CHAPTER 14

ELECTRONIC RIGHTS AND WRONGS: BATTLES OVER DIGITAL RIGHTS

"The parties . . . may enter into an agreement allowing continued electronic reproduction of the Authors' works; they . . . may draw on numerous models for distributing copyrighted works and remunerating authors for their distribution."

The US Supreme Court made this optimistic pronouncement in 2001, when ruling in favor of a group of freelance writers who claimed that their publishers had infringed their copyrights electronically. Since then, however, the information industry—writers, publishers and the enterprises that aggregate and distribute content digitally—have largely failed to come up with a model that allows each participant to capitalize equitably on the potential of digital technology.

The changes in the industry wrought by the rise of the Internet have raised complicated issues about ownership, control, and monetizing of literary content, some of which remain unresolved. The publishing industry was slow to realize the potential of digital rights, but as it did, litigation ensued among publishers, writers, aggregators and retailers, and the US Justice Department. This chapter will examine the various legal skirmishes among

industry actors over digital rights and fair remuneration and explain how the outcomes are affecting the players, especially writers.[96]

Today, literature can be disseminated in formats and to an extent unimaginable twenty years ago. The proliferation of free and pirated content on the web has made print, and payment, obsolete for many forms of information. In 2007, advances in technology finally made ebooks palatable and convenient to readers, and they have become very popular. The range of books, long-form journalism, and articles published and accessed through ereaders, on mobile devices, and on websites is projected to increase dramatically, if not exponentially, in the coming years. By 2011, among major publishers' products, ebook sales revenue had surpassed hardcover sales revenue and was hard on the heels of paperback revenue.

The lower cost of entry into digital publishing has increased competition for traditional publishers from start-ups and self-published writers, who now have cheap and low risk self-publishing alternatives to reach readers. At the same time, the reading public, inundated with free content through the Internet and encouraged by Amazon's aggressively low pricing of popular ebook titles, already expects to pay little or nothing for books and articles. This downward price pressure not only harms established publishers' revenues, but it has sliced into the market for printed books. On the periodical side of the business, newspaper and magazine publishers have for years been losing advertising revenue to Google and Craigslist and from the cannibalization of their subscriber base by their own presence online.

Since the mid-1990s, traditional publishers have reacted to the threat and promise of technology by trying in the first instance to obtain as many rights to their writers' content as they can get for as little money as possible. They used various soft and hardball tactics, including litigation, to accomplish what would amount to realignment in the traditional division of rights between writer and publisher. In the major lawsuits over these issues, courts have recognized in theory that creators should control and be compensated for new uses of their works, but the practical results of the cases have not led to meaningful economic rewards for writers.

Over the past two decades, three seminal lawsuits over digital rights in literary works have made their way through the courts: *The New York*

[96] Chapter 13 describes the current market for ebooks and "print on demand" books and explains how writers can sell their works in these formats.

Times, et al. v. Tasini, et al. and its progeny (regarding freelance contributions to periodicals, begun in 1993), *Random House v. Rosetta Books* (regarding ebooks, 2001), and the *Google Books* litigation (regarding digitization of books for a searchable database, begun in 2005 and ongoing). More recently, the Justice Department shocked the industry in 2012 when it sued five of the Big Six book publishers[97] and Apple over an alleged scheme to fix the retail price of ebooks. The outcome of this case is likely to reverberate through the industry for years to come. If the Justice Department prevails, the likely winner is Amazon, and the likely losers are bricks and mortar bookstores and the publishers and writers who need them.

FREELANCE CONTRIBUTIONS TO PERIODICALS

In 2001, the Supreme Court ruled in *The New York Times, et al. v. Tasini, et al.* that newspaper and magazine publishers do not presumptively have the right to include freelance articles in electronic databases, such as LexisNexis. The Court held that the publishers must obtain permission from their freelance contributors to reproduce and distribute their articles in this new form of media. The defendants, three publishers and two databases, had argued that the Copyright Act gave them a "default license" to deal directly with the lucrative databases without sharing with the authors of the contributions. The section of the Act the publishers relied on says:

> In the absence of an express transfer of the copyright or of any rights under it, the owner of copyright in the collective work [here, the publisher] is presumed to have acquired only the privilege of reproducing and distributing the [freelance] contribution *as part of that particular collective work, any revision of that collective work, and any later collective work in the same series*. (emphasis added).
> Copyright Act, Section 201(c).

The defendants argued that the "privilege of reproducing and distributing the contributions as part of [a] revision of that collective work"

[97] The major US trade publishers, each of which is a conglomerate of "imprints," are Random House, Penguin Group, Simon & Schuster, Hachette Book Group, HarperCollins and Macmillan; Random House and Penguin Group are in the process of merging their trade book units.

included selling freelance contributions to the databases. They reasoned that a database was a "revision" of each of its constituent publications, or that when a freelance article was located, purchased, and read by a subscriber to the database it was at that point still a "part of" the original periodical. They also urged that the databases, to which most academic institutions and many businesses subscribe, had become so necessary to modern research that requiring the publishers to obtain permission from their contributors would devastate scholarship by leaving holes in the historical archive.

The Court rejected these arguments. First, the freelance articles "as presented to and perceptible by" the users of the databases were not presented in their original context, but instead were disconnected from the original publication. They could not, therefore, be reproduced "as part of" the original publication or a revision of it, and the publishers' relicensing them went beyond the permitted uses and infringed the freelancers' copyrights. To the argument that a ruling for the writers would decimate the nation's historical archives by requiring the removal of freelance materials, the Court observed that the parties could "draw on numerous" existing models to ensure both fair compensation and continued dissemination of the works.

Important as the Supreme Court's ruling was for establishing the preeminence of freelancers' digital rights in their work, to this day, the affected writers have never received an effective financial remedy. Soon after Tasini and his fellow plaintiffs filed suit in 1993, the *New York Times* and other major newspaper and magazine publishers changed their long-standing practice and began to require freelancers to sign away their copyrights in their past and future contributions to their publishers. In response to these hardball tactics, a group of freelancers and three writers groups brought a class action suit in 2000 on behalf of all freelancers against all the entities that had placed their articles in electronic databases without permission. The plaintiffs and defendants negotiated for almost two years to find a means to achieve a blanket release from the writers' claims and fair compensation through a negotiated settlement. The parties ultimately agreed to a settlement of up to $18 million that would have restored most works to the databases, but the Second Circuit Court of Appeals surprised the industry and rejected the settlement on the grounds that it was not fair to all of the class members.[98]

[98] A few class members had objected to the settlement on the grounds that the payment was not sufficient, but the Second Circuit rejected it because most of the class members

Two later lawsuits challenging *National Geographic*'s release of an interactive CD-ROM containing exact digital replications of the magazine led to a significant diminution of freelancers' rights. The Second and Fifth Circuit Courts of Appeal distinguished the electronic databases disallowed in *Tasini*, which present articles disaggregated from their original context, from the more advanced technologies that present contributions as images in their original context. These courts held that collective works publishers are permitted to make such uses under the Copyright Act without the contributors' permission. The Supreme Court did not review these rulings, tacitly approving them. Settlement of this class-action lawsuit is still pending.[99]

EBOOKS AND BOOK CONTRACTS

Ebooks are digital versions of printed books that are purchased and downloaded to computers or dedicated reading devices such as the Kindle, the Nook, and the iPad. Although the text of an ebook might be the same as the text of the print version, ebooks have different features and more functions than a printed book. For example, an ebook can be searched for specific words and phrases. Readers can highlight and bookmark certain text to be indexed and reaccessed, jump to specific chapters through links in the table of contents, type electronic notes that are automatically indexed, sorted, and filed with related text, change the font size and style, and link to a definition of words in the text. Most ebooks contain encryption code to prevent unauthorized printing, copying, and file-sharing. These distinctions between print and ebooks became legally significant in 2000 when a court was asked to interpret older book publishing contracts that do not mention "electronic rights" or "electronic books."

had not registered their copyrights and so should not have been included in the class. The Supreme Court reversed that holding and told the Second Circuit to reconsider. On reconsideration, that court again rejected the settlement because the subclass of unregistered freelancers were slated to receive far less than writers who had registered their works, and therefore the settlement treated them unfairly. The parties continue to work towards a settlement.

[99] Chapter 12 covers newspaper and magazine contracts and how to negotiate them.

Most book publishing contracts signed prior to 1995 do not include a specific grant of ebook rights to the publisher. Does the lack of a specific grant mean the writer may freely grant ebook rights to a third party without the publisher's consent? The leading court decision answered this question in the affirmative in 2001. In *Random House v. Rosetta Books*, a federal court rejected Random House's lawsuit seeking to bar its writers from licensing ebook rights to Rosetta Books, a start-up ebook publisher. Rosetta had made deals with William Styron, Kurt Vonnegut, Jr., and Robert Parker to publish ebook versions of their novels, all of which were under standard book contracts from the 1960s through the 1980s. (Because the works were still in print, the original contracts remained in force.) Although the book contracts contained the traditional grant of "the right to print, publish and sell the Work[s] in book form," they did not mention electronic or digital rights or ebooks, and the authors had reserved all rights not specifically granted. Random House argued that its right to publish in "book form" necessarily included ebooks. Given that the publisher had approximately twenty thousand current contracts in force that did not specifically mention ebook or electronic rights, the significance of the ruling would be felt across the industry. Numerous publishers with similar terms in their contracts appeared as "friends of the court" to support Random House's position.

The district court had to discern the parties' intent at the time they were negotiating by relying on the language of the contracts and basic principles of contract interpretation. It concluded that the traditional grant of the "exclusive right to print, publish and sell the Work in book form" could not be interpreted to include electronic books. In part, the enhancements that ebooks offer over printed books convinced the court that the parties could not have intended "book form" to include ebooks. The Second Circuit Court of Appeals affirmed the conclusion without analyzing it.

This decision was a big victory for writers. At stake in the case was the fundamental interpretation of book contracts, which carefully and explicitly define the rights and formats that are granted to the publisher and spell out the royalties to be paid for the exploitation of these rights. By reading the contract as it did, the court preserved writers' ability to control whether and how to exploit their works in a new format. Publishing insiders are carefully watching the progress of a lawsuit that may revisit the issues raised in *Rosetta*. HarperCollins has brought a suit against Open Road Integrated

Media, a standalone ebook publisher, involving the 1972 children's classic *Julie of the Wolves*, written by Jean Craighead George and published in printed form by HarperCollins. Ms. George, who has since passed away, contracted with Open Road to publish an ebook edition of the work, and HarperCollins subsequently filed suit against the e-publisher in December 2012. As the legacy publisher, HarperCollins argues that it holds exclusive right to publish the ebook, but given the advanced age of the contract (drawn up long before the existence of ebooks as we know them today), the defendant, Open Road, believes Ms. George was free to exploit the electronic rights for her work without interference from HarperCollins. A hearing in the United States District Court for the Southern District of New York is scheduled for later in 2013.

The practical result of *Rosetta* today is less important than it was in 2001 because since the late 1990s, virtually every book contract contains a grant of ebook rights. But writers with older contracts that are still in force might be able to sell their ebook rights separately or to self-publish in that format. This right gives leverage to ask for an advance against ebook royalties, higher royalties than the low-ball standard of 25 percent of net (discussed in chapter 11), and a veto over changes or abridgements in the text. Still, if this applies to you, exercise caution and consult with your agent or a publishing lawyer before proceeding to contract with another publisher for ebook rights. Your current publisher might offer you at least as good a deal as a third party would. You also need to consider whether your current contract has a "noncompetition" clause that might interfere with your plans. Although the court in *Rosetta Books* held that noncompetition clauses did not preclude granting ebook rights to a new publisher, the market for ebooks was still nascent in 2001, the year of the holding. The conclusion might be different today in light of the past several years of growth in the market.

SCANNING BOOKS, ORPHAN WORKS, AND THE "DIGITAL LIBRARY": THE GOOGLE BOOKS LAWSUITS

In the past decade, the traditional news media has lost much of its advertising revenue to search engines such as Google, which has profited enormously by aggregating information that others create and make available on the Internet. By 2004, however, Google wanted to grow its search

database by adding books. It made deals with five large libraries to scan and digitize their holdings and put them to the Google database. With some 20 million books scanned to date and counting, the "Google Books" project has vastly increased the information in the search giant's database. Google makes only "snippets"—a few words—of the scanned books available in search results to end users, and argues that this limited use helps market the titles and makes its digital copying fair use under copyright. In exchange for letting Google digitize their collections, the libraries received one digital copy of each of its books and agreed not to sell or give digital copies to any commercial enterprise.

Not surprisingly, the authors and publishers that own the copyrights and were excluded from the deal were alarmed by the wholesale copying of their books into digital files for a database that could be hacked. They had seen the music industry's decline at the hands of mass file-sharing and cried foul at Google's scheme.[100] In 2005, varioius parties filed lawsuits against Google for copyright infringement. The Authors Guild and several named authors filed a class-action suit on behalf of rightsholders, and the Association of American Publishers filed another suit. The parties quickly began settlement negotiations, and after two years, they announced a major deal, one that would have made the entirety of most of the digitized books potentially available to the world, while allowing the copyright owners to get compensated for every use made. The court examining the settlement for legal adequacy listed the "many" benefits of the settlement:

> Books will become more accessible. Libraries, schools, researchers, and disadvantaged populations will gain access to far more books. Digitization will facilitate the conversion of books to Braille and audio formats, increasing access for individuals with disabilities. Authors and publishers will benefit as well, as new audiences will be generated and new sources of income created. Older books—particularly out-of-print books, many of which are falling apart buried in library stacks—will be preserved and given new life.

[100] The Google Books project is not to be confused with the "Search Inside the Book" marketing plan by which Google, Amazon, and Barnes & Noble are allowed by publishers to make up to 20 percent of books digitally available to users. The publishers include only books to which they have electronic rights and will not include a book if the author objects.

The complicated settlement arrangement went beyond compensating the owners for scanning the books and making a few words available. Had it succeeded, it would have given Google the right to continue digitizing books, to make the entirety—not just "snippets"—of the vast majority of the works available by subscription to institutions and by individual sales of online access to the public, to sell ads on pages from the books, and to make other uses of the database. The copyright owners could choose to have their books included in any or all of the possible uses and would receive the lion's share of the proceeds. Google would create the infrastructure for the project, which the parties had carefully designed.

Notwithstanding these features, the proposed settlement caused a vehement backlash from foreign writers, Google competitors, the Justice Department, and numerous US writers. Even though any owner of the rights to a book could remove it from the Google database, many writers were offended that their right to control the fate of their books had been negotiated away unless they took affirmative steps. More than 6,800 writers opted out of the proposed settlement.

The Justice Department, the Copyright Office, some Google competitors, academic and other writers' groups, and advocates for liberalizing copyright argued that the settlement would give Google a monopoly over the digital use of millions of books, including millions of so-called "orphan works," i.e., books and other writings covered by copyright for which no owner can be located. Under the settlement, Google would have been allowed to exploit orphan works and fully released from infringement claims for including them—an advantage that no other party could possibly gain, unless it chose to digitize books without permission and to settle a lawsuit on the same terms as Google.

The court concluded that it was not appropriate to use the mechanism of a class action settlement to create a forward-looking business arrangement that benefited Google at the expense of potential competitors. It opined that Congress is more suited than private litigants to address how to make "orphan books" available to the public (even though Congress has made no progress on that score). It concluded that most of the legal concerns would be ameliorated if the settlement included only books licensed on an "opt in" rather than an "opt out" basis, but Google had no interest in such an arrangement. For these reasons, the court rejected the proposed settlement.

The authors' and publishers' infringement lawsuit against Google continues. The authors won the most recent legal skirmish as of this writing when the court certified the case as a class action and allowed the Authors Guild to remain a party in the case. Google has appealed the class certification decision and has moved for summary judgment dismissing the lawsuit based on its argument that scanning and using the books is fair use that causes no financial harm to copyright owner. The court has not yet ruled on the fair use argument, but no matter how it decides, the vision the Supreme Court articulated in *Tasini* of a digital repository of commercially available literature that generates royalties for its owners appears to be dead.

THE LIBRARIES AND HATHITRUST

The Google Books project recently led to another lawsuit over digital exploitation of books. The four university libraries that allowed Google to scan their collections received digital copies of an estimated 7 million copyright-protected books. Although prohibited by their contracts with Google from using them commercially, these universities announced a year ago that they had pooled their files in a repository organized by the University of Michigan called HathiTrust. In June 2011, the University of Michigan announced plans to permit its students and faculty to make unlimited, complete downloads of what it decides are "orphan works" in the Trust. Other universities announced they would use the Trust for the same purposes.

A number of foreign and US writers objected to the universities asserting the authority to decide which writers had forfeited their copyrights. The writers expressed great concern at the potential for all other domestic and international colleges and universities to follow suit. A number of writers' organizations and individuals from several countries sued the participating universities and HathiTrust for copyright infringement. Among their claims, the plaintiffs questioned the security of Michigan's database, which includes thousands of editions, in various translations, of works by writers from nearly every nation. Within days of the Trust publishing the list of "orphans" it planned to make fully accessible, the writers announced that they had located dozens of the owners of the "orphans." Although this led the Trust to shelve its orphan book plans for the time being, it has not scrapped it entirely.

In October 2012, a New York federal court ruled that the unauthorized scanning for the purposes of allowing readers to locate text is fair use under the Copyright Act. Its holding on this question was the first time a court has decided whether scanning works into a database without permission is legal, and its decision could well affect Google's fair use argument as well.

THE EBOOK PRICING WAR: JUSTICE PICKS A WINNER

Ebooks are upending the traditional economics of book publishing. On the one hand, they virtually eliminate the costs of printing, storage, shipping, and returns. On the other, they reinforce consumers' expectations that literary works should be available for free or at very low cost. In this environment, by 2010, Amazon had achieved 90 percent of the market for ebook sales for its Kindle. How did Amazon achieve this formidable position? Few industry watchers dispute that Amazon's decision to price ebook frontlist (i.e., current and prominent) titles at less than the wholesale price gained it market share. Its competitors simply could not afford to do the same. The publishers, which have the highest stake in the ebook market and in how it affects print sales, had no say in Amazon's gambit because they had sold ebooks to Amazon the same way they sell print copies—through the so-called "reseller model." In the reseller model, publishers sell ebooks to retailers at a wholesale discount of around 50 percent of the suggested retail price and assert no control over the ultimate retail price. When Amazon began selling the most popular titles in ebook form at $9.99 or less, publishers quickly saw ebooks begin to cut into print sales of the same title. More alarming still to publishers, low priced ebooks encourage buyers to expect ebooks to remain that cheap.

Amazon strategically priced only certain books—the frontlist titles that attract buyers to bricks and mortar bookstores—at a loss, and this has begun to discourage new entrants into the ebook market and to eliminate Amazon's retail competition. (The Borders chain liquidated in 2010, cutting by almost half the number of retail bookstores in the United States.) As they see it, traditional publishers have few defenses that might protect their businesses from getting consumed by Amazon.[101] One solution was

[101] As the Authors Guild described in a filing in the Justice Department case, Amazon currently controls about 75 percent of the print market for trade books, and through a series

to replace the reseller model with so-called "agency pricing" for ebook sales to retailers. The agency model was proposed in 2010 by Apple, which wanted to acquire ebooks to sell for its new iPad tablet reader. Under the agency model, the publisher decides the retail price for the ebook, and the retailer, acting as its agent, sells at the publisher's price and takes 30 percent. Apple's offer to use the agency model had one catch: the publishers could not allow other retailers to sell the books at a lower price.

Apple entered into contracts with five of the Big Six publishers in 2010 to sell ebooks based on the agency model, and the publishers in turn demanded that Amazon and other retailers adopt it. Amazon retaliated against Macmillan by removing the "buy" buttons from all of its titles, both ebook and print, for several weeks before it reluctantly acquiesced to using the agency model. Shortly thereafter, the Justice Department's Antitrust Division began investigating whether the five publishers, in agreeing to the Apple deal, had colluded to fix prices for ebooks. In April 2012, it sued all five and Apple, and quickly announced a proposed settlement with three of the publishers. [102]

The settlement requires that the publishers allow ebook retailers to continue selling ebooks at a loss, so long as they do not lose money over each publisher's entire list of ebooks over the course of one year. To many observers, this seems anathema to the goal of keeping ebook prices low in the long term, because it will allow Amazon to continue entrenching its market dominance over this format. Consumers of books are not likely to continue enjoying Amazon's below-cost pricing if the online juggernaut gains total market dominance.

Nonetheless, in September 2012, a federal court in New York ruled that the proposed antitrust settlement is in the best interests of consumers. The Authors Guild and more than 2000 others had filed comments objecting to those settlement terms that require the resumption of the reseller

---

of acquisitions, now controls the downloadable audio book market, the online market for used books, the market for self-published on-demand and ebooks, and is getting exclusive rights to thousands of titles by acquiring publishers themselves. The Guild describes this activity as "an unprecedented and dangerous balkanization of the literary marketplace."

[102] Random House did not originally sign on with Apple, but did so later, and is not named in the suit. Macmillan, Penguin, Simon & Schuster, Hachette Book Group, and HarperCollins have all agreed to settle, and at least one of those publishers cites the high cost of litigation as its reason. All have denied that they fixed prices with their competitors.

model and allow retailers to continue to sell ebooks at a loss. Others opined that Amazon offers the best options for writers who want to self-publish ebooks[103] and that consumers should be offered the lowest prices for ebooks that the market will bear in order to build the market. This situation is fluid and will no doubt have evolved as of the publication of this book. One thing is certain, however: for better or worse, professional book writers have at least as much at stake in the outcome of this battle as any other part of the industry.

[103] Chapter 13 examines the on-demand and ebook self-publishing options offered by Amazon and others.