authority to change copyright law properly lies with Congress, not the judiciary.<sup>32</sup>

[8] If the ASA does not provide the appropriate solution for the orphan works problem, then what solution exists? In light of the current predicament, this article proposes a hybrid solution, combining features of the ASA, former orphan works legislation, and other areas of copyright law that would create a comprehensive solution to the orphan work problem. This hybrid solution includes a legislative amendment that has the following components: (1) reasonably diligent search of copyright owner; (2) attribution to orphan works in any later use; (3) an orphan works registry; (4) a compulsory license fee that would be deposited in an escrow account; and (5) a non-legislative component in the form of a private licensing body that copyright owners can participate in for the purposes of granting collective licenses to third-parties to digitize their works.

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<sup>28</sup> *Id.* at 671.

<sup>29</sup> *Id.* at 686.

<sup>30</sup> *Id.* at 669.

<sup>31</sup> *Id.* at 673.

<sup>32</sup> *See Authors Guild*, 770 F. Supp. 2d at 673.

[9] The remainder of this article proceeds as follows. Section II briefly discusses the underlying principles of copyright protection and the orphan works problem. Section III outlines an axiomatic approach to assessing and comparing proposed solutions. Within the axiomatic framework, Section IV discusses and compares a legislative solution, a market-based solution, and the proposed hybrid solution to the orphan works problem. Finally, Section V concludes the aforementioned proposals.

## II. THE PROBLEM OF COPYRIGHT LAW ON ORPHAN WORKS

### A. The Principle of Copyright Protection

[10] While a rigorous substantive and doctrinal analysis of copyright protection lies beyond the scope of this article, critical analysis of the orphan works problem requires a minimum level of agreement on the objectives copyright law should serve. Without speaking to the merits of any competing motivations for copyright protection, this article focuses on the commonly held belief that copyright law remedies the failure of markets to incentivize sufficiently the production of non-tangible creative works.<sup>33</sup>

[11] Models of this market failure have commanded considerable attention in the law and economics literature.<sup>34</sup> Though a useful exercise, formal economic models belie the simple intuition behind the market failure. That intuition is this: while the creation of many intangible works

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<sup>33</sup> See Einer Elhauge, *Why the Google Books Settlement Is Procreative*, 2 J. LEGAL ANALYSIS 1, 23 (2010) (discussing the twin purposes of copyright law: “to reward authors and maximize the creative works actually made available to the public”).

<sup>34</sup> See *id.*; see also Robert Cooter & Thomas Ulen, LAW & ECONOMICS 126-138 (3d ed. 2000), available at [http://works.bepress.com/cgi/viewcontent.cgi?article=1056&context=robert\\_cooter](http://works.bepress.com/cgi/viewcontent.cgi?article=1056&context=robert_cooter). See generally WILLIAM M. LANDES & RICHARD A. POSNER, THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW 37 (2003).

costs the author considerable resources, reproduction of an intangible work is often approximately costless in the modern world.<sup>35</sup>

[12] As a concrete example, suppose A invests \$100 in the creation of a novel. Once A brings the novel to market, B acquires a copy of it, and recognizing it will sell well, types it up on her own computer, prints it out at next-to-no cost to herself, and begins to compete with A in selling A's own novel in the open market. Of course B is not the only clever free-rider standing around: C, D, and E soon realize the potential profits and begin mass-producing A's novel at next to no cost to themselves. The intuitive result is that A's novel receives wide distribution to nearly the entire population, but the intense competition to sell the novel has pushed the price down to the marginal cost of production, approximately \$0. So A walks away from the experience having spent \$100 creating the book, having recouped almost no revenue from the popularity of her novel, and having learned a costly lesson not to bother authoring anything else in the future.

[13] It is important to note that the result of the above story is statically ideal. No person's consumption of a copy of A's book precludes anyone else from consuming it, and every person who values the book at any positive level can afford it. Put another way, with respect to a non-tangible creative work already in existence, the resource allocation affected by unconstrained (i.e. zero price) consumption of the work is welfare maximizing.

[14] The problem with the result of the above story is dynamic. In the story, A learned not to author any books in the future. Generalized across the population, A's experience would suggest low market incentives for authors to produce non-tangible creative works.<sup>36</sup> With low incentives to produce non-tangible creative works, one should intuitively expect few

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<sup>35</sup> CONGRESSIONAL BUDGET OFFICE, COPYRIGHT ISSUES IN DIGITAL MEDIA 21-22 (2004), available at <http://www.cbo.gov/ftpdocs/57xx/doc5738/08-09-Copyright.pdf>.

<sup>36</sup> *Id.* at 22.

such works. Put another way, the production of such a creative work involves a large positive externality: the population as a whole benefits greatly from the production of the work, but the author does not internalize much of this benefit, and therefore finds insufficient motivation to produce such works in the first place.<sup>37</sup>

[15] While numerous solutions to this market failure exist, the historic approach in this country has afforded the authors of non-tangible creative works the copyright protection of a limited monopoly on the copying and distribution of a work.<sup>38</sup> By exploiting monopoly power over distribution of the work, authors can sell the work at higher than competitive price (i.e. the very low cost of reproducing or distributing the work), and thus reap monopoly profits from production.<sup>39</sup> Note that the copyright system attempts to remedy the dynamic problem of the large positive externality in authorship at the expense of the static efficiency of widespread consumption.<sup>40</sup> The potential to earn monopoly profits provides authors with the incentive to produce more non-tangible creative works, but at the higher-than-competitive monopoly prices, not all potential consumers can afford such works, leaving unrealized welfare gains on the table.<sup>41</sup>

### B. The Copyright Orphanage

[16] It is a curious irony that the extension of copyright *protection* has led to the widespread *orphanage* of creative works. Since legislation has extended copyright terms and restrictions on obtaining copyrights have virtually disappeared, more and more owners have abandoned their works

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<sup>37</sup> *Id.*

<sup>38</sup> See 17 U.S.C. § 106 (2006) (granting exclusive rights to the copyright owner).

<sup>39</sup> See COPYRIGHT ISSUES IN DIGITAL MEDIA, *supra* note 35, at 22.

<sup>40</sup> See Glynn S. Lunney, Jr., *Reexamining Copyright's Incentives-Access Paradigm*, 49 VAND. L. REV. 483, 552-53 (1996).

<sup>41</sup> See COPYRIGHT ISSUES IN DIGITAL MEDIA, *supra* note 35, at 22.

without ever releasing the works from copyright protection.<sup>42</sup> This is a matter of considerable social importance: the monopoly rights of absentee copyright owners forecloses the social value of having orphan works adopted, adapted, and made generally accessible.<sup>43</sup>

[17] Orphan works account for a significant subset of print media.<sup>44</sup> The “commercial life of most books is relatively short (i.e., they generally remain ‘in print’ for fewer than five years) . . . .”<sup>45</sup> It has been estimated that “[o]f the estimated 40 [million] different books held by [U.S.] libraries, well over half are unlikely ever to find their way back into a publisher’s favour [sic].”<sup>46</sup> Under the traditional market for books, this is the end-of-life for these creations, with only the lucky few preserved in libraries or private collections.<sup>47</sup> Once the books are out-of-print, it is often difficult to track down the copyright holder because of the length of the current copyright terms and the lack of formalities to obtain

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<sup>42</sup> See Marybeth Peters, *The Importance of Orphan Works Legislation*, U.S. COPYRIGHT OFF. (Sept. 25, 2008), <http://www.copyright.gov/orphan/>.

<sup>43</sup> See REPORT ON ORPHAN WORKS: A REPORT OF THE REGISTER OF COPYRIGHTS, *supra* note 13, at 15-16.

<sup>44</sup> See generally Diane Leenheer Zimmerman, *Can Our Culture Be Saved? The Future of Digital Archiving*, 91 MINN. L. REV. 989, 1025 (2007) (“Although no firm figures are available, the estimate of the number of orphan works . . . is large enough that the Copyright Office has recommended changes in copyright law that would free them for use.”).

<sup>45</sup> Pamela Samuelson, *The Google Book Settlement as Copyright Reform*, 2011 WIS. L. REV. 479, 496 (2011).

<sup>46</sup> Richard Waters, *Books: A Plan to Scan*, FT.COM (Aug. 12, 2009), <http://www.ft.com/cms/s/0/d9c722a6-877e-11de-928000144feabdc0.html#axzz1I8bry4k1>.

<sup>47</sup> *Id.*

copyrights.<sup>48</sup> Approximately 2.5 to 5 million books out of the 40 million books in U.S. libraries are currently orphans.<sup>49</sup>

[18] Orphan works do not lose their intrinsic value over time.<sup>50</sup> Rather, because copyright holders cannot be located in order to gain permission to use the works in derivative works,<sup>51</sup> or to transform the works into a new medium, the continuing value of the works depends upon the orphan works becoming a part of the public domain at the end of the copyright term, or finding the copyright holder.<sup>52</sup> Orphan works, and the lack of any serious solution for dealing with the uncertainty of their copyright protection, represent an often-prohibitive cost for the creation of new works deriving from or containing orphan works.<sup>53</sup> Orphan works thus

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<sup>48</sup> See generally Olive Huang, *U.S. Copyright Office Orphan Works Inquiry: Finding Homes for the Orphans*, 21 BERKELEY TECH. L.J. 265, 267-68 (2006) (discussing the concerns copyrighted works such as books that have no statutory provisions create).

<sup>49</sup> Waters, *supra* note 46.

<sup>50</sup> See Dennis S. Karjala, *Eldred v. Ashcroft: Intellectual Property, Congressional Power, and the Constitution: Judicial Review of Copyright Term Extension Legislation*, 36 LOY. L.A. L. REV. 199, 218 (2002) (explaining that many orphan works have “cultural and social value, but . . . little economic value”).

<sup>51</sup> A derivative work is one that is created from a previously copyrighted work, and in order to claim copyright in the new portion of the work, the work that the new work is derived from must have been derived from a legitimate use of the previous work. See 17 U.S.C. § 101 (2006).

<sup>52</sup> Of course, third parties are always free to copy, distribute, make derivative works and digitize the work without prior permission. The third party then bears the risk of possible monetary and injunctive relief that the copyright holder might seek. In the U.S., the copyright holder is entitled to the copyright owner’s actual damages and any additional profits of the infringer, or statutory damages of between \$200-\$150,000 per work, if the work: 1) was published at the time of infringement; and 2) was registered prior to infringement (unless the registration was made within three months after first publication). 17 U.S.C. § 504(a), (c) (2006 & Supp. IV 2011).

<sup>53</sup> See Orit Fischman Afori, *Flexible Remedies as a Means to Counteract Failures in Copyright Law*, 29 CARDOZO ARTS & ENT. L.J. 1, 32 (2011) (“[I]t is unreasonable to

counteract the purpose of the Copyright and Patent Clause, which is to advance public welfare.<sup>54</sup>

[19] Digitization of orphan works improves public welfare by making new expressions of content available.<sup>55</sup> The digitization of these books can breathe new life into a stale work by increasing access and properly aligning incentive structures with the length of the current copyright term.<sup>56</sup> Copyright holders of out-of-print books now have the choice, no matter the date of original publication, to “re-commercialize” their work for their own benefit, and thus incentivize new creations.<sup>57</sup> But, while digitization of books is aligned with the economic philosophy of the Copyright and Patent Clause in the United States Constitution, the digitization process, as demonstrated in the GBS example, is legally hindered by the current lack of solution to the orphan works problem.<sup>58</sup> Put simply, permission to scan books cannot be obtained if the copyright holders cannot be found.<sup>59</sup>

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prevent creation of a derivative work merely because there is always the possibility that in the future someone may be able to prove ownership of the underlying orphan work.”).

<sup>54</sup> See U.S. CONST. art. I, § 8, cl. 8.

<sup>55</sup> See Press Release, Cornell University Library, Univs. Band Together to Join Orphan Works Project (Aug. 24, 2011), available at <http://news.library.cornell.edu/news/110824/orphanworks>.

<sup>56</sup> *Id.*

<sup>57</sup> See Keith Porcaro, *Private Ordering and Orphan Works: Our Least Worst Hope*, 2010 DUKE L. & TECH. REV. 15, para. 19 (2010) (“In some cases, digitization will no doubt reignite interest in a forgotten work, perhaps enough to warrant a reprinting. This new opportunity for revenue with little additional cost on the part of the creator will in theory incentivize copyright holders of orphan works to come forward.”).

<sup>58</sup> See U.S. CONST. art. I, § 8, cl. 8; Amanda N. Wilson, Comment, *Jet-Setting Orphan Works: The Transnational Making Available of Works of Unknown Authorship, Anonymous Works, or Lost Authors*, 23 EMORY INT’L L. REV. 783, 785 n.15 (2009).

<sup>59</sup> See Samuelson, *The Google Book Settlement*, *supra* note 45, at 493-94.

[20] The newly available revenue stream introduced by the digitization of books is significant.<sup>60</sup> Available copyright holders get to enjoy this opportunity cost, as innovators will come to them and bargain for a license to digitize.<sup>61</sup> Absentee copyright holders, however, cannot enjoy the value of this opportunity cost, either: (1) because they are unavailable to bargain for a new license; or (2) because fear that the legal punishment might exceed potential profits precludes potential licensees from going ahead with digitization.

[21] Orphan works pose a significant hindrance to the creation of derivative works and the digitization of orphan works. The orphan works problem breaks down the incentive structure of the copyright system for the absentee owners, as they cannot fully exploit their works due to the inability of third parties to bargain for licenses.<sup>62</sup> As the traditional publication business model evolves into a digital one, and as current orphan books go into the public domain (if the copyright term is not extended yet again), this problem will eventually correct itself. Digitization means that books in current protection will remain widely available as long as sales continue to generate royalties, and, in this state of affairs, copyright holders are more likely to keep their contact information updated resulting in the abandonment of fewer works. Nevertheless, these incentives cannot work their magic on orphan works. Stuck in a catch-22 of incentive incompatibility, orphan works grow musty on shelves instead of circulating anew online. Unless authors intend to abandon such works, a legal solution is needed to correct the current problem.

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<sup>60</sup> See Porcaro, *supra* note 57 (discussing the revenue regime constructed by Google for the digitization of books under the Google Book Search).

<sup>61</sup> See REPORT ON ORPHAN WORKS: A REPORT OF THE REGISTER OF COPYRIGHTS, *supra* note 13, at 93.

<sup>62</sup> *Id.* at 15.

### III. AN AXIOMATIC APPROACH TO ASSESSING SOLUTIONS

[22] Comparing different policies of copyright protection requires a clarification of the objectives sought in a policy change. In terms of ideal objectives, the law and economics literature has suggested many welfare-maximization models of copyright protection.<sup>63</sup> At various levels of sophistication, these models generally boil down to an unsurprising recommendation: social efficiency results from balancing the dynamic benefit incentivizing authorship against the static inefficiency of constraining the availability of works once produced.<sup>64</sup> A practical problem with the formal welfare-maximization approach is that moving from abstract generalities to concrete recommendations requires the imposition of strong and often untenable modeling assumptions; therefore, precision is bought ultimately at the expense of credibility.<sup>65</sup>

[23] As an alternative to reliance on strong assumptions about important unknowns in social welfare, this article pursues a low-assumption, axiomatic approach in assessing the desirability of various solutions to the orphan work problem. Rather than trying to say what policy would prove universally optimal, this approach asks the question more narrowly: what policy would obviously improve upon the current one? Put another way, this article seeks a policy for disposing of the orphan work problem that is a Pareto Optimality upon the current policy

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<sup>63</sup> See generally LANDES & POSNER, *supra* note 34, at 37, 71, 85, 210 (discussing various models of copyright protection).

<sup>64</sup> See Sami Valkonen & Lawrence J. White, *An Economic Model for the Incentive/Access Paradigm of Copyright Propertization: An Argument in Support of the Proposed New §514 to the Copyright Act 50-51* (NYU Ctr. for Law & Econ., Working Paper No. 06-15, 2006), available at <http://ssrn.com/abstract=895554>.

<sup>65</sup> Charles Manski has termed this type of problem the “Law of Decreasing Marginal Credibility.” In brief, the law states that stronger assumptions yield sharper, but less credible predictions. CHARLES F. MANSKI, IDENTIFICATION FOR PREDICTION AND DECISION 2-3 (2007).

regime.<sup>66</sup> In terms of the orphan work problem, the requirements of a Pareto improving policy are easily expressed as two intuitive axioms that any adequate solution must satisfy. Axiom 1: The absentee owners of orphaned works must not be made worse off as a result of the policy solution.<sup>67</sup> Axiom 2: The accessibility of non-tangible creative works must be marginally increased as a result of the policy solution. These axioms define a class of policy solutions that are preferable to the current situation. As noted in the following application of the axiomatic approach to various proposed solutions, many properties of an adequate solution to the orphan work problem can be observed, even in the absence of strong modeling assumptions.

#### IV. PROPOSED SOLUTIONS TO ORPHAN WORK PROBLEM

##### A. Legislative Approach

##### 1. Proposed Legislation

[24] After extensive review of the issues implicated by orphan works, the United States Copyright Office (“Copyright Office”) prepared a report on orphan works that proposed a legislative solution to the problem.<sup>68</sup>

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<sup>66</sup> A Pareto Optimality is defined as a resource reallocation that makes at least one party strictly better off and no party worse off. BLACK’S LAW DICTIONARY 712 (9th ed. 2009).

<sup>67</sup> See The Concise Encyclopedia of Economics, *Vilfredo Pareto (1848-1923)*, LIBRARY OF ECONOMICS AND LIBERTY, <http://www.econlib.org/library/Enc/bios/Pareto.html> (last visited Jan. 16, 2012). For sake of brevity, the following analysis considers the value of a copyright to be economic profit attainable from possession of a limited copyright over distribution of the copyrighted work. It is worth noting that possession of a copyright might be valuable to creators for other reasons: e.g. the pride that comes from “owning” one’s creation or an artist’s “right” to control how a work is adopted and adapted. See Justin Hughes, *The Personality Interest of Artists and Inventors in Intellectual Property*, 16 CARDOZO ARTS & ENT. L.J. 81, 81, 163-64 (1998).

<sup>68</sup> See U.S. COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS, *supra* note 13, at 5. However, the proposed legislation died in the House of Representatives. David Kravets, ‘Orphan Works’ Copyright Law Dies Quiet Death, WIRED, Sept. 30, 2008, <http://www.wired.com/threatlevel/2008/09/orphan-works-co/>.

The proposed legislative solution would allow a user to appropriate an orphan work only if the user first performed “a reasonably diligent search for the copyright owner but is unable to locate that owner . . . .”<sup>69</sup> The standard of a reasonably diligent search is essentially an “ad hoc” determination,<sup>70</sup> and the reasonably diligent search does not shield the user from liability from payment of reasonable monetary compensation to the absentee owner if he later appears.<sup>71</sup>

[25] The proposed orphan works legislation provides absentee owners the ability to recover damages and seek injunctive relief for the appropriation of their work without prior permission, but limits remedies on account of the owners’ inability to affirmatively grant or deny permission.<sup>72</sup> Absentee owners may recover monetary damages for only commercial uses, and, even then, only reasonable compensation representing “the amount the user would have paid to the owner had they engaged in negotiations before the infringing use commenced.”<sup>73</sup> Injunctive relief is available to absentee owners if a user digitizes a work in its entirety without modification, but not if the user incorporates the orphan work into “a derivative work that also includes significant expression of the user . . . .”<sup>74</sup>

[26] The Copyright Office rejected two alternative features suggested by various commentators to the proposed legislation: (1) an escrow account into which each user must pay prior to engaging in the use of

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<sup>69</sup> U.S. COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS, *supra* note 13, at 8.

<sup>70</sup> *Id.* at 11.

<sup>71</sup> *See id.* at 12-13.

<sup>72</sup> *See id.* at 8.

<sup>73</sup> *Id.* at 12.

<sup>74</sup> U.S. COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS, *supra* note 13, at 13.

orphan works;<sup>75</sup> and (2) the creation of a user registry where users register an intent-to-use an orphan work, a description of the work, and the certification that the reasonably diligent search was conducted.<sup>76</sup> The Copyright Office eschewed the inclusion of an escrow account because it considered the chances of copyright holders coming forward to claim royalties deposited into the escrow account as low, which suggests escrow funds would rarely be distributed.<sup>77</sup> Furthermore, the Copyright Office rejected the proposal for a user registration because it believed such a registry would prove burdensome for those using numerous orphan works, and because a textual database would not assist users without some sort of unique identifier for each work, which would be difficult to administer.<sup>78</sup> The proposed legislation has been pending in Congress since April 2008.<sup>79</sup>

## 2. Solution Analysis

[27] A sufficient condition for the legislative solution to constitute an obvious improvement upon the status quo is satisfaction of both axioms defined in Section III. The legislative approach seems likely to satisfy Axiom 2, but most likely violates Axiom 1.

[28] Axiom 1 requires that any policy change not make absentee owners worse off. At first glance, this determination, a formidable undertaking, is simplified greatly by similarity of the status quo and legislative solution's assignment of rights in most situations. In fact, from

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<sup>75</sup> See *id.* at 11, 113-14

<sup>76</sup> See *id.* at 112-13.

<sup>77</sup> See *id.* at 11, 113-14.

<sup>78</sup> *Id.* at 114.

<sup>79</sup> See S. 2913, 110th Cong. (2008) (as passed by Senate, Sept. 26, 2008); H.R. 5889, 110th Cong. (2008) (as forwarded by Subcomm., May 7, 2008). However, "[b]ecause this bill was introduced in a previous session of Congress, no more action can occur on it." *H.R. 5889: Orphan Works Act of 2008*, GOVTRACK.US, <http://www.govtrack.us/congress/bill.xpd?bill=h110-5889> (last visited Nov. 18, 2011).

the absentee owner's perspective, the two policy regimes differ only under a narrow set of facts: (1) the user must have exercised due diligence in attempting to locate the absentee owner; (2) the user must have failed to locate the owner; (3) the user must subsequently have appropriated the owner's protected work; and (4) the owner must have eventually discovered the appropriation.

[29] In this narrow situation, current copyright law affords the absentee owner a valuable set of rights: the owner is entitled to either: (1) legal relief from copyright infringement, including injunctions, actual damages and profits, and statutory damages and attorneys' fees if the copyright was registered within three months of publication and prior to infringement;<sup>80</sup> or (2) any compensation package and licensing fee privately negotiated in the shadow of potential legal relief, or indeed the issuance of an injunction. By contrast, the proposed legislative solution affords the absentee owner an ostensibly less valuable set of rights: the owner is entitled to either (1) reasonable monetary compensation,<sup>81</sup> or in the case "where the use was noncommercial and the user ceases the infringement expeditiously upon notice," no compensation;<sup>82</sup> (2) injunctive relief only if the orphan work was included in a derivative work that has transformed the work sufficiently as to not limit the absentee owners' right to exploit the orphan work (now no longer orphan);<sup>83</sup> or (3) any compensation package and licensing fee privately negotiated in the shadow of the limited potential legal relief.<sup>84</sup> It is also possible that, by the time the absentee owner discovered the appropriation of his copyright, the user himself may qualify as an absentee owner (especially if copyright terms continue to be extended).

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<sup>80</sup> See 17 U.S.C. §§ 502, 504-505 (2006 & Supp. IV 2011).

<sup>81</sup> U.S. COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS, *supra* note 13, at 11.

<sup>82</sup> *Id.*

<sup>83</sup> *Id.* at 12.

<sup>84</sup> See *id.* at 84, 93.

[30] As a practical matter, it seems clear that the proposed legislative solution affords absentee owners a less valuable set of rights than under the status quo. While this analysis is by no means exhaustive, it illustrates at least a reasonable concern that absentee owners will be made worse off as the result of the proposed legislative solution due to the decrease in possible compensation from infringement and opportunity to exploit their own work.

[31] Axiom 2 requires that the accessibility of the orphan works be increased marginally relative to current copyright law. The proposed legislation easily satisfies Axiom 2. Under the current system, the risk of appropriating an orphaned work without permission of the absentee owner is much greater than under the proposed legislation.<sup>85</sup> The marginal decrease in potential damages suggests that users are marginally more likely to accept the risk of appropriating orphaned works, thus marginally increasing the accessibility of such works in derivative (which may not have been possible without the orphan work) or digitized form.

[32] Based on the above analysis, it seems unlikely that the proposed legislative solution would constitute a Pareto improvement upon the current system. The legislative solution benefits potential users of orphaned works, but does so at the expense of absentee owners. This does not mean that the proposed orphan works legislation is bad or even undesirable; nevertheless, it does mean that the legislative solution is not the *obvious improvement* over current copyright law sought under the axiomatic approach.

## **B. The GBS Solution – a Market Response**

### **1. Amended Settlement Agreement**

[33] GBS entered into a settlement agreement with the class of copyright holders represented by the Authors' Guild and the Association

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<sup>85</sup> See U.S. COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS, *supra* note 13, at 15-16.

of American Publishers for the sake of certainty and efficiency, which was rejected on March 22, 2011.<sup>86</sup> Despite its ultimate rejection by the Southern District Court of New York, the ASA model is worth studying as a potential solution to the orphan works problem.

[34] The ASA attempted to create a market solution to the orphan works problem.<sup>87</sup> For GBS to succeed Google needed to index as many books in its collection as possible: if the ASA forced GBS to omit 2.5 to 5 million orphaned books, the success of the project would be impeded substantially.<sup>88</sup> The ASA sought to remedy the narrow aspect of the orphan works problem relevant to GBS, namely, Google's use of orphaned books in a digitization capacity.<sup>89</sup> The ASA included a settlement contract between Google and a class of owners defined, after the amendment, as "all persons . . . who, as of January 5, 2009, own a U.S. copyright interest in one or more Books or Inserts implicated by a use authorized by the ASA."<sup>90</sup> The only option for exclusion from the settling class was for the

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<sup>86</sup> *Authors Guild v. Google Inc.*, 770 F. Supp. 2d 666, 670 (S.D.N.Y. 2011). The purpose of the GBS project was to index the books and make them available either in full (if the book is in the public domain or if display is authorized), or show a preview of the content of the book, in snippets, and offer links to stores and libraries where users can locate a physical copy of the book. *See id.* at 669-70. GBS' defense is that indexing and making available snippets of the in-copyright and out-of-print books is fair use, such that prior permission is not needed for this adaption of a protected work. *Id.* at 670-71.

<sup>87</sup> *See id.* at 669. Google was well aware of the orphan works problem before the start of the GBS project, and is a proponent of the proposed orphan works legislation. Samuelson, *The Google Book Settlement*, *supra* note 45, at 522-23.

<sup>88</sup> *See* Samuelson, *The Google Book Settlement*, *supra* note 45, at 525 n.221 (citing Memorandum from William Morris Endeavor Entertainment (Aug. 2009)), *available at* <http://thepublicindex.org/docs/commentary/wme.pdf>).

<sup>89</sup> *Authors Guild*, 770 F. Supp. 2d at 671; *see* Samuelson, *The Google Book Settlement*, *supra* note 45, at 495 (citing Letter from David Drummond, Vice President, Corporate Dev. & Gen. Counsel for Google Inc., to Jule L. Sigall, Assoc. Register for Policy & Int'l Affairs for U.S. Copyright Office (Mar. 25, 2005)), *available at* <http://www.copyright.gov/orphan/comments/OW0681-Google.pdf>).

<sup>90</sup> *Authors Guild*, 770 F. Supp. 2d at 671.

copyright holders to opt-out affirmatively.<sup>91</sup> This automatically included absentee copyright holders as, by definition, part of the class.<sup>92</sup>

[35] Had the ASA received approval, it would have created a significant advantage for Google because Google would have received the right to digitize all orphan books without engaging in reasonable efforts to locate the absentee copyright holders<sup>93</sup>, while enjoying the benefit of immunity to potential litigation arising from infringement in the future.<sup>94</sup> No other party would have enjoyed the same benefits without duplicating Google's efforts. The ASA also provided that Google would fund the creation of the Book Rights Registry ("BRR"), which would have allocated the royalties earned by GBS and also tracked down copyright holders to appropriately distribute royalties through a complicated algorithm.<sup>95</sup>

## 2. Solution Analysis

[36] If satisfying both axioms outlined in Section III, the GBS settlement agreement would constitute a Pareto improvement over the current system. Based on this analysis, it appears that the ASA would have satisfied the conditions of both Axiom 1 and Axiom 2.

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<sup>91</sup> This option to opt-out was exercised by 6800 rights holders. *Id.* at 673. This was one of the reasons that Judge Chin rejected the ASA. *See id.* at 670.

<sup>92</sup> *See id.* at 681.

<sup>93</sup> *See id.* at 669, 673. A Books Right Registry was charged with the task of finding and locating unknown copyright holders, as well as distribute the license fees paid to it by Google among its members. *See id.* at 671-72.

<sup>94</sup> *Id.* at 676.

<sup>95</sup> *Authors Guild*, 770 F. Supp. 2d at 671-72.

[37] Under Axiom 1, policy changes cannot make absentee owners worse off and still qualify as a Pareto improvement.<sup>96</sup> In fact, it seems likely that the absentee owners would have been considerably better off under the ASA than under the current copyright scheme. The relevant fact pattern for consideration under this scenario is slightly different than the fact pattern considered for the proposed orphan works legislation. Under this fact pattern: (1) GBS locates an out-of-print book and, without inquiry as to the location of the owner, digitizes the book; (2) Google makes revenue on the digitized book and shares profit with BRR; (3) BRR cannot locate the owner; and (4) the absentee owner resurfaces and notices that Google has digitized her book without permission.

[38] The current copyright system affords an absentee owner the right to sue Google upon discovery of the digitization, which could result from any of the following outcomes: (1) Google is assessed a licensing fee either as the result of a settlement or judgment after litigation;<sup>97</sup> (2) Google is enjoined from showing or selling snippets of the books;<sup>98</sup> or (3) Google's digitization efforts are considered fair use, and no monetary relief is offered to the absentee owner.<sup>99</sup>

[39] Under the ASA, absentee owners within the settling class would have essentially given Google a compulsory license to digitize any out-of-print books (published before January 5, 2009) whose copyrights are owned by the absentee owners.<sup>100</sup> Absentee owners, upon resurfacing, can collect reasonable compensation from Google for Google's digitization of their books; compensation is provided by BRR and based

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<sup>96</sup> See *supra* text accompanying note 67.

<sup>97</sup> See 17 U.S.C. § 504 (2006).

<sup>98</sup> See 17 U.S.C. § 502.

<sup>99</sup> See 17 U.S.C. § 107.

<sup>100</sup> See Amended Settlement Agreement § 2.2, *Authors Guild*, 700 F. Supp. 2d 666 (No. 05 CV 8136-DC) [hereinafter ASA].

on the sales and advertising revenues earned by Google.<sup>101</sup> The ASA would provide absentee owners the same monetary relief as the proposed orphan works legislation, without litigation and without uncertainty from litigation.<sup>102</sup> Additionally, in the event that absentee owners resurface, these owners would possess the option to ask Google to remove the book from the registry, and Google must comply with the request as soon as reasonably practicable, but no later than thirty days from the date of the request.<sup>103</sup>

[40] The only difference in relief between the current system and the system proposed by the ASA is the right for the absentee owners to get statutory damages and attorneys' fees.<sup>104</sup> Under current laws, additional monetary relief is available only if the author registers the copyright within the first three months of publication and before any infringement occurred.<sup>105</sup> It is unlikely that this requirement would change copyright owners' likelihood of recovery because monetary compensation in a copyright infringement case is based upon a combination of the copyright owner's lost revenues and the infringer's profits.<sup>106</sup> Given that Google only digitized out-of-print books without permission, it is unlikely that the absentee owners could prove any lost revenues. Also, Google already shares its profits with BRR, who provides them to the absentee owners.<sup>107</sup> Even in the event that statutory damages and attorneys' fees were

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<sup>101</sup> See *Authors Guild v. Google Inc.*, 770 F. Supp. 2d 666, 671 (S.D.N.Y. 2011).

<sup>102</sup> See *id.*

<sup>103</sup> ASA, *supra* note 100, § 3.5(a)(i).

<sup>104</sup> Compare *id.* § 5.5 (capping attorneys' fees at \$30 million), with 17 U.S.C. § 504 (2006) (providing statutory damages), and 17 U.S.C. § 505 (2006) (providing reasonable, but uncapped, attorneys' fees).

<sup>105</sup> See 17 U.S.C. § 412.

<sup>106</sup> See 17 U.S.C. § 504.

<sup>107</sup> See *Authors Guild*, 770 F. Supp. 2d at 671-72.

available, the absentee owners would need to engage in costly litigation in order to recover statutory damages and attorneys' fees. Because absentee owners are not likely to successfully claim statutory damages and attorneys' fees, and because of the high transaction costs and uncertainty involved in recovery through litigation, the "compulsory license" fee to be paid by Google to the absentee owners seems likely to confer at least as great a benefit to absentee owners as provided by the current system.<sup>108</sup> Thus, the absentee owner is made no worse off, and likely placed in a better position under the current system than under the proposed legislative solution to the orphan works problem.<sup>109</sup>

[41] Under Axiom 2, the accessibility of the orphan works would have increased significantly under the ASA,<sup>110</sup> even more so than under the proposed orphan works legislation. Had the court approved the ASA, Google could have digitized all out-of-print books as long as it paid the appropriate royalties to BRR.<sup>111</sup> Additionally, because the agreement constituted a settlement agreement, it would have eliminated future uncertainty regarding infringement for all books published before January 5, 2009 that Google might scan.<sup>112</sup> The cost-savings and certainty

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<sup>108</sup> Compare ASA, *supra* note 100, § 2.1 (giving an overview of the benefits of the ASA for copyright owners), with 17 U.S.C. § 504 (embodying the current statutory recovery rights of infringed copyright owners). Google's digitization of an out-of-print book does not affect any existing market, and thus there is no lost revenue for the absentee owners. The money generated by GBS is a newly found revenue stream.

<sup>109</sup> Compare ASA, *supra* note 100, § 2.1 (proposing a streamlined system by which copyright owners who cannot be easily found are compensated for infringement by Google), with U.S. COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS, *supra* note 10, at 8 (suggesting limiting a copyright owner's recovery in litigation if the infringer performed a reasonably diligent search for the owner).

<sup>110</sup> See *Authors Guild*, 770 F. Supp. 2d at 670.

<sup>111</sup> See ASA, *supra* note 100, § 3.1(a).

<sup>112</sup> See *Author's Guild*, 770 F. Supp. 2d at 676.

afforded by the ASA would have allowed Google to scan, digitize, and make accessible more orphan books than without the agreement.<sup>113</sup>

[42] Even if the proposed orphan works legislation could govern Google's conduct, the terms of the ASA would still place Google in a better position. If governed by the proposed legislation, Google would have to expend efforts to determine whether a book is an orphan work before proceeding with the digitization of the book. Even then, Google would not enjoy the certainty provided by the terms of the ASA. If an absentee owner reappeared, Google would have to pay reasonable compensation because Google uses the books for commercial purposes, and, under the proposed orphan works legislation, Google might also be subject to injunction.<sup>114</sup> Finally, the uncertainty of potential litigation would stand as a considerable disincentive for Google to continue scanning and digitizing orphan books.

[43] Based on this analysis, the ASA would have been a Pareto improvement over the current system, and even over the proposed orphan works legislation, because the absentee owner would be no worse off and the access to orphan works would significantly increase. Between Google and absentee owners, the ASA solution would have been an *obvious improvement* upon the current copyright system.

### C. Hybrid Solution Proposal

[44] After considering both the legislative and ASA models detailed above, it appears that a hybrid solution, combining features from the proposed orphan works legislation, the now rejected ASA, and some other features of copyright law – such as compulsory licenses – may improve

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<sup>113</sup> Under the proposed legislation, everybody may digitize or incorporate an orphan work after a reasonably diligent search for the author of a work. *See* U. S. COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS, *supra* note 13, at 122. Under the ASA, the right to do so is granted only to Google. *See Author's Guild*, 770 F. Supp. 2d at 682-83.

<sup>114</sup> *See* U. S. COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS, *supra* note 13, at 13.

upon certain shortcomings inherent in each of the above solutions alone.<sup>115</sup> The proposed orphan works legislation creates a more systematic approach and applies this approach broadly.<sup>116</sup> Unfortunately, it does so by taking away only part of the offending uncertainty, decreasing potential recovery for absentee owners, and maintaining the same transaction costs for recovery.<sup>117</sup> The ASA, on the other hand, eliminates uncertainty for users, guarantees reasonable recovery for absentee owners, and significantly reduces transaction costs.<sup>118</sup> However, the scope of the ASA is limited because it would only apply to books, and would allow only Google to digitize out-of-print books.<sup>119</sup> This significantly limits the benefits of the ASA model, and the problem of digitizing orphan works requires a much broader solution. I suggest that a hybrid solution is best suited to affect the common goal of the ASA and legislative solutions: that is, to provide reasonable compensation to absentee owners – in the event that they reappear – without limiting the ability of users to appropriate and build upon orphan works in the meantime.

### 1. Components of the Hybrid Solution

[45] The proposed hybrid solution combines features of the proposed orphan works legislation, the ASA, and current copyright law to improve upon the status quo. The components in the hybrid solution to the orphan works problem are as follows:

- a. a reasonably diligent search and attribution requirement;

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<sup>115</sup> See *supra* Parts IV.A.2 and IV.B.2.

<sup>116</sup> See *supra* Part IV.A.

<sup>117</sup> See *supra* Part IV.A.

<sup>118</sup> See *Author's Guild*, 770 F. Supp. 2d at 671-72.

<sup>119</sup> See *id.* at 672.

- b. an orphan works registry where users register works determined to be orphaned after conducting a reasonably diligent search;
- c. an escrow account for the payment of the compulsory license fee from users to absentee owners; and
- d. the creation of a licensing entity for non-absentee owners<sup>120</sup>, similar to ASCAP, BMI and SESAC for music.

These components, analyzed in detail below, would affect a solution to the orphan works problem that satisfy both axioms proposed in Section III.

**a. Reasonably Diligent Search and Attribution**

[46] A reasonably diligent search requirement is an important component for any orphan works solution. Without such a requirement, the misappropriation of non-orphan works is more likely than not. A reasonably diligent search defines what constitutes an orphan work: orphan works are works whose copyright owner cannot be determined or located through a sufficiently detailed search effort.<sup>121</sup> If the owner of the work is identified, but does not respond to a request for a license, that work does not qualify as an orphan work, and any appropriation of the work constitutes copyright infringement.<sup>122</sup> This is consistent with the commonly accepted principle of copyright protection that copyright holders have the right to refuse reproduction and distribution of their work.<sup>123</sup> The terms of a reasonably diligent search will vary depending on the type of work and the court will determine whether a search is reasonably diligent on an ad hoc basis.<sup>124</sup> The proposed orphan works

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<sup>120</sup> This represents the non-legislative component of the hybrid solution.

<sup>121</sup> See U. S. COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS, *supra* note 13, at 1.

<sup>122</sup> See *id.* at 8-9.

<sup>123</sup> *Id.* at 9.

<sup>124</sup> See *id.* at 95-100.

legislation includes a requirement for a reasonably diligent search for the owner of an appropriated work.

[47] Attribution of an appropriated orphan work in a derivative work confers two important benefits: (1) it may help absentee owners recognize their work and come forward to claim ownership of it; and (2) it provides notice of an orphaned work heritage to later users who wish to appropriate the derivative work.<sup>125</sup>

#### **b. Orphan Works Registry**

[48] The orphan works registry would require users to register works they believe are orphan works.<sup>126</sup> The Copyright Office would manage the registry.<sup>127</sup> The user would provide the Copyright Office with the name of the work and the reasonable steps taken to find the owner. This registry would uniquely identify each orphan work, and subsequent users would rely on the registry to determine whether a work has been designated an orphan after a reasonably diligent search.<sup>128</sup> If so qualified, subsequent users would not need to conduct their own reasonably diligent search before appropriating or adapting the work. The orphan works registration would save transaction costs for users, as users of a common work would not need to engage in redundant search reporting

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<sup>125</sup> *See id.* at 110-12.

<sup>126</sup> Although the benefit of such a registry for all future copyright creators is important, if the registry is simply voluntary, it is likely that only a few will choose to register the orphan works with the registry. Making the registry mandatory will increase registration of orphan works, and encourage users to start their reasonably diligent search at the registry, which will help decrease transactional cost incurred because of repeated searches conducted each time a user wishes to use an orphan work.

<sup>127</sup> *See* CENTER FOR THE STUDY OF THE PUBLIC DOMAIN, DUKE LAW SCHOOL, ORPHAN WORKS: ANALYSIS AND PROPOSAL 10-11 (Mar. 2005), *available at* <http://www.law.duke.edu/cspd/proposal.pdf>.

<sup>128</sup> *See id.* at 9-10 (for discussion of what qualifies as a “reasonable diligent search”).

requirements. If the copyright holder believes that there is a mistake, he would have a record of whom he needs to contact to remedy the situation.

[49] The Copyright Office rejected the proposal for a registry where users register the orphan works they intend to use for the purpose of providing a “published” notice to copyright holders, similar to the registry for a compulsory license for making and distributing phonorecords.<sup>129</sup> The Copyright Office premised its rejection on a belief that such a registry would place an excessive burden on copyright holders to keep checking the registry to ensure no one has misappropriated a work.<sup>130</sup> Some groups opposed such a proposal on the basis that it would “impair their competitive position with other publishers, who would use the filings to determine what books or types of books they plan to publish.”<sup>131</sup>

[50] The orphan works registry would differ from the proposed users’ or owners’ registries because the right to use the orphan work would not derive from the registration of orphan works with the registry.<sup>132</sup> Rather, the registry would serve as a centralized forum for the copyright community to share information about a particular work and mitigate the unnecessary transaction costs inherent in redundant reasonably diligent searches.<sup>133</sup> The registration process should not be so burdensome as to discourage registration or use, but should provide sufficient detail to identify an alleged orphan work through registry search. For example, a copy of the work might be included for proper identification, or summary and descriptive keywords might be used to limit the search space.

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<sup>129</sup> See U.S. COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS, *supra* note 13, at 105.

<sup>130</sup> See *id.* at 76.

<sup>131</sup> *Id.* at 112-13.

<sup>132</sup> See generally CENTER FOR THE STUDY OF THE PUBLIC DOMAIN, *supra* note 127.

<sup>133</sup> See U.S. COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS, *supra* note 13, at 78-79 (discussing the benefits of “piggybacking” or allowing a user to rely on a previous user’s searches by improving efficiency in searching).

### c. Compulsory License

[51] A compulsory license is “where the government requires that copyright owners make their works available to users, usually at a fixed price.”<sup>134</sup> Canada has instituted a compulsory license as a solution to the orphan works problem in Canada.<sup>135</sup> There are also several examples of compulsory licenses used under United States copyright law, including secondary transmission by cable systems,<sup>136</sup> ephemeral recordings,<sup>137</sup> public performance of sound records by means of a digital audio transmission,<sup>138</sup> making and distributing phonorecords,<sup>139</sup> certain works in connection with non-commercial broadcasting,<sup>140</sup> secondary transmission by satellite carriers,<sup>141</sup> and distribution of digital audio recording devices and media.<sup>142</sup> A compulsory license is also available as a monetary damage award in patent infringement cases.<sup>143</sup> The ongoing royalty payments from Google to BRR in the ASA could have been construed as a compulsory license agreement between Google and the settling class.

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<sup>134</sup> S. J. Liebowitz, *Alternative Copyright Systems: The Problems with a Compulsory License* (Progress & Freedom Found., D.C.), June 10, 2003, at 3, available at <http://www.utdallas.edu/~liebowit/intprop/complpff.pdf>.

<sup>135</sup> Copyright Act, R.S.C. 1985, c. C-42, § 77 (Can.).

<sup>136</sup> 17 U.S.C. § 111 (2006).

<sup>137</sup> 17 U.S.C. § 112.

<sup>138</sup> See 17 U.S.C. § 114.

<sup>139</sup> 17 U.S.C. § 115.

<sup>140</sup> 17 U.S.C. § 118.

<sup>141</sup> 17 U.S.C. § 119; 17 U.S.C. § 122.

<sup>142</sup> See 17 U.S.C. § 115.

<sup>143</sup> Cf. *Paice v. Toyota Motor Corp.*, 504 F. 3d 1293, 1313 n.13 (Fed. Cir. 2007) (distinguishing between ongoing royalty order and compulsory license).

[52] In determining the appropriate compulsory license system for orphan works, this paper reviews two compulsory license systems: (1) that applying to the making and distribution of phonorecords; and (2) the patent compulsory license.

**i. Compulsory License for Making and Distributing Phonorecords**

[53] The most well known compulsory license is the compulsory license for the making and distributing of phonorecords.<sup>144</sup> This provision allows a third party to distribute a new sound recording of a musical work if that work has been previously distributed to the public under the authority of the copyright owner.<sup>145</sup> In exchange, the third party must provide notice of the intention to obtain a compulsory license,<sup>146</sup> as well as deposit a royalty payment.<sup>147</sup> This compulsory license system has built in a protocol for absentee owners, where if the copyright holder is not known, then the notice and payments are sent to the Licensing Division of the Copyright Office.<sup>148</sup> The compulsory license prevents monopolistic behavior related to a particular musical work, while continuing to provide the incentives to encourage the creation of new musical works by paying the creators a compulsory license.<sup>149</sup>

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<sup>144</sup> See 17 U.S.C. § 115.

<sup>145</sup> See *id.*

<sup>146</sup> 37 C.F.R. § 201.18 (2008).

<sup>147</sup> U.S. COPYRIGHT OFFICE, CIRCULAR 73: COMPULSORY LICENSE FOR MAKING AND DISTRIBUTING PHONORECORDS 2, (2011), available at <http://www.copyright.gov/circs/circ73.pdf>.

<sup>148</sup> *Id.* at 3.

<sup>149</sup> See *id.* at 1-2.

## ii. Patent Compulsory License

[54] The concept of compulsory patent licensing dates back to the early amendments made to the Paris Convention of 1883.<sup>150</sup> Today, the Paris Convention and its progeny, in conjunction with the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPs")<sup>151</sup>, authorize compulsory licensing in various situations.<sup>152</sup> Courts often impose a patent compulsory license after litigation determines that patent has been infringed.<sup>153</sup>

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<sup>150</sup> See Paul Champ & Amir Attaran, *Patent Rights and Local Working Under the WTO TRIPS Agreement: An Analysis of the U.S.-Brazil Patent Dispute*, 27 YALE J. INT'L L. 365, 371 n.40 (2002) ("The concept of compulsory licensing was not mentioned in the 1883 Paris Convention . . . [but] was introduced as an amendment in the 1925 Hague Revision . . ."); see also Paris Convention for the Protection of Industrial Property art. 5, Mar. 20, 1883 (amended Sept. 28, 1979), 21 U.S.T. 1583.

<sup>151</sup> See Agreement on Trade-Related Aspects of Intellectual Property Rights art. 2, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 401 [hereinafter TRIPS] ("In respect of Parts II, III, and IV of this Agreement, Members shall comply with Articles 1 through 12, and Article 19, of the Paris Convention . . . [and] [n]othing shall derogate from existing obligations that Members may have to each other [thereunder] . . .").

<sup>152</sup> See *id.* at arts. 30-31 (describing compulsory licensing in regulating scenarios "[w]here the law of a Member allows for other use of the subject matter of a patent without the authorization of the right holder, including use by the government or third parties authorized by the government . . .").

<sup>153</sup> Yet, despite its long-term acceptance abroad, federal courts and commentators traditionally rejected the compulsory license as a proper remedy in patent infringement disputes, instead favoring an injunction against the patent infringer. See Jaideep Venkatesan, *Compulsory Licensing of Nonpracticing Patentees After eBay v. MercExchange*, 14 VA. J.L. & TECH. 26, 34 (2009) (explaining that prior to 2006, "[t]he prevalence of the view that private bargaining of property rights leads to more efficient outcomes than 'judicial guesstimates' of appropriate royalty rates led to judicial and academic disapproval of compulsory licensing of patents") (citing *In re Mahurkar Double Lumen Hemodialysis Catheter Patent Litig.*, 831 F. Supp. 1354, 1396-97 (N.D. Ill. 1993)).

[55] The right to a patent comes from the same clause in the United States Constitution as the right to a copyright.<sup>154</sup> Patentees are given a limited monopoly to exclude others from practicing their inventions without their permission, and in exchange for this monopoly, patentees must reveal their inventions to the United States Patent and Trademark Office for public use after the patent term expires.<sup>155</sup> Patents have a much shorter lifespan than copyrights, and patentees have to follow recordation and periodic payment requirements of the United States Patent and Trademark Office to maintain the life of the patent, so there are typically no orphaned patents.<sup>156</sup>

[56] Although the Patent Act's filing requirements generally foreclose the notion of orphaned patents, the most analogous aspect of patent compulsory licensing is the recent debate regarding the different treatment of practicing patentees and non-practicing patentees with respect to their right to legal relief during litigation.<sup>157</sup> The Supreme Court recently responded to disagreement regarding the appropriateness of injunctive relief for non-practicing patentees in *eBay, Inc. v. MercExchange*,

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<sup>154</sup> See U.S. CONST. art I, § 8, cl.8.

<sup>155</sup> See generally *Patents*, USPTO.GOV, <http://www.uspto.gov/patents/index.jsp> (last modified Dec. 22, 2011) ("A patent is an intellectual property right granted by the Government of the United States of America to an inventor 'to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States' for a limited time in exchange for public disclosure of the invention when the patent is granted.").

<sup>156</sup> See generally *General Information Concerning Patents*, USPTO.GOV (Nov. 2011), <http://www.uspto.gov/patents/index.jsp> (describing maintenance fees to maintain the patent in force).

<sup>157</sup> See Venkatesan, *supra* note 153, at 28 ("[There] are those who argue that awarding injunctive relief to . . . nonpracticing patentees and those holding patents of questionable validity or value[] causes a 'hold up' problem in which such patentees can obtain royalties greater than the true value of their patents. In this view, overcompensating patentees distorts the incentives to innovate, design, and sell new technologies to the detriment of the economy and public interest.").

*L.L.C.*,<sup>158</sup> unanimously holding that the traditional four-factor test<sup>159</sup> followed by federal courts in considering permanent injunctive relief should be applied to disputes under the Patent Act.<sup>160</sup> The Court emphasized broad equitable discretion in applying this standard and denounced the practice of issuing injunctions automatically once a party shows infringement.<sup>161</sup> Although the Court limited its holding to general principles,<sup>162</sup> *eBay* revitalized compulsory licensing by ensuring that judges consider modern patent practices and how such circumstances impact the suitability of injunctive relief.<sup>163</sup>

[57] District courts have responded accordingly, denying injunctions to non-practicing patentees in favor of compulsory licensing orders.<sup>164</sup>

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<sup>158</sup> *eBay Inc. v. Mercexchange, L.L.C.*, 547 U.S. 388 (2006).

<sup>159</sup> *See id.* at 391 (“A plaintiff [seeking injunctive relief] must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.”).

<sup>160</sup> *See id.* at 391-94.

<sup>161</sup> *See id.* at 395 (Roberts, C.J. concurring) (“From at least the early 19th century, courts have granted injunctive relief upon a finding of infringement in the vast majority of patent cases. . . . This historical practice, as the Court holds, does not *entitle* a patentee to a permanent injunction or justify a *general* rule that such injunctions should issue.”).

<sup>162</sup> *See id.* at 394.

<sup>163</sup> *See eBay Inc.*, 547 U.S. at 396-97 (Kennedy, J. concurring) (“In cases now arising trial courts should bear in mind that in many instances the nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases. . . . The equitable discretion over injunctions, granted by the Patent Act, is well suited to allow courts to adapt to the rapid technological and legal developments in the patent system.”).

<sup>164</sup> *See, e.g., Innogenetics, N.V. v. Abbott Labs.*, 512 F.3d 1363, 1379-81 (Fed. Cir. 2008) (vacating a district court injunction order and ordering a compulsory license); *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1313-15 (Fed. Cir. 2007) (upholding court’s

Subject to a reasonable royalty determined by the court, a proven infringer becomes an authorized licensee if royalties are paid to the non-practicing patentee.<sup>165</sup> The royalties to be paid from infringer to non-practicing patentee should be reasonable with the limitation to the rate set by the jury or other licenses by the non-practicing licensee. These royalty rates do not take into consideration the position of the parties in litigation, and what type of royalty rates the parties could establish through private bargaining in light of any pending litigation.<sup>166</sup>

### iii. Proposed Orphan Works Compulsory License

[58] This paper proposes that an escrow account, similar to the BRR or the Licensing Division of the Copyright Office, be set up so that each time a user incorporates an orphan work in a derivative work, or digitizes an orphan work, a statutorily prescribed amount is deposited into the account governed by the Copyright Office. Absentee owners may at a later time reclaim royalties on their orphaned works. The escrow account would function similarly to the account that currently receives royalties for making and distributing phonorecords under Section 115 of the Copyright Act,<sup>167</sup> except the proposed escrow account would not make payment unless and until an absentee owner claimed right to the royalty. The Copyright Office has rejected the creation of such an escrow account because it believes it unlikely that any absentee owners would come forward to make a claim for compensation, and because it is logistically

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authority to issue an “ongoing royalty” order); *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 439-44 (E.D. Tex. 2006) (providing a thorough analysis under *eBay*’s four-factor test in denying injunction request).

<sup>165</sup> See *Paice*, 504 F.3d at 1315 (“[W]here the district court determines that a permanent injunction is not warranted . . . [it] could step in to assess a reasonable royalty in light of the ongoing infringement.”).

<sup>166</sup> See, e.g., *Commonwealth Sci. and Indus. Research Org. v. Buffalo Tech. Inc.*, 492 F. Supp. 2d 600, 605-06 (E.D. Tex. 2007).

<sup>167</sup> 17 U.S.C. § 115 (2006).

complicated to determine who would keep track of the payments and what should be done with unclaimed money.<sup>168</sup>

[59] Proponents of an escrow account for orphan works believe this system would reduce uncertainty inherent in the currently proposed legislative solution, while still allowing absentee owners to sue and possibly enjoin users of the orphan works.<sup>169</sup> A compulsory license would alleviate potential litigation and transactional costs, while providing monetary relief to absentee owners at the same time. The infrastructure for such a system is already available to the Copyright Office, as the Copyright Office currently maintains a registry system for notices of intentions and accepts compulsory license payments for making and distributing phonorecords of unknown owners.<sup>170</sup>

[60] Canada has adopted a similar system, in which the Copyright Board licenses orphan works on behalf of absentee owners.<sup>171</sup> The benefit of certainty and the maintenance of payment of reasonable fees for the absentee owners create a low-transactional cost, high-incentive solution to the accessibility of the orphan works problem.

**d. Creation of a Private Entity for Licensing of  
Non-Orphan Works**

[61] Legislative action would not create any private entity for licensing of non-orphan works, and would not directly cover orphan works. Instead, market-based aspects of the hybrid solution would help prevent works from becoming orphaned in the first instance, and would lower transaction costs for companies who wish to utilize or digitize copyrighted works.

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<sup>168</sup> See U.S. COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS, *supra* note 13, at 11.

<sup>169</sup> See *id.* at 114.

<sup>170</sup> See U.S. COPYRIGHT OFFICE, CIRCULAR 73: COMPULSORY LICENSE FOR MAKING AND DISTRIBUTING PHONORECORDS, *supra* note 147, at 3.

<sup>171</sup> See Copyright Act, R.S.C. 1985, c. C-42, § 77 (Can.).

The private licensing entity would function similarly to the performance rights organizations that already exist for the music industry, such as ASCAP, BMI or SESAC.<sup>172</sup> These performance rights organizations have bargained with individual copyrights holders for the right to license their copyrighted work. The performance rights organizations undertake the task of entering into license agreements for each work and then make available the right to publicly perform the work in a collective license to third parties.<sup>173</sup> For example, a convention center is likely to have a license to publicly perform individual songs through a single license with a performance rights organization. These collective licenses have enabled hotels, airports, and radio stations to get a few blanket licenses that would cover all the songs that they may publicly perform in their space, without having to engage in individual bargaining with each rights holder.<sup>174</sup>

[62] A similar private licensing organization should be set-up for books, similar to what the BRR would have been under the ASA. Each individual copyright holder would negotiate and enter into a license with the licensing organization, and the organization would then grant a collective license to Google, Microsoft, Yahoo!, or any other user that might want to scan books covered by the license. As long as revenue streams continue to flow to copyright holders, the incidence of work abandonment should fall considerably. This type of organization would thus slow the orphanage of creative works while simultaneously easing transaction costs in individual bargaining for large digitization projects.

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<sup>172</sup> See ASCAP, <http://www.ascap.com> (last visited Nov. 18, 2011); BMI, <http://www.bmi.com> (last visited Nov. 18, 2011); SESAC, <http://www.sesac.com> (last visited Nov. 18, 2011).

<sup>173</sup> See, e.g., *Do You Need an ASCAP License*, ASCAP, <http://www.ascap.com/licensing> (last visited Nov. 18, 2011) (discussing the licensing of music).

<sup>174</sup> See, e.g., *id.*

## 2. Hybrid Solution Analysis

[63] Under the axiomatic approach under Section III, Axiom 1 is clearly satisfied for the same reasons the ASA satisfies Axiom 1. The hybrid solution would provide absentee owners the right to claim reasonable monetary compensation in the event that the absentee owners resurface.<sup>175</sup> Where the hybrid solution differs from current copyright law, the compulsory license scheme affords absentee owners payment of reasonable compensation through an escrow account without incurring the transaction costs and uncertainty of litigation.

[64] Axiom 2 is also satisfied because accessibility to orphan works should marginally increase relative to the status quo. The hybrid solution provides users certainty as to the cost of using an orphan work, eliminating the need to worry about potential litigation costs, including potential judgments of monetary and injunctive relief. Reductions in uncertainty and potential liability under the hybrid solution should create marginal reductions in the cost of orphan work appropriation, and thus affect marginal increases in creative work availability. Importantly, the increased accessibility would include works beyond books, and would not be limited to Google as the sole provider. Instead, third parties would be incentivized to enter the book digitization market, potentially expanding orphan works' availability beyond what Google could achieve alone. Thus, the hybrid solution would likely provide more access to orphan works than under the current copyright system *or* the ASA solution.

[65] This analysis suggests the hybrid solution would constitute a Pareto improvement upon the current system. Reasonably compensated for low to no transaction costs, and with certainty as to the compensation, absentee owners are almost certainly made no worse off than under the current policy regime. At the same time, the availability of orphan works is increased marginally relative to the status quo. Thus, the hybrid

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<sup>175</sup> As explained *supra* Part IV.A.2, it is not likely that absentee owners would be able to claim statutory damages, which would only be available to copyright holders who registered the copyright within three months of publication but before infringement.

solution represents what might be called an *obvious improvement* upon current copyright law for orphaned works.

[66] Importantly, the hybrid solution also improves upon aspects of both the legislative and ASA solutions. The hybrid solution improves upon the current legislative proposal in several ways: (1) it would remove uncertainties for both users and absentee owners; (2) it would guarantee payment to absentee owners without litigation upon resurfacing; and (3) it would decrease transaction costs of reasonably diligent searches. These improvements would make orphan works more accessible—thus increasing public welfare—and meet both Axioms proposed under Section III. The hybrid solution also improves upon the now rejected ASA. First, the scope of the hybrid solution applies more broadly than the ASA by covering all orphan works. Second, the hybrid solution would affect greater competition among appropriations, in turn increasing accessibility and lowering cost to access the digitized works.

## VI. CONCLUSION

[67] Recent technological innovations have allowed end-users to access information in larger quantities and at higher speeds than ever before. Especially in the area of digitized books, technology develops at a rapid pace, and copyright law has struggled to keep up. The orphan works problem presents an ugly example of the expanding gap between technological applications and the flexibility of copyright. This problem demonstrates the need for change in the current copyright law.

[68] Unfortunately, attempts to address the orphan works problem through the courts appear unavailing. Google tried to solve this problem through a market-based contract, but found itself rebuffed on the grounds that it tried to solve the problem through the wrong venue.<sup>176</sup> A legislative approach to the orphan works problem appears more promising, but the current pending legislative proposal seems insufficient. In terms of the

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<sup>176</sup> See *Authors Guild v. Google Inc.*, 770 F. Supp. 2d 666, 670 (S.D.N.Y. 2011) (denying the amended settlement agreement).

axiomatic approach adopted in this paper, the proposed legislation simply fails the aforementioned Axiom 1: it does not obviously protect absentee owners from being made worse off than under the current system.

[69] By combining some of provisions of the pending legislation, features of the ASA, and the already existing licensing infrastructures and ideas, the legislative solution proposed by this article demonstrates a Pareto improvement on the status quo, the proposed legislation, and the ASA. The proposed hybrid solution would finally bring copyright law on orphan books to the digital age. The hybrid solution is not perfect, and it does not solve all problems revolving around orphan works, but compared to the current copyright system, it is a Pareto improvement.

[70] As a practical matter, any legislative proposal will face obstacles, because reasonable people disagree on what would be the best solution. The proposed hybrid solution is sufficiently comprehensive, but leaves room for change and improvement, as implementation may raise additional issues. It presents a forward-looking solution for a legal problem that continues to change with developing technology.