

## ORPHAN WORKS LEGISLATION

### Background and general description

Both the House and Senate Judiciary Committees have introduced “orphan works” legislation. The bills, H.R. 5889 and S. 2913, are intended to enable the use of copyrighted works without permission when the copyright owner cannot be found. Under current copyright law, using a copyrighted work without permission in one of the ways reserved to the copyright owner can subject a user to substantial civil liability in the form of monetary damages and an injunction against continued use. The normal procedure for using copyrighted works in one of the otherwise proscribed ways is to get permission from the copyright owner and, when required, make payment for the use. But if the copyright owner cannot be found, the work typically lies unused out of concern for the penalties and disruption that could be imposed if the copyright owner surfaced after use has begun. As a consequence, large amounts of copyrighted works – written texts, photographs, sound recordings, video tracts, and much more – are held in university libraries, museums, archives and elsewhere, unused and largely inaccessible to the public.

The orphan works legislation is intended to enable someone, after conducting a “qualifying search” for the owner, to use an orphan work — a copyrighted work whose owner cannot be located. If an owner appears after the search, the legislation bars the imposition of monetary damages in the form of actual damages, statutory damages, costs, and attorney’s fees, and instead requires only the payment of “reasonable compensation” for the use of the infringed work. Reasonable compensation is defined as the payment that a willing buyer and willing seller would have agreed to immediately before the infringing use began (*i.e.*, fair market value). If the user and owner cannot agree on reasonable compensation, a court determines what constitutes reasonable compensation and orders payment to be made.

The bills also contain a limitation on injunctive relief in circumstances where an orphan work is included in a new work that adds significant original expression (*e.g.*, a derivative work). Specifically, any injunctive relief sought by an owner who appears after a qualifying search may not restrain the user’s continued preparation or use of the new work, contingent upon payment of reasonable compensation and reasonable attribution if requested by the owner. This limitation is particularly important since under current law someone could invest substantial sums of money in the development of a derivative work that includes a copyrighted work whose owner could not be found (or without knowing that the work was copyrighted), only to have the owner surface and seek an injunction against the continued development or use of the derivative work, potentially nullifying the investment.

The bills eliminate the requirement for the payment of reasonable compensation if the user is a nonprofit educational institution, museum, library, archives, or public broadcasting entity that used the copyrighted work primarily for educational, religious, or charitable purposes without any purpose of commercial advantage, and the use was

terminated after receiving a notice of a claim of infringement. The House bill, however, contains an exception to this provision, requiring the user to pay over to the owner any proceeds “directly attributable to the infringement”.

### **Current Status**

The House bill has been marked up in the Judiciary Subcommittee on Courts, the Internet, and Intellectual Property and is expected to be marked up soon in full committee. The Senate bill was marked up on May 15th by the Judiciary Committee and now awaits floor action.

An effective orphan works program would enable higher education institutions, libraries, archives, museums, public television stations, and other public service entities with significant holdings of copyrighted works to benefit the public by providing expanded access to those copyrighted works. Copyright owners are concerned that a program with insufficiently rigorous procedures for treating a copyrighted work as an orphan work could result in uncompensated use of works whose owners are easily identifiable. But universities, libraries and other groups seeking to use orphan works are concerned that procedures that are too rigid and burdensome will make participation in an orphan works program infeasible.

The current Senate and House orphan works bills contain a number of provisions necessary for an effective orphan works program. However, several issues remain to be addressed to create a workable program. The proposed amendments attached describe the changes needed to produce legislation that universities and allied organizations could strongly support.

It is important to note that for state-funded institutions – including most public universities – the issue of state sovereign immunity presents a fundamental hurdle that must be addressed to enable those institutions to participate in the orphan works legislation currently being considered. The issue of state sovereign immunity is addressed briefly in the attachment outlining proposed amendments and in more detail in a separate attachment to this document.

## **PROPOSED AMENDMENTS TO ORPHAN WORKS LEGISLATION**

The nation's libraries, archives, museums, institutions of higher education, and public television stations hope this Congress will pass legislation that will provide meaningful relief to the orphan works problem. S. 2913 as reported out of the Senate Judiciary Committee, and H.R. 5889 as reported out of the House Subcommittee on Courts, the Internet, and Intellectual Property, move significantly towards this objective. While there are several areas of concern with the pending legislation, included below are suggested revisions that would resolve these remaining issues.

### Qualifying Search

The entire legislation turns on the standards for a qualifying search for the absent copyright owner. The language relating to qualifying searches needs to be sufficiently clear concerning its flexibility so that the search provisions cannot be interpreted as requiring cultural institutions to perform burdensome searches more appropriate to commercial uses. If the bill appears to impose threshold requirements that are too difficult for cultural institutions to meet, they simply will not take advantage of the legislation and orphan works will remain relatively inaccessible to the public. With some minor changes, language drafted by the Copyright Office (May 20) provides flexibility on the minimum standards, and does not place the best practices made available by the Copyright Office on a higher level than other statements of best practices.

### Good Faith Negotiation

In both S. 2913 and H.R. 5889, a user's failure to negotiate in good faith with the copyright owner will lead to the user losing eligibility for the limitation on remedies. In an earlier version of the bill in the 109<sup>th</sup> Congress, H.R. 5439, the user faced only the penalty of paying the owner's attorneys fees. The new formulation in S. 2913/H.R. 5889 threatens to change dramatically the nature of the negotiations over compensation in a negative manner. It provides the owner with enormous leverage over the user; he can demand excessive compensation because the user will fear that failure to pay could result in a court finding that he did not negotiate in good faith, which in turn could lead to exposure to statutory damages. This will result in useless controversies about the legitimacy of negotiating tactics -- and, ultimately, in the provisions of the bill being unused by many whom it was designed to assist. The penalty for bad faith negotiation should be limited to the owner's attorneys' fees.

### Sovereign Immunity

S. 2913 and H.R. 5889 limit injunctive relief in certain situations if the user pays the owner reasonable compensation. Copyright owners argue that because the sovereign immunity doctrine prevents the imposition of monetary damages on state governmental entities, the legislation might allow such state entities to avoid injunctive relief without paying reasonable compensation. Language on state sovereign immunity acceptable to public universities and copyright owners was included in H.R. 5439 – the orphan works legislation considered during the 109<sup>th</sup> Congress. However, the wording of various

provisions in S. 2913/H.R. 5889 has unintentionally re-opened the sovereign immunity issue. The current orphan works legislation needs to be modified to permit state entities, including public universities, to participate in the orphan works program on comparable terms with other participants, having access to injunctive relief and paying reasonable compensation as appropriate without raising sovereign immunity issues. Language to accomplish these objectives has been developed by public universities through negotiations and consultations with copyright owners and the Copyright Office and is attached below.

### Safe Harbor

The safe harbor for non-commercial uses that appeared in H.R. 5439 (109<sup>th</sup> Congress) has been significantly narrowed to apply only to certain kinds of non-commercial entities. Given the narrowing of the safe harbor to these entities, the additional limiting language in subsections (c)(1)(B)(i) and (ii) – uses of a primarily educational, religious, or charitable nature without any purpose of direct or indirect commercial advantage -- is confusing and unnecessary. It could deter uses that involve sales of catalogues and DVDs on a cost recovery basis. These subsections should be stricken.

Moreover, in H.R. 5889, a user in the safe harbor will have to disgorge proceeds directly attributable to the infringement, even if the user promptly ceases the infringement upon receiving notice of a claim of infringement. This will discourage a wide range of socially beneficial uses by museums, libraries, educational institutions, archives, and public broadcasters. They will be reluctant to make any use that might necessitate cost recovery because they might have to disgorge that revenue. The effect will be to chill the willingness of the bill's intended beneficiaries to make use of it. In the context of the narrowly tailored overall bill, this erosion of user interests is inappropriate.

### Notice of Use

Cultural institutions oppose the provisions relating to a Notice of Use filing (the “dark archive”) that appear in H.R. 5889. The dark archive requirements would be excessively burdensome for users, with little benefit to owners. Mandating that users file a notice of use with a government agency would drive up compliance costs significantly. For example, filings detailing qualifying searches would need to be carefully drafted and decisions about what facts the user knew “with a reasonable degree of certainty” would need to be made in light of a vague and undefined standard. Many institutions would require legal counsel to review the submissions prior to filing.

## QUALIFYING SEARCH PROPOSAL

### DELETE SECTION (A)(1) DEFINITION OF MATERIALS

#### (2) REQUIREMENTS FOR SEARCHES.—

##### (A) REQUIREMENTS FOR QUALIFYING SEARCHES.—

- (i) **IN GENERAL.**—A search qualifies under paragraph (1)(A)(i)(I) if the infringer, a person acting on behalf of the infringer, or any person jointly and severally liable with the infringer for the infringement, undertakes a diligent effort to locate the owner of the infringed copyright and the authorized licensor prior to, and at a time reasonably proximate to, the infringement, including by following the Minimum Requirements in clause (ii);
- (ii) **MINIMUM REQUIREMENTS.**—For purposes of clause (i), a diligent effort will ordinarily include:
  - (I) a search of the records of the Copyright Office, to the extent that they are available to identify and locate copyright owners, where possible;
  - (II) a search of reasonably available sources of copyright ownership, and where appropriate licensor information; and
  - (III) actions that are reasonable and appropriate in light of the facts relevant to the infringed work, the use, and the search, including actions based on facts known at the start of the search and facts uncovered during the search.
- (iii) **ADDITIONAL CONSIDERATIONS.**—For purposes of clause (i), the court shall also consider whether the infringer:
  - I) followed an applicable statement of search guidelines made available by the Copyright Office,
  - II) followed search guidelines that are reasonably available and relevant to the use, including the guidelines of associations of copyright owners, authors and users of works of authorship; and
  - III) used reasonably available technology tools, expert assistance, and resources, including resources for which a charge or subscription fee may be imposed, to the extent such resources are reasonable for and relevant to the scope of the intended use.
- (iv) **LACK OF IDENTIFYING INFORMATION.**—The fact that a particular copy or phonorecord lacks identifying information pertaining to

the owner of the infringed copyright is not sufficient to meet the conditions under paragraph (1)(A)(i)(I).

(B) INFORMATION TO GUIDE SEARCHES; SEARCH GUIDELINES.—

The Register of Copyrights shall make available to the public, including through the Internet, 1 or more statements of search guidelines for each category, or, in the Register's discretion, subcategory of work under section 102(a) of this title, for conducting and documenting a search under this subsection, and shall updates such statements, from time to time, at the Register's discretion. In preparing and updating such statements the Register may consider all information relevant to the requirements of a qualifying search, including the availability of electronic databases for pictorial, graphical, and sculptural works, where appropriate and reasonably available for a given use.

## **FURTHER DISCUSSION OF PUBLIC UNIVERSITIES, ORPHAN WORKS, AND STATE SOVEREIGN IMMUNITY**

The orphan works legislation is intended to enable someone, after a “qualifying search” for the owner, to use an orphan work — a copyrighted work whose owner cannot be located. If an owner appears after the search, the legislation bars the imposition of monetary damages in the form of actual damages, statutory damages, cost, and attorney’s fees, and instead requires only the payment of “reasonable compensation” for the use of the infringed work. Reasonable compensation is defined as the payment that a willing buyer and willing seller would have agreed to just prior to when the infringing use began (*i.e.*, fair market value). If the infringer and owner cannot agree on reasonable compensation, a court determines what constitutes reasonable compensation and orders its payment. The legislation also contains limitations on injunctive relief in circumstances where an orphan work is included in a new work that adds significant original expression (*e.g.*, a derivative work), contingent upon payment of reasonable compensation and reasonable attribution if requested by the owner.

The goal of such legislation — to make orphan copyrighted works publicly available — is strongly supported by universities. However, some provisions of the current orphan works legislation create significant problems for public universities. As state entities, public universities are protected from liability by the doctrine of state sovereign immunity, which, among other things, holds that they are immune from liability that could otherwise be imposed by certain federal statutes. In the case of federal copyright law, sovereign immunity likely precludes the imposition of monetary damages and injunctive relief against state entities for infringement, and monetary damages against state officers acting in their official capacity, but likely permits injunctions against state officers to stop ongoing infringement.<sup>1</sup>

Copyright owners expressed concern that the combination of the orphan works legislation and sovereign immunity could eliminate any remedies against a state entity when that entity includes an orphan work in a new work containing significant new expression if the entity engaged in a qualifying search and the owner later appeared. Specifically, the owners expressed concern that sovereign immunity would prevent a court from ordering payment of reasonable compensation (since such compensation is a form of monetary damages), and the orphan works legislation itself would limit the imposition of injunctive relief.

Public universities, in turn, expressed concern that participation in the orphan works system would require them to waive sovereign immunity. In virtually all cases, the decision to waive sovereign immunity is made not by the public university but by its state government, and state governments have indicated that they will not permit their public universities to waive sovereign immunity as a condition of federal legislation.<sup>2</sup>

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<sup>1</sup> Recent cases are also seeking to hold state officials liable for monetary damages in their “individual” capacity, even when acting within the scope of their official duties.

<sup>2</sup> During consideration of a 2002 bill that would have required state entities to waive sovereign immunity as a condition for being able to benefit from federal intellectual property protection, state governments made it

After extensive discussions during debate on the earlier orphan works bill introduced two years ago, affected copyright owners and public universities worked out language under which public universities could participate in the orphan works system but do so in a manner that did not constitute a waiver of sovereign immunity. This language was incorporated into the bill, but the legislation was not passed.

Much of the sovereign immunity language from that earlier legislation was incorporated into the current bills, S. 2913 and H.R. 5889, but two new provisions require modification in order to achieve the goal of allowing state entities to participate in the orphan works program without forcing their states to waive sovereign immunity.

The first provision requiring modification is a condition of eligibility that requires consent to the jurisdiction of U.S. District Court; for public universities to do so would constitute a waiver of state sovereign immunity, which is not feasible for those institutions for the reasons discussed above.

The second provision requiring modification is the requirement that a public university (or other state entity), in order to qualify for a limitation on injunctive relief for a derivative work, makes “an enforceable promise” to pay reasonable compensation. The problem with this language is that “enforceable” implies “in court,” again implicating sovereign immunity. Moreover, it is unclear what court must be able to enforce the promise; given the exclusivity of federal jurisdiction over copyright cases, there is a substantial risk that the federal court in which an infringement action is brought would construe the provision to require enforcement by a federal court, requiring a specific waiver of sovereign immunity.

Language that would modify these two provisions has been developed in consultation with affected copyright owners and the Copyright Office. It is critical that this language be included in the orphan works legislation.

A third modification, proposed by the Copyright Office, clarifies that the special provisions of (c)(2)(C) governing entities not subject to the jurisdiction of federal courts, applies only to entities eligible to assert state sovereign immunity and not to other entities, such as foreign persons, that might argue they do not fall under the jurisdiction of U.S. federal courts.

The three proposed changes are attached.

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clear that they would not allow their public universities to waive sovereign immunity under such circumstances. Had that legislation become law, public universities would have lost federal intellectual property protection for any patents, copyrights, or trademarks they owned. The legislation did not proceed out of committee.

## STATE SOVEREIGN IMMUNITY AMENDMENTS — S. 2913

### Changes to S. 2913 as reported by the Judiciary Committee

1. On page 23, line 16, insert “unless entitled to assert state sovereign immunity,” before “consents to”;

[Clause (v) of subsection (b)(1)(A) would thus read:

“(v) unless entitled to assert state sovereign immunity, consents to the jurisdiction of United States district court, or, in the absence of such consent, if such court holds that the infringer is within the jurisdiction of the court; and” ]

2. On page 30, line 4, insert “, based on the doctrine of state sovereign immunity,” between “that” and “neither”;

[*Note:* This change, proposed by the Copyright Office, clarifies that the special provisions of (c)(2)(C) governing entities not subject to the jurisdiction of federal courts, applies only to entities eligible to assert state sovereign immunity and not to other entities, such as foreign persons, that might argue they do not fall under the jurisdiction of U.S. federal courts.]

[Subparagraph (C) of subsection (c)(2) would thus read:

(C) The limitations on injunctive relief under subparagraphs (A) and (B) shall not be available to an infringer if the infringer asserts in the action that, based on the doctrine of state sovereign immunity, neither the infringer nor any representative of the infringer acting in an official capacity is subject to suit in the courts of the United States for an award of damages for the infringement, unless the court finds that the infringer—”]

3. On page 30, lines 12-15, strike clause (ii) and insert, in lieu thereof: “pays reasonable compensation to the owner of the exclusive right under the infringed copyright in a reasonably timely manner after the amount of reasonable compensation has been agreed upon with the owner or determined by the court.”

## STATE SOVEREIGN IMMUNITY AMENDMENTS — H.R. 5889

### Changes to H.R. 5889 as reported by the Subcommittee on Courts, the Internet, and Intellectual Property

1. On page 5, line 19, insert “unless entitled to assert state sovereign immunity,” before “consents to”;

[Clause (vi) of subsection (b)(1)(A) would thus read:

“(v) unless entitled to assert state sovereign immunity, consents to the jurisdiction of United States district court, or such court holds that the infringer is within the jurisdiction of the court; and” ]

2. On page 13, line 14, insert “, based on the doctrine of state sovereign immunity,” between “that” and “neither”;

[*Note:* This change, proposed by the Copyright Office, clarifies that the special provisions of (c)(2)(C) governing entities not subject to the jurisdiction of federal courts, applies only to entities eligible to assert state sovereign immunity and not to other entities, such as foreign persons, that might argue they do not fall under the jurisdiction of U.S. federal courts.]

[Subparagraph (C) of subsection (c)(2) would thus read:

(C) The limitations on injunctive relief under subparagraphs (A) and (B) shall not be available to an infringer if the infringer asserts in the civil action that, based on the doctrine of state sovereign immunity, neither the infringer nor any representative of the infringer acting in an official capacity is subject to suit in the courts of the United States for an award of damages to the legal or beneficial owner of the exclusive right under the infringed copyright under section 106, unless the court finds that the infringer—”]

3. On page 13, line 24, to page 14, line 2, strike clause (ii) and insert, in lieu thereof: “pays reasonable compensation to the [legal or beneficial] owner of the exclusive right under the infringed copyright in a reasonably timely manner after the amount of reasonable compensation has been agreed upon with the owner or determined by the court.”