www.ccianet.org

COPYRIGHT REFORM FOR A DIGITAL ECONOMY

Computer & Communications Industry Association
Tech Advocacy Since 1972

Table of Contents

Executive Summary

At a time of unprecedented technology-enabled creativity and communication, many countries around the world are evaluating how their copyright laws interact with the new digital reality. This includes the United States, which began a comprehensive review of its copyright laws in 2013.

Copyright exists to incentivize authorship with the prospect of economic reward. The Constitution permits Congress to grant authors "the exclusive Right to their respective Writings" as a means to an end: "promot[ing] the Progress of Science and useful Arts". Thus, while the immediate beneficiary of copyright is the author, U.S. copyright law ultimately aims to promote the public good. Copyright is therefore a distinctly utilitarian system; its regulations grant temporary monopoly privileges in order to turn private motivation into public benefit. As a result, copyright law must always be balanced in favor of the public interest, and it should be recognized as just one of various mechanisms that promote creativity and innovation. New technology and new means of communication can do the same.

New technology and online access to a worldwide audience has enabled everyone to become content creators with a potentially limitless audience; this new reality has simultaneously created vast new industries, demolished barriers to entry in existing ones, and dramatically disrupted other industries. As technological innovations rapidly reduce the cost of content creation, distribution, and discovery, business models and enforcement strategies must remain dynamic in order to keep pace with change. In this environment, new business practices may be as effective as new public policy at bringing about meaningful change.

While copyright legislation may address numerous subjects, any reform should include two important principles: (1) accommodating new technology innovation and commerce so as not to make every licensee or consumer a copyright infringer; and (2) providing certainty to businesses that are not the "content industry" but are nevertheless substantially affected by the Copyright Act.

Congress can accommodate new technology innovation by:

(a) ensuring that fair use, which is integral to the fabric of the Copyright Act, remains a central consideration in any legislative effort;

(b) preserving the first sale doctrine to ensure that contractual restrictions do not limit the free movement of goods in the economy as more products increasingly incorporate digital components; and

(c) reforming the licensing landscape to ensure greater transparency as to copyright ownership and to better police against anticompetitive conduct, particularly where rights ownership is highly concentrated, and reforming Copyright Office functions to improve the quality and public availability of data about copyrighted works.

Congress can provide business certainty by:

(a) preserving the protections of the DMCA safe harbors for online services, which have been essential to the development of 21st-century Internet-based innovations such as cloud computing and social media, which necessarily includes preventing plaintiffs from "pleading around" the statute's protections, such as in the case of pre-1972 sound recording litigation;

(b) reforming disproportionate statutory damages to provide greater predictability, including by re-examining whether statutory awards should be permitted to aggregate infinitely, as well as the statutory minimum and maximum in the Act; ensuring greater predictability in secondary liability cases; requiring plaintiffs to elect such damages in a more timely manner, and providing courts with greater guidance in awarding damages;

(c) codifying the copyright misuse doctrine to create reasonable, yet meaningful penalties that deter the willful misuse of copyrights, anticircumvention provisions, and the DMCA's notice and takedown provisions, as well as allowing for statutory awards in particularly egregious cases of copyright misuse, just as the Copyright Act does for infringement; and

(d) restoring the corporate veil in copyright cases, such that corporate officers or shareholders should incur liability for the infringing activities of the corporation only if the officer or shareholder engaged in the infringing activity or would otherwise be liable under traditional secondary liability principles.

Any reform will encounter certain limitations. Policymakers will be compelled to confront the constraints of international agreements, which govern controversial subjects such as long terms and technological protection measures, as well as constraints arising from private contract, which may be a source of both freedom and complexity. Even within the bounds of these controversial subjects, modernization of the Copyright Act is possible. Such modernization is not only desirable, but necessary if the technological innovations of the new millennium are to achieve their full potential.

1. Background

Copyright reform is in the air.[1] The House Judiciary Committee recently concluded a series of 20 hearings on copyright matters. This comprehensive review, initiated in April 2013 by Chairman Bob Goodlatte, was characterized as "a wide review of our nation's copyright laws and related enforcement mechanisms is timely," with "the goal [to] be to determine whether the laws are still working in the digital age."[2]

The Chairman's announcement had followed a call by the Register of Copyrights, Maria Pallante, for Congress to begin consideration of the "next great Copyright Act,"[3] noting that the Copyright Act of 1976 is more than 35 years old. She also observed that the process of enacting the Copyright Act of 1976 took almost twenty years. Register Pallante identified mass digitization, orphan works, and the library exceptions in Section 108 as ripe for consideration given the Copyright Office's previous work on these topics. Following Chairman Goodlatte's announcement, the Judiciary Committee conducted 20 committee hearings, first on high-level subjects such as the contribution of copyright to innovation in the U.S. economy and new business models for delivering content, followed by hearings on individual sections in the Act.[4] As the process continues in 2015, attention turns to the specifics of legislative reform.

Likely to feed into the ongoing review are various government reviews of copyright, including the "Green Paper on Copyright Policy, Creativity, and Innovation in the Digital Economy" released in July 2013 by the U.S. Department of Commerce Internet Policy Task Force[5] and various other government reports, as well as scholarly contributions from academics.

1 Copyright reform is under discussion in other jurisdictions as well. For example, the European Union recently began a consultation on copyright reform, and individual member states, including the UK, Ireland, and the Netherlands, are conducting their own extensive reviews. Others countries, such as Australia, are considering or have recently conducted specifically Internet-focused copyright reforms. *See, e.g.*, Australian Government Online Copyright Infringement Discussion Paper, July 2014.

2 House Judiciary Committee, *Chairman Goodlatte Announces Comprehensive Review of Copyright Law*, Press Release, April 24, 2013, http://judiciary.house.gov/news/2013/04242013_2.html. Chairman Goodlatte's announcement also observed: "There is little doubt that our copyright system faces new challenges today. The Internet has enabled copyright owners to make available their works to consumers around the world, but has also enabled others to do so without any compensation for copyright owners. Efforts to digitize our history so that all have access to it face questions about copyright ownership by those who are hard, if not impossible, to locate. There are concerns about statutory license and damage mechanisms."

3 Maria A. Pallante, *The Next Great Copyright Act*, 46 Colum. J. L. & the Arts 315 (2013), *available at* http://www.copyright.gov/docs/next_great_copyright_act.pdf.

4 Tamlin Bason, *Copyright Review Process Will Continue Into 2015; Education and Circumvention Will Be Next Issues Examined*, Bloomberg BNA, Aug. 20, 2014, http://www.bna.com/copyright-review-process-n17179894026/.

5 The Department of Commerce Internet Policy Task Force, *Copyright Policy, Creativity, and Innovation in the Digital Economy* (July 2013), *available at* http://www.uspto.gov/news/publications/copyrightgreenpaper.pdf. Then-Secretary of Commerce Gary Locke launched the Task Force in April 2010, long before the House Judiciary Committee began its comprehensive review of the Copyright Act. The foreword describes the Green Paper as "a lens through which to assess current policy related to copyright and the Internet" and "a blueprint for further action". The USPTO is expected to release a final White Paper in the process later in 2015.

2. The New Digital Landscape

Empowered by new technology and the Internet, virtually everyone may become a content creator with a potentially limitless audience.[6]

This new reality has simultaneously created vast new industries, demolished barriers to entry in existing ones, and dramatically disrupted others. In particular, disruption has unseated incumbents in gatekeeping and curatorial roles, who are no longer relevant for many consumers and creators. One of the most transformational changes has been cloud computing. Today, functions that were once performed locally on users' computers, like storing and backing up files, consuming media, and processing data, can now be performed remotely "in the cloud", via an Internet connection. That is, rather than throw out their computers because the hard drive has grown too small, users may simply acquire more storage space online. Rather than ship a DVR to every subscriber, a cable company simply maintains the box at its headquarters and provides the same DVR functionality over the Internet. These activities are commonplace in today's digital landscape. They require copyright law to remain flexible, however, lest the same activity be regulated differently depending on whether files reside on a user's device or on devices hosted by a third party in the cloud.

Empowered by new technology and the Internet, virtually everyone may become a content creator with a potentially limitless audience.

At the same time that new technology has dramatically lowered the cost of content creation, distribution, and discovery, it has also lowered costs associated with both infringement and enforcement. Infringers may more easily (and unintentionally) reproduce and distribute works; enforcers can more easily find infringement and, using new technological tools, respond to it. This has produced a rapidly evolving environment, in which business models and enforcement strategies must remain dynamic in order to keep pace with change. Although new technology has considerably changed how modern users access and experience content, both artists and consumers have broadly benefited from this transformation. Research from 2012 found that consumers increased spending on content across the board in the prior decade, as new technology increased options for content consumption. A survey of industry data shows that output of video, books, music, and games has grown since the development of the Internet.[7] Academic research corroborates this, confirming that the advent of the Internet has increased the overall supply of recorded music,[8] even as concentration among labels and music publishers has increased.[9] Concentration in these sectors may check the democratizing effect of Internet platforms, and can threaten the consumer benefits that might otherwise be achieved through widespread access to new technology.

Insofar as a lack of lawful, affordable options contributes significantly to global media piracy,[10] the availability of new outlets and platforms for content consumption helps to diminish this effect. Research published by Spotify indicates that the introduction of the service into the Netherlands and Sweden substantially decreased unlawful music downloads in those countries, whereas it remained

6 *See, e.g.*, Mark Lemley, *IP in a World Without Scarcity*, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2413974 (forthcoming NYU L. Rev. 2015).

7 *See* Michael Masnick & Michael Ho, *The Sky is Rising* (Floor 64 2012), at 16-24, https://www.techdirt.com/skyisrising; *see also* Joel Waldfogel, *Copyright Protection, Technological Change, and the Quality of New Products: Evidence from Recorded Music since Napster*, NBER Working Paper No. 17503, at 21 (2011), http://www.nber.org/papers/w17503.pdf (describing the increase in music production after Napster).

8 A review of 30 years' data of new works of recorded music, including album sales, and traditional and Internet radio airplay, found that the total quantity of new albums released annually has increased sharply since 2000, driven by independent labels and purely digital products, along with a corresponding decreased concentration of sales in the top albums. The review also found increasing numbers of albums find commercial success without substantial traditional airplay; independent label albums account for a growing share of commercially successful albums. *See* Joel Waldfogel, *And the Bands Played On: Digital Disintermediation and the Quality of New Recorded Music* (Univ. Minnesota, NBER 2012 (prelim. draft)), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2117372.

9 Ben Sisario, *Deals to Split EMI Spur Scrutiny and Criticism*, N.Y. Times (Feb. 19, 2012), http://www.nytimes.com/2012/02/20/business/media/emi-consolidation-with-sony-and-universal-prompts-scrutiny-and-opposition.html (discussing recent music publisher concentration); Ankur Srivastava, *The Anti-Competitive Music Industry and the Case for Compulsory Licensing in the Digital Distribution of Music*, 22 Touro L. Rev. 375, 386-87 (2006) (discussing general trend in label concentration).

10 Joe Karaganis, ed., *Media Piracy in Emerging Economies* (Social Science Research Council 2011), http://piracy.americanassembly.org/wp-content/uploads/2011/06/MPEE-PDF-1.0.4.pdf.

quite prevalent in Italy, where Spotify had only just launched.[11] A Norwegian study found that the introduction of both Netflix and Spotify into that country were followed by a 50% reduction in video piracy and 80% reduction in music piracy.[12] Thus, new business policies may be more effective than new public policies at ensuring future compensation and creativity.

The principle of copyright remains an important tool in the Government's toolbox to promote scientific, cultural and economic progress, but in current practice, the complex, opaque, and highly concentrated U.S. system is increasingly incapable of facilitating certain socially and economically desirable uses. Easily navigated only by the most experienced corporate actors, the credibility of the copyright system is being tested as it leaves "consumers and other private citizens… increasingly frustrated."[13]

Under the current system, every work with a modicum of creativity, from a list of the best restaurants to an email to a friend receives copyright protection for the life of the author plus 70 years. Infringement of that copyright may lead to statutory damages up to $150,000. A smartphone places at the disposal of a teenager the computing power to incur millions of dollars of potential liability for browsing websites or forwarding images, clips of videos, and links.[14] In a system where so many works are covered by copyright for so long, where inadvertent infringement is common, and where the potential damages for infringement are so enormous, limitations and exceptions such as fair use are asked to bear more weight so as to avoid imposing liability in cases where it serves no useful purpose. Yet even limitations and exceptions do not absolve all unauthorized uses of works, and selective non-enforcement of rights is, by necessity, quite common.

But as Justice Breyer stated in *Kirtsaeng v. Wiley*, "a copyright law that can work in practice only if unenforced is not a sound copyright law. It is a law that would create uncertainty, would bring about selective enforcement, and, if widely unenforced, would breed disrespect for the law itself."[15] Although Justice Breyer was responding to the argument that rightsholders had not abusively enforced geographically based resale rights, his point is one of general applicability, and it describes the *status quo*: uncertainty, selective enforcement, and general disrespect for the copyright law.

Moreover, at precisely the same time that copyright has reached its apex by covering more works for a longer term than ever before, the incentive it provides for the creation of certain kinds of works is less necessary. By significantly lowering the costs of distribution, the Internet has radically changed the economics of scholarly communications and other educational resources. This, in turn, has allowed open access business models to flourish in these markets.[16] More people are producing a larger variety of work than ever before, and in many cases these works are not being created because they are protected by copyright; they are being created "in spite of, rather than because of, IP law."[17]

The Internet has also enabled the development of collaborative innovation models such as open source software. Open source software demonstrates that even with copyrightable subject matter, the expectation of monetizing creative effort through copyright

---

11 Will Page, Spotify, *Adventures in the Netherlands*, July 17, 2013, http://press.spotify.com/uk/2013/07/17/adventures-in-netherlands/.

12 Sophie Curtis, *Spotify and Netflix Curb Music and Film Piracy*, The Telegraph, July 18, 2013, http://www.telegraph.co.uk/technology/news/10187400/Spotify-and-Netflix-curb-music-and-film-piracy.html. *But see* KPMG, *UK Availability of Film and TV Titles in the Digital Age*, Dec. 2014 (finding that only 16% of most popular/acclaimed films available via Netflix), http://kpmg.com/uk/media.

13 *The Register's Call for Updates to U.S. Copyright Law: Hearing Before the Subcomm. on Courts, Intellectual Property and the Internet of the H. Comm. on the Judiciary*, 113th Cong. (2013) (statement of Maria A. Pallante, Register of Copyrights of the United States), http://copyright.gov/regstat/2013/regstat03202013.html.

14 *See* John Tehranian, *Infringement Nation*, 2007 Utah L. Rev. 537.

15 133 S. Ct. 1351, 1366 (2013).

16 *See* Jonathan Band, *The Changing Textbook Industry*, Disruptive Competition Project, Nov. 21, 2013, http://www.project-disco.org/competition/112113-the-changing-textbook-industry; *Innovation in America: Hearing Before the Subcomm. on Courts, Intellectual Property and the Internet of the H. Comm. on the Judiciary*, 113th Cong. (2013) (statement of the Library Copyright Alliance), http://www.librarycopyrightalliance.org/bm~doc/LCA-House-Copyright-Innovation-24-July-2013.pdf.

17 *See* Lemley, *IP in a World Without Scarcity*, *supra* note 6, at 49.

protection may not be necessary to provide an individual entity with an incentive to innovate. To the contrary, with open source software, copyright acts as the mechanism to prevent a single entity from appropriating the value of the innovation. Developers of open source software nonetheless derive significant revenue from selling their services, rather than their software. Another example of collaborative development effort facilitated by the Internet is Wikipedia, which creates billions of dollars of value for consumers.[18]

The Internet has even provided professional artists with new ways to generate financial support for their creative endeavors without relying on copyright. Artists can distribute digital content for free on the Internet and receive revenue from advertising or live concerts promoted by that content. Many creators do this by relying on simple, open, and flexible public licenses such as Creative Commons. They may offer their work requesting only attribution, so as to promote demand for their services, or simply to share their art with the public.[19] Artists can also use crowdfunding platforms such as Kickstarter, Indiegogo, and Patreon to raise funds.

This is not to say that copyright is irrelevant in the twenty-first century. On the contrary, it remains an important means of incentivizing the creation of certain kinds of economically valuable content. Because copyright is no longer a prerequisite for certain types of creation, however, the fact that it inhibits some creative models while promoting others means that it works as a sort of unintentional industrial policy, favoring established interests (some of which enjoy significant market power), over newer ones. Meaningful reform of U.S. copyright law will need to confront and address this reality.

3. Copyright Reforms for a Digital Economy

Any copyright reform aimed at promoting commerce in digital goods and services should pursue two general goals: (1) accommodating new technology innovation and commerce, and (2) providing business certainty to businesses that are not the "content industry" but are nevertheless substantially regulated by the Copyright Act.

3.1 Copyright Reform Must Accommodate New Technology Innovation and Commerce

A copyright system for the digital economy must serve two purposes: it must provide adequate economic incentives for creativity and expression, and it must accommodate new innovations in technology and commerce. As discussed below, these accommodations include maintaining sufficient flexibility to ensure breathing room for new technological advances, ensuring that copyright does not impede other economically valuable transactions, as well as providing a legal framework that makes large, complex systems like music delivery viable.

Technology, particularly Internet-enabled technology, has radically advanced the U.S. economy in recent years and this transformation can be expected to continue. In mature economies, 21% of recent GDP growth can be attributed to the Internet.[20] In fact, the Internet's contribution to the U.S. economy now exceeds that of the U.S. Federal Government, and by 2016 is estimated to reach $4.2 trillion

18 *See* Jonathan Band & Jonathan Gerafi, *Wikipedia's Economic Value* (InfoJustice 2013), http://infojustice.org/archives/30858.

19 Department of Commerce Internet Policy Task Force, *Copyright Policy, Creativity, and Innovation in the Digital Economy*, *supra* note 5, at 87-89.

20 James Manyika & Charles Roxburgh, *The great transformer: The impact of the Internet on economic growth and prosperity* (McKinsey Global Institute 2011), at 1, http://www.mckinsey.com/insights/high_tech_telecoms_internet/the_great_transformer. If the Internet were a nation, it would have surpassed Italy and Brazil in 2010, and by 2011 it outranked Spain and Canada in terms of GDP. *See* David Dean *et al.*, *The Connected World: The $4.2 Trillion Opportunity - The Internet Economy in the G-20* (Boston Consulting Group 2012), at 3, https://publicaffairs.linx.net/news/wp-content/uploads/2012/03/bcg_4trillion_opportunity.pdf.

across all G-20 economies.[21] This growth is not localized within the 'tech sector;' research indicates that 75% of the positive impact of the Internet accrued to more traditional industries through efficiency gains and expanded markets.[22]

It is difficult to overstate the impact of this sector. Search technology alone provided at least $780 billion in value worldwide in 2011,[23] and while the growth of "consumer-facing" sites like Facebook, YouTube, and Twitter, have revolutionized the economy, the sector also includes a largely overlooked consumer support layer, including advertising, that contributes substantially to growth and job creation.[24] Additional potential for growth still exists: a recent publication of the World Economic Forum concluded that the Internet "can be a powerful tool to unlock SME ('small and medium-sized enterprises') export potential", and that removing barriers to Internet-enabled international trade could increase cross-border opportunities for small businesses by 60% to 80%.[25]

To ensure that these benefits remain available to future enterprises, any copyright reform should acknowledge the significance of doctrines ensuring copyright flexibility, particularly limitations and exceptions like the fair use doctrine and first sale.

3.1.1 Ensure Fair Use is a Central Consideration in Reform

The balance inherent in U.S. copyright law, including limitations such as fair use, has nurtured an environment of productive growth, and economic expansion.[26] In 2008 and 2009, industries benefiting from limitations and exceptions to copyright accounted for an average of $4.6 trillion in revenues, and contributed an annual average of $2.4 trillion to the U.S. economy, or approximately 17 percent of total U.S. current dollar GDP. These industries employ 17 million people, generating a payroll in 2008-09 averaging $1.2 trillion, and exports of $266 billion goods and services in the same period. Notably, exports of trade-related services, including Internet or online services, were the fastest growing segment, increasing nearly ten-fold from $578 million in 2002 to more than $5 billion annually in 2008-2009.[27]

The balance inherent in U.S. copyright law, including limitations such as fair use, has nurtured an environment of productive growth, and economic expansion.

Excessive protection and IP-related regulation can be as problematic as too little. Judge Alex Kozinski, former Chief Judge of the Ninth Circuit, noted that "[c]ulture, like science and technology, grows by accretion, each creator building on the works of those who came before. Overprotection stifles the very creative force it's

21 Dean, *id.*, at 3.

22 Notably, small businesses are among the greatest beneficiaries of Internet technology; those who heavily utilized the Internet exported twice as much as those that did not. Matthieu Pélissié du Rausas *et al.*, *Internet matters: The Net's sweeping impact on growth, jobs, and prosperity* (McKinsey Global Institute 2011), at 3, http://www.mckinsey.com/insights/high_tech_telecoms_internet/internet_matters.

23 Jacques Bughin *et al.*, *The impact of Internet technologies: Search* (McKinsey Global Institute 2011), at 1, http://www.mckinsey.com/insights/marketing_sales/measuring_the_value_of_search.

24 John Deighton, *Economic Value of the Advertising-Supported Internet Ecosystem* (Interactive Advertising Bureau 2012), http://www.iab.net/media/file/iab_Report_September-24-2012_4clr_v1.pdf.

25 World Economic Forum, *Enabling Trade, Valuing Growth Opportunities* (2013), at 19-20.

26 Thomas Rogers & Andrew Szamosszegi, *Fair Use in the U.S. Economy: The Economic Contribution of Industries Relying Upon Fair Use* (CCIA 2011), http://www.ccianet.org/wp-content/uploads/library/CCIA-FairUsein-theUSEconomy-2011.pdf; *see also* Benjamin Gibert, *2015 Intellectual Property and Economic Growth Index: Measuring the Impact of Exceptions and Limitations in Copyright on Growth, Jobs and Prosperity* (Lisbon Council 2015), http://www.lisboncouncil.net/index.php?option=com_downloads&id=1142.

27 *Id*. The U.S. is not alone in this experience. Research indicates that the introduction of fair use amendments in Singapore substantially increased the growth of industries relating to private copying technology, while having a negligible impact on copyright industries. Roya Ghafele & Benjamin Gibert, *The Economic Value of Fair Use in Copyright Law: Counterfactual Impact Analysis of Fair Use Policy On Private Copying Technology and Copyright Markets in Singapore* (Oxfirst Ltd. 2012), http://bit.ly/1bVpKYZ. Research in Europe also indicates a substantial reliance on copyright "flexibilities", although not as substantial as in the United States. *See* P. Bernt Hugenholtz & Martin R.F. Senftleben, *Fair Use in Europe: In Search of Flexibilities* (Universiteit van Amsterdam 2011), http://www.ivir.nl/publicaties/download/912.

supposed to nurture."[28] For this reason, "[o]verprotecting intellectual property is as harmful as underprotecting it. Creativity is impossible without a rich public domain."[29] Although greater protection may provide additional reward to the author, society pays for this reward by being deprived of follow-on use. For this reason, protection exceeding the amount necessary to incentivize innovation represents a deadweight loss to the economy.[30] Limitations and exceptions help minimize this deadweight loss, and several, such as the fair use doctrine, provide breathing room for new innovations.

This economic data is consistent with what one sees before courts. Both authors and technology providers frequently rely upon the fair use doctrine. It is widely known that online services ranging from cloud computing to search to news depend upon fair use. Numerous platforms accommodate their own "community that takes existing content and comments on it, and re-mixes it and comments on it," – and these functions are "very much about fair use."[31] But fair use is not limited to the technology sector. In the last few years, a diverse group including theatre producers, artists, movie studios, movie studios, patent lawyers, rock bands, and an NFL football team all prevailed on fair use defenses before federal courts in prominent cases.[32] In one case, the Ninth Circuit observed that "an overzealous monopolist can use his copyright to stamp out the very creativity that the Act seeks to ignite. To avoid that perverse result, Congress codified the doctrine of fair use."[33] The Ninth Circuit went on to state that "lawsuits of this nature... have a chilling effect on creativity insofar as they discourage the fair use of existing works in the creation of new ones," and that fair use "is an integral part of copyright law precisely because it gives authors 'breathing space within the confines of copyright' to build upon their predecessors' works."[34]

Although no specific reform of the fair use doctrine is necessary, other reforms may affect the fair use doctrine, and potential effects on fair use should be considered in any reform. For example, increasing statutory damages may deter socially desirable fair uses, and allowing DMCA abuses to continue unchecked may prevent fair use criticism, commentary, and political speech. Because fair use is so integral to the fabric of the Copyright Act, it must be a central consideration in any legislative effort.[35]

3.1.2 Preserve the First Sale Doctrine

As discussed below in Section 4.2, the pervasiveness of software means that copyright licensing has the potential to govern considerable parts of the U.S. economy. For over 100 years, the first sale doctrine, codified in Section 109(a) of the Copyright Act, has been one of the basic principles of copyright law. It provides that the owner of a copy of a work may sell, rent, or otherwise dispose of that copy without infringing the copyright holder's distribution right. The first sale doctrine guarantees that physical goods in which

---

28 *White v. Samsung Electronics of America, Inc.*, 989 F.2d 1512, 1513 (9th Cir.) (Kozinski, J., dissenting), *cert. denied*, 113 S. Ct. 2443 (1993). *See also* William M. Landes & Richard A. Posner, *The Economic Structure of Intellectual Property Law*, at 326-27 (2003) ("There is also evidence that the patenting of computer software actually retards innovation because most software innovation both builds on and complements existing software. Without the retardation introduced by patenting and the resulting need to negotiate licenses, software manufacturers would innovate more rapidly and each would benefit from the others' innovations, which, because of the sequential and complementary nature of the innovations in this industry, would enhance the value of the existing products.").

29 *Id*.

30 *See* Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 Tex. L. Rev. 1031 (2005).

31 Sarah Lai Stirland, *Union Square Ventures' Nick Grossman on Building the Future for Startups*, Disruptive Competition Project, May 12, 2014, http://www.project-disco.org/intellectual-property/051214-union-square-ventures-nick-grossman-on-building-the-future-for-startups/.

32 *See* Matt Schruers, *2013 Brought Major Fair Use Wins for Tech, Entertainment*, Disruptive Competition Project, Dec. 4, 2013, http://www.project-disco.org/intellectual-property/120413-2013-bring-major-fair-use-wins-for-tech-entertainment-industries.

33 *SOFA Entertainment, Inc. v. Dodger Prods.*, 709 F.3d 1273, 1277-78 (9th Cir. 2013) (internal citations omitted).

34 *Id*. at 1280.

35 Plaintiffs in several cases have argued that specific exceptions in the Copyright Act limit the availability of fair use. *See, e.g.*, *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510 (9th Cir. 1992); *Authors Guild, Inc. v. HathiTrust*, 755 F.3d 87 (2d Cir. 2014). Courts have rejected these arguments as bordering on the frivolous, yet it is likely that plaintiffs will continue to try to cabin fair use in this manner. Accordingly, it may be advisable for Congress to put this argument to rest once and for all by adopting a savings clause along the lines of 17 U.S.C. §108(f)(4) stating unambiguously that none of the specific exceptions in sections 108-122 in any way limit the availability of fair use.

some copyrighted work has been embodied function like other conventional chattels, enabling commerce, as well as rental, gifts, and charitable donations, and various other conventional actions that consumers do not expect to be regulated by intellectual property constraints. In short, the first sale doctrine promotes free and open commerce by moving products from those who value them less to those who value them more. When combined with the global marketplace that the Internet has created, which increases potential demand and removes infrastructure costs traditionally associated with global trade, the first sale doctrine offers significant opportunities for international commerce. Today, thousands of online businesses engage in the sale, lending, leasing, or giving away of products.

In 2013, the Supreme Court made an important ruling to protect the first sale doctrine by finding in *Kirtsaeng v. John Wiley & Sons* that it applied to copies regardless of their place of manufacture. The first sale doctrine, however, remains under pressure. Although circuit courts are not completely in agreement, some have held that a user who purchases a copy of a computer program is not the owner of the copy for purposes of the first sale doctrine if the software publisher: (1) specifies that the user is granted only a license to the copy; (2) significantly restricts the user's ability to transfer the software; and (3) imposes notable use restrictions.[36]

The first sale doctrine faces new challenges in the digital age. Products such as books, music, and movies are increasingly being made available digitally, meaning they are licensed rather than sold, which therefore may take them potentially outside the scope of the first sale doctrine. Additionally, non-traditional physical goods are also becoming digital, such as "smart" devices comprising the Internet of Things. Software in these smart devices could also be licensed, and those licenses could potentially prevent lawful transfers. Although this principle may be accepted by consumers purchasing retail software, the prospect of rendering all acquisition of digital goods a license rather than a sale could have significant economic effects. With Gartner predicting that nearly 5 billion "things" will be network-connected by the end of this year, the prospect that products with embedded software might not be transferrable should raise substantial concerns about consumer welfare and the efficient movement of goods in the economy.[37] While a robust doctrine of misuse may prevent manufacturers from constraining the free movement of their goods in secondary markets, a more direct response to this problem would be to render unenforceable license terms for embedded software that limit resale.

3.1.3 Institute Licensing Reforms to Promote Commerce

Copyright reform should aim to increase the availability of content through lawful options, particularly online. Copyright complexity is all too often a barrier to entry. The complexity of licensing creative works impedes the development of new content delivery services. Balkanized rights and opaque marketplaces mean that only well-funded or determined ventures can enter such industries. Although these costs are most visible in the case of music licensing, the fact that complexity and gridlock can paralyze the development of new content-delivery services is true across the entire digital economy. The solution to these problems is greater transparency, which will facilitate licensing and promote the broader availability of copyrighted works.

For too long, the copyright conversation has emphasized 'sticks' over 'carrots,' focusing on greater taxpayer-funded enforcement, higher statutory damages, stronger penalties, and increased "deputization" of intermediaries, without attempting to encourage more widespread availability of lawful content options. While some progress has occurred in the marketplace, the "celestial jukebox" predicted two decades ago still remains a utopian vision, due in part to so-called "windowing" strategies. Windowing, or selectively and exclusively licensing content to specific distribution channels for fixed periods of time, can exacerbate piracy. As noted above in

36 *Vernor v. Autodesk*, 621 F.3d 1102 (9th Cir. 2010); *but see Krause v. Titleserv*, 402 F.3d 119 (2d Cir. 2005).

37 Press Release, Gartner, "Gartner Says 4.9 Billion Connected 'Things' Will Be in Use in 2015" (Nov. 11, 2014), http://www.gartner.com/newsroom/id/2905717.

Section 2, restricting lawful options for accessing content, particularly through seemingly arbitrary changes in availability, appears to drive consumers to unlawful downloading.

In one documented example, when Fox began delaying shows' release on the Hulu platform in 2011, observers noted a marked increase in unlawful downloading of Fox television programming.[38] Similarly, during the 2013 Time Warner/CBS retransmission fee dispute, evidence showed users turning to BitTorrent to watch CBS's "Under the Dome."[39] The market impact of window-driven infringement appears to vary. A 2012 study found that piracy had a limited effect on U.S. box office revenues, in contrast to international releases.[40] Because there is often a release window between U.S. and international releases, many international consumers do not have a legal avenue with which to view films during their initial release period, and instead, turn to piracy. Findings of this nature suggest that increasing access to content, through new services and platforms, is a necessary strategy for mitigating infringement. While windowing and selective distribution may in some cases produce greater revenue, it also may constitute a negative externality, imposing greater law enforcement costs on taxpayers. If other distribution strategies lead to lower piracy, the total costs of enforcement may decrease.

In the licensing context, complexity stems in part from opacity of rights ownership information – particularly with respect to music. Only the largest services can meaningfully assess who controls the licensing rights to all works that could be made available to consumers. The information is often unavailable, and at least in the music context, rightsholders take active measures to conceal it from willing licensees. Rights to multi-author works are often divided among multiple entities, with each purporting to have veto power over the use of the song. This lack of transparency exacerbates market power problems in the highly concentrated label and publisher industries. Catalog transparency problems are amplified by the lack of copyright formalities that would otherwise permit services to track highly fragmented ownership rights.

Historically, the availability of compulsory licenses and PRO blanket licenses has mitigated anticompetitive misconduct and reduced licensing transaction costs. At present, the Justice Department's Antitrust Division is engaged in a review of its longstanding consent decrees with the two largest PROs, ASCAP and BMI, following on court findings pointing to anticompetitive and collusive behavior directed at new-technology services. Although the consent decrees remain a crucial component of the music landscape, they should also be modernized in various ways, including, at a minimum, by increasing transparency of ownership of individual copyrighted works and oversight to prevent anticompetitive behavior. Even now, under the current consent decrees, anticompetitive behavior persists. In response to this, numerous stakeholders have called for more accurate and transparent access to information about the ownership of interests in musical works that music publishers and the PROs may license. Modernization of the consent decrees should mandate increased disclosures to ensure transparency regarding what works a PRO or publisher controls, and, for works with multiple authors, the ownership interests each publisher or PRO controls. Such transparency mechanisms could also be achieved through legislative action. Until action is taken, the lack of reliable public data on rights ownership will impede competition, particularly in the licensing of musical works.[41]

As long as content licensing is characterized by high transaction costs and concentration in certain content industries, digital commerce will not reach its full potential. This is particularly acute in music licensing. As discussed further in Section 4.2 below,

---

38 Ernesto, *Fox's 8-Day Delay on Hulu Triggers Piracy Surge*, TorrentFreak, Aug. 22, 2011, http://torrentfreak.com/foxs-8-day-delay-on-hulu-triggers-piracy-surge-110822.

39 Brian Fung, *How CBS Sparked More Online Piracy – of its Own Show*, Wash. Post, Aug. 8, 2013, http://www.washingtonpost.com/blogs/the-switch/wp/2013/08/08/how-cbs-sparked-more-online-piracy-of-its-own-show.

40 Brett Danaher & Joel Waldfogel, *Reel Piracy: The Effect of Online Film Piracy on International Box Office Sales* (2012), http://ssrn.com/abstract=1986299.

41 Insofar as the Justice Department or Congress should choose to modify the blanket licensing regimes embodied in the PRO consent decrees, any such modifications must be accompanied by a corresponding expansion of oversight and transparency obligations, either in the consent decrees or pursuant to legislation.

contractual arrangements among co-owners of copyrighted works restrict non-exclusive licensing. In the context of the music publishing industry where a handful of firms control significant market shares in copyrighted musical works, these arrangements demand scrutiny by policymakers.

Overcoming licensing gridlock and other aspects of copyright complexity requires better data, which can be facilitated through Copyright Office reforms, including the incorporation of standardized identifiers into Copyright Office registration and recordation forms.[42] Implementing public facing APIs that would allow better public access to Copyright Office records would also help combat opacity and rights ownership gridlock. While modernizing Copyright Office functions can help mitigate some problems, no silver bullet resolves all problems resulting from concentration among licensors and the absence of formalities in U.S. copyright.

Another ongoing policy matter unique to music relates to sound recordings recorded before February 15, 1972, which are not subject to federal copyright protections. This strange wrinkle further complicates music licensing, and has led some rightsholder plaintiffs to claim that the Digital Millennium Copyright Act safe harbors do not apply to pre-1972 sound recordings. This matter is presently before the Second Circuit in *Capitol Records v. Vimeo*. As discussed below in Section 3.2.1.1, holding that the DMCA's safe harbors do not apply as equally to pre-1972 sound recordings as they do to other materials protected by copyright law would undermine the very purpose for Congress's creation of the DMCA safe harbors for online service providers, require making statutory interpretations that are at odds with the construction of Title 17, and conflict with international obligations of the United States.

Regardless of whether Congress chooses to federalize all sound recordings protected under state laws, it should nevertheless ensure that the limitations and exceptions which Congress has provided at the federal level are appropriately extended to the state level. Where the policy considerations (or constitutional imperatives) for a given exception apply with equal force to state and federal works, such as in the case of the DMCA, Congress should ensure these exceptions apply uniformly.

3.2 Copyright Reform Must Provide Business Certainty

Many technology and Internet sector businesses are themselves beneficiaries of the intellectual property system, including copyright law, even though they are not traditionally associated with the "content" industry. Nevertheless, the burdens of IP compliance must be weighed against these benefits.

Copyright compliance has a great impact on early-stage investment, and consequently, the economy.

Copyright compliance has a great impact on early-stage investment, and consequently, the economy.[43] Surveys of hundreds of angel investors and venture capitalists found them to be overwhelmingly wary of new regulations, in particular those which would introduce ambiguity into the copyright system. In particular, increasing user or website liability would negatively affect innovation by driving early investors into other areas. Survey data in 2011 found that such risk could have the effect of reducing the pool of interested angel investors by 81%, and that increased exposure for users would likely reduce the pool of interested angel investors by 48%.[44] In general, 80% of

42 *See* 80 Fed. Reg. 13,325-28 (Mar. 13, 2015) (noticing public meeting on need to facilitate online licensing through, *inter alia*, "improved searchability, collection of appropriate data including identifiers, integration with third party databases, and the development of a data repository").

43 Matthew Le Merle *et al., The Impact of U.S. Internet Copyright Regulations on Early-Stage Investment: A Quantitative Study* (Booz & Company 2011), http://www.strategyand.pwc.com/media/uploads/Strategyand-Impact-US-Internet-Copyright-Regulations-Early-Stage-Investment.pdf.

44 *Id.* at 6.

investors polled reported being uncomfortable investing in business models in which the regulatory framework is ambiguous.[45] A global survey of investors in 2014 reaffirmed these findings, with 85% agreeing or strongly agreeing that risks from large damage awards and secondary liability were a significant concern when investing in digital content intermediaries.[46]

Changes in copyright law and policy that provide more certainty for intermediaries, such as the Court of Appeals for the Second Circuit's decision in *Cartoon Network, LP v. CSC Holdings, Inc. ("Cablevision")*,[47] positively impact venture capital investment in cloud computing. The Cablevision decision led to additional incremental investment in U.S. cloud computing firms that ranged from $728 million to approximately $1.3 billion over the two-and-a-half years after the decision, the approximate equivalent of $2 to $5 billion in traditional R&D investment.[48] Following *Cablevision*, the average quarterly investment in cloud computing in the United States increased by approximately 41 percent.[49] In contrast with U.S. law, European courts took a different approach, reaching decisions that increased risk for the online intermediary platforms that account for 1.4% of the European GDP.[50] Copyright decisions in France and Germany unfavorable to cloud computing led to an average reduction in VC investment in French and German cloud computing firms of $4.6 and $2.8 million per quarter, respectively, implying a total decrease in French and German VC investment of $87 million from the time these decisions were handed down through the end of 2010.[51]

Given that business certainty so significantly affects new technology investment, copyright reforms should endeavor to increase business certainty for industries regulated by the Copyright Act, including by rationalizing copyright's statutory damages system, strengthening safe harbors, deterring misuse, and reestablishing that the corporate veil applies equally in copyright as it does elsewhere.

3.2.1 Strengthen Online Safe Harbors

Current U.S. copyright law contains safe harbors that ensure predictability in the online environment. These safe harbors are located in Section 512 of the DMCA, which limits remedies available against online intermediaries whose users are implicated in copyright infringement, provided that the service provider complies with a notice and takedown regime specified in the Act.[52]

In 1998, Congress recognized that if online services faced liability for third party content handled in ordinary course of operations, investment in the Internet economy would suffer.[53] By guaranteeing that service providers who respond expeditiously to infringement claims will benefit from liability limitations, safe harbor protections enable the Internet industry to contribute substantially to the economy without the risk of being exposed to penalties based on misconduct by third parties using their service.

---

45 *Id.*

46 Matthew Le Merle *et al.*, *The Impact of Internet Regulation on Early Stage Investment* (Fifth Era 2014), at 20, http://www.fifthera.com/s/Fifth-Era-report-lr.pdf.

47 536 F.3d 121 (2d Cir. 2008).

48 Josh Lerner *et al.*, *The Impact of Copyright Policy Changes on Venture Capital Investment in Cloud Computing Companies* (Analysis Group 2011), at 1, http://www.analysisgroup.com/uploadedFiles/Publishing/Articles/Lerner_Fall2011_Copyright_Policy_VC_Investments.pdf.

49 *Id*. at 9-11. The paper applies variants of difference-in-difference regression analysis, so as to control for trends in the United States, relative to the EU and general worldwide trends.

50 Copenhagen Economics, *Online Intermediaries: Assessing the Economic Impact of the EU's Online Liability Regime* (EDiMA 2012), at 24, http://www.europeandigitalmedia.org/uploads/Press/documents/Copenhagen%20Economics-Online%20Intermediaries-201201.pdf.

51 Josh Lerner *et al.*, *The Impact of Copyright Policy Changes in France and Germany on Venture Capital Investment in Cloud Computing Companies* (Analysis Group 2012), at 1, http://www.analysisgroup.com/uploadedFiles/News_and_Events/News/2012_EU_CloudComputing_Lerner.pdf.

52 17 U.S.C. § 512.

53 *See* S. Rep. No. 105-190, at 8 (1998).

This successful framework regulates how much of the Internet addresses third party infringement. The DMCA is such a critical cornerstone of Internet and telecommunications policy that its framework has been incorporated as a binding bilateral obligation in nearly a dozen U.S. Free Trade and Trade Promotion Agreements.[54] Copyright Office records indicate that over 60,000 online services have complied with the formalities necessary to receive protection under the DMCA.[55] An even larger number of individuals and businesses rely upon those DMCA-protected service providers to communicate, find goods, services, and information, and compete in the global marketplace at lower costs. Without these protections, 21st-century industries ranging from social media to cloud computing would not be legally feasible.

The importance of the DMCA safe harbors is reflected in comments by leading e-commerce providers and entrepreneurs. In Congressional testimony in March 2014, Paul Sieminski, General Counsel for WordPress operator Automattic, Inc., connected the fact that "the United States is now home to the most thriving and advanced internet companies in the world" with the certainties of the DMCA, noting that the "safe harbor provisions of the law are very important to us, and we, like hundreds of other internet service providers, rely on them in publishing the huge amount of online content that our users create. The DMCA provides important certainty that our hosting of user generated content will not lead to costly and crippling copyright infringement lawsuits."[56] As e-commerce platform Etsy's chief IP counsel recently noted, the inability to know who has licensed what and or reliably evaluate what uses are privileged makes the DMCA essential, since Etsy, like many smaller platforms, cannot know "who's using licensed material in an appropriate way, and who has a license. We don't know what's parody, what's commentary and criticism, what the brand thinks is appropriate advertising. That's why the DMCA exists."[57]

Just as DMCA-compliant platforms have revolutionized commerce, they have also radically altered civic participation, disintermediated historical gatekeepers, and given voice to those who otherwise could not reach a global audience. This is clearly evident in politics: although it is difficult today to envision national elections without online campaign videos, this development has occurred almost entirely within the last 10 years.

While the DMCA safe harbors have been extraordinarily successful in facilitating the amazing growth of the current Internet economy, these protections are under pressure from litigation and abusive practices. Accordingly, any reform of copyright law should reinforce these protections.

3.2.1.1 Preserving the DMCA's protections

Unfortunately, the protections of the DMCA are not so extensive as to protect lawful services from costly litigation. As the case of Veoh shows, even lawful, DMCA-compliant services can be litigated into bankruptcy.[58] Viacom prominently subjected YouTube to

---

54 Recognizing that liability risks "weaken private sector confidence" and impede market entry, numerous countries around the world have followed the lead of the U.S. by providing liability limitations to online services. *See* OECD, *The Role of Internet Intermediaries in Advancing Public Policy Objectives* (2011), at 15, http://dx.doi.org/10.1787/9789264115644-en. Continued U.S. dominance in the Internet sector may result in part from the fact that these protections are often inadequately secured in foreign countries, causing greater liability risks. *See* Martin H. Thelle & Svend T. Jespersen, *Online Intermediaries: Assessing the Economic Impact of the EU's Online Liability Regime* (Copenhagen Economics 2012), at 7, http://www.europeandigitalmedia.org/uploads/Press/documents/Copenhagen%20Economics-Online%20Intermediaries-201201.pdf.

55 *See* U.S. Copyright Office, *Directory of Online Service Provider Designated Agents*, http://www.copyright.gov/onlinesp/list/a_agents.html.

56 *Section 512 of Title 17: Hearing Before the Subcomm. on Courts, Intellectual Property and the Internet of the H. Comm. on the Judiciary*, 113th Cong. (2014) (testimony of Paul Sieminski, Automattic Inc. General Counsel), http://judiciary.house.gov/_cache/files/b343eabe-0bf1-44e9-8c85-b3478892b8e1/031314-testimony—sieminski.pdf.

57 Sarah Lai Stirland, *Etsy's Sarah Feingold on Small Business and Copyright Compliance*, Disruptive Competition Project, July 23, 2014, http://www.project-disco.org/intellectual-property/072314-etsys-sarah-feingold-small-business-copyright-compliance/.

58 Eliot Van Buskirk, *Veoh Files for Bankruptcy After Fending Off Infringement Charges*, Wired, Feb. 12, 2010, http://www.wired.com/business/2010/02/veoh-files-for-bankruptcy-after-fending-off-infringement-charges/ ("History will add online video site Veoh to the long list of promising start-ups driven into bankruptcy by copyright lawsuits — despite the fact that unlike the others, it actually prevailed in court.").

years of high-profile yet ultimately unsuccessful litigation but unlike Veoh, YouTube possessed the resources to survive a marathon legal campaign.[59]

THE STORY OF VEOH

Press accounts characterized Veoh as a "promising start-up" that offered user-generated video content alongside licensed content from major media companies and broadcasters, and having inked licensed content deals may one day have competed with the likes of YouTube and Hulu. Veoh was sued, however, on the claim that its users had uploaded infringing works to the platform, and Veoh's DMCA Section 512 compliance was allegedly insufficient.

> **The prospect of personal liability for the actions of your company's customers is extraordinarily chilling.**

After three years of litigation, Veoh sought bankruptcy protection. The plaintiffs then renewed their litigation against Veoh's *investors*, seeking to hold those who had provided capital to Veoh responsible for the actions of Veoh's users. While Veoh and its investors were ultimately cleared on all counts, this exoneration came too late. Veoh is one of a troubling number of cases illustrating the tendency for investors, founders, and officers, to be sued *in their personal capacity* for alleged copyright infringement by users of the company's products. The prospect of personal liability for the actions of your company's customers is extraordinarily chilling.

See UMG Recordings, Inc. v. Shelter Capital Partners LLC, 718 F.3d 1006 (9th Cir. 2013); *see also* Eliot Van Buskirk, *Veoh Files for Bankruptcy After Fending Off Infringement Charges*, Wired, Feb. 12, 2010, http://www.wired.com/business/2010/02/veoh-files-for-bankruptcy-after-fending-off-infringement-charges/ ("History will add online video site Veoh to the long list of promising start-ups driven into bankruptcy by copyright lawsuits").

If liability risks for DMCA-compliant services increase, this will have the effect of discouraging DMCA compliance, since companies will see no value in expensive compliance that yields no benefit. This unhappy result would injure both service providers and rightsholders, and it is thus best to consider, as the Fourth Circuit has stated, that "the DMCA's safe harbor for ISPs to be a floor, not a ceiling, of protection."[60]

As noted above in Section 3.1.3, one example of a threat to the DMCA's protections is litigation over the applicability of DMCA safe harbor protection with respect to pre-72 sound recordings stored with an online service provider at the direction of a user. In several cases, rightsholders have sued with respect to sound recordings protected by state law, and contended that the federal safe harbors do not apply. Although the Copyright Office and a federal court have reached this conclusion, it was in error, based upon a misquotation of the federal statute.[61] Upholding these rulings would compel online service providers to do what Congress has already determined

59 *See* Peter Kafka, *It's Over! Viacom and Google Settle YouTube Lawsuit*, Re/Code, Mar. 18, 2014, http://recode.net/2014/03/18/its-over-viacom-and-google-settle-youtube-lawsuit/ (noting no payment in settlement).

60 *CoStar Grp., Inc. v. LoopNet, Inc.*, 373 F.3d 544, 555 (4th Cir. 2004).

61 In a report, the Copyright Office concluded that the relevant statutory phrase, "'infringement of copyright' . . . is defined in Section 501(a) as the violation of 'any of the exclusive rights of the copyright owner as provided by sections 106 through 122.'" *See* U.S. Copyright Office, *Federal Copyright Protection for Pre-1972 Sound Recordings* (2011), at 130-31. However, the phrase "infringement of copyright" is not defined in Section 501(a), nor does the subsection even contain the word "infringement". (It instead refers, non-exclusively, to "an infringer.") Based on this misreading, however, the Copyright Office concluded that Congress's use of the phrase "infringement of copyright" in Section 512 leaves online services exposed to liability for copyright infringement under state law, even as Congress sought to limit liability for federal infringement. Although at least one federal court has rejected interpretations based on this misquotation, *see Capitol Records, Inc. v. MP3tunes, LLC,* 821 F. Supp. 2d 627, 641 (S.D.N.Y. 2011), plaintiffs continue to press this argument.

they are not required to do: monitor the content uploaded by users to detect infringing content.[62]

To ensure the DMCA's protections remain meaningful, any copyright reform intending to promote the digital economy should confirm that the safe harbors for online service providers for content stored at the direction of a user apply to all copyright liability (and comparable state law claims), not merely to federal copyright liability.[63]

3.2.1.2 Deterring misuse of DMCA takedowns

One shortcoming of the DMCA is that the injunctive-like remedy of a takedown, combined with a lack of due process, encourages abuse by individuals and entities interested in suppressing content. The absence of due process in the DMCA was not a mistake, however; it was designed into the statute to ensure rightsholders could gain expeditious relief without judicially-related delay or cost. As the Center for Democracy & Technology noted in a 2010 white paper, the incentives of the DMCA system are such that

> Content hosts have a strong incentive to comply promptly with any facially proper takedown notice they receive, because doing otherwise could jeopardize their crucial safe harbor protection. Even when a takedown notice targets non-infringing content, therefore, it is highly likely to result in the removal of that content – and hence the undue muzzling of legitimate speech.[64]

Unfortunately, the substantial risk of forfeiting the safe harbor enables self-identified rightsholders to exploit the statute's incentive structure and effectively censor non-infringing content.

Because intermediaries bear large and measurable costs for failing to retain the safe harbor, but less quantifiable costs (in the form of potentially irate users and social losses to free expression and competition) from wrongful takedowns, many services naturally default to removing content without question – as Congress intended. Although most rightsholders make good faith use of the DMCA, there are numerous well-documented cases of misuse of the DMCA's extraordinary remedy. In many cases, bad actors have forced the removal of material that did not infringe copyright.[65] This includes particularly troublesome cases where Section 512 has been used to (a) chill political speech by demanding the takedown of news clips and ads from campaign websites, (b) suppress consumer reviews of products and services, and (c) retaliate against critics.[66]

Recognizing that the DMCA could be misused, Congress built into Section 512 two mechanisms for preventing abuse, both of which have proven insufficiently effective. First, a user can employ the counter-notification process of Section 512(g) to request that access to taken-down material be restored if the rightsholder does not initiate a copyright infringement actions against the user. Second, under Section 512(f), a rightsholder who "knowingly materially misrepresents ... that material or activity is infringing" is liable for "damages, including costs and attorneys' fees, incurred" by the wrongfully accused. In a recent case, however, where a putative rightsholder falsely alleged infringement for the purpose of suppressing the speech of the accused infringer, a court ordered the

---

62 17 U.S.C. § 512(m)(1) (no obligation to monitor service to receive safe harbor protections).

63 Congress's intent in creating the DMCA safe harbors was to provide liability limitations from all of Title 17, including pre-1972 sound recordings, Section 1201, and anti-bootlegging provisions.

64 Center for Democracy & Technology, *Campaign Takedown Troubles: How Meritless Copyright Claims Threaten Online Political Speech* (2010), at 3, http://www.cdt.org/files/pdfs/copyright_takedowns.pdf.

65 *See, e.g.*, *Lenz v. Universal Music Corp.*, 572 F. Supp. 2d 1150, 1154 (N.D. Cal. 2008) (record company sent DMCA notice without considering whether video was fair use); *Online Policy Group v. Diebold, Inc.*, 337 F. Supp. 2d 1195 (N.D. Cal. 2004) (maker of voting machines alleged copyright violation to silence critics). In the case *In Design Furnishings, Inc. v. Zen Path LLC* (E.D. Cal. 2010), a distributor of wicker furniture sent DMCA takedown notices to eBay with respect to the listings of a competing distributor of wicker furniture, falsely alleging that it had a copyright in the design of furniture. In granting the competing distributor a temporary restraining order in its declaratory judgment action, the district court said, "To withhold a TRO would allow anyone to effectively shut down a competitor's business on eBay simply by filing the notice that the seller's product allegedly infringes on the complaining party's copyright." For more examples, *see* Matt Schruers, *This Post is No Longer Available Due To… (Why DMCA Abuse Occurs, Part II)*, Disruptive Competition Project, Feb. 5, 2014, http://www.project-disco.org/intellectual-property/020514-this-post-is-no-longer-available-due-to-why-dmca-abuse-occurs-part-ii/.

66 *See supra* notes 64-65 & *infra* note 67.

payment of costs and legal fees but refused to grant any additional damages for the intentional suppression of speech, having concluded such damages were inappropriate.[67] Allowing the victims of fraudulent accusations to recover (at best) the costs of bringing expensive and uncertain litigation to protect free expression has not adequately deterred cases of abuse. To more effectively deter intentional DMCA abuse, Congress should extend Section 512(f) remedies for willful misrepresentations under the DMCA to include statutory awards, as it has for willful infringement under Section 504(c).

3.2.2 Solutions for Rationalizing Statutory Damages

The legislative history and Copyright Office recommendations on statutory damages leading up to the 1976 Act sought to remedy dissatisfaction with aspects of the 1909 Act that produced arbitrary results and contributed to uncertainty. The modern trend of greater application of statutory damages and increased use of a broadened concept of secondary liability has injected these problems back into copyright litigation. Policymakers could take certain steps to prevent the chilling effect of copyright damages on technological innovation by lawful products and services while still ensuring that rightsholders may obtain meaningful remedies.

Unlike most other areas of intellectual property law, Section 504(c) of the Copyright Act grants "statutory damages," allowing a plaintiff to elect a statutory award of between $750 and $30,000 in damages for each work infringed, regardless of the actual injury suffered.[68] In cases involving willful infringement, the statutory damages can rise to $150,000 per work infringed. Since 1909, Congress increased the statutory amounts on several occasions,[69] and as recently as 1999.[70]

The existing statutory damages framework has created incentives for so-called copyright trolling, or predatory enforcement. Just as in patent law, copyright litigation has been turned into a business model, in which shell entities initiate legal proceedings against a large number of individuals and immediately seek settlements. Many such cases have been based on allegations that the defendant offered infringing pornographic materials for upload. By threatening to make public the fact of litigation over embarrassing content, combined with the prospect of high, six-figure statutory awards, these entities often obtain quick settlements. One such scheme obtained at least seven figures worth of settlements, even though the claims were, in at least some cases, entirely without merit.[71]

Recent empirical research by Professor Matthew Sag indicates that these cases are very prevalent in federal court intellectual property dockets.[72] In 2013, shotgun-style multi-defendant John Doe complaints comprised the majority of copyright cases in over 20% of the nation's federal district courts, where evidence of predatory tactics is widespread.[73] This is not a unique view; other federal judges,

---

67 Joe Mullin, *'Straight Pride' group slapped with $25K fine for DMCA claim against blogger*, Ars Technica, Mar. 6, 2015, http://arstechnica.com/tech-policy/2015/03/judge-orders-straight-pride-uk-to-pay-25k-for-bogus-dmca-takedown/.

68 *Columbia Pictures Tel., Inc. v. Krypton Broad., Inc.*, 259 F.3d 1186, 1194 (9th Cir. 2001) (plaintiff may elect statutory damages "regardless of the adequacy of the evidence offered as to his actual damages and the amount of the defendant's profits.").

69 Statutory damages are arguably as old as copyright itself, *see Feltner v. Columbia Pictures Television, Inc.*, 523 U.S. 340, 349 (1998), but the practice of continuously increasing the statutory amount did not begin until the 20th century. *See* Pub. L. No. 60-349, §§ 25 *et seq*., 35 Stat. 1075 (1909) (providing damages ranging from $250 to $5,000); Pub. L. No. 94-553, title I, § 101, 90 Stat. 2585 (1976) (doubling maximum for ordinary infringement to $10,000, willful infringement cap set at $50,000; floor for innocent infringers at $100); Pub. L. No. 100-568, § 10(b), 102 Stat. 2860 (1988) (doubling non-willful maximum to $20,000, and willful infringement to $100,000; floor for innocent infringers raised to $200).

70 Pub. L. No. 106-160, § 2, 113 Stat. 1774 (1999) (raising the maximum for non-willful infringement to $30,000, and the maximum for willful infringement to $150,000). In 2008, the House Judiciary Committee hosted a roundtable on a proposal to allow for greater statutory awards in the case of compilations. Copyright holders presented no evidence that the existing regime had stifled the creation of new works, and this proposal was ultimately shelved.

71 *Ingenuity 13 LLC v. John Doe*, No. 12-8333, 2013 WL 1898633 (C.D. Cal. May 6, 2013); *see also* Joe Mullin, *Prenda hammered: Judge sends porn-trolling lawyers to criminal investigators*, Ars Technica, May 6, 2013, http://arstechnica.com/tech-policy/2013/05/prenda-hammered-judge-sends-porn-trolling-lawyers-to-criminal-investigators/; *see generally*, Ars Technica series, *Who's Behind Prenda Law?*, http://arstechnica.com/series/whos-behind-prenda-law/.

72 *See* Matthew Sag, *Copyright Trolling, An Empirical Study*, 100 Iowa L. Rev. 1105 (2015), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2404950 ("While patent trolls hog the limelight, a particular type of copyright troll has been taking over the dockets of several United States District Courts, and yet copyright trolls have received comparatively little attention in policy and academic circles").

73 Notably, multi-defendant suits enable plaintiffs to utilize a large amount of federal court resources without paying filing fees. *See In re: BitTorrent Adult Film Copyright Infringement Cases*, No. 12-1147 (E.D.N.Y. July 31, 2012) (complaining that "plaintiffs' counsel apparently ignored, or tried to circumvent, the very safeguards the undersigned put in place to help prevent unfair litigation tactics").

scholars, and journalists are also increasingly "troubled by 'copyright trolling'".[74] Scholars have identified the prospect of high statutory awards as fueling this misbehavior.[75]

COPYRIGHT TROLLS

Like patent trolls, copyright trolls take advantage of asymmetries in intellectual property remedies. Copyright trolls are known for their abusive litigation tactics. As one federal appellate judge recently noted, a plaintiff who sued after being parodied by the cartoon *South Park* had "the appearance of a 'copyright troll'" due to its "baseless shakedowns." *Brownmark Films v. Comedy Partners*, 682 F.3d 687, 691 (7th Cir. 2012). Copyright trolls have often brought shotgun-style suits against a large number of defendants, who are sued in a John Doe capacity (based upon their IP addresses), using copyrights acquired for the purpose of suing.

One pioneering troll pursued Internet users who copied or quoted from news publications, suing website operators and bloggers for reposting as little as five sentences. Victims included a Republican U.S. Senate candidate, who posted news about herself to her own campaign website, and a former Assistant U.S. Attorney who reposted news content aimed at solving an unsolved murder. In *Righthaven LLC v. Hoehn*, a copyright troll sought $150,000 from a decorated veteran who had merely shared an editorial in an online forum. Although the troll Righthaven was subsequently sanctioned for misconduct and fell into bankruptcy, it was not unique. Entities suing over adult content have adopted similar models. A law practice known as Prenda managed to extract millions in settlements from individuals before a furious federal judge sanctioned the lawyers in 2013. He accused them of outmaneuvering the legal system, having

> "discovered the nexus of antiquated copyright laws, paralyzing social stigma, and unaffordable defense costs. And they exploit this anomaly by accusing individuals of illegally downloading a single pornographic video. Then they offer to settle—for a sum calculated to be just below the cost of a bare-bones defense. For these individuals, resistance is futile; most reluctantly pay rather than have their names associated with illegally downloading porn. So now, copyright laws originally designed to compensate starving artists, allow starving attorneys in this electronic-media era to plunder the citizenry."

Ingenuity 13 LLC v. Doe, 107 U.S.P.Q.2d 1241 (C.D. Cal. May 6, 2013). While Prenda lawyers were sanctioned and threatened with criminal penalties, other copyright trolls continue to operate.

Whereas the troll problem arises from the high *maximum* bound of statutory damages ($150,000), online services and manufacturers face exposure to extraordinary awards due to potential aggregation of awards for a large number of works, which can be punitively large even at the *minimum* bound ($750). Because every work containing even a modicum of creativity acquires copyright protection at the moment of fixation, millions of copyrighted works are created each day. Many popular online service providers

74 *Third Degree Films v. Does 1-47*, 286 F.R.D. 188, 189-91 (D. Mass. 2012) ("The Court is not alone in its concern. Judges, scholars, and journalists alike have noted the recent trend ... Against this backdrop of mass lawsuits and potentially abusive litigation tactics, courts nationwide have become skeptical of allowing the adult film companies unfettered access to the judicial processes of subpoenas and early discovery") (cited in Sag, *supra* note 72, at n.94). *See also Ingenuity 13 LLC*, *supra* note 71, at *1 (lawyers' elaborate scheme nearly "outmaneuvered the legal system", leading to sanctions).

75 *See e.g., Sag, supra* note 72.

process millions of potentially copyright-protected postings daily,[76] and modern consumer electronics can hold millions of copyrightable works. Because copyright disputes involving digital technologies often implicate hundreds or thousands of works, providers of information technology products and services can face truly astronomic damages liability, even assuming the smallest statutory award.[77] The threat of enormous damages encourages some rightsholders to view "being infringed" as a business model,[78] and to assert aggressive theories of secondary liability in the hopes of coercing quick settlements.

One justification volunteered for these astronomical awards is that statutory damages have historically been viewed not solely as a compensatory mechanism where injury is difficult to measure, but in fact as a punitive tool, "designed to discourage wrongful conduct."[79] But even wrongful conduct needs to be proportionally punished: we do not impose the death penalty for illegal parking. Nor is the goal of deterring misconduct being served in cases where the individual engaged in misconduct is not before the court, as is the case with damages sought against intermediaries. When cases are brought solely against an intermediary, based on the conduct of a third party not before the court, a punitive mechanism is generally inappropriate. Nor does it serve the objective of deterrence when a putative infringer is prepared to license works, or refrain from using them, but cannot make this choice in any economically practical way because ownership information is deliberately concealed by a rightsholder.[80]

Regardless of the propriety of the remedy, however, to whatever extent statutory damages deter misbehavior, they also deter investment by creating substantial uncertainty and risk. Scholarly studies of statutory damages show punitive and inconsistent outcomes,[81] and threats of personal liability for statutory damages, as demonstrated in the recent case *UMG Recordings, Inc. v. Shelter Capital Partners LLC*, are a severe deterrent to exploring new business models.[82] Surveys of investors have confirmed that uncertainty around liability risks deter investment in services regulated by copyright,[83] and scholarly research and interviews have verified this.[84]

Surveys of investors have confirmed that uncertainty around liability risks deter investment in services regulated by copyright.

These problems occur against the backdrop of a regulatory regime with fuzzy boundaries. Copyright scholars have long acknowledged that, unlike real property, the boundaries of what copyright regulates is inherently unclear. The vagueness of copyright,

76 *See* Raffi Krikorian, *New Tweets per second record, and how!*, The Twitter Engineering Blog, Aug. 16, 2013, https://blog.twitter.com/2013/new-tweets-per-second-record-and-how (typically 500 million tweets/day); Jonathan Mahler, *YouTube's Chief, Hitting a New 'Play' Button*, N.Y. Times, Dec. 20, 2014, http://www.nytimes.com/2014/12/21/business/youtubes-chief-hitting-a-new-play-button.html ("Airtime on YouTube is effectively unlimited – 300 hours of new content are uploaded to the site every minute") (300 hours of video per minute uploaded to YouTube); Sriram Sankar *et al.*, *Under the Hood: Building out the infrastructure for Graph Search*, Facebook Engineering Notes, Mar. 6, 2013, https://www.facebook.com/notes/facebook-engineering/under-the-hood-building-out-the-infrastructure-for-graph-search/10151347573598920 (over 2.5 billion new pieces of Facebook content added per day).

77 *See* Pamela Samuelson & Tara Wheatland, *Statutory Damages in Copyright Law: A Remedy in Need of Reform*, 51 Wm. & Mary L. Rev. 439 (2009).

78 *See* Dan Heller, *Making Money From Your Stolen Images*, June 27, 2007, at http://danheller.blogspot.com/2007/06/making-money-from-your-stolen-images.html (characterizing statutory damages as a "windfall", "Vegas-style slot machine" and stating that "a little copyright infringement can actually do your business good").

79 *See N.A.S. Import, Corp. v. Chenson Enters., Inc.*, 968 F.2d 250, 252 (2d Cir. 1992) (citing *F.W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228, 233 (1952)); *Feltner v. Columbia Pictures Television*, 523 U.S. 340, 353-54 (1998).

80 *See, e.g.*, *In re Pandora Media, Inc.*, 6 F. Supp. 3d 317, 344 (S.D.N.Y. 2014) (judicial finding that Sony and ASCAP "stonewalled" requests to disclose catalogue because "Sony understood that it would lose an advantage in its negotiations with Pandora if it provided the list of works and deliberately chose not to do so."); *Broadcast Music, Inc. v. Pandora Media, Inc.*, 2013 U.S. Dist. LEXIS 178414, at *15 (S.D.N.Y. Dec. 18, 2013); *Radio Music License Comm., Inc. v. SESAC, Inc.*, 29 F. Supp. 3d 487, 501-02 (E.D. Pa. 2014) ("plaintiff has sufficiently pleaded that SESAC's lack of transparency exacerbates the exclusionary nature of its conduct by forcing radio stations to purchase the SESAC license even if they do not plan to perform the songs in SESAC's repertory for fear that they may unwittingly air copyrighted content.").

81 Samuelson & Wheatland, *supra* note 77. *See also* J. Cam Barker, *Grossly Excessive Penalties in the Battle Against Illegal File-Sharing: The Troubling Effects of Aggregating Minimum Statutory Damages for Copyright Infringement*, 83 Tex. L. Rev. 525 (2004).

82 Michael Carrier, *Copyright and Innovation: The Untold Story*, 2012 Wis. L. Rev. 891, 944 (2012), *available at* http://wisconsinlawreview.org/wp-content/files/2-Carrier.pdf. *See also UMG Recordings, Inc. v. Shelter Capital Partners LLC*, 718 F.3d 1006 (9th Cir. 2013) (litigation by UMG against Shelter Capital and two other investors in online service Veoh).

83 Matthew Le Merle et al., *supra* note 43.

84 Carrier, *Copyright and Innovation: The Untold Story*, *supra* note 82, at 916-17.

combined with the attraction of aggregated statutory awards, likely leads to over-enforcement of rights. This would cause what scholars have called "copyright enforcement false positives" — cases in which rightsholders misconstrue the bounds of their federal entitlement, and are motivated "to seek enforcement of rights that are nonexistent or outside the scope of copyright. Such misguided enforcement actions impose significant social costs."[85] One social cost is the cost of unnecessary litigation, and another is the disincentive to innovate that arises from the prospect of having to take unnecessary licenses.

The deterrent effect on investment is magnified by the fact that awards are entirely unmoored from any actual injury. In Viacom's unsuccessful 7-year long litigation against YouTube, the company sought over $1 billion dollars in damages, for 160,000 alleged infringements,[86] despite the fact that Viacom's own employees were uploading Viacom content to YouTube.[87] In another recent case, a district court was presented with a damages theory that "could reach into the trillions," which it rejected as "absurd," holding that the record label plaintiffs should not be entitled to "more money than the entire music recording industry has made since Edison's invention of the phonograph in 1877."[88]

Amending the statutory damages framework has been identified as a possible reform by the Green Paper,[89] Register Pallante,[90] and scholars.[91] The Copyright Principles Project has also suggested reforms.[92] While these specific proposals merit consideration, revising the statutory damages provision of Title 17 would help to promote predictability and fairness to manufacturers, service providers, and consumers.

3.2.2.1 Reassess aggregation, and the statutory minimum and maximum

Courts have implored Congress to reassess statutory damages in cases where damages awarded "are wholly disproportionate to the damages suffered by Plaintiffs."[93] The existing statute contains a range of damages, but it imposes in all cases a minimum amount. For example, a consumer is liable for a minimum of $750 for infringement of one song that he could purchase on iTunes for under $1.00. An award 750 times actual damages is unreasonable, possibly unconstitutionally so.[94] Even if the court finds the infringement is innocent, the minimum is still $200 per work infringed. Moreover, courts have held that the "innocent infringer" provision is not available with respect to works that were published in "hard copy" with a copyright notice—a limitation that makes little sense in the

85 Ben Depoorter & Robert K. Walker, *Copyright False Positives*, 89 Notre Dame L. Rev. 319, 321 (2013), *available at* http://ndlawreview.org/wp-content/uploads/2013/05/NDL107_Depoorter.pdf.

86 Garth Johnston, *Viacom Files Federal Copyright Complaint Against YouTube and Google*, Broadcasting & Cable, Mar. 13, 2007, http://www.broadcastingcable.com/news/news-articles/viacom-files-federal-copyright-complaint-against-youtube-and-google/82105.

87 Jay Yarow, *The Most Damning Information Google Dug Up On Viacom*, Business Insider, Mar. 22, 2010, *at* http://www.businessinsider.com/google-on-viacom-filings-2010-3.

88 *See Arista Records LLC v. Lime Group LLC*, 784 F. Supp. 2d 313, 317 (S.D.N.Y. 2011).

89 Department of Commerce Internet Policy Task Force, *Copyright Policy, Creativity, and Innovation in the Digital Economy*, *supra* note 5, at 51-52.

90 *See* Pallante, *supra* note 3, at 329.

91 *See, e.g.*, Samuelson & Wheatland, *supra* note 77; *see also* Michael Carrier, *Innovation for the 21st Century: Harnessing the Power of Intellectual Property and Antitrust Law*, at 147-62 (Oxford University Press 2009); Peter S. Menell, *This American Copyright Life: Reflections on Re-Equilibrating Copyright for the Internet Age*, 61 J. Copyright Soc'y U.S.A. 235, 272-73, 278-83 (2014), *available at* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2347674.

92 Pamela Samuelson, *The Copyright Principles Project: Directions for Reform*, 25 Berkeley Tech. J.L. 1175, 1220-23 (2010), http://scholarship.law.berkeley.edu/cgi/viewcontent.cgi?article=1562&context=facpubs.

93 *See, e.g.*, *Capitol Records v. Thomas*, 579 F. Supp. 2d 1210, 1227 (D. Minn. 2008) ("The Court would be remiss if it did not take this opportunity to implore Congress to amend the Copyright Act to address liability and damages in peer-to-peer network cases such as the one currently before this Court"); *Sony BMG Music Entm't v. Tenenbaum*, 660 F. 3d 487, 490 (1st Cir. 2011) ("this case raises concerns about application of the Copyright Act which Congress may wish to examine"). Other courts have noted potential due process concerns. *In re Napster Copyright Litig.*, 7 U.S.P.Q. 2d 1833 (N.D. Cal. 2005) (noting that "under certain circumstances, large awards of statutory damages can raise due process concerns."); *UMG Recordings v. Lindor*, No. 05-Civ-1095, slip. op. at 6 (E.D.N.Y. Nov. 9, 2006) (permitting motion to add affirmative defense of unconstitutionality where plaintiffs sought statutory damages, noting that "plaintiffs' actual damages are 70 cents per recording and that plaintiffs seek statutory damages under the Copyright Act that are 1,071 times the actual damages suffered.").

94 *BMW of North America, Inc. v. Gore*, 517 U.S. 559, 581 (1996) (awarding "more than 4 times the amount of compensatory damage" might be "close to the line... of constitutional impropriety."). Federal courts do not agree whether the due process constraints that limit punitive damages also apply to statutory damages.

online world and even less sense with respect to an intermediary.[95] Given plaintiffs' increased preference for statutory damages and the Supreme Court's "concerns over the imprecise manner in which punitive damages systems are administered,"[96] the statutory minimum should be reassessed in cases involving aggregation of many awards.[97]

The $750 floor means that – in a market where most new digital products and online services (such as cloud storage) contemplate many thousands of users manipulating hundreds of thousands of lawfully acquired works – potential damages quickly reach uninsurable levels that deter investment. Even halving the minimum would still provide damages that are 50-100 times greater than the going rate for many works. The $150,000 maximum, by contrast, encourages misconduct not only by trolls but also large rightsholders who can exploit the inherent opacity of copyright licensing. Because a plaintiff who is injured can furnish proof of his injury and receive actual damages, the only plaintiffs who would be harmed by reining in the maximum would be those who cannot prove they suffered any injury.

Many scholars have offered proposals to reform these limits. Professor Sag suggests that the "constitutionally plausible range of statutory damages for a first-time defendant found liable for illegal file-sharing should be between $250 and $3000;" Professor Peter Menell suggests limiting statutory damages to $10 per work infringed for noncommercial uses.[98] Other scholars have also proposed reassessing these limits.[99]

In some cases, outcomes are troublesome because of the potential for limitless aggregation. In litigation involving an individual infringing 24 songs via a file-sharing network, repeated trials produced aggregated awards of $1.92 million and $1.5 million.[100] Absent proof of corresponding injury, these awards tax the perceived legitimacy of the entire copyright system, which largely depends upon voluntary compliance of the public to succeed. Because these large awards result from aggregating many individual awards into one enormous sum, Congress should reassess whether it is desirable to aggregate awards in all situations. A recent Canadian reform, for example, limits the maximum statutory award available to $5,000 for all non-commercial infringements in a single proceeding.[101]

In any event, adjusting statutory minimums and maximums would not impede the interests of plaintiffs with actual injuries. If statutory awards are insufficient, plaintiffs will always have the option of seeking actual damages.

3.2.2.2 Ensure predictability in secondary liability cases

Of all forms of intellectual property, copyright arguably permits the broadest theories of secondary liability. Under current secondary liability theories, an Internet service provider or consumer electronics manufacturer could be found liable for statutory damages for each work a third party infringes while using the service or product. In fact, even the well-established boundary between direct and

95 *See Maverick Recording Co. v. Harper*, 598 F.3d 193 (5th Cir. 2010) (citing 17 U.S.C. § 402(d)), *cert. denied*, 131 S. Ct. 590 (2010) (Alito, J., dissenting); *BMG Music v. Gonzalez*, 430 F.3d 888 (7th Cir. 2005) (same).

96 *See State Farm Mut. Auto. Ins. Co. v. Campbell*, 538 U.S. 408, 417 (2003).

97 The $200 floor in innocent infringement has been criticized previously. In the 103rd Congress, the House (but not the Senate) passed H.R. 897, which would have lowered the floor for statutory damages in cases of innocent infringement from $200 to zero. In 1961, the Register of Copyrights acknowledged arguments that a "minimum of $250 can bear too heavily on innocent infringers." He observed that "[t]he only purpose of awarding damages for an innocent infringement is to compensate the copyright owner. The other purpose of statutory damages – to deter infringement – is not present as to infringements committed innocently." Report of the Register of Copyrights on the General Revision of U.S. Copyright Law (1961), 87th Cong., 1st Sess. (H. Judiciary Comm. Print 1961), at 104.

98 Sag, *supra* note 72, at 35; Menell, *supra* note 92.

99 Samuelson & Wheatland, *supra* note 77, at 509-10.

100 *Capitol Records, Inc. v. Thomas-Rasset*, 692 F.3d 899, 900-01 (8th Cir. 2012).

101 Bill C-11, *An Act to amend the Copyright Act*, Statutes of Canada, Sec. 38.1(1)(b) (2012), http://www.parl.gc.ca/content/hoc/Bills/411/Government/C-11/C-11_4/C-11_4.PDF.

secondary liability is under attack by litigants, who seek to blur the line between these two concepts, and allege as direct infringement causes of action that are properly brought as secondary liability cases.[102]

This potential exposure to large damages, often for the acts of customers, chills innovation and discourages capital investment in new products and services. There are several possible approaches for addressing this problem. Section 504(c)(2) could limit statutory damages only to cases of direct infringement. Alternatively, Congress could forbid aggregation in secondary liability cases. Thus, a secondary infringer would be liable only for a single award of statutory damages for all works infringed, rather than a potentially infinite number of separate award for each work infringed, as under current law.[103] Congress could also cap statutory awards in cases that do not involve intentional infringement, as many states have chosen to cap punitive awards under their tort law.[104] Of course, if a plaintiff's injury is greater than any statutory cap, the plaintiff may always seek actual damages.

3.2.2.3 Require timely election of damages

A specific reform that would facilitate certainty is requiring timely election of which damages a plaintiff will seek. Currently, plaintiffs can delay the election between actual and statutory damages until any time before final judgment – after the jury (or court) awards both actual and statutory damages. This allows the plaintiff to "game the system" by waiting to see how they fare with a jury, and then choose the higher of the two awards. So as not to unfairly prejudice defendants, plaintiffs should make this election in a timely manner, before the trial or the filing of a motion for summary judgment.

3.2.2.4 Provide courts with guidance for the award of damages

As noted above, 17 U.S.C. § 504(c) currently imposes a minimum statutory award of $750 per work infringed, which may be reduced to $200 if the infringer was not aware and had no reason to believe the act constituted infringement. The maximum increases from $30,000 per work up to $150,000 in cases of willful infringement. Courts could benefit from more guidance for calculating damage awards than merely stating, as 17 U.S.C. § 504(c)(1) does, "as the court considers just." This language suggests that the court's award should be designed to 'do justice.' Cases that do not involve willful infringement, including where an intermediary is being penalized for the misconduct of another party, cannot plausibly lead to deterrence. Congress could provide guidance that in cases not involving willful infringement, Section 504(c)(2) could direct courts to "attempt to compensate the copyright owner" for the demonstrable injury resulting from infringement.

3.2.2.5 Remit damages for plausible fair uses

Another proposal would be to generally remit statutory damages in cases where defendants can demonstrate a reasonable good faith belief that their activity was a fair use (or perhaps covered by any defense). Section 504(c)(2) already has exactly this provision, but limits it to nonprofit educational institutions, libraries, archives, and public broadcasters.[105] Because deterrence is inappropriate

---

102 *See Am. Broad. Cos. v. Aereo, Inc.*, 134 S. Ct. 2498, 2512 (2014) (Scalia, J., dissenting) ("A defendant may be held directly liable only if it has engaged in volitional conduct that violates the Act." (quoting William Patry, *Patry on Copyright* § 9:5.50)). From the perspective of innovation and economic policy, it would be dangerous to blur this boundary by holding companies liable as *direct* infringers for the acts of their customers.

103 Professor Michael Carrier argues even further that statutory damages should not be *available at* all in secondary liability cases. Michael Carrier, *No Statutory Damages for Secondary Liability*, Disruptive Competition Project, Jan. 30, 2014, http://www.project-disco.org/intellectual-property/013014-no-statutory-damages-for-secondary-liability.

104 *See BMW of North America, Inc. v. Gore*, 517 U.S. 559, 615 (1996).

105 Simply deleting all text in Section 504(c)(2) after "The court shall remit statutory damages in any case where an infringer believed and had reasonable grounds for believing that his or her use of the copyrighted work was a fair use under section 107...."

where a defendant had a reasonable good faith belief that their conduct was non-infringing, this provision could be extended to all good faith actors. In the rare case where this might leave plaintiffs under-compensated, they could still obtain actual damages and injunctions.

3.2.3 Provide Reasonable But Meaningful Penalties for Misuse

The existing statutory damages framework encourages abusive copyright practices. But even aside from statutory damages, the Copyright Act can be misused. Consider, for example, the case of *Costco v. Omega.*[106] In an effort to control secondary sales in markets outside its own distribution chains, Omega had a small logo engraved on the back of its watches, an attempt to leverage a copyright on the tiny logo into control over the distribution of the uncopyrighted watch. When the case was remanded to the district court after it reached the Supreme Court, the district court found that Omega had misused its copyright.[107] The Omega case follows from an equally questionable assertion of copyright in *Quality King v. L'anza*,[108] where the copyright on the *label* of a shampoo bottle was used to restrict sales of the shampoo.

Some rightsholders have also taken advantage of the temporary copies made by digital technologies as a pretext for copyright infringement actions. This has occurred in cases relating to maintenance services for computer software and hardware products,[109] interoperable software,[110] network digital video recorders,[111] and websites hosting third party content,[112] among others.

Moreover, every time consumers open a book, play a DVD, or watch broadcasts of a sporting event (among other activities) they may be confronted by sweeping warnings regarding what they may or may not do with lawfully acquired products. By design or effect, such warnings may misrepresent copyright law. Many such warnings forbid any "unauthorized" copying or sharing of a part of a work, even though such activity may be permitted by law (*e.g.*, fair use). Unmeasured warnings may intimidate average users, and in those who are not intimidated, they may breed contempt by depicting as illegal legitimate and beneficial uses of products, including those enabled by new technology.[113] While such warnings might be dismissed as bluster so long as they go unenforced, efforts to enforce such claims, or to seek royalties for activities that need not be licensed, may rise to the level of misuse.

Just as copyright may be misused, paracopyright protections enacted by Title I of the DMCA – usually referred to as "anticircumvention" – can also be made to serve purposes unintended by Congress. For example, manufacturers of garage door openers and computer printers have attempted to use the prohibition on circumvention in section 1201 to prevent competition in aftermarkets.[114] Unlike Section 512(f) in the DMCA's safe harbors, there is no statutory mechanism for addressing misuses of DMCA's anticircumvention provisions in Section 1201, or indeed in the Copyright Act itself.

---

106 *Costco Wholesale Corp. v. Omega, S.A.*, 541 F.3d 982 (9th Cir. 2008), *aff'd by an equally divided court*, 131 S. Ct. 565 (2010).

107 *Costco Wholesale Corp. v. Omega*, S.A., 2011 WL 8492716 (C.D. Cal. 2011).

108 523 U.S. 135 (1998).

109 *See, e.g.*, *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993).

110 *See, e.g.*, *Vault Corp. v. Quaid Software*, 847 F.2d 255 (5th Cir. 1988).

111 *Cartoon Network LP LLP v. CSC Holdings, Inc.*, 536 F.3d 121 (2d Cir. 2008), *cert. denied*, 129 S. Ct. 2890 (2009).

112 *Costar v. Loopnet*, 373 F.3d 544 (4th Cir. 2004).

113 In 2007, CCIA filed a complaint with the Federal Trade Commission challenging some practices of this nature as unfair and deceptive trade practices as defined by the Federal Trade Commission Act.

114 *See, e.g.*, *Chamberlain Group, Inc. v. Skylink Technologies, Inc.*, 381 F.3d 1178 (Fed. Cir. 2004); *Lexmark v. Static Control Components*, 387 F.3d 522 (6th Cir. 2004). The exemption granted by the Librarian of Congress for the "jailbreaking" of the iPhone prevents Apple from employing Section 1201 to prevent the use of apps not approved by Apple. *See generally* Dan L. Burk, *Anti-Circumvention Misuse*, 50 UCLA L. Rev. 1095 (2003).

Some courts have recognized copyright misuse as a defense to infringement claims. Thus, the Fourth Circuit in *Lasercomb America v. Reynolds* found that Lasercomb, by the terms of its copyright license agreement, was attempting to monopolize something which clearly was not part of the bundle of rights granted by copyright: the right to develop competing software utilizing the same ideas.[115] Similarly, in *DSC Communications Corp. v. DGI Technologies, Inc.*,[116] the Fifth Circuit found copyright misuse when DSC used its copyright to indirectly gain control over a competitor's use of its microprocessor cards. The court observed that "DSC seems to be attempting to use its copyright to obtain a patent-like monopoly over unpatented microprocessor cards."

Congress should consider codifying a copyright misuse provision that creates meaningful penalties that deter the willful misuse of copyrights.

Precedent exists for prescribed penalties for fraudulently misrepresenting one's rights. The 1909 Copyright Act, Section 29, provided statutory damages against those fraudulently placing copyright notices in unprotected articles, which were equivalent to the penalties for willful infringement.[117]

Because copyright misuse is only a defense against infringement actions, however, it provides little deterrent against rightsholders' misuse of their copyrights to prevent legitimate competition or to chill free speech. And courts have not yet applied the copyright misuse doctrine as a defense to Section 1201 claims. Congress should consider codifying a copyright misuse provision that creates meaningful penalties that deter the willful misuse of copyrights. As noted above, in particularly egregious cases, Congress could provide statutory awards, just as it does for infringement.

3.2.4 Restore the Corporate Veil in Copyright Infringement Cases

The corporate structure exists to protect shareholders from liability incurred by the corporation. The corporate veil is a foundation of American law and the American economy, without which there would be radically reduced levels of investment. However, courts in recent copyright infringement cases have failed to do any corporate veil analysis, and have imposed liability on investors. Courts have reasoned that "copyright is a strict liability tort; therefore there is no corporate veil…." In *Blue Nile, Inc., v. Ideal Diamond Solutions, Inc*,[118] for example, a court held a controlling officer of a small company could be held personally liable for the display of infringing photographs on the company's website. The potential for officers or shareholders being held personally liable for the infringing activities of the companies in which they have invested harms innovation by discouraging investment in startup companies.

In the 1980s, for example, when Sony's new video-cassette recorder (VCR) was being compared to the Boston Strangler,[119] Sony came one Supreme Court vote away from being branded a pirate enterprise because parents were using their Betamax products to tape *Mr. Rogers' Neighborhood.*[120] The history of tech innovation would likely have been very different if Sony's corporate officers had been sued in their personal capacity for recording done by American consumers.

---

115 911 F.2d 970 (4th Cir. 1990).

116 81 F.3d 597, 601 (5th Cir. 1996).

117 1909 Copyright Act, Pub. L. No. 60-349, 35 Stat. 1075 (Mar. 4, 1909), § 29, http://copyright.gov/history/1909act.pdf.

118 2011 WL 3360664 (W.D. Wash. 2011).

119 Nate Anderson, *100 Years of Big Content Fearing Technology—In Its Own Words*, Ars Technica, Oct. 11, 2009, http://arstechnica.com/tech-policy/2009/10/100-years-of-big-content-fearing-technologyin-its-own-words/.

120 *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).

Recent research bears this out. Surveys of innovators and entrepreneurs by Professor Carrier have revealed that the threat of personal liability of founders and corporate officers for multi-million dollar statutory awards is deliberately invoked by plaintiffs to intimidate defendants into capitulation.[121] Threatening the home of a corporate officer, or the college education fund of an investor's children, with a civil claim regarding misconduct by that company's customers is not going to create a healthy investment environment.[122]

A copyright law for the digital economy should clarify that there is no copyright-specific exception to the corporate veil, and courts must apply the same "piercing the veil" analysis in copyright cases as they do for every other kind of tort liability. Absent severe misconduct, such as abuse of the corporate structure, the corporate veil should apply in intellectual property cases just as it does in other cases. A corporate officer or shareholder should incur liability for the infringing activities of the corporation only if he himself engaged in the infringing activity or if he otherwise would be liable under traditional secondary liability principles.

4. Constraints to Reform

Any copyright reform will face certain legal constraints. If not confronted directly, these constraints will limit the extent to which copyright law may be reformed. They include: (1) the limitations on reform imposed by the Berne Convention and other international intellectual property treaties the United States has joined over the past 30 years; (2) contractual limitations aimed at circumventing Congressional intent and copyright exceptions; and (3) limitations on user rights imposed by technological protection measures. These overarching issues, which go beyond the four corners of the Copyright Act, are explored in the following content.

4.1 Limitations on Reform Imposed by International Agreements

Enshrined in international agreements are two policy choices that underlie many of the challenges of modern copyright: the repudiation of "formalities" in the Berne Convention, and very long copyright terms, mandated by TRIPS and U.S. free trade agreements.

The term "formalities" generally refers to any form of condition for receiving government-granted rights. Requirements like registration, renewal, or marking a work with a copyright notice are no longer permitted under the Berne Convention, and Berne's prohibition has been carried forward in the World Trade Organization Agreement on Trade-related Aspects of Intellectual Property Rights,[123] the WIPO Copyright Treaty,[124] and the WIPO Performances and Phonograms Treaty.[125]

In recent decades, U.S. law abandoned or diminished the significance of formalities such as notice and registration, based on the perception that doing so was required for compliance with international treaties, and the view that formalities constituted unfair "barriers to entry" or "traps for the unwary." Previously, the vast majority of works created with no thought of copyright received no federal protection. Today, without formalities, every email, every school assignment, and every photograph taken on every smartphone

121 *See* Carrier, *supra* note 82. *See also* Le Merle et al., *supra* note 43.

122 Carrier, *id.*, at 943-44.

123 Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, Legal Instruments—Results of the Uruguay Round, vol. 31, 33 I.L.M. 81.

124 WIPO Copyright Treaty, Dec. 20, 1996, S. Treaty Doc. No. 105-17, 36 I.L.M. 65.

125 WIPO Performances and Phonograms Treaty, Dec. 20, 1996, S. Treaty Doc. No. 105-17, 36 I.L.M. 76.

receives copyright protection for the life of the author plus 70 years. Modern copyright is not "opt-in," but rather the instantaneous default for every creative work, and the Copyright Office has recommended against altering this in light of international obligations.[126] As a result, the number of works subject to copyright protection has expanded exponentially due to U.S. law's reduced emphasis on formalities.[127] Moreover, the diminished significance of formalities and notice has exacerbated the difficulties users face in trying to determine from whom they must obtain licenses. This problem is especially acute for complex systems like digital music delivery, which require an efficient way to identify the ownership interests in the millions of songs that can be made available to consumers.[128]

Extraordinarily long copyright terms are also a result of international agreements, which have extended the copyright term to last for the life of the author, plus an additional 50 years (in the case of the Berne Convention and TRIPS) or the life of the author plus an additional 70 years (in the case of the free trade agreements).[129] This exacerbated the orphan works problem while diminishing the ability of artists to make productive use of older works, *e.g.*, new performances of older plays.[130] The Supreme Court has validated the most recent extension in *Eldred v. Ashcroft*,[131] notwithstanding economic studies showing that extending the term of protection from 56 years to life plus 50 or 70 years does not measurably incentivize additional creative activity.[132]

It is no exaggeration to say that international copyright treaty obligations have contributed to a legitimacy crisis in the contemporary copyright system.[133] Survey data suggests there is declining public respect for copyright.[134] Terms extending well over a century have been the source of high-profile disputes casting copyright in a poor light,[135] and when combined with the absence of formalities, exceptionally long terms have proven to be a significant problem for researchers, historians, and preservationists, among others.[136]

It is unlikely that a copyright system designed from scratch in the 21st century would embrace the inefficiencies resulting from an absence of formalities and extensive terms, but wholesale change to these features would require noncompliance with, or renegotiation

---

126 *See, e.g.*, U.S. Copyright Office, *Report on Orphan Works* (2006), http://www.copyright.gov/orphan/orphan-report-full.pdf, at 60-61 (noting options of a registration requirement, a notice requirement, and notice requirement as condition of enforcement). Proposals have been advanced toward restoring formalities in an ostensibly Berne-compliant manner, *see, e.g.*, Christopher Sprigman, *Reform(aliz)ing Copyright*, 57 Stan. L. Rev. 485 (2004).

127 The rightsholder of a work first published in the United States cannot institute an infringement action until she registers the work, and she is not entitled to statutory damages for infringements that occurred prior to registration, but she can register the work, and bring an infringement action, at any time during the copyright term. These provisions indicate that there still is an important role for formalities to play in a post-Berne world.

128 *Copyright and the Music Marketplace*, *supra* note 141, at 123-25.

129 Even more problematically, international IP agreements have been cited as compelling the reversion to copyright of certain works already in the public domain. *See* Uruguay Round Accession Act, upheld by the Supreme Court in *Golan v. Holder*, 132 S. Ct. 873 (2012).

130 The effect of term extension on orphan works had been previously identified as a consequence of term extension, with the Copyright Office having cited users' complaints early during the consideration of the 1976 Act, and again in 1998, observing that "some users pointed out that the longer copyright term created by that revision might inhibit scholarly or academic uses of works where the copyright owner may no longer be actively exploiting the work commercially." *Report on Orphan Works*, *supra* note 126, at 16.

131 537 U.S. 186 (2003).

132 *See Eldred v. Ashcroft*, 537 U.S. 186, 267 (2013) (App'x to Breyer, J., dissenting).

133 Menell, *supra* note 92.

134 Tim Wu, *When Code Isn't Law*, 89 Va. L. Rev. 679, 722-23 (2003) ("seventy-eight percent of those who download music do not consider it to be stealing and sixty-one percent do not care if the music they download is copyrighted. A survey reported by two economists showed that only fourteen percent of respondents considered illegal copying of software to be a serious crime, compared to thirty percent who felt that way about driving forty miles per hour in a twenty-five miles-per-hour zone." (citations omitted)); Joe Karaganis, *Copyright Infringement and Enforcement in the US: A Research Note* (The American Assembly, Columbia Univ., Nov. 2011) (reporting survey data finding copyright infringement among family and friends to be "widely accepted" (70-75% and 54-56% respectively), and that only "a slim majority of Americans (52%) support penalties for downloading copyrighted music and movies – and limit this support to warnings and fines"), http://piracy.americanassembly.org/wp-content/uploads/2011/11/AA-Research-Note-Infringement-and-Enforcement-November-2011.pdf.

135 Two examples include litigation over 1800s-era works, the composition, "Happy Birthday," and the original Sherlock Holmes character. Regarding the former, *see* Benjamin Weiser, *Birthday Song's Copyright Leads to a Lawsuit for the Ages*, N.Y. Times, June 13, 2013, http://www.nytimes.com/2013/06/14/nyregion/lawsuit-aims-to-strip-happy-birthday-to-you-of-its-copyright.html; *see generally* Robert Brauneis, *Copyright and the World's Most Popular Song*, 56 J. Copyright Soc'y U.S.A. 335 (2009). Regarding the latter, see *Klinger v. Conan Doyle Estate, Ltd.*, 755 F.3d 496, 503 (7th Cir. 2014) ("the estate's appeal borders on the quixotic. The spectre of perpetual, or at least nearly perpetual, copyright... looms, once one realizes that the Doyle estate is seeking 135 years (1887–2022) of copyright protection for the character of Sherlock Holmes as depicted in the first Sherlock Holmes story."); *Klinger v. Conan Doyle Estate, Ltd.*, 761 F.3d 789, 791 (7th Cir. 2014) ("many persons or firms accused of copyright infringement find that it is more cost-effective to simply capitulate' than to fight, even when the alleged claim is of dubious merit…").

136 *Report on Orphan Works*, *supra* note 126, at 23-38.

of international agreements.[137] One of Register Pallante's proposed "bolder changes" is to introduce formalities that would apply to the last twenty years of the copyright term – between 50 and 70 years after the author's death. Such formalities may require adjustment of U.S. free trade agreements, but not Berne or TRIPS (which only require a copyright term of life plus 50 years). Although implementing such a proposal would be of some use, a comprehensive solution to the problems arising from a lack of formalities and extensive terms would require revisiting international accords. So long as doing so is presumed to be "off the table," policymakers' options are limited.

4.2 Relationship Between Contract and Copyright

Another constraint on policymaking is the interaction of copyright law with contract. Many copyrighted products, including software, ebooks, sounds recordings, and films, are distributed subject to license agreements. Depending on how the product is distributed, these agreements may take the form of shrink-wrap agreements or click-through agreements.[138] It is not uncommon for licenses to prohibit the user from exercising rights under the Copyright Act, such as fair use, which may prohibit pro-competitive activities like reverse-engineering to ensure software interoperability. The impact of restrictive licenses could go far beyond typical copyrighted products. As more everyday products are distributed with pre-installed, embedded software critical to their operation, the use of goods ranging from high-end servers to tractors to household toasters may become subject to a software license. These licenses can interfere with competition, and the free movement of goods in the marketplace.

Product licensing agreements may attempt to restrict resale of a product, impairing economically desirable transactions between consumers who want to sell unneeded equipment and the secondary buyers desiring used equipment. In assessing whether to enforce contractual terms that appear to conflict with the existing balance of copyright, some courts have viewed this issue as a matter of state contract law: has the licensee truly manifested assent to the agreement? Other courts have examined this question from the perspective of preemption – either preemption under Section 301(a) of the Copyright Act or the U.S. Constitution. With both theories, courts are split on whether contractual restrictions on copyright exceptions are preempted.

If courts enforce license terms that reach beyond the conventional bounds of copyright, including foreclosing established limitations and exceptions, then the private law of contract has the potential to supplant Congressional decisions about the scope of copyright. Indeed, in the most extreme case the copyright reform debate would be somewhat irrelevant, as the vendor of any copyrighted product, or product containing embedded software, could dictate the terms of use, regardless of what copyright law provides.

On the one hand, there are many cases when parties may rationally desire to contract around the existing copyright framework. On the other hand, limitations on the scope and use of copyright reflect careful balancing of different stakeholders' interests, including that of the general public. The public interest is unlikely to be served if, for example, copyright in embedded software impairs the free movement of goods across the national economy. Furthermore, in complex markets characterized by multi-author works, contracts may be used to strengthen copyright owners' market power.

Congress and state legislatures frequently restrict the waiver by contract of protections provided by statute.[139] Indeed, in the Copyright Act itself, Congress provided that a termination of a grant of copyright "may be effected notwithstanding any agreement to the

137 "While there are things individual countries can and should do on their own, a comprehensive approach to formalities requires a revision to treaties, including the Berne Convention." William Patry, *How to Fix Copyright*, at 209 (Oxford Univ. Press 2011).

138 A "shrink-wrap license" is printed on or within the plastic wrapping enclosing a software product. According to most shrink-wrap licenses, the licensee agrees to its terms by tearing the plastic shrink-wrap, which the licensee must do to use the product. A "click-on license" appears when a user is installing a program on his computer. The user must click on an "I agree" icon in order to complete the installation sequence.

139 For a list of examples of statutory limitations on contractual waivers of rights in various jurisdictions, *see* Jonathan Band & Deborah Goldman, *Restrictions on the Waiver of Rights* (2013), http://www.arl.org/focus-areas/copyright-ip/2871-restrictions-on-the-waiver-of-rights.

contrary."[140] Congress included this provision to protect authors from publishers who might take advantage of their bargaining strength to force authors to waive their termination rights. Moreover, restrictions on "contracting out" have been included in recent amendments adopted in the United Kingdom and in the legislative proposals of the Irish Copyright Review Committee and the Australian Law Reform Commission.

CONTRACT & PREEMPTION

Courts wrestling with the enforceability of contract terms involving copyright have generally adopted one of three approaches: state contract law, or two variants of federal preemption.

(1) State contract law: Because a user cannot use a program without "agreeing" to these license terms either by opening the package or clicking the "I agree" icon, significant questions arise whether the user has in fact manifested assent to the license's terms. Consensus on enforceability of shrink-wrap and click-on licenses has yet to emerge, and some commentators have questioned the enforceability of some terms in such contracts. *Compare Ticketmaster Corp. v. Tickets.com, Inc.*, 2000 U.S. Dist. LEXIS 12987 (C.D. Cal. Aug. 10, 2000), *aff'd*, 248 F. 3d 1173 (9th Cir. 2001); and *Specht v. Netscape Commc'ns Corp.*, 306 F.3d 17 (2d Cir. 2002); *with ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1449 (7th Cir. 1996); *Register.com, Inc., v. Verio, Inc.*, 356 F.3d 393 (2d Cir. 2004).

(2) Section 301(a) preemption: Courts have interpreted Section 301(a) as not preempting a state cause of action that requires proof of "extra elements" not present in a copyright claim. The Seventh Circuit in *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996), ruled that Section 301(a) did not preempt enforcement of a contract prohibiting the copying of telephone listings because the contract claim required proof of an extra element – the existence of an enforceable contract. However, in *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147 (1st Cir. 1994), the First Circuit noted that not every extra element will establish a qualitative variance between rights under copyright and those protected by state law. Thus, if the extra elements are "illusory ... mere labels attached to the same odious business conduct," then preemption will occur. Some scholars have also rejected the ProCD analysis. *See, e.g.*, 1 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright*, § 1.01[B][1][a] at 1-19 and 1-22 (2001).

(3) Constitutional preemption: Courts have also preempted contractual terms on constitutional grounds. In 1988, the U.S. Court of Appeals for the Fifth Circuit set aside a contractual restriction on reverse engineering in *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255 (5th Cir. 1988). The Vault court cited *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964), where the Supreme Court relied on the U.S. Constitution's Supremacy Clause to conclude that "[w]hen state law touches upon an area of [the copyright statutes], it is 'familiar' doctrine' that the federal policy 'may not be set at naught, or its benefits denied' by state law." The *Vault* court held that a reverse engineering prohibition in a shrink-wrap license "conflicts with the rights of computer program owners under Section 117 and clearly 'touches upon an area' of federal copyright law." On the other hand, the courts in *Bowers v. Baystate Techs., Inc.*, 320 F.3d 1317 (Fed. Cir. 2003), and *Davidson & Assoc. v. Jung*, 422 F.3d 630 (8th Cir. 2005), rejected constitutional preemption arguments with respect to contractual restrictions on copyright exceptions.

140 17 U.S.C. § 203(a)(5).

The difficulties with contract defeating Congressional intent are particularly acute in the music licensing context. Contractual restrictions on an individual author's (or her publisher's) ability to license the right to perform a musical work present a conspicuous example of how private contract undermines the balance of interests embodied in the Copyright Act. Many musical works are written by multiple authors,[141] each of whom co-owns the copyright in that work as a tenant-in-common.[142] Each co-author (or subsequent co-owner) may unilaterally grant a non-exclusive license without the other's consent,[143] and as long as a licensee has a license from any co-owner, that licensee's is not infringing.[144] Rather, the licensing co-owners must account to other co-owners for any profits received.[145] Copyright scholars have observed that "[t]he ability of one joint owner to grant nonexclusive licenses facilitates licensing: if the permission of all joint owners were required for nonexclusive licenses, the transaction costs (to say nothing of the veto power of hold-out joint owners) might prove prohibitive."[146]

Notwithstanding the clear balancing of interests embodied in the Copyright Act, co-owners frequently enter into private agreements that purport to deprive each owner of the individual right to grant non-exclusive licenses to perform a work, or seek to limit a license grant to that owner's fractional interest. An industry practice, imposed by and for the benefit of publishers,[147] has emerged in which each publisher refuses to grant licenses to more than its "share" (*i.e.*, the percentage of ownership) of any particular song. This practice negates the general Copyright Act principle that each co-author can grant a non-exclusive license to the work without the consent of any other co-author. Further, it is typical for the rights to perform and reproduce musical works to be handled by different entities, such that if a service needs a license to both publicly perform and reproduce a work authored by two writers, it may have to obtain licenses from four different sources.[148] With four licenses required for one song, it is easy to see how fractional licensing creates prohibitive transactional costs when a digital service seeks to license millions of songs.

These costs would multiply if publishers are permitted to "partially withdraw" rights from performing rights organizations ("PROs") in order to target specific users. In the past, a user would likely have obtained blanket licenses for all the co-authors of all the works the user would perform,[149] obviating the harm that fragmented licensing practices would cause to licensees. In a future without reliable blanket licenses, Balkanized rights will create gridlock by giving parties that own even tiny partial interests the power to veto the licensing of any jointly owned song or the ability to bring infringement actions seeking millions of dollars in damages. This power is amplified by the fact that it is likely impossible for all but the largest music services (and even those services experience great difficulty) to identify copyright ownership in millions of works in a timely way. A licensee using millions of works (*e.g.*, a digital music service) will likely never be able to determine if it has obtained licenses from all co-authors of all the works it seeks to perform, particularly where copyright owners intentionally withhold ownership information of copyrighted works to require licensees to take

141 A musical work is the composition (*e.g.*, the notes and lyrics) underlying a sound recording, which each receive separate copyright protection. 17 U.S.C. § 102; *see* U.S. Copyright Office, *Copyright and the Music Marketplace* (2015), at 18. Unlike other creative industries, joint authorship of musical works is commonplace, if not the norm. *See id*. at 19.

142 17 U.S.C. § 201(a). *See* H.R. Rep. No. 94-1476, at 121 (1976): "Under the bill, as under the present law, co[-]owners of a copyright would be treated generally as tenants in common, with each co[-]owner having an independent right to use or license the use of a work, subject to a duty of accounting to the other co[-]owners for any profits."

143 *Id*.; *Davis v. Blige*, 505 F.3d 90, 100 (2d Cir. 2007) (finding that "[a] co-owner may grant a *non-exclusive* license to use the work unilaterally . . . a co-owner who grants a non-exclusive license is accountable to his co-owner for income gained by the grant of the license."); *see also Brownstein v. Lindsay*, 742 F.3d 55, 68 (3d Cir. 2014); *Zuill v. Shanahan*, 80 F.3d 1366, 1369 (9th Cir. 1996); *Siegel v. Time Warner*, 496 F. Supp. 2d 1111, 1144 (C.D. Cal. 2007); *Marshall v. Marshall*, 504 Fed. App'x 20, 22 (2d Cir. 2012); 2 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 6.10[A][1][a] (2013); 2 William F. Patry, *Patry on Copyright* § 5.7 (2014).

144 Davis, 505 F.3d at 100.

145 H.R. Rep. No. 94-1476, at 121; Davis, 505 F. 3d at 100; 2 William F. Patry, *Patry on Copyright* § 5.7 (2014).

146 2 William F. Patry, *Patry on Copyright* § 5.7 (2014). Although the rule allows for one author to extinguish certain of its co-authors' rights, such as the right to first distribute a work to the public, it is a necessary facet of the law in order to facilitate licensing. *See generally* Hunter Rodriguez, "*No More Drama": In Davis v. Blige, the Second Circuit Invalidates Retroactive Transfers, But What About Other Unilateral Acts by a Copyright Owner?*, 38 Sw. L. Rev. 307, 327, 328 (2008). In the case of musical works, the first distribution triggers a work's availability to the public under the Section 115 statutory license.

147 Co-authors of musical works often assign the right to license their interest in a work to different rights administrators (*e.g.*, a music publishing company and/or performing rights organization).

148 *See* U.S. Copyright Office, *Copyright and the Music Marketplace*, *supra* note 141, at 19, 25.

149 *See id.* at 33.

a license or be subject to massive infringement claims. Licensees would incur crushing transaction costs and be subject to unfair hold-up tactics made possible by such a fragmented licensing landscape.

The fragmentation of ownership, combined with either overt agreements or custom and practice that requires licensees to secure licenses from all co-owners of a work, bestows enormous market power on publishers and cannot be squared with sound antitrust and copyright policy. A publisher with a fractional interest in a work – even with an interest as low as 1% – has the same ability to sue someone for copyright infringement and seek statutory damages as a publisher with a 100% ownership interest. In effect, each publisher's real market power far exceeds the power it would have if it had exclusive rights only over those works in which it had a 100% stake.

Where rights to works with multiple authors are frequently divided among publishers that are ostensibly competitors, licensing practices subvert the policy of the Copyright Act by requiring a licensee to obtain licenses from all the publishers with an interest in the work. In combination with the fact that publishers typically grant licenses on a catalog-wide basis only, these elements deprive licensees of any real ability to partake of the kind of "substitution" that is the essence of competition. Licenses extracted by publishers in these circumstances would not reflect the true market value of the musical works a user may choose to perform, but rather the amplified market power publishers would enjoy by virtue of their imposition of restrictive licensing provisions. Because blanket performance licenses to virtually all works have been available from U.S. PROs for decades, the market has until now been able to function. Without the predictable availability of these blanket licenses, however, restrictive licensing practices that would require a licensee to obtain a license from all co-authors (*i.e.*, their publishers) or risk statutory damages for infringement will wreak havoc on the user community.

Ultimately, any effective copyright law reform must recognize that Congress's intentions can be subverted through contract, and that licensing agreements between competitors can give rise to substantial market power.

4.3 Limitations on User Rights Imposed By Technological Protection Measures

Section 1201 of the DMCA prohibits the development, distribution, and use of technologies that circumvent other technologies that protect copyright. Some courts have found that Section 1201 is violated only if there is a nexus between the circumvention and the infringement.[150] But other courts have found that Section 1201 can be violated even if there is no nexus between the circumvention and the infringement.[151] Under this interpretation, circumvention of a technological protection measure (TPM) for the purpose of engaging in a fair use or other lawful activity would violate Section 1201, unless the circumvention fell within one of Section 1201's specific exceptions, or an exemption granted by the Librarian of Congress. As in the case of contractual restrictions, substantial aspects of copyright reform could be rendered largely irrelevant if rightsholders can control all uses via TPMs.

To prevent this result, Congress should codify the interpretation that Section 1201 liability attaches only if there is a nexus between circumvention and infringement. This presents yet another case where unbalanced free trade agreements may pose a problem. The free trade agreements contain detailed prohibitions on circumvention, and they make no reference to a nexus between circumvention and infringement. While it could be argued that codification of an infringement nexus requirement would necessitate renegotiation of the free trade agreements, the co-location of anticirumvention provisions and copyright provisions together indicates that policymakers have always intended for there to be a nexus between the two.

---

150 *See, e.g., Chamberlain v. Skylink*, 381 F.3d 1178 (Fed. Cir. 2004).

151 *See, e.g., MDY Indus., LLC v. Blizzard Entm't, Inc.*, 629 F.3d 928 (9th Cir. 2010).

Resolution of these three challenges would be challenging and potentially controversial. Nonetheless, it must be recognized that so long as addressing foundational challenges to copyright remains off-limits, a copyright reformer's options are partially constrained.

5. Conclusion

As the conversation over copyright reform continues, it is essential that adjustments to the system of exclusive rights accommodate new technology innovation and commerce, and provide business certainty to those industries that the Copyright Act now regulates in its expanded reach. Giving sufficient attention to these priorities will help to ensure that the copyright system remains fit for our digital economy.

Appendix 1: Prior Significant Copyright Reforms Since 1909

- **1909 Copyright Act, Pub. L. No. 60-349, 35 Stat. 1075 (Mar. 4, 1909):** The third comprehensive revision of copyright, later to be codified in Title 17.

- **1912 Townsend Amendment, Pub. L. No. 62-303, 37 Stat. 488 (Aug. 24, 1912):** Provided express protection for dramatic motion pictures, which before 1912 were registered as photographs.

- **Codification of 1909 Act and Creation of Title 17, Pub. L. No. 80-281, 61 Stat. 652 (June 30, 1947):** Formal codification of 1909 Act as Title 17, and enactment into positive law of the same, in which technical clarifications and clerical revisions were made.

- **1949 Relaxing of Manufacturing Clause, Pub. L. No. 81-84, 63 Stat. 153 (June 3, 1949):** Due to post-war conditions, the registration and deposit period for English language books and periodicals by foreign authors was increased from 60 days to 6 months and domestic manufacturing from 4 months to 5 years.

- **1952 Nondramatic Literary Works Amendment, Pub. L. No. 82-575, 66 Stat. 752 (July 17, 1952):** Authors of nondramatic literary works were granted a right of public performance for the first time, but it was limited to not for profit public performances.

- **UCC Adherence, Pub. L. No. 83-743, 68 Stat. 1030 (Aug. 31, 1954):** Rather than joining the prevailing international copyright treaty, the Berne Convention of 1886, the U.S. instead joins the Universal Copyright Convention. Amendment to Section 9 of 1909: (1) provided national eligibility for works whose country of origin was another UCC country; (2) exempted such works from need to provide reciprocal mechanical reproduction rights similar to those found in Title 17; (3) exempted from the deposit requirement all works by authors of UCC country; and (4) exempted such works from the manufacturing clause requirements provided that a UCC notice was affixed.

- **1971 Sound Recording Act, Pub. L. No. 92-140, 85 Stat. 391 (Oct. 15, 1971):** Brought sound recordings, previously protected by state law (if at all) under federal Act. After Feb. 15, 1972, provides protection for sound recordings (musical, spoken, or other sounds fixed on tape or record album etc.) under Copyright Act.

- **1976 Copyright Act Pub. L. No. 94-553, 90 Stat. 2541 (Oct. 19, 1976):** The fourth and most recent comprehensive revision of the Copyright Act, which substantially altered the U.S. approach to copyright by, inter alia, explicitly requiring fixation and originality, codifying fair use, removing penalties associated with the failure to comply with formalities, and abolishing the requirement of domestic printing in order to qualify for protection.

- **Adoption of Recommendations in Report of Commission on New Technological Uses of Copyrighted Works, Pub. L. No. 96-517, 94 Stat. 3015, 3028 (Dec. 12, 1980):** Implemented aspects of the so-called CONTU Report. Revised Section 101 and Section 117, permitting owners of lawful copies of computer programs to make another copy of the program as an essential step in the utilization of the program with the machine or for purposes of a backup.

- **Piracy and Counterfeiting Amendments Act, Pub. L. No. 97-180, 96 Stat. 91 (May 24, 1982):** Amended Section 506(a,) increasing penalties for trafficking in counterfeit labels for phonorecords, motion pictures, and audiovisual works and for criminal infringement of these works.

- **Record Rental Amendment, Pub. L. No. 98-450, 98 Stat. 1727 (Oct. 4, 1984):** Revised the first sale and exhaustion doctrine in Section 109 in response to the advent of compact discs to prohibit the unauthorized rental, lease, or lending of phonorecords for direct or indirect commercial gain.

- **Semiconductor Chip Protection Act of 1984, Pub. L. No. 98-620, 98 Stat. 3347 Title III (Nov. 8, 1984):** Added Chapter 9 to Title 17, providing *sui generis* protection to "original mask works" (the topography) fixed in semiconductor chip products.

- **Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, 102 Stat. 2853 (Oct. 31, 1988):** Modified federal copyright in response to perceived need to comply with international copyright treaty, the Berne Convention of 1886. Abolished the mandatory requirement of copyright notice for protection. Established a two-tier system in which registration is a prerequisite for infringement action for domestic works, but Berne countries other than the U.S. are exempt. Doubled the maximum allowable statutory damages.

- **Satellite Home Viewer Act of 1988, Pub. L. No. 100-667, 102 Stat. 3935, 3949 (Nov. 16, 1988):** Established a statutory license for the secondary transmission of superstations for private viewing by satellite dish owners. Response to scrambling of pay cable signals and needs of rural recipients of broadcast signals.

- **Copyright Remedy Clarification Act 1990, Pub. L. No. 101-553, 104 Stat. 2749 (Nov. 15, 1990):** States and their instrumentalities were made expressly liable for money damages for infringement, reversing lower court decisions that had granted sovereign immunity to states under Copyright Act.

- **Computer Software Rental Amendments of 1990, Pub. L. No. 101-650, 104 Stat. 5089 (Dec. 1, 1990):** First sale doctrine amended to prohibit the commercial rental of software for purposes of direct or indirect commercial advantage. Exemption for lending for software to non-commercial, education entities broader than that for phonorecords under Record Rental Amendment of 1984.

- **Visual Artists Rights Act of 1990, Pub. L. No. 101-650, 104 Stat. 5089, 5133 Title VI (Dec. 1, 1990):** Provided narrow, federal protection for moral rights interests, but limited to narrow class of certain works of visual art.

- **Copyright Amendment Act of 1992, Pub. L. No. 102-307 (June 26, 1992):** Title I ("The Copyright Renewal Act") amended Chapter 3 and abolished requirement that works published between 1964 and 1977 be renewed or fall into the public domain. Title II abolished requirement that Copyright Office prepare a report pertaining Section 108 governing library photocopying.

- **An Act (unnamed), Pub. L. No. 102-492, 106 Stat. 3145 (Oct. 24, 1992):** Amended Section 107 to state that the fact a work is unpublished does not itself bar a finding of fair use.

- **Audio Home Recording Act, Pub. L. No. 102-563, 106 Stat. 4237 (Oct. 28, 1992):** Chapter 10 added to Title 17. Regulates the importation and distribution of certain digital audio recording devices.

- **NAFTA Implementation Act, Pub. L. No. 103-182, 107 Stat. 2057, 2114 (Dec. 8, 1993):** Amended Section 109 and added new Section 104A to Title 17. Granted protection of motion pictures that are fixed or published in a NAFTA country, including those in public domain and are published between Jan. 1, 1978 and March 1, 1989.

- **Copyright Royalty Tribunal Reform Act, Pub. L. No. 103-198, 107 Stat. 2304 (Dec. 17, 1993):** Eliminated the CRT and assigned its functions to Library of Congress, and created a royalty arbitration panel (CARP), which was also phased out in 2004.

- **Satellite Home Viewer Act of 1994, Pub. L. No. 103-369, 108 Stat. 3477 (Oct. 18, 1994):** Amended Sections 111 and 119 with respect to satellite carrier compulsory licenses. Extended the compulsory copyright licenses for satellite distribution of broadcast stations and permitted that fees be set by looking at fair market value.

- **Digital Performance Right in Sound Recordings Act of 1995, Pub. L. No. 104-39, 110 Stat. 1386, 1388 (Nov. 1, 1995):** Amended Sections 114 and 115, provides sound recording rightsholder an exclusive right to perform the recording publicly by means of digital audio transmission.

- **Anticounterfeiting Consumer Protection Act of 1996, Pub. L. No. 104-153, 110 Stat. 336 (July 2, 1996):** Amended Section 603(c) of Title 17 and Section 2318 of Title 18. Criminal copyright infringement, trafficking in counterfeit labels for phonorecords, computer programs, and audio and visual works, and trafficking in goods or services bearing counterfeit marks are criminal offenses under the RICO Act.

- **No Electronic Theft ("NET") Act, Pub. L. No. 105-147, 111 Stat. 2678 (Dec. 16, 1997):** Amended federal copyright and criminal law to broaden the financial gain infringement requirement to include the receipt of anything of value. Extends statute of limitation for criminal copyright infringement from three to five years. Sets penalties for willful infringement under Title 18.

- **Sonny Bono Copyright Term Extension Act, Pub. L. No. 105-298, 112 Stat. 2827 (Oct. 27, 1998):** Extended copyright terms. Amended Chapter 3 of Title 17 to extend term of copyright protection to life of author plus 70 years, or 95 years for anonymous works and works made for hire.

- **Fairness in Music Licensing Act, Pub. L. No. 105-298, 112 Stat. 2827 (Oct. 27, 1998):** Exempted smaller restaurants, bars, and similar establishments from certain obligations to pay performance rights royalties.

- **Digital Millennium Copyright Act ("DMCA"), Pub. L. No. 105-304, 112 Stat. 2860 (Oct. 28, 1998):** Title I enacted statutory prohibitions on the circumvention of technological protection measures on protected works, following the WIPO Copyright and Performances and Phonograms treaties. Title II created safe harbor protection of online service providers under Section 512. Title III permitted copying of computer programs for maintenance or repair of computer. Title V provided protection of certain original designs in the Vessel Hull Design Protection Act.

- **Satellite Home Viewer Improvement Act, of 1991 Pub. L. No. 106-113, 113 Stat. 1501 (Nov. 29, 1999):** Renewed statutory licenses for satellite companies to retransmit broadcast signals.

- **Digital Theft Deterrence and Copyright Damages Improvement Act, Pub. L. 106-160, 113 Stat. 1774 (Dec. 19, 1999):** Amended Chapter 5 of Title 17. Significantly increased statutory damages for copyright infringement. Minimum damages rose from $500 to $750 and maximum rose from $20,000 to $30,000. Damages for willful infringement rose from $100,000 to $150,000.

- **Technology, Education, and Copyright Harmonization Act, Pub. L. No. 107-273, 116 Stat. 1758, 1901 (Nov. 2, 2002):** Expanded the scope of materials available to be used in distance education, while still implementing strict limits on the amount copied and shared and included requirements to adopt copyright policies.

- **Small Webcaster Settlement Act of 2002, Pub. L. No. 107-321, 116 Stat. 2780 (Dec. 4, 2002):** Permits small webcasters to independently negotiate licensing fees with copyright holders without submitting matter to the Copyright Arbitration Royalty Panel (predecessor to Copyright Royalty Board).

- **Copyright Royalty and Distribution Reform Act of 2004, Pub. L. No. 108-419, 118 Stat. 2341 (Nov. 30, 2004):** Amended Chapter 8 of Title 17. Established a new system of three Copyright Royalty Judges to establish rates for compulsory copyright licenses, eliminating the Copyright Arbitration Royalty Panel.

- **Satellite Home Viewer Extension and Reauthorization Act of 2004, Pub. L. No. 108-447, 118 Stat. 2809, 3393 (Dec. 8, 2004):** Amended Section 119 of Title 17 and extended statutory license for satellite carriers.

- **Intellectual Property Protection and Courts Amendments Act, Pub. L. No. 108-482, 118 Stat. 3912, 3916 (Dec. 23, 2004):** Title I ("Anti-counterfeiting Amendments Act of 2004") amended Section 2318 of Title 18 regarding trafficking in counterfeit labels and grants copyright owner to bring civil action in U.S. district court.

- **Family Entertainment and Copyright Act, Pub. L. No. 109-9, 119 Stat. 218 (Apr. 27, 2005):** Title I ("The ART Act") amended Section 506(a) of Title 17, creating criminal liability for recording films in a theater, and for distributing unpublished works; amended Section 110, providing a statutory exemption for consumer devices enabling viewers to skip objectionable content; and other technical amendments.

- **Prioritizing Resources and Organization for Intellectual Property Act of 2008 ("PRO-IP Act"), Pub. L. No. 110-403, 122 Stat. 4256 (Oct. 13, 2008):** Amended Chapters 4, 5, and 6 in Title 17 and provisions in Title 28. Increased civil and criminal penalties for copyright infringement, in addition to trademark and patent claims.

- **Webcaster Settlement Act of 2008, Pub. L. No. 110-435, 122 Stat. 4974 (Oct. 16, 2008):** Amended Section 114 to allow a "receiving agent" to enter into agreements with webcasters over royalty terms for performance of sound recordings of the internet outside of the Copyright Royalty Judges.

- **Webcaster Settlement Act of 2009, Pub. L. No. 111-36, 123 Stat. 1926 (June 30, 2009):** Amended Section 114 to authorize a 30-day negotiation period for webcasters and copyright holders.

- **Satellite Television Extension Act of 2010 ("STELA"), Pub. L. No. 111-175, 124 Stat. 1218 (May 12, 2010):** Renewed 2004 Act creating statutory licenses that permit satellite television companies to retransmit broadcast stations. Included provisions to make local programs more readily available to satellite companies.

- **Unlocking Consumer Choice and Wireless Competition Act, P.L. 113-144 (Aug. 1, 2014):** Amended the Copyright Office and Library of Congress's prior triennial rulemaking process (set forth in 37 C.F.R. § 201.40), to permit circumvention for purposes of using mobile phones on networks other than those of their existing service provider.

Appendix 2: Supreme Court Copyright Decisions Since the 1976 Act

- ***Broad. Music v. Columbia Broad. Sys.*, 441 U.S. 1 (1979)** (regarding antitrust implications of blanket licenses for musical compositions used by the American Society of Composers, Authors, and Publishers (ASCAP) and Broadcast Music, Inc (BMI))

- ***Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984)** (regarding use of home video recorders to copy copyrighted material for later private viewing)

- ***Mills Music, Inc. v. Snyder*, 469 U.S. 153 (1985)** (regarding interaction between termination and royalties on previously prepared derivative works)

- ***Harper & Row, Publ'rs v. Nation Enters.*, 471 U.S. 539, 546 (1985)** (considering claimed fair use defense to unauthorized use of unpublished manuscript for news reporting; "[t]he monopoly created by copyright thus rewards the individual author in order to benefit the public")

- ***Dowling v. United States*, 473 U.S. 207, 217-18 (1985)** (finding that bootlegged copyrighted phonorecords did not constitute "stolen property" for purposes of federal law, and that copyright infringement did not equate to "theft, conversion or fraud" as enumerated by the Act. "While one may colloquially link infringement with some general notion of wrongful appropriation, infringement plainly implicates a more complex set of property interests than does run-of-the-mill theft, conversion, or fraud.")

- ***Cmty. for Creative Non-Violence v. Reid*, 490 U.S. 730 (1989)** (concerning nature of "work made for hire under Copyright Act of 1976, where act does not define the terms of "employer" or "employee")

- ***Stewart v. Abend*, 495 U.S. 207 (1990)** (regarding copyright holder's exclusive right to determine how the specific work and derivative works are used, when in contradiction to previous copyright holder's agreements).

- ***Feist Publ'ns, Inc. v. Rural Tel. Ser. Co.*, 499 U.S. 340, 349 (1991)** (concerning copyrightability of factual information (name, address, phone number) from telephone directory, which lacked originality; stating, that "[t]he primary objective of copyright is not to reward the labor of authors, but '[t]o promote the Progress of Science and useful Arts'")

- ***Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 527 (1994)** (stating that "defendants who seek to advance a variety of meritorious copyright defenses should be encouraged to litigate them to the same extent that plaintiffs are encouraged to litigate meritorious claims of infringement," and holding that district courts have discretion in determining whether or not to award attorney's fees to the prevailing defendant in copyright infringement lawsuits).

- ***Campbell v. Acuff-Rose Music*, 510 U.S. 569, 577-79 (1994)** (applying fair use to commercial music parody, establishing test of transformativeness for fair use, in which commercial success of a parody is only one element that should be evaluated and its significance is dependent on the magnitude of transformation of the new work. The fair use doctrine permits "courts to avoid rigid application of the copyright statute, when, on occasion, it would stifle the very creativity which the law is designed to foster.")

- ***Lotus Dev. Corp. v. Borland Int'l, Inc.*, 516 U.S. 233 (1995)** (holding that method of operation or the layout of a particular program was not copyrightable, but only the implementation of the code was copyrightable)

- ***Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135 (1998)** (considering first sale doctrine in relation to re-importation of manufactured products bearing copyrighted labels from foreign distributors)

- ***Feltner v. Columbia Pictures Television, Inc.*, 523 U.S. 340 (1998)** (regarding whether defendant was entitled to jury trial where plaintiff elected for statutory damages in case concerning continued broadcast of television programs while royalty payments for same were delinquent)
- ***N.Y. Times Co. v. Tasini*, 533 U.S. 483 (2001)** (concerning whether inclusion by news publisher of previously published individual copyrighted news articles, without permission, in an electronic database constitutes copyright infringement)
- ***Eldred v. Ashcroft*, 537 U.S. 186, 219 (2003)** (considering constitutional challenge to Sonny Bono Copyright Term Extension Act (CTEA), in which Congress enlarged the duration of copyrights by 20 years; stating that "in the Framers' view, copyright's limited monopolies are compatible with free speech principles")
- ***Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23 (2003)** (regarding attempted application of Lanham Act (trademark) to unaccredited copying of work in public domain)
- ***MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 928 (2005)** (applying secondary liability principles to developer of online file-sharing software who knew that software was being used to download copyrighted materials, and actively encouraging same; stating that "[t]he more artistic protection is favored, the more technological innovation may be discouraged; the administration of copyright law is an exercise in managing the trade-off.")
- ***Reed Elsevier, Inc. v. Muchnick*, 559 U.S 154 (2010)** (regarding jurisdiction by federal courts in determining whether the underlying work was infringed where plaintiff failed to register copyright with the Copyright Office)
- ***Costco Wholesale Corp. v. Omega*, S.A., 559 U.S. 1066 (2010)** (considering first sale with respect to copyrighted products manufactured outside the United States that are imported and then distributed in United States)
- ***Golan v. Holder*, 132 S. Ct. 873 (2012)** (regarding constitutional challenge to implementation of Uruguay Round Agreements Act, whereby copyright protection was granted anew to foreign works currently in the public domain)
- ***Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013)** (holding that first sale doctrine applies when a foreign student purchased lawfully-made foreign edition U.S. textbooks abroad and imported them into U.S.; concluding that sale of work abroad exhausted copyright holder's rights to restrict any subsequent sale of book)
- ***Petrella v. MGM*, 134 S. Ct. 1962 (2014)** (considering defense of laches in copyright infringement action where claim was brought within the statute of limitations, but where alleged infringement had continued for many years)
- ***Am. Broad. Cos. v. Aereo, Inc.*, 134 S. Ct. 2498 (2014)** (interpreting public performance right in context of online service that enabled users to stream local, free, over-the-air broadcast signals to Internet-connected devices)