

Symposium: Collective Management of Copyright: Solution or Sacrifice?

The Book Rights Registry in the Google Book Settlement

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Copyright law poses a significant challenge to any effort to create a comprehensive digital database of published books. Approximately eighty percent of these millions of titles are still under copyright.¹ The tremendous amount of time, transaction costs and uncertainty relating to clearing the rights to so many works is overwhelming.

The proposed settlement of the litigation arising out of the Google Library Project presents one possible way of overcoming this challenge. Using the legal device of a class action settlement under the Federal Rules of Civil Procedure, the settlement would create a collective management organization, the Book Rights Registry, which would possess a nonexclusive license to all the works covered by the settlement.² The Registry, in turn, would authorize Google to scan the works into its database and provide users with several forms of access to the works, including access to full text.³

Just as this Article was going to print, Judge Chin rejected the settlement.⁴ The parties may appeal the rejection, renegotiate the settlement to address Judge Chin's concerns, resume litigation over when the original Library Project is a fair use or seek legislative relief from Congress. Regardless of the ultimate resolution, the Registry will become a model for the collective management of rights in the digital era. The settlement's detailed provisions concerning the operation of the Registry will make the Registry impossible to ignore.

After providing a brief overview of the Library Project, the litigation and the settlement, this Article will review the settlement agreement's provisions concerning the Registry. The Article will then discuss criticisms of the Registry,

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1. See Jonathan Band, *The Long and Winding Road to the Google Books Settlement*, 9 J. MARSHALL REV. OF INTELL. PROP. L. 227, 228–29 (2009).

2. *Id.* at 262–64.

3. *Id.*

4. *The Authors Guild v. Google Inc.*, No. 05 CV 8136(DC), 2011 WL 986049 (S.D.N.Y. Mar. 22, 2011).

particularly its potential to charge monopoly rents and its creation by means of a class action settlement. Finally, the Article examines the feasibility of Congress establishing a collective management organization similar to the Registry through legislation.

I. OVERVIEW OF THE LIBRARY PROJECT AND THE SETTLEMENT

In 2004, Google launched the Library Project, under which it intended to borrow on the order of thirty million books from major research libraries and scan them into its search database.⁵ For the nearly twenty-five million books still under copyright, Google argued that the “fair use” doctrine under § 107 of the U.S. Copyright Act allowed it to scan the books and display “snippets” of them in response to search queries.⁶ Publishers and authors disagreed and sued Google for copyright infringement in federal district court in New York in the fall of 2005.⁷ After three years of litigation, Google, the publishers and authors announced a settlement on October 28, 2008.⁸ Judge Chin, then a federal district court judge in the Southern District of New York, held a fairness hearing on the settlement on February 18, 2010.⁹ Judge Chin rejected the settlement on March 22, 2011.¹⁰

The settlement creates a mechanism for Google to continue scanning the full text of millions of books into its search index in exchange for:

- payment to copyright owners, and
- provision of a variety of services far beyond snippet display.¹¹

The settlement:

- applies only to books published before January 5, 2009;
- does *not* apply to periodicals;
- does *not* apply to books first published in the United States that were not registered with the Copyright Office; and
- does *not* apply to books in the public domain because they are not protected

5. *Id.* at 227.

6. 17 U.S.C. § 107 (2006); Band, *supra* note 1, at 228–30, 236–37.

7. Separate cases were filed in other countries, including France and Germany. Although the German court dismissed the suit, the French court found Google liable for copyright infringement. Google is appealing that decision.

8. Band, *supra* note 1, at 227.

9. Judge Chin has since been elevated to the U.S. Court of Appeals to the Second Circuit; however, he still presides over this case.

10. Because the case could still be far from ultimate resolution, the Article will refer to the settlement in the present tense.

11. Amended Settlement Agreement, *Authors Guild, Inc. v. Google, Inc.*, 93 U.S.P.Q.2d 1159 (S.D.N.Y. 2009) (No. 05 CV 8136 (DC)).

by copyright.¹²

The original settlement applied to books published before January 5, 2009, regardless of whether they were published in the United States or elsewhere.¹³ In response to the complaints of foreign rights holders, the parties amended the settlement in the fall of 2009 to exclude books published outside the United States, except if they were published in the United Kingdom, Canada and Australia, or were registered with the Copyright Office.¹⁴

The settlement permits Google to provide its partner libraries with a digital copy of the books they made available to Google for scanning.¹⁵ However, the settlement places strict limitations on what the libraries can do with these digital copies.¹⁶

The settlement allows for Google to offer three primary services to users in the United States: previews, consumer purchases and institutional subscriptions.¹⁷ The settlement establishes “default rules” with respect to these services, which will apply unless the right holder elects to vary the rules with respect to a particular title.¹⁸ Different default rules apply to in-print and out-of-print books. For out-of-print books, the default rule is that Google can make a book available in all three services.¹⁹ For in-print books, the default rule is that Google cannot make any of a book’s text available in any of the three services.²⁰

Under the “preview” service, all users in the United States will have the ability to search Google’s entire search database for digitized books responsive to their queries for free.²¹ For an out-of-print book, the standard default rule is that Google may display up to twenty percent of the book’s text. However, for different categories of books (e.g., fiction vs. nonfiction), Google may display a different number of pages per response.²² For an in-print book, the default rule is that

12. Google displays the full text of these books for free.

13. Band, *supra* note 1, at 320–22.

14. *Id.* It has been estimated that the exclusion of foreign works from the settlement cuts the universe of books within the settlement in half. Google, however, intends to continue scanning the foreign books into its search database and to display snippets in response to search queries. In other words, Google intends to continue the existing Library Project with respect to the foreign books. Because the Amended Settlement Agreement does not cover these books, their rights holders could sue Google for copyright infringement for scanning and snippet display, and Google presumably would defend itself by claiming that its activities fall within the fair use privilege of 17 U.S.C. § 107. *Id.*

15. *Id.* at 275–76.

16. *Id.* at 277–78.

17. *Id.* at 265.

18. *Id.*

19. Amended Settlement Agreement *supra* note 11, art. 3.2.

20. *Id.* art. 3.4.

21. The Preview service is discussed at article 4.3 of the Amended Settlement Agreement. *Id.* art. 4.3.

22. For most nonfiction works, Google generally may display no more than five adjacent pages at a time. Additionally, Google must block the two pages before and after any five-page display. In contrast, for works of fiction, in any given response, Google may display five percent of the book or fifteen adjacent pages, whichever is less. Google must also block the final five percent, or at least the final fifteen pages. No display is allowed of anthologies of drama and fiction by multiple authors, or collections of poetry or short stories. And for dictionaries, drug reference guides, encyclopedias,

Google may not display any of the book's text; it may display only bibliographic information and front material, such as the title page, the copyright page, the table of contents and the index.²³

Under the "consumer purchase" service, Google will allow consumers to purchase perpetual online access to the full text of a book.²⁴ Google will set the price algorithmically between \$1.99 and \$29.99 (with eighty percent of books below \$10).²⁵ In-print books will not be made available for consumer purchase unless the copyright owner elects to "opt in" with respect to his or her book.

Under the "institutional subscription" service, Google will offer institutions an annual subscription to view the full text of all books in the institutional subscription database ("ISD").²⁶ The institutional subscription could become an invaluable research tool in the higher education context because it will allow faculty and students to access the full text of millions of books from their computers.²⁷

The settlement allows the offering of two additional services:

First, Google may provide *free public access* to the full text of the books in the ISD on a limited basis through public libraries and higher education institutions.²⁸ Public access service will be available at only one terminal in each public library building.²⁹ At associate colleges, Google may provide one public access terminal for each 4,000 full-time equivalent ("FTE") users; at four-year colleges, Google may provide one public access terminal for each 10,000 FTEs.³⁰

Second, the settlement permits "*non-consumptive research*" by "qualified users" on the "Research Corpus," the set of all digital copies made by Google in the Library Project and hosted by selected institutions.³¹ Nonconsumptive research involves computational analysis of the books, and does not include research relating to the intellectual content of the books.³² Users are qualified through relevant institutional affiliation or demonstrated capability and resources to conduct

price/buyer guides, quotation books, test preparation guides and thesauri, Google will provide only a "fixed preview"—it will display the same pages regardless of the user query, up to ten percent of the book. *Id.* art. 4.3(b).

23. *Id.* art. 3.2.

24. The Consumer Purchase service is discussed at art. 4.2 of the Amended Settlement Agreement. A consumer will be able to print out up to twenty pages with one command, cut and paste up to four pages with one command and make book annotations. *Id.* art. 4.2.

25. The right holder can direct Google to sell the book for a price different from the price set algorithmically. Indeed, the right holder can instruct Google to make the book available for free. *Id.* art. 4.2(c).

26. The Institutional Subscription service is discussed at article 4.1 of the Amended Settlement Agreement. *Id.* art. 4.1.

27. An authorized user will be able to print out up to twenty pages with one command, cut and paste up to four pages with one command, make book annotations and provide links to e-reserve or course management systems.

28. The Public Access service is discussed at article 4.8 of the Amended Settlement Agreement. *Id.* art. 4.8.

29. *Id.* art. 4.8(a).

30. *Id.*

31. The Research Corpus is discussed at article 7.2(d) of the Amended Settlement Agreement. *Id.* art. 7.2(d).

32. *Id.*

nonconsumptive research.³³

Unless a right holder takes action to deny Google the right to use her work, Google may provide the services discussed above with respect to that work.³⁴ The legal theory underlying this “opt-out” framework, which applies to potentially millions of rights holders not personally participating in the litigation, is a class action settlement. The litigation against Google took the form of a class action under Rule 23 of the Federal Rules of Civil Procedure.³⁵ A class action is a legal fiction found in American civil procedure where a handful of class representatives bring an action on behalf of all members of a defined class. Typically, a few employees will bring an action on behalf of all similarly situated employees of the same employer, or a few purchasers of a product will bring an action on behalf of all other purchasers of the product. If the presiding judge decides to certify the class, then any settlement or judgment can be binding on all members of the class.³⁶ Under the Federal Rules of Civil Procedure, a court must review a class action settlement to ensure that it is “fair, reasonable, and adequate.”³⁷

Initially, the Authors Guild sued Google on behalf of all owners of copyrights in literary works contained in the library of the University of Michigan, one of the libraries that made in-copyright books available to Google for scanning.³⁸ The settlement involves two subclasses of plaintiffs—authors and publishers of books published in the United States, Canada, Australia and the United Kingdom. Rights holders had the right to opt out of the settlement by January 28, 2010. If a right holder did not opt out of the settlement by that deadline, and if Judge Chin had approved the settlement, the right holder would have released Google from claims relating to the Library Project, and could not initiate its own litigation against Google for infringement arising out of the Library Project.³⁹

II. THE FUNCTIONS OF THE BOOK RIGHTS REGISTRY

The settlement creates a collective management organization—the Book Rights Registry—to administer class members’ copyrights in the books subject to the settlement. Google will pay for the Registry’s start-up costs.⁴⁰ The Registry’s

33. *Id.*

34. Band, *supra* note 1, at 261–62.

35. *Id.* 262–63.

36. A court must determine that: 1) the class is so large as to make individual suits impractical, 2) there are legal or factual claims in common, 3) the claims or defenses are typical of the plaintiffs or defendants and 4) the representative parties must adequately protect the interests of the class. FED. R. CIV. P. 23. In many cases, the party seeking certification must also show that 5) common issues between the class and the defendants will predominate the proceedings, as opposed to individual fact-specific conflicts between class members and the defendants and 6) the class action, instead of individual litigation, is a superior vehicle for resolution of the disputes at hand. *Id.*

37. *Id.* at 23(e)(1)(C).

38. Band, *supra* note 1, at 263.

39. *Id.* at 288.

40. Amended Settlement Agreement, *supra* note 11, art. 5.2. Google is required to pay a total of \$30 million for the start-up costs and notifying class members of the settlement. *Id.* Reportedly, half of the \$30 million has already been spent on two rounds of class notification; a second round of

board will be divided equally between publishers and authors.⁴¹ The amended settlement provides that the Board of Directors of the Registry will have at least one representative of the Author Sub-Class and one representative of the Publisher Sub-Class from each of the following countries: the United States, the United Kingdom, Australia and Canada.⁴²

A right holder can register an ownership claim in a work with the Registry.⁴³ Claiming the work provides the right holder with the ability to control Google's use of the work, as well as the right to financial compensation for Google's use.⁴⁴ For unclaimed works, the Registry would apply the settlement's default rules.⁴⁵

The settlement agreement assigns to the Registry the following critical functions.

A. CLASSIFICATION OF BOOKS

As discussed above, the settlement allows Google to offer three primary services to users in the U.S.: previews, consumer purchases and institutional subscriptions.⁴⁶ The settlement establishes "default rules" with respect to these services, which will apply unless the right holder elects to vary the rules with respect to a particular title, as discussed below. Different default rules apply to in-print and out-of-print books. For out-of-print books, the default rule is that Google can make displays of the book available in all three services. For in-print books, the default rule is that Google cannot display any of a book's text available in any of the three services.⁴⁷

Google will make the initial determination of whether a book is in- or out-of-print by consulting with existing databases.⁴⁸ The Registry or the right holder, however, has the ability to challenge Google's classification.⁴⁹ Similarly, although Google will determine whether a book is in the public domain, the Registry or the right holder can challenge the determination.⁵⁰

A right holder that claims a work with the Registry can direct the Registry to instruct Google to depart from the default rules with respect to a specific work.⁵¹

notification was necessary when the parties agreed to amend the settlement. *See National Writers Union FAQ About the Revised Google Book Search Copyright Infringement Settlement Proposal*, NAT'L WRITERS UNION, <http://www.nwubook.org/NWU-GBS2-FAQ.html> (last visited Mar. 19, 2011).

41. Amended Settlement Agreement, *supra* note 11, art. 6.2(b).

42. *Id.* art. 6.2(b)(iii).

43. *Id.* art. 1.122.

44. Band, *supra* note 1, at 288.

45. *Id.*

46. *Id.* at 265.

47. *Id.* at 261.

48. Amended Settlement Agreement, *supra* note 11, art. 3.2(d)(i).

49. *Id.* art. 3.2(e)(i).

50. *Id.* art. 3.2(e)(ii).

51. If Google receives a removal request before it scans a book, it cannot scan the book. If the right holder requests removal by April 5, 2011 of a book already scanned by Google, Google must stop all uses of their digital copies of the book (although it can store the copies). If a right holder makes a removal request after March 9, 2012, Google may not display any of the book's text, but it can make

Thus, the right holder can “remove” a title from all of Google’s services under the settlement.⁵² Additionally, the right holder can change the default displays.⁵³ For example, for an out-of-print book, the right holder can require the Registry to instruct Google to exclude a title from consumer purchase and/or to display less text under the preview service.⁵⁴ The right holder can also vary the price of a book available for consumer purchase from the price set algorithmically by Google; indeed, the right holder can require Google to make the book available for free.⁵⁵ Significantly, the right holder can direct Google to change how to use a particular title at any time.⁵⁶

B. PRICING OF INSTITUTIONAL SUBSCRIPTIONS

The Registry and Google will jointly perform the critical function of setting the price of institutional subscriptions.⁵⁷ If they cannot agree on a price structure, the settlement provides for a dispute resolution mechanism involving binding arbitration.⁵⁸

The economic terms for the institutional subscriptions will be governed by two objectives: “(1) the realization of revenue at market rates for each Book and license on behalf of Rightsholders and (2) the realization of broad access to the Books by the public, including institutions of higher education.”⁵⁹ Moreover, the “[p]laintiffs and Google view these two objectives as compatible, and agree that these objectives will help assure both long-term revenue to the Rightsholders and accessibility of the Books to the public.”⁶⁰ Google and the Registry will also use the following parameters to determine the price of institutional subscriptions: the pricing of similar products and services available from third parties; the scope of the books available in the institutional subscription database (“ISD”); the quality of the scan; and the features offered as part of subscription.⁶¹

Pricing will be based on the number of full-time equivalent (“FTE”) users. For higher education institutions, FTE means full-time equivalent students.⁶² The FTE pricing can vary across different categories of institutions. These categories include: 1) corporate; 2) higher education institutions (which may be sub-divided based on the Carnegie Classifications for Institutions of Higher Education); 3) K-12; 4) government; and 5) public library.⁶³ Only higher education institutions can

“non-display uses” of the book (e.g., retain the book in its search database and display bibliographic information in response to queries). *Id.* art. 3.5.

52. *Id.*

53. Band, *supra* note 1, at 288.

54. *Id.*

55. *Id.*

56. *Id.*

57. Amended Settlement Agreement, *supra* note 11, art. 4.1(a).

58. *Id.* art. 4.1(a)(vi)(4)(a).

59. *Id.* art. 4.1(a)(i).

60. *Id.*

61. *Id.* art. 4.1(a)(ii).

62. *Id.* art. 4.1(a)(iii).

63. *Id.* art. 4.1(a)(iv).

have remote access without Registry approval (e.g., faculty can access the ISD from home and students from their dormitories).⁶⁴

Google can charge a lower price for a discipline-based subset of the ISD. However, “[t]o provide an incentive for institutions to subscribe to the entire Institutional Subscription Database, Google shall design the pricing of the different versions of the Institutional Subscription such that the price for access to the entire Institutional Subscription Database will be less than the sum of the prices for access to the discipline-based collections.”⁶⁵

Google will propose an initial pricing strategy consistent with the objectives outlined above that will include target retail prices for each class of institution for access to the entire ISD and the discipline-based collections, and proposed discounts for institutional consortia and early subscribers. After Google submits the initial pricing strategy to the Registry, Google and the Registry will negotiate its terms for up to 180 days. If Google and the Registry do not reach agreement, the dispute will be submitted to binding arbitration.⁶⁶

FTE-based prices in the initial pricing strategy period will be based on “then-current prices for comparable products and service, surveys of potential subscribers, and other methods for collecting data and market assessment.”⁶⁷ Google will be responsible for collecting data comparing the target retail prices with the prices for comparable products and services, and will provide this data to the Registry.⁶⁸ Presumably, the arbitrators will rely on this data in the event of a dispute concerning the pricing strategy.

The initial pricing strategy is expected to be in effect for two to three years. Google and the Registry will agree on the duration of subsequent pricing strategies.⁶⁹ Should Google provide other services to institutional subscribers for a fee, those services would fall within the settlement and the Registry would be entitled to a portion of the revenue if: 1) the preponderance of the value of the service is realized through access to books through the institutional subscription and 2) the service exploits the access provided by the subscription in a manner that could not be exploited by other entities.⁷⁰

Under the settlement agreement, only Google and the Registry can submit disputes concerning the pricing of the institutional subscription to arbitration; the libraries have no recourse to the arbitrator. In response to concerns raised by libraries about the pricing of the institutional subscription, on May 20, 2009, Google and the University of Michigan (“Michigan”) agreed to a new procedure that would allow Michigan and the other libraries that provided Google with in-copyright books to request an arbitrator to review the pricing of the institutional

64. *Id.*

65. *Id.* art. 4.1(a)(v).

66. *Id.* art. 4.1(a)(vi)(4).

67. *Id.* art. 4.1(a)(vii).

68. *Id.*

69. *Id.* art. 4.1(a)(vi)(4)(b).

70. *Id.* art. 4.1(a)(ix).

subscription.⁷¹

C. DISTRIBUTION OF REVENUE

The Registry has the responsibility of distributing funds collected from Google and other parties to rights holders. Rights holders that claim their copyright interest with the Registry can receive several forms of compensation. First, Google must pay between \$60 and \$300 to the right holder of each book scanned prior to May 5, 2009.⁷² Google must provide the Registry with at least \$45 million to distribute for these scans. The amount each right holder receives will depend on how many rights holders file claims with the Registry.⁷³ A right holder must file a claim with the Registry by January 28, 2010, in order to receive this fee.⁷⁴

Additionally, Google must provide to the Registry sixty-three percent of the revenue it generates through advertising, institutional subscriptions and consumer sales.⁷⁵ The Registry will then distribute the revenue to the rights holders. The settlement contains a complex plan of allocation that the Registry must follow in distributing this revenue. Once it has collected sufficient revenue from Google, the Registry will pay each registered right holder an inclusion fee of \$200. Additionally, the Registry will pay rights holders usage fees based on how many users access a particular book.⁷⁶ Under the original settlement, the Registry would have escrowed funds due to an unregistered right holder for five years. If the right holder did not register a claim within the five years, the Registry would have retained some funds to cover its operating costs, and disbursed the rest to registered rights holders and charities.⁷⁷

The original settlement was criticized for not adequately protecting the interests

71. In many respects, Michigan has been Google's primary partner in the Library Project. In 2004, it was the first library to sign an agreement with Google that allowed Google to scan books in the Michigan library for inclusion in Google's search database. To date, Google has scanned more books from Michigan than any other library. On May 20, 2009, Google and Michigan entered into an amendment that expanded the 2004 agreement. The new agreement addresses the provisions of the proposed settlement agreement between Google and the plaintiffs in the Google Book Search litigation. If the settlement is approved by the presiding judge, the amendment will govern the relationship between Google and Michigan. Following the amendment is Attachment A, entitled "Collective and Certain Settlement Agreement Related Terms," which sets forth provisions that will apply to all of Google's partner libraries, not just Michigan. This Attachment A contains the new pricing review. On July 8, 2009, the University of Wisconsin-Madison and the University of Texas entered into similar expanded agreements with Google. Tamar Fruchtman, *University of Wisconsin-Madison and University of Texas Expand Google Books Agreements*, INSIDE GOOGLE BOOKS (July 9, 2009, 10:27 AM), <http://booksearch.blogspot.com/2009/07/university-of-wisconsin-madison-and.html>.

72. Google must pay \$15 for each "insert"—a separately registered work contained within a book. See Amended Settlement Agreement, *supra* note 11, art. 1.75.

73. *Id.* art. 5.1(a), (b).

74. *Author's Guild, Inc. v. Google, Inc.*, 92 U.S.P.Q.2d 1956 (S.D.N.Y. 2009).

75. Amended Settlement Agreement, *supra* note 11, art. 4.5.

76. *Id.* at Attach. C, § 1.1(a).

77. Settlement Agreement, art. 6.3(a)(1), *Authors Guild, Inc. v. Google, Inc.*, 93 U.S.P.Q.2d 1159 (No. 05 CV 8136 (DC)) [hereinafter Original Settlement Agreement].

of rights holders who did not file ownership claims with the Registry.⁷⁸ Accordingly, the amended settlement agreement establishes an independent fiduciary responsible for representing the interests of the rights holders of the unclaimed works.⁷⁹ The unclaimed works fiduciary will not be a published book author or a book publisher, and will be chosen by a supermajority of the Registry Board of Directors and must be approved by the court.⁸⁰

Under the amended settlement, the unclaimed funds will not be used for the Registry's operating expenses and will not be distributed to rights holders who filed claims.⁸¹ Rather, the Registry, in collaboration with right holder organizations in Canada, Australia and the U.K., and in consultation with the unclaimed works fiduciary, can spend up to twenty-five percent of the unclaimed funds held for five years on searching for absent rights holders.⁸² After holding the remaining seventy-five percent for another five years, the Registry, with the approval of the unclaimed works fiduciary, may petition the court for approval to distribute the unclaimed funds to literacy-based charities.⁸³ The Registry must notify the attorneys-general of the state governments, all rights holders located by the Registry and Google's partner libraries of its motion to distribute the unclaimed funds.⁸⁴

D. LICENSING TO THIRD PARTIES

The Registry may license rights holders' U.S. copyrights to parties other than Google to the extent permitted by law.⁸⁵ At first blush, this appears to allow the Registry to authorize a Google competitor to scan and offer display services with respect to all the books that fall within the settlement. However, the Registry can grant licenses only with respect to rights holders that file claims with it and grant it the ability to act as their agent with respect to parties other than Google.⁸⁶ Accordingly, if the rights holders of only ten percent of the out-of-print books file claims with the Registry, then the Registry will be able to license to a Google competitor the right to scan and display just ten percent of the out-of-print books, while Google will be able to scan and display one-hundred percent of the books.

This limitation on the Registry is not a matter of choice by the parties to the settlement, but rather a function of the limits of the class action mechanism. The class action mechanism cannot bind rights holders with respect to third parties, such as Google's potential competitors, not participating in the settlement.

Nonetheless, Google opponents pointed to other provisions of the original settlement that discouraged competition, most notably the "most-favored nation

78. Band, *supra* note 1, at 291–92.

79. Amended Settlement Agreement, *supra* note 11, art. 6.2(b)(iii).

80. *Id.*

81. *Id.* art. 6.3(a)(i)(2).

82. *Id.*

83. *Id.* art. 6.3(a)(i)(3).

84. *Id.* State laws contain provisions regarding the disbursement of abandoned funds.

85. *Id.* art. 6.2(b)(iii).

86. Band, *supra* note 1, at 294.

clause” in article 3.8(a).⁸⁷ Critics suggested that this provision required the Registry to extend to Google the same terms it negotiated with any other entity, thereby discouraging new entrants.⁸⁸ The provision in fact was far narrower than the critics indicated. It only applied when the Registry granted rights “from a significant portion of Rightsholders other than Registered Rightsholders.”⁸⁹ After parsing through the definitions of “Rightsholder” and “Registered Rightsholder,” it becomes clear that this condition can be satisfied only if Congress enacted legislation granting the Registry the authority to represent the unregistered rights holders—a highly unlikely eventuality, particularly within ten years of the settlement taking effect, as the provision required.⁹⁰ In any event, the amended settlement omitted this clause, presumably because of the controversy it generated.

The settlement explicitly does not restrict Google’s partner libraries from engaging in other digitization projects outside of the settlement.⁹¹ Likewise, the settlement does not limit any right holder’s “right to authorize, through the Registry or otherwise, any Person, including direct competitors of Google, to use his, her or its Books or Inserts in any way, including ways identical to those provided for under this Settlement Agreement.”⁹² Thus, even if a right holder claims her book with the Registry, she can still license other entities to digitize and distribute her book.

The settlement also contains a provision that allows the partner libraries and the Registry to compete with Google in the event that Google does not deploy services in a timely fashion.⁹³ If Google fails within five years of the effective date of the settlement to provide free search (including permitted displays), the Public Access Service and institutional subscriptions for eighty-five percent of the in-copyright, out-of-print books it has scanned, the partner libraries or the Registry may seek to engage a third party to provide these services.⁹⁴ If the libraries and the Registry cannot identify or reach agreement on a third party, the libraries may provide these services themselves, using the digital copies they received from Google.⁹⁵

E. SECURITY OBLIGATIONS

Google must follow detailed procedures to protect the security of the digital copies of the books it scans. These same procedures apply to the libraries that receive digital copies from Google. The Registry has the responsibility of overseeing whether Google or the libraries are meeting their security obligations.⁹⁶

Google and the libraries must develop a security implementation plan that meets

87. Original Settlement Agreement, *supra* note 77, art. 3.8(a).

88. Band, *supra* note 1, at 324.

89. Original Settlement Agreement, *supra* note 77, art. 3.8(a)(ii).

90. *Id.* art. 1.122, 1.132.

91. Amended Settlement Agreement, *supra* note 11, art. 2.2.

92. *Id.* art. 2.4.

93. *Id.* art. 7.2.

94. *Id.* art. 7.2(e).

95. *Id.* art. 7.2(e)(ii).

96. Band, *supra* note 1, at 280–81.

the requirements of the Security Standard, which is set forth in an attachment to the settlement agreement.⁹⁷ The seventeen-page Security Standard addresses topics such as: 1) security management, including security awareness, designation of a security representative and incident response; 2) identification and authentication, including user identification and authentication, and authentication and password management; 3) access controls, including account management, access approval process and access control supervision; 4) audit and accountability, including logging and audit requirements, marking of image files and forensic analysis; 5) network security, including electronic perimeter, network firewall, device hardening, network security testing, remote network accessing and encryption of digitized files; 6) media protection, including media access, media inventory, media storage and media sanitization and disposal; 7) physical and environmental protection, including physical access authorizations, physical access control, visitor control and access records; and 8) risk assessment.⁹⁸

The Security Standard can be revised every two years by agreement between the Registry, Google and representatives of the libraries “to take account of technological developments, including new threats to security” Disagreements between the Registry, Google and the libraries concerning modifications to the Security Standard are subject to binding arbitration.⁹⁹

Google and the libraries must submit their security implementation plan to the Registry for approval. If disagreements between Google or the libraries and the Registry as to whether the security implementation plan complies with the Security Standard cannot be resolved, they will be submitted to binding arbitration.¹⁰⁰

Each partner library must permit a third party to conduct an annual audit of its security and usage to verify compliance with its security implementation plan.¹⁰¹ Google and the Registry will share in the costs of the audits.¹⁰²

Upon learning of a prohibited or unauthorized access to the database of books, Google or the library must notify the Registry of the breach and attempt to cure it, e.g., block the unauthorized access.¹⁰³ Google or the library must confer with the Registry on ways to prevent such breach from reoccurring, and must negotiate with the Registry or the affected right holder an appropriate monetary remedy.¹⁰⁴ If the parties cannot agree on an appropriate remedy, the issue will be submitted to binding arbitration.¹⁰⁵

III. THE REGISTRY AND MONOPOLY PRICING

Much of the debate over approval of the settlement focused on the privileged

97. Amended Settlement Agreement, *supra* note 11, art. 8.2(a)(ii).

98. *Id.* at Attach. D.

99. *Id.* art. 8.2(b).

100. *Id.* art. 8.2(a)(iv).

101. *Id.* art. 8.2(c)(i).

102. *Id.* art. 8.2(c)(ii).

103. *Id.* art. 8.3(a).

104. *Id.*

105. *Id.* art. 9.3(e)(ix)–(x).

position the settlement granted Google.¹⁰⁶ Because Google was the only defendant in the class action, the settlement permits only Google to provide display uses—e.g., the institutional subscription. To be sure, the Registry would have the power to license to Google competitors rights for books whose rights holders file claims with the Registry. But it is safe to assume that a large proportion of the rights holders will not claim their books.¹⁰⁷ Many of the rights holders will not even know that they are rights holders; they may be heirs of deceased authors whose books have been out of print for decades. Other rights holders will not know about the settlement or the Registry. Still others will decide that the small amount of money the Registry will distribute to them does not warrant the bother of filing claims. The settlement immunizes only Google from copyright infringement liability for scanning and displaying all the unclaimed books. If a large percentage of the books remain unclaimed, Google will have a significant competitive advantage over other suppliers because it will offer a much more comprehensive catalogue.

Even if other suppliers are permitted somehow to provide display uses of the unclaimed books, a competition problem would remain because the Registry would still control the rights to the unclaimed books. The Registry would have no competition, and it could attempt to push the price of the institutional subscription to a profit maximizing point. As discussed above, Google and the Registry will jointly set the price of the institutional subscription. If they cannot reach agreement, an arbitrator will determine the price. Google's current business model, based on advertising revenue, suggests that Google may have the incentive to negotiate vigorously with the Registry to set the price of the institutional subscription as low as possible to maximize the number of authorized users with access to the ISD. The Registry, on the other hand, may seek a profit maximizing price structure that has the effect of reducing access.

A. THE PRICING OF THE INSTITUTIONAL SUBSCRIPTION

Libraries have great interest in the pricing of the institutional subscription because they constitute the target market for these subscriptions.¹⁰⁸ Faculty and students performing serious research are among the largest and most likely populations to demand the ability to read the full text of out-of-print books. Three library associations, in comments filed with the court presiding over the litigation, explained their concern over the pricing of the institutional subscription:

106. See Band, *supra* note 1, at 294–95. In his decision rejecting the settlement, Judge Chin gave great weight to antitrust concerns, as well as the scope of relief under Rule 23 of the Federal Rules of Civil Procedure, copyright concerns and international law concerns. *The Authors Guild v. Google, Inc.*, 770 F. Supp. 2d 666 (S.D.N.Y. 2011).

107. In the debate over approval of the settlement, works unregistered with the Registry were labeled “orphan works.” This is an incorrect use of the term. Orphan works are works whose rights holders cannot be identified or located. Here, no one has looked for the rights holders, so no one knows whether the works are in fact orphaned. All that is known is that the right holder has not registered a claim with the Registry.

108. See Band, *supra* note 1, at 299.

[T]he predominant model for pricing of scientific, technical, and medical journals in the online environment has been based on low volume and high prices. Major commercial publishers have been content with strategies that maximize profits by selling subscriptions to few customers at high cost. Typically these customers are academic and research libraries. Therefore, the Registry . . . may seek to emulate this strategy in the market for institutional subscriptions.¹⁰⁹

The Library Associations continued to describe other features of the settlement's provisions concerning the pricing of the institutional subscription that increase the likelihood of this outcome:

[T]he Settlement states that the price of the institutional subscription will be based in part on the prices of "comparable products and services . . ." Although there are no comparable products or services to an online database of in-copyright, not commercially available books, the Registry or the arbitrators might erroneously treat online journals as comparable products. In this event, the institutional subscription would become cost prohibitive for most libraries. The annual subscription for some scientific, technical, and medical journals can exceed \$20,000 per journal. A university library spends an average total of \$4.3 million a year for online journal subscriptions. If journal subscriptions are "comparable" to the institutional subscription, and a library pays \$4.3 million for access to 31,000 journals, one can only imagine the price the Registry might insist upon for a subscription to millions of books.¹¹⁰

The settlement provides that the price of the institutional subscriptions will be governed by two objectives: "(1) the realization of revenue at market rates for each Book and license on behalf of Rightsholders and (2) the realization of broad access to the Books by the public, including institutions of higher education."¹¹¹ The Library Associations feared that the Registry might convince Google or the arbitrator to set the institutional subscription price at a level that favors the first objective over the second.

The Library Associations further suggested that they might have little leverage in the negotiations concerning the price of an institutional subscription:

Students and faculty members at higher education institutions with institutional subscriptions will be able to access the ISD from any computer—from home, a dorm room, or an office. Accordingly, it is possible that faculty and students at institutions of higher education will come to view the institutional subscription as an indispensable research tool. They might insist that their institution's library purchase such a subscription. The institution's administration might also insist that the library purchase an institutional subscription so that the institution can remain competitive with other institutions of higher education in terms of the recruitment and retention of

109. Library Ass'n Comments on the Proposed Settlement at 8, *Authors Guild, Inc. v. Google, Inc.*, 93 U.S.P.Q.2d 1159 (S.D.N.Y. 2009) (No. 05 CV 8136 (DC)) [hereinafter *Library Ass'n Comments*]. The author of this Article assisted the Library Associations in the drafting of these comments.

110. *Id.* at 8–9.

111. Amended Settlement Agreement, *supra* note 11, art. 4.1(a)(i).

faculty and students.¹¹²

In short, enabling Google's competitors to scan and display the unclaimed books would not reduce the Registry's ability to push the price of the institutional subscription up to a profit maximizing point.

B. TAMING THE REGISTRY¹¹³

The settlement agreement permits only Google and the Registry to submit disputes concerning the pricing of the institutional subscription to arbitration; the libraries have no recourse to the arbitrator.¹¹⁴ In response to concerns raised by libraries over the pricing of the institutional subscription, Google and the University of Michigan agreed on May 20, 2009 to a new procedure that would allow Michigan and the other libraries that provided Google with in-copyright books to request an arbitrator to review the pricing of the institutional subscription.¹¹⁵ The new "pricing review" procedure would occur after the price-setting process described in the settlement, including any arbitration between Google and the Registry.¹¹⁶

Although this new pricing review could be helpful to libraries, it contains several significant limitations. First, only Google's partners can initiate the review. If these partner libraries receive discounts on the institutional subscription similar to Michigan's, they may not have the financial incentive to pursue this new procedure.¹¹⁷ Second, while the procedure allows the arbitrator to order Google to adjust the price downwards, the adjustment amount is limited to Google's net revenue—thirty-seven percent of the subscription price.¹¹⁸ Thus, the subscription price might remain beyond the means of many libraries.¹¹⁹ Third, the arbitrator's decision is final and unappealable.¹²⁰ This could be problematic to the extent that the arbitrator just "splits the baby" and does not engage in thorough review of the pricing.

The Library Associations proposed two solutions for the problem of the influence the Registry would have over the pricing of the institutional subscription. Both solutions are rooted in the court's continuing jurisdiction over the settlement.¹²¹ The settlement specifically provides that the court "shall retain jurisdiction over the interpretation and implementation of the Settlement

112. Library Ass'n Comments, *supra* note 109, at 4–5.

113. This subsection, with minor modifications, comes from Band, *supra* note 1, at 301–04.

114. Original Settlement Agreement, *supra* note 77, art. 4.1(a)(vi)(4), (viii)–(ix).

115. AMENDMENT TO COOPERATIVE AGREEMENT BETWEEN GOOGLE, INC. AND THE REGENTS OF THE UNIVERSITY OF MICHIGAN 24–26 (May 19, 2009), available at <http://www.lib.umich.edu/files/services/mdp/Amendment-to-Cooperative-Agreement.pdf> [hereinafter AMENDED MICHIGAN COOPERATIVE AGREEMENT].

116. See Original Settlement Agreement, *supra* note 77, art. 4.1(a).

117. See AMENDED MICHIGAN COOPERATIVE AGREEMENT, *supra* note 115, at 11–15.

118. See *id.* at 27–28.

119. Library Ass'n Comments, *supra* note 109, at 9.

120. Amended Settlement Agreement, *supra* note 11, art. 9.7.

121. *Id.* art. 17.23.

Agreement.”¹²² The Library Associations asserted that by this statement the parties acknowledged the court’s authority to regulate their conduct under the settlement.¹²³ The Library Associations “urge[d] the court to exercise this authority vigorously to ensure the broadest possible public benefit from the services the settlement enables.”¹²⁴

The Library Associations then offered two specific suggestions for ensuring the fairness of the price of the institutional subscription. First,

[a]ny library or other possible institutional subscriber must have the ability to request this Court to review the pricing of an institutional subscription. The Court’s standard of review should be whether the price meets the economic objectives set forth in the Settlement, *i.e.*, “(1) the realization of revenue at market rates for each Book and license on behalf of Rightsholders and (2) the realization of broad access to the Books by the public, including institutions of higher education.”¹²⁵

In a lengthy footnote, the Library Associations analogized the Registry to two organizations that collectively manage performance rights: the American Society of Composers, Authors and Publishers (“ASCAP”) and Broadcast Music, Inc. (“BMI”).¹²⁶ The Library Associations observe that:

[b]oth ASCAP and BMI are subject to consent decrees resolving antitrust actions brought by the U.S. Department of Justice. The ASCAP consent decree has existed, with modifications, since 1941; and the BMI consent decree since 1966. Under the consent decrees, ASCAP and BMI must grant, on a non-discriminatory basis, either a blanket license to their entire catalogue, or a license for the performance of a particular work.¹²⁷

The Library Associations noted that a court in the same district as the court presiding over the settlement has continuing jurisdiction over the ASCAP and BMI consent decrees, and has established a rate court to resolve disputes concerning license fees.¹²⁸ In proceedings before the rate court, ASCAP and BMI have the burden of proving the reasonableness of the rates they seek.¹²⁹ The Library Associations asserted that, “establishment of a rate court in this case is premature. However, this Court has the authority to adopt the procedures necessary to ensure the fairness of the price of the institutional subscription.”¹³⁰

The Library Associations’ second suggestion concerned the composition of the Registry’s Board of Directors.¹³¹ The settlement stipulates that the Author Sub-Class and the Publisher Sub-Class will have equal representation on the Registry’s

122. *Id.*

123. Library Ass’n Comments, *supra* note 109, at 19.

124. *Id.*

125. *Id.* (quoting Original Settlement Agreement, *supra* note 77, art. 4.1(a)(i)).

126. *Id.* at 19 n.47.

127. *Id.*

128. *Id.*

129. *Id.*

130. *Id.*

131. *Id.* at 18.

Board of Directors.¹³² The amended settlement agreement further provides that at least one representative of each sub-class must be from each of the countries whose rights holders are within the amended settlement: the United States, the United Kingdom, Australia and Canada.¹³³ However, the settlement is silent on who will select these board members and how class members can ensure that the Registry will in fact advance their objectives.¹³⁴ The Library Associations expressed concern that the Registry's Board of Directors might not adequately represent the true interests of many class members:

[T]he Library Associations are both authors and publishers of books, and thus fall within both sub-classes of plaintiffs. However, writing and publishing books is ancillary to the core mission of libraries—to provide the public with access to information. Tens of thousands of members of the Author Sub-Class are similarly situated to the Library Associations: teachers at all levels write books not for financial gain, but to support their core missions of education and scholarship. Many, if not most, of these class members care far more about the potential impact of the Settlement on the advancement of knowledge than about the modest license fees they may receive under the Settlement.¹³⁵

The Library Associations, accordingly, argued that “many class members will not want the Registry to maximize its profits; rather, they will want the Registry to maximize public access to books.”¹³⁶ The Registry will act as the agent for rights holders whose books will be in Google's database.¹³⁷ Google is building its database by scanning books found in the collections of major research libraries.¹³⁸ The Google database, therefore, will reflect the nature of the research libraries' collections.

The collections of research libraries are fundamentally different from the collection of a typical public library or the types of books sold in bookstores. Research libraries contain primarily scholarly books. Research libraries acquire popular books only if they are of scholarly interest. Thus, of the 45,429 titles a major distributor sold to research libraries in North America between July 1, 2007 and June 30, 2008, the distributor categorized only 1,572 as “popular:” “a work intended for a public library or a browsing collection.” The distributor labeled none of these 45,429 titles as “geared toward a wide readership,” and classified 32,009 titles as aimed at “specialists:” “those who have a familiarity with the subject matter and knowledge of the conventions of the field.” Similarly, 12,297 of these titles were published by university or other non-profit publishers. While these books are all in print, the proportions likely are similar for the older, out-of-print books in the research libraries’

132. Original Settlement Agreement, *supra* note 77, art. 6.2(b).

133. Amended Settlement Agreement, *supra* note 11, art. 6.2(b)(iii).

134. *Id.* art. 6.2(b).

135. Library Ass'n Comments, *supra* note 109, at 18; *see also* Letter from Pamela Samuelson et al. to the Hon. Denny Chin, U.S. Dist. Court for the S. Dist. of N.Y. (April 27, 2009), available at <http://www.eff.org/files/judge%20chin%20letter%204.27.09.pdf>.

136. Library Ass'n Comments, *supra* note 109, at 18.

137. Original Settlement Agreement, *supra* note 77, art. 6.2(b); Library Ass'n Comments, *supra* note 109, at 16–17.

138. Library Ass'n Comments, *supra* note 109, at 3 n.4.

collections. That is, probably less than 10% of the books are of a popular nature, and more than 25% of the books were published by university or other non-profit publishers.¹³⁹

To ensure that the Registry's Board adequately reflects the perspectives of academic authors, the Library Associations contended that

[a]ny class member must have the ability to request this Court to review the procedures by which the Registry selects members of its board of directors, and to evaluate whether the Registry properly considers the interests of all class members in its decision-making.¹⁴⁰

The Library Associations also requested the court to regulate the Registry on matters other than the price of the institutional subscription.¹⁴¹ The Library Associations observed that although the settlement permits the Registry to license the rights of registered rights holders to third parties, the settlement does not require it to do so.¹⁴² "Nor does [the settlement] provide standards to govern the terms by which the Registry would license these rights. This means that the Registry could refuse to license the rights to Google competitors on terms comparable to those provided to Google under the Settlement."¹⁴³ Accordingly, "[a]ny entity must have the ability to request this Court to review the Registry's refusal to license copyrights to books on the same terms available to Google."¹⁴⁴

IV. THE REGISTRY'S POWER AND THE CLASS ACTION PROCEDURE

Significantly, the Library Associations' suggestions concerning the regulation of the Registry all operate within the structure of the settlement. Many critics of the settlement, however, argued that the sweeping powers conferred on the Registry vastly exceeded the authority of courts under the Federal Rules of Civil Procedure. The Copyright Office, for example, opined that the settlement was "tantamount to creating a private compulsory license through the judiciary," which thus represented an "end run around legislative process and prerogatives."¹⁴⁵ The

139. Supplemental Library Ass'n Comments on the Proposed Settlement at 11–12, *Authors Guild, Inc. v. Google, Inc.*, 93 U.S.P.Q.2d 1159 (S.D.N.Y. 2009) (No. 05 CV 8136 (DC)).

140. Library Ass'n Comments, *supra* note 109, at 20. When drafting the Amended Settlement Agreement to ensure representation of publishers and authors from the U.K., Canada and Australia in the Registry Board, the parties also could have reserved seats for representatives of academic publishers and authors. They did not do so.

141. *Id.* at 19–20.

142. *Id.* at 17.

143. *Id.* at 17–18.

144. *Id.* at 20.

145. *Competition and Commerce in Digital Books Before the H. Comm. on the Judiciary*, 111th Cong. 67–68 (2009) (statement of Marybeth Peters, Register of Copyrights) [hereinafter *Peters Statement*]. In her oral testimony, Register Peters went further, stating that the settlement "makes a mockery of Article I of the Constitution." *Id.* at 64; Andrew Albanese, *U.S. Register of Copyrights Slams Google Book Search Settlement*, PUBLISHERS WEEKLY, Sep. 10, 2009, <http://www.publishersweekly.com/pw/by-topic/digital/content-and-e-books/article/13746-u-s-register-of-copyrights-slams-google-book-search-settlement.html>. At the September 10, 2009 hearing,

Copyright Office observed that “[c]ompulsory licenses in the context of copyright law have traditionally been the domain of Congress.”¹⁴⁶ Accordingly, “[a]s a matter of copyright policy, courts should be reluctant to create or endorse settlements that come so close to encroaching on the legislative function.”¹⁴⁷ Additionally, “Congress is much better situated than the judiciary to consider such important and far reaching changes to the copyright system.”¹⁴⁸

The Copyright Office and other opponents made the narrower legal argument that the settlement represented an inappropriate use of the class action settlement process to create a commercial arrangement to prevent liability for future infringements. The Copyright Office objected to employment of the class action procedure to “create mechanisms by which Google could continue to scan with impunity, well into the future, and to . . . create yet additional commercial products without the prior consent of rights holders.”¹⁴⁹ The Copyright Office conceded that the class action procedure was used in the remedies phase of an infringement action brought by freelance writers against database publishers. The proposed settlement in that case, which was approved by the district court, would grant the infringers a license to continue infringing.¹⁵⁰ However, the Copyright Office distinguished that

Congressman Hank Johnson (D-GA) agreed with Peters, stating, “the settlement comes very close to whittling away the powers of the U.S. Congress. The treatment of orphaned rights holders is a matter that should be determined by Congress.” *Competition and Commerce in Digital Books Before the H. Comm. on the Judiciary*, 111th Cong. 161 (2009) (statement of Rep. Hank Johnson); Shankland, *Google Offers Rivals a Place in E-books Program*, CNET NEWS—DEEP TECH (Sep. 10, 2009), http://news.cnet.com/8301-30685_3-10349301-264.html?tag=newsEditorsPicksArea.0. However, Congressman Mel Watt (D-NC) said: “[t]he best protection of the prerogatives of the legislative branch is for us to legislate. Since we haven’t done very effectively the legislation of the orphaned works, it’s hard for me to condemn the courts to have a case before it that determines what can be done and can’t be done with orphaned works.” *Competition and Commerce in Digital Books Before the H. Comm. on the Judiciary*, 111th Cong. 144 (2009) (statement of Rep. Mel Watt); Shankland, *supra*. Similarly, Congressman Zoe Lofgren (D-CA) said: “[w]hat I look at in this settlement is really the private sector achieving what we failed to achieve” with orphan works legislation. *Competition and Commerce in Digital Books Before the H. Comm. on the Judiciary*, 111th Cong. 148 (2009) (statement of Rep. Zoe Lofgren). Congresswoman Lofgren also indicated that Congress helped create the orphan works problem by extending the term of copyrights by twenty years in 1998. *Id.*; Ryan Singel, *Amazon Scoffs at Google’s Offer to Share Book Search Sales*, WIRED—EPICENTER (Sep. 10, 2009), <http://www.wired.com/epicenter/2009/09/amazon-google-book-search-sales/>. Congressman Brad Sherman (D-NY) added that Congress had acted irresponsibly by failing to find a way to provide “access to all the knowledge in all the books for which authors cannot be found,” and that it would be irresponsible to prevent others from doing so. *Competition and Commerce in Digital Books Before the H. Comm. on the Judiciary*, 111th Cong. 158 (2009) (statement of Rep. Brad Sherman).

146. Peters Statement, *supra* note 145, at 70. At the hearing, Google’s Chief Legal Officer objected to the characterization of the settlement as a judicial compulsory license, noting that rights holders could opt out of the settlement or vary its terms. *Competition and Commerce in Digital Books Before the H. Comm. on the Judiciary*, 111th Cong. 4 (2009) (testimony of David Drummond, Senior Vice President of Corporate Development and Chief Legal Officer, Google, Inc.).

147. Peters Statement, *supra* note 145, at 70.

148. *Id.* at 73. The Office stated that the settlement “could affect the exclusive rights of millions of copyright owners, in the United States and abroad, with respect to their abilities to control new products and new markets, for years and years to come.” *Id.* at 67.

149. *Id.*

150. Settlement Agreement, *Reed Elsevier, Inc. v. Muchnick*, 130 S.Ct. 1237 (2010) (No. 08-103). Subsequently, the Supreme Court ruled that 17 U.S.C. § 411(a) did not pose a jurisdictional bar to

settlement on the grounds that it did not involve “future uses of copyrighted products that were not the subject of the original infringement action.”¹⁵¹ The Copyright Office “wonder[ed] whether, as a constitutional matter, a class action settlement could decide issues that were not properly before the Court as part of the case and controversy presented during the litigation.”¹⁵²

Some rights holders made even more technical legal arguments about satisfaction of the class action requirements in Rule 23 of the Federal Rules of Civil Procedure. They contended that the parties had made inadequate efforts to provide individual notice to class members.¹⁵³ Rights holders also asserted that the parties had not met the class certification standards. Scott Gant, for example, identified four groups of authors with materially distinct interests who should therefore have separate class representatives and separate class counsel.¹⁵⁴ Professor Pamela Samuelson argued that the Authors Guild did not adequately represent the interests of academic authors.¹⁵⁵

On September 18, 2009, the U.S. Department of Justice filed a statement with the court presiding over the settlement that echoed many of these sentiments. The statement advised the court to “reject the Proposed Settlement in its current form and encourage the parties to continue negotiations to modify it so as to comply with Rule 23.”¹⁵⁶ The statement reiterated many of the concerns identified above regarding the representation of absent rights holders. The statement contended that the owners of orphan works are “an incredibly diverse group,” and that the settlement pits their interests against the interests of known rights holders.¹⁵⁷ The Statement further raised concerns about the use of the class action settlement procedure to allow Google to provide new services with the works of absent rights holders. The United States stated that, “changing the forward-looking provisions of the current Proposed Settlement applicable to out-of-print rightsholders from an opt-out to an opt-in would address the bulk of the Rule 23 issues raised by the

including unregistered works in a class action settlement. *Reed Elsevier, Inc.*, 130 S.Ct. at 1239.

151. Peters Statement, *supra* note 145, at 72. As discussed above, the original complaint concerned the permissibility of Google’s scanning books into its search database for the purpose of displaying snippets as search results. In contrast, the settlement allows Google to provide services that involve the sale of access to the full text of books.

152. *Id.* The Copyright Office, however, acknowledged that “[w]e are not experts on the proper scope of class actions.” *Id.*

153. See Objection of Scott E. Gant to Proposed Settlement at 13, *Authors Guild, Inc. v. Google, Inc.*, 93 U.S.P.Q.2d 1159 (S.D.N.Y. 2009) (No. 05 CV 8136 (DC)) [hereinafter *Gant Objection*]. For an analysis of the merits of Gant’s Objection, see James Grimmelman, *GBS: Scott Gant’s Attack on the Class*, THE LABORATORIUM (Aug. 21, 2009), http://laboratorium.net/archive/2009/08/21/gbs_scott_gants_attack_on_the_class.

154. *Gant Objection*, *supra* note 153, at 31. The four categories are: 1) an owner of a copyright in an orphan work copied by Google without permission; 2) an owner of a copyright in a nonorphan work copied by Google without permission; 3) an owner of a copyright in an orphan work not copied by Google or copied with permission; and 4) an owner of a copyright in a nonorphan work not copied by Google or copied with permission. *Id.* at 34.

155. See Letter from Pamela Samuelson et. al., *supra* note 135.

156. Statement of Interest of the United States of America Regarding Proposed Class Settlement at 27, *Authors Guild, Inc.*, 93 U.S.P.Q.2d 1159 (No. 05 CV 8136 (DC)).

157. *Id.* at 8–9.

United States.”¹⁵⁸ The United States acknowledged that “[s]uch a revision would, of course, not give Google immediate authorization to use all out-of-print books beyond the digitization and scanning which is the foundation of the plaintiffs’ Complaint in this manner.”¹⁵⁹ Thus, the United States urged the parties to consider a “settlement that simply authorized Google to engage in scanning and snippet displays.”¹⁶⁰ In other words, the United States encouraged the parties to take the Library Project back to where it started: an index with snippet display of search results. The institutional subscription and consumer purchase would be available only with respect to books whose rights holders had opted in for such access.¹⁶¹

It must be stressed that the United States did not oppose the use of the class action settlement procedure to create the Registry. Rather, it opposed the use of the class action settlement procedure to endow the Registry with the power to authorize Google to provide the institutional subscription and consumer purchase services with respect to the unclaimed out-of-print books. Presumably, the United States would not have opposed the creation of the Registry that would administer Google’s payment of royalties for scan and snippet display.

V. THE LEGISLATIVE ALTERNATIVE

Many of those who argue that Rule 23 does not allow the broad powers of the Registry advocate a legislative solution, noting the orphan works legislation that passed the Senate in 2008.¹⁶² The proponents of this approach overlook the substance of the orphan works legislation. The legislation would have limited the remedies for infringement only if the user made a reasonably diligent search for the copyright owner prior to commencing the use. The cost of performing millions of searches is precisely what Google is attempting to avoid through the settlement. Thus, Congress would have to adopt legislation far more generous to users than

158. *Id.* at 13–14.

159. *Id.* at 14.

160. *Id.* at 15.

161. The parties began negotiating the amended settlement agreement immediately after the United States filed its critical Statement of Interest. Prior to the February 18, 2010 fairness hearing, the United States filed another statement with the court, arguing that while the amended settlement agreement was an improvement over the original settlement agreement, the amended agreement still did not address all of the concerns of the United States and therefore should be rejected. Statement of Interest of the United States of America Regarding Proposed Amended Settlement Agreement, *Authors Guild, Inc.*, 93 U.S.P.Q.2d 1159 (No. 05 CV 8136 (DC)).

162. In January 2006, the Copyright Office issued a report recommending legislation that would address the “orphan works” problem and enable uses when the copyright owner cannot be identified or located. REGISTER OF COPYRIGHTS, U.S. COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS (2006), available at <http://www.copyright.gov/orphan/orphan-report-full.pdf>. These recommendations were embodied in H.R. 5439, 109th Cong. (2006), reported out of the House of Representatives Subcommittee on Courts, the Internet and Intellectual Property. The Senate passed similar legislation in 2008, at the end of the 110th Congress. S. 2913, 110th Cong. (2008). These bills, if passed, would have limited the remedies available to a reappearing owner if the user made a reasonably diligent effort to locate the owner. In his decision rejecting the settlement, Judge Chin stated that, “the establishment of a mechanism for exploiting unclaimed books is a matter more suited for Congress than this Court.” *The Authors Guild v. Google, Inc.*, 770 F. Supp. 2d 666, 677 (S.D.N.Y. 2011).

what it rejected in two earlier Congresses; it would have to adopt a compulsory license that required no search by the user for the right holder.¹⁶³

There is, however, absolutely no evidence that Congress would enact such a compulsory license for books. Indeed, the Copyright Office indicated in its testimony at the September 10, 2009 hearing that Congressional inquiry in this area should begin with orphan works legislation that would require a search for the right holder:

A much more productive path would be for Google to engage with this Committee and with other stakeholders to discuss whether and to what degree a diligent search for the rights holder should be a precondition of a user receiving the benefits of orphan works legislation, or whether a solution that is more like a compulsory license may make sense for those engaged in mass scanning.¹⁶⁴

In response to a question from Congressman Lamar Smith (R-Tex), then the ranking Republican on the Judiciary Committee, concerning limits on congressional power to enact orphan works legislation, Register Peters suggested that a statutory compulsory license for the mass digitization of books might be inconsistent with international treaty obligations.¹⁶⁵ In other words, Register Peters believes that the settlement is a judicial compulsory license that trespasses on congressional prerogatives, but that Congress itself perhaps cannot enact a compulsory license for book digitization without violating international obligations.¹⁶⁶ In effect, Register Peters is saying that creation of a relatively comprehensive digital library providing access to the full text of in-copyright books may be a legal impossibility. In the absence of either a judicial and statutory compulsory license, the digitizer would have to bear the cost of searching for the rights holders of over twenty million books. This cost would be so overwhelming as to preclude any entity from undertaking such an endeavor.¹⁶⁷

Nevertheless, many of those who advocate a legislative solution believe that Congress does have the power to enact a compulsory license for the digitization of books. Underlying the preference for a legislative solution is the belief that legislative process is more open and transparent than a court approved class action settlement, and that Congress would be more responsive than Judge Chin to concerns raised by their particular constituency.¹⁶⁸ But the settlement has been criticized from all directions; rights holders, users and potential competitors have complained that the settlement does not sufficiently accommodate their interests. These interests often are incompatible. If more competition leads to lower prices

163. The compulsory license could be administered by a CMO.

164. Peters Statement, *supra* note 145, at 72–73.

165. *Id.* at 67–68.

166. At the very least, Register Peters appears to believe that such a statutory compulsory license would subject the United States to “diplomatic stress.” *Id.* at 68.

167. Register Peters took no position on the merits of Google’s fair use defense with respect to its creation of a digital index under the original Library Project.

168. Legal scholars who have criticized the legitimacy of the class action mechanism here have in the past condemned amendments to the Copyright Act as reflecting the entertainment industry’s undue influence on Congress.

for users, for example, then the rights holders would receive less revenue.¹⁶⁹ Likewise, more protection for rights holders inevitably would result in less robust services for consumers. A legislated compulsory license could very well not apply to the works of foreign rights holders—not even the rights holders in Canada, Australia and the U.K.—and would result in a much smaller, less useful digital library.¹⁷⁰

The legislative process, therefore, would be highly contentious; in the unlikely event that Congress succeeded in enacting a compulsory license, it would reflect political compromises and the relative lobbying strength of stakeholders. One cannot predict whether a particular stakeholder would do better in Congress than under the settlement; and one certainly cannot predict whether the compromises in legislation would be more “fair” than the compromises in the settlement.¹⁷¹

169. The Computer & Communications Industry Association observed that the concern about the anticompetitive misbehavior of the Registry “is another example of the fundamental tension in the various objections to the settlement: insofar as one entertains the pure speculation of objectors, the proposed BRR cannot simultaneously be unfair to the class *and* anticompetitive, since any anticompetitive conduct that the BRR engaged in would benefit class members, if anyone.” Brief of Amicus Curiae Computer & Communications Industry Ass’n on Proposed Settlement at 15, *Authors Guild, Inc. v. Google, Inc.*, 93 U.S.P.Q.2d 1159 (S.D.N.Y. 2009) (No. 05 CV 8136 (DC)) (emphasis in original).

170. The Copyright Act already provides preferential treatment to foreign works. For example, registration is not a prerequisite for a right holder of a non-U.S. work to initiate an infringement action. 17 U.S.C. § 411(a) (2006). Some foreign rights holders can be expected to lobby vigorously for exclusion from a congressionally mandated compulsory license. *See, e.g.*, Memorandum of Law in Opposition to the Settlement Proposal on Behalf of the Federal Republic of Germany, *Authors Guild, Inc.*, U.S.P.Q.2d 1159 (No. 05 CV 8136 (DC)); Memorandum of Law in Opposition to the Settlement Proposal on Behalf of the French Republic, *Authors Guild, Inc.*, U.S.P.Q.2d 1159 (No. 05 CV 8136 (DC)). The Copyright Office appears to support such an exclusion. *See* Peters Statement, *supra* note 145, at 73–75.

171. Professor Pamela Samuelson has proposed a legislative solution that appears to adopt an opt-out approach for snippet display, but an opt-in approach for full text displays similar to the institutional subscription or the consumer purchase under the settlement. *See* Pamela Samuelson, *Google Book Search and the Future of Books in Cyberspace*, 95 MINN. L. REV 1308 (2010). As discussed above, an opt-in database may be far less comprehensive than an opt out database.

Conversely, Peter Eckersley of the Electronic Frontier Foundation called for a far more extreme solution:

to require that anyone who takes a blanket license (whether under the Google Book Search settlement, or under any legislation that might expand the settlement to others) must deposit a copy of the raw scans that they create with the Library of Congress or with the entity that administers the blanket license (e.g., the Books Rights Registry). After a period of years, let’s say fourteen, the term of the Founder’s Copyright, those scans should be made available at no cost to any others who take the relevant copyright licenses.

Peter Eckersley, *Google Book Search Settlement: Foster Competition, Escrow the Scans*, EFF—DEEPLINKS BLOG (Jun. 11, 2009), <http://www.eff.org/deeplinks/2009/06/should-google-have-s>. Eckersley notes that “[t]his would not only encourage market entry and competition in the online digital books arena, but would also foster innovation in the field.” *Id.* He argues:

It makes no economic sense for us to force every future pair of graduate students who want to experiment with the book dataset to spend those hundreds of millions of dollars before they can launch their new startup. On the other hand, Google deserves some fair reward for navigating the obstacles and getting the books scanned. A compromise like a 14-year escrow rule might be just the way to achieve that.

VI. FINAL REFLECTIONS ON THE REGISTRY AS A COLLECTIVE MANAGEMENT ORGANIZATION

If the Google Book Settlement ultimately receives judicial approval, the Registry would constitute an extended collective licensing mechanism; the Registry would have the authority to license rights on behalf of absent rights holders. The Registry would differ from other extended CMOs in that it is designed largely to solve a “legacy” problem—the enormous cost of clearing the rights to a finite set of existing works—books published before January 5, 2009. Books published after that date would be managed by the Registry only with the consent of their rights holders, and thus would not be subject to the extended collective licensing regime.

The Registry would also differ from other CMOs with respect to its origins. While most CMOs worldwide are created by statute or by the voluntary agreement of rights holders, the Registry is the result of a settlement of class action litigation. Because of its origin in a class action settlement, the Registry is not able to license the works under its control equally. It can license all works within the settlement, both claimed and unclaimed, only to Google. In contrast, it can license to third parties only works claimed by their rights holders.

Obviously, this differential treatment provides Google with an advantage over competitors with respect to the sale of access to books and arguably the Internet search market. (Of course, the extent of this competitive advantage is unclear, given that it applies only to the unclaimed books published before January 5, 2009.) Providing equal treatment to all parties would be more fair to Google’s competitors. But equal treatment would disadvantage users. Without legislation, equal treatment would mean that Google could provide users with access only to books claimed by rights holders. It is safe to assume that a not insignificant number of rights holders would fail to claim their books. Google would not be able to include these books in the institutional subscription database, and it would not be able to make these books available for consumer purchase. Users, therefore, would

Id. Google, of course, would never agree to relinquish control over its enormous investment in creating a digital database of books after fourteen years. Nor would Congress require it to do so.

The Open Book Alliance similarly stated that “[a]ppropriate modifications of the parties’ proposal might begin with compulsory licensing of the database.” Memorandum of Amicus Curiae Open Book Alliance in Opposition to the Proposed Settlement Between the Authors Guild, Inc., Association of America Publishers, Inc., and Google Inc. at 29, *Authors Guild, Inc.*, U.S.P.Q.2d 1159 (No. 05 CV .8136 (DC)). It further stated:

Google should be ordered to license the database with all attendant rights to a number of competitors, under the supervision of the Department of Justice. Unlike physical assets such as plants and equipment, the database can be copied quickly and accurately, and conveyed through licensing agreements to companies that will compete against Google by selling digital books and library subscriptions. These licensees must be permitted, in turn, to sell competitors of Google and the publishers the right to crawl and index the database for their own commercial uses, in order to prevent competitive injury to the search market.

Id. at 29–30. The Open Book Alliance asserted that “[c]ompetitors should pay, at most, nominal amounts to Google to license the database for resale. Not-for-profit institutions that wish to scan orphan works for the purpose of creating a better database than the one Google offers should be entitled to license the necessary rights from Google free of charge.” *Id.* at 31.

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receive access to fewer books. Access from a single source is better than no access at all.

Although the Registry has these unique attributes, it also possesses many of the qualities of other CMOs. It represents an efficient means of licensing the rights in a large number of works. At the same time, without proper oversight it could engage in monopoly pricing. Additionally, it would collect revenue with respect to unclaimed works. Under the original settlement, these funds would have been retained by the Registry for operating expenses, or would have been transferred to the rights holders who did claim their works. Under the amended settlement, the Registry will spend a quarter of these funds on searching for absent rights holders, and distribute the other three quarters to literacy-based charities. Although these charities may be meritorious, the collection of fees for unclaimed works represents an unwelcome cost to consumers.