

THE BOOK RIGHTS REGISTRY IN THE GOOGLE BOOKS SETTLEMENT

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Copyright law poses a significant challenge to any effort to create a comprehensive digital database of published books. Approximately 80% of these millions of titles are still under copyright. 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. 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.

As of the writing of this article, the judge presiding over the litigation had not yet decided whether to approve or reject the settlement. Regardless of whether the settlement ultimately is approved, 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.

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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, 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 30 million books from major research libraries and scan them into its search database. For the nearly 25 million books still under copyright, Google argued that the “fair use” doctrine under Section 107 of the U.S. Copyright Act allowed it to scan the books and display “snippets” of them in response to search queries. Publishers and authors disagreed and sued Google for copyright infringement in federal district court in New York in the fall of 2005.² After three years of litigation, Google, the publishers, and authors announced a settlement on October 28, 2008. Judge Chin, then a federal district court judge in the Southern District of New York,³ held a fairness hearing on the settlement on February 18, 2010. The settlement will take effect only if the court approves it.⁴

² 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.

³ Judge Chin has since been elevated to the U.S. Court of Appeals to the Second Circuit. However, he still presides over this case.

⁴ The court cannot modify the settlement; it can either approve it or reject it. To be sure, the court can reject the settlement, but indicate what modifications would be necessary to gain its approval. The parties then would decide whether to accept the modifications, or continue to litigate the case.

The settlement⁵ 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.

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 by copyright.⁶

The original settlement applied to books published before January 5, 2009, regardless of whether they were published in the United States or elsewhere. In response to the complaints of foreign rightsholders, 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.⁷

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

⁵ The text of the agreement can be found at www.googlebooksettlement.com.

⁶ Google displays the full text of these books for free.

⁷ 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 rightsholders 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.

The settlement allows for Google to offer three primary services to users in the United States: previews; consumer purchases; and institutional subscriptions. The settlement establishes “default rules” with respect to these services, which will apply unless the rightsholder elects to vary the rules with respect to a particular title. 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. 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.

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.⁸ For an out-of-print book, the standard default rule is that Google may display up to 20% of the book’s text. However, for different categories of books (*e.g.*, fiction vs. non-fiction), Google may display a different number of pages per response.⁹ For an in-print book, the default rule is that 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.

Under the **Consumer Purchase** service, Google will allow consumers to purchase perpetual online access to the full text of a book.¹⁰ Google will set the price

⁸ The Preview service is discussed at section 4.3 of the Amended Settlement Agreement.

⁹ For most non-fiction 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 5% of the book or fifteen adjacent pages, whichever is less. Google must also block the final 5%, 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, 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 10% of the book.

¹⁰ The Consumer Purchase service is discussed at section 4.2 of the Amended Settlement Agreement. A consumer will be able to print out up to 20 pages with one command; cut and paste up to four pages with one command; and make book annotations.

algorithmically between \$1.99 and \$29.99 (with 80% of books below \$10).¹¹ 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).¹² 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.¹³

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.¹⁴ Public access service will be available at only one terminal in each public library building. At associate colleges, Google may provide one public access terminal for each 4,000 FTEs; at four-year colleges, Google may provide one public access terminal for each 10,000 FTEs.

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.¹⁵ Non-consumptive research involves computational analysis of the books, and does not include research relating to the intellectual content of the books. Users are qualified through relevant institutional

¹¹ The rightsholder can direct Google to sell the book for a price different from the price set algorithmically. Indeed, the rightsholder can instruct Google to make the book available for free.

¹² The Institutional Subscription service is discussed at section 4.1 of the Amended Settlement Agreement.

¹³ An authorized user will be able to print out up to 20 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.

¹⁴ The Public Access service is discussed at section 4.8 of the Amended Settlement Agreement.

¹⁵ The Research Corpus is discussed at section 7.2(d) of the Amended Settlement Agreement.

affiliation or demonstrated capability and resources to conduct non-consumptive research.

Unless a rightsholder takes action to deny Google the right to use her work, Google may provide the services discussed above with respect to that work. The legal theory underlying this “opt-out” framework, which applies to potentially millions of rightsholders 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. 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 products. If the presiding judge decides to certify the class, then any settlement or judgment can be binding on all members of the class.¹⁶ Under the Federal Rules of Civil Procedure, a court must review a class action settlement to ensure that it is “fair, reasonable, and adequate.”¹⁷

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. The settlement involves two subclasses of plaintiffs – authors and publishers of books published in the United States, Canada, Australia, and the United Kingdom. Rightsholders had the right to opt

¹⁶ 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. 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.

¹⁷ Fed. R. Civ. P. 23(e)(1)(C).

out of the settlement by January 28, 2010. If a rightsholder did not opt-out of the settlement by that deadline, and Judge Chin approves the settlement, the rightsholder 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.

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.¹⁸ The Registry's board will be divided equally between publishers and authors.¹⁹ 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.²⁰

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

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. The

¹⁸ Amended Settlement Agreement at 5.2. Google is required to pay a total of \$30 million for the start-up costs and notifying class members of the settlement. Reportedly, half of the \$30 million has already been spent on two rounds of class notification; a second round of notification was necessary when the parties agreed to amend the settlement.

¹⁹ Id. at 6.2(b).

²⁰ Id. 6.2(b)(iii).

settlement establishes “default rules” with respect to these services, which will apply unless the rightsholder 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.

Google will make the initial determination of whether a book is in- or out-of-print by consulting with existing databases. The Registry or the rightsholder, however, have the ability to challenge Google’s classification. Similarly, although Google will determine whether a book is in the public domain, the Registry or the rightsholder can challenge the determination.

A rightsholder 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. Thus, the rightsholder can “remove” a title from all of Google’s services under the settlement.²¹ Additionally, the rightsholder can change the default displays. For example, for an out-of-print book, the rightsholder can require the Registry to instruct Google to exclude a title from consumer purchase and or to display less text under the preview service. The rightsholder can also vary the price of a book available for consumer purchase from the price set algorithmically by Google; indeed, the rightsholder can require Google to make the book available for free. Significantly, the rightsholder can direct Google to change how to use a particular title at any time.

²¹ If Google receives a removal request before it scans a book, it cannot scan the book. If the rightsholder 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 rightsholder makes a removal request after March 9, 2012, Google may not display any of the book’s text, but it can make “non-display uses” of the book (e.g., retain the book in its search database and displaying bibliographic information in response to queries).

B. Pricing of Institutional Subscriptions

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

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.” Moreover, “Plaintiffs 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.” 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.

Pricing will be based on the number of full-time equivalent (FTE) users. For higher education institutions, FTE means full-time equivalent students.²² 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. Only higher education institutions can have remote access without Registry approval (e.g., faculty can access the ISD from home and students from their dormitories).²³

²² Amended Settlement Agreement at 4.1(a)(iii).

²³ Id. at 4.1(a)(iv).

Google can charge a lower price for a discipline-based subset of the IDS. 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.”²⁴

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 Registry do not reach agreement, the dispute will be submitted to binding arbitration.²⁵

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.” 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.²⁶ 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.²⁷

²⁴ Id. at 4.1(a)(v).

²⁵ Id. at 4.1(a)(vi)(4).

²⁶ Id. at 4.1(a)(vii).

²⁷ Id. at 4.1(a)(vi)(4)(b).

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.²⁸

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 subscription.²⁹

C. Distribution of Revenue

The Registry has the responsibility of distributing funds collected from Google and other parties to rightsholders. Rightsholders that claim their copyright interest with the Registry can receive several forms of compensation. First, Google must pay between \$60 and \$300 to the rightsholder of each book scanned prior to May 5, 2009.³⁰ Google

²⁸ Id. at 4.1(a)(ix).

²⁹ 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 the University of Michigan (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 an 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. <http://booksearch.blogspot.com/2009/07/university-of-wisconsin-madison-and.html>

³⁰ Google must pay \$15 for each "insert" – a separately registered work contained within book. See Amended Settlement Agreement at 1.75.

must provide the Registry with at least \$45 million to distribute for these scans. The amount each rightsholder receives will depend on how many rightsholders file claims with the Registry.³¹ A rightsholder must file a claim with the Registry by January 5, 2010, in order to receive this fee.

Additionally, Google must provide to the Registry 63% of the revenue it generates through advertising, institutional subscriptions, and consumer sales.³² The Registry will then distribute the revenue to the rightsholders. The settlement contains a complex plan of allocation the Registry must follow in distributing this revenue. Once it has collected sufficient revenue from Google, the Registry will pay each registered rightsholder an inclusion fee of \$200. Additionally, the Registry will pay rightsholders usage fees based on how many users access a particular book.³³ Under the original settlement, the Registry would have escrowed funds due to an unregistered rightsholder for five years. If the rightsholder 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 rightsholders and charities.³⁴

The original settlement was criticized for not adequately protecting the interests of rightsholders who did not file ownership claims with the Registry. Accordingly, the amended settlement agreement establishes an independent fiduciary responsible for representing the interests of the rightsholders of the unclaimed works. The Unclaimed Works Fiduciary will not be a published book author or a book publisher, and will be

³¹ Id. at 5.1(a) and (b).

³² Id. at 4.5(a).

³³ Attachment C to Amended Settlement Agreement.

³⁴ Settlement Agreement at 6.3(a)(i).

chosen by a supermajority of the Registry Board of Directors and must be approved by the Court.³⁵

Under the amended settlement, the unclaimed funds will not be used for the Registry's operating expenses and will not be distributed to rightsholders who filed claims. Rather, the Registry, in collaboration with rightsholder organizations in Canada, Australia, and the U.K., and in consultation with the Unclaimed Works Fiduciary, can spend up to 25% of the unclaimed funds held for five years on searching for absent rightsholders. After holding the remaining 75% 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. The Registry must notify the attorneys-general of the state governments,³⁶ all rightsholders located by the Registry, and Google's partner libraries of its motion to distribute the unclaimed funds.³⁷

D. Licensing to Third Parties

The Registry may license rightsholders' U.S. copyrights to parties other than Google to the extent permitted by law.³⁸ 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 rightholders that file claims with it and grant it the ability to act as their agent with respect to parties other than Google. Accordingly, if the rightsholders of only 10% of the out-of-print books file claims with the Registry, then the Registry will be able to

³⁵ Amended Settlement Agreement at 6.2(b)(iii)

³⁶ State laws contain provisions regarding the disbursement of abandoned funds.

³⁷ Amended Settlement Agreement 6.3.

³⁸ Id. at 6.2(b)(iii).

license to a Google competitor the right to scan and display just 10% of the out-of-print books, while Google will be able to scan and display 100% of the books.

This limitation on the Registry is not a matter of choice by the parties to the settlement, but a function of the limits of the class action mechanism. The class action mechanism cannot bind rightsholders 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 settlement that discouraged competition, most notably the “most-favored nation clause” in section 3.8(a). 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. 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.”³⁹ 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 rightsholders – a highly unlikely eventuality, particularly within 10 years of the settlement taking effect, as the provision required. 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.⁴⁰ Likewise, the settlement does not limit any rightsholder’s “right to authorize, through the Registry or otherwise, any Person, including direct competitors of Google, to use his, her or its Books

³⁹ Settlement Agreement at 3.8(a)(ii).

⁴⁰ Amended Settlement Agreement at 2.2

or Inserts in any way, including ways identical to those provided for under this Settlement Agreement.”⁴¹ Thus, even if a rightsholder 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. 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 85% 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. 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.⁴²

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.

Google and the libraries must develop a security implementation plan that meets the requirements of the Security Standard, which is set forth in an attachment to the settlement agreement.⁴³ 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

⁴¹ Id. at 2.4.

⁴² Id. at 7.2(e)(ii).

⁴³ Id. at 8.2(a)(ii).

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; (8) risk assessment.⁴⁴

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.⁴⁵

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.⁴⁶

⁴⁴ Id., Attachment D at i.

⁴⁵ Id. at 8.2(b).

⁴⁶ Id. at 8.2(a)(iv).

Each partner library must permit a third party to conduct an annual audit of their security and usage to verify compliance with its security implementation plan. Google and the Registry will share in the costs of the audits.⁴⁷

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. 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 rightsholder an appropriate monetary remedy.⁴⁸ If the parties cannot agree on an appropriate remedy, the issue will be submitted to binding arbitration.

III. The Registry and Monopoly Pricing

Much of the debate over approval of the settlement focused on the privileged position the settlement granted Google. 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 rightsholders file claims with the Registry. But it is safe to assume that a large proportion of the rightsholders will not claim their books.⁴⁹ Many of the rightsholders will not even know that they are rightsholders; they may be heirs of deceased authors whose books have been out of print for decades. Other rightsholders 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

⁴⁷ Id. at 8.2(c).

⁴⁸ Id. at 8.3(a).

⁴⁹ 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 rightsholder cannot be identified or located. Here, no one has looked for the rightsholders, so no one knows whether they are in fact orphaned. All that is known is that the rightsholder has not registered a claim with the Registry.

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 somehow are permitted 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. 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:

[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.⁵⁰

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

⁵⁰ Library Association Comments on the Proposed Settlement at 8, <http://www.arl.org/bm~doc/googlebrieffinal.pdf>. The author of this article assisted the Library Associations in the drafting of these comments.

for access to 31,000 journals, one can only imagine the price the Registry might insist upon for a subscription to millions of books.⁵¹

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.”⁵² The Library Associations feared that the Registry may 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 faculty and students.⁵³

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.

⁵¹ Id. at 8-9.

⁵² Amended Settlement Agreement at § 4.1(a)(i).

⁵³ Library Association Comments at 4-5.

B. Taming the Registry

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. 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. The new “pricing review” procedure would occur after the price-setting process described in the settlement, including any arbitration between Google and the Registry.

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. 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 -- 37% of the subscription price.⁵⁴ Thus, the subscription price might remain beyond the means of many libraries. Third, the arbitrator’s decision is final and unappealable. 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. The settlement

⁵⁴ Attachment A at 3.c(3).

specifically provides that the court “shall retain jurisdiction over the interpretation and implementation of the Settlement Agreement.”⁵⁵ The Library Associations asserted that by this statement the parties acknowledged the court’s authority to regulate their conduct under the settlement. The Library Associations urged the court to exercise this authority vigorously to ensure the broadest possible public benefit from the services the settlement enables.

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

Any 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.”⁵⁶

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). The Library Associations observe that both 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-

⁵⁵ Amended Settlement Agreement at 17.23.

⁵⁶ Library Association Comments at 19, quoting Settlement Agreement at 4.1(a)(i).

discriminatory basis, either a blanket license to their entire catalogue, or a license for the performance of a particular work. 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. In proceedings before the rate court, ASCAP and BMI have the burden of proving the reasonableness of the rates they seek. 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.”⁵⁷

The Library Associations’ second suggestion concerned the composition of the Registry’s Board of Directors. The settlement stipulates that the Author Sub-Class and the Publisher Sub-Class will have equal representation on the Registry’s Board of Directors. The amended settlement agreement further provides that at least one representative of each sub-class must be from each of the countries whose rightsholders are within the amended settlement: the United States, the United Kingdom, Australia, and Canada.⁵⁸ 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.⁵⁹ The Library Associations expressed concern that the Registry’s Board of Directors might not adequately represent the true interests of many class members:

the 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

⁵⁷ Library Association Comments at 19 n. 47.

⁵⁸ Amended Settlement Agreement at 6.2(b)(iii).

⁵⁹ *Id.* at § 6.2(b).

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.⁶⁰

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.”⁶¹ The Registry will act as the agent for rightsholders whose books will be in Google’s database. Google is building its database by scanning books found in the collections of major research libraries. 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.”⁶² 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

⁶⁰ Library Association Comments at 18. *See also* Pamela Samuelson, et al., Letter to the Honorable Denny Chin (April 27, 2009).

⁶¹ Library Association Comments at 18.

⁶² *See* Blackwell, North American Approval Coverage and Cost Study, http://www.blackwell.com/librarian_resources/coverage_and_cost.

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' 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.

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.⁶³

The Library Associations also requested the court to regulate the Registry on matters other than the price of the institutional subscription. The Library Associations observed that although the settlement permits the Registry to license the rights of registered rightsholders to third parties, the settlement does not require it to do so. 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. 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."⁶⁴

⁶³ Library Association Comments 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 to do so.

⁶⁴ Library Association Comments at 20.

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,"⁶⁵ which thus represented an "end run around legislative process and prerogatives."⁶⁶ The Copyright Office observed that "[c]ompulsory licenses in the context of copyright law have traditionally been the domain of Congress."⁶⁷ 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."⁶⁸ Additionally, "Congress is much better situated than the judiciary to consider such important and far reaching changes to the copyright system."⁶⁹

⁶⁵ Statement of Marybeth Peters, the Register of Copyrights, before the Committee on the Judiciary, U.S. House of Representatives, Sept. 10, 2009 (Peters Statement), at 2-3.

⁶⁶ Id. at 2. In her oral testimony, Register Peters went further, stating that the settlement "makes a mockery of Article I of the Constitution." Andrew Albanese, *U.S. Register of Copyrights slams Google Book Search Settlement*, www.publishersweekly.com/index.asp?layout=articlePrint. At the September 10 hearing, 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." Stephen Shankland, *Google offers rivals a place in e-books program*, CNET, 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." Id. 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. Congresswoman Lofgren also indicated that Congress helped create the orphan works problem by passing extending with term of copyrights by 20 years in 1998. Ryan Singel, *Amazon Scoffs at Google's Offer to share Book Search Sales*, Sept. 10, 2009, www.wired.com/epicenter/2009/09/amazon-google-book. 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.

⁶⁷ Peters Testimony at 5. At the hearing, Google's Chief Legal Officer objected to the characterization of the settlement as a judicial compulsory license, noting that rightsholders could opt out of the settlement or vary its terms.

⁶⁸ Id.

⁶⁹ Id. at 8. 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 2.

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.”⁷⁰ 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.⁷¹ However, the Copyright Office distinguished that settlement on the grounds that it did not involve “future uses of copyrighted products that were not the subject of the original infringement action.”⁷² 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.”⁷³

Some rightsholders 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

⁷⁰ Id. at 2.

⁷¹ *In re Literary Works in Electronic Databases Copyright Litigation*, MDL No. 1379 (S.D.N.Y.). Subsequently, the Supreme Court in *Reed Elsevier Inc. v. Muchnick*, 129 S.Ct. 1523 (2009), ruled that 17 U.S.C. § 411(a) did not pose a jurisdictional bar to including unregistered works in a class action settlement.

⁷² Peters Statement at 7. 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 provide services that involve the sale of access to the full text of books.

⁷³ Id. The Copyright Office, however, acknowledged that “[w]e are not experts on the proper scope of class actions...” Id. at 7.

class members.⁷⁴ Rightsholders 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.⁷⁵ Professor Pamela Samuelson argued that the Authors Guild did not adequately represent the interests of academic authors.⁷⁶

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....”⁷⁷ The Statement reiterated many of the concerns identified above regarding the representation of absent rightsholders. 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 rightsholders.⁷⁸ The Statement further raised concerns about the use of the the class action settlement procedure to allow Google to provide new services with the works of absent rightsholders. 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 United States.”⁷⁹ The United States acknowledged that “[s]uch a revision would, of course, not give Google immediate authorization to use all out-of-print books

⁷⁴ See Gant Opposition at 13. For an analysis of the merits of Gant’s Opposition, see James Grimmelmann, Scott Gant’s Attack on the Class, http://laboratorium.net/archive/2009/08/21/gbs_scott_gants_att

⁷⁵ Gant Opposition 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 non-orphan 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 copyriught in a non-orphan work not copied by google or copied with permission. Id. at 34.

⁷⁶ See Letter of Pamela Samuelson and other Academic Authors to Judge Denny Chin, Sept. 3, 2009.

⁷⁷ Statement of Interest of the United States of America Regarding Proposed Class Settlement at 27.

⁷⁸ Id. 8-9.

⁷⁹ Id. at 13-14.

beyond the digitization and scanning which is the foundation of the plaintiffs' Complaint in this manner."⁸⁰ Thus, the United States urged the parties to consider a "settlement that simply authorized Google to engage in scanning and snippet displays...."⁸¹ 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 rightsholders had opted-in for such access.⁸²

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 Registry that would administer Google's payment of royalties for scan and snippet display.

V. The Legislative Alternative

Many of those who argue that the Rule 23 doesn't allow the broad powers of the Registry opponents advocate a legislative solution, noting the orphan works legislation that passed the Senate in 2008.⁸³ The proponents of this approach overlook the substance

⁸⁰ Id. at 14.

⁸¹ Id. at 15.

⁸² The parties began negotiating the amended settlement agreement immediately after the United States filed its critical Statement of Interest. Prior to the February 18, 2011 fairness hearing, the United States filed another statement with 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.

⁸³ In January 2006, the Copyright Office issued a report recommending legislation to address the "orphan works" problem – enabling uses when the copyright owner cannot be identified or located. These recommendations were embodied in H.R. 5439, reported out of the House of Representatives Subcommittee on Courts, the Internet, and Intellectual Property in 2006, during the 109th Congress. The Senate passed similar legislation in 2008, at the end of the 110th Congress. H.R. 5439 in the 109th Congress, and S. 2913 in the 110th Congress, would

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 what it rejected in two earlier Congresses; it would have to adopt a compulsory license that required no search by the user for the rightsholder.⁸⁴

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

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.⁸⁵

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 may be inconsistent with international treaty obligations. In other words, Register Peters believes that the settlement is a judicial compulsory license that trespasses on Congressional prerogatives,

have limit the remedies available to a reappearing owner if the user made a reasonably diligent effort to locate the owner.

⁸⁴ The compulsory license could be administered by a CMO.

⁸⁵ Peters Testimony at 7-8.

but that Congress itself perhaps cannot enact a compulsory license for book digitization without violating international obligations.⁸⁶ 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 rightsholders of over 20 million books. This cost would be so overwhelming as to preclude any entity from undertaking such an endeavor.⁸⁷

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.⁸⁸ But the settlement has been criticized from all directions; rightsholders, 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 for users, for example, then the rightsholders would receive less revenue.⁸⁹ Likewise, more protection for rightsholders inevitably would result in less robust services for consumers. A legislated compulsory license could very well not apply to the works of foreign rightsholders – not even the rightsholders in

⁸⁶ At the very least, Register Peters appears to believe that such a statutory compulsory license would subject the United States to “diplomatic stress.” Peters Testimony at 3.

⁸⁷ 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.

⁸⁸ 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.

⁸⁹ The Computer & Communications Industry Association observed that the concerns 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.” CCIA Brief at 15.

Canada, Australia, and the U.K. This would result in a much smaller, less useful digital library.⁹⁰

The legislative process, therefore, would be highly contentious; and in the unlikely event 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.⁹¹

⁹⁰ The Copyright Act already provides preferential treatment to foreign works. For example, registration is not a prerequisite for a rightsholder of a non-U.S. work to initiate an infringement action. 17 U.S.C. § 411(a). Some foreign rightsholders 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; Memorandum of Law in Opposition to the Settlement Proposal on Behalf of the French Republic. The Copyright Office appears to support such an exclusion. See Peters Testimony at 8-10.

⁹¹ 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. **Pamela Samuelson, Google Book Search and the Future of Books in Cyberspace**, 95 *Minn. L. Rev.* __ (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 14, 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.” 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.” He argues that “[i]t 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.” <http://www.eff.org/deeplinks/2009/06/should-google-have-s> Google, of course, would never agree to relinquish control over its enormous investment in creating a digital database of books after 14 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., et al., and Google Inc., at 29. It further stated that “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.

VI. Final Reflections on the Registry as a Collective Management Organization

If the Google Books 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 rightsholders. 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 publishing before January 5, 2009. Books published after that date would be managed by the Registry only with the consent of their rightsholders, 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 rightsholders, 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 rightsholders.

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 rightsholders. It is safe to

assume that a not insignificant number of rightsholders 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 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 rightsholders who did claim their works. Under the amended settlement, the Registry will spend a quarter of these funds on searching for absent rightsholders, 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.