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Independent Review of Intellectual Property and Growth

Submission by Professor Martin Kretschmer[1]

on behalf of the Intellectual Property Foresight Forum

http://www.ipforesightforum.ac.uk/

Response to consultation 3: 2011

This submission makes two recommendations:

- As a policy compass, the review should articulate a general **use-it-or-lose-it principle** with regard to all intellectual property rights.
- For the specific case of copyright law, the review should implement the principle through the tool of **term reversion**. Under the proposal, copyright will only be assignable for an initial term of 10 years, after which it will fall back to the creator.

The proposal is compatible with international and EU law.

The effects of the intervention will be to open up unexploited back-catalogues.

It will remove obstacles to social and commercial innovation (complementing interventions on the scope of protection: "exceptions").

By stimulating artist led innovation, term reversion is also likely to improve the financial position of creators.

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1. Copyright law awards exclusive rights that now often last more than 100 years (life + 70 years). Typically, these rights are transferred to third parties who accumulate back-catalogues of rights. A large percentage of works in these back-catalogues are not available for social and commercial innovation.

2. We have reliable indicators of the scale of the problem. Studies conducted in the United States at the time of the constitutional challenge to the Copyright Term Extension Act (Eldred v. Ashcroft, 2002) found that only 2.3% of in copyright books and 6.8% of in copyright films released pre-1946 remained commercially available.[2] A study for the Library of Congress on the reissues of U.S. sound recordings found that of a random sample of 1521 records issued between 1890 and 1964, only 14 percent were available from rights owners.[3] A European Commission study has estimated "conservatively" that for 13% of the total number of books in copyright, the owner is unknown (i.e. they could not be reissued even if the will was there).[4]

3. By way of contrast, consider the regulatory approach underlying the first Design Copyright of 1787.[5] The Act created an exclusive right of two months for "new and original" patterns on linens, cottons, calicoes and muslins, securing innovators a short lead time in the market. Competitors would have little need for exceptions to the exclusive right. They would simply have to wait.

4. It is an empirical question what length of term would provide sufficient incentives for cultural production. Some have argued that the correct approach to setting the copyright term would be to reduce it step by step, until creative production starts to fall: "Ten years may still be longer than necessary."[6]

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[2] Mulligan, Deirdre K. & Schultz, Jason M. (2002), "Neglecting the National Memory: How Copyright Term Extensions Compromise the Development of Digital Archives". 4 *Journal of Appellate Practice & Process* 451. Works published between 1927 and 1946 would have fallen out of copyright under the earlier (pre-1976) term of 56 years if the constitutional challenge had been successful.

[3] Brooks, Tim (2005), *Survey of Reissues of U.S. Recordings*, Council on Library and Information Resources/Library of Congress, Washington, D.C.

[4] Vuopala, Anna (2010), "Assessment of the Orphan works issue and Costs for Rights Clearance", European Commission, DG Information Society and Media, Unit E4 (Access to Information).

[5] "An Act for the Encouragement of the Arts of designing and printing Linens, Cottons, Callicoes, and Muslins, by vesting the Properties thereof, in the Designers, Printers and Proprietors, for a limited time" (1787, 27 Geo.III, c.38. – http://www.copyrighthistory.org/).

[6] Stallman, Richard (2010), "Misinterpreting Copyright", in *Software Free Society: Selected Essays of Richard M. Stallman*, 2nd edition (http://www.gnu.org/philosophy/misinterpreting-copyright.html).

5. This approach is not open to the UK, as international and European law stands. However, the idea that works that are not being exploited should lose protection to the degree that they can be exploited by others is consistent with common law principles.[7]

6. Term reversion is one key tool to achieve this. Empirical studies indicate that the investment horizon in cultural industries is well below 10 years.[8] Reversion overcomes the well-known economic problem of valuation of copyright by allowing the market to work in the "future". The present value of a shorter term is likely to offer a greater economic incentive to the original creator, whereas a longer term favours incumbent commercial exploiters.[9]

7. After 10 years, authors would have the choice of (i) re-assigning or re-licensing their work if there is still demand, (ii) joining a collective management scheme (converting in effect the exclusive right into a right to remuneration), or (iii) abandoning the work.

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[7] The SABIP study "The Relationship between Copyright and Contract Law" summarises the jurisprudence relating to the revision and termination of contracts (Kretschmer, M., Derclaye, E., Favale, M. & Watt, R. (2010), http://www.ipo.gov.uk/pro-ipresearch/ipresearch-policy/ipresearch-policy-copyright.htm). There is a provision in the Patent Act 1977 (s.48B(1)) that allows the issue of compulsory licences "where the patented invention is capable of being commercially worked in the United Kingdom, that it is not being so worked or is not being so worked to the fullest extent that is reasonably practicable."

[8] See for example Stephen Breyer's classic article "The Uneasy Case for Copyright: A study of copyright for books, photocopies, and computer programs, 84 *Harvard Law Review* 281 (1970-1971). There is also compelling evidence that the most intensive commercial exploitation takes place at the beginning and the end of the exclusive term: W. St Clair (2004), *The Reading Nation in the Romantic Period*, Cambridge: Cambridge University Press; E. Höffner (2010), *Das Urheberrecht: Eine Historische und Ökonomische Analyse*, Munich: VEW Verlag.

[9] George A. Akerlof, Kenneth J. Arrow, Timothy F. Bresnahan, James M. Buchanan, Ronald H. Coase, Linda R. Cohen, Milton Friedman, Jerry R. Green, Robert W. Hahn, Thomas W. Hazlett, C. Scott Hemphill, Robert E. Litan, Roger G. Noll, Richard Schmalensee, Steven Shavell, Hal R. Varian, and Richard J. Zeckhauser (2002), "Brief as Amici Curiae in Support of Petitioners", *Eric Eldred et al v. John D. Ashcroft, Attorney General,* the Supreme Court of the United States of America, No. 01-618; William M. Landes and Richard A. Posner (2003), "Indefinitely Renewable Copyright", *University of Chicago Law Review*, 70 (2), 471-518.

8. Term reversion would be compatible with international and EU law, as the overall term would not be affected. Objections that it would constitute a limitation that prejudices the legitimate interests of the "right holder" contrary to Art 13 of the TRIPS Agreement apply equally to many common law, civil law and competition law interventions affecting copyright contracts.[10] They can be overcome.[11]

9. The challenge for the legislator will be to create a simple and transparent scheme that provides incentives to creators to convert reverted, non-exploited rights into non-exclusive licences after a fixed period. Only in combination with such a measure will term reversion free back-catalogues, and remain compatible with international law.[12]

10. Any reversion scheme needs to result in absolute clarity about the location of rights.[13] At the very least, this requires making the reversion inalienable (i.e. reversion cannot be subverted by a contract), and some kind of register. Such a scheme would reduce the frictional costs of licensing for both exploited and non-exploited works. It also would have the advantage of being compatible with several proposed solutions to the orphan works problem.

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[10] Many civil law countries have provisions that allow authors to recall rights in certain circumstances: Under § 41 of the German UrhG, there is a right to recall (*Rückrufsrecht)* because of insufficient exploitation. France (*droit de repentir*), Italy and Spain also have relevant provisions.

[11] In this context, it is also useful to consider the requirement of use for trade marks circumscribed by TRIPS Article 19: "If use is required to maintain a registration, the registration may be cancelled only after an uninterrupted period of at least three years of non-use, unless valid reasons based on the existence of obstacles to such use are shown by the trademark owner. Circumstances arising independently of the will of the owner of the trademark which constitute an obstacle to the use of the trademark, such as import restrictions on or other government requirements for goods or services protected by the trademark, shall be recognized as valid reasons for non-use." Countries seem to have found few difficulties creating a reliable process for the revocation of these property rights.

[12] Extended collective licensing clearly is compatible with international law. Even compulsory collective management may be: Article 9 of the Cable and Satellite Directive 93/83/EEC imposes compulsory collective management for the "exercise of the cable retransmission right".

[13] Most parties agree that this needs to be achieved to facilitate licensing, regardless of the question of term reversion.

11. Lessons need to be learned from previous experiences with term reversion. Under the Statute of Anne of 1710, copyright fell back to the author after a term of 14 years who could then assign it again for one further term.[14] There is little evidence that much use was made of this provision. Authors continued to assign copyright outright by a contract that included the second term.[15]

12. The United States followed a similar structure until the 1976 Copyright Act, with an initial copyright term of 28 years that could be renewed once. In the 1976 Act, Congress introduced an inalienable termination right for authors after a period of 35 years (for all grants of rights after 1977).[16] There are many practical difficulties with both the old and the new mechanism. The provisions are a rhetorical nod to authors, but of little practical use for improving the bargaining position of authors, nor for opening up back-catalogues.

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[14] An Act for the Encouragement of Learning, by Vesting the Copies of Printed Books in the Authors or Purchasers of such Copies, During the Times therein mentioned, 1710, 8 Anne, c.19. (http://www.copyrighthistory.org/). The last section reads: "Provided always that after the expiration of the said term of fourteen years the sole right of printing or disposing of copies shall return to the Authors thereof if they are then living for another Term of fourteen years." The original parchment copy of the act shows that the section was tacked on as a late addition in the legislative process. Professor Deazley argues that the divided term was intended "to benefit the author and only the author". He also shows that the 10 year assignment concept was first mooted in a 1737 *Bill for the Better Encouragement of Learning*: R. Deazley (2004), *On the Origin of the Right to Copy*, Oxford: Hart, pp. 43, 106-7.

[15] Professor Bently traces 18th century jurisprudence to the effect that the second term could only be assigned by an express term. Few authors appear to have taken advantage of the reversionary right: L. Bently & J. Ginsburg (2011), "The Sole Right … Shall Return to the Authors": Anglo-American Authors' Reversion Rights from the Statute of Anne to Contemporary U.S. Copyright, 25 *Berkeley Technology Law Journal* 1475, p. 1493.

[16] Termination notices can begin in 2003, with the earliest termination possible in 2013. Transitional measures are too complex to summarise here. Bently & Ginsburg's 2011 paper is an excellent guide through this landscape.

13. Legal techniques that may be used in framing term reversal include:[17]

– Automatic reversion "notwithstanding any agreement to the contrary".

– Continued exploitation of derivative works created prior to term reversion.

– Special arrangements for works first owned by corporate authors (for example under CDPA 1988, s. 9(2)(a) the first owner of sound recordings is the producer, defined as "the person who made the arrangements necessary for the creation of the work").

– Provisions to solve the coordination problem for works of multiple authorship ("Where the authors are unable or unwilling to act in concert, the rights must be vested in a collecting society.")

– (Opt-out) licensing schemes for works demonstrably published before a certain date.

14. The introduction of term reversion could only affect future copyright contracts. Innovation effects however will be felt immediately. Modes of exploitation will change (as the incentives against warehousing of rights will start to bite). Articulating a higher level "use-it-or-lose-it" principle is also an opportunity for the UK to demonstrate international leadership, in accordance with the best traditions of common law.

[17] A good source of drafting language is the US "Report of the Register of Copyrights on the General Revision of U.S. Copyright Law" and the preliminary copyright draft bill of 1964 (cf. Bently and Ginsburg (2011), pp. 1565-6). Useful "use-it-or-lose-it" language is also included in the European Commission's proposed Term Extension Directive for Sound Recordings: Amending Directive 2006/116/EC of the European Parliament and of the Council on the term of protection of copyright and certain related rights (proposal presented by the Commission, COM(2008) 464/3), Article 10a (Transitional measures relating to the transposition of directive), subsection (6): If, after the moment at which, by virtue of Article 3 (1) and (2) in their version before amendment by Directive [// insert: Nr. of this amending directive]/EC, the performer and the phonogram producer would be no longer protected in regard of, respectively, the fixation of the performance and the phonogram, the phonogram producer ceases to offer copies of the phonogram for sale in sufficient quantity or to make it available to the public, by wire or wireless means, in such a way that members of the public may access them from a place and at a time individually chosen by them, the performer may terminate the contract on transfer or assignment. Where a phonogram contains the fixation of the performances of a plurality of performers, they may terminate their contracts on transfer or assignment only jointly. If the contract on transfer or assignment is terminated pursuant to sentences 1 or 2, the rights of the phonogram producer in the phonogram shall expire.