# The Author's Guild et al v Google Inc. 05 Civ 8136 (DC)

## Henry Fraser examines the Google Books decision and considers its potential implications for the digital copyright regime in Australia.

### Introduction

*The Author's Guild et al v Google Inc*. 05 Civ 8136 (DC) (the ***Google Books Case***) is a class action case of authors and publishers against Google. Google entered into an agreement with a number of major US libraries in 2004 to digitise their collections. To date Google has copied more than 12 million books without the permission of their copyright owners. While Google had the permission of the libraries to undertake the copying, it did not have the permission of the copyright owners of the books and their contents. The plaintiffs brought the action in 2005, but after a period of discovery, representatives of the class of plaintiffs began settlement negotiations with Google in 2006. On October 28 2008, the parties filed a proposed settlement agreement, which received preliminary approval by the court. There was a multitude of objections to the terms of the settlement by class members after which the settlement was amended and filed for approval with the court on 13 November 2009.

*The forward looking nature of the parties' proposal was of itself a strong reason for the rejection of the settlement*

Under rule 23(e) of the *US Federal Rules of Civil Procedure*, the court may approve a settlement in a class action only if it determines that the settlement is "fair, adequate, and reasonable, and not a product of collusion". A number of parties intervened on both sides. Amazon.com, a high profile competitor of Google, argued against court approval of the settlement, and Sony argued for it. [1] In a judgment on 22 March 2011, Circuit Judge Denny Chin of the US District Court for the Southern District of New York rejected the proposed settlement.

This article summarises the reasons for Judge Chin's decision and considers the policy and implications of the Google Books Case on the reform and development of the digital copyright regime in Australia.

### The terms of the proposed settlement

The proposed settlement would have given Google a non-exclusive licence to:

- continue to digitise books;
- sell subscriptions to an electronic database;
- sell online access to individual books; and
- sell advertising in the books,

as well as a number of other prescribed uses.

Google could display out-of print books without permission of their copyright owners, but the owners would be able to 'opt-out' by asking that their books be removed from, or not uploaded to, Google's registry. As for commercially available, 'in-print', books, Google could not use the books without the permission of their copyright owners.

Under the proposed settlement, Google agreed to pay 70% of net profits from the commercial exploitation of the books to the relevant rights holders. It agreed to set up a registry of rights holders for the administration of revenue, funding the registry with a US$34.5 million payment. It would appoint an 'independent Fiduciary' tasked with representing the interests of owners of unclaimed or 'orphan' works. Google would be bound to make commercially reasonable efforts to find the rights holders in these works.

In addition to the registry fund, under the settlement, Google would establish a US$45 million fund to pay rightsholders for the copying of their books. As a minimum, authors would receive US$60 per 'principal work' (such as a book) US$15 per 'insert' (such as an introduction or prologue to a book), and $5 per partial insert. If these payments could be covered by less than US$45 million, Google would distribute the remainder of the fund by giving a greater amount per work: up to US$300 per Principal Work, US$75 per entire insert, and US$25 per partial insert.

### The Decision

#### Weighing the 'Grinell factors' – judicial cost-benefit analysis of settlement

In weighing up whether to approve the settlement, Judge Chin considered the 'Grinnell' factors, so named after the US case which set them down as the factors to consider in approving a class action settlement.[2] The factors include, among other things, the expense and time of litigation proceeding to judgment; the reaction of class members to the proposed settlement of their class action; and the reasonableness of settlement in light of likely outcome of litigation.[3]

Judge Chin held that of the nine 'Grinnell' factors, only the reaction of class members to the settlement provided adequate grounds for rejection of the settlement. Approximately 6800 members of the plaintiff class, including foreign authors, academic authors, and authors of 'inserts' objected to the settlement on the basis that it was against their interest. The structure of the arrangement brought the interests of some members of the plaintiff class into conflict with other members. For example, there would be little incentive for identified copyright owners to identify owners of orphan works because it would reduce the amount of money available for payments to them. In this case, class members would not only be settling past liabilities, by keeping silent, owners of copyrights would also be deemed to grant licence to Google for

1 Under the terms of the proposed settlement, see Objection of Amazon.com, Inc. to Proposed Settlement (Dkt. 206), *The Authors' Guild, Inc. et al v Google, Inc.*, 05-cv-8136(DC)(S.D.N.Y. Sept. 1, 2009); *Amicus Curiae* Brief of Sony Electronics Inc. in Support of Proposed Google Book Search Settlement (Dkt. 314), *The Authors' Guild, Inc. et al v Google, Inc.*, 05-cv-8136(DC)(S.D.N.Y. Sept. 8, 2009).

2 *City of Detroit v Grinnell Corp.*, 495 F.2d 448 (2d Cir. 1974).

3 *Authors Guild* at 14-15.

future exploitation of copyrights. This, said his Honour, was going too far, given the numerous objections.

That basis for objection was connected to a number of policy considerations that also bore against the settlement. At the heart of the objections and countervailing policy considerations were:

- the fact that the settlement went beyond the scope of the initial issues in contention and proposed forward looking arrangements;
- the arrangements operated on an 'opt-out' basis, rather than acknowledging that Google could not exploit copyrights until rightsholders had opted in; and
- the arrangements would give Google a significant market advantage over its competitors, in effect rewarding it for mass copying without permission.

**Scope of the settlement – suitability for decision of the court**

The forward looking nature of the parties' proposal was of itself a strong reason for the rejection of the settlement. Initially, when Google began copying books, it contemplated using 'snippets' for the purpose of searching and indexing. Google's defence to a copyright suit would have been that the provision of mere snippets fell under the broad US defence of fair use. However, if Google had sought to exploit full copyright works, as provided by the settlement agreement, there would have been no defence for the copying.[4] Judge Chin was concerned that proposed settlement did not simply release Google from liability in relation to its past acts and intentions but transferred rights in exchange for future conduct and future acts.[5] In that sense, its scope went beyond that of the issues in contention before the court.

In particular, Judge Chin was concerned about the scope of the arrangement of Google's management of orphan works. Given the scale of Google's enterprise, the settlement would effectively have set the standard for the digital exploitation of 'orphan works' (works whose copyright owners are not known), and put the administration of orphan works into Google's hands for the digital future. His Honour thought the establishment of broad policy and mechanisms for the guardianship and exploitation of unclaimed books was a matter more suited for the Congress than for the Court.[6]

**Opt-out system**

As well as giving power to Google over orphan works, Judge Chin observed that the settlement would in effect give Google the power to expropriate the rights of copyright holders without their consent. Copyright owners in out of print works would be deemed to have consented to Google's use of their works unless they gave notice to the contrary. His Honour said:

> *'A copyright owner's right to exclude others from using his property is fundamental and beyond dispute… It is incongruous with the purpose of the copyright laws to place the onus on copyright copyright owners to come forward to protect their rights when Google copied their works without first seeking their permission.'*[7]

For Judge Chin the opt-out proposal was too radical a departure from the basic premises of copyright law to be approved by the court.

**Competition and 'Anti-trust' issues**

If the settlement had stood, Google would have gained first mover advantage in the digital market, enabling it to establish a monopoly over the digital use of works it had copied. As Judge Chin put it:

> *'The [settlement] would grant Google control over the digital commercialization of millions of books, including orphan books and other unclaimed works. And it would do so even though Google engaged in wholesale, blatant copying without first obtaining copyright permissions. While its competitors went through the "painstaking" and "costly" process of obtaining permissions before scanning copyrighted books, Google by comparison took a shortcut by copyrighting anything and everything regardless of copyright status.'*[8]

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The power inherent in the copyrights of all the books – the rights owner's control over works - would effectively have been taken, rather than given, and concentrated in the hands of one player that was ignoring the rules of the game.

**Privacy and International Law**

Judge Chin also addressed objections relating to privacy and breach of international law, however these did not contribute to his Honours reasons for rejecting the settlement and are consequently not addressed in this article.

## Issues raised by 'opt-out' arrangement

There is no doubt that there would have been significant public benefits if the settlement had been allowed. Judge Chin noted that in addition, some of these:

- out-of-print books would have been given a second life;
- the digitisation would make books more accessible, enabling conversion and printing into braille and other formats for people with reading disabilities; and
- new audiences and new revenue could be generated for the copyright owners.[9]

Many of the out-of-print books copied by Google had fallen out of common use and if the settlement had been permitted, their copyright owners could also have benefited from Google's new revenue stream.

Nonetheless, the practical changes which the settlement would have brought about in the day-to-day administration of copyright would have been radical, and would have permitted an expropriation of the rights of copyright owners, particularly owners of out-of-print works. For that reason, it was not surprising that the settlement was rejected and that Judge Chin preferred to leave the more controversial issues for the US Congress.

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4 At 25.
5 At 12.
6 At 22.
7 At 33.
8 26-27.
9 For all the above see p.3.

## *The conceptualisation of creative works as property is what gives them value in our market society*

The case stands as a clear prompt for the legislature (the US Congress, or indeed the Parliament here in Australia) to consider the current regulation of copyright and to make changes that acknowledge the new frames of reference for works in the digital age.

### Legislative changes to consider

Copyright is intended to promote writing and creativity by rewarding authors with proprietary rights that allow them to commercialize their work. There is, however, a popular argument that if copyright operates ultimately to reduce and stifle access to books, then the follow-on effect will be a lessening of literary output. The greater the body of literature available, the more opportunities arise for would-be authors to be educated, stimulated and inspired to create new work. An opposing argument acknowledges that access is desirable, but not at the expense of the proprietary right in copyright material. The conceptualisation of creative works as property is what gives them value in our market society.

There is increasingly a perception that access and copyright protection must be opposed and to a certain extent this is true. What gives copyright the character of intellectual *property* is the presence, among the bundle of rights which constitute it, of the right to exclude others from using the material in which the copyright subsists. In a capitalist society, there are few who question the fact that a property right in land is as much about controlling the use of the land as it is about being able to profit from that use. A land owner could develop and exploit the land; or he or she could choose simply to enjoy the exclusive control of the land. Nobody would seriously consider allowing a corporation to take control over the use of a person's land unless the person 'opted-out' of the arrangement. The same principle applies to copyright, even if the author is not exploiting the copyright. It is the capacity to exclude use which gives the copyright owner the power to dictate terms. It is not in the public interest to allow a corporation to dictate the exploitation of copyrights to the copyright owner, especially if that arrangement would result in the corporation obtaining a monopoly over a certain kind of work. There is no doubt that it would not be proper for a court to endorse this course. Legislative action, however, might be able to deal with the issue of access to out-of-print works more broadly, without favouring any particular corporate interest.

#### A compulsory licence for digitisation of out-of-print books?

It is possible for the Parliament to increase access to copyright material within the bounds of the copyright regime. One way of doing this is to create specific exceptions to copyright infringement and to create compulsory licences for forms of access that are in the public interest. For example, there is a compulsory licence under part VB of the *Copyright Act 1968* allowing limited use of literary work for educational purposes. Under ss 108 and 109, there is also a compulsory licence allowing venues to play music provided they pay equitable remuneration to the copyright owners. Failing agreement between the parties, the Copyright Tribunal decides on the licence fee. With regard to the music licence, public policy favours access to music over the right to exclude use.

This paper is not intended to advocate such a compulsory licence for digitisation of out-of-print books. It is, however, intended to raise the issue for consideration. Enacting a compulsory licence of this kind would not be the same as allowing a corporation like Google to expropriate the copyrights of owners of out-of-print books. Any legislative decision would be based on public policy consideration and would be made by elected representatives. Rather than terms being dictated by a monopolistic market leader, the Copyright Tribunal would be the ultimate arbiter of equitable remuneration to copyright owners for the renewed use of their works. A debate on whether public policy favours creating a form of compulsory licence for out-of-print works in order to increase access would be worthwhile, regardless of the outcome.

#### Clearance and licensing reform

In order for copyright in out-of-print works to be effectively administered, through a compulsory licence or otherwise, the Parliament needs to enact serious reform in the area of copyright licensing and clearance. Even as an advocate of copyright, it is hard not to sympathise on some level with Google's impatience with the copyright clearance process. As Judge Chin noted, the process of obtaining copyright licences (both in the US, and here in Australia) can be 'painstaking' and six months after the decision in this case, Google and the Author's Guild have been unable to reach a settlement based on an 'opt-in' arrangement. The amount of resources necessary to track down rights holders and persuade them to opt in is prohibitive.

One solution that has been proposed to this problems, in Australia and in the UK, is the development of a centralised registry, a single market place or portal for copyright licensing transactions. Such a proposal is similar to the registry in the proposed Google Books settlement, except that it would be managed by a public body, and one of its goals would be to obtain licensing details in relation to as many copyright works as possible.

In the UK, Professor Ian Hargreaves recommended the establishment of a 'digital copyright exchange'.[10] Such an exchange would be a publicly governed registry, which would eventually contain licensing and contact information for all copyright protected works in the UK. Certain licensing uses could be automated, and where this was not possible, it would at least be easy to seek licensing clearances from one central source.

In Australia prior to the release of the Hargreaves Report, Professor Michael Fraser advocated a similar concept of a 'National Content Network'.[11] The Network would, like Hargreaves' copyright exchange, be a register of copyright licensing data but it would also contain links to digital content. It would be a market not only for the licences, but also for the content.

A centralised registry of this kind would go a long way to overcoming the complications of copyright 'clearance'. It would facilitate greater access to copyright material while leaving intact the fundamental principles of copyright ownership. It would be dependent, however, on ensuring compulsory registration of copyright works on the copyright exchange or network. It would also be expensive and time-consuming to build; factors which inevitably weaken political will for change. One thing is clear though: by making licensing more practicable, this reform would make copyright works more easily accessible, and reduce the tension between access and copyright.

#### Orphan Works

A related area, that also requires urgent reform, is the licensing of orphan works. Any regime for dealing with out-of-print works needs to account for the clearance of rights by copyright owners who are not readily identified.

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10 Prof Ian Hargreaves, *Digital Opportunity: A Review of Intellectual Property and Growth*, May 2011, 4.14ff.

11 Professor Michael Fraser, 'Copy Right or Wrong', *UTSpeaks*, 20 April 2010.

12 *Ibid*, see p.56ff.

13 David Brennan and Michael Fraser, 'The Use of Subject Matter with Missing Owners – Australian Copyright Policy Owners', August 2011.

The Hargreaves Report recommends a clearance procedure for orphan works, involving a diligent search for the copyright owner. It also recommends a mass licensing regime administered by the Government or registered collecting societies for works whose authors cannot be located after a diligent search.[12]

In Australia, Screenrights (the copyright collecting society for film and television) has recently commissioned a discussion paper on orphan works.[13] In that discussion paper, David Brennan and Michael Fraser propose an exception to infringement for non-commercial use of orphan works. For commercial use, the paper proposes a regime requiring a diligent search, a notice period in which a missing copyright owner may come forward, and ultimately a statutory licensing regime administered by collecting societies. The paper recommended a full review of copyright licensing before any further steps towards mass licensing are taken.

## Conclusion

Google's copying of millions of books without permission in the US is a clear expression of frustration with the current US system for obtaining copyright licensing permissions, in particular in relation to books which are out of print and orphan works. Likewise, the proposed settlement between Google and the authors and publishers who sued it represents an attempt to create a functional system for increasing digital access to copyright material. The rejection of the settlement was sensible given that the settlement went beyond the scope of the matters in issue in the case, and proposed radical changes to the administration of copyright. Nonetheless, the case highlighted that a change to the current approach is necessary. Importantly, the same problems with rights clearance exist here in Australia as in the US.

The *15th biennial Copyright Law and Practice Symposium* will take place in October 2011. The speakers at the conference will include the Director General of the World Intellectual Property Organisation, Dr Francis Gurry, the Senior Copyright Counsel for Google, William Patry, and the Australian Attorney-General, Robert McClelland. A number of speakers will also be proposing copyright reform. The Google Books settlement, and the issues that it raises, should be seen as an instructive case study for Australian copyright reformers.

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