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The Google Book Settlement And The Fair Use Counterfactual

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THE GOOGLE BOOK SETTLEMENT AND THE FAIR USE
COUNTERFACTUAL

*Matthew Sag**

ABSTRACT

The sprawling Google Book litigation began as a dispute between the search engine colossus and a variety of authors and publishers over the legality of book digitization for the purpose of indexing paper collections and making them searchable. However, through the metamorphic power of class-action litigation, a dispute over mere indexing and search has been transformed into a comprehensive agreement over the future of the book as a digital commodity. Understanding this transformation and its implications is the central ambition of this Article. It does so by comparing the pending (now amended) Google Book settlement to the most likely outcome of the litigation the settlement resolves. This counterfactual provides a useful benchmark by which to assess the effects, and thus the merits, of the Google Book Search settlement.

The Settlement differs from the predicted fair use ruling in four critical areas. First, the Settlement permits Google to engage in a significant range of uses, including the complete electronic distribution of books that go well beyond fair use. Second, the Settlement provides for initial cash payments by Google to the copyright owners and a fairly generous revenue sharing agreement, neither of which would have been required under a fair use ruling. Third, the agreement creates a new set of institutional arrangements that will govern the relationship between Google and the copyright owners covered by the Settlement. The foundations of this new institutional framework are the Settlement agreement itself, the creation of a collective rights management organization called the “Book Rights Registry” and the “Author-Publisher Procedures.” The fourth area in which the Settlement

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differs from the likely fair use outcome relates to the accessibility, commoditization, and control of orphan works.

KEYWORDS

Google, Google Book Search, Google Settlement, Authors Guild, Copyright, Fair Use, Class Action, Antitrust.

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INTRODUCTION

The sprawling Google Book litigation began as a dispute between the search engine colossus and a variety of authors and publishers over the legality of book digitization for the purpose of indexing paper collections and making them searchable. However, through the metamorphic power of class-action litigation, a dispute over mere indexing and search has been transformed into a comprehensive agreement over the future of the book as a digital commodity. Understanding this transformation and its implications is the central ambition of this Article.

The initial lawsuits posed conceptual as well as practical questions for the administration of copyright law.¹ Google's massive digitization effort aims to promote digital access to paper-based collections that are relatively inaccessible. This goal, while laudable, appears to conflict with the rights and interests of authors and publishers and their decidedly pre-digital business models. The critical question in the litigation was whether intermediate copying of the kind pursued by Google should be considered a fair use as that term of art is understood in U.S. copyright law. Thus, for a time at least, it looked as though the Google Book litigation would address fundamental questions over the relationship between copyright law and copy-reliant technology.² It is hard to imagine higher stakes: if Google had lost the fair use argument, it might well have sounded the death-knell for the legal strategy embedded in the current architecture of all Internet search technology.³

¹ In addition to the highly publicized class-action lawsuit brought by the Authors Guild, there is also another equally important lawsuit brought by the American Association of Publishers. *Author's Guild et al. v. Google, Inc.*, Civil Action No. 05-CV-8136-JES (S.D.N.Y. Sept. 20, 2005) (class action suit); *McGraw-Hill companies, Inc., et al. v. Google, Inc.*, Civil Action No. 05-CV-8881-JES (S.D.N.Y. Oct. 19, 2005) (a suit on behalf of the Association of American University Publishers, the McGraw-Hill Companies, Pearson Education, Penguin Group (USA), Simon & Schuster and John Wiley & Sons.)

² Matthew Sag, *Copyright and Copy-Reliant Technology*, 103 Nw. U.L. Rev. 1607 (2009).

³ *Id.*

On October 28, 2008, Google announced that it had reached a settlement of the class-actions brought by the Authors Guild and various publishers.⁴ The agreement circumvents the critical fair use issues at the heart of the legal dispute, but it raises in turn some fundamental questions about the administration of copyright law. Specifically, the settlement charts new territory in the resolution of copyright disputes through class-action litigation.

The settlement does much more than simply allowing Google to continue within plausible fair use parameters, i.e. digitization accompanied by search and very limited display. Instead, it transforms the Google Book universe into a vehicle for the direct electronic distribution of entire manuscripts through consumer purchases and institutional subscriptions. Controversially, the scope of works capable of electronic distribution includes not only those whose owners opt in, but rather all those whose owners fail to opt out.

The settlement was followed in short order by maelstrom of objections by foreign governments, academics, and individual authors.⁵ Finally, after the United States Department of Justice (“DOJ”) added its own considerable objections, the parties agreed to revise the deal in late 2009.⁶ The Amended Settlement Agreement, filed on November 13, 2009, addresses some, but by no means all, of the objections raised by the DOJ and other critics of the original deal.⁷ Oral arguments in the final fairness hearing regarding the Amended Settlement were held before the U.S. District Court for the Southern District of New York on February 18, 2010.⁸ At the time of writing, March 2010, no decision had been issued by the district court. If

⁴ <http://googleblog.blogspot.com/2008/10/new-chapter-for-google-book-search.html>. The Google Book settlement, announced on October 28, 2008, is still subject to court approval. The settlement as originally proposed is available at

<http://www.googlebooksettlement.com/intl/en/Settlement-Agreement.pdf>.

⁵ See Brandon Butler, *The Google Book Settlement: Who is Filing and What Are They Saying?*, September 28, 2009, www.arl.org/bm~doc/googlefilingcharts.pdf. The original Settlement prompted the filing of hundreds of objections by September 2009.

⁶ Statement of Interest by the U.S. Dept. of Justice Regarding the Proposed Settlement at 27, *Authors Guild, Inc. v. Google, Inc.*, Case No. 05 CV 8136 (DC) (S.D.N.Y. Sept. 18, 2009), available at <http://thepublicindex.org/docs/letters/usa.pdf>.

⁷ This article will refer to the “settlement” in general in lower case and to the specific Settlement Agreements in upper case (i.e. “Settlement” and “Amended Settlement”). Differences between the original Settlement Agreement and Amended Settlement Agreement will be noted where relevant.

⁸ Order, *Authors Guild, Inc. v. Google, Inc.*, No. 05 CV 8136 (DC) (S.D.N.Y. Nov. 19, 2009), available at http://thepublicindex.org/docs/amended_settlement/order_granting_prelim_approval.pdf.

the Amended Settlement is ultimately approved by the court, it will end four years of uncertainty and clear the way for Google to continue to digitize millions of copyrighted library books and further develop the Google Book Search Library Project (“GBS”). The question remains, however, should the Settlement (as amended) be approved?⁹

In both its original and amended forms, the Settlement Agreement is a complicated document with far reaching implications. The settlement is also subject to many different frames of analysis. Antitrust experts have questioned whether the market for online book searching will become more or less competitive in light of the settlement and how the broader Internet search market will be affected by the agreement.¹⁰ Class-action experts have questioned whether the Amended Settlement is procedurally fair and substantively fair, adequate and reasonable pursuant to the case law relating to Federal Rule of Civil Procedure 23 (“Rule 23”).¹¹ Librarians speculate on what the settlement portends for the future of their institutions and,

⁹ Robert Darnton, *Google & the Future of Books*, N.Y. REV. BOOKS Vol. 56, no. 2 (Feb. 12, 2009), available at <http://www.nybooks.com/articles/22281>; James Grimmelmann, *The Google Book Search Settlement: Ends, Means, and the Future of Books*, (ACS Issue Brief; NYLS Legal Stud. Res. Paper No. 08/09 #32, April 17, 2009), available at <http://ssrn.com/abstract=1388846>; James Grimmelmann, *How to Fix the Google Book Search Settlement* (J. Internet L., Vol. 12, No. 10, April 2009; NYLS Legal Studies Research Paper No. 08/09 #31, April 17, 2009), available at <http://ssrn.com/abstract=1363843>; Pamela Samuelson, *Legally Speaking: The Dead Souls of the Google Booksearch Settlement* (Comm. ACM, Vol. 52, July 2009; UC Berkeley Pub. L. Res. Paper No. 1387782, April 16, 2009) available at <http://ssrn.com/abstract=1387782>; Paul N. Courant, *Scholarship and Academic Libraries (and Their Kin) in the World of Google*, FIRST MONDAY Vol. 11, no. 8 (Aug. 7, 2006) available at <http://firstmonday.org/htbin/cgiwrap/bin/ojs/index.php/fm/article/view/1382>; Randal C. Picker, *The Google Book Search Settlement: A New Orphan-Works Monopoly?* (U of Chi. L. & Econ., Olin Working Paper No. 462) available at <http://ssrn.com/abstract=1387582>; Siva Vaidhyanathan, *My initial take on the Google-publishers settlement*, (Oct. 28, 2008) http://www.googlizationofeverything.com/2008/10/my_initial_take_on_the_googlep.php.

¹⁰ Randal C. Picker, *The Google Book Search Settlement: A New Orphan-Works Monopoly?* (July 18, 2009), available at SSRN: <http://ssrn.com/abstract=1387582> (raising several potential antitrust objections to the Settlement); Mark A. Lemley, *An Antitrust Assessment of the Google Book Search Settlement* (July 8, 2009). Available at SSRN: <http://ssrn.com/abstract=1431555> (finding antitrust objections to the Settlement generally unpersuasive). Note that while the DOJ did not reach firm conclusions about the antitrust implications of the Settlement, it nonetheless raised sufficiently serious concerns to recommend against the settlement. See DOJ Statement *supra* note 6 at 2.

¹¹ The district court has considerable discretion in determining whether settlement is fair and reasonable. *Bryan v Pittsburgh Plate Glass Co. (PPG Industries, Inc.)*, 494 F2d 799 (3d Cir. 1974). Nonetheless, the DOJ has recommended the court undertake “a particularly searching analysis” of the requirements of Rule 23 have been met in this case. See DOJ Statement *supra* note 6 at 2.

indeed, for the future of the book as a physical medium for the communication of knowledge.¹² From a social welfare perspective, the immediate question is simply whether society as a whole is better off with the settlement than without it.¹³

How then should we evaluate the proposed settlement? We could compare the Google Book Search project that will result from the settlement to some free equivalent established by the library of Congress or a similar government agency. However, mass digitization has clearly not been a priority for the Library of Congress in the past and it is unclear to what extent Google's own efforts at book digitization could actually impede subsequent digitization efforts by government or non-government actors. Alternatively, we could compare the settlement negotiated by the parties to a legislative solution that clarified rights and liabilities with respect to book digitization or perhaps created some kind of safe harbor. This would no doubt be a useful vein of inquiry; however, without a definitive legislative proposal, it is difficult to make this comparison in the abstract, and one risks comparing the actual settlement to an idealized, well-written, unbiased, capture-free legislative solution.

This Article takes a different approach, comparing the Amended Settlement to the most likely outcome of the litigation it attempts to resolve. This counterfactual is worth exploring because it allows us to concentrate on the merits of the Amended Settlement *per se*, rather than the merits of the GBS project more broadly. Many critics have been struck by the divergence between the Google Book universe envisioned under the Settlement and the initial GBS which focused on search, not distribution. The Settlement contains a set of defaults that will allow Google to make substantial displays of, and to sell electronic versions of, so-called orphan works. Neither of these uses would be permissible under fair use. Yet, striking as these differences are, there are a number of significant similarities between the likely fair use outcome and the basic framework of the settlement agreement. The similarities have been overlooked because the fair use issues in relation to the GBS have been largely misunderstood. Google was never likely to receive the courts unqualified approval for its massive digitization effort.¹⁴ Instead, the most likely outcome of the litigation was that book digitization would qualify as a fair use so long as copyright

¹² Robert Darnton, *supra* note 9.

¹³ Note that it is possible for a settlement to be both welfare improving and yet still inadequate under the criteria of Rule 23. To this extent, the legal issue for the court diverges from the basic social policy question of the costs and benefits of the Settlement.

¹⁴ See *infra*, Part I.

owners were given the opportunity to opt-out of inclusion in the book database and that opportunity was made freely available at a cost that was essentially trivial.¹⁵

Assuming that any fair use ruling would have been conditioned on the provision of an opt-out, many of the terms of the Amended Settlement do not differ significantly from the most likely outcome of the litigation. Essentially, the opt-out that fair use would likely have required has been replaced in the Amended Settlement by the ability of copyright owners to opt-out of the class-action and the significant opt-out and modification opportunities within the Settlement itself. The aspects of the Amended Settlement which allow Google to continue to operate its book search engine substantially in its current form should not be controversial; they essentially mirror the fair use counterfactual. The initial digitization of books, the processing and analysis of metadata, and the basic reporting functions of the book search engine were likely to constitute fair use, and these are also allowed under the terms of the Amended Settlement.

It is not surprising that, as soon the Settlement was announced, the Google Book debate shifted from the merits of digitization to issues of commoditization and control. These are the points of contention where the Settlement and the Amended Settlement differ sharply from the predicted fair use ruling.

This Article is organized as follows. Part I establishes the counterfactual basis for comparison and assesses the extent to which Google's assertion of fair use would have trumped the copyright owners' claim of infringement. Part II reviews the essential features of the Amended Settlement Agreement in considerable detail. Part III then compares the Amended Settlement to the likely outcome under the fair use doctrine. Addressing these three issues does not, by itself, answer the ultimate question of whether the Amended Settlement should be approved. But hopefully it brings us several steps closer to that objective. It is, in any event, essential pre-requisite to any serious analysis of the merits of the Settlement.

¹⁵ See *infra*, Part I-1 and Part I-4. Some commentators will surely disagree that this is the *most* likely outcome. To those skeptics I would say that, at a minimum, it is the most favorable fair use decision for which Google could reasonably have hoped.

PART I THE COUNTERFACTUAL—WHAT IF THERE WERE NO SETTLEMENT?

A. *The Google Book Search Library Project*

The Google Book Search Library Project is an attempt to build a comprehensive search engine that will allow full text searching inside millions of books.¹⁶ Google has been obtaining the raw data for this search engine in electronic form from a variety of book publishers since 2004.¹⁷ However, because most books published over the last few hundred years are not available in electronic form, Google has also been working with the various libraries to digitize their paper collections shelf by shelf, page by page—a painstaking, time-consuming, and expensive process.¹⁸

Once a book is digitized, Google can treat it the same way it treats an HTML webpage. Google stores the digitized volumes on its computers and performs intense data analysis in order to generate what is essentially a library card catalogue system for the digital age.¹⁹ Once digitized and analyzed, a book is then available for reporting in response to user search queries. In its current form, Google book search reports either limited bibliographic information about a book, small snippets of text from a book, a limited preview which displays some substantial sections of a book, or, if a book is not subject to copyright in United States, it makes the entire book available for digital download.²⁰

Standing alone, the standard way that Google reports search results is unlikely to amount to copyright infringement for two principal reasons. First, the basic bibliographic information that Google provides such as title, author and subject matter, are all clearly uncopyrightable facts. Through the idea-expression distinction, copyright law protects the expressive elements of the author's work while guaranteeing subsequent authors the necessary breathing space to make their own contributions by adding to, re-using, or re-interpreting the facts and ideas embodied in the original work.²¹

¹⁶ Bob Thompson, *Search Me?; Google Wants to Digitize Every Book. Publishers Say Read the Fine Print First*, WASHINGTON POST, August 13, 2006.

¹⁷ See, Edward Wyatt, *Google Adds Library Texts to Search Database*, N.Y. TIMES, Nov. 3, 2005, at C11.

¹⁸ *Id.* Note that this Article does not address whether Google's practice of making digitized versions of books available to participating libraries could itself amount to copyright infringement.

¹⁹ GBS has both advantages and disadvantages compared to a traditional library catalogue.

²⁰ Google, *What you'll see when you search on Google Book Search*, available at <http://print.google.com/googleprint/screenshots.html>.

²¹ 17 U.S.C. § 102(b) provides: "In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept,

Copyright law clearly distinguishes between facts and their expression and it is well settled that data is not subject to copyright protection: one can extract and reproduce facts, names and dates from a newspaper article, or ideas and processes from an instructional text, without infringing the author's copyright.²²

Second, the very brief snippets or quotations that Google displays are in all likelihood, too brief, too fragmented, and too insubstantial to constitute a reproduction of an entire copyrighted book. Although the Copyright Act prohibits certain forms of reproduction, the actual threshold of infringing reproduction is left undefined by the Act.²³ Thus, the question of how much copying is too much turns on common law tests of what is usually referred to as "substantial similarity."²⁴ Where a fragment of the original has been copied exactly, courts determine whether the copying amounts to infringement "by considering the qualitative and quantitative significance of the copied portion in relation to the plaintiff's work as a whole."²⁵ The snippets of text Google displays in response to a search query are extremely unlikely to cross over this threshold of substantiality. Google Book also provides extended preview displays of various books; however, these are all subject to express licenses from the relevant copyright owners, usually in through one of Google's Publisher Partner Agreements.²⁶ Google's book search engine also offers complete access to works known to be in the public domain.²⁷

B. Copyright Infringement or Fair Use

Lawyers for the Authors Guild and the plaintiff publishers have argued that even if the search results which Google reports to users do not violate the Copyright Act—a point they do not concede—scanning millions of

principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such a work."

²² Feist Publ'ns, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340 (1991); Baker v. Selden, 101 U.S. 99 (1880).

²³ 17 U.S.C. § 106 (setting out the exclusive rights of the copyright owner).

²⁴ Meaning protectable similarity, not merely the similarity that may prove that work B was actually copied from work A. See, *Laureyssens v. Idea Group, Inc.*, 964 F.2d 131, 140 (2d Cir. 1992); *Tufenkian Import/Export Ventures, Inc. v. Einstein Moomjy, Inc.*, 338 F.3d 127, 131 (2d Cir. 2003).

²⁵ *Newton v. Diamond*, 388 F.3d 1189, 1195 (9th Cir. 2004) (citing *Worth v. Selchow & Righter Co.*, 827 F.2d 569, 570 n. 1 (9th Cir. 1987); *Jarvis v. A&M Records*, 827 F. Supp. 282, 289-90 (D.N.J. 1993); 4 *Nimmer* § 13.03[A][2], at 13-47 to 48).

²⁶ Google, <https://books.google.com/partner/>

²⁷ Google, *What you'll see when you search on Google Book Search*, available at <http://print.google.com/googleprint/screenshots.html>.

copyrighted library books in order to build that search engine in the first place certainly does.²⁸ The copyright owner has an exclusive right to reproduce his or her work in copies under the Copyright Act.²⁹ There is no doubt that digitally scanning a book and storing that scan on a computer hard drive where it can be retrieved and reprinted amounts to making a copy in the ordinary sense of the word.³⁰ Google's primary counterargument to this charge of infringement is that its new technology is protected by the fair use doctrine.³¹

The fair use doctrine plays a vital role balancing "the interests of authors and inventors in the control and exploitation of their writings and discoveries on the one hand, and society's competing interest in the free flow of ideas, information, and commerce on the other hand."³² Fair use is a flexible standard that limits the scope of copyright protection and renders certain actions relating to copyrighted works non-infringing.³³ Accordingly, incidental copying in the service of quotation, criticism, illustration, comment, parody, and simple clarification have long been recognized as fair use.³⁴

The balancing function of the fair use doctrine is critically important when the copyright owner withholds permission for reasons that we as a society find unacceptable, such as to stifle parody, criticism, or social debate.³⁵ However, the doctrine is not limited to the suppression of dissenting opinions. Fair use is necessary even when copyright owners are purely commercially motivated because licensing and other private ordering mechanisms do not provide a solution for high exchange costs, high information costs and strategic behavior. The fair use doctrine is

²⁸ See, Author's Guild et al. v. Google, Inc., First Amended Class Action Complaint, paragraphs 3 and 4.

²⁹ 17 U.S.C. § 106(1)(the exclusive right to reproduce the copyrighted work in copies).

³⁰ "Copies" are defined under the Act as "material objects ... in which a work is fixed... and from which the work can be perceived, reproduced, or otherwise communicated." 17 U.S.C. § 101.

³¹ Answer, Jury Demand, and affirmative defenses of defendant Google Inc. ¶ 19, Authors Guild v. Google Inc., No. 05-CV-8136 (S.D.N.Y. Nov. 30, 2005); Answer, Jury Demand, and affirmative defenses of defendant Google Inc. ¶ 4, McGraw-Hill Cos., Inc. v. Google Inc. No. 05-CV-8881 (S.D.N.Y. Nov. 8, 2005).

³² Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 429 (1984).

³³ 17 U.S.C. § 107.

³⁴ See, *Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law* (1961).

³⁵ *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994); *SunTrust Bank v. Houghton Mifflin Co.*, 268 F.3d 1257 (11th Cir. 2001).

particularly important in situations where the costs of obtaining permission outweigh the benefits of the use.³⁶

Judicial application of the fair use doctrine is often regarded as highly fact-specific and unpredictable.³⁷ Nevertheless, courts predictably frame their fair use decisions in terms of four non-exhaustive statutory factors. These factors are (1) the purpose and character of the defendant's use; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work.³⁸

1. The Purpose and Character of the Use

The first fair use factor is “the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes.”³⁹ The case law under the first factor is dominated by two considerations: whether the use is transformative and whether the use is commercial.⁴⁰ According to the Supreme Court's most recent fair use decision, *Campbell v. Acuff-Rose*, the first factor turns primarily on “whether and to what extent the new work is ‘transformative.’”⁴¹ A transformative use is one that, compared to the original creation, “adds something new, with a further purpose or different character.”⁴² Transformative uses are protected by the fair use doctrine because they lead

³⁶ Wendy Gordon, *Fair Use as Market Failure: A Structural and Economic Analysis of the Betamax Case and Its Predecessors*, 82 COLUM. L. REV. 1600 (1982).

³⁷ See *Dellar v. Samuel Goldwyn, Inc.*, 104 F.2d 661 (2d Cir. 1939) (describing fair use as one of the most troublesome doctrines in the whole law of copyright). This unpredictability may be overstated. See, Pamela Samuelson, *Unbundling Fair Uses*, 77 FORDHAM L. REV. 2537 (2009).

³⁸ 17 U.S.C. § 107. In reality, the Section 107 factors are neither complete, nor are they individually or cumulatively determinative. Even the notion that there are four factors is misleading: beneath the statutory factors lies an amalgamation of interconnected meta-factors, sub-factors and presumptions. *Bond v. Blum*, 317 F.3d 385, 394 (4th Cir. 2003) (“These factors are not meant to be exclusive, but rather illustrative, representing only general guidance about the sorts of copying that courts and Congress most commonly have found to be fair uses.”) (citations omitted); *Universal City Studios, Inc. v. Sony Corp. of America*, 480 F. Supp. 429, 448 (C.D. Cal. 1979) (“The factors are illustrative, not definitive.”)

³⁹ 17 U.S.C. § 107(1).

⁴⁰ See generally, Barton Beebe, *An Empirical Study of U.S. Copyright Fair Use Opinions, 1978-2005*, 156 U. PA. L. REV. 549 (2008).

⁴¹ *Campbell v. Acuff-Rose Music*, 510 U.S. 569, 579 (1994). See also, Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1111 (1990).

⁴² *Id.*

to the creation of new works that do not substitute for the author's original expression.⁴³ For example, parodies are considered to be transformative because they shed light on an existing work while at the same time creating something new.⁴⁴ A claim to transformative use is most obvious when the work itself is literally transformed; however, in many cases courts have held that other uses that do not literally change the work are nonetheless sufficiently different to constitute fair use.

Google can point to significant precedents in relation to similar technology where the courts have found that intermediate copying constitutes fair use.⁴⁵ In a recent decision about plagiarism detection software, the Fourth Circuit held that copying and archiving student term papers was transformative because the papers were used “for an entirely different purpose, namely, to prevent plagiarism and protect the students’ written works from plagiarism.”⁴⁶ In several reverse engineering cases, courts have held that copying computer software in order to discover functional compatibility requirements is a fair use.⁴⁷ Likewise, in the context of visual search engines, the Ninth Circuit has also held that using thumbnail versions of copyrighted photographs as part of a menu of search results is transformative and constitutes a fair use.⁴⁸ In *Perfect 10. v. Amazon.com*, the Court of Appeals concluded that the use of these thumbnail photos may even be “*more transformative* than a parody because a search engine provides an entirely new use for the original work, while a parody typically has the same entertainment purpose as the original work.”

There are good reasons to think that this view of transformative use would prevail in the Second Circuit where the Google Book case is being litigated. A number of significant cases from that circuit have declined to find a transformative use when the defendant has done no more than locate a new

⁴³ *Id.* at 579.

⁴⁴ *Id.*

⁴⁵ See *infra* notes 46 to 48.

⁴⁶ *A.V. v. iParadigms, LLC*, 562 F.3d 630, 640 (4th Cir. 2009).

⁴⁷ *Sega Enterprises Ltd. v. Accolade, Inc.*, 977 F.2d 1510 (9th Cir. 1993); *Sony Computer Entertainment, Inc. v. Connectix Corp.*, 203 F.3d 596, 607 (9th Cir. 2000). In *Sega Enterprises Ltd. v. Accolade, Inc.*, the Court of Appeals for the Ninth Circuit held that “Accolade copied Sega’s code for a legitimate, essentially non-exploitative purpose” made its use essentially fair under the first factor. *Sega* 977 F.2d 1522-23. In *Sony Computer Entertainment, Inc. v. Connectix Corp.*, a case with similar facts, the court concluded that the defendant’s Virtual Game Station was transformative because it created a new gaming platform and was itself “a wholly new product”. *Sony Computer Entertainment, Inc. v. Connectix Corp.*, 203 F.3d 596, 606-607.

⁴⁸ *Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 821 (9th Cir. 2003); *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701, 721 (9th Cir. 2007)

way to exploit the creative virtues of the original work.⁴⁹ However, the Second Circuit has recognized the need to extend fair use beyond artistic and critical transformations to situations where the defendant uses a copyrighted work in a different context to serve a fundamentally different function than the original.⁵⁰ Moreover, although the most relevant search engine precedents do not hale from the Second Circuit, both *Amazon* and *Kelly* have been cited by U.S. district courts in the Second Circuit with apparent agreement on this very point.⁵¹

If the Google book search engine is transformative, does it matter that it is also commercial? The short answer is “no.” In its 1994 decision of *Campbell v. Acuff-Rose*, the United States Supreme Court clearly rejected the notion that commerciality by itself had any “hard presumptive significance.”⁵² Instead, the Court adopted a sliding scale to commercial use, arguing that because “the goal of copyright, to promote science and the arts, is generally furthered by the creation of transformative works... the more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use.”⁵³

There are countless examples of commercial fair use. There are also a substantial number of cases where commercial use by an Internet search engine was deemed to be fair use in analogous circumstances. In *Kelly v. Arriba Soft Corp.*, an image search case preceding *Perfect 10*, the Ninth Circuit ruled that the replication of copyrighted images in thumbnails would

⁴⁹ See e.g., *Davis v. The Gap*, 246 F.3d at 174 (use of plaintiff’s eyewear in a clothing advertisement not transformative because it was “worn as eye jewelry in the manner it was made to be worn”); *Castle Rock Entm’t*, 150 F.3d at 142-43 (Seinfeld quiz book not transformative when its purpose was to repackage the television show Seinfeld to entertain Seinfeld viewers); *Ringgold v. Black Entm’t Television, Inc.* 126 F.3d 70, 79 (2d Cir. 1997) (copy of plaintiff’s painting used as decoration for a television program’s set not transformative because it was used for “the same decorative purpose” as the original).

⁵⁰ *Bill Graham Archives v. Dorling Kindersley Ltd.*, 448 F.3d 605, 609-610 (2d Cir. 2006) (finding transformative use when defendant’s purpose in using copyrighted concert poster was “plainly different from the original purpose for which they were created” and “a purpose separate and distinct from the original artistic and promotional purpose for which the images were created”).

⁵¹ See *Warner Bros. Entm’t Inc. v. RDR Books*, 575 F. Supp. 2d 513, 541 (S.D.N.Y. 2008); *S.A.R.L. Louis Feraud Int’l v. Viewfinder*, 2008 U.S. Dist. LEXIS 103265 (S.D.N.Y. Dec. 19, 2008).

⁵² *Id.* at 585.

⁵³ *Id.* at 579. As Barton Beebe notes, while commentators have assumed that the commerciality presumption was finally discarded in *Campbell*, it remains a tenacious meme in the court of public opinion. See, Barton Beebe, *An Empirical Study of U.S. Copyright Fair Use Opinions, 1978-2005*, 156 U. Pa. L. Rev. 549, 598 (2008).

not substitute for the full-sized images.⁵⁴ The court in *Perfect 10* likewise concluded that Google's thumbnail-representations were unlikely to interfere with the market for Perfect 10's original expression.⁵⁵ The court expressly rejected the application of any commerciality inference or presumption noting that "this presumption does not arise when a work is transformative because market substitution is at least less certain, and market harm may not be so readily inferred."⁵⁶ In sum, the commercial nature of Google's service proves to be little more than a red herring in relation to the first factor.

Google's decision to give authors the ability to opt-out of its book search engine should also have a significant impact on the "purpose and character of the use" in any fair use analysis. This opt-out flips the usual default rule from exclusion to the inclusion. In essence, it allows Google to continue scanning books and incorporating them into the book search engine until it receives an instruction to the contrary from the copyright owner. Without such an opt-out mechanism, clearing rights for Google's book search engine would prove to be a very expensive proposition indeed.

How expensive? There are an estimated 18 million books in the combined collections of the libraries participating in the Google Book project. Approximately 10.5 million of these books are unique—i.e. they are only held by one of the participating libraries.⁵⁷ It is estimated that slightly less than 20% of these works were published before 1923 and, thus, present no copyright issues.⁵⁸ That leaves about 8.4 million books with some potential copyright constraint. Even if the average clearance cost (the cost of determining the status of the book, finding the relevant copyright owners and negotiating a license) were a mere \$200, the total cost of rights clearance before any royalties have been paid would be \$1.68 billion.⁵⁹

This explains why the opt-out is beneficial for Google, but how exactly does the opt-out make Google's fair use case stronger? The first thing to understand here is that opt-outs are not that unusual. They are in fact common in a number of scenarios and particularly characteristic of copy-

⁵⁴ *Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 815 (9th Cir. 2003).

⁵⁵ *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701, 724 (9th Cir. 2007).

⁵⁶ *Id.* (citing *Campbell v. Acuff-Rose Music*, 510 U.S. at 591).

⁵⁷ Brian Lavoie, Lorcan Dempsey, and Lynn Silipigni Connaway. *Anatomy of Aggregate Collections: The Example of Google Print for Libraries*. D-Lib Magazine 11, no. 9 (2005), available at <http://www.dlib.org/dlib/september05/lavoie/09lavoie.html>.

⁵⁸ *Id.*

⁵⁹ For an elaboration of these potential costs, see *Sag*, *supra* note 2.

reliant technologies.⁶⁰ Traditional Internet search engines must navigate and assimilate information from literally billions of webpages. In theory, the software programs that crawl across the Internet could query every page for permission to enter, permission to copy, and permission to include in a search engine. If this were the case, a large number of Web pages would probably post the appropriate invitations in their HTML code, however, a large number would probably fail to do so through ignorance or indifference. In actuality, the Internet default rule of openness prevails, and the burden of opting out of search engine inclusion, indeed of accessibility in general, is placed upon those with minority preferences. This state of affairs is generally accepted because those who wish to opt-out are not substantially inconvenienced. Indeed, it only takes a few lines of code to activate the “robots exclusion protocol,” which is the Internet equivalent of a “no trespassing” sign.⁶¹ The robots exclusion protocol allows the website controller to exclude search engine robots altogether or to specifically tailor their permissions to suit their needs.⁶²

Why should the choice between opt-in and opt-out make any difference at all? In a Coasian world (one with no transaction costs) the choice between an opt-in and opt-out default is entirely inconsequential.⁶³ As every student of the Coase Theorem knows, in a world without transaction costs, the specific allocation of costs and benefits is unimportant because individuals will bargain to an efficient outcome regardless of their initial entitlement.⁶⁴ Accordingly, if three out of four authors prefer to be included in the Google book search engine and one in four prefers not to be, then either 75% of authors will opt-in, or 25% of authors will opt-out.

However, as every student of the Coase Theorem should also know, the absence of transactions costs is merely a thought experiment—in actuality, reallocation and enforcement are often very costly.⁶⁵ Thus, in the real world, opt-out mechanisms such as the robots exclusion protocol can be extremely important in resolving large transaction costs problems. Opt-out mechanisms should not be seen as displacing private ordering: on the contrary, they are the means of private ordering. When transaction costs are

⁶⁰ *Id.* (Identifying and discussing the significance of the emergence of copy-reliant technology).

⁶¹ *Id.*

⁶² *Id.*

⁶³ Ronald H. Coase, *The Problem of Social Cost*, 3 J.L. & ECON. 1 (1960).

⁶⁴ *Id.*

⁶⁵ See RONALD H. COASE, *ESSAYS ON ECONOMICS AND ECONOMISTS* 11 (1994). (“I tend to regard the Coase Theorem as a stepping stone on the way to an analysis of an economy with positive transaction costs.”)

otherwise high, low-cost opt-out mechanisms can play a critical role in preserving a default rule of open access while still allowing individuals to have their preferences respected.⁶⁶

In the context of the Google Book project, it seems likely that the opt-out makes the “purpose and character” of the use more fair, subject to three conditions: (i) a majority of copyright owners either favor or do not object to inclusion in the search engine; (ii) the expected cost of proactively obtaining permissions is very high; and (iii) the costs of taking advantage of the opt-out are sufficiently small such that the autonomy of the minority is preserved. It cannot be said with certainty that Google would have been successful in establishing these three elements, however it seems more likely than not.

2. The Nature of the Copyrighted Work

On its face, the second fair use factor, “the nature of the copyrighted work,” suggests that “some works are closer to the core of intended copyright protection than others, with the consequence that fair use is more difficult to establish when the former works are copied.”⁶⁷ In general, the allowable scope of fair use is thought to be greater with respect to published works and factual or informational works, and narrower with regard to unpublished works and more expressive and creative works. The first of these distinctions appears to favor Google, as the overwhelming majority of library books are published.⁶⁸ As to the second distinction, it is obvious that the books being scanned by Google will occupy every conceivable point on the continuum between informational and expressive. Thus, this factor could tilt in Google’s favor in some cases, while being neutral or adverse in others.

Nonetheless, the second factor was never likely to be particularly instructive for a court considering Google’s assertion of fair use. The Supreme Court has noted that the second factor is rarely “likely to help much in separating the fair use sheep from the infringing goats in a parody case.”⁶⁹ Subsequent decisions have confirmed that the utility of the second factor is limited where the creative work is being used for a transformative purpose.⁷⁰ Like

⁶⁶ Sag, *supra* note 59.

⁶⁷ Campbell v. Acuff-Rose Music, 510 U.S. 569, 586 (1994).

⁶⁸ NXIVM Corp. v. Ross Inst., 364 F.3d 471, 480 (the parties did not dispute that because the copyrighted work was unpublished, the second fair-use factor favored the plaintiffs).

⁶⁹ Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 586 (1994).

⁷⁰ Bill Graham Archives v. Dorling Kindersley Ltd., 448 F.3d 605, 612. See also, Blanch v. Koons, 467 F.3d 244, 257 (2d Cir. 2006).

so many other cases, the significance of the second factor would probably have been overwhelmed by other considerations.

3. Amount and Substantiality

The third factor that a court must consider in any fair use determination is “the amount and substantiality of the portion used [by the defendant] in relation to the copyrighted work as a whole.”⁷¹ The question of ‘how much copying is too much’ is beguilingly simple. In truth, the third factor cannot be reduced to any simple mechanical quantification. There is simply no magic number in fair use cases because the extent of permissible copying varies according to the purpose of the copying and the effect of the copying on the rightsholder.⁷² The key inquiry under the third factor is not simply how much of the copyright owner’s work was used by the defendant, but rather what proportion of the work’s expressive value had been appropriated.⁷³ Transformative uses in general, and non-expressive uses in particular, do not tend to substitute for the value of the author’s original expression, and are thus regarded favorably under the third factor.

Google can point to a significant body of precedent where total literal copying has been accepted as fair use. For example, in the seminal fair use case of *Sony v. Universal*, the Supreme Court held that consumer time shifting of broadcast television constituted a fair use in spite of the fact that it clearly required complete as opposed to partial copying.⁷⁴ Likewise, the Ninth Circuit has suggested that converting music files from a compact disc format to MP3 files also constitutes a fair use.⁷⁵ In the recent case of *Bill Graham Archives v. Dorling Kindersley*, the Second Circuit found that the complete reproduction of various Grateful Dead concert posters on a reduced scale as part of an illustrated Grateful Dead biography was protected by the fair use doctrine.⁷⁶ Reverse engineering cases such as *Sony*

⁷¹ 17 U.S.C. § 107(3).

⁷² *Campbell v. Acuff-Rose Music*, 510 U.S. 569, 587 (1994).

⁷³ Matthew Sag, *God in the Machine, A New Structural Analysis of Copyright’s Fair Use Doctrine*, 11 MICH. TELECOMM. TECH. L. REV. 381 (2005). A admittedly, this can render the test quite elastic, witness the Supreme Court’s decision in *Harper & Row v. Nation Enterprises* finding 300 words of a Presidential biography substantial. *Harper & Row v. Nation Enterprises* 471 U.S. 539 (1985).

⁷⁴ *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 449-450 (1984).

⁷⁵ *Recording Indus. Ass’n of Am. v. Diamond Multimedia Sys.*, 180 F.3d 1072 (9th Cir. 1999). See also, *Lewis Galoob Toys, Inc. v. Nintendo of Am., Inc.*, 964 F.2d 965, 971 (9th Cir. 1992).

⁷⁶ *Bill Graham Archives v. Dorling Kindersley Ltd.*, 448 F.3d 605, 613 (2d Cir. 2006) (holding that total copying “does not necessarily weigh against fair use because copying the entirety of a work is sometimes necessary to make a fair use of the image”). See also

v. *Connectix* and *Sega v. Accolade*, and Internet search engine cases such as *Kelly v. Arriba Soft*, *Perfect 10 v. Amazon.com* and *Field v. Google* are even more favorable for Google. In each of these cases, the relevant court determined that the total literal copying required by the search engine technology at issue was justified under the fair use doctrine. These cases appear to be exactly on point with respect to Google's book search engine.

4. Market Effect

The fourth fair use factor is “the effect of the use upon the potential market for or value of the copyrighted work.”⁷⁷ To determine whether Google's massive book scanning enterprise is likely to put a dent in the market for or value of the works being digitized necessitates defining *a priori* precisely what the market constitutes. If this case had gone to trial on the issue of copyright infringement, Google would have no doubt argued that its library project, far from harming copyright owners, would benefit them enormously by stimulating demand for their books. The author and publisher plaintiffs may not dispute this, but they would almost certainly argue that the digital library Google is attempting to create constitutes a viable new market for their works.

How would a court determine if the scanning required to stoke the fires of Google's book search engine is part of the copyright market belonging to authors and publishers? Copyright owners have often claimed that new opportunities created by technological change are part of the intrinsic value of, or potential future market for, their works.⁷⁸ Sometimes these assertions are successful—e.g., *A&M Records, Inc. v. Napster, Inc.*, —and sometimes they are not—e.g. *Sony Corporation of America v. Universal City Studios, Inc.*, *Recording Industry Association of America v. Diamond Multimedia Systems*.⁷⁹

As a conceptual point, it is self-evident that the “potential market” referred to in the statute cannot be taken to mean every possible use of the

Mattel Inc. v. Walking Mt. Prods., 353 F.3d 792, 803 n.8 (9th Cir. 2003) (holding that “entire verbatim reproductions are justifiable where the purpose of the work differs from the original”), *Nunez v. Caribbean Int'l News Corp.*, 235 F.3d 18, 24 (1st Cir. 2000) (concluding that to copy any less than the entire image would have made the picture useless to the story);

⁷⁷ 17 U.S.C. § 107(4).

⁷⁸ James Gibson, *Risk Aversion and Rights Accretion in Intellectual Property Law*, 116 YALE L.J. 882, 947-51 (2007).

⁷⁹ *A&M Records v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001); *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984); *Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys.*, 180 F.3d 1072 (9th Cir. 1999).

copyrighted work. If every use is part of the copyright owner's market, then every claimed fair use has a potential market effect and the inquiry becomes meaningless.⁸⁰ The argument simply proves too much—the law continues to draw a distinction between that which might be licensed and that which must be licensed.⁸¹ A copyright owner cannot prove a market effect by demonstrating that if it wins the lawsuit, the defendant, and people like the defendant, will have to pay for permission. Likewise, a defendant cannot prove that there is no market effect by demonstrating that if it wins the lawsuit it will be under no obligation to pay the copyright owner, and thus there will be no market for the particular use at issue. This kind of circular logic proves nothing for either party. The fact is, to determine whether there is a market effect, a court must determine whether the use in question is something that falls within the legitimate sphere of copyright owner control or not.⁸² Courts will look to previous fair use cases to make this determination.

Although the fair use doctrine is frequently derided as unpredictable, there are actually a number of clear principles that emerge from the case law and are relevant to this analysis. It is clear that the rights of the copyright owner are not strictly limited by past exploitation.⁸³ In other words, just because the copyright owner has not ventured into a particular market in the past, does not necessarily limit them from doing so in the future. It is also well established that speculative assertions of impending harm are insufficient.⁸⁴ Perhaps most importantly, there is now a rich body of case law illustrating that the kinds of market effects courts will recognize are limited in several important ways.

⁸⁰ *American Geophysical Union v. Texaco Inc.*, 60 F.3d 913, 930, n.17 (2d Cir. 1994) (“were a court automatically to conclude in every case that potential licensing revenues were impermissibly impaired simply because the secondary user did not pay a fee for the right to engage in the use, the fourth fair use factor would *always* favor the copyright holder.” (citations omitted)). See also, Leval, *supra* note 41, at 1124 (“[b]y definition every fair use involves some loss of royalty revenue because the secondary user has not paid royalties”).

⁸¹ See, *Field v. Google Inc.*, 412 F. Supp. 2d 1106, 1121 (D. Nev. 2006) (noting that “The Supreme Court has explained that the fourth fair use factor is not concerned with such syllogisms.”) (citing *Campbell v. Acuff-Rose Music*, 510 U.S. 569, 592 (1994)). See also, *Religious Tech. Ctr.*, 907 F. Supp. at 1378 n.25; *Mattel Inc. v. Walking Mt. Prods.*, 353 F.3d 792, 806 (9th Cir. 2003).

⁸² *Sag*, *supra* note 73.

⁸³ *A&M Records v. Napster, Inc.*, 239 F.3d 1004, 1017 (9th Cir. Cal. 2001) (noting the copyright owner's right to develop alternative markets).

⁸⁴ *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 452 (1984).

The first limiting principle is simply likelihood: “[t]he market for potential derivative uses includes only those that creators of original works would in general develop or license others to develop.”⁸⁵ It is unlikely that authors will license political opponents, potential critics, or would-be parodists to make any substantial use of their works.⁸⁶ It is also unlikely that a market for a particular use will emerge if the costs of seeking permission outweigh the potential benefits of that use.⁸⁷ In either case, because no market is likely to emerge, there is no cognizable market effect. As has already been alluded to, Google would probably contend that there could not be a market for copyright permissions in the accumulation of data for a comprehensive book search engine, because the costs of proactively clearing rights are simply too high.

The second limiting principle relates to the idea-expression distinction. As the reverse engineering cases aptly demonstrate, a copyright owner has no protectable interest in preventing the copying of unprotectable expression.⁸⁸ Google would likely argue that, although it is copying expressive works to build its library database, its use of those works is entirely non-expressive in the capture and processing phases—the works are not copied for their expressive content, but rather to create a vast catalogue of metadata which enables the search engine to operate. As I have argued elsewhere, this kind of “non-expressive use” may well constitute its own distinct category of fair use.⁸⁹

The relevant third limiting principal is that transformative uses do not usually have an effect on either the market for, or the value of, the copyrighted work.⁹⁰ Google would no doubt assert that its use is highly transformative because it provides an entirely new use for the original works and is transforming concrete text into abstract metadata. As the Second Circuit noted in the *Bill Graham* case, copyright owners may not

⁸⁵ *Campbell v. Acuff-Rose Music*, 510 U.S. 569 (1994).

⁸⁶ *Id.* at 591-592.

⁸⁷ Gordon, *supra* note 22.

⁸⁸ Sag, *supra* note 73.

⁸⁹ Sag, *supra* note 59.

⁹⁰ *Castle Rock Entertainment v. Carol Publ'g Group*, 150 F.3d 132, 145 (2d Cir. N.Y. 1998) (citing *Campbell*, 510 U.S. at 591) “the more transformative the secondary use, the less likelihood that the secondary work substitutes for the original.” See also, *Bill Graham Archives v. Dorling Kindersley Ltd.*, 448 F.3d 605, 614-15 (2d Cir. 2006).

preempt exploitation of transformative markets by simply charging licenses for what would otherwise be fair use.⁹¹

Even assuming that the court were to conclude that the scanning for inclusion in a book search database was fairly within the copyright owners' notional market, the court would still need to consider the implications of the opt-out mechanism with which Google has promised to comply. If authors have the right to determine whether their works become part of the book search engine, then the value of that right for each author equates to the compensation the author could demand in return for not withholding his or her works. For an individual book, the value of the right is determined by the contribution that book makes to the search engine as a whole. With this conception of the market in mind, Google could quite plausibly maintain that a low-cost opt-out measure effectively negates any potential adverse market effect. After all, whether the system is opt-in or opt-out, the author should be able to realize the value of an individual work by offering to opt-in, or offering not to opt-out.⁹²

If a low-cost opt-out makes no difference, why would any copyright owner object to the opt-out? There are two principle reasons. First, opting out may not be a low-cost proposition after all. The process might be difficult and time-consuming; it might also lead to uncertainty as to what other systems an author or copyright owner should be opting out of. In other words, even with zero monetary costs, the opt-out might impose substantial implementation and information costs. In the context of the Google Book Settlement, many publishers have apparently complained that it is prohibitively expensive for them to determine if they actually own the rights in a book in order to be able to opt in or out.⁹³

Second, as the class-action lawsuit illustrates, an opt-in regime gives active copyright owners the power to object on behalf of all copyright owners, a power which can be used to extract rents far exceeding the value of those copyright owners' individual contributions. The Authors Guild represents around 8000 U.S. authors, and yet it objects to Google's digitization project on behalf of millions of authors worldwide. An opt-in regime empowers

⁹¹ *Bill Graham Archives v. Dorling Kindersley Ltd.*, 448 F.3d 605, 615 (2d Cir. 2006). Note that one can accept the reasoning of the *Bill Graham* case without necessarily endorsing its application to the facts.

⁹² The assumption that the opt-out is truly low-cost in every salient dimension is essential to this conclusion.

⁹³ Thanks to Peter B. Hirtle, Senior Policy Advisor, Scholarly Resources and Special Collections, Cornell University Library for this observation.

copyright owners to act strategically to extract some of the surplus value in a joint enterprise contributed by authors who would most likely consent to the use of their works if asked or the independent investment of the defendant. While this might be a legitimate commercial strategy, it seems doubtful that a copyright owner's inability to extract rents beyond the value of her own contribution is cognizable as a relevant market harm under the fourth factor. Although the analysis of the fourth factor is complicated, the balance of the argument seems to weigh in Google's favor.

5. The Likely Fair Use Outcome

Fair use is a flexible doctrine and the courts have shown a willingness to use it adaptively in the past to enable the emergence of new technology. Google has a number of strong fair use arguments within the traditional four factor framework surveyed above. Google's position becomes stronger on the assumption that any fair use ruling would be conditioned upon the effective provision of a relatively low-cost opt-out mechanism for copyright owners who do not want their works to be part of the Google Book database. It seems likely that if the court were to rule in Google's favor, that ruling would be subject to this condition. Of course, the court could simply rule that digitizing library books in order to extract metadata constitutes fair use with or without the opt-out—but a narrower ruling confined to the specific facts of the case is usually more likely than a broad one.

No matter how strong Google's fair use argument may have been, the truism remains that the only certainty in litigation is that it is expensive. Google was risking a substantial possibility of statutory damages in addition to its sunk costs in relation to the GBS project. In addition, an adverse precedent in relation to book search had the potential to undermine other key legal precedents in Google's favor with respect to its core search engine business.⁹⁴ In short, regardless of the strength of Google's fair use argument there was a sound business case for settling with the plaintiff authors and publishers.

⁹⁴ Mark Lemley commented to the Wall Street Journal: "The consequences of a loss for Google are enormous. If the publishers were to actually prevail in this lawsuit, I think it would be essentially impossible to maintain a search engine." See Mike Madison "This is not only bet-the-company litigation, it's bet-the-Internet litigation." Google Print II, Posted by Mike Madison · October 20th, 2005 at <http://madisonian.net/2005/10/20/google-print-ii/>.

PART II AN OVERVIEW OF THE GOOGLE BOOK SETTLEMENT AGREEMENT,
AS AMENDED

The original Settlement Agreement was a complicated document consisting of 141 pages, 160 definitions, 17 separate articles and 116 separate clauses, not including the substantial provisions contained within the 15 attachments.⁹⁵ The agreement was neither simplified nor shortened by the amendment process. Any attempt to summarize such an unwieldy document in short compass must necessarily be incomplete; nonetheless, the following sections attempt to sketch out the most significant aspects of the agreement.

Google makes several significant financial concessions under the Amended Settlement, including one-time payments of over \$100 million dollars and a revenue sharing agreement. In return for these concessions, Google receives the right to continue to operate its book search engine, substantially in its current form. More importantly, the settlement establishes a platform for Google to explore substantial new revenue possibilities in cooperation with authors and publishers. The Amended Settlement provides for extensive book previews to be made available through Google Books. It also envisages new products and services such as consumer electronic book purchases, institutional subscriptions, and various additional revenue opportunities that remain subject to negotiation.⁹⁶ These new features take the database well beyond the realm of mere indexing and identification that enhance the value of paper collections: some of these revenue models will directly substitute for paper-based mediums.

The agreement establishes a set of new institutional arrangements governing the relationship between Google and the class-members. The three pillars of these new institutional arrangements are the mechanics of the settlement agreement itself, the newly created Book Rights Registry and the Author-Publisher Procedures. The main agreement contains a number of provisions establishing procedures and default rules governing Google's use of copyrighted works within the Google Book universe of products and services. The new Book Rights Registry is envisaged as a free-standing entity that will allow participating rightsholders to collectively exploit their works and receive payments for various uses made by Google. Under the original agreement, the Registry was to stand in the shoes of inactive rightsholders and make certain decisions on their behalf, as well as facilitate

⁹⁵ This preliminary summary of the operative terms of the Amended Settlement is not exhaustive and is no substitute for individually tailored legal advice. This Article does not constitute legal advice, nor does it establish any attorney-client relationship.

⁹⁶ See *infra*, Part II.

the actions of active registered rightsholders. In response to criticisms about the handling of orphaned works and unclaimed funds, the Amended Settlement provides for an “Unclaimed Works Fiduciary” who will take over many significant Registry responsibilities with respect to unclaimed works.⁹⁷ Completing this new institutional triangle, the Author-Publisher Procedures determine in many cases who controls the exploitation of a work within the Google Book universe and who benefits from that exploitation.⁹⁸

The treatment of orphan works is the most contentious issue in relation to the Settlement in both its original and amended forms. If the settlement is approved by the courts, it will increase public access to orphan works by presumptively including almost all works in most commercially significant uses. Orphan works will be digitized, indexed, made available for partial-previews, sold as consumer purchases and incorporated into institutional subscriptions. Under the original Settlement Agreement, the revenues attributable to orphan or unclaimed works would have flowed in part to the Registry and to registered authors and publishers. This apparent conflict of interests has been eliminated under the Amended Settlement, and significant protections have been added to ensure the fair treatment of the owners of unclaimed works.⁹⁹

A. The Scope of the Settlement

The scope of the settlement has been dramatically altered under the amended agreement. The affect of the original Settlement was sweeping. Although the plaintiffs in the underlying lawsuits represented only a small section of the broader author and publisher communities, the original Settlement embraced the vast majority of books published in the U.S. between 1923 and 2009 regardless of the nationality of the author or the language in which the book was written.

⁹⁷ See ASA 6.2(b)(iii). The Registry’s power to act with respect to the exploitation of unclaimed Books and Inserts under the Amended Settlement will be delegated to an independent fiduciary. Subject to Court approval, the Unclaimed Works Fiduciary will be appointed by a supermajority vote of the Board of Directors of the Registry and must be someone who is neither not the author of a published book, nor an officer, director or employee of any book publisher.

⁹⁸ See *infra*, Part II-F.

⁹⁹ See ASA 6.3(a)(i). The revised agreement now provides that after ten years, any unclaimed funds will be allocated proportionally to the United States, Canada, the United Kingdom and Australia, and that these funds will disbursed to literacy-based charities and the reading public. The mechanics of the process are spelled out in some detail in the agreement.

More precisely, the original settlement class consisted of rightsholders with a copyright interest in any book registered with the U.S. Copyright Office and published before January 5, 2009.¹⁰⁰ The class also included foreign rightsholders with a copyright interest in unregistered works published in the relevant period.¹⁰¹ In its original form, the Settlement would have swept in innumerable foreign works that are protected by the U.S. Copyright Act without any requirement of registration or indeed publication in the U.S. Many such foreign authors were unlikely to have realized that their U.S. rights were implicated by the settlement, especially if they had never even published their works in the U.S.

Not surprisingly, as the potential of this American class-action settlement to effect the rights of foreign copyright owners became clear, so too did foreign opposition to the Settlement. Among the objectors were several individual foreign authors, the governments of France and Germany, and, finally, the DOJ.¹⁰² The DOJ expressed a particular concern over the adequacy of representation of foreign rightsholders, which it found “difficult to square with the requirements of Rule 23.”¹⁰³ These voices of opposition prompted what is probably the most significant, and certainly the bluntest, change in the Amended Settlement. In a decisive act of legal amputation, the parties resolved to restrict the scope of the agreement to books published in the U.S., Canada, Australia, or the United Kingdom.¹⁰⁴ It is estimated that this change will reduce the coverage of the GBS by as much as 50%.¹⁰⁵

The definition of books covered by the Settlement expressly excludes works such as periodicals, personal papers, calendars, sheet music and songbooks, and government works (which are not protected by copyright law in any event).¹⁰⁶ The Settlement also covers independently copyrighted works within books that are defined as “inserts.” Inserts include forewords,

¹⁰⁰ ASA § 1.16(a)-(c). (January 5, 2009 was the date of the first notice of the class action Settlement.)

¹⁰¹ *Id.* Note that although the Settlement affects the rights of foreigners, it does not affect foreign rights.

¹⁰² Mem. of Law in Opp’n to the Settlement Proposal on Behalf of the French Republic (D.E. 179); Mem. of Law in Opp’n to the Settlement Proposal on Behalf of the Federal Republic of Germany, (D.E. 287).

¹⁰³ DOJ Statement, *supra* note 6 at 5. Rule 23(e) of the Federal Rules of Civil Procedure requires that any proposed class action settlement must be found by the court to be “fair, reasonable, and adequate.”

¹⁰⁴ ASA 1.19

¹⁰⁵ Band, Guide For the Perplexed.

¹⁰⁶ ASA § 1.19(i)-(v).

afterwords, prologues, epilogues, essays, poems, quotations, letters, song lyrics, or excerpts from other books, periodicals or other works.¹⁰⁷ The term insert is specifically defined to include tables, charts, and graphs, but to exclude illustrations and pictorial works generally, such as photographs, maps or paintings.¹⁰⁸ These inserts are covered by the Settlement agreement only to the extent they are independently protected by the Copyright Act.¹⁰⁹ A copyrighted insert in an otherwise public domain book is covered under the agreement.¹¹⁰

Public domain works are not affected by the agreement.¹¹¹ In spite of the settlement's apparent breadth, three significant limitations are worth noting. First, the Settlement only covers the past; Google will be required to negotiate with authors and publishers for all future works. Second, the Settlement does not release Google from any liability with respect to foreign copyrights, and Google may still be liable in other jurisdictions in which its book search engine is accessible. Third, as has already been noted, the settlement universe is now confined to books published in the U.S., Canada, Australia, or the United Kingdom. The current GBS database is already dominated by works in the English language; that domination now appears set to continue.¹¹²

Broadly speaking, the settlement gives Google the right to continue to operate its book search program along its current lines, but with some important modifications. Prior to the settlement, Google allowed minimal access to books except where the book was in the public domain or was subject to a specific agreement with one of Google's "publisher partners."¹¹³ This resulted in three basic tiers of access: a "snippet" view by default; various levels of extended preview determined by agreement with

¹⁰⁷ ASA § 1.75.

¹⁰⁸ ASA § 1.75 The original agreement had included children's Book illustrations and musical notations such as notes on a staff or tablature, but these are now excluded. See SA § 1.72.

¹⁰⁹ ASA §1.75. To be covered and insert must have either been registered as a standalone work or as part of another registered work from which it was excerpted. ASA 1.75.

¹¹⁰ ASA § 1.75(b).

¹¹¹ ASA § 1.19, 2.2(i). (The Settlement neither authorizes nor prohibits, nor releases any claims with respect to the use of any work or material that is in the public domain under the Copyright Act.)

¹¹² For example, a general search in the subject of "History" yields 2,100 books in French, 2,047 books in German, 21,600 in English and 24,371 in any language. This 10 to 1 ratio is not uniform across subject areas. Results based on a search conducted on January 14, 2010.

¹¹³ Google, *Google Book Search Settlement Agreement*, available at <http://books.google.com/googlebooks/agreement/>.

the relevant copyright owner; and full access for public domain works.¹¹⁴ The same basic tiers of access remain under the settlement with the addition of a “no-display” option.¹¹⁵ In addition, the settlement envisages new services including a “Consumer Purchase” model, “Institutional Subscriptions,” and various other additional revenue opportunities that remain subject to negotiation between Google and Rightsholder representatives.¹¹⁶

The settlement gives rightsholders substantial individual flexibility to determine their own preferred level of access to their works, as well as the ability to effectively opt-out of the GBS altogether. On the other hand, the settlement sets many of the default positions very favorably for Google, effectively giving it a broad license from the otherwise silent owners of orphan works.

B. The Registry and the Unclaimed Works Fiduciary

The creation of the Book Rights Registry was a critical feature of the original Settlement.¹¹⁷ The Registry acts as both an information intermediary and a collecting society. In a letter to members, Author’s Guild President Roy Blount Jr., referred to the Registry as “the writer’s equivalent of ASCAP.”¹¹⁸ However, the powers of the Registry will extend far beyond those of a typical copyright collecting society. The Registry is structured as a not-for-profit representing the interests of rightsholders in connection with settlement. The powers of this new Registry are quite broad. The Registry will be authorized to act on behalf of rightsholders as set forth in the Settlement Agreement.¹¹⁹ It will also have other responsibilities articulated in the Settlement Agreement and its (as yet unwritten) Charter.¹²⁰ The Settlement also notes that the Registry will have “such other responsibilities ... as the Board of Directors of the Registry may determine are consistent with the Registry’s functions and are not inconsistent with this Settlement Agreement.”¹²¹

¹¹⁴ *Id.*

¹¹⁵ ASA § 4.3(a)-(b).

¹¹⁶ The scope of these new revenue models has been narrowed by the Amended Settlement as discussed below.

¹¹⁷ See, ASA Article VI — Establishment and Charter of Registry.

¹¹⁸ Roy Blount Jr.: *\$125 Million Settlement in Author’s Guild v. Google*, http://www.authorsguild.org/advocacy/articles/settlement-resources.attachment/roy_blount_letter_10282008/Roy_Blount_Letter_10282008.pdf (last accessed June 21, 2009).

¹¹⁹ ASA § 6.1(a).

¹²⁰ ASA § 6.1(f).

¹²¹ *Id.*

One of the fundamental concerns about the Registry was that, by virtue of its composition and functions, it would have less than adequate incentives to safeguard the interests of owners of unclaimed works.¹²² The parties have attempted to address these concerns by creating an Unclaimed Works Fiduciary to represent the interests of unregistered rightsholders—who are, by definition, not otherwise represented.

The creation of this new Fiduciary corrects a basic structural imbalance in the Settlement’s original institutional framework. The original agreement protected the interests of registered authors and publishers by ensuring equal representation for each on the Registry’s board of directors.¹²³ Furthermore, each act of the Board required the approval of a majority of the Directors, including at least one representative of the Author subclass and one representative of the publisher subclass.¹²⁴ The Registry is allowed to represent the interests of either all authors or all publishers as a sub-group but is prohibited from representing any further particularized subgroups regarding any matter under the Settlement Agreement. The Registry is expressly banned from working with any sub-group of rightsholders to exclude their books from particular uses or advocating that any sub-group of rightsholders decrease its participation in the Settlement in any manner.¹²⁵ These initial safeguards were primarily directed at the interests of registered rightsholders. It was always unlikely that anyone on the Registry’s board would have directly represented the interests of the owners of orphan works—a major concern from the perspective of class-action fairness.

At least partly addressing this structural imbalance, the Amended Settlement transfers significant Registry responsibilities to the Unclaimed Works Fiduciary. The most significant of these reallocated responsibilities are probably the power to approve new revenue models and the power to determine book classification.¹²⁶ In addition, the Unclaimed Works Fiduciary replaces the Registry in the sections of the agreement dealing with specific prohibitions pertaining to unclaimed works, including prohibitions on display, linking, textual alteration, book annotations, and advertising content.¹²⁷ The Registry’s power to act with respect to the

¹²² See e.g. DOJ Statement, *supra* note 6 at 13.

¹²³ ASA § 6.2(b).

¹²⁴ *Id.*

¹²⁵ *Id.*

¹²⁶ ASA § 3.2(e)(i); 4.7. These are each discussed in more detail in section ___, below.

¹²⁷ ASA § 3.10(a), (b) and (c).

preview uses—to adjust the preview use setting for a particular Book in exceptional circumstances for good under—has also been delegated to the Unclaimed Works Fiduciary.¹²⁸ The Fiduciary also has the right to approve any alterations to the pricing bins for settlement controlled pricing for unclaimed books and the power to approve reduced price consumer purchases pertaining to unclaimed books.¹²⁹

The Registry envisaged under the agreement will own and maintain a rights information database linking books to their appropriate authors and publishers.¹³⁰ The Registry receives considerable assistance from Google in this regard. Under the agreement, Google must supply to the Registry, and update regularly, a list of all books that it has digitized, the name of any library to which it has given a digitized copy of a book, a list of books sold, usage data, claims process data, library scans, and any additional information necessary for the Registry to perform its obligations.¹³¹ In return, the Registry must provide to Google a list of all books claimed by a rightsholder and a list of all registered rightsholders.¹³² They will provide each other with information bearing on the copyright status of works.¹³³

In addition to transferring significant powers to the Unclaimed Works Fiduciary, the revised agreement also addresses a potentially significant conflict of interests that arose under the original agreement. The Registry is charged with the mission of locating rightsholders, receiving payments on their behalf and distributing those payments in accordance with the Settlement Agreement.¹³⁴ Consequently, as the Registry locates and identifies rightsholders, it will reduce the number of works that are effectively orphaned. Some have questioned whether the Registry has the correct incentives to do this, given that it effectively profits from unclaimed funds.¹³⁵ In general, the Registry must promptly distribute funds to known rightsholders as it receives them.¹³⁶ However, the original Settlement

¹²⁸ ASA § 4.3(g).

¹²⁹ ASA § 4.2(c)(i); 4.5(b)(ii).

¹³⁰ ASA § 6.1(b).

¹³¹ ASA § 6.6(a). NB: Google will also pay \$34.5 million to the Registry, in order to fund its start up and provide for its operational costs. ASA §5.2, and § 6.4(a). In addition, Google will provide technical assistance with respect to the design, development, and maintenance of the Registry. ASA § 6.4(b).

¹³² ASA § 6.6(c)(i), (ii).

¹³³ ASA § 6.6(d).

¹³⁴ ASA § 6.1(c), (d).

¹³⁵ A perception that the Registry was dragging its heels in this regard may have invited further antitrust scrutiny from the DOJ and additional class-action lawsuits on behalf of the owners of orphan works.

¹³⁶ ASA § 6.1(d).

Agreement allowed the Registry to use any funds unclaimed after five years to defray its operational expenses. Unclaimed funds would also be dispersed on a proportional basis to rightsholders.¹³⁷ The DOJ, among others, was sharply critical of this short time period and apparent conflict of interests in which identified rightsholders and the Registry each profited from the exploitation of unclaimed works.¹³⁸ The redrafted Settlement Agreement now provides that after ten years, any unclaimed funds will be allocated proportionally to the United States, Canada, the United Kingdom and Australia, and that these funds will be disbursed to literacy-based charities and the reading public.¹³⁹

In sum, the revised agreement does a great deal to address potential conflicts of interests and to safeguard the interests of the owners of unclaimed works—whether it does enough is one of the primary issues that the court will have to decide in the upcoming class-action fairness hearing.

The Amended Settlement Agreement does nothing to diminish Google’s unique position in relation to the exploitation of orphan works. However, it does change the institutional framework in ways that may become significant if orphan works legislation is ever enacted. Two ironies are worth considering here.

The first irony of the settlement is that, whereas a fair use ruling would have substantially mitigated the orphan works problem for all potential entrants into the field of book search, the Settlement only solves that problem for Google—thus Google is better off compromising than winning in this respect.¹⁴⁰ Indeed, it is Google’s potential orphan works monopoly that has attracted some of the sharpest criticism. Pamela Samuelson argues that “the settlement would, in effect, give Google the exclusive right to commercially exploit millions of orphan books.”¹⁴¹ The Internet Archive also protests that the Settlement “effectively limits the liability for the identified uses of orphan works of one party alone, Google Inc.”¹⁴² James Grimmelmann

¹³⁷ SA § 6.3(a)(i).

¹³⁸ DOJ Statement, *supra* note 6 at 13.

¹³⁹ See ASA 6.3(a)(i). The mechanics of the process are spelled out in some detail in the agreement.

¹⁴⁰ See e.g., Randal C. Picker, *The Google Book Search Settlement: A New Orphan-Works Monopoly?* (July 18, 2009), available at SSRN: <http://ssrn.com/abstract=1387582>.

¹⁴¹ Samuelson, *supra* note 9.

¹⁴² Letter of Adrian R. Katz on behalf of the Internet Archive to the Honorable Judge Denny Chin requesting a pre-motion conference in *The Authors Guild Inc., et al v. Google Inc.*, No. 5 Civ. 8136 (DC) (April 17, 2009). Available at <http://www.scribd.com/doc/14308286/Internet-Archive-Intervention-Google-Book-Search>.

concludes that “Google’s extraordinary market power under the settlement will come from its unique lock on orphan works.”¹⁴³

The second irony is that considerations of class action fairness have prevented Google from divesting itself of this orphan works monopoly. The original agreement contemplated that the Registry might at some stage have the power to negotiate licenses of orphan works to third parties; however, the agreement contained no express grant of authority to that effect.

Nor could it realistically have done so within the confines of U.S. class-action law. From a competition law perspective, it would be desirable if some entity had the power to license orphan works to third parties under terms similar to those that apply to Google. However, empowering the Registry or even the Unclaimed Works Fiduciary in that fashion would mean using a lawsuit between A and B (the plaintiffs and Google) to create obligations between C and D (unrepresented authors and Google’s future competitors). Such a result would be difficult to reconcile with even a relaxed approach to Rule 23.¹⁴⁴ The broader the scope of orphan exploitation allowed under the Settlement Agreement, the more difficult it is to satisfy the requirement of adequate class representation. Allowing the Registry to license orphan works to third parties would have addressed some of the competition law concerns pertaining to the agreement, but it was a bridge too far in terms of class-action law.

Section 6.2(b) of the Agreement provides that “[t]he Registry will be organized on a basis that allows the Registry, ... to the extent permitted by law, to license Rightsholders’ U.S. copyrights to third parties.”¹⁴⁵ Under the Amended Settlement, this as yet unrealized power is placed in the hands of the Unclaimed Works Fiduciary with respect to unclaimed Books and Inserts. While the Settlement does not appear to give the Registry or the Unclaimed Works Fiduciary the necessary authority to license orphan works to third parties, it does leave the door open to the extent that such powers are conferred through some other source, such as future orphan-works legislation. It is also noteworthy that the most favored nation clause in the original Settlement, which would have blunted the Registry’s incentives to license third parties, has been removed. Nonetheless, until

¹⁴³ Grimmelman, *supra* note 9.

¹⁴⁴ Interestingly, the DOJ itself acknowledges that a forward looking settlement with a properly defined and adequately represented class of copyright holders may be appropriate. However, the DOJ questions whether the interests of the owners of orphan works have been adequately represented under the settlement.

¹⁴⁵ ASA § 6.2(b).

Congress actually addresses the issue of access to orphan works, Google will retain the unique ability to commercialize these books.¹⁴⁶

C. Financial Terms of the Settlement

The immediate cost of the settlement for Google will exceed \$100 million. Google will transfer a minimum of settlement fund of \$45 million to the Registry to be distributed among the class members whose books have been digitized prior to the Opt-Out Deadline.¹⁴⁷ Class members will receive at least \$60 per book and \$15 per Insert.¹⁴⁸ Google will also pay \$34.5 million to fund the launch and the initial operations of the Registry and \$30 million to pay the plaintiffs' attorneys fees and costs.¹⁴⁹ Thus, Google will pay at least \$109.5 million under the Settlement agreement regardless of the revenue it generates from its book related products and services authorized under the agreement.

On first impressions, Google has agreed to a 30/70 revenue split with rightsholders for advertising and purchase revenues attributable to works covered by the agreement.¹⁵⁰ The agreement entitles rightsholders to 70% of "Net Advertising Revenues" and "Net Purchasing Revenues"; however, these terms are defined with a built-in 10% deduction for Google's operating costs.¹⁵¹ It is important to note that the revenue split does not apply to works outside the scope of the Settlement, such as public domain works. Nor does it apply to initial search result pages that feature more than one work.¹⁵²

¹⁴⁶ What remains to be seen is whether Google's unique access to these orphan works rises to the level of a barrier to entry in any relevant market. To begin with, the economic significance of the alleged orphan works monopoly is quite speculative. Furthermore, whatever that significance is now, it should be declining. The Settlement and the establishment of the Registry provide an incentive and a means for copyright owners to reclaim active ownership of their works—thus effectively de-orphaning them. Finally, although the Registry will not have the right to license orphan works to third parties, it will still be in a position to manage the rights of a large number of active authors and copyright owners.

¹⁴⁷ ASA § 2.1(b). ("Opt-Out Deadline" means the deadline fixed by the Court to opt-out of the Settlement pursuant to Rule 23.)

¹⁴⁸ ASA § 5.1(a).

¹⁴⁹ ASA § 5.1(c), 5.5.

¹⁵⁰ ASA § 4.5(a)(i)-(ii).

¹⁵¹ ASA § 1.89, 1.90. The provision allowing this 10% deduction to be offset pursuant to the unclaimed funds provision has been removed from the Amended Agreement. This is significant from a Rule 23 perspective because active authors no longer profit directly from the exploitation of orphan works and misclassified public domain works.

¹⁵² Google does not currently advertise on these menu pages.

The Amended Agreement also allows Google and individual rightsholders to renegotiate the revenue split applicable to any revenue model for any commercially available book.¹⁵³ If such negotiations are unsuccessful, either party may opt to exclude the book from one or more revenue models.¹⁵⁴

D. Uses and Permissions Under the Settlement

1. Book Search: Digitization & Display

The Settlement avoids resolving whether the digitization and non-expressive use of copyrighted books is permissible under copyright law. Instead, the Settlement grants Google a very broad license in relation to its book search program. Google's permitted uses under the settlement go well beyond the most favorable fair use that could plausibly be imagined. In respects, however, the terms of the Settlement agreement closely mirror the likely outcome of the lawsuits that the Settlement is designed to avert.

The most important way in which the Settlement mirrors the likely fair use ruling is in the centrality of the copyright owners' right to opt-out. As discussed previously, the most likely result of the copyright litigation avoided by the Settlement would be a finding in favor of fair use, conditional on the effective provision of a relatively low-cost opt-out mechanism. The ability of rightsholders to opt-out is also a key feature of the Settlement. Not only can copyright owners opt-out of the class action Settlement altogether,¹⁵⁵ under the Settlement itself they can opt-out of inclusion in the book search database or particular elements thereof.¹⁵⁶ As detailed below, the Settlement gives individual rightsholders substantial flexibility to control the use of their works by Google, to determine their preferred level of public access and, in some cases, to control pricing. The division of benefits and control between authors and publishers is governed by the Author-Publisher Procedures.¹⁵⁷

¹⁵³ ASA 4.5 (iii) (Agreed Revenue Splits).

¹⁵⁴ See ASA 3.5(b) (Right to Exclude from Display Uses and Revenue Models) and ASA 3.7(e) (Google's Exclusion of Books).

¹⁵⁵ ASA § 17.33.

¹⁵⁶ A rightsholder may choose to opt-out of the Settlement prior to the "Supplemental Opt-Out Deadline", the deadline fixed by the Court to opt-out of the Settlement pursuant to Rule 23 of the Federal Rules of Civil Procedure. ASA § 1.156; § 17.33. The Settlement does not authorize or permit the use of books for which all rightsholders opt-out. *Id.* The Settlement also does not release any claims for such books. *Id.*

¹⁵⁷ See *infra*, Part II-F.

The agreement authorizes Google to digitize books and inserts obtained by Google from any source and to use that digitized information in accordance with the agreement. This license applies to all books and inserts covered by the Settlement agreement; however, up until March 9, 2012, Section 3.5(a)(i) allows rightsholders to direct Google not to digitize a book or to remove a book from the GBS database if it has already been digitized.¹⁵⁸

With the exception of works that have been removed pursuant to Section 3.5(a)(i), all covered works are subject to digitization and may be listed in an initial search results page. The extent of the information accompanying that listing depends on a host of factors beginning with the Display/ No-Display classification.

Much of the agreement revolves around the distinction between “Display” and “Non-Display” uses and the accompanying categorization of books as either “Display” or “No Display.” Non-Display Uses are uses that do not display expression from digital copies of books or inserts to the public.¹⁵⁹ The display of bibliographic information and important data about a book, such as which pages match a particular search query, the book’s key terms and chapter headings, and library collection information are all considered to be “Non-Display” uses.¹⁶⁰ In addition, the use of digital copies of books for Google’s internal research and development purposes is also a non-display use.¹⁶¹ Thus, whether a book title appears as part of the initial menu of search results responding to a user query does not depend on its classification as either “Display” or “No Display,” but, critically, the extent of information accompanying the book’s basic bibliographic information

¹⁵⁸ The consequences of removal depend on the date the direction is given. On or before April 5, 2011, the work will be removed entirely. Requests made between April 5, 2011 and March 9, 2012 will result in the book being not accessible to Google, but digital copies may still be provided to libraries for certain purposes. ASA 1.126.

¹⁵⁹ ASA § 1.94. It is worth noting here that “Expression” is defined in the agreement as anywhere between 3 and 10 contiguous words in which a person has a copyright interest under Section 106 of the Copyright Act, without regard to the fair use doctrine and other statutory defenses embodied in Sections 107 through 122 of the Copyright Act. “Expression” remains subject to the limitation of substantial similarity (an implicit limit on Section 106) and the idea expression distinction as embodied in Section 102(b) of the Copyright Act. Technically, it is open for Google to argue that displaying a snippet that is non-infringing because it is not a substantial copy or because of the idea expression distinction falls within the scope of “non-display uses” under the agreement. However, the structure of the agreement indicates that the parties intended for snippets to be covered as a “display use”.

¹⁶⁰ ASA § 1.94.

¹⁶¹ *Id.*

does.¹⁶² If a book has been classified as a “Display” book, its listing will also be accompanied by a brief “snippet” of about three to four lines of text from the book.

The distinction between “Display” and “No Display” works becomes more apparent on the individual “Online Book Pages”.¹⁶³ Once a user selects a particular book as the object of his investigation, he will be directed to an Online Book Page dedicated to that book. In the case of No Display books, the Online Book Page will simply contain bibliographic information and data about a book consistent with the definition of Non-Display Uses. The Online Book Page for a Display Book will feature up to three “snippets” of three or four lines of text, per search term, per user.¹⁶⁴ In general, the Display Books will also permit an extended preview of the work.

The Settlement sets out three different types of “Preview” modes applicable to books. If a work is subject to the “Standard Preview,” the pages selected for display will depend upon the relevant user query. For non-fiction works, the default standard preview is limited to no more than 20% of the books pages and no more than five adjacent pages, not including the book’s table of contents, title page, copyright page, or index.¹⁶⁵ The default page limits for works of fiction are set at 5% of the work and no more than 15 adjacent pages, with the additional stipulation that the final 5% and the final 15 pages of the work must be blocked.¹⁶⁶

These are merely the default settings. Under Section 3.5(b)(i), a rightsholder may exclude a book or group of books from one or more of the display uses.¹⁶⁷ In addition, Section 3.2(e)(i) allows the rightsholder to change the classification of a book or group of books from Display to No Display at any time, which amounts to a complete opt-out from all Display Uses. Rightsholders also have the option of selecting a Fixed Preview or a Continuous Preview as an alternative.¹⁶⁸ Under a “Continuous Preview,”

¹⁶² Id., ASA § 3.4(a).

¹⁶³ An Online Book Page is any page dedicated to a single book and advertising on such pages is subject to the revenue split.

¹⁶⁴ ASA § 1.100 (defining Online Book Page); ASA § 1.147 (defining Snippet Display).

¹⁶⁵ ASA § 4.3(b)(i)(1). (The preview must omit at least two pages before and after the relevant set of adjacent pages).

¹⁶⁶ Also note that Unless approved by the Registry or the Rightsholder, Google will not offer to users copy/paste, print or Book Annotation functionalities as part of Preview Uses. ASA § 4.3(b)(3).

¹⁶⁷ In case there was any doubt, section 4.3(a) also provides that a rightsholder may direct Google or the Registry not to allow previews.

¹⁶⁸ ASA § 4.3(c).

Google is authorized to display up to 10% of pages without the adjacent page limitations of Standard Preview.¹⁶⁹ Under the “Fixed Preview” mode, an initial selection of no more than 10% of the work is made available for preview, and this selection will not vary from user to user depending on the search being performed.¹⁷⁰ In all three modes, Standard, Continuous and Fixed, a rightsholder may choose to increase the percentage of the work made available up to 100% of the work.¹⁷¹

2. Beyond Book Search

The Settlement also envisages a number of extensions to the product and service offerings of GBS, including consumer purchases of electronic books, institutional subscriptions for corporations and universities, and new or additional revenue opportunities—a concept left ill-defined in the original agreement but now substantially clarified.

The agreement allows Google to offer access to Display books to the general public as “Consumer Purchases.”¹⁷² This system would allow users to view, copy and paste, and print books within certain limits. The ability to copy/paste is limited to no more than four pages with a single copy/paste command. Printing would be limited no more than 20 pages per print command. However, it is notable that the agreement does not appear to place any obligation on Google to prevent an entire book being printed in 20-page increments.¹⁷³ Under the Consumer Purchase model, users will be able to make book annotations for their personal use and to share those annotations with a limited number of persons, subject to limitations.¹⁷⁴ As a security measure, printed pages will include a copyright watermark.

¹⁶⁹ ASA § 4.3(c)(iii).

¹⁷⁰ *Id.*

¹⁷¹ ASA § 4.3(b)(ii). The agreement simply states that “Rightsholders may increase the percentages in Fixed Preview, Standard Preview and Continuous Preview”. Presumably an increase to 100% negates the adjacent page restrictions. Note that unless the rightsholder has authorized display of one hundred percent (100%) of the pages of a Book in Preview Use, Google is obliged to block access to at least five percent (5%) of the pages of a Book. ASA § 4.3(d).

¹⁷² ASA § 4.2.

¹⁷³ The Security Standard does require Google to monitor for and take steps to prevent simultaneous logins from different locations using the same account. Attachment D: Security Standard, § 3.9.2.

¹⁷⁴ ASA § 3.10(c)(ii)(5). Annotations are not be shared with the general public. *Id.* Annotations will only be accessible to persons authorized to view the book, and will be limited to 25 persons, all of whom must be identified individually by the user. *Id.*

The Consumer Purchase model envisages two pricing options: either a specified price determined by the rightsholder (which may be no price at all) or a “Settlement Controlled Price” determined by a pricing algorithm developed by Google.¹⁷⁵ The pricing algorithm will be designed to maximize the revenue accrued to each individual rightsholder, rather than Google’s total revenue.¹⁷⁶ In an apparent concession to the DOJ’s concerns about price fixing, the Amended Agreement provides that the pricing algorithm will be designed to achieve the optimal price for each individual book “without regard to changes to the price of any other book.”¹⁷⁷ In theory, the decisions that Google makes under the pricing algorithm would be the same as a well informed copyright owner would make on her own on a book by book basis, without taking into account trade-offs between books or colluding with other copyright owners.¹⁷⁸ Rightsholders may also change their choice of pricing option at any time.¹⁷⁹

The agreement defines a set of initial pricing bins: \$1.99, \$2.99, \$3.99, \$4.99, \$5.99, \$6.99, \$7.99, \$8.99, \$9.99, \$14.99, \$19.99 and \$29.99—however, these are subject to renegotiation by Google and the Registry (and subject to the approval of the Unclaimed Works Fiduciary).¹⁸⁰ The allocation of works for Consumer Purchase to these initial pricing bins is illustrated in Figure 1 below.

¹⁷⁵ ASA § 4.2(b)(i)(1)-(2).

¹⁷⁶ *Id.*

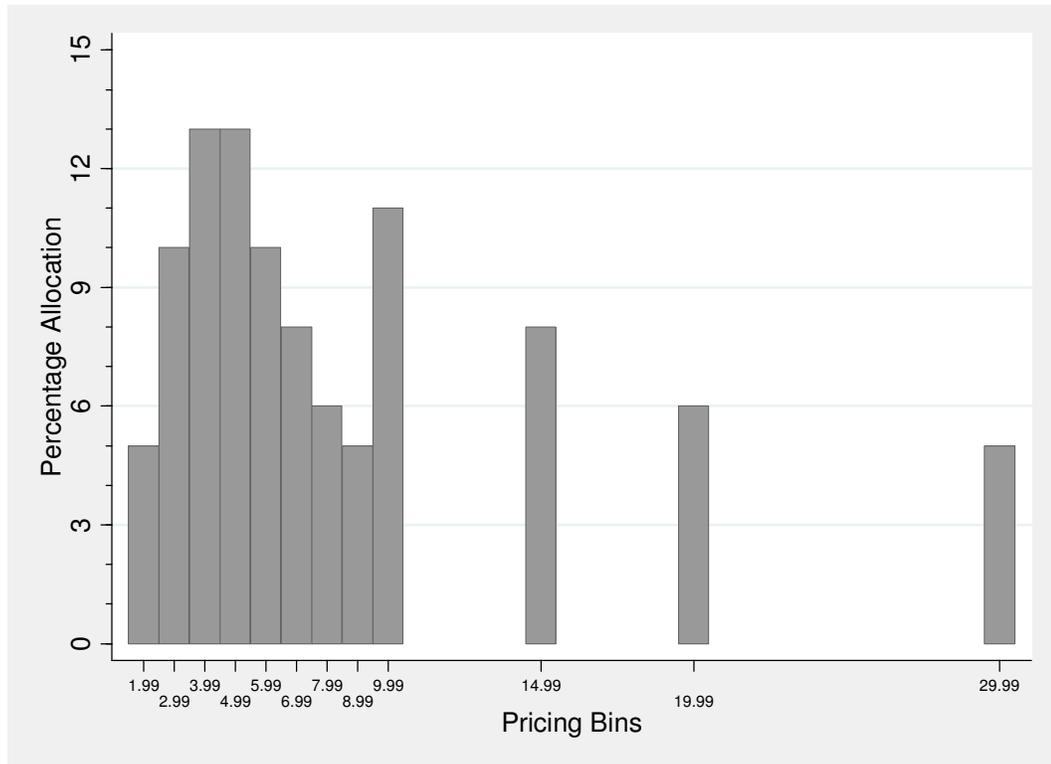
¹⁷⁷ *Id.*

¹⁷⁸ See also ASA § 4.2(c)(2)(ii) (Development of Pricing Algorithm and Changes to Pricing Bin Distribution) (“The Pricing Algorithm ... will be designed to operate in a manner that simulates how an individual Book would be priced by a Rightsholder of that Book acting in a manner to optimize revenues in respect of such Book in a competitive market, that is, assuming no change in the price of any other Book.”)

¹⁷⁹ ASA § 4.2(b)(ii).

¹⁸⁰ ASA § 4.2(c)(i). The agreement also sets out procedures for renegotiating the number and content of the pricing bins after three years and then periodically every four years.

Figure 1. Consumer Purchase Pricing Bin Allocation



The Amended Settlement also provides that a Rightsholder may direct the Registry to make its Books available at no charge pursuant to a Creative Commons or similar license, in which case such a book may also be available without the restrictions that otherwise apply to consumer purchases (as these would violate the terms of many Creative Commons licenses).¹⁸¹

The agreement contemplates offering schools, universities, and corporations the option of an Institutional Subscription to Google's catalog of digital books.¹⁸² These Institutional Subscriptions will allow online access to, and viewing of, the full contents of all Display Books in the Google book database—unless of course the rightsholder opts out of that particular use.¹⁸³ Institutional Subscriptions will enable users to view, copy/paste, and

¹⁸¹ ASA § 4.2(a)(i).

¹⁸² ASA § 4.1(d).

¹⁸³ *Id.*

print pages of a book, and may enable Book Annotations.¹⁸⁴ Like the Consumer Purchase model, the copy & paste functions are to be limited to up to four pages with a single copy & paste command. Printing is to be limited to no more than 20 pages with one print command.¹⁸⁵ The shared annotation feature will operate differently for Institutional Subscriptions than for Consumer Purchases. Here, users will be limited to sharing with instructors and students in a single academic course, in connection with such course during an academic year, or with students of the same course in subsequent academic years.¹⁸⁶ Employees of the subscriber will also be allowed to use the annotations in connection with a discrete work project during the course of that project.¹⁸⁷

The financial terms of the proposed Institutional Subscriptions have proven controversial. Robert Darnton, the Director of the Harvard University Library, argues that without competition, Google's Institutional Subscriptions will follow the path of academic journals:

Once a university library subscribed, the students and professors came to expect an uninterrupted flow of issues. The price could be ratcheted up without causing cancellations, because the libraries paid for the subscriptions and the professors did not. ... Owing to the skyrocketing cost of serials, libraries that used to spend 50 percent of their acquisitions budget on monographs now spend 25 percent or less. University presses, which depend on sales to libraries, cannot cover their costs by publishing monographs. And young scholars who depend on publishing to advance their careers are now in danger of perishing.¹⁸⁸

¹⁸⁴ *Id.*

¹⁸⁵ *Id.* Like the Consumer Purchase model, Google will include a visible watermark on pages printed from the Institutional Subscription Database. The watermark will identify the material as copyrighted and display encrypted session identifying information which can be used to identify the authorized user that printed the material or the access point from which the material was printed. These watermarks will not obscure the content of the printed pages. Again, there does not appear to be any obligation on Google's part, to prevent users from printing entire books in 20-page increments. The Security Standard does require Google to take commercially reasonable steps to verify that users are affiliated with an institution with an active subscription. Attachment D: Security Standard, § 3.9.3.

¹⁸⁶ ASA § 3.10(c)(ii)(5)(e).

¹⁸⁷ ASA § 3.10(c)(ii)(5)(e).

¹⁸⁸ Robert Darnton, *Google & the Future of Books*, February 12, 2009, <http://www.nybooks.com/articles/22281>.

A chilling prospect indeed.

Professor Darnton will not find much comfort in the terms of the Settlement. The agreement provides that the pricing strategy for 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.”¹⁸⁹ The agreement further explicates: “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.”¹⁹⁰ This, of course, makes no sense. These twin objectives—maximizing revenue and maximizing public access—can only be consistent up to a point. At the end of the day, Google and the Registry will have to choose one or the other as the primary objective.

It seems clear from the agreement that Google plans to divide up the market into segments to facilitate price discrimination. Pricing for Institutional Subscriptions will be determined in reference to comparable third party products and services, the scope of books available, the quality of the scan, and the features offered as part of the Institutional Subscription. Subscription prices will also vary depending on the size and nature of the institution (calculated on a full-time equivalent basis) and depending on the nature of the institution.¹⁹¹ Pricing is likely to vary across broad categories such as Corporate, Higher Education (with multiple sub-divisions based on the Carnegie Classifications for Institutions of Higher Education within the United States); School (K-12); Government; and Public.¹⁹² The agreement prohibits remote access without Registry approval for these last three categories. As the Settlement itself notes, segmenting the market in this way will make it easier to reconcile the conflicting objectives of maximizing revenue and maximizing public access. The agreement also contemplates a different form of price discrimination based on offering specialized versions of the institutional subscription database.¹⁹³ Google is required to ensure that the price for access to the entire Institutional Subscription Database will

¹⁸⁹ ASA § 4.1(a)(i).

¹⁹⁰ *Id.*

¹⁹¹ ASA § 4.1(a)(iii-iv).

¹⁹² ASA § 4.1(a)(iv).

¹⁹³ ASA § 4.1(a)(v).

be less than the sum of the prices for access to any discipline-based specialized collections.¹⁹⁴

The Settlement allows Google to provide not-for-profit Higher Education Institutions and Public Libraries with limited free access under the “Public Access Service.”¹⁹⁵ This free public access is limited to one terminal per library building for libraries, one terminal per 4000 students for schools qualifying as Associate’s Colleges, and one terminal per 10,000 for all other schools.¹⁹⁶ The Amended Settlement provides that the Registry, acting in the interests of all rightsholders, may authorize one or more additional terminals in any library building under whatever conditions it may deem appropriate.¹⁹⁷ In addition, the original agreement also provides that the Registry and Google may also agree at some future date to make additional terminals available to one or more public libraries or not-for-profit higher education institutions, either for free or for an annual fee.¹⁹⁸

In addition to viewing these works electronically, the agreement also provides that page-by-page printing may be allowed from these terminals at a per-page fee to be determined by the Registry.¹⁹⁹ A feature of the agreement that will no doubt be of interest to universities, copy shops and copyright collecting societies is the potential to directly link the Google book database to copy shops. The Settlement provides that the Registry and Google may agree to make a commercial public access service available to copy shops and other entities for an annual fee per concurrent user and a fee

¹⁹⁴ This aspect of the pricing policy may invite antitrust scrutiny. In 1984, the Second Circuit held that blanket licenses do not restrain trade if alternative means of acquiring performance rights are “realistically available.” *Buffalo Broadcasting Co. v. American Soc. of Composers, Authors and Publishers*, 744 F.2d 917, 927. The court further held that the only valid test of whether the program license is too costly to be a realistic alternative is whether the price for such a license is higher than the value of the rights obtained. *Id.* at 926. Thus, case law suggests setting higher prices for program licenses that push consumers towards a blanket license is permissible. However, if the terms of the ASCAP consent decree are any guide, the Department of Justice may take a different view. The consent decree requires that the total license fee for a per-program or per-segment license must approximate the fee for a blanket license where all of the user’s programs contain ASCAP-licensed music. Second Amended Final Judgment, Civ. Action No. 41-1395 (WCC), Sections VIII(B).

¹⁹⁵ ASA § 4.8(a)(i).

¹⁹⁶ ASA § 4.8(a)(i)(2).

¹⁹⁷ ASA 4.8(a)(i)(3).

¹⁹⁸ ASA § 4.8(a)(iii).

¹⁹⁹ ASA § 4.8(a)(ii).

per printed page.²⁰⁰ It is too early to tell whether this might lead to a reduction in the cost of course packets.

3. The Research Corpus

The Settlement provides for the creation of a Research Corpus for non-consumptive and non-commercial research by certain qualified users.²⁰¹ The Research Corpus consists of all Digital Copies of Books made in connection with the Google Library Project, other than Digital Copies of Books that have been removed pursuant to Section 3.5 or withdrawn pursuant to Section 7.2(d)(iv).²⁰² A Rightsholder may withdraw its book from the research corpus if the book is commercially available as of January 5, 2009 (the Notice Commencement Date), or becomes commercially available within two years of that date.²⁰³ However, the book will be returned to the research corpus if it ceases to be commercially available after that two year period.²⁰⁴ Books removed pursuant to Section 3.5 are also withdrawn from the Research Corpus.

Use of the Research Corpus is limited to “Non-Consumptive Research”: research involving computational analysis of a book or a set of books that does not involve the use or display of substantial portions of a book to understand the intellectual content presented therein.²⁰⁵ The term “non-expressive use” has been used to denote the same concept.²⁰⁶

Commercial exploitation of algorithms developed while performing non-consumptive research is permitted under the agreement.²⁰⁷ However, the use of data extracted from specific books within the Research Corpus to provide services that compete with services offered by the rightsholder of those books or by Google is prohibited.²⁰⁸ Direct, for profit, commercial use of information extracted from Books in the Research Corpus is prohibited without the express permission of the Registry and Google.²⁰⁹ However, researchers may report the results of their Non-Consumptive Research in

²⁰⁰ ASA § 4.8(b).

²⁰¹ ASA § 7.2(d)(i).

²⁰² ASA § 1.132. Books removed after April 5, 2011 will remain part of the Research Corpus.

²⁰³ ASA § 7.2(d)(iv). ASA 1.97 (defining Notice Commencement Date).

²⁰⁴ ASA § 7.2(d)(iv).

²⁰⁵ ASA § 7.2(d)(vi)(1).

²⁰⁶ Sag, *supra* note 59.

²⁰⁷ ASA § 7.2(d)(x).

²⁰⁸ ASA § 7.2(d)(ix).

²⁰⁹ ASA § 7.2(d)(viii).

scholarly publications whether these are commercial or not.²¹⁰ The agreement contains a detailed set of provisions for evaluating research proposals and monitoring the activities of qualified researchers.²¹¹

Generally, qualified researchers will be academics affiliated with libraries and universities. In addition, suitably accredited researchers affiliated with universities, United States not-for-profit research organizations (such as a museums, observatories or research laboratories), or United States governmental agencies will be permitted to use the Research Corpus, provided that have their research agendas approved in advance.²¹² An individual who does not meet these criteria may become a “Qualified User” by demonstrating that she has the necessary capability and resources to conduct non-consumptive research.²¹³ For-profit entities may only become qualified researchers if both the Registry and Google give their prior written consent.²¹⁴

The non-consumptive research contemplated in the Settlement may be valuable to Google’s competitors. While competitors cannot directly extract information from books in the research corpus, they should benefit from research pertaining to the research corpus generally. While Google book search will clearly have spillover benefits for Google, it also seems likely that the research corpus has the potential to benefit both Google and its competitors. The more open access to the research corpus is, the less weight should be given to the claim that Google’s control of the book search database gives it an advantage over competitors in adjacent fields, such as Internet search more generally.

4. New (or Additional) Revenue Models

The original Settlement contained what amounted to an agreement to agree with respect to an open-ended set of new revenue models. The Amended Settlement limits these to three additional models: print on demand, file download, and a consumer subscription model.²¹⁵ The print on demand model will allow purchasers of books to obtain a print copy of a non-

²¹⁰ ASA § 7.2(d)(vii).

²¹¹ ASA § 7.2(d)(xi).

²¹² ASA § 1.123 (defining Qualified User); ASA 7.2(d)(xi)(2) (Research Agenda).

²¹³ *Id.*

²¹⁴ *Id.*

²¹⁵ Custom pay per-page publishing for course materials in the educational and professional markets; downloadable PDF versions of books (separate from consumer purchases) and products comprised of summaries, abstracts and/or compilations of books were excised from the list of new revenue models. Compare SA § 4.7 to ASA § 4.7.

commercially available book distributed by third parties.²¹⁶ The file download service envisaged in the agreement would permit books purchased by consumers to be downloaded in file formats appropriate for use on electronic book reading devices, mobile phones, portable media players, and other electronic devices. The consumer subscription model would essentially be an individual version of an Institutional Subscription model.

In addition to narrowing the range of new revenue models, the revised agreement requires the agreement of the Unclaimed Works Fiduciary instead of the Registry for the application of these new models to unclaimed books.²¹⁷ The Amended Settlement also requires that the revenue split for the print on demand and file download models be the same as for Consumer Purchases and that the revenue split for Consumer Subscriptions be the same as that for Institutional Subscriptions. The original agreement left these economic terms nebulously defined.

E. Book Classification

The Settlement contains a complicated web of default settings, modification provisions and opt-out rights. For copyright owners who are actively managing their works, the most important provisions of the agreement will be those that allow them to customize how their works are used. However, the default settings embodied in the Settlement are extremely important because they control how the vast majority of works that are not being actively managed (i.e. orphan works) will be made available through the GBS. The default settings are consequential because large numbers of authors and publishers are unlikely to take advantage of the numerous opt-in and opt-out provisions sprinkled throughout the agreement.

The settlement defaults may also be significant in setting the expectations of active rightsholders because they define a new status quo and baseline for negotiation. A number of the significant default positions and customization opportunities have been noted in the preceding analysis. What remains to be discussed is the all-important question of book classification.

²¹⁶ A book's availability through such print on demand program would not, in and of itself, result in the book being classified as commercially available.

²¹⁷ The agreement now also requires the Registry to give registered rightsholders and the Unclaimed Works Fiduciary at least sixty days' notice prior to Google offering any additional revenue model, and the right to exclude books under their control from such additional revenue model. ASA § 4.7.

Google will initially classify all books as either commercially available or not commercially available as of January 5, 2009.²¹⁸ This classification in turn determines, at least initially, whether a book is a Display Book or a No Display Book.²¹⁹ The agreement sets out the process for determining whether a book is commercially available in significant detail.²²⁰ Broadly speaking, to be commercially available, a book must be offered for sale as new through one or more customary channels of trade in the United States, Canada, the United Kingdom, or Australia.²²¹

Google is required to make this commercial availability determination based on an analysis of third-party databases and information publicly available on the Internet.²²² The Settlement recognizes that these sources of information may contain errors. To the extent that the information available from multiple sources is in conflict, Google is required to make its availability determination in a manner that is reasonably designed to minimize the overall error rate. The Settlement also allows rightsholders to provide information directly to Google that a book is commercially available. Google must act on this notification within thirty days unless it reasonably believes that the information is inaccurate.²²³ A rightsholder can also notify Google directly or indirectly through the Registry of any mistaken classification in either direction.²²⁴ When no information is available from these sources, the book will be classified as not commercially available.²²⁵ This same initial determination of whether a

²¹⁸ ASA § 3.2(b).

²¹⁹ *Id.*

²²⁰ ASA § 3.2(d)(i).

²²¹ ASA § 1.31.

²²² *Id.*

²²³ *Id.*

²²⁴ Any disputes regarding the determination of whether a Book is Commercially Available are subject to the Dispute Resolution Procedures pursuant to Article IX of the Settlement.

²²⁵ In the event that the database contains multiple versions of the same work, all versions will be treated as commercially available so long as one of those versions is subject to copyright and commercially available. Likewise, if a public domain book is commercially available with an Insert (such as a foreword or preface) which is subject to copyright protection, then any earlier edition of such Book that contains such Insert is also deemed to be Commercially Available. Note that foreign language translations, abridged versions and versions with different forewords or additional annotations are treated as separate books under the agreement. Likewise, even though a hardcover book and a soft cover book may contain the same principle work, they are nonetheless considered different books under the settlement agreement if they have different ISBNs. ASA § 1.113 (definition of “Principal Work”). Note also that at any time after one year from the Final Approval Date, Google shall have the right to request that the classification of a Book be changed to a Display Book if Google believes that the Book is not Commercially Available at that time, or if

book is Commercially Available will be used to initially classify Books as “in-print” or “out-of-print,”—a classification which can then be altered by the terms of the Author-Publisher Procedures.²²⁶

In general, in-print books that cease to be commercially available will be reclassified as out-of-print.²²⁷ If the Registry re-classifies a book as out-of-print, it will direct Google to change the book’s classification to Display Book.²²⁸ However, if the Registry reclassifies a book as in-print, the Registry will direct Google to change the classification of the book to a No Display Book only upon the express request of the Rightsholder of the book.²²⁹

These classifications are only the starting point. Regardless of the initial classification, an individual rightsholder, the Registry, or, in the case of unclaimed books, the Unclaimed Works Fiduciary, can change a book’s classification and, therefore, alter the rights and permissions associated with that book. Section 3.2(e)(i) allows an individual rightsholder to change the classification of a book or group of books from Display to No Display at any time—this amounts to a complete opt-out from all Display Uses.²³⁰ While only rightsholders can make a book less available, individual rightsholders, the Registry, and now the newly created Unclaimed Works Fiduciary, can also initiate a change in the opposite direction to make a work more available.²³¹ In light of the Unclaimed Works Fiduciary’s exclusive authority to change the classification of unclaimed books, and assuming that registered rightsholders will act on their own behalf, it is unclear exactly why and when the Registry would exercise its now limited powers under Section 3.2(e)(i).²³² It bears repeating that in addition to changing the No Display to Display classification of a book, a rightsholder

Google believes that a mistake was made in initially determining the Book to be Commercially Available. ASA § 3.2(e)(ii).

²²⁶ See *infra* Part II-F.

²²⁷ ASA § 3.3(a). Either an author or a publisher may challenge the classification of a book by filing a notice with the Registry APP § 3.3 (b).

²²⁸ Subject to any Change Requests by Rightsholders under ASA § 3.2(e)(i).

²²⁹ Again, subject to any Change Requests by Rightsholders under ASA § 3.2(e)(i).

²³⁰ ASA § 3.2(e)(i). Under the amended agreement, the Unclaimed Works Fiduciary will initiate such change requests on behalf of unclaimed books, but still apparently subject to the one-way ratchet. *Id.* (“A direction to change the classification of a Book to a No Display Book or a group of Books to No Display Books, however, must be initiated by the Rightsholder of the Book or Books.”) Similarly, the Registry’s Ability to Adjust Preview Use Settings in § 4.3 of the Agreement has now been delegated to the Unclaimed Works Fiduciary. ASA § 4.3(v).

²³¹ *Id.*

²³² ASA § 3.2(e)(i).

may direct Google to exclude a book, or a portion thereof, from any one or more display uses, revenue models, or the book annotation sharing feature.²³³ This direction may be given at any time.²³⁴

The process for identifying books in the public domain is also an important part of the Settlement. The Settlement contains a safe harbor for Google with respect to books that it mistakenly classifies as public domain. To take advantage of the safe harbor, Google must follow a specific process for determining whether a book is in the public domain.²³⁵ The process is not mandatory, but it must be followed for the safe harbor to take effect.

Under current U.S. copyright law, a work will become part of the public domain when the term of copyright protection expires, or upon creation if the work is a U.S. government work. In addition, in the past it was possible for a work to enter the public domain because it was published without the appropriate copyright notice or because the copyright owner failed to renew his registration. Although these formalities are no longer a part of the current U.S. Copyright Act, they still affect the copyright status of works published in the past. The extraordinary length of copyright protection and the extraordinary legal and factual complexity of determining whether a work is in the public domain significantly diminish the usefulness of the public domain as a cultural resource. One of the anticipated public benefits of the Settlement is that it creates strong incentives for Google to correctly identify which works are in the public domain. Again, one could question whether the Registry will be properly motivated to identify books as belonging to the public domain and thus outside their control.

F. Author-Publisher Procedures

The Author-Publisher Procedures in Attachment A to the Settlement Agreement (“APP”) play a substantial role in determining who controls the exploitation of a work within the Google Book universe and who benefits from that exploitation.²³⁶ The APP defines the central question of who is regarded as a Rightsholder under the agreement; who speaks for the work with regard to opting into or out of Display Uses; who determines the price of access to the work under the Consumer Purchase model; and how

²³³ ASA § 3.5(b)(i).

²³⁴ *Id.*

²³⁵ Attachment E to the Settlement Agreement (Public Domain).

²³⁶ The APP do not otherwise alter the rights and obligations of the parties. APP § 2.1. The APP are effective as of the Effective Date defined in the Settlement, but that if the Registry is operational prior to that date, an Author and Publisher may agree to invoke the APP. APP § 2.2.

revenues from electronic distribution and advertising are allocated between authors and publishers. Before reviewing these questions in detail, it is first necessary to navigate an obstacle course of threshold conditions and definitions to which the substantive provisions of the APP are keyed.

1. In-Print versus Out-of-Print

The first determination required to make sense of the APP is the distinction between in-print and out-of-print. Article 3 of the APP sets out the ways in which Google and the Registry will initially classify books either in-print or out-of-print and how they will test and change that classification given a successful challenge by either the author or publisher of a book.

Books that are Commercially Available, as that term is defined under the Settlement Agreement, are initially classified as in-print under the APP.²³⁷ Conversely, books that are not Commercially Available are initially classified as out-of-print. Either of these classifications is subject to challenge by the author or the publisher (or their representatives on the Board of Directors on the Registry) under two additional tests for determining a work's in-print/out-of-print status.²³⁸ If a book meets either of the two tests, it will be classified as in-print; otherwise, it will be classified as out-of-print.²³⁹

Confusingly, the first reclassification test combines two distinct contractual concepts—reversion of rights to the author and the status of the book as in-print under the relevant author-publisher contract.²⁴⁰ If the author-publisher contract does not provide for reversion to the author under any circumstances, the book is regarded as in-print regardless of whether it is commercially available or not.²⁴¹ If the author-publisher contract does provide for reversion, the question then becomes whether the book is in-print under that contract.²⁴²

This test is confusing because it implicitly assumes that all author-publisher contracts use in-print/out-of-print as the sole trigger for reversion of rights to the author. In fact, author-publisher contracts vary enormously depending upon the relative bargaining strengths of the parties, the previous

²³⁷ APP § 3.1.

²³⁸ APP § 3.2(a), § 3.2(b).

²³⁹ *Id.*

²⁴⁰ APP § 3.2(a)(i)

²⁴¹ *Id.*

²⁴² *Id.* Note that the Book may be “in-print” even if the contract does not use the term “in-print.”

experiences of both the author and publisher, and the era in which the contract was put into effect. To address this potential problem, the APP provides that a book will not be considered “in-print” if the contract provides for reversion to the author and all of the criteria for reversion have been met.²⁴³

Nonetheless, the problem of determining whether the book is in-print (or should have reverted) under the terms of the author-publisher contract still remains. Disputes between authors and publishers as to whether a book has reverted are commonplace. Contracts drafted before electronic distribution and print-on-demand became significant issues are unlikely to be easy to interpret in this respect. For example, it is unclear whether a single book published and shipped upon demand by a book store means that it is “available for sale either from stock, from publisher’s warehouse, or in the field,” thus making it in-print according to many publishing contracts. The APP does not answer this question, but it does provide some assistance in interpreting other terms of author-publisher contracts that may be used to trigger reversion to the author. The APP provides that if the determination of in-print status under the contract is based on revenues, and more than 50% of the revenues come from the Google Book Revenue Models, then those revenues will not be used to meet the requirements.²⁴⁴ An equivalent principle applies to determinations based on units sold.²⁴⁵ The APP also provides that mere inclusion of a book in a database or search results will not provide sufficient proof that a book is “in-print.”²⁴⁶

The second reclassification test for challenging a book’s in-print/out-of-print status relates to future publications. Specifically, the APP provides that a book will be considered in-print if, consistent with its contractual rights, the publisher publicly announces to the trade that it has undertaken concrete steps to publish an existing or new edition of that book, and such edition is published within twelve months of the announcement.²⁴⁷ It is unclear whether a book would be retrospectively reclassified as out-of-print if the publisher’s announced intention to publish within twelve months did not in fact come to fruition. It is also unclear how many copies must be published and in what form. Presumably, the announced publication would have to meet the contractual threshold determining whether a book is in-print.

²⁴³ APP § 3.2(a)(i)(3).

²⁴⁴ APP § 3.2(a)(i)(1).

²⁴⁵ *Id.*

²⁴⁶ *Id.*

²⁴⁷ APP § 3.2(a)(ii).

2. Author-Controlled Books

In addition to the in-print/out-of-print classification discussed above, the APP contains a separate provision determining whether a book is to be classified as “Author-Controlled.”²⁴⁸ This classification is important because it allows the author alone to direct the exploitation of a book by Google, including decisions about removal, exclusion, changes in display uses, and pricing. This classification also means that the author receives 100% of the revenue from the book.

Section 4.1 of the APP sets out the procedure to be applied in determining whether any book for which the rights have not reverted to the author should nonetheless be classified as “Author-Controlled.” The procedure does not apply to a work-for-hire or a work for which the author-publisher contract does not provide for reversion to the author under any circumstances.²⁴⁹ Although this process may be broadly consistent with various author-publisher agreements, where it is not, it effectively overwrites the contractually mandated procedures in such agreements.

To obtain the “Author-Controlled” classification with respect to a book, an author must first have sent a request for reversion to the publisher in accordance with the relevant author-publisher contract.²⁵⁰ If the publisher does not respond or did not respond within (i) 90 days or (ii) the applicable period defined by the contract, the author may send a “Change Status Notice” to the Registry, with a copy to the publisher.²⁵¹ That notice must affirm that the author believes the book is no longer in-print and that the response period has expired, and the author must include a copy of the previously-sent request for revision and applicable author-publisher contract.²⁵² It appears that if the relevant contract gives the publisher a “reasonable period” (or some other unspecified period) to respond, an author could rely on the specification of 90 days in the APP as defining that previously undefined period.

When the Registry receives an author’s notice, it must escrow all subsequent revenues from the book.²⁵³ If the publisher does not respond to the Change Status Notice within 120 days, the Registry will deem the book

²⁴⁸ APP § 4.

²⁴⁹ APP § 4.1.

²⁵⁰ APP § 4.1(a).

²⁵¹ APP § 4.1(b).

²⁵² APP § 4.1(b)(i)-(iii).

²⁵³ APP § 4.1(c).

to be Author-Controlled.²⁵⁴ If the publisher disputes the Change Status Notice within the requisite 120 days, the parties will look to the Registry for decision.²⁵⁵ When reviewing the issue, either party can ask the Registry to review the in-print/out-of-print status of the book according to Article III of the APP.²⁵⁶ The Registry will also review the evidence as to whether the rights have reverted according to the terms of the author-publisher contract, and if the conditions for reversion have been met, deem the book Author-Controlled.²⁵⁷ The Registry will distribute the escrowed revenues according to its determinations on the issues of Author-Control and the in-print/Out-of-print status of the book.²⁵⁸

Article IV of the APP gives authors an alternative mechanism under which to exercise their contractual rights of reversion. Prior to the Settlement an author would have had to rely solely on her contractual remedies; under the APP, authors now have the option of sending a petition through the Registry. If the publisher fails to respond, the author automatically prevails.

3. Who Controls the Exploitation of the Work?

Having surveyed the nuances of the in-print/ out-of-print classification and the separate, but related, classification of “Author-Controlled” works, it is now possible to address the substantive questions that arise between authors and publishers—who controls the exploitation of the work under the Settlement and who benefits from that exploitation?

The first issue is defining exactly who constitutes a Rightsholder under the agreement. This depends on whether the work is considered a work-for-hire under U.S. Copyright law, whether the book is in-print or out-of-print, whether the book is author-controlled, and whether the rights have reverted to the author.

Beginning with the scenario most favorable to the author, if a work is out-of-print and the rights have reverted to the author, the author will be considered the sole rightsholder.²⁵⁹ In addition, if the work is deemed to be author-controlled (which means that it should be out-of-print), the author

²⁵⁴ APP § 4.1(d).

²⁵⁵ APP § 4.1(e).

²⁵⁶ APP § 4.1(e)(i).

²⁵⁷ APP § 4.1(e)(ii)-(iii).

²⁵⁸ APP § 4.1(e)(iii)-(v). If both an author and publisher claim or register a book under Section 13.1(c)(ii)(2)(B) of the Settlement, the Registry will notify both about the conflicting claims, and the protections provided under Article IV of the APP. APP § 4.2.

²⁵⁹ APP § 6.1(b).

will be considered the sole Rightsholder.²⁶⁰ If the rights in an out-of-print book have not reverted to the author, and the work is not deemed to be Author-Controlled under Article IV, both the author and the publisher shall be considered rightsholders.²⁶¹ For in-print books, both the publisher and the author are considered to be rightsholders under the terms of the Settlement.²⁶² The only way the publisher gets to be the sole Rightsholder is if the book in question qualified as work-for-hire under U.S. copyright law at the time it was made.²⁶³

The APP outlines procedures for resolving conflicting instructions between joint-rightsholders; these procedures vary depending upon whether the book is in-print or out-of-print. The upshot of these procedures is that in the event of a conflict over permissions and levels of access, the most restrictive direction will prevail.²⁶⁴ Specifically, the APP assumes that publishers will make the first move in defining the acceptable uses of books in-print. Authors are then given a 30 day window to object to some or all of the display uses requested by the publisher.²⁶⁵ If an author fails to respond within 30 days, the display uses requested by the publisher will prevail subject to Section 3.5 of the Settlement Agreement. This is an important caveat. Section 3.5 of the Settlement Agreement allows Rightsholders, at any time, to exclude a book, or part of a book, from any one or more, or all, display uses, revenue models, or the book annotation sharing feature.²⁶⁶ Section 5.3 of the APP provides that any time the author and the publisher of a book issue conflicting directions to the Registry for an in-print book pursuant to Section 3.5, the more restrictive directions as to removal, exclusions, changes in display uses or levels of access will control. Thus, even if an author misses the 30 day response window, she still retains a substantial say in the display uses and revenue models affecting her work.

The joint control provisions for out-of-print works are not an exact mirror of the rules for works in-print. To the extent that the publisher retains Rightsholder status in an out-of-print book (i.e. if the rights have not reverted to the author and the work is not Author-Controlled), both the author and the publisher can direct removal, exclusion, and changes in

²⁶⁰ APP § 6.1(a).

²⁶¹ APP § 6.1(c).

²⁶² APP § 6.1.

²⁶³ APP § 5.1(a), APP § 6.1(a). If a Book is a work-for-hire, only the Publisher is considered a rightsholder for purposes of directing removal, exclusion, changes in display use, or level of access for any revenue model.

²⁶⁴ APP § 5.3, APP § 6.1(c).

²⁶⁵ APP § 5.1(a)

²⁶⁶ APP § 5.1., APP § 3.5(b)(i).

Display Uses or levels of access for any Revenue Model.²⁶⁷ However, the publisher must articulate a “good reason” for its directions. Such reasons include legal, technical, editorial, policy, commercial or economic considerations.²⁶⁸ But note that reducing access to one book in order to benefit another by reducing competition is not a “good reason.”²⁶⁹ Once again, if, at any time, an author and the publisher of a book issue conflicting directions to the Registry regarding the uses authorized for such out-of-print book, the more restrictive directions as to levels of access will control.²⁷⁰

The rules applicable to pricing also depend on the in-print/out-of-print status of the work. For books in-print, so long as the publisher and author agree to authorize one or more Display Uses, then the publisher has the right to determine the pricing of the book for Consumer Purchase.²⁷¹ Authors cannot directly control the price of an in-print book, but they can use their power to exclude a book from one or more of the display uses to get some accommodation from publishers. While this strategy may be effective for authors who simply disagree with their publisher as to the optimal price point for a work, it will not give significant leverage to authors who would like their works to be available for free or subject to a Creative Commons license. It is also worth noting that while publishing contracts rarely give authors any input into pricing decisions, to the extent that an author has such a contractual right, the Settlement appears to vitiate it for works in-print.

If both the author and the publisher are considered Rightsholders with respect to an out-of-print work, either party may set the price applicable to Consumer Purchases. The Registry will act on the most recent notification received, subject to the timely objection of the other party. In the event of such an objection, the higher of the prices specified will prevail.²⁷² Again, this highest common denominator approach to pricing for out-of-print works may contradict an expressed term of some author-publisher contracts and is likely to frustrate authors who would like to make their works more freely available through the Google Book universe.

²⁶⁷ APP § 6.1(c).

²⁶⁸ APP § 6.1(c).

²⁶⁹ *Id.*

²⁷⁰ *Id.*

²⁷¹ APP § 5.4.

²⁷² APP § 6.1(c).

4. Who Benefits from the Exploitation of the Work?

The APP controls the allocation of revenues generated under the Settlement's various revenue models between authors and publishers.²⁷³ This includes the initial cash payments to class members whose books and inserts have been digitized.

If a book, either in-print or out-of-print, was created as a work-for-hire, the Registry will remit 100% of revenues to the publisher.²⁷⁴ The authors of works-for-hire will not actually be parties to the Settlement because they do not have a copyright interest in the work.²⁷⁵ Thus, for whatever it is worth, these authors are not bound by the terms of the Settlement.

The remaining provisions relating to the allocation of revenues depend upon a book's in-print/out-of-print status. For books in-print, the Registry will make all payments to the publisher and the publisher is then expected to pay the author based upon the royalty rate in their contract or other agreement.²⁷⁶ Most authors who object to their allocation under this provision may initiate a dispute under Article VII of the APP; however, the authors of Educational Books—books primarily intended for sale to educational markets for use in educational programs—do not get the benefit of Article VII.²⁷⁷

Assuming that Article VII applies, once the Registry is notified of a dispute, it will suspend payments until the matter is resolved.²⁷⁸ Either party may submit the dispute to the Registry for arbitration under Section 9.3 of the Settlement if no amicable resolution can be achieved.²⁷⁹ In any such arbitration, the arbitrator will look first to the terms of the written contract, and will only look to extrinsic evidence if the contract does not contain conclusive language.²⁸⁰ While these provisions may be consistent with

²⁷³ APP § 5.5.

²⁷⁴ APP § 6.2(b).

²⁷⁵ ASA § 1.13 (defining “Amended Settlement Class”).

²⁷⁶ APP § 5.5.

²⁷⁷ *Id.* See APP § 1.3 (defining Educational Books for the purposes of the APP).

²⁷⁸ APP § 7.2(a).

²⁷⁹ APP § 7.2(b).

²⁸⁰ APP § 7.2(c). APP § 7.3 also defines the fee structure for disputes; giving power to the Registry to set filing fees in order to avoid financially burdening the Registry. For disputes between Authors and Publishers, the party submitting the dispute to the arbitrator must pay a filing fee of \$300, \$150 of which they will get back if they prevail. APP § 7.3(a). The Registry will set fees for disputes among non-Publisher Rightsholders, and all other costs will be borne by the Registry. APP § 7.3(b)-(c). Note also that if an In-Print book was published under an author-publisher contract executed prior to 1992 that has not been

many author-publisher contracts, they are clearly inconsistent with agreements that do contain merger clauses or provide for mandatory arbitration. Some authors may see these procedures as overly restrictive or favorable to publishers.

The allocation of revenue for out-of-print books does not appear to rest on the terms of the relevant author-publisher contract, presumably because a large number of author-published contracts would contain no such provision. If the relevant rights have reverted to the author, or if the book is deemed to be Author-Controlled, the Registry will remit 100% of revenues to the author.²⁸¹ Otherwise, if an out-of-print book was first published prior to 1987, the Registry will pay 65% of revenues to the author and 35% to the publisher.²⁸² Revenues are to be divided equally between authors and publishers of out-of-print books published during or after 1987.²⁸³ There is no indication in the agreement as to why the year 1987 was chosen for this purpose. Both authors and publishers may take issue with this fixed payment schedule. These fixed percentages may be at odds with prior author-publisher arrangements or understandings regarding royalties, and may be grossly out of proportion as to the amounts agreed upon in the publishing agreement.

The assumption up to this point has been that all of the relevant rightsholders are registered with the Registry. However, in all likelihood a substantial number of authors and publishers will fail to register at least some of their titles. Potential rightsholders must register their interest in order to receive any payments under the Settlement.²⁸⁴ The mechanics of registration are not burdensome for any particular book, but they might prove challenging for publishers with poor record-keeping and extensive back-catalogues.

In order to register, claimants must provide their contact information, social security number or equivalent, and an attestation of their good faith belief of ownership of a copyright interest in the book or the insert that is the subject

amended to expressly address electronic rights, the arbitrator's ruling as to the allocation of revenues for electronic rights will also apply to other uses of that book in any other Google programs that are the same as or substantially identical to that Display Use. APP § 10.1

²⁸¹ APP § 5.1, APP § 6.2(a).

²⁸² APP § 6.2(c)(i). The publication year is determined by the earliest copyright year that appears in the book, or if none is listed, then the first year of publication of the book. APP § 6.2(c)(iii).

²⁸³ APP § 6.2(c)(ii).

²⁸⁴ ASA § 13.1.

of the claim.²⁸⁵ To claim an interest in relation to a book, a claimant must identify whether she is the author, publisher, heir, successor or assignee, or other type of rightsholder of the book and whether such book is a work-for-hire. A claimant must also provide information sufficient to identify the book, including either the title of the book and the name(s) of the author(s) and/or editors or the book's ISBN.²⁸⁶ Claimants must also state their belief that either the book is not a "United States work," as defined in 17 U.S.C. § 101 or that the book was registered with the U.S. Copyright Office by the Notice Commencement Date.²⁸⁷ In addition, publisher claimants must state whether they are "highly confident" based upon the individual book contract that the rights to the book have not reverted to the author or whether they are "confident," based upon the type of book or type of contract for the book, that the rights to the book have not reverted.²⁸⁸ In contrast, authors and their successors in title are merely required to state either that the book has or has not reverted or that they do not know whether such the book has reverted.²⁸⁹

The timing of a claimant's registration is consequential. Although rightsholders may register to participate in the Settlement at any time, to be eligible for a cash payment pursuant to Section 5.1 of the Agreement, which provides for cash payment to class members whose works have been digitized, a rightsholder must register within one year of the Notice Commencement Date.²⁹⁰ Furthermore, rightsholders effectively abandon any revenues attributable to their works that are unclaimed after ten years. The unclaimed funds provision of the agreement provides that revenues, other than subscription revenues, that are not claimed within ten years will be distributed to literacy-based charities and the reading public.²⁹¹

5. Some Implications of the APP

In many respects, the APP simply streamlines the incorporation of existing contract terms between authors and publishers into the framework of the Google Book Settlement. This is essential to the coordinating function of

²⁸⁵ ASA § 13.1(a).

²⁸⁶ ASA § 13.1(c).

²⁸⁷ *Id.*

²⁸⁸ *Id.*

²⁸⁹ *Id.*

²⁹⁰ ASA §13.3.

²⁹¹ See ASA 6.3(a)(i). The mechanics of the process are spelled out in some detail in the agreement. Note that under the terms of the original settlement agreement these funds would have been distributed to the Registry itself to defray its operating expenses and then to the registered rightsholders in order offset the 10% deduction for Google's operating costs built into the net advertising revenues and net purchasing revenues.

the Settlement and the day-to-day operation of the Registry. The provisions of the APP are unlikely to be controversial in situations where rights have clearly reverted back to the original author, or where the original author has no rights at all because the work was a work made-for-hire. However, where the existing author-publisher contract arguably gives both parties some control over the exploitation of the work, or simply fails to make any provision for electronic rights, the APP effectively amends that contract.

Whether the APP fills a contractual void or overwrites provisions on an existing contract, it will inevitably disadvantage some authors and some publishers. These new terms do not appear to systematically disadvantage either authors or publishers, but there may well be individual authors or publishers who would strenuously object to them. The public may also be disadvantaged by the conservative nature of the APP. In a range of scenarios in which both authors and publishers maintain an interest in the work and have conflicting preferences, the APP takes a lowest-common-denominator approach and provides for the most restrictive access at the highest price. In the aggregate, these disadvantages are probably offset by the greater efficiency and increased public access facilitated by the APP.

PART III. EVALUATING THE SETTLEMENT IN LIGHT OF THE FAIR USE COUNTERFACTUAL

As discussed in Part I, if Google's fair use defense had been put to the test, the most likely outcome would have been that the digitization of library books for inclusion in a book search database constitutes a fair use so long as the final product—the search results displayed to end-users—is not infringing and so long as copyright owners are provided with a low-cost mechanism to withdraw their books from the database. It must be stressed that this was just one possible outcome; the case could have been resolved on terms much less favorable to Google. Nonetheless, this counterfactual gives us a useful basis upon which to evaluate the Amended Settlement.

To make this comparison properly requires an analysis of more than just the initial rights and freedoms created by such a fair use ruling. It also requires some investigation of how Google and copyright owners would have negotiated in the shadow of such a ruling. The hypothetical court decision should be seen as a beginning, not an end. In other words, there is a difference between the 'fair use ruling' and the subsequent moves the players would make in a 'fair use world.'

Under the hypothetical fair use ruling, Google would have the right to continue to make non-expressive uses of printed library books by digitizing and analyzing these works. It would also have the right to continue to report such results in relation to these books, provided that the search results themselves did not amount to a substantial copy of any particular work. The fair use ruling would not have allowed any substantial previews, with the exception of works in the public domain that are, of course, unrestricted. In addition, the hypothetical fair use ruling would not, by itself, provide a single cent of revenue for any copyright owner.

Now consider how the fair use world compares to the Amended Settlement. In a fair use world, Google's basic digitization, analysis and reporting would continue, except that some copyright owners would presumably opt-out of the database altogether. Structurally, this is essentially the same as the class-action settlement. In a fair use world, the display of brief snippets of text as part of a menu of search results would continue to be non-infringing provided that it did not cross over the threshold of substantial similarity. The Settlement is similar in this regard, except that rather than relying upon the somewhat imprecise copyright law concept of substantial similarity, the length of the permissible snippets is expressly and narrowly defined in the Settlement Agreement. Under the Settlement or in a fair use world, some copyright owners would probably opt-out of snippets. Of course, copyright owner decisions on whether to opt-out will depend on the perceived benefits and burdens of inclusion or exclusion from the Google universe, and these, in turn, are influenced by whether other copyright owners are likely to remain within the Google Book universe.

The Amended Settlement permits Google to engage in a significant range of uses beyond fair use. In addition to allowing book previews, the Amended Settlement also envisages new services, including a "Consumer Purchase" model, "Institutional Subscriptions," and additional revenue opportunities that remain subject to negotiation between Google and the rightsholders.²⁹² These new features take the database well beyond the realm of mere indexing and identification that enhances the value of paper collections. Electronic book purchases and corporate and educational subscriptions will allow for the complete electronic distribution of books that substitutes entirely for paper-based mediums.

It is likely that, in a fair use world, some copyright owners would have expressly allowed Google to make more substantial uses of their works,

²⁹² See *supra*, Part II.

including the display of substantial previews and possibly even the kinds of activities envisaged under the additional revenue models discussed in the Settlement. However, the number of copyright owners who would have taken such action remains uncertain. A key difference between the Settlement and the fair use world hypothesized here is that the Settlement makes it much easier for rightsholders to opt-in to expansive uses of their works. Indeed, many of the defaults established by the Settlement do not even require an opt-in; rather, they place the burden on the rightsholder to opt-out. The Settlement sets a default position that allows significant previews of out-of-print/not-commercially-available books. It also subjects most of these works to consumer purchases and institutional subscriptions—uses that potentially substitute for existing paper collections rather than merely complimenting them.

The Settlement also contains a number of mechanisms through which rightsholders, the Registry acting on behalf of rightsholders and the Unclaimed Works Fiduciary acting on behalf of unregistered copyright owners, can increase the extent of the previews they allow. Beyond the specific extensions provided for in the agreement, one of the key differences between the fair use world and the Settlement is the institutional framework erected by the agreement.

The agreement creates a new set of institutional arrangements that will govern the relationship between Google and the copyright owners covered by the Settlement. The three main elements of this new institutional framework are the Settlement agreement itself, the creation of a collective rights management organization called the Book Rights Registry, and the Author-Publisher Procedures. Compared to a fair use ruling, the settlement gives copyright owners a greater degree of flexibility to manage the types of uses that are made of their works and the degree to which their works are made available for preview and display.²⁹³ While in theory copyright owners would still have been able to contract around a fair use ruling, their ability to do so easily and effectively is greatly enhanced by the machinery put in place by the settlement.²⁹⁴ By establishing clear mechanisms and default rules, the Settlement Agreement effectively lowers transaction costs for individual copyright owners in a number of ways.

The Book Rights Registry established under the Settlement is designed to allow rightsholders to exploit their works individually and collectively. The Registry will function as a collective rights institution to facilitate

²⁹³ See *supra*, Part II-D.

²⁹⁴ *Id.*

rightsholder actions and stand in the shoes of inactive rightsholders. The Amended Settlement transfers significant Registry responsibilities to the Unclaimed Works Fiduciary—a role that was created in response to concerns about the adequacy of representation of the owners of orphan works.

Another key institutional feature of the settlement is the Author-Publisher Procedures, which play a substantial role in determining who controls the exploitation of a work within the Google Book universe and who benefits from that exploitation.²⁹⁵ These procedures enhance the coordinating function of the settlement by streamlining the incorporation of existing author-publisher contractual terms into the framework of the Google Book universe. However, where an existing author-publisher contract gives both parties some control over electronic exploitation, or simply fails to make any provision for electronic rights, the Author-Publisher Procedures effectively overwrite those contracts. These new terms do not systematically disadvantage either authors or publishers, but there may well be individual authors or publishers who would strenuously object to them.

The Settlement establishes contractual mechanisms for rightsholders to specify their preferences and creates an important institution in the form of the Book Rights Registry to facilitate rightsholder decision making and collective negotiation. The Amended Agreement supplements the Registry with an Unclaimed Works Fiduciary to better safeguard the interests of unregistered rightsholders. This institutional framework allows for all of the same transactions that might occur in a fair use world, but at a significantly lower cost of transacting. The expectation in a fair use world is that some authors would profit from opting into more extensive uses or from promising not to opt-out of the basic uses. Nonetheless, the opportunities for copyright owner remuneration under the Settlement appear to be much more significant because the revenue generation potential of the new Google Book universe is so much greater.

The other key institutional aspect of the Settlement is the Author-Publisher Procedures. Although these procedures allocate control and beneficial ownership between authors and publishers, they exist primarily for the benefit of the Registry and Google. The APP provides a mechanism for incorporating existing author-publisher contractual terms into the Google administrative framework. It also specifies new contractual terms that fill critical gaps and ambiguities in a number of legacy publishing agreements.

²⁹⁵ See *supra*, Part II-F.

The APP provides a set of mechanisms through which the Registry can reconcile potentially conflicting directions regarding the electronic exploitation of a registered work. It also provides the Registry with a formula for allocating revenues between authors and publishers in situations where many existing contracts make no adequate provision.

The most controversial point of departure between the Settlement and the likely fair use outcome relates to the accessibility, commoditization, and control of orphan works. The settlement gives Google, and the public, significantly greater access to orphan works. Whereas there is no strong fair use argument for allowing substantial previews of up to 20% of a book's contents, the settlement makes this "Standard Preview" the default for most types of books.²⁹⁶ This default setting ensures a much greater level of access to orphan works than could have been possible merely relying on fair use and other defenses to copyright infringement. More controversially, orphan works will be commoditized as Consumer Purchases and Institutional Subscriptions.

The issue of orphan works is complicated by the ambiguity and elasticity of the term itself. Orphan works are works for which the copyright owner cannot be readily identified and located by someone who might need permission to use the work.²⁹⁷ The ambiguity here pertains to how much effort a user should be expected to exert to track down wayward parents and negotiate with them. The owners of some copyrighted works will never be identifiable with reasonable certainty either because initial authorship is ambiguous or because the copyright ownership has been passed along a chain of title too complex to unravel. In contrast to these "pure orphans," there are "contextual orphans," works for which the copyright owner could be found, but for which the expenses of so doing is prohibitive or unjustifiable on a cost benefit analysis. Potential users of both *pure* and *contextual* orphan works often choose not to use or display such works out of concern that they may be subject to injunctions and statutory damages if the owner of an orphan work subsequently comes into the picture and sues for infringement.

The orphan works problem is particularly acute for library and archive digitization projects, and the predicament has been exacerbated in recent years due to both supply-side and demand-side considerations.²⁹⁸ On the

²⁹⁶ § 4.3(b)(i)(1) (Standard Preview), see *infra* Part II-D(1) for further discussion.

²⁹⁷ Copyright Office Report on Orphan Works.

²⁹⁸ Library Copyright Alliance, *Library Copyright Alliance Supports Orphan Works Reform* available at <http://www.librarycopyrightalliance.org/orphan.htm>.

supply-side, the extension of the term of copyright protection, the elimination of formalities such as notice and registration, and the retroactive restoration of some foreign works previously in the public domain have all increased the domain of copyright protection at the expense of the public domain.²⁹⁹ At the same time, digitization has increased the demand for access to more obscure works. Tracing the ownership of copyright requires more than just tracking down the original author—copyrights are transferred by the operation of certain statutory provisions, private contracts, corporate mergers, divestitures and bankruptcies, and as part of deceased estates. As the Library Copyright Alliance notes:

[a] person seeking permission to use an older work needs to untangle the complicated history of mergers and acquisitions of the original publisher to identify the corporation that now might own the rights to the work. This corporation, however, might not have adequate records concerning all the works to which it holds title. And since the person typically is seeking to use the work for at most nominal compensation, the corporation has no incentive to invest adequate resources in locating the records concerning the work.

Google's initial approach to the difficulty of proactively clearing rights with millions of different authors and their descendants was to rely on the fair use doctrine and the ability of copyright owners to opt-out. This was not only a perilous legal strategy but also significantly limited the types of uses Google could make of orphan works. The settlement, in contrast, gives Google an express license from the owners of orphan works, albeit a license that remains subject to substantial opportunities for active copyright owners to modify key terms or opt-out of key uses altogether.

One of the most pronounced criticisms of the initial Settlement Agreement was that it would create an "orphan works monopoly,"³⁰⁰ The core of this allegation is that while a fair use ruling in Google's favor would have unblocked access to orphan works for a broad class of users, the original Settlement Agreement only solved the orphan works problem for Google.³⁰¹

²⁹⁹ *Id.*

³⁰⁰ See e.g. Grimmelmann, *supra* note 3, Samuelson, *supra* note 3 and Randal C. Picker, *The Google Book Search Settlement: A New Orphan-Works Monopoly?* (July 18, 2009), available at SSRN: <http://ssrn.com/abstract=1387582>. See also, DOJ Statement *supra* note 6 at 7.

³⁰¹ Picker, *Id.*

The Amended Settlement does nothing to alleviate this situation because to do so would risk over-stepping the limits of class action law. From a competition law perspective it would be desirable if the Registry had the power to license orphan works to third parties under terms similar to those which apply to Google. However, empowering the Registry in that fashion would mean using a lawsuit between A and B to create obligations between C and D—a result that is difficult to align with even a relaxed approach to Rule 23.

Although it is true that the agreement creates no fair use precedent, the distinct set of legal entitlements that will vest on Google if the Amended Settlement is approved will only translate to a monopoly if they establish a barrier to entry. The Amended Settlement may not constitute a barrier to entry because in some respects Google's competitors will have a considerable second mover advantage. Although only Google can fully commoditize orphan works, the Registry, created at Google's expense, provides Google's competitors with an easier route to reaching an agreement with a large and diverse group of active copyright owners. Moreover, the Amended Settlement defines an effective benchmark of reasonable terms and conditions that would-be competitors may seek to emulate.³⁰²

In sum, the carefully negotiated settlement provides a much more elaborate institutional framework than would have emerged following a fair use ruling in Google's favor. It almost certainly allows for more efficient exploitation of printed library books. In addition, whereas a fair use ruling would have effectively unblocked access to existing works for the limited purpose of digitization, indexing and search, the Settlement provides more access to existing works through electronic consumer purchases, the institutional subscription service, and other products and services yet to be developed. It should not be overlooked that the Settlement provides for initial cash payments by Google to the copyright owners and a fairly generous revenue sharing agreement, neither of which would have been required under a fair use ruling.³⁰³ On the other hand, whereas a fair use precedent would have cleared a significant legal obstacle for all potential entrants to the book search field, the Settlement only licenses Google.

³⁰² The counterfactual analysis undertaken here is an essential predicate to resolving these antitrust questions, although that task itself is beyond the scope of this Article.

³⁰³ See *infra* Part II-C.

CONCLUSION

The outcome of the final fairness hearing that will determine the fate of the Google Book Settlement remains unknown as this Article goes to press. It is easier to summarize the issues at stake in the Google Book settlement than it is to predict the outcome of this protracted and sprawling dispute. There is no doubt that approval of the Settlement will yield enormous cultural, intellectual, and educational benefits. It will expand access to millions of out-of-print books for all readers; it will also facilitate a revolution in access for print-disabled persons and users in remote locations without immediate geographic access to the nation's marquee research libraries. In addition to the promise of greater access and better searching and browsing, there is also the possibility of the GBS catalogue being linked to an open platform ebook reader that overcomes many of the disadvantages of the current proprietary models such as the Kindle and the Nook. From the perspective of authors and publishers, the GBS settlement promises new ways to profit from out-of-print works, as well as the possibility that increased access will draw in new readers and open up new niche markets.

However, there are also anxieties attendant with the Settlement and its implications for authors, publishers, universities, and the reading public. While it is clear that the ebook has arrived, no one knows what this actually portends. Publishers fear the twin evils of Napsterization and disintermediation. Like the recording industry before them, publishers are concerned that their role in the economy of the printed word will be undermined by consumer disregard for copyright law and the availability of digitized books on file-sharing networks. Authors worry about this economic harm, and they express more intangible concerns about a loss of control in the manner of exploitation of their works. Publishers also apprehend that authors and online booksellers may cut them out of the distribution chain altogether. Even if they retain their centrality in the book economy, there are signs that the ebook market will not tolerate the premium pricing strategies that enable publishers to charge an average cover price of \$26 for a new hardcover, a disquieting proposition for an industry used to occasional blockbusters offsetting non-performing investments.³⁰⁴

³⁰⁴ Motoko Rich, "Steal This Book (For \$9.99)" *N.Y. Times*, May 16, 2009 (noting that publishers are caught between authors who want to be paid high advances and consumers who believe they should pay less for a digital edition, largely because the publishers save on printing and shipping costs.)

While publishers and authors may be distressed about lower prices and diminished sales, libraries, educational institutions, and academics fear high prices, especially once access to the GBS through institutional subscriptions comes to be seen as indispensable.³⁰⁵ This concern is compounded by the anxiety that libraries will shed their expensive paper collections too quickly in reliance on the institutional subscription model and then regret that deaccessioning as the true cost of institutional subscriptions becomes apparent. Once access to the Google's online and searchable archive goes from being a luxury to a necessity, library budget constraints may well accelerate the process of deaccessioning in order to pay for that access. From a reader's perspective, the current Google Book architecture raises questions about privacy and anonymity. Some also fret about the erosion of traditional first sale rights associated with paper copies and the risks of concealed censorship in light of the fact that the Settlement authorizes Google to exclude books from GBS for editorial reasons.

Superimposed over all of these points of contention are the various competition-law- and class-action-law- related objections raised by the DOJ and numerous other parties. The nub of the class action objection is that the settlement is too broad in scope and too future-oriented to be approved under Rule 23. While it is true that the settlement umbrella covers a diverse range of interests, it should be noted that one of the main benefits of the Settlement is that it creates an institutional architecture that gives copyright owners, at least those who choose to register, enormous control over the use and exploitation of their works. In other words, the settlement allows for a diversity of interests among registered rightsholders by enabling almost infinite individuation corresponding with the diversity of rightsholder interests. Nonetheless, the question remains whether class members who are unlikely to register—the owners of orphan works—have been adequately notified or represented.

Transcending these basic questions of civil procedure, there is also a lingering feeling that the application of the class action mechanism in this context is fundamentally undemocratic. Respected copyright academic Pamela Samuelson argues that the use of a class action settlement to restructure markets and to reallocate intellectual property rights is corrosive

³⁰⁵ See e.g. Letter of Pamela Samuelson to Judge Denny Chin on behalf of academic authors at 3-4, *Authors Guild, Inc. v. Google, Inc.*, No. 05 CV 8136 (S.D.N.Y. Sept. 3, 2009), available at <http://thepublicindex.org/docs/letters/samuelson.pdf>. (Objecting to the GBS settlement on behalf of sixty five academic authors and researchers on the basis that prices for institutional subscriptions are unconstrained under the Settlement Agreement).

of fundamental tenets of our democratic society.³⁰⁶ The sense that the Settlement has displaced an essentially legislative function with a collusive private agreement is further heightened by the de facto orphan works monopoly that will result from the agreement.³⁰⁷ Critics argue that if the Settlement is approved in its current form, it will serve as a precedent for entrepreneurial class action lawyers to transform legitimate disputes over specific issues into pervasive industry reorganizations.³⁰⁸ It could be argued in defense of the Settlement that it does not in fact usurp the legislative balance of copyright by altering any fundamental right of copyright owners over commercial copying and distribution; rather, the Settlement merely alters the mechanisms for asserting such rights in a way that is likely to benefit authors, publishers and readers alike. In addition, in view of the lamentable history of copyright reform in the U.S. and the slow progress of the Copyright Office's orphan works agenda, it is arguable that the challenge of unblocking access to orphan works could only be met through a class action settlement.

Optimistically, one might predict that, if the Settlement is rejected, Congress will enact comprehensive and effective orphan works legislation and public sector digitization initiatives will flourish in the place of the Google initiative. It seems just as likely, however, that rejection of the Settlement would prove to be a lost opportunity. It might eventuate that Google was the only entity, public or private, with the vision, technology, and financial resources to undertake this massive and bold digitization effort.

³⁰⁶ Pamela Samuelson, *Google Book Search and the Future of Books in Cyberspace*, MINN. L. REV., (Forthcoming). Available at SSRN: <http://ssrn.com/abstract=1535067>. See also DOJ Statement, *supra* note 6 at 2 (“A global disposition of the rights to millions of copyrighted works is typically the kind of policy change implemented through legislation, not through a private judicial settlement.”)

³⁰⁷ *Id.*

³⁰⁸ *Id.*