

# THE JOHN MARSHALL REVIEW OF INTELLECTUAL PROPERTY LAW



## THE LONG AND WINDING ROAD TO THE GOOGLE BOOKS SETTLEMENT

JONATHAN BAND

### ABSTRACT

In its Library Project, Google is scanning millions of books from the world's leading research libraries to include in a searchable database. This scanning has occurred without the copyright owners' authorization, leading to the class action copyright infringement lawsuit, *Authors Guild v. Google, Inc.* The central legal issue in the litigation is whether copyright law's fair use doctrine provides Google with a defense against the authors' claims. Ultimately, the parties reached a settlement. The proposed Settlement Agreement is an extremely complex document which, if approved by the court, will govern the future of the Google Library Project. It creates a mechanism that allows Google to scan and display the full text of millions of books. In exchange, Google will pay fees to each book's rightsholder. The proposed settlement has precipitated a heated public debate over competition concerns, privacy, intellectual freedom, and the rights of authors and publishers. This article traces the history of the Google Library Project and discusses in-depth the original Google Library Project, the litigation, the original Settlement Agreement, the debate concerning the approval of the Settlement Agreement, and the Amended Settlement Agreement.

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## THE LONG AND WINDING ROAD TO THE GOOGLE BOOKS SETTLEMENT

JONATHAN BAND \*

In December 2004, Google announced that it would include in its search database the full text of books from the world's leading research libraries.<sup>1</sup> Google's scanning of millions of books without the copyright owners' authorization precipitated newspaper editorials,<sup>2</sup> public debates,<sup>3</sup> and ultimately two copyright infringement lawsuits in federal court.<sup>4</sup> Google's primary defense in those suits, which were consolidated, was that its scanning of books to create a search index fell within the fair use privilege of 17 U.S.C. § 107.<sup>5</sup>

After three years of litigation, but before the court could rule on the fair use argument, Google and the plaintiffs, in October 2008, announced the settlement of the lawsuit.<sup>6</sup> The settlement, which would allow Google to sell access to the full text of millions of books, provoked another round of newspaper editorials and public debates.<sup>7</sup> Because the litigation was structured as a class action, the settlement requires the court's approval.<sup>8</sup> In response to objections made by rightsholders and the United States Department of Justice, the parties negotiated an amended

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\* Jonathan Band represents Internet companies and library associations on intellectual property and Internet policy matters in Washington, D.C. He represents library associations in connection to the proposed settlement of the Library Project litigation, but the views expressed here are his own. Portions of this article have appeared in J. Band, *The Google Settlement: International Implications*, Computer Law Review International (2009); J. Band, *Google and Fair Use*, 3 J. OF BUS. & TECH. L. 1 (2008); J. Band, *The Google Library Project: Both Sides of the Story*, Plagiarism: Cross-Disciplinary Studies in Plagiarism, Fabrication and Falsification (2006), J. Band, *The Google Print Library Project: A Copyright Analysis*, E-Commerce Law & Policy (August 2005); and briefing papers prepared for the National Association of College and University Attorneys, the American Library Association, the Association of College and Research Libraries, and the Association of Research Libraries. Consistent with the conventions of legal scholarship, these articles are cited where they are relied upon.

<sup>1</sup> Press Release, Google, Inc., Google Checks Out Library Books (Dec. 14, 2004), *available at* [http://www.google.com/press/pressrel/print\\_library.html](http://www.google.com/press/pressrel/print_library.html).

<sup>2</sup> Editorial, *Google's Big Plan for Books*, N.Y. TIMES, July 28, 2009, at A22, *available at* <http://www.nytimes.com/2009/07/29/opinion/29wed3.html>.

<sup>3</sup> James Temple, *Google Book Project Far From Settled*, S.F. CHRON., Aug. 19, 2009, at C-1, *available at* <http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2009/08/19/BUQH199RJU.DTL>.

<sup>4</sup> Complaint, Authors Guild v. Google, Inc., No. 05 Civ 8136 (S.D.N.Y. Sept. 20, 2005) [hereinafter *Authors Guild Complaint*]; Complaint, McGraw-Hill Cos., Inc. v. Google, Inc., No. 05 Civ 8881 (S.D.N.Y. Oct. 19, 2005) [hereinafter *McGraw-Hill Complaint*].

<sup>5</sup> 17 U.S.C. § 107 (2006); Answer at 7, *Author's Guild*, No. 05 Civ 8136 (S.D.N.Y. Nov. 30, 2005); Answer at 8, *McGraw-Hill*, No. 05 CV 8881 (S.D.N.Y. Nov. 8, 2005).

<sup>6</sup> Press Release, Google Press Center, Authors, Publishers, and Google Reach Landmark Settlement (Oct. 28, 2008) (on file with The John Marshall Review of Intellectual Property Law), *available at* [http://www.google.com/intl/en/press/pressrel/20081027\\_booksearchagreement.html](http://www.google.com/intl/en/press/pressrel/20081027_booksearchagreement.html).

<sup>7</sup> See Jonathan Band, *Google and Fair Use*, 3 J. BUS. & TECH. L. 1, 2 (2008) [hereinafter Band, *Google and Fair Use*].

<sup>8</sup> FED. R. CIV. P. 23(e).



settlement agreement, which was pending before the court at the writing of this article.<sup>9</sup>

Some of the attention the Library Project has received can be attributed to public fascination with any move taken by Google, one of the most successful companies in the digital economy.<sup>10</sup> The sheer scale of the project and its possible implications for research, libraries, and the publishing industry has also captured the public imagination.<sup>11</sup> Finally, precisely because of Google's success and the breadth of services the settlement would permit, the settlement has fueled fears of Google domination of a wide range of information-related markets.<sup>12</sup>

This article will first review the original Library Project and the ensuing litigation, focusing on the fair use arguments made by each side. The article will then summarize the complex settlement proposed by the parties, discuss some of the criticisms raised against it and describe the amended settlement agreement.<sup>13</sup>

## I. THE COSTS OF MASS DIGITIZATION

An entity that seeks to digitize the millions of book titles stored in research libraries confronts two significant costs. First is the cost of the digitization process itself. Using current technology, digitizing a page costs approximately 10 cents. If the average book has 250 pages, the cost of digitizing 30 million books could exceed \$750 million.<sup>14</sup>

Second is the cost of obtaining the copyright owners' permission to digitize the books. Experts estimate that approximately 20% of published books are in the public

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<sup>9</sup> Jessica E. Vascellaro & Jeffrey A. Trachtenberg, *Delay Sought for Hearing on Book Pact*, WALL ST. J., Sept. 23, 2009, at B6, available at <http://online.wsj.com/article/SB125364844014531665.html>.

<sup>10</sup> Band, *Google and Fair Use*, *supra* note 7, at 2.

<sup>11</sup> *See id.*

<sup>12</sup> *Google Talking to D.O.J. About Books Settlement-Report*, FORBES, Sept. 16, 2009, [http://www.forbes.com/feeds/reuters/2009/09/16/2009-09-17T033133Z\\_01\\_SP377339\\_RTRIDST\\_0\\_GOOGLE.html](http://www.forbes.com/feeds/reuters/2009/09/16/2009-09-17T033133Z_01_SP377339_RTRIDST_0_GOOGLE.html).

<sup>13</sup> *See* Charles W. Bailey, Jr., Google Book Search Bibliography, <http://www.digital-scholarship.org/gbsb/gbsb.htm> (last visited Nov. 21, 2009). A vast literature on the Google Library Project already exists. *Id.*

<sup>14</sup> *See* Jonathan Band, *The Google Library Project: Both Sides of the Story*, 1 PERSPECTIVES 2, 8 (2006) [hereinafter Band, *Both Sides of the Story*]. Google has not definitively disclosed the intended size of the Library Project. The numbers mentioned in this article come from projections made by publishing and library experts at numerous fora concerning the Library Project in which the author has participated. *See, e.g.*, Solveig Singleton et al., *Gutenberg Meets Google: The Debate About Google Print*, [pff.org/issues-pubs/pops/pop13.1googletranscript.pdf](http://pff.org/issues-pubs/pops/pop13.1googletranscript.pdf) (last visited Nov. 20, 2009) [hereinafter Singleton, *Gutenberg Meets Google*]; Band, *supra*; Tim O'Reilly, *Oops – Only 4% of Titles Are Being Commercially Exploited*, O'Reilly Radar, Nov. 4, 2005, [http://radar.oreilly.com/archives/2005/11/oops\\_only\\_4\\_of\\_titles\\_are\\_bein.html](http://radar.oreilly.com/archives/2005/11/oops_only_4_of_titles_are_bein.html); Brian Lavoie, Lynn Silipigni Connaway, & Lorcan Dempsey, *Anatomy of Aggregate Collections: The Example of Google Print for Libraries* (2005), <http://www.dlib.org/dlib/september05/lavoie/09lavoie.html> (last visited Nov. 20, 2009). As discussed in Part VI, the Amended Settlement Agreement would apply to only half of these books—those published in the United States, the United Kingdom, Canada, and Australia.



domain.<sup>15</sup> This means that 24 million titles are still under copyright. The potential liability for infringing the copyrights in 24 million books is enormous. A court can assess statutory damages of up to \$150,000 for the infringement of each work, or a total of \$3.6 trillion.<sup>16</sup> At the same time, the transaction costs of determining who owns all these copyrights, locating all the rightsholders, and negotiating millions of licenses would also be overwhelming.<sup>17</sup> Most books published in the United States include a copyright notice, but that notice only indicates who owned the copyright at the time of publication—not the current copyright owner.<sup>18</sup> Moreover, the copyright notice does not specify whether the author, the publisher, or a third party has the right to authorize digitization.<sup>19</sup> Furthermore, books published outside the United States often have no copyright notice, although they typically receive copyright protection in the United States.<sup>20</sup> There is no registry of current copyright ownership, with current contact information for the owner. Compounding these problems is the distributed nature of copyright ownership: there are millions of authors and thousands of publishers. Thus, the digitizing entity could easily spend more than a thousand dollars per title just to identify, locate, and contact the relevant rightsholders—even if the rightsholders had no objection to the entity scanning its work for free. The transaction costs alone could easily reach over \$24 billion (\$1000/book x 24,000,000 in-copyright books).<sup>21</sup>

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<sup>15</sup> See Singleton, *Gutenberg Meets Google*, *supra* note 14, at 15. Books first published before 1923 are in the public domain, and 14% of United States published books were published before 1923. See *id.* at 9. The status of books published since 1923 is more complicated. Seventeen percent of United States published books were published between 1923 and 1963. Books published in the United States in this 40 year period entered the public domain if their rightsholders did not renew their copyright. Surveys show that the rightsholders of only 6% of the books published in this 40 year period renewed their copyrights. Accordingly, a large percentage of these books have entered the public domain. In contrast, books published outside of the United States between 1923 and 1963 do not have to meet this renewal requirement. If these books were still in copyright in the country of publication in 1996, then the copyright lasts for 95 years after publication. Thus, it is difficult to make estimates concerning the copyright status of books published outside the United States between 1923 and 1963.

<sup>16</sup> 17 U.S.C. § 504(c)(2) (2006) (providing for damages of up to \$150,000 per infringing work in cases of willful infringement).

<sup>17</sup> See Singleton, *Gutenberg Meets Google*, *supra* note 14, at 15 (“[T]he transaction costs would be enormous for Google to contact every single right-holder. It’s very difficult to find who owns the copyrights, especially for older works. It’s an incredibly time-consuming, expensive process.”).

<sup>18</sup> See *id.* Publishers often require authors to assign over their copyrights as a condition of publication. See Roxanne Christ, *Milne v. Slesinger: The Supreme Court Refuses to Review The Ninth Circuit’s Limits on the Rights of Authors and Their Heirs to Reclaim Transferred Copyrights*, 14 U.C.L.A. ENT. L. REV. 33, 34 (2007). However, by agreement, the copyright often reverts back to the author once the book is out of print. This introduces another wrinkle—publishers have different definitions of the term “out of print,” and with print on demand technology, many books are never out of print.

<sup>19</sup> See Singleton, *Gutenberg Meets Google*, *supra* note 14, at 15. A copyright in a work consists of a “bundle” of rights that can be assigned or transferred to different people. *Id.* Because the author, the publisher, or a third party can control different rights at different points in time, this article will use the term “rightsholder” to refer to a person with a copyright interest.

<sup>20</sup> See 17 U.S.C. § 411(a).

<sup>21</sup> Band, *Both Sides of the Story*, *supra* note 14, at 8. The clearance costs would be significant even with respect to each title published by a major publisher. Whether the publisher or the author owns the copyright turns on the specific contract between the publisher and the author. And while publishers tend to use standard form contracts, the publishers modify the forms over time, and the



Making matters worse, for a significant percentage of these titles, the digitizing entity simply will not succeed in identifying or locating the current rightsholder, even if it devoted thousands of dollars per title.<sup>22</sup> A publisher may have gone bankrupt decades ago and records do not exist concerning the current owner of remaining assets.<sup>23</sup> An author may have died and neither his will nor his heirs can be located.<sup>24</sup> Although there is no way to know with any precision how many books fall in this “orphan” category, conservative estimates range between 1.5 million to 6 million.<sup>25</sup>

In short, the digitizing entity is caught between the cost of copyright infringement liability and the cost of copyright clearance. These insurmountable costs have deterred mass book digitization initiatives in the past. The entire saga of Google’s Library Project can be understood as Google’s effort to avoid these costs in order to achieve its book digitization objective, just as Odysseus had to navigate between the sea monsters Scylla and Charybdis guarding the Straits of Messina.<sup>26</sup> As discussed below in greater detail, Google employed three different strategies in this effort.

- First, Google designed a service that provided rightsholders with a range of choices, the most important of which was the ability to opt out altogether.<sup>27</sup> By providing rightsholders with an easy opt-out mechanism, Google hoped to avoid the cost of locating rightsholders who did not object to the digitization, and the cost of copyright liability to those who did.<sup>28</sup>
- Second, when rightsholders rejected the first approach by filing a copyright infringement lawsuit, Google relied on the Copyright Act’s fair use privilege to excuse its actions.<sup>29</sup>
- Third, recognizing that the outcome of the litigation was far from certain, and the limitations of the services it could provide under the fair use privilege,

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authors negotiate modifications. Thus, there is significant variation from contract to contract. Moreover, as noted above, a copyright assigned to a publisher might by contract revert to the author when the book goes out of print. Further, the contract might be ambiguous as to the allocation of the digital indexing rights, given the newness of the technology. Accordingly, for each title, the digitizing entity would have to obtain a copy of the contract, review it, and determine the ownership. If the author owns the copyright, as would usually be the case since most of the titles in a publisher’s catalogue typically are out of print, the digitizing entity would have to locate the author or her heirs.

<sup>22</sup> See Singleton, *Gutenberg Meets Google*, *supra* note 14, at 16.

<sup>23</sup> See *e.g.*, *id.* (explaining the extreme cost involved in legal time and effort required to track down the copyright owner of each book).

<sup>24</sup> See, *e.g.*, Band, *Both Sides of the Story*, *supra* note 14 at 8 (“If the author is deceased, his heirs might not be aware that they own the copyright.”).

<sup>25</sup> See LibraryLaw Blog: Why the Google Book Settlement is Better Than Orphan Works Legislation, <http://blog.librarylaw.com/librarylaw/2009/05/why-the-google-books-settlement-is-better-than-orphan-works-legislation.html> (last visited Nov. 21, 2009).

<sup>26</sup> See HOMER, *THE ODYSSEY OF HOMER* 191 (Richmond Lattimore trans., Harper Perennial Modern Classics) (1999).

<sup>27</sup> See Band, *Both Sides of the Story*, *supra* note 14, at 2.

<sup>28</sup> *Id.* at 9.

<sup>29</sup> *Id.* at 3.



Google entered into a sweeping class action settlement agreement with publishers and authors.<sup>30</sup>

## II. THE ORIGINAL GOOGLE LIBRARY PROJECT

### A. General Features

Google Book Search has two facets: the Partner Program and the Library Project.<sup>31</sup> Under the Partner Program, a publisher controlling the rights in a book can authorize Google to scan the full text of the book into Google's search database.<sup>32</sup> In response to a user query, the user receives bibliographic information concerning the book as well as a link to relevant text.<sup>33</sup> By clicking on the link, the user can see the full page containing the search term, as well as a few pages before and after that page.<sup>34</sup> Links enable the user to purchase the book from booksellers or the publisher directly, or visit the publisher's website.<sup>35</sup> Additionally, the publisher shares in contextual advertising revenue if the publisher has agreed for advertisements to be shown on its book pages.<sup>36</sup> Publishers can remove their books from the Partner Program at any time.<sup>37</sup> The Partner Program raises no copyright issues because it is conducted pursuant to an agreement between Google and the rightsholder.<sup>38</sup>

Under the original Library Project, Google scanned into its search database materials from research libraries around the world.<sup>39</sup> In response to search queries,

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<sup>30</sup> See generally Jonathan Band, *The Google Settlement and Higher Education: Imminent Deadlines*, NACUA NOTES, April 17, 2009, <http://www.counsel.cua.edu/copyright/googlebooks.cfm> (providing an overview of the Google settlement).

<sup>31</sup> History of Google Books, <http://books.google.com/googlebooks/history.html> (last visited Nov. 21, 2009) (detailing that the Google Book Search project was originally called the Google Print project). Google first called the Partner Program the Publisher Program. Google Book Search, <http://books.google.com/googlebooks/about.html> (last visited Nov. 21, 2009).

<sup>32</sup> Google Books Partner Program, [http://books.google.com/googlebooks/book\\_search\\_tour/index.html](http://books.google.com/googlebooks/book_search_tour/index.html) (last visited Nov. 21, 2009).

<sup>33</sup> Google Books Tour, [http://books.google.com/googlebooks/book\\_search\\_tour/books3.html](http://books.google.com/googlebooks/book_search_tour/books3.html) (last visited Nov. 21, 2009).

<sup>34</sup> See *id.*

<sup>35</sup> See *id.*

<sup>36</sup> *Id.*

<sup>37</sup> Google Book Search Help Center, What If I Find One of My Books in Google Books and Would Like It Removed?, <http://books.google.com/support/bin/answer.py?answer=43756&topic=9011> (last visited Nov. 21, 2009).

<sup>38</sup> As of the writing of the article, approximately 1.5 million books are included in the Partner Program. Gillian Spraggs, *The Google Book Settlement and European Authors*, [http://www.gillianspraggs.com/gbs/google\\_settlement.html](http://www.gillianspraggs.com/gbs/google_settlement.html) (last visited Nov. 21, 2009).

<sup>39</sup> See Google Books Library Partners, <http://books.google.com/googlebooks/partners.html> (last visited Nov. 21, 2009). Although the settlement had not been approved as of the writing of this article, the original features of the Library Project, and the litigation, are discussed in the past tense, and the features permitted under the settlement are discussed in the future tense. Forty research libraries have agreed to permit Google to scan books in their collections, including the Bavarian State Library, Cornell University Library, Ghent University Library, Harvard University, Keio University Library, Oxford University, Princeton University, Stanford University, The National Library of Catalonia, The New York Public Library, University of California, University



Google displayed the full text of public domain materials,<sup>40</sup> but only a few sentences of text around the search term in books still covered by copyright.<sup>41</sup> This is a critical fact that bears repeating: for books still under copyright, users could see only a few sentences on either side of the search term—what Google called a “snippet” of text.<sup>42</sup> Users *could not* see a few pages, as under the Partner Program, *nor* the full text, as for public domain works.<sup>43</sup> Indeed, users could never see even a single page of an in-copyright book scanned as part of the Library Project as originally designed.<sup>44</sup>

Moreover, if a search term appeared many times in a particular book, Google displayed no more than three snippets containing that term from the book, thus preventing the user from viewing too much of the book for free.<sup>45</sup> Finally, Google did not display any snippets for certain reference books, such as dictionaries, where the display of even snippets could harm the market for the work.<sup>46</sup> Google scanned the text of the reference books into its search database, but in response to a query the user received only bibliographic information.<sup>47</sup> The page displaying the snippets indicated the closest library containing the book, as well as where the book could be purchased, if that information was available.<sup>48</sup>

Because of non-disclosure agreements between Google and the libraries, many details concerning the project are not available.<sup>49</sup> It appears that Google scanned only public domain materials from most of its partner libraries, while it scanned both public domain and in-copyright books at the University of Michigan, University of California, and Stanford University libraries.<sup>50</sup> Google attempted to avoid scanning the same book in different libraries; but the inaccuracy of bibliographic information in reference tools such as card catalogs made it difficult to determine easily whether two books were, in fact, identical. For example, a card catalogue entry might not indicate whether different volumes are of the same edition. Given these inaccuracies, Google erred on the side of inclusion.<sup>51</sup>

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Complutense of Madrid, University Library of Lausanne, University of Michigan, University of Texas-Austin, University of Virginia, and University of Wisconsin-Madison. *See id.*

<sup>40</sup> Google Books, <http://books.google.com/googlebooks/screenshots.html#fullview> (last visited Nov. 21, 2009).

<sup>41</sup> *Id.*

<sup>42</sup> *See* The Future of Google Books, [http://books.google.com/intl/en\\_uk/googlebooks/agreement/](http://books.google.com/intl/en_uk/googlebooks/agreement/) (last visited Nov. 21, 2009).

<sup>43</sup> *See id.*

<sup>44</sup> *See* Google Books Library Project, <http://books.google.com/googlebooks/library.html> (last visited Nov. 21, 2009) (providing examples of the different display treatments under the Google Book Search Library Project).

<sup>45</sup> Band, *Google and Fair Use*, *supra* note 7, at 17.

<sup>46</sup> *Id.*; Jonathan Band, *The Google Library Project: The Copyright Debate*, OFFICE FOR INFO. TECH. POL'Y 3 (Jan. 2006) [hereinafter Band, *The Copyright Debate*].

<sup>47</sup> Band, *Google and Fair Use*, *supra* note 7, at 17.

<sup>48</sup> *Id.*

<sup>49</sup> *Id.*

<sup>50</sup> *Id.*

<sup>51</sup> Band, *The Copyright Debate*, *supra* note 46, at 1.



*B. Google's Opt-Out Policy*

In August 2005, eight months after announcement of the Library Project, Google declared that it would allow rightsholders to opt out of the Project.<sup>52</sup> If a rightsholder provided it with a list of its titles that it did not want Google to scan at libraries, Google respected that request, even if the books were in the collection of one of the participating libraries.<sup>53</sup> Google stated that it would not scan any in-copyright books between August and November 1, 2005, to provide the rightsholders with the opportunity to decide which books to exclude from the Project.<sup>54</sup> Thus, under the original Library Project, Google provided a rightsholder with three choices with respect to any work: 1) it could participate in the Partner Program, in which case it could share in revenue derived from the display of pages from the work in response to user queries; 2) it could let Google scan the book under the Library Project and display snippets in response to user queries; or 3) it could opt-out of the Library Project, in which case Google would not scan its book.<sup>55</sup>

*C. The Library Copies*

As part of Google's agreement with the participating libraries, Google provided each library with a digital copy of the books in its collection scanned by Google.<sup>56</sup> Under the 2004 agreement between Google and the University of Michigan, Michigan agreed to use its copies only for purposes permitted under the Copyright Act.<sup>57</sup> If any of these lawful uses involved the posting of all or part of a library copy on Michigan's website—for example, posting the full text of a public domain work—Michigan agreed to limit access to the work and to use technological measures to prevent the automated downloading and redistribution of the work.<sup>58</sup> Another possible use

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<sup>52</sup> Band, *Both Sides of the Story*, *supra* note 14, at 2.

<sup>53</sup> *Id.*

<sup>54</sup> Jonathan Band, *The Google Library Project: A Copyright Analysis*, [www.policybandwidth.com/doc/googleprint.pdf](http://www.policybandwidth.com/doc/googleprint.pdf) (last visited Nov. 20, 2009). Google initially required rightsholders to state under penalty of perjury that they owned the copyright in the books they wished to opt-out. Google relaxed this requirement after the rightsholders complained that they felt uncomfortable making assertions of ownership "under penalty of perjury" because of the complexities of copyright law. See Sanford G. Thatcher, *Fair Use in Theory and Practice: Reflections on its History and the Google Case* 11–12, [http://www.psupress.psu.edu/news/NACUA\\_thatcher.pdf](http://www.psupress.psu.edu/news/NACUA_thatcher.pdf).

<sup>55</sup> Band, *Both Sides of the Story*, *supra* note 14, at 2.

<sup>56</sup> Google Book Search Help Center—Do the Libraries Get a Copy of the Book?, <http://books.google.com/support/bin/answer.py?answer=43751> (last visited Nov. 20, 2009).

<sup>57</sup> Cooperative Agreement, Google, Inc.-University of Michigan, Dec. 14, 2004, § 4.1, *available at* <http://www.lib.umich.edu/files/services/mdp/um-google-cooperative-agreement.pdf> [hereinafter Michigan Cooperative Agreement]. The contract was disclosed as required under the Michigan Freedom of Information Act. As discussed below, Google and Michigan entered into an expanded agreement after the announcement of the proposed settlement.

<sup>58</sup> See *id.* § 4.4.1 ("U of M shall restrict access to the U of M Digital Copy to those persons having a need to access such materials and shall also cooperate in good faith with Google to mutually develop methods and systems for ensuring that the substantial portions of the U of M Digital Copy are not downloaded from the services offered on U of M's website or otherwise disseminated to the public at large.").



described by Michigan was keeping the copies in a restricted (or “dark”) archive until the copyright expired or the copy was needed for preservation purposes.<sup>59</sup>

#### *D. Actions by Other Search Engines.*

Soon after Google announced the Library Project, both Yahoo and Microsoft announced their own digitization projects.<sup>60</sup> Microsoft announced that it would digitize 100,000 volumes from the British Library.<sup>61</sup> Yahoo agreed to host the Open Content Alliance, under which entities such as the University of California and the Internet Archive would post digitized works.<sup>62</sup> Microsoft also participated in the Open Content Alliance until 2008.<sup>63</sup> The salient difference between these projects and Google’s Library Project was that these projects involved only works in the public domain or works where the owner had opted-in to the digitization,<sup>64</sup> while Google scanned in-copyright books without the owner’s authorization, as well as works in the public domain.<sup>65</sup>

### III. THE LITIGATION

On September 20, 2005, the Authors Guild and several individual authors sued Google in the United States District Court for the Southern District of New York, alleging that the Library Project infringed their copyrights.<sup>66</sup> The lawsuit was styled as a class action on behalf of all authors whose works were in the University of Michigan’s collection.<sup>67</sup> A month later, on October 19, 2005, five publishers—McGraw-Hill, Pearson, Penguin, Simon & Schuster, and John Wiley & Sons—sued Google in the same court.<sup>68</sup> The authors request damages and injunctive relief.<sup>69</sup> The publishers, in contrast, only requested injunctive relief.<sup>70</sup> Neither group of plaintiffs moved for a temporary restraining order before the November 1, 2005, date on which Google announced that it would resume scanning in-copyright books.<sup>71</sup>

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<sup>59</sup> UM Library/Google Digitization Partnership FAQ, Aug. 2005, <http://www.lib.umich.edu/files/services/mdp/faq.pdf> (last visited Nov. 20, 2009).

<sup>60</sup> See Elinor Mills, *Microsoft to Offer Book Search*, CNET, Oct. 25, 2005, [http://news.cnet.com/2100-1025\\_3-5913711.html](http://news.cnet.com/2100-1025_3-5913711.html); Elinor Mills, *Yahoo to Digitize Public Domain Books*, CNET, Oct. 2, 2005, [http://news.cnet.com/Yahoo-to-digitize-public-domain-books/2100-1038\\_3-5887374.html](http://news.cnet.com/Yahoo-to-digitize-public-domain-books/2100-1038_3-5887374.html).

<sup>61</sup> See Band, *Both Sides of the Story*, *supra* note 14, at 2.

<sup>62</sup> See Katie Hafner, *In Challenge to Google, Yahoo Will Scan Books*, N.Y. TIMES, Oct. 3, 2005, at C1, <http://www.nytimes.com/2005/10/03/business/03yahoo.html?pagewanted=2>.

<sup>63</sup> Band, *The Copyright Debate*, *supra* note 46, at 3.

<sup>64</sup> See Hafner, *supra* note 62.

<sup>65</sup> HarperCollins announced that it intended to scan 20,000 books on its backlist and make the digital text available on its server for search engines to index. See Band, *The Copyright Debate*, *supra* note 46, at 3. It would offer this service to search engines free of charge. *Id.* “The technological feasibility of this distributed indexing has not yet been proven.” *Id.*

<sup>66</sup> *Authors Guild Complaint*, *supra* note 4, ¶¶ 37–42.

<sup>67</sup> See *id.* ¶¶ 23a, 30–31, 39, 44–45.

<sup>68</sup> *McGraw-Hill Complaint*, *supra* note 4.

<sup>69</sup> *Authors Guild Complaint*, *supra* note 4, ¶¶ 42, 50.

<sup>70</sup> *McGraw-Hill Complaint*, *supra* note 4, ¶ 41.

<sup>71</sup> See Band, *Both Sides of the Story*, *supra* note 14, at 3.



Neither group sued the libraries for making the books available to Google, nor for the copies Google was making for them.<sup>72</sup> The two cases ultimately were consolidated into one action.<sup>73</sup>

The Library Project involved three activities that raised copyright questions. First, Google copied the full text of books into its search database.<sup>74</sup> Second, in response to user queries, Google presented users with a few sentences from the stored text. Because the amount of expression presented to the user is *de minimis*, this second action probably would not lead to liability.<sup>75</sup> Third, Google reproduced and provided to each library a digital copy of the books in its collection scanned by Google.<sup>76</sup> The public debate concerning the lawsuits focused on the first issue, Google's copying of the full text of books into its search database.<sup>77</sup>

#### A. *The Curious Nature of the Library Project Litigation*

From the outset, the Library Project litigation differed from most copyright cases. Typically, the plaintiff's primary objective is to stop the infringing use. The plaintiff's secondary objective is to recover any damages it suffered before the use stopped. Accordingly, the vast majority of plaintiffs seek preliminary relief in the form of a temporary restraining order or a preliminary injunction. Here, however, neither set of plaintiffs, the publishers and the authors, requested preliminary relief.<sup>78</sup>

Additionally, prior to the filing of the case, Google had already offered the plaintiffs terms nearly equivalent to what they could reasonably hope to obtain if they were to prevail at trial. As noted above, Google stated that it would honor any properly documented request by a publisher or author to exclude a book from Google's search index.<sup>79</sup> Thus, the authors and publishers could have obtained the equivalent of injunctive relief just by asking Google to exclude their books from its search index.<sup>80</sup>

As an alternative to opting out of the Library Project, the rightsholders could opt-in to the Partner Program.<sup>81</sup> As noted above, under this program, the copyright owners authorize Google to scan the full text of the book into Google search index,

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<sup>72</sup> *Id.*

<sup>73</sup> Case Management Order Regarding Coordination and Scheduling at 2–3, *Authors Guild v. Google, Inc.*, 05 Civ 8136 (DC) (S.D.N.Y. May 22, 2006).

<sup>74</sup> See Band, *Both Sides of the Story*, *supra* note 14, at 3.

<sup>75</sup> Band, *The Copyright Debate*, *supra* note 46, at 3.

<sup>76</sup> Settlement Agreement § 7.2(a)(i), *Author's Guild*, Case No. 05 CV 8136 (S.D.N.Y. Oct. 28, 2008) (proposed), available at <http://www.googlebooksettlement.com/intl/en/Settlement-Agreement.pdf> [hereinafter Settlement Agreement].

<sup>77</sup> See Band, *Both Sides of the Story*, *supra* note 14, at 3.

<sup>78</sup> See *Authors Guild* Complaint, *supra* note 4, at 13; *McGraw-Hill* Complaint, *supra* note 4, at 13–14.

<sup>79</sup> See Band, *Both Sides of the Story*, *supra* note 14, at 3; Google Book Search, What If I Find One of My Books in Google Books and Would Like It Removed?, <http://books.google.com/support/bin/answer.py?answer=43756&topic=9011> (last visited Nov. 21, 2009) [hereinafter Google Books Removal Information].

<sup>80</sup> See Google Books Removal Information, *supra* note 79.

<sup>81</sup> See Band, *Both Sides of the Story*, *supra* note 14, at 8.



decide how much text Google displays in response to a query, and split advertising revenue with Google.<sup>82</sup> In other words, Google would pay a royalty for the use of the books – the equivalent of actual damages.<sup>83</sup>

Given that the owners could have obtained the relief they sought in the litigation simply by opting out of the Library Project or opting into the Partner Program, why did they nonetheless pursue litigation? It appears that for associations representing the plaintiffs, it was a matter of principle. They believed that the structure of the Library Project “turns copyright law on its head.”<sup>84</sup> Under copyright law, a person generally can use a work only if he requests permission from the rightsholder and the rightsholder grants that permission.<sup>85</sup> The burden of action is on the user, not the rightsholder. The user must make the request, and if the rightsholder chooses to ignore the request, the user cannot use the work.<sup>86</sup> By contrast, under the Library Program, Google attempted to shift the burden onto the rightsholder.<sup>87</sup> Unless a rightsholder took the affirmative step of either requesting Google to exclude a book from the search index or include it in the Partner Program, Google would scan the book into its search index.<sup>88</sup> According to Pat Schroeder, AAP President, Google’s opt-out procedure “shifts the responsibility for preventing infringement to the copyright owner rather than the user, turning every principle of copyright law on its ear.”<sup>89</sup> Thus, for the rightsholders, the dispute was largely a matter of the inherent principle of copyright law: copyright owners should not have any obligation to take any affirmative steps to prevent their work from being used without permission.<sup>90</sup>

### *B. The Legal Issue: Fair Use*

The rightsholders certainly were correct that typically the burden falls on the user to request permission to use a work, and that the use of a work without authorization normally is a copyright infringement.<sup>91</sup> Since Google, in the Library Project, copied vast amounts of copyrighted material without authorization, it could escape copyright liability only if its copying fell within one of the Copyright Act’s exceptions or limitations.<sup>92</sup> Google’s strongest defense lay in the fair use doctrine, 17

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<sup>82</sup> See Google Books Tour, *supra* note 33.

<sup>83</sup> See *id.*

<sup>84</sup> Allan R. Adler, *The Google Library Project* 5 n.8, <http://publishers.org/main/Copyright/CopyKey/documents/ARApaperforNAA-NAB-MLRCconferenceJuly2006-final.pdf>.

<sup>85</sup> See 17 U.S.C. § 201 (2006).

<sup>86</sup> See *id.* (providing owners the exclusive right to authorize use of works).

<sup>87</sup> See Band, *Both Sides of the Story*, *supra* note 14, at 3.

<sup>88</sup> See *id.* at 2.

<sup>89</sup> Press Release, Association of American Publishers, Google Library Project Raises Serious Questions for Publishers and Authors (Aug. 12, 2005) (on file with The John Marshall Review of Intellectual Property Law), available at [http://www.publishers.org/main/PressCenter/Archicves/2005\\_Aug/Aug\\_02.htm](http://www.publishers.org/main/PressCenter/Archicves/2005_Aug/Aug_02.htm).

<sup>90</sup> See *id.*

<sup>91</sup> See 17 U.S.C. § 106 (2006).

<sup>92</sup> 17 U.S.C. §§ 107–122 (setting forth the limitations to the scope of copyrights and enumerating statutory defenses to copyright infringement, including the fair use defense found in section 107).



U.S.C. § 107.<sup>93</sup> The critical legal question in the litigation was whether the fair use doctrine excused Google's copying.<sup>94</sup>

### 1. Google's Core Fair Use Argument

Google's core fair use argument rested on two recent cases in the United States Court of Appeals for the Ninth Circuit: *Kelly v. Arriba Soft Corp.*<sup>95</sup> and *Perfect 10, Inc. v. Amazon.com, Inc.*<sup>96</sup>

#### a. Kelly v. Arriba Soft Corp.

In *Kelly v. Arriba Soft Corp.*, Arriba Soft operated a search engine for Internet images.<sup>97</sup> Arriba compiled its database of images by sending out software spiders that copied thousands of pictures from websites, without the express authorization of the website operators.<sup>98</sup> Arriba reduced the full size images into thumbnails, which it stored in its database.<sup>99</sup> In response to a user query, the Arriba search engine displayed responsive thumbnails.<sup>100</sup> If a user clicked on one of the thumbnails, she was linked to the full size image on the original website from which the image had been copied.<sup>101</sup> Kelly, a photographer, discovered that some of the photographs from his website were in the Arriba search database, and he sued for copyright infringement.<sup>102</sup> The lower court found that Arriba's reproduction of the photographs was a fair use, and the Ninth Circuit affirmed.<sup>103</sup>

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<sup>93</sup> See *id.* § 107. In its answer to the Authors Guild lawsuit, Google raised numerous other defenses, including merger doctrine, scenes a faire, failure to comply with copyright registration formalities, lack of suitability for class action treatments, and the plaintiffs' lack of standing. Answer, Jury Demand and Affirmative Defenses of Defendant Google, Inc. at 6–7, Authors Guild v. Google, Inc., No. 05 Civ 8136 (S.D.N.Y. Nov. 20, 2005). In the Publishers' suit, Google raised many of these defenses, as well license to scan and the publishers' lack of ownership of electronic rights. Answer, Jury Demand and Affirmative Defenses of Defendant Google, Inc. at 8, McGraw Hill Cos v. Google, Inc., No. 05 Civ 8881 (S.D.N.Y. Nov 8, 2005).

<sup>94</sup> See *infra* Part III.B.1–2. The fair use arguments and counter-arguments recounted here emerged in the many public discussions on the Library Project that occurred after commencement of the litigation. See generally Singleton, *Gutenberg Meets Google*, *supra* note 14 (discussing fair use and the Google Library Project). Arguments attributed here to Google were made either by Google itself or supporters of the Library Project. *E.g.* Field v. Google, Inc., 412 F. Supp. 2d 1106, 1115–23 (D. Nev. 2006) (analyzing Google's defenses in a copyright infringement case, including the fair use defense). The objective of this section of this article is not to exhaustively examine the application of fair use to the Library Project. See discussion *infra* Part III.B.1–2. Rather, the objective is to review the arguments actually made at the time in the public debates on the Library Project.

<sup>95</sup> 336 F.3d 811 (9th Cir. 2003).

<sup>96</sup> 487 F.3d 701 (9th Cir. 2007).

<sup>97</sup> 336 F.3d 811, 815 (9th Cir. 2003).

<sup>98</sup> *Id.* at 815–16.

<sup>99</sup> *Id.* at 815.

<sup>100</sup> *Id.*

<sup>101</sup> *Id.* at 816.

<sup>102</sup> *Id.*

<sup>103</sup> *Id.* at 817, 822.



With respect to “the purpose and character of the use, including whether such use is of a commercial nature,”<sup>104</sup> the Ninth Circuit acknowledged that Arriba operated its site for commercial purposes. However, Arriba Soft’s use of Kelly’s images

was more incidental and less exploitative in nature than more traditional types of commercial use. Arriba was neither using Kelly’s images to directly promote its web site nor trying to profit by selling Kelly’s images. Instead, Kelly’s images were among thousands of images in Arriba’s search engine database.<sup>105</sup>

Moreover, the court concluded that Arriba Soft’s use was “transformative”—that use did not merely supersede the object of the originals, but instead added a further purpose or different character.<sup>106</sup> While Kelly’s “images are artistic works intended to inform and to engage the viewer in an aesthetic experience,” Arriba Soft’s search engine “functions as a tool to help index and improve access to images on the internet.”<sup>107</sup> The Ninth Circuit stressed that “Arriba’s use of the images serves a different function than Kelly’s use—improving access to information on the internet versus artistic expression.”<sup>108</sup> The court closed its discussion of the first fair use factor by concluding that Arriba Soft’s “use of Kelly’s images promotes the goals of the Copyright Act and the fair use exception.”<sup>109</sup> This is because the thumbnails “do not supplant the need for the originals” and they “benefit the public by enhancing information-gathering techniques on the internet.”<sup>110</sup>

With respect to the second fair use factor, the nature of the copyrighted work,<sup>111</sup> the Ninth Circuit observed that “[w]orks that are creative in nature are closer to the core of intended copyright protection than are more fact-based works.”<sup>112</sup> Moreover, “[p]ublished works are more likely to qualify as fair use because the first appearance of the artist’s expression has already occurred.”<sup>113</sup> Kelly’s works were creative, but published.<sup>114</sup> Accordingly, the Ninth Circuit concluded that the second factor weighed only slightly in favor of Kelly.<sup>115</sup>

The court also reviewed the third factor, “the amount and substantiality of the portion used in relation to the copyrighted work as a whole.”<sup>116</sup> The Ninth Circuit ruled that

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<sup>104</sup> 17 U.S.C. § 107(1) (2006).

<sup>105</sup> *Arriba Soft*, 336 F.3d at 818.

<sup>106</sup> *Id.*

<sup>107</sup> *Id.*

<sup>108</sup> *Id.* at 819.

<sup>109</sup> *Id.* at 820.

<sup>110</sup> *Id.*

<sup>111</sup> 17 U.S.C. § 107(2) (2006).

<sup>112</sup> *Arriba Soft*, 336 F.3d at 820 (quoting *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1016 (9th Cir. 2001) (citing *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 586 (1994))).

<sup>113</sup> *Id.* (citing *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 564 (1985)).

<sup>114</sup> *Id.*

<sup>115</sup> *Id.*

<sup>116</sup> 17 U.S.C. § 107(3).



although Arriba did copy each of Kelly's images as a whole, it was reasonable to do so in light of Arriba's use of the images. It was necessary for Arriba to copy the entire image to allow users to recognize the image and decide whether to pursue more information about the image or the originating web site. If Arriba copied only part of the image, it would be more difficult to identify it, thereby reducing the usefulness [and effectiveness] of the visual search engine.<sup>117</sup>

Finally, the Ninth Circuit decided that the fourth fair use factor, "the effect of the use upon the potential market for or value of the copyrighted work,"<sup>118</sup> weighed in favor of Arriba.<sup>119</sup> The court found that the Arriba "search engine would guide users to Kelly's web site rather than away from it."<sup>120</sup> Additionally, the thumbnail images would not harm Kelly's ability to sell or license full size images because the low resolution of the thumbnails effectively prevented their enlargement.<sup>121</sup>

*b. Perfect 10, Inc. v. Amazon.com, Inc.*

During the pendency of Library Project litigation, the Ninth Circuit had the opportunity to revisit its holding in *Arriba Soft*, a fair use case involving Google. Perfect 10 published erotic photographs in a magazine and a website.<sup>122</sup> It claimed that other websites copied and displayed its photographs without permission.<sup>123</sup> In the course of its search engine operations, Google automatically scanned the photographs on the infringing websites, stored them in its search database, displayed thumbnails of these infringing images in response to search queries, and provided

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<sup>117</sup> See *Arriba Soft*, 336 F.3d at 821.

<sup>118</sup> 17 U.S.C. §107(4).

<sup>119</sup> *Arriba Soft*, 336 F.3d at 821–22.

<sup>120</sup> *Id.* at 821.

<sup>121</sup> *Id.* at 821–22; see *Field v. Google, Inc.*, 412 F. Supp. 2d 1106 (D. Nev. 2006). Blake Field brought a copyright infringement lawsuit against Google after the search engine automatically copied and cached 51 stories he posted on his website. *Id.* at 1114. Google argued that its Google Cache feature, which allows Google users to link to an archival copy of websites indexed by Google, does not violate copyright law. *Id.* The court granted summary judgment in favor of Google on five independent bases:

(1) Serving a webpage from the Google Cache does not constitute direct infringement, because it results from automated, non-volitional activity initiated by users;

(2) Field's conduct (posting an allow all robots.txt header and then intentionally failing to set a no archive metatag) indicated that he impliedly licensed search engines to serve his archived web page;

(3) Fields is estopped from asserting a copyright claim because he induced Google to infringe by using software code that invited Google to cache and serve his website;

(4) The Google Cache is a fair use; and

(5) The Google Cache qualifies for the Digital Millennium Copyright Act's section 512(b) caching safe harbor for online service providers.

*Id.* at 1115–17, 1123–25.

<sup>122</sup> *Perfect 10, Inc. v. Google, Inc.*, 416 F. Supp. 2d 828, 831–32 (C.D. Cal. 2006), *aff'd in part, rev'd in part*, 487 F.3d 701 (9th Cir. 2007).

<sup>123</sup> *Id.* at 834–35.



links to the infringing sites.<sup>124</sup> Additionally, Google provided the AdSense service.<sup>125</sup> If a website was an AdSense partner, Google served ads to the website.<sup>126</sup> Although AdSense and Google Search were distinct services, Google Search could lead a user to a website that was an AdSense partner.<sup>127</sup> Perfect 10 alleged that some of the infringing sites to which Google linked were AdSense partners.<sup>128</sup> A final fact: a company called Fonestarz licensed photos and made them available for download on cell-phones.<sup>129</sup> Perfect 10 alleged that it had licensed its images to Fonestarz for download onto cell-phones.<sup>130</sup> It further alleged that cell-phone users could download thumbnail Perfect 10 images from Google's site rather than from Fonestarz.<sup>131</sup>

Perfect 10 sued Google both for displaying thumbnail images of Perfect 10 photographs in response to search queries and for linking to sites where infringing images were displayed.<sup>132</sup> Perfect 10 filed a motion for preliminary injunction, which the district court granted.<sup>133</sup> The court's rulings on the linking to the infringing sites touched on issues other than fair use, and thus are not relevant to this discussion.<sup>134</sup> In contrast, the district court's ruling on the display of the thumbnail images in the search results is directly relevant here; the district court distinguished *Arriba Soft* and found that Google's display was not a fair use.<sup>135</sup>

The district court identified two features that differentiated this case from *Arriba Soft*: AdSense and Fonestarz.<sup>136</sup> In *Arriba Soft*, Arriba Soft received no financial benefit from the display of the Kelly's photograph.<sup>137</sup> Here, by contrast, Google received a financial benefit from the display of the Perfect 10 thumbnails because the thumbnails led users to infringing sites from which Google profited via the AdSense program.<sup>138</sup> The district court concluded that this made Google's use "more commercial" than Arriba Soft's.<sup>139</sup>

Moreover, in *Arriba Soft*, the Ninth Circuit found that Arriba Soft's display of thumbnails did not harm the market for Kelly's work, in part because there was no market for the licensing of thumbnail images of Western scenery, the subject of Kelly's photos.<sup>140</sup> But there did appear to be an emerging market for thumbnail images of naked women.<sup>141</sup> Fonestarz licensed photos and made them available for download on cell-phones, where they were the same size as the thumbnails Google displays.<sup>142</sup> The *Perfect 10* district court found that it was possible that Google's

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<sup>124</sup> *Id.* at 836.

<sup>125</sup> *Id.* at 834.

<sup>126</sup> *See id.*

<sup>127</sup> *See id.*

<sup>128</sup> *Id.* at 846–47.

<sup>129</sup> *Id.* at 832.

<sup>130</sup> *Id.*

<sup>131</sup> *Id.* at 849.

<sup>132</sup> *Id.* at 831.

<sup>133</sup> *Id.* at 831, 859.

<sup>134</sup> *Id.* at 851–58.

<sup>135</sup> *Id.* at 851.

<sup>136</sup> *Id.* at 846–51.

<sup>137</sup> *Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 818 (9th Cir. 2003).

<sup>138</sup> *Perfect 10*, 416 F. Supp. 2d at 846.

<sup>139</sup> *Id.* at 847.

<sup>140</sup> *Arriba Soft*, 336 F.3d at 815, 821–22.

<sup>141</sup> *Perfect 10*, 416 F. Supp. 2d at 851.

<sup>142</sup> *Id.* at 849.



display of the thumbnails would interfere with the success of the Fonestarz service because cell-phone users could see the thumbnails through Google's image search for free.<sup>143</sup> Because of these factors, the court concluded that Google was unlikely to prevail on its fair use defense.<sup>144</sup>

On May 16, 2007, the United States Court of Appeals for the Ninth Circuit reversed the district court's rejection of Google's fair use defense.<sup>145</sup> The Ninth Circuit strongly reaffirmed its holding in *Arriba Soft*, and rejected the district court's distinguishing of *Arriba Soft* on the basis of the AdSense program and the cell-phone downloads.<sup>146</sup> The Ninth Circuit found that there was no evidence that the Google thumbnails superseded the Fonestarz cell-phone downloads.<sup>147</sup> Further, the court found no evidence that AdSense revenue derived from infringing sites was commercially significant.<sup>148</sup> At the same time, the court held that Google's use of the thumbnails was "highly transformative."<sup>149</sup> In fact, the court went so far as to say that "a search engine may be more transformative than a parody," the quintessential fair use, "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."<sup>150</sup>

Accordingly, the Ninth Circuit "conclude[d] that the significantly transformative nature of Google's search engine, particularly in light of its public benefit, outweighs Google's superseding and commercial uses of the thumbnails in this case."<sup>151</sup> The Ninth Circuit stated that in reaching this conclusion, it was mindful that the Supreme Court had stressed "the importance of analyzing fair use flexibly in light of new circumstances[,] . . . 'especially during a period of rapid technological change.'"<sup>152</sup>

### *c. The Ninth Circuit Holdings Applied to the Library Project*

Google's supporters argued that Ninth Circuit's fair use findings in *Arriba Soft* and *Perfect 10* applied with equal force to the Library Project.<sup>153</sup> Although Google operated the Library Project "for commercial purposes, it [was] not attempting to profit from the sale of a copy of any of the books scanned into its database, and thus its use is not highly exploitative."<sup>154</sup> Like the *Arriba Soft* and Google search engines,

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<sup>143</sup> *Id.*

<sup>144</sup> *Id.* at 851.

<sup>145</sup> *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701, 733 (9th Cir. 2007).

<sup>146</sup> *Id.* at 722–23.

<sup>147</sup> *Id.* at 723–25.

<sup>148</sup> *Id.* at 722.

<sup>149</sup> *Id.* at 724. The case name is styled *Perfect 10, Inc. v. Amazon.com, Inc.* because an appeal in a related case involving Amazon was consolidated with Google's appeal. *Id.* at 713. *Perfect 10* had sued Amazon for providing users with a link to Google search results. *Id.* at 732.

<sup>150</sup> *Id.* at 721.

<sup>151</sup> *Id.* at 723.

<sup>152</sup> *Id.* (quoting *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 431–32 (1984) (quoting H.R. Rep. No. 94-1476, at 65–66 (1976))).

<sup>153</sup> Band, *Both Sides of the Story*, *supra* note 14, at 4.

<sup>154</sup> *Id.* In *Field v. Google, Inc.*, the court dismissed the argument that Google was a commercial entity by stressing that there was no evidence that Google profited from using Field's stories. 412 F. Supp. 2d 1106, 1120 (D. Nev. 2006). As noted above, the court observed that his works were among



Google's use in the Library Project was transformative in that Google was creating a tool that made "the full text of all the world's books searchable by everyone."<sup>155</sup> The tool did not supplant the original books because it displayed only a few sentences in response to user queries.<sup>156</sup> Like Arriba Soft and Google Image Search, the Library Project involved only published works.<sup>157</sup>

Similar to the search engines in *Arriba Soft* and *Perfect 10*, Google's copying of entire books into its database was reasonable for the purpose of the effective operation of the search engine; searches of partial text necessarily would lead to incomplete results. Moreover, unlike Arriba and Google Image Search, the Library Project did not provide users with a copy of the entire work, but only with a few sentences surrounding the search term.<sup>158</sup> And if a particular term appeared many times in the book, the search engine allowed the user to view only three instances – thereby preventing the user from accessing too much of the book.<sup>159</sup>

Finally, as with the Arriba Soft and Google Image search engines, it is hard to imagine how the Library Project could have actually harmed the market for books, given the limited amount of text a user could view. To be sure, if a user could have viewed (and printed out) many pages of a book, it is conceivable that the user would have relied upon the search engine rather than purchase the book. Similarly, under those circumstances, libraries might have directed users to the search engine rather than purchase expensive reference materials. But when the user could access only a few sentences before and after the search term, any displacement of sales was unlikely. Moreover, the Library Project may actually have benefited the market for the book by identifying it to users and demonstrating its relevance. This was particularly important for the vast majority of books that are not well publicized by their publishers. Google arguably encouraged users to obtain a hard copy of the book by providing a link to information where the book could be borrowed or purchased.<sup>160</sup>

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the billions of works in Google's database. *Id.* In the Library Project cases, Google could make the same argument with respect to any one owner.

<sup>155</sup> Adam M. Smith, Official Google Blog, *Making Books Easier to Find*, <http://googleblog.blogspot.com/2005/08/making-books-easier-to-find.html> (Aug. 11, 2005, 23:53 PDT). This tool includes not only digital copies of the books, but also an index of all the words in all the books, and sophisticated software that enables the user to search the index and access search results. See Google Books, How Does Google Books Work?, <http://books.google.com/support/bin/answer.py?hl=en&answer=43724> (last visited Nov. 21, 2009).

<sup>156</sup> See Google Books, *supra* note 155.

<sup>157</sup> See Google Books, Google Book Library Project – An Enhanced Card Catalog of the World's Books, <http://www.books.google.com/googlebooks/library.html> (last visited Nov. 21, 2009).

<sup>158</sup> *Id.*

<sup>159</sup> Google Book Settlement Frequently Asked Questions, <http://www.googlebooksettlement.com/help/bin/answer.py?answer=118704&hl=en> (last visited Nov. 21, 2009) [hereinafter Google Book Settlement FAQs].

<sup>160</sup> Smith, *supra* note 155. In *Field v. Google, Inc.*, the court considered an additional factor: "whether an alleged infringer has acted in good faith." 412 F. Supp. 2d 1106, 1122 (D. Nev. 2006) Google's allowing owners to opt-out, its refusal to display any snippets for certain reference works, and its willingness to upgrade any book into the revenue sharing Partner Program give Google strong evidence that it is acting in good faith.



## 2. *The Rightsholders' Response to Google's Core Fair Use Argument*

The rightsholders had four responses to the *Arriba Soft* and *Perfect 10* precedents.<sup>161</sup>

### a. *Quality of Copy*

First, they noted that *Arriba Soft* and Google Image Search stored a compressed, low-resolution version of each image, while Google stored the full text of each book.<sup>162</sup> This seems to be a distinction without a difference, because *Arriba Soft* and Google Image Search had to make a high resolution copy before compressing it.<sup>163</sup> These “low-resolution image[s] *Arriba Soft* displayed to users represents far more of the work than the snippets Google displayed to its Library Project users.”<sup>164</sup> In any event, neither the scanned copy nor the snippets supplant the market for the original work.<sup>165</sup>

### b. *Internet Environment*

Second, the rightsholders suggested that *Arriba Soft* and *Perfect 10* were distinguishable because they involved the copying of digital images on the Internet, while Google digitized analog works.<sup>166</sup> If a rightsholder decides to place a work on a website, it knows that the website will be “crawled” by a software “spider” sent out by a search engine, and it knows that the spider will copy the work into its search index.<sup>167</sup> Thus, by placing the work on the website, the rightsholder has given a search engine an implied license to copy the work into its search database.<sup>168</sup> By contrast, the author or publisher of a book has not given an implied license for the book to be scanned.<sup>169</sup>

Google had three possible responses to this argument. One, the *Arriba Soft* and *Perfect 10* decisions made no reference to an implied license; their fair use analysis

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<sup>161</sup> The responses are based on arguments that owners' representatives have made at a series of debates on the Google Library Project in which the author of this article participated. *See, e.g.,* Allan Adler *The Google Library Project*, MEDIA L. RES. CTR. BELL. at 73, 76 n.7 (Dec. 2006); Singleton, *Gutenberg Meets Google*, *supra* note 14; *Fair Use: Its Effects on Consumers and Industry: Hearing Before the H. Subcomm. on Commerce, Trade, and Consumer Protection*, 109th Cong. (2005) [hereinafter Fair Use Hearing].

<sup>162</sup> Singleton, *Gutenberg Meets Google*, *supra* note 14, at 3, 13.

<sup>163</sup> *See Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 816 (9th Cir. 2003); Band, *Google and Fair Use*, *supra* note 7, at 21.

<sup>164</sup> Band, *Both Sides of the Story*, *supra* note 14, at 21; Singleton, *Gutenberg Meets Google*, *supra* note 14, at 22.

<sup>165</sup> Singleton, *Gutenberg Meets Google*, *supra* note 14, at 22. Additionally, in *Field v. Google, Inc.*, the court found Google's presentation of caches of the full text of Field's stories to be a fair use. 412 F. Supp. 2d at 1119.

<sup>166</sup> Singleton, *Gutenberg Meets Google*, *supra* note 14, at 13.

<sup>167</sup> *See* Fair Use Hearing, *supra* note 161, at 32 (testimony of Jonathan Band).

<sup>168</sup> *See id.* at 63 (testimony of Paul Aiken explaining Google's argument of implied license).

<sup>169</sup> *See id.*



did not turn on an implied license.<sup>170</sup> Two, this argument suggests that works uploaded onto the Internet are entitled to less protection than analog works.<sup>171</sup> This runs contrary to the entertainment industry's repeated assertion that copyright law applies to the Internet in precisely the same manner as it applies to the analog environment.<sup>172</sup>

Three, Google argued that its opt-out feature constituted a similar form of implied license.<sup>173</sup> A critical element of the implied license argument with respect to material on the Internet is the rightsholder's ability to use an "exclusion header."<sup>174</sup> In essence, an exclusion header is a software "Do Not Enter" sign that a website operator can place on its website.<sup>175</sup> If a search engine's spider detects an exclusion header, it will not copy the website into the search index.<sup>176</sup> Thus, if a website operator places content on the Internet without an exclusion header, the search engine can assume that the operator has given it an implied license to copy the website.<sup>177</sup> Similarly, Google argued that any owner that did not opt out had given it an implied license to scan.<sup>178</sup>

### *c. Licensing*

The rightsholders argued that in contrast to *Arriba Soft* and *Perfect 10*, where there was no market for the licensing of web content for inclusion in search engines, the Library Project restricted owners' ability to license their books to search engine providers.<sup>179</sup> However, the existence of the Partner Program, which involves licensing, demonstrates that the Library Project did not preclude lucrative licensing

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<sup>170</sup> See *Field*, 412 F. Supp. 2d at 1117–18. The implied license argument did not apply in *Perfect 10, Inc. v. Amazon.com, Inc.* because the websites from which Google copied the Perfect 10 images infringed Perfect 10's copyright and did not have the authority to license Google's use, either implicitly or explicitly. 487 F.3d 701, 718 (9th Cir. 2007).

<sup>171</sup> Singleton, *Gutenberg Meets Google*, *supra* note 14, at 13.

<sup>172</sup> *Id.*

<sup>173</sup> See *id.* at 23.

<sup>174</sup> *Id.* at 19–20.

<sup>175</sup> Fair Use Hearing, *supra* note 161, at 34. (providing the prepared statement of Jonathan Band on behalf of the NetCoalition).

<sup>176</sup> *Id.*

<sup>177</sup> See *Field v. Google, Inc.*, 412 F. Supp. 2d 1106, 1115–16 (D. Nev. 2006). In *Field v. Google, Inc.*, Google raised implied license as a defense. *Id.* at 1116. But Google's implied license argument in *Field* did not support the rightsholders' attempt to distinguish *Arriba Soft* or *Perfect 10* on the basis of the unique characteristics of spidering the Web. *Id.* In *Field*, the court treated implied license and fair use as distinct defenses. *Id.* at 1109. Thus, the absence of an implied license for the scanning in the Library Project did not weaken Google's fair use defense based on *Arriba Soft* or *Perfect 10*. Moreover, Field used a software header that specifically invited Google's spider to crawl his website. *Id.* at 1114. There is no evidence that Kelly or Perfect 10 made similar invitations to Arriba Soft or Google. See *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701, 731 (9th Cir. 2007); *Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 816 (9th Cir. 2003).

<sup>178</sup> Singleton, *Gutenberg Meets Google*, *supra* note 14, at 10.

<sup>179</sup> Fair Use Hearing, *supra* note 161, at 66–67 (citing the prepared statement of Paul Aiken suggesting that the Google Library Project could ultimately make efforts by authors to license their works outside Google futile).



arrangements.<sup>180</sup> By participating in the Partner Program, publishers received revenue streams not available to them under the Library Project.<sup>181</sup> Google presumably preferred for publishers to participate in the Partner Program because Google saved the cost of digitizing the content if publishers provided Google with the books in digital format.<sup>182</sup> And Google made clear that it was willing to upgrade a book from the Library Project to the Partner Program upon the owner's request.<sup>183</sup>

Furthermore, Yahoo announced the formation of the Open Content Alliance, which included works licensed by their owners, nearly a year after Google announced the Library Project.<sup>184</sup> Google's Library Project obviously did not deter Yahoo from adopting a different business model based on licensing.<sup>185</sup> Similarly, Amazon under license allowed users to sample a few pages from a book at no charge.<sup>186</sup>

Significantly, the Library Project did not compete with a business model involving licensed works because such a model showed more than just snippets.<sup>187</sup> While the Library Project helped users identify the entire universe of relevant books, a model with licensed works provided users with deeper exposure to a smaller group of books.<sup>188</sup> Each business model satisfied different needs.<sup>189</sup> Stated differently, the Library Project targeted the indexing market, while other online digitization projects aimed at the sampling market.<sup>190</sup> By concentrating on the indexing market, the Library Project did not harm the sampling market.<sup>191</sup>

In any event, the enormous transaction costs involved in compiling a comprehensive full text search index with the rightholders' authorization precluded the creation of such an index in that manner.<sup>192</sup> Thus, Google's index did not deprive owners of potential revenues from "traditional, reasonable, or likely to be developed markets" for the work.<sup>193</sup>

Further, even if the rightholders had succeeded in showing that the Library Project's harm to the indexing market was not completely speculative,<sup>194</sup> the Second

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<sup>180</sup> Google Books, Program Overview, <http://books.google.com/support/partner/bin/answer.py?answer=106167> (last visited Nov. 21, 2009).

<sup>181</sup> *Id.*

<sup>182</sup> *Id.* (offering publishers the ability to send pdf documents, presumably saving time in the uploading process).

<sup>183</sup> Smith, *supra* note 155.

<sup>184</sup> Press Release, Yahoo! Media Relations, Global Consortium Forms Open Content Alliance to Bring Additional Content Online and Make It Searchable (Oct. 3, 2005) (on file with The John Marshall Review of Intellectual Property Law), *available at* <http://docs.yahoo.com/docs/pr/release1269.html>.

<sup>185</sup> *See id.*

<sup>186</sup> Singleton, *Gutenberg Meets Google*, *supra* note 14, at 10.

<sup>187</sup> *See* Fair Use Hearing, *supra* note 161, at 32.

<sup>188</sup> *See id.* at 66 (prepared statement of Paul Aiken on behalf of the Authors Guild). Mr Aiken suggested that "a negotiated license could pave the way for a real online library – something far beyond the excerpts Google intends to offer through its Google Library program." *Id.* at 67.

<sup>189</sup> *See* BMG Music v. Gonzalez, 430 F.3d 888, 891 (7th Cir. 2005) (describing the models in the music industry).

<sup>190</sup> *See id.*

<sup>191</sup> Singleton, *Gutenberg Meets Google*, *supra* note 14, at 22.

<sup>192</sup> *Id.* at 16.

<sup>193</sup> *See* Am. Geophysical Union v. Texaco Inc., 60 F.3d 913, 930 (2d Cir. 1994).

<sup>194</sup> *See* Field v. Google, Inc., 412 F. Supp. 2d 1106, 1122 (D. Nev. 2006). As noted above, the court in *Field v. Google, Inc.* found that "there is no evidence before the Court of any market for



Circuit in a 2006 decision suggested that courts in fair use cases should not give weight to the loss of licensing revenue that the copyright owner could have obtained from “a transformative market.”<sup>195</sup> The court stated:

[W]e hold that DK’s use of BGA’s images is transformatively different from their original expressive purpose. In a case such as this, a copyright holder cannot prevent others from entering fair use markets merely “by developing or licensing a market for parody, news reporting, educational, or other transformative uses of its own creative work.” “[C]opyright owners may not preempt exploitation of transformative markets. . . .” Moreover, a publisher’s willingness to pay license fees for reproduction of images does not establish that the publisher may not, in the alternative, make fair use of those images. Since DK’s use of BGA’s images falls within a transformative market, BGA does not suffer market harm due to the loss of license fees.<sup>196</sup>

Under this reasoning, the rightsholders’ hypothetical loss of revenue from the licensing of indexing rights should not enter into the fair use calculus.<sup>197</sup>

Finally, had the *Field* court decided to factor the loss of licensing revenue into its fair use analysis, it likely would have been influenced by the Ninth Circuit’s holding in *Perfect 10* that “the significantly transformative nature of Google’s search engine, particularly in light of its public benefit, outweighs Google’s superseding and commercial uses of the thumbnails in this case.”<sup>198</sup>

#### *d. Legal Error*

The rightsholder’s final response to *Arriba Soft* and *Perfect 10* was that they were wrongly decided.<sup>199</sup> In other words, the Ninth Circuit made a mistake. The authors and publishers sued Google in federal court in New York, part of the Second

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licensing search engines the right to allow access to Web pages through ‘Cached’ links, or evidence that one is likely to develop.” *Id.*

<sup>195</sup> Bill Graham Archives, LLC v. Dorling Kindersley Ltd., 448 F.3d 605, 614–15 (2d Cir. 2006).

<sup>196</sup> *Id.* (citations omitted) (second alteration in original).

<sup>197</sup> See *Video Pipeline, Inc., v. Buena Vista Home Entm’t, Inc.*, 342 F.3d 191 (3d Cir. 2003). The owners argued that the Library Project might deprive them of the promotional value of their works, *e.g.*, steering traffic away from their websites were they to offer search capability. Fair Use Hearing, *supra* note 161, at 66–67. The *Video Pipeline* court stated that interpreting the fourth fair use factor to incorporate promotional value of this sort significantly limits the utility of the fair use privilege because every work theoretically has some promotional value. *Video Pipeline*, 342 F.3d at 198–99. Additionally, if a particular owner believed that a search index of the works it owned did have promotional value, it could have simply opted-out of the Library Project. Singleton, *Gutenberg Meets Google*, *supra* note 14, at 13. In contrast, Video Pipeline did not permit Disney to opt-out of its service displaying film trailers. *Video Pipeline*, 342 F.3d at 195.

<sup>198</sup> *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701, 723 (9th Cir. 2007).

<sup>199</sup> Singleton, *Gutenberg Meets Google*, *supra* note 14, at 13.



Circuit.<sup>200</sup> While the trial court in New York might have looked to *Arriba Soft* and *Perfect 10* for guidance, they are not binding precedent in the Second Circuit. Similarly, had the case been appealed to the Second Circuit, the Second Circuit would have been interested in how the Ninth Circuit handled a similar case, but it would have been free to conduct its own analysis.

The rightsholders suggested that the trial court in New York would be influenced by a decision by a federal trial judge in New York, *UMG Recordings, Inc. v. MP3.com, Inc.*<sup>201</sup> MP3.com established a “space-shifting” service that allowed people who purchased a CD to access the music on the CD from different locations.<sup>202</sup> MP3.com copied several thousand CDs into its server, and then provided access to an entire CD to a subscriber who demonstrated that he had possessed a copy of the CD.<sup>203</sup> MP3.com argued that the copies it made on its server constituted fair use.<sup>204</sup> The court rejected the argument and assessed millions of dollars of statutory damages against MP3.com.<sup>205</sup> The rightsholders suggested that *MP3.com* demonstrated that for a work to be “transformative” in the Second Circuit for purposes of the first fair use factor, the work itself must be changed, as in a parody.<sup>206</sup> Under this reasoning, a mere repurposing of the work was insufficient to render a use transformative.<sup>207</sup>

Google’s supporters contended that *MP3.com* was easily distinguishable.<sup>208</sup> They claimed that Google’s use was far more transformative than MP3.com’s—it was creating a search index, while MP3.com simply retransmitted copies in another medium.<sup>209</sup> Additionally, Google claimed that its use would not have harmed any likely market for the books—there was no market for licensing books for inclusion in digital indices of the sort envisioned by Google.<sup>210</sup> In contrast, MP3.com’s database clearly could harm markets for online music, which the plaintiffs had already taken steps to enter.<sup>211</sup> The issue of different licensing markets is discussed below in greater detail.

Google also insisted that the Ninth Circuit decided *Arriba Soft* and *Perfect 10* correctly.<sup>212</sup> It pointed to the Ninth Circuit’s heavy reliance on the Supreme Court’s most recent fair use decision, *Campbell v. Acuff-Rose Music, Inc.*<sup>213</sup> Thus, *Arriba Soft* noted that *Campbell* held that “[t]he more transformative the new work, the less

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<sup>200</sup> *Id.* at 13–14.

<sup>201</sup> 92 F. Supp. 2d 349 (S.D.N.Y. 2000).

<sup>202</sup> *Id.* at 351.

<sup>203</sup> *Id.* at 350.

<sup>204</sup> *Id.*

<sup>205</sup> *Id.* at 352.

<sup>206</sup> *See id.* at 351.

<sup>207</sup> *Id.*

<sup>208</sup> Hannibal Travis, *Opting Out of the Internet in the United States and European Union: Copyright, Safe Harbors, and International Law*, 84 NOTRE DAME L. REV. 331, 395 (2008).

<sup>209</sup> Singleton, *Gutenberg Meets Google*, *supra* note 14, at 14.

<sup>210</sup> *See* Band, *Both Sides of the Story*, *supra* note 14, at 5.

<sup>211</sup> *UMG Recordings*, 92 F. Supp. 2d at 352.

<sup>212</sup> Defendant’s Motion for Summary Judgment at 56, *Field v. Google, Inc.*, 412 F. Supp. 2d 1106 (D. Nev. 2006).

<sup>213</sup> *See* *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994).



important the other factors, including commercialism, become.”<sup>214</sup> Likewise, *Arriba Soft* cited *Campbell* for the proposition that “the extent of permissible copying varies with the purpose and character of the use.”<sup>215</sup> And *Arriba Soft* followed *Campbell*’s conclusion that “[a] transformative work is less likely to have an adverse impact on the market for the original than a work that merely supersedes the copyrighted work.”<sup>216</sup> Because the Ninth Circuit so closely followed *Campbell*, and because the Second Circuit was also obligated to follow *Campbell*, Google would have urged the Second Circuit to conduct a fair use analysis similar to the Ninth Circuit’s.<sup>217</sup>

The rightsholders’ contention that the Second Circuit applied a different standard for transformation took a blow in May 2006, when the Second Circuit issued its decision in *Bill Graham Archives, LLC v. Dorling Kindersley Ltd.*<sup>218</sup> Dorling Kindersley (“DK”) published a coffee table biography of the Grateful Dead with over 2000 different images.<sup>219</sup> Among these were seven posters whose copyright was owned by Bill Graham Archives (“BGA”).<sup>220</sup> BGA sued for infringement, but the District Court found that DK’s use was fair.<sup>221</sup> The Second Circuit affirmed, holding that DK’s inclusion of reduced images of the posters in a new work was transformative.<sup>222</sup> The court noted that DK’s

purpose in using the copyrighted images at issue in its biography of the Grateful Dead is plainly different from the original purpose for which they were created. Originally, each of BGA’s images fulfilled the dual purpose of artistic expression and promotion. . . . In contrast, DK used each of BGA’s images as historical artifacts to document and represent the actual occurrence of Grateful Dead concert events featured on [its] timeline.<sup>223</sup>

Thus, the Second Circuit, like the Ninth Circuit in *Arriba Soft*, focused on the repurposing of the original work, rather than on changes to the work itself.<sup>224</sup>

Further strengthening the transformational nature of DK’s use “was the manner in which DK displayed the images.”<sup>225</sup> The court noted that DK reduced the size of the reproductions, and cited *Arriba Soft* as authority for the transformational nature of reproductions.<sup>226</sup> Additionally, the court noted that BGA’s images “constitute an inconsequential portion” of the book.<sup>227</sup> These factors were present in the Library Project as well—Google displayed only snippets, which revealed far less of a work

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<sup>214</sup> *Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 818 (9th Cir. 2003) (citing *Campbell*, 510 U.S. at 579).

<sup>215</sup> *Id.* at 820 (citing *Campbell*, 510 U.S. at 586–87).

<sup>216</sup> *Id.* at 821 (citing *Campbell*, 510 U.S. at 591).

<sup>217</sup> Singleton, *Gutenberg Meets Google*, *supra* note 14, at 17.

<sup>218</sup> 448 F.3d 605 (2d Cir. 2006).

<sup>219</sup> *Id.* at 607.

<sup>220</sup> *Id.*

<sup>221</sup> *Bill Graham Archives, LLC v. Dorling Kindersley Ltd.*, 386 F. Supp. 2d 324, 333 (S.D.N.Y. 2005), *aff’d*, 448 F.3d 605 (2d Cir. 2006).

<sup>222</sup> *Bill Graham Archives*, 448 F.3d at 615.

<sup>223</sup> *Id.* at 609.

<sup>224</sup> *Id.* at 608–09.

<sup>225</sup> *Id.* at 611.

<sup>226</sup> *Id.*

<sup>227</sup> *Id.*



than a thumbnail.<sup>228</sup> Moreover, any one work constituted an inconsequential portion of the Google search index.<sup>229</sup> In sum, the *BGA* decision suggests that a court in the Second Circuit might have found Google's use transformative.<sup>230</sup>

### 3. *Intermediate Copying*

In addition to the *Arriba Soft* and *Perfect 10* cases discussed above, Google pointed to the "intermediate copying" line of cases to demonstrate the fair use nature of the Library Project.<sup>231</sup> In these cases, courts found that fair use permitted the translation of machine-readable object code into human-readable source code as an essential step in the development of noninfringing interoperable computer programs.<sup>232</sup> Thus, Google's scanning of books should have been excused because it was a necessary step in the development of a search index that displays noninfringing snippets to users.

The rightsholders responded that the intermediate copying cases were distinguishable because they addressed a problem specific to software: translation of the programs is the only means of accessing ideas unprotected by copyright that are contained within the program.<sup>233</sup> This problem, of course, does not exist with books. Furthermore, in the intermediate copying cases, the software developer discarded the translation once it developed its new, non-infringing program.<sup>234</sup> Google, conversely, retained the scanned copy in its search index.<sup>235</sup> While acknowledging these factual differences, Google's supporters stressed the underlying principle of the intermediate copying cases: that copying may be excused if it is necessary for a socially useful noninfringing end use.<sup>236</sup>

### 4. *The Equities*

Although courts typically focus on the four fair use factors and technical questions such as whether a use is transformative, the Supreme Court has stressed that fair use is an "equitable rule of reason" which "permits courts to avoid rigid

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<sup>228</sup> See Singleton, *Gutenberg Meets Google*, *supra* note 14, at 4.

<sup>229</sup> *Id.* at 14–15.

<sup>230</sup> See *Bill Graham Archives*, 448 F.3d at 613. The *Bill Graham Archives* court also cited *Arriba Soft* twice in its discussion of the third fair use factor. *Id.* Given the Second Circuit's extensive reliance on *Arriba Soft*, the owners would not have been able successfully to marginalize it as an aberrant Ninth Circuit decision. See *id.*

<sup>231</sup> See, e.g., *Sony Computer Entm't v. Connectix Corp.*, 203 F.3d 596, 608 (9th Cir. 2000); *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1526–28 (9th Cir. 1992); *Atari Games Corp. v. Nintendo of Am., Inc.*, 975 F.2d 832, 843 (Fed. Cir. 1992).

<sup>232</sup> See, e.g., *Sony Computer Entm't*, 203 F.3d at 608; *Sega*, 977 F.2d at 1526–28; *Atari Games*, 975 F.2d at 843.

<sup>233</sup> See, e.g., *Sony Computer Entm't*, 203 F.3d at 608; *Sega*, 977 F.2d at 1526–28; *Atari Games*, 975 F.2d at 843.

<sup>234</sup> See *Sega*, 977 F.2d at 1514–15.

<sup>235</sup> See Google Books, What is the Google Books Partner Program?, <http://books.google.com/support/bin/answer.py?hl=en&answer=17855> (last visited Nov. 21, 2009).

<sup>236</sup> Band, *Both Sides of the Story*, *supra* note 14, at 7.



application of the copyright statute when, on occasion, it would stifle the very creativity which that law is designed to foster.”<sup>237</sup> In the public debate concerning the Library Project, supporters and opponents made a wide variety of equitable arguments that could ultimately have factored into the court’s analysis.<sup>238</sup> Some of these equitable arguments overlap with factors discussed above with respect to *Arriba Soft* and *Perfect 10*.<sup>239</sup>

*a. The Social Benefit of the Library Project*

Google’s supporters stressed that by assembling a searchable index of the full text of millions of books, Google was creating a research tool of historic significance. The Library Project would make it easier than ever before for users to locate the wealth of information buried in books.<sup>240</sup> By compiling this information in its search index, Google would be directing students to sources of information far more reliable than the websites they so often frequent, and reacquaint a new generation with books and libraries. Additionally, the Library Program would increase demand for books.<sup>241</sup>

*b. Lack of Alternatives*

Google’s supporters next argued that it could not achieve the socially beneficial objective of a comprehensive, full text index if it had to clear the rights for all the in-copyright books.<sup>242</sup> As discussed above, the cost of clearing the rights to the universe of in-copyright books could have exceeded \$24 billion.<sup>243</sup>

Stated differently, had Google been required to obtain permission to scan the in-copyright books, it probably would have scanned only public domain works and works whose owners affirmatively requested their inclusion. Just a small percentage of owners were likely to take this step. Often, it is unclear whether the publisher or the author has the right to authorize digitization of a work. And even when it is clear who controls the digitization rights, the rightsholder might not have sufficient economic incentive to request Google to scan the book. For example, if a publisher

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<sup>237</sup> *Stewart v. Abend*, 495 U.S. 207, 237 (1990) (quoting *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 448 (1984); *Iowa State Univ. Research Found., Inc. v. Am. Broad. Cos.*, 621 F.2d 57, 60 (2d Cir. 1980)).

<sup>238</sup> See The Public Index, <http://thepublicindex.org/documents/responses> (last visited Nov. 21, 2009).

<sup>239</sup> See *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701, 719–20 (9th Cir. 2007); *Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 820 (9th Cir. 2003). These equitable arguments also are consistent with Professor Wendy Gordon’s market failure approach to fair use, which examines whether “(1) market failure is present; (2) transfer of the use to defendant is socially desirable; and (3) an award of fair use would not cause substantial injury to the incentives of the plaintiff copyright owner.” Wendy Gordon, *Fair Use as Market Failure: A Structural and Economic Analysis of the Betamax Case and its Predecessors*, 82 COLUM. L. REV. 1600, 1614 (1982).

<sup>240</sup> Band, *Both Sides of the Story*, *supra* note 14, at 7.

<sup>241</sup> *Id.*

<sup>242</sup> *Id.* at 7–8.

<sup>243</sup> See discussion *supra* Part I.



controls the rights for an out-of-print book, it has little economic incentive to proactively request Google to scan the book.<sup>244</sup>

In the debates soon after commencement of the litigation, some suggested that the transaction costs could be reduced by a collective license, similar to the licenses ASCAP and BMI provide for the public performance of musical compositions.<sup>245</sup> While such an arrangement could theoretically have worked for books published in the future, it would not have worked for the 24 million existing, in-copyright books. Getting a significant share of the copyright owners of these 24 million works to agree to participate in a collective license system would have been as costly as Google getting their permission individually.<sup>246</sup>

Others suggested a legislative solution. In January 2006, soon after the owners sued Google, the Copyright Office issued a report recommending legislation to address the orphan works problem.<sup>247</sup> These recommendations were embodied in H.R. 5439, reported out of the House of Representatives Subcommittee on Courts, the Internet, and Intellectual Property in 2006, during the 109th Congress.<sup>248</sup> The Senate passed similar legislation in 2008, at the end of the 110th Congress.<sup>249</sup> Even if Congress had enacted orphan works legislation, it would not have assisted Google in creating a comprehensive full text search index for books. H.R. 5439 in the 109th Congress, and S. 2913 in the 110th Congress, would have limited the remedies available to a reappearing owner if the user made a reasonably diligent effort to locate the owner.<sup>250</sup> In other words, Google would still have had to search for the copyright owner of each book. The legislation would have helped Google only in those instances where it could not identify or locate the copyright owner after a reasonably diligent search. And even in those instances, Google would still have had to pay “reasonable compensation” to any owner that reappeared.<sup>251</sup> In short, Google had no practical alternative means of achieving its objective.

### *c. Harm to the Rightsholders.*

It was easy to see the harm to the public flowing from an incomplete search index—the public would not find as complete a universe of relevant books. And an incomplete search index would have been the inevitable result of placing on Google the burden of obtaining permission from the owners.

But it was much more difficult to identify the harm to the rightsholders deriving from allocating to them the burden of opting out, because the cost of the

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<sup>244</sup> Band, *Both Sides of the Story*, *supra* note 14, at 8–9.

<sup>245</sup> *Id.*

<sup>246</sup> *Id.* However, as discussed below, the class action settlement mechanism creates a collective rights management organization—the Book Rights Registry—without incurring the staggering cost of convincing the owners of the 24 million works to participate in the organization. *See* discussion *supra* Part I.

<sup>247</sup> REGISTER OF COPYRIGHTS, REPORT ON ORPHAN WORKS 71–91 (2006), *available at* <http://www.copyright.gov/orphan/orphan-report.pdf>.

<sup>248</sup> H.R. 5439, 109th Cong. (2006).

<sup>249</sup> S. 2913, 110th Cong. (2008).

<sup>250</sup> *See* H.R. 5439, § 514(a)(2); S. 2913, § 514(b)(2).

<sup>251</sup> H.R. 5439, § 514(b)(1)(a); S. 2913, § 514(a)(3).



rightsholders opting out was much less than Google's cost of seeking permission.<sup>252</sup> The author and her publisher are much better placed than Google to determine who has the right to authorize digitization. And whomever the rightsholder proved to be, she obviously knew where she was located.<sup>253</sup>

*i. The Opt-out Flood*

The rightsholders responded with a "floodgates" argument: If other search engines engaged in mass digitization projects with opt-out features, owners would have to opt-out repeatedly—a burdensome process, especially for individual authors.<sup>254</sup> As a practical matter, however, only a small number of search engine firms had the resources to engage in digitization programs on the scale of Google's Library Project. And even if many specialized indices emerged, the number of indices that likely would include any specific book was small. Also, if this had become a problem at some point in the future, groups like the Authors Guild could have maintained a general opt-out register that search engines could have honored.<sup>255</sup>

*ii. Licensing Revenue*

The rightsholders conceded that a book's inclusion in the search index likely did not displace sales of the book because Google displayed only snippets text.<sup>256</sup> Nonetheless, the rightsholders argued that Google's unauthorized actions deprived them of licensing revenue.<sup>257</sup> Section II.B.2.c. above addressed the highly speculative nature of the harm the Library Project caused the market for licensing the digital indexing rights for books, and the propriety of even considering such harm in the fair use analysis. But assuming the existence of this licensing market for purposes of weighing the equities, the value of a license with respect to any particular book would have been relatively small.<sup>258</sup> While Google wanted its index to be comprehensive as possible, the marginal value of the inclusion of any particular book out of 24 million books was small. Accordingly, Google would have been willing to pay at most an extremely modest fee for the indexing rights to any single book. Even for a publisher that owned the rights to a large backlist of books, the total license fees it would have received would probably have been relatively small. Therefore, although the aggregate value of all the licenses in this hypothetical market would have been

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<sup>252</sup> Band, *Both Sides of the Story*, *supra* note 14, at 9.

<sup>253</sup> See Georgia Harper, *Google This: The Bottom Line*, <http://www.utsystem.edu/OGC/IntellectualProperty/googlethis.htm> (last visited Nov. 21, 2009); see Joy Su, *Google Book Search and Opt-Out Procedures*, 54 J. COPYRIGHT SOC'Y.U.S.A. 947 (2009).

<sup>254</sup> Band, *Both Sides of the Story*, *supra* note 14, at 11; see Fair Use Hearing, *supra* note 161, at 66–67 (statement of Paul Aiken).

<sup>255</sup> Band, *Both Sides of the Story*, *supra* note 14, at 11.

<sup>256</sup> See *id.* at 10.

<sup>257</sup> Second Amended Complaint at 17, *Authors Guild v. Google, Inc.*, No. 05 Civ 8136 (S.D.N.Y. Oct. 31, 2008) [*Authors Guild* Second Amended Complaint].

<sup>258</sup> Band, *Both Sides of the Story*, *supra* note 14, at 10.



substantial, copyright ownership is dispersed among so many authors and publishers that any one owner could reasonably have expected only trivial license fees.<sup>259</sup>

### *iii. Changing Practices*

The rightsholders argued that even if the structure of the original Library Project did not cause them economic harm, Google could have changed the structure in a manner that would inflict injury. For example, at some point in the future, Google might have decided to display larger portions of the indexed books, which could have displaced sales. Google responded that if it did change its policy in a manner that hurts sales, the rightsholders could sue at that time. Since displaying some of a book's text in response to a search query implicates both the reproduction right and the display right, a rightsholder would have been able to bring an infringement action against Google when it changed its policy, even if that occurred long after the original scanning of the book.<sup>260</sup> Accordingly, there was no reason to prevent Google from proceeding at a time when its practices did the owners no harm.

### *iv. Security.*

The rightsholders also expressed concern about the security of the digitized copies in Google's search index.<sup>261</sup> They feared that someone would hack into the index and upload the digitized books onto the Internet, where they would be publicly available.<sup>262</sup> Moreover, the Second Circuit made clear that if an entity lawfully extracted information from another company's database, the entity was not liable for a third party's use of that information to infringe the other company's copyright in its database.<sup>263</sup> Thus, the Second Circuit would not have held Google responsible for hackers' unlawful uses of the contents of its search index, unless the owners could have shown that Google somehow encouraged or induced the hackers to infringe.<sup>264</sup>

Google, however, had a significant incentive to protect the security of its index: it would not want to see its \$750 million investment evaporate.<sup>265</sup> Additionally, given the ease of digitizing any single book bought in a bookstore or checked out of a library, it is far from clear why anyone would bother to hack into the Google index to access digitized books. And even if someone were to hack into the Google search

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<sup>259</sup> *Id.* The small value of the indexing licensing fees was borne out by the settlement, which will award an owner only a minimum of \$60 for each work scanned prior to the settlement, plus a target fee of \$200 for each book included in Google's index. Settlement Agreement, *supra* note 76, § 2.1(b). This \$260 would be supplemented by a usage fee proportionate to the book's use in the services offered by Google. *See id.* Because the settlement permits the sale of access to full text, a license fee for just indexing rights would be far less than \$260. *See id.*

<sup>260</sup> 17 U.S.C. § 106(1), (5) (2006).

<sup>261</sup> Fair Use Hearing, *supra* note 161, at 63 (testimony of Paul Aiken).

<sup>262</sup> Fair Use Hearing, *supra* note 161, at 66 (prepared statement of Paul Aiken).

<sup>263</sup> *See* Matthew Bender & Co. v. West Publ'g Co., 158 F.3d 693, 705–06 (2d Cir. 1998).

<sup>264</sup> *See id.*; Band, *Both Sides of the Story*, *supra* note 14, at 10–11.

<sup>265</sup> Band, *Both Sides of the Story*, *supra* note 14, at 10.



index, the information was formatted in a manner that facilitated word search, not distribution of full text, *i.e.*, the search index does not consist of pdf files.<sup>266</sup>

*v. Morality*

The rightsholders by and large agreed that the Library Project had significant social utility. Indeed, authors participating in the Authors Guild lawsuit acknowledge that the Library Project would provide them with a helpful research tool.<sup>267</sup> Their objection was not that Google created a full text search index; it was that Google created the index without their permission and without compensating them.<sup>268</sup> The rightsholders repeatedly pointed to Google's financial success.<sup>269</sup> They argued that given a market capitalization and level of profitability that may have exceeded that of the entire publishing industry, Google could have afforded to pay for the right to index their works.<sup>270</sup> Relatedly, the rightsholders claimed that Google would profit from including their works in its index, presumably by the selling of advertising.<sup>271</sup> In their view, Google should not have been permitted to profit from their labor without their permission.<sup>272</sup>

*d. Broader Implications.*

The rightsholders and other opponents of the Library Project argued that it had implications far beyond the parties that the court should consider in its fair use analysis.

*i. The Impact on the Publishing Industry.*

The rightsholders contended that if Google had been permitted to assemble a search index of in-copyright books, it would have had an unfair advantage over publishers that want to provide e-books.<sup>273</sup> This is because the Library Project would have led consumers to perceive Google as the leading source for digital books.<sup>274</sup> This argument overlooked the fact that Google would have been able to provide consumers with the full text of a book in its search index only with the permission of the copyright owner; fair use would not have permitted Google to make such a distribution without the rightsholder's authorization.<sup>275</sup>

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<sup>266</sup> *Id.*

<sup>267</sup> See Fair Use Hearing, *supra* note 161, at 66 (statement of Paul Aiken).

<sup>268</sup> See *id.*

<sup>269</sup> See *id.* at 63 (testimony of Paul Aiken).

<sup>270</sup> See *Authors Guild* Second Amended Complaint, *supra* note 257, at 3.

<sup>271</sup> Fair Use Hearing, *supra* note 161, at 63 (statement of Paul Aiken).

<sup>272</sup> *Authors Guild* Second Amended Complaint, *supra* note 257, at 3.

<sup>273</sup> Band, *Both Sides of the Story*, *supra* note 14, at 11.

<sup>274</sup> *Id.*; see also Fair Use Hearing, *supra* note 161, at 67 (prepared statement of Paul Aiken discussing the possible pre-eminence of Google as a deliverer of digital books).

<sup>275</sup> Band, *Both Sides of the Story*, *supra* note 14, at 11.



The rightsholders similarly worried that the Library Project would have provided Google a bridgehead in the publishing industry, which it would have been able to exploit with its enormous resources.<sup>276</sup> Of course, more competition for publishers would have benefited both authors and consumers. And if Google engaged in anti-competitive conduct, the publishers could have relied upon the antitrust laws.<sup>277</sup>

*ii. The Privatization of Knowledge.*

While many scholars acknowledged that the Library Project could have greatly assisted research activities, some nonetheless voiced concern that a corporate entity was assembling this vast search index rather than a public library.<sup>278</sup> They felt that Google's ability to influence search results through its search algorithm would provide it with too much control over the access to knowledge.<sup>279</sup> Additionally, they worried that Google would have an economic incentive not to respect the privacy of its users.<sup>280</sup>

While in theory it might have been preferable from a societal point of view for the Library Project to have been conducted by libraries rather than a private corporation, libraries simply did not have the resources to perform the scanning or to litigate the fair use issue.<sup>281</sup> Therefore, as practical matter, only a large search engine such as Google has both the resources and the incentive to perform this activity.

*e. What Did Authors Want?*

The Authors Guild, which sued Google, represented fewer than 10,000 professional authors.<sup>282</sup> Thus, its positions did not necessarily reflect the views of the hundreds of thousands of authors whose books would have been scanned under the Library Project, particularly academic authors. Most authors want their books to be found and read.<sup>283</sup> Moreover, authors are aware that an ever increasing percentage of students and businesses conduct research primarily, if not exclusively, online.<sup>284</sup> Therefore, if books cannot be searched online, many users will never locate them.<sup>285</sup>

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<sup>276</sup> *Id.* at 11–12.

<sup>277</sup> See 15 U.S.C. §§ 1, 2, 15 (2006).

<sup>278</sup> Band, *Both Sides of the Story*, *supra* note 14, at 12; see also Siva Vaidhynathan, *A Risky Gamble With Google*, CHRON. HIGHER EDUC. Dec. 2, 2005, at B7–10 (discussing concerns about a corporation indexing books instead of the traditional libraries).

<sup>279</sup> Band, *Both Sides of the Story*, *supra* note 14, at 12.

<sup>280</sup> *Id.*

<sup>281</sup> *Id.*

<sup>282</sup> The Authors Guild – History, <http://www.authorsguild.org/about/history.html> (last visited Nov. 21, 2009).

<sup>283</sup> See Tim O'Reilly, Editorial, *Search and Rescue*, N.Y. TIMES, Sept. 28, 2005, at A27, available at <http://www.nytimes.com/2005/09/28/opinion/28oreilly.html> (“Authors struggle, mostly in vain, against their fated obscurity.”).

<sup>284</sup> Band, *Both Sides of the Story*, *supra* note 14, at 12.

<sup>285</sup> *Id.*



The Library Project was predicated upon the assumption the authors generally would have wanted readers to find their books.<sup>286</sup>

The original Library Project would have been particularly important for authors of out-of-print books. While the publishers may have participated in digitization projects such as the Partner Program with respect to in-print books, they had no incentive to devote any effort to the out-of-print books, which from the publishers' perspective had little economic value. But since the publishers of these out-of-print books may have still held the copyright, the authors of the books would not have had the legal right to authorize Google to scan their books. This large class of authors probably would have been pleased that Google provided users with a mechanism to find their abandoned books. Indeed, many of them might even have been willing to pay Google to include their books in its search index, and were happy that Google did so free of charge. While the authors typically would have received no direct economic benefit from the rediscovery of their out-of-print works, the rediscovery would have enhanced their reputations and led to the dissemination of their ideas. In any event, if an author had not wanted Google to scan her in-print or out-of-print book, Google would have honored her request.<sup>287</sup>

### 5. *The Legality of the Library Copies*

Google provided each library participating in the Library Project with a digital copy of the books in its collection scanned by Google.<sup>288</sup> Although the public debate concerning the Library Project centered on the copies Google made for its search index, the complaints filed by the Authors Guild and the publishers reached the copies Google made for the libraries.<sup>289</sup> Some rightsholders argued that while fair use might permit a library to make a digital copy of a work for archival purposes, Google, a commercial entity, could not rely on the library's fair use privilege to make the archival copy for the library.<sup>290</sup> This argument derives from cases such as *Princeton University Press v. Michigan Document Services, Inc.*<sup>291</sup> and *Basic Books, Inc. v. Kinko's Graphics Corp.*,<sup>292</sup> where the courts ruled that commercial copy centers could not claim that their photocopying of coursepacks for use in college course constituted a non-commercial use.<sup>293</sup> In these cases, however, the copy centers often made hundreds of copies of a single work in a manner designed to supplant the copyright holder's rights.<sup>294</sup> Here, by contrast, Google made just one copy of any given work for a library.<sup>295</sup> If 17 U.S.C. § 108(c) permitted a library to make three copies of a book for the purpose of replacing a copy that was damaged, deteriorating

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<sup>286</sup> *Id.*

<sup>287</sup> Settlement Agreement, *supra* note 76, § 3.5(a)(i).

<sup>288</sup> *Authors Guild* Second Amended Complaint, *supra* note 257, at 2–3, 16.

<sup>289</sup> *See id.* at 16.

<sup>290</sup> *See* Anandashankar Mazumdar, *Publishers: Value of Book Search Project Shows That Scanning Is Not Fair Use*, 71 Pat. Trademark & Copyright J. (BNA) 94 (Nov. 25, 2005).

<sup>291</sup> 99 F.3d 1381 (6th Cir. 1996).

<sup>292</sup> 758 F. Supp. 1522 (S.D.N.Y. 1991).

<sup>293</sup> *Princeton*, 99 F.3d at 1383; *Basic Books*, 758 F. Supp. at 1547.

<sup>294</sup> *Princeton*, 99 F.3d at 1384; *Basic Books*, 758 F. Supp. at 1526.

<sup>295</sup> *Authors Guild* Second Amended Complaint, *supra* note 257, at 16.



lost, or stolen, surely it could retain a preservation specialist to make those copies for it.<sup>296</sup>

Of course, if a library had made an unlawful use of the copies it received from Google, then Google obviously could not have relied upon the library's assertion of fair use. For example, had a library made the full text of in-copyright works available online to the general public, Google's fair use defense would have evaporated.

In any event, as a practical matter, if the library copies had become a focus of the litigation, it is unlikely that a court would have found Google's index copy to be a fair use, but the library copies to be infringing.<sup>297</sup> Ultimately, the library copies were ancillary to the index copy; Google made the library copies as consideration for obtaining access to the book for the purpose of making the index copy.<sup>298</sup> Thus, the core issue was the legality of the index copy, not the library copies.<sup>299</sup>

## 6. *International Dimensions of the Original Library Project*

Fair use under the United States Copyright Act is generally broader and more flexible than the copyright exceptions in other countries, including fair dealing in the British Commonwealth countries.<sup>300</sup> Thus, the scanning of a library of books might

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<sup>296</sup> See 17 U.S.C. § 108(a), (c) (2006).

<sup>297</sup> See *Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 818–19, 822 (9th Cir. 2003) (holding that the indexing of digital photographic images on Plaintiff's website by Defendant's search engine: 1) "improv[ed] access to information on the internet"; 2) was transformative in nature; and 3) constituted fair use).

<sup>298</sup> See, e.g., Press Release, Stanford University, Stanford and Google to Make Library Books Available Online (Dec. 14, 2004) (on file with The John Marshall Review of Intellectual Property Law), <http://www.stanford.edu/dept/news/pr/2004/pr-google-011205.html> ("Google is also working with several other major research libraries to digitally scan their collections and over time will integrate this content into the Google index."); Press Release, University of Michigan, Google/U-M Project Opens the Way to Universal Access to Information (Dec. 14, 2004) (on file with The John Marshall Review of Intellectual Property Law), <http://www.umich.edu/news/?Releases/2004/Dec04/library/index> ("The University Library will receive and own a high quality digital copy of the materials digitized by Google.").

<sup>299</sup> See *Authors Guild* Second Amended Complaint, *supra* note 257, at 2–3. The rightsholders did not sue the libraries. See *id.* at 1. Had the court found Google liable for copyright infringement, the rightsholders might have pursued secondary infringement actions against libraries that provided Google with in-copyright books for scanning. Presumably the focus of such an action would have been an injunction on the use of the library copies. See 17 U.S.C. § 502(a) ("Any court having jurisdiction of a civil action arising under this title may . . . grant temporary and final injunctions on such terms as it may deem reasonable to prevent or restrain infringement of a copyright."). Such a remedy would have been available even with respect to the public universities, notwithstanding the sovereign immunity doctrine. See 17 U.S.C. § 511(a); see also *Kimel v. Fla. Bd. of Regents*, 528 U.S. 62, 66–67 (2000) (holding that the Florida Board of Regents and an Alabama state university were entitled to sovereign immunity). Although sovereign immunity would shelter the public universities from damages liability, the owners could still have sought injunctive relief against the universities' officers and librarians. See *Ex parte Young*, 209 U.S. 123, 159–60 (1908) (holding that injunctive relief against a state is possible where the plaintiff named individual officials as party defendants rather than the state itself).

<sup>300</sup> See Thomas F. Cotter, *Fair Use and Copyright Overenforcement*, 93 IOWA L. REV. 1271, 1313 (2008) (noting that countries within the British Commonwealth apply the less expansive, bright-line approach of "fair dealing").



not be permitted under the copyright laws of most other countries.<sup>301</sup> However, copyright law is territorial; that is, one infringes the copyright laws of a particular country only with respect to acts of infringement that occurred in that country.<sup>302</sup> Since Google scanned in-copyright books just in the United States, the only relevant law with respect to the scanning is United States copyright law.<sup>303</sup> (Google entered into agreements with libraries around the world, including the Oxford University Library and University Complutense of Madrid, to scan public domain books.)

Nonetheless, the search results would have been viewable in other countries.<sup>304</sup> This meant that Google's distribution of a few sentences from a book to a user in another country would be analyzed under that country's copyright laws.<sup>305</sup> While the copyright laws of most countries might not be so generous as to allow the reproduction of an entire book, almost all copyright laws do permit short quotations.<sup>306</sup> These exceptions for quotations should have been sufficient to protect Google's transmission of Library Project search results to users.<sup>307</sup> Nonetheless, in June 2006, the French publisher Martiniere sued Google for the display of the

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<sup>301</sup> See, e.g., Copyright, Designs and Patents Act 1988, c. 48, ch. 3, § 29 (Eng.). The "Research and private study" section explains:

Copying by a person other than the researcher or student himself is not fair dealing if . . . the person doing the copying knows or has reason to believe that it will result in copies of substantially the same material being provided to more than one person at substantially the same time and for substantially the same purpose.

*Id.*

<sup>302</sup> See *Quality King Distribs., Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135, 154 (1998) (Ginsburg, J., concurring) (indicating that copyright protection is not available for acts of infringement committed abroad); *Subafilms, Ltd. v. MGM-Pathe Commc'ns Co.*, 24 F.3d 1088, 1095 (9th Cir. 1994) (en banc) ("[T]he United States' copyright laws have no application to extraterritorial infringement . . .") (citing 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][3][b] (1994)).

<sup>303</sup> See *Equal Employment Opportunity Comm'n v. Arabian Am. Oil Co.*, 499 U.S. 244, 248 (1991) ("It is a longstanding principle of American law 'that legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States.'" (citing *Foley Bros. v. Filardo*, 336 U.S. 281, 285 (1949))).

<sup>304</sup> See *Am. Civil Liberties Union v. Reno*, 929 F. Supp. 824, 844 (E.D. Pa. 1996) (noting that once an "[internet service] provider posts content on the Internet, it is available to all other Internet users worldwide").

<sup>305</sup> See *Murray v. British Broad. Corp.*, 81 F.3d 287, 290 (2d Cir. 1996) (noting the "national treatment" principle set out in Article V, paragraph 2 of the Berne Convention mandates "that the applicable law be the copyright law of the country in which the infringement occurred"). Google arguably is enabling a copy of the sentences to be made in the random access memory of the user's computer. See Dr. Adolf Dietz, *Germany*, in 2-GER INT'L COPYRIGHT L. AND PRAC., § 8[1][b][i] (Paul Edward Geller ed., 2009) (analyzing section 16 of the Copyright Act of Germany and indicating that the act of loading a program into a computer memory may be reproduction). Thus, the lawfulness of this copy must be examined under the copyright laws of the user's country. See *Murray*, 81 F.3d at 290.

<sup>306</sup> See, e.g., Copyright Act, 1968, ch. 40, § 5 (Austl.) (allowing copying of a literary work based on a percentage of the original as a fair dealing); Copyright Act, ch. C-42, § 29 (1985) (Can.) ("Fair dealing for the purpose of research or private study does not infringe copyright.").

<sup>307</sup> See, e.g., Copyright Act, 1968, ch. 40, § 5 (Austl.) (stating that "10% of the number of pages in the edition" or "if the work . . . is divided into chapters—a single chapter" is a "reasonable portion" of copied text and will be a fair dealing).



snippets in France.<sup>308</sup> Martiniere argued that the display of the snippets infringed its right in the integrity of its books.<sup>309</sup> The right of integrity is a Continental form of “moral rights” in works that generally does not exist under the United States Copyright Act.<sup>310</sup>

### *C. How Would the Court Have Ruled?*

Had the court reached the merits of the fair use defense, Google certainly had strong arguments.<sup>311</sup> Society would have benefited significantly from a search index that included the full text of a large percentage of all published books.<sup>312</sup> Such a comprehensive index could have been compiled only without obtaining the permission of all the rightsholders; the transaction costs of obtaining all the permissions would have been so large as to render the project an economic impossibility.<sup>313</sup> At the same time, compiling such an index without obtaining the rightsholders’ permission would not have hurt the owners in any discernable way, provided that the search results display only snippets of text.<sup>314</sup> It would not have diminished the market for the books, nor would it have prevented licensed digitization projects that provide users with more text for a narrower range of books.<sup>315</sup> Google further reduced the possibility of harm by permitting rightsholders to opt-out of the Library Project altogether, or to opt-in to the Partner Program.<sup>316</sup> Although the Library Project involved a significant amount of copying, search engines routinely crawled the World Wide Web, caching vast quantities of web pages;

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<sup>308</sup> Lawrence J. Speer, *Foreign Laws/Copyrights: French Publisher Sues Google, Alleges Book Indexing Violates Copyrights*, 72 Pat. Trademark & Copyright J. (BNA) 197 (June 16, 2006).

<sup>309</sup> See *id.* In December 2009, a court in Paris ruled that Google’s display of snippets in France infringed copyright. Tribunal de grande instance [T.G.I.] [ordinary court of original jurisdiction] Nice, Dec. 18, 2009, Editions du Seuil v. Google Inc., No. RG 09/00540, slip op. at 21, [http://www.stm-assoc.org/2010\\_01\\_04\\_Editions\\_du\\_Seuil\\_et\\_al\\_v\\_Google\\_Paris\\_Court\\_of\\_First\\_Instance18\\_Dec\\_09EN1.doc](http://www.stm-assoc.org/2010_01_04_Editions_du_Seuil_et_al_v_Google_Paris_Court_of_First_Instance18_Dec_09EN1.doc). The court ordered Google to pay Martiniere 300,000 euros in damages, and imposed a 10,000 euro-a-day fine until Google stopped displaying the Martiniere snippets in France. *Id.* at 3, 20–21.

<sup>310</sup> See Carter v. Helmsley-Spear, Inc., 71 F.3d 77, 81 (2d Cir. 1995); see also 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8D.01 (2009) (discussing moral rights generally).

<sup>311</sup> See generally Kate M. Manuel, *The Google Library Project: Is Digitization for Purposes of Online Indexing Fair Use Under Copyright Law?*, CONG. RES. SERVICE, at 5–9 (2009), available at <http://openers.com/document/R40194/> (analyzing arguments for each side under the four fair use factors).

<sup>312</sup> See Michael Warnecke, *Foreign Laws/Copyrights: Google’s Legal Stance on U.S. Book Search May Have Less Support Under European Law*, 71 Pat. Trademark & Copyright J. (BNA) 206 (Dec. 23, 2005).

<sup>313</sup> See Pamela Samuelson, *Unbundling Fair Uses*, 77 FORDHAM L. REV. 2537, 2614 (2009).

<sup>314</sup> See Singleton, *Gutenberg Meets Google*, *supra* note 14, at 5; Cf. Michael Warnecke, *Copyrights/Fair Use: Google’s Search of Library Shelves Splits Copyright Law Experts on Fair Use*, 70 Pat. Trademark & Copyright J. (BNA) 707 (Oct. 28, 2005) (noting that copyright owners would not be harmed, but stood to benefit by the greater demand for their works that would be more searchable).

<sup>315</sup> Band, *Both Sides of the Story*, *supra* note 14, at 9.

<sup>316</sup> See Google Books Removal Information, *supra* note 79.



and the *Arriba Soft* and *Perfect 10* court treated search engine copying and display as a fair use.<sup>317</sup>

On the other hand, the Library Project involved an unprecedented amount of copying of books.<sup>318</sup> Given the scale of the copying of analog material, the outcome of the case was far from certain.<sup>319</sup> And given the stakes involved, the side that lost in the district court was likely to appeal the decision to the Second Circuit, and the loser there was likely to request Supreme Court review. The case could easily have marched up and down the federal courts for years without resolution.

#### IV. THE ORIGINAL SETTLEMENT

Because of the uncertainty of the outcome of the litigation, it is not that surprising that the parties reached a settlement on October 28, 2008—three years after the filing of the complaints.<sup>320</sup> What surprised most observers was the settlement's sweeping nature.<sup>321</sup> While the initial Library Project involved Google's creation of a search index that would display at most three snippets per book, the settlement, if approved, would allow Google to deliver to users the full text of millions of books.<sup>322</sup> The original project sparked the opposition of publishers and authors, but the proposed settlement, precisely because of its breadth, has generated concern among a cross section of academics, privacy advocates, libraries, and even the Antitrust Division of the Department of Justice.<sup>323</sup> Because the litigation is a class action, the settlement requires approval by the presiding judge.<sup>324</sup> In response to objections raised by rightsholders and the Department of Justice, the parties negotiated an amended settlement, discussed in Part VI. This amended settlement requires approval by the presiding judge.<sup>325</sup>

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<sup>317</sup> *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701, 733 (9th Cir. 2007); *Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 818–19, 822 (9th Cir. 2003).

<sup>318</sup> Singleton, *Gutenberg Meets Google*, *supra* note 14, at 3 (estimating that the Library Program started with 25 to 30 million books across the five libraries).

<sup>319</sup> See Manuel, *supra* note 311, at 4–5 (suggesting the impossibility of predicting the outcome of court decisions in the Google case).

<sup>320</sup> See Settlement Agreement, *supra* note 76, at 134.

<sup>321</sup> Glenn G. Lammi, *Book Search Suit Settlement Merits Broader Public Attention*, COUNSEL'S ADVISORY, Apr. 10, 2009.

<sup>322</sup> See Manuel, *supra* note 311, at 1, 9.

<sup>323</sup> See Felicia R. Lee, *Questions and Praise for Google Web Library*, N.Y. TIMES, Dec. 18, 2004, at B9.

<sup>324</sup> FED. R. CIV. P. 23(e). The judge at the commencement of the litigation was the Honorable John Sprizzo, who passed away shortly after announcement of the settlement. Settlement Agreement, *supra* note 76, at Attach. M. The current presiding judge is the Honorable Denny Chin, who sentenced convicted fraudster Bernard Madoff to 150 years in prison. *United States v. Madoff*, No. 09 CR 213, 2009 U.S. Dist. Lexis 61593, at \*1, \*5 (S.D.N.Y. Apr. 20, 2009). President Obama nominated Judge Chin to the United States Court of Appeals for the Second Circuit. Benjamin Weiser, *Madoff's Sentencing Judge to be Appellate Court Choice*, N.Y. TIMES, Sept. 10, 2009, at A37.

<sup>325</sup> The court cannot modify the settlement; it can either approve it or reject it. See FED. R. CIV. P. 23(e). To be sure, the court can reject the settlement, but indicate what modifications would be necessary to gain its approval. See Alex Pham, *Agency Balks at Google Deal: A Settlement with Publishers and Authors on Digital Books Raises Antitrust and Copyright Issues*, the U.S. Says, L.A. TIMES, Sept. 19, 2009, at B2. The parties then would decide whether to appeal the rejection, accept the modifications, or continue to litigate the case. If the parties decide to accept the modifications, it



*A. Overview of the Settlement*

The settlement is extremely complex, spanning more than 200 pages including the appendices and attachments.<sup>326</sup> The settlement creates a mechanism for Google to continue scanning the full text of millions of books into its search index.<sup>327</sup> The settlement also authorizes Google to display the full text of many of these books through a variety of services.<sup>328</sup> In exchange, Google will pay license fees to rightsholders.<sup>329</sup>

The settlement:

- applies only to books published before January 5, 2009;<sup>330</sup>
- does not apply to periodicals;<sup>331</sup>
- does not apply to books first published in the United States that were not registered with the Copyright Office;<sup>332</sup> and
- does not apply to books in the public domain because they are not protected by copyright.<sup>333</sup>

The settlement defines a book as a published or publicly distributed set of written or printed sheets of paper bound together in a hard copy.<sup>334</sup> The settlement specifically excludes periodicals, personal papers (such as unpublished diaries or bundled letters), or works with more than a specified amount of musical notation and lyrics.<sup>335</sup>

The settlement contemplates three categories of books:

- In-copyright, commercially available (in essence, in print or available through a print-on-demand program)<sup>336</sup>
- In-copyright, not commercially available<sup>337</sup>
- Public domain<sup>338</sup>

The settlement establishes default rules for what Google can do with the two categories of in-copyright books—display uses (discussed below) are turned on for books that are out-of-print and are turned off for in print books.<sup>339</sup> Google has complete freedom with respect to the public domain books since they are not subject

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would be considered a new settlement, and all the procedures set forth in Rule 23(e), including notice to class members and a fairness hearing, would have to be followed once again. FED R. CIV. P. 23(e).

<sup>326</sup> See *generally* Settlement Agreement, *supra* note 76 (discussing the proposed settlement agreement between the Authors Guild, Association of American Publishers, and Google).

<sup>327</sup> See Manuel, *supra* note 311, at 3 n.22, 9.

<sup>328</sup> Settlement Agreement, *supra* note 76, § 7.2(g)(ii)(1).

<sup>329</sup> *Id.* § 2.1(a).

<sup>330</sup> See Manuel, *supra* note 311, at 9.

<sup>331</sup> See Settlement Agreement, *supra* note 76, §§ 1.16, 2.1(a), 4.1(a)(v) (discussing only the sale or use of books).

<sup>332</sup> *Id.* § 1.16.

<sup>333</sup> *Id.* §§ 1.16, 1.72.

<sup>334</sup> *Id.* § 1.16.

<sup>335</sup> *Id.* § 1.16.

<sup>336</sup> *Id.* § 3.2(d)(i)(1). For sake of clarity, this article will refer to commercially available books as in-print books.

<sup>337</sup> *Id.* § 3.2(d)(i). For sake of clarity, this article will refer to not commercially available books as out-of-print books.

<sup>338</sup> *Id.* § 3.2(d)(i)(2).

<sup>339</sup> *Id.* § 3.2(d)(ii).



to copyright.<sup>340</sup> Google will display the full text of these books for free, as it does under the original Library Project.<sup>341</sup>

Significantly, the settlement does not apply to books first published after January 5, 2009.<sup>342</sup> Additionally, rightsholders will have the ability to opt-out of the settlement altogether, to remove specific books from Google's servers, or to vary any of the default rules with respect to specific books.<sup>343</sup> Thus, as a practical matter, the settlement probably will have limited applicability to in-copyright, in-print books; the rightsholders likely will closely manage their rights in these books rather than subject them to the settlement's general default rules.<sup>344</sup>

This means that the settlement primarily focuses upon the universe of in-copyright books that are out-of-print. Google estimates that approximately 70% of published books fall in this category, 20% of published books are in the public domain and outside of the settlement, and 10% are in-copyright and in-print. If Google ultimately scans 30 million books, an estimated 21 million will be in copyright and out-of-print; 3 million will be in copyright and in-print; and 6 million will be in the public domain.

### *B. Class Action Litigation and the Book Rights Registry*

The litigation against Google took the form of a class action.<sup>345</sup> A class action in essence is a legal fiction found in American civil procedure where a handful of class representatives bring an action on behalf of all members of a defined class.<sup>346</sup> Typically, a few employees will bring an action on behalf of all similarly situated employees of the same employer, or a few purchasers of a product will bring an action on behalf of all other purchasers of the products.<sup>347</sup> If the presiding judge decides to certify the class, then any settlement or judgment can be binding on all members of

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<sup>340</sup> Singleton, *Gutenberg Meets Google*, *supra* note 14, at 5.

<sup>341</sup> *Id.*; Settlement Agreement, *supra* note 76, § 1.116.

<sup>342</sup> Manuel, *supra* note 311, at 9.

<sup>343</sup> *See* Settlement Agreement, *supra* note 76, § 3.5.

<sup>344</sup> For example, the rightsholders might include these books in Google's Partner Program. *See id.* § 1.62 (stating that the program consists of copyright owners who have contracted with Google to include their works in a Google Book Search). The Partner Program already includes over 1.5 million books. *Google Books Settlement 2.0: Evaluating Access*, ELECTRONIC FRONTIER FOUND., Nov. 17, 2009, <http://www.eff.org/deeplinks/2009/08/google-book-search-settlement-access>.

<sup>345</sup> Settlement Agreement, *supra* note 76, art. XII.

<sup>346</sup> *See* FED. R. CIV. P. 23(a).

<sup>347</sup> *See id.* (requiring the plaintiffs in the class to have typical claims and common questions of law).



the class.<sup>348</sup> Under the Federal Rules of Civil Procedure, a court must review a class action settlement to ensure that it is “fair, reasonable, and adequate.”<sup>349</sup>

Initially, the Authors Guild sued Google on behalf of all owners of copyrights in literary works contained in the library of the University of Michigan, one of the libraries that made in-copyright books available to Google for scanning.<sup>350</sup> The litigation currently involves two subclasses of plaintiffs—authors and publishers of books in which they own a United States copyright interest.<sup>351</sup> A United States copyright interest exists even in books never published in the United States if the book’s author is a citizen of a country that signed the Berne Convention.<sup>352</sup> Thus, many authors and publishers who are not United States citizens are considered plaintiffs in this lawsuit and will be bound by the settlement, unless they opt-out of it or the judge rejects it.<sup>353</sup> The choices available to all class members are discussed below in greater detail.

The settlement of copyright class action litigation represents Google’s third attempt to solve the central problem facing any effort to digitize the millions of existing books still in copyright: the tremendous amount of time, transaction costs, and uncertainty relating to clearing such an overwhelming number of rights. As discussed above, the previous attempts involved the opt-out procedure and the assertion of the fair use in the course of copyright litigation.<sup>354</sup> However, the class action settlement permits Google to offer far more extensive services with respect to books than either the opt-out procedure or the fair use privilege.

The settlement resolves the copyright claims against Google of all members of the publisher and author subclasses, including absent members.<sup>355</sup> The settlement creates a Book Rights Registry (“Registry”) to manage the copyrights owned by class members for the books subject to the settlement, while also allowing Google to continue to use those books in certain specified ways and subject to certain

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<sup>348</sup> See FED. R. CIV. P. 23(e). Before certifying a class, a court must determine that: (1) the class is so large as to make individual suits impractical; (2) there are legal or factual claims in common; (3) the claims or defenses are typical of the plaintiffs or defendants; and (4) the representative parties will adequately protect the interests of the class. See FED. R. CIV. P. 23(a). In many cases, the party seeking certification must also show that (5) common issues between the class and the defendants will predominate the proceedings, as opposed to individual fact-specific conflicts between class members and the defendants and (6) the class action, instead of individual litigation, is a superior vehicle for resolution of the disputes at hand. See FED. R. CIV. P. 23(b)(3).

<sup>349</sup> FED. R. CIV. P. 23(e)(2).

<sup>350</sup> *Authors Guild Complaint*, *supra* note 4, ¶ 20.

<sup>351</sup> Manuel, *supra* note 311, at 2.

<sup>352</sup> This assumes the work has not entered into the public domain. See Copyright Term and the Public Domain in the United States, [www.copyright.cornell.edu/training/Hirtle\\_Public\\_Domain.htm](http://www.copyright.cornell.edu/training/Hirtle_Public_Domain.htm) (last visited Nov. 21, 2009).

<sup>353</sup> Foreign language books will compromise an estimated half of the books Google scans. Brian Lavoie, *Anatomy of Aggregate Collections: The Example of Google Print for Libraries*, <http://www.dlib.org/dlib/september05/lavoie/09lavoie.html> (last visited Nov. 21, 2009). Most of the foreign language books presumably have foreign rightsholders. Additionally, foreign (e.g., British) authors wrote a large share of the English language books. Accordingly, foreign rightsholders would constitute a substantial proportion of the rightsholders under the original settlement. As discussed in Part VI, the Amended Settlement Agreement excludes books published outside the United States, except for books published in the United Kingdom, Canada, and Australia.

<sup>354</sup> See discussion *supra* Part II.B, III.B.

<sup>355</sup> See Settlement Agreement, *supra* note 76, at 1.



limitations.<sup>356</sup> The Registry's board will be divided equally between publishers and authors.<sup>357</sup> Google will pay for the Registry's start-up costs.<sup>358</sup>

### *C. Territoriality*

A country's copyright law applies only within that country's territory.<sup>359</sup> This litigation concerns Google's infringement in the United States of United States copyrights. Therefore, the settlement resolves only this litigation concerning United States copyrights.<sup>360</sup> And although the settlement through the class action mechanism applies to non-United States rightsholders, the settlement applies only to their United States copyrights.<sup>361</sup>

Google will provide the expanded services permitted under the settlement just to users located in the United States.<sup>362</sup> Users outside of the United States will only have access to the current Library Project service, which displays three "snippets" consisting of a few sentences of text in response to each search query.<sup>363</sup> Pending litigation in other countries concerning this service will continue.<sup>364</sup>

For example, a Canadian author who published a book in Canada in 2000 has a copyright in the book in Canada, the United States and every other country that signed the Berne Convention.<sup>365</sup> He is a member of the class of plaintiffs in the United States litigation, and the settlement applies to his United States copyright in the book.<sup>366</sup> Unless he opts-out of the settlement, Google will be able to make certain uses of the book in the United States, for which he will be compensated if he registers appropriately.<sup>367</sup> Accordingly, the settlement does not affect any copyright claims he may have against Google in Canada for its past and future display of snippets to users in Canada.<sup>368</sup>

<sup>356</sup> *Id.* art. VI.

<sup>357</sup> *Id.* § 6.2(b).

<sup>358</sup> *Id.* § 5.2. Google will pay \$34.5 million for the Registry's start-up costs and the notification of class members. *Id.* Google will pay a minimum of \$45 million to the Registry for distribution to rightsholders for scanning that occurred prior to May 5, 2009. *Id.* § 5.1(b). Google will also pay \$30 million in attorneys' fees to counsel for the Author Sub-Class (who represented the sub-class on a contingency basis) and \$15.5 million to the Association of American Publishers, primarily for its attorneys' fees. *Id.* § 5.5.

<sup>359</sup> See *Foley Bros. v. Filardo*, 336 U.S. 281, 285 (1949) (citing *Blackmer v. United States*, 284 U.S. 421, 437 (1932)).

<sup>360</sup> Jonathan Band, *The Google Settlement: The International Implications*, 3 COMPUTER L. REV. INT'L 72, 73 (June 2009), available at [http://www.policybandwidth.com/doc/20090814\\_Articles\\_Band\\_CRiGoogle2.pdf](http://www.policybandwidth.com/doc/20090814_Articles_Band_CRiGoogle2.pdf) [hereinafter Band, *International Implications*].

<sup>361</sup> *Id.*

<sup>362</sup> *Id.*

<sup>363</sup> *Id.*

<sup>364</sup> *Id.*; see also *supra* note **Error! Bookmark not defined.** and accompanying text.

<sup>365</sup> Berne Convention for the Protection of Literary and Artistic Works, art. 3, Sept. 9, 1886, S. Treaty Doc. No. 99-27, 1161 U.N.T.S. 3, available at [http://www.wipo.int/export/sites/www/treaties/en/ip/berne/pdf/trtdocs\\_wo001.pdf](http://www.wipo.int/export/sites/www/treaties/en/ip/berne/pdf/trtdocs_wo001.pdf); 17 U.S.C. § 104(b)(1)–(2) (2006) (incorporating by reference international coverage under the Berne Convention subsequent to the United States' November 16, 1988 accession and March 1, 1989 implementation to the treaty).

<sup>366</sup> See FED. R. CIV. P. 23(c)(3); *Hansbury v. Lee*, 311 U.S. 32, 42–43 (1940).

<sup>367</sup> See FED. R. CIV. P. 23(e)(4); Settlement Agreement, *supra* note 76, § 2.1(a)–(b).

<sup>368</sup> Band, *International Implications*, *supra* note 360, at 4.



In other words, the settlement contemplates Google providing different services to users in the United States from foreign users.<sup>369</sup> Google has not disclosed what technological means it will employ to exclude users outside the United States.<sup>370</sup> Nonetheless, it is safe to assume that some foreign users will succeed in circumventing this protection. Continuing with our example, the Canadian author could file a lawsuit against Google in Canada for the United States directed uses of his book that some French users have obtained by circumvention.<sup>371</sup> Google's liability would likely turn on whether the Canadian court concludes that Google took adequate measures to prevent Canadian users from accessing the United States directed services.<sup>372</sup>

#### *D. Google's Services*

The settlement allows for Google to offer three primary services to users in the United States:

- previews;<sup>373</sup>
- consumer purchases;<sup>374</sup> and
- institutional subscriptions.<sup>375</sup>

The settlement establishes “default rules” with respect to these services, which will apply unless the rightsholder elects to vary the rules with respect to a particular title.<sup>376</sup> Different default rules apply to in-print and out-of-print books.<sup>377</sup> For out-of-print books, the default rule is that Google can make displays of the book available in all three services.<sup>378</sup> For in-print books, the default rule is that Google cannot display any of a book's text available in any of the three services.<sup>379</sup>

Google will make the initial determination of whether a book is in- or out-of-print by consulting with existing databases.<sup>380</sup> The settlement sets forth a procedure for the rightsholder or the Registry to challenge Google's classification.<sup>381</sup> Similarly, Google will determine whether a book is in the public domain, subject to a challenge by the rightsholder or the Registry.<sup>382</sup> The settlement provides Google with a safe harbor for erroneous initial classifications.<sup>383</sup>

<sup>369</sup> *Id.*

<sup>370</sup> *See generally* Settlement Agreement, *supra* note 76 (failing to discuss technological means for distinguishing between U.S.-based and foreign-based users).

<sup>371</sup> Band, *International Implications*, *supra* note 360, at 3.

<sup>372</sup> *Id.*

<sup>373</sup> *See* Settlement Agreement, *supra* note 76, § 4.3 (outlining permissible preview uses).

<sup>374</sup> *See id.* § 4.2 (outlining permissible consumer purchase uses).

<sup>375</sup> *See id.* § 4.1 (outlining permissible institutional subscription uses).

<sup>376</sup> *Id.* § 4.3(b) (setting forth the default options for preview uses).

<sup>377</sup> *Id.* § 3.2.

<sup>378</sup> *See id.* § 3.3.

<sup>379</sup> *See id.* § 3.4.

<sup>380</sup> *Id.* § 3.2(d)(i).

<sup>381</sup> *Id.* § 3.2(e)(i).

<sup>382</sup> *Id.* § 3.2(e)(ii).

<sup>383</sup> *Id.* § 3.5(d)(v).



The settlement recognizes that a given book may contain a work whose rightsholder is different from the holder of the copyright in the book.<sup>384</sup> The settlement allows the rightsholder of such an “insert” exercise her rights independently from the rightsholder of the book.<sup>385</sup> These inserts include: (1) text such as forewords, afterwords, essays, poems, short stories, letters, and song lyrics; (2) illustrations in children’s books; (3) musical notation; and (4) tables, charts, and graphs.<sup>386</sup> Inserts do not include photographs, illustrations (other than in children’s books), maps or paintings.<sup>387</sup>

The rightsholder of an insert contained in an in-copyright, out-of-print book can choose to exclude displays of the insert, even if the rightsholder of the book itself permits Google to display the rest of the book under the default rules.<sup>388</sup> Similarly, the rightsholder of an insert contained in a government work or a public domain book may request Google to exclude the insert when it displays the rest of the book.<sup>389</sup> However, unlike a book’s rightsholder, an insert’s rightsholder cannot insist that the insert be removed altogether from the Google Library Project.<sup>390</sup> Thus, so long as a book’s rightsholder does not remove the book, all inserts within the book will be searchable, even if their rightsholders exclude them from any displays.<sup>391</sup>

### 1. *Previews*

Under the Preview service, all users in the United States will have the ability to search Google’s entire search database for digitized books responsive to their queries for free.<sup>392</sup> For an out-of-print book, the standard default rule is that Google may display up to 20% of the book’s text in response to a particular search query.<sup>393</sup> However, for different categories of books (*e.g.*, fiction vs. non-fiction), Google may display a different number of pages per response.<sup>394</sup>

For most non-fiction works, Google generally may display no more than five adjacent pages at a time.<sup>395</sup> Thus, when a user lands on a given page from a search, the user can see four pages adjacent to that page.<sup>396</sup> The user can then ask to see five

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<sup>384</sup> *See id.* § 1.72.

<sup>385</sup> *Id.* § 3.5(b)(i) (identifying that both rightsholders in the entire book and rightsholders in the insert have independent rights to request exclusion of their work from display uses).

<sup>386</sup> *Id.* § 1.72.

<sup>387</sup> *Id.* If the insert is a work first published in the United States, it must be “covered” by a copyright registration. As discussed in Part VI, the Amended Settlement Agreement clarified the meaning of this term.

<sup>388</sup> *Id.* § 3.5(b)(i).

<sup>389</sup> *Id.* § 3.5(b)(vii).

<sup>390</sup> *See id.* § 3.5(b)(i)(1).

<sup>391</sup> *See id.* § 3.5(b)(i).

<sup>392</sup> *Id.* § 4.3(a).

<sup>393</sup> *See id.* § 3.2(d)(ii) (stating that out-of-print books will be considered display books); *id.* § 3.3 (allowing display books to be used in previews if not specifically excluded by the rights holder); *id.* § 4.3(b)(i)(1) (setting the default preview for display books at 20% of the total book).

<sup>394</sup> *See id.* § 4.3(b)(i)(1) (distinguishing works of fiction and setting out special rules for different categories of books).

<sup>395</sup> *Id.*

<sup>396</sup> *Id.*



other adjacent pages where the search term appears again.<sup>397</sup> However, Google must block the two pages before and after any five-page display.<sup>398</sup>

In contrast, for works of fiction, in any given response, Google may display 5% of the book or fifteen adjacent pages, whichever is less.<sup>399</sup> Google must also block the final 5%, or at least the final fifteen pages.<sup>400</sup> No display is allowed of anthologies of drama and fiction by multiple authors, or collections of poetry or short stories.<sup>401</sup> And for dictionaries, drug reference guides, encyclopedias, price/buyer guides, quotation books, test preparation guides, and thesauri, Google will provide only a “fixed preview”—it will display the same pages regardless of the user query, up to 10% of the book.<sup>402</sup>

For an in-print book, the default rule is that Google may not display any of the book’s text; it may display only bibliographic information and front material, such as the title page, the copyright page, the table of contents, and the index.<sup>403</sup> Thus, under the settlement, the user can receive far more free access to out-of-print books than under the original Library Project: up to 20% of a book’s text as opposed to three snippets.<sup>404</sup> But with respect to in-print books, the user will see less under the settlement—not even the three snippets.<sup>405</sup>

## 2. Consumer Purchase

Under the Consumer Purchase service, Google will allow consumers to purchase perpetual online access to the full text of a book.<sup>406</sup> For out-of-print books, the default rule is that Google will be able to make the books available for consumer purchase.<sup>407</sup> Google cannot make in-print books available for consumer purchase unless the copyright owner elects to “opt in” with respect to his or her book.<sup>408</sup>

Google initially will set the price algorithmically between \$1.99 and \$29.99 (with 80% of books below \$10).<sup>409</sup> Google can change the price of a book in response to

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<sup>397</sup> *See id.*

<sup>398</sup> *Id.*

<sup>399</sup> *Id.*

<sup>400</sup> *Id.*

<sup>401</sup> *Id.* § 4.3(b)(ii); *see generally id.* at Attach. F (“Preview Uses”).

<sup>402</sup> *Id.* § 4.3(b)(iii); *see generally id.* at Attach. F (“Preview Uses”).

<sup>403</sup> *See id.* § 3.2(d)(ii) (stating that in-print books will be considered no display books); *id.* § 3.4(a) (allowing only non-display uses for no display books); *id.* § 1.91 (defining “non-display uses” as “uses that do not display Expression from Digital Copies of Books or Inserts to the public, [*e.g.*] display of bibliographic information, full-text indexing without display of Expression . . . , geographic indexing of Books, algorithmic listings of key terms for chapters of Books, and internal research and development using Digital Copies”).

<sup>404</sup> *See id.* § 4.3(b)(i)(1).

<sup>405</sup> *See id.* § 3.2(d)(ii) (stating that in-print books will be considered no display books); *id.* § 1.91.

<sup>406</sup> *Id.* § 1.32 (“‘Consumer Purchase’ and ‘Consumer Purchases’ mean a service provided by Google that allows a user, for a fee, to access and view Online the full contents of a Display Book”); *id.* § 4.2 (outlining the terms for Consumer Purchase uses).

<sup>407</sup> *See id.* § 3.2(d)(ii) (stating that out-of-print books will be considered display books); *id.* § 1.32 (defining consumer purchases to include display books).

<sup>408</sup> *See* Google Books Tour, *supra* note 33.

<sup>409</sup> *See* Settlement Agreement, *supra* note 76, § 4.2(c)(ii)(1).



sales data.<sup>410</sup> The copyright owner can direct Google to charge a different price for his or her book, including making the book available for free.<sup>411</sup> A consumer will be able to print out up to 20 pages with one command; cut and paste up to four pages with one command; and make book annotations.<sup>412</sup> A book annotation is user-generated text that is displayed on any Web page on which a page of a book appears.<sup>413</sup> The user can share his annotations with up to 25 other individuals who have purchased the book through this service and who have been designated by the user.<sup>414</sup>

### 3. Institutional Subscriptions

Google will make available institutional subscriptions that will allow users within an institution to view the full text of all the books within the Institutional Subscription Database (“ISD”).<sup>415</sup> This database will include all the books in the in-copyright, out-of-print category.<sup>416</sup> This access will continue only for the duration of the subscription; access will not be perpetual, in contrast to when a user purchases access to an individual book, as described above. Google can also offer subscriptions to subsets of the ISD that represent discipline-based collections.<sup>417</sup>

Through agreements with the subscribing institution, Google will limit access to ISD books to “appropriate individuals” within the institution.<sup>418</sup> For educational institutions, appropriate individuals include faculty, students, researchers, staff members, librarians, personnel, business invitees, and walk-in users from the general public.<sup>419</sup> For public libraries, appropriate individuals include library patrons and personnel.<sup>420</sup>

Each authorized user will be able to copy and paste up to four pages of a book in the ISD with a single command, but, with multiple commands, can copy and paste the entire book.<sup>421</sup> Each authorized user will be able to print up to twenty pages of a book in the ISD with a single print command, but, with multiple commands, can print out the entire book.<sup>422</sup> Google will place a watermark on printed pages with encrypted identifying information that identifies the authorized user that printed the

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<sup>410</sup> *Id.* § 4.2(c)(ii)(2).

<sup>411</sup> *Id.* § 4.2(b)(i)(1).

<sup>412</sup> *Id.* § 4.2(a).

<sup>413</sup> *Id.* § 1.17.

<sup>414</sup> *Id.* § 3.10(c)(ii)(5)(d).

<sup>415</sup> *Id.* § 4.1(a)(v); *see generally id.* § 4.1 (outlining the rules and pricing for institutional subscriptions).

<sup>416</sup> *See id.* § 4.1(a)(v) (defining the institutional subscription database as incorporating “all Books available for Institutional Subscriptions pursuant to [the] Settlement Agreement”); *see also id.* § 3.5(b)(iii) (providing that any out-of-print book included in any service is also included in the Institutional Subscriptions service).

<sup>417</sup> *Id.* § 4.1(a)(v).

<sup>418</sup> *Id.* § 4.1(e).

<sup>419</sup> *Id.*

<sup>420</sup> *Id.*

<sup>421</sup> *See id.* § 4.1(d).

<sup>422</sup> *See id.*



material.<sup>423</sup> Each authorized user may also make annotations of books in the ISD.<sup>424</sup> Instructors and students in an academic course can share annotations with each other and with students enrolled in the same course the subsequent year.<sup>425</sup> Also, employees of the institutional subscriber can share annotations with other employees in connection with a discrete work project for the duration of the project.<sup>426</sup> Authorized users can make books in the ISD available to other users authorized by that subscription through hyperlinks or similar technology for course use such as e-reserves and course management systems.<sup>427</sup> Google will not prohibit any other uses of books in the ISD that fall within the Copyright Act's limitations and exceptions, *e.g.*, fair use.<sup>428</sup>

#### *a. Pricing of Institutional Subscriptions*

A critical issue for academic libraries and other potential institutional subscribers is its price. As described below in more detail, Google and the Registry will jointly set the price of institutional subscriptions.<sup>429</sup> If they cannot agree on a price structure, the settlement provides for a dispute resolution mechanism involving binding arbitration.<sup>430</sup>

The economic terms for the institutional subscriptions will be governed by two objectives: “(1) the realization of revenue at market rates for each Book and license on behalf of Rightsholders and (2) the realization of broad access to the Books by the public, including institutions of higher education.”<sup>431</sup> Moreover, “Plaintiffs and Google view these two objectives as compatible, and agree that these objectives will help assure both long-term revenue to the rightsholders and accessibility of the Books to the public.”<sup>432</sup> The Agreement states that Google and the Registry will also use the following parameters to determine the price of institutional subscriptions: the pricing of similar products and services available from third parties; the scope of the books available in the ISD; the quality of the scan; and the features offered as part of an Institutional Subscription.<sup>433</sup>

Pricing will be based on the number of full-time equivalent (“FTE”) users.<sup>434</sup> For higher education institutions, FTE means full-time equivalent students.<sup>435</sup> The FTE pricing can vary across different categories of institutions.<sup>436</sup> These categories include: (1) corporate; (2) higher education institutions (which may be sub-divided

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<sup>423</sup> *Id.*

<sup>424</sup> *Id.*

<sup>425</sup> *Id.* § 3.10(c)(ii)(5)(e).

<sup>426</sup> *Id.*

<sup>427</sup> *Id.* § 4.1(e).

<sup>428</sup> *Id.*

<sup>429</sup> *Id.* § 4.1(a)(vi)(4)(a).

<sup>430</sup> *Id.*; *see generally id.* art. IX (outlining the dispute resolution mechanisms applicable throughout the entire agreement).

<sup>431</sup> *Id.* § 4.1(a)(i).

<sup>432</sup> *Id.*

<sup>433</sup> *Id.* § 4.1(a)(ii).

<sup>434</sup> *Id.* § 4.1(a)(iii).

<sup>435</sup> *Id.*

<sup>436</sup> *Id.* § 4.1(a)(iv).



based on the Carnegie Classifications for Institutions of Higher Education); (3) K-12; (4) government; and (5) public library.<sup>437</sup> Only higher education institutions can have remote access without Registry approval (e.g., faculty can access the ISD from home and students from their dormitories).<sup>438</sup>

Google can charge a lower price for a discipline-based subset of the IDS.<sup>439</sup> However, “[t]o provide an incentive for institutions to subscribe to the entire Institutional Subscription Database, Google shall design the pricing of the different versions of the Institutional Subscription such that the price for access to the entire Institutional Subscription Database will be less than the sum of the prices for access to the discipline-based collections.”<sup>440</sup>

Google will propose an initial pricing strategy consistent with the objectives outlined above that will include target retail prices for each class of institution for access to the entire ISD and the discipline-based collections, and proposed discounts for institutional consortia and early subscribers.<sup>441</sup> After Google submits the initial pricing strategy to the Registry, Google and the Registry will negotiate its terms for up to 180 days.<sup>442</sup> If Google and Registry do not reach agreement, the dispute will be submitted to binding arbitration.<sup>443</sup>

FTE-based prices in the initial pricing strategy period will be based on “then-current prices for comparable products and service, surveys of potential subscribers, and other methods for collecting data and market assessment.”<sup>444</sup> Google will be responsible for collecting data comparing the target retail prices with the prices for comparable products and services, and will provide this data to the Registry.<sup>445</sup> Presumably the arbitrators will rely on this data in the event of a dispute concerning the pricing strategy.

The initial pricing strategy is expected to be in effect for two to three years.<sup>446</sup> Google and the Registry will agree on the duration of subsequent pricing strategies.<sup>447</sup> Should Google provide other services to institutional subscribers for a fee, those services would fall within the settlement and the Registry would be entitled to a portion of the revenue if: (1) the preponderance of the value of service is realized through access to books through the institutional subscription; and (2) the service exploits access in a manner that could not be exploited by other entities.<sup>448</sup>

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<sup>437</sup> *Id.*

<sup>438</sup> *See id.* (specifying within each of the remaining categories that remote access is not allowed without Registry approval).

<sup>439</sup> *See id.* § 4.1(a)(v).

<sup>440</sup> *Id.*

<sup>441</sup> *See id.* § 4.1(a)(vi)(1)(b).

<sup>442</sup> *Id.* § 4.1(a)(vi)(4)(a).

<sup>443</sup> *Id.*; *see generally id.* art. IX (outlining the dispute resolution mechanisms applicable throughout the entire agreement).

<sup>444</sup> *Id.* § 4.1(a)(vii).

<sup>445</sup> *Id.*

<sup>446</sup> *Id.* § 4.1(a)(vi)(3).

<sup>447</sup> *Id.* § 4.1(a)(vi)(4)(b).

<sup>448</sup> *Id.* § 4.1(a)(ix).



*b. Pricing Review*

Under the settlement, only Google and the Registry can submit disputes concerning the pricing of the institutional subscription to arbitration; the libraries have no recourse to the arbitrator.<sup>449</sup> In response to concerns raised by libraries about the pricing of the institutional subscription, on May 20, 2009, Google and the University of Michigan (“Michigan”) agreed to a new procedure that would allow Michigan and the other libraries that provided Google with in-copyright books to request an arbitrator to review the pricing of the institutional subscription.<sup>450</sup>

The new “pricing review” procedure would occur after the price-setting process described in the settlement.<sup>451</sup> Sixty days after Google first offers an institutional subscription to the higher education market, and every two years thereafter, a partner library can initiate a review of the pricing of the institutional subscription to determine whether the price properly meets the objectives set forth in the settlement agreement.<sup>452</sup> Only one review can be conducted per two-year period, so if several partner libraries seek to review the price, they need to do so jointly.<sup>453</sup> The pricing review will be conducted by “an independent, qualified third party” designated by the initiating library, subject to Google’s approval.<sup>454</sup> Google will pay up to \$100,000 of the reviewer’s fees and costs for the first two reviews.<sup>455</sup> Google must provide to the reviewer specified categories of information, some of which the reviewer cannot make directly available to the partner libraries.<sup>456</sup> The reviewer will prepare a Pricing Review Report, which he or she will provide to Google and all partner libraries.<sup>457</sup>

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<sup>449</sup> See *id.* § 4.1(a).

<sup>450</sup> See generally Amendment to Cooperative Agreement, Google, Inc.-University of Michigan, May 20, 2009, available at <http://www.lib.umich.edu/files/services/mdp/Amendment-to-Cooperative-Agreement.pdf> [hereinafter Amended Michigan Cooperative Agreement]. In many respects, Michigan has been Google’s primary partner in the Library Project. In 2004, it was the first library to sign an agreement with Google that allowed Google to scan books in the Michigan library for inclusion in Google’s search database. To date, Google has scanned more books from Michigan than any other library. On May 20, 2009, Google and the University of Michigan (Michigan) entered into an amendment that expanded the 2004 agreement. The new agreement addresses the provisions of the proposed settlement agreement between Google and the plaintiffs in the Google Book Search litigation. If the settlement is approved by the presiding judge, the Amendment will govern the relationship between Google and Michigan. Following the Amendment is an Attachment A, entitled “Collective and Certain Settlement Agreement Related Terms,” which sets forth provisions that will apply to all of Google’s partner libraries, not just Michigan. This Attachment A contains the new pricing review. On July 8, 2009, the University of Wisconsin-Madison and the University of Texas entered into similar expanded agreements with Google. See Amended Cooperative Agreement, Google, Inc.-University of Wisconsin, available at [http://thepublicindex.org/docs/libraries/wisconsin\\_amendment.pdf](http://thepublicindex.org/docs/libraries/wisconsin_amendment.pdf); Amended Cooperative Agreement, Google, Inc.-University of Texas, available at [http://thepublicindex.org/docs/libraries/texas\\_amendment.pdf](http://thepublicindex.org/docs/libraries/texas_amendment.pdf).

<sup>451</sup> Settlement Agreement, *supra* note 76, § 4.1(a)(viii)(1).

<sup>452</sup> *Id.* § 4.1(a)(vi)(2)–(4).

<sup>453</sup> See *id.* § 4.1(a)(vi)(3).

<sup>454</sup> Amended Michigan Cooperative Agreement, *supra* note 450, at Attach. A ¶ 3(c)(1).

<sup>455</sup> *Id.* If the partner libraries do not initiate a pricing review, Google will donate the fee it would have paid the reviewer to the National Federation for the Blind. *Id.*

<sup>456</sup> *Id.* This information includes the number of institutions that have institutional subscriptions; a histogram showing the percentage of institutions that pay each price within a pricing category; and Google’s list price for each pricing category. *Id.*

<sup>457</sup> *Id.*



Ninety days after receipt of the Pricing Review Report, any partner library can initiate an arbitration with Google.<sup>458</sup> The arbitration will be subject to the dispute resolution procedures in the settlement agreement, meaning that the arbitrator's decision will be final and non-appealable.<sup>459</sup> Additionally, "[a]ny such arbitration will be the exclusive mechanism to resolve disputes between Google and the Initiating Libraries with respect to whether Google is pricing the Reviewable Subscriptions in accordance with the objectives set forth in . . . the Settlement Agreement."<sup>460</sup>

If the arbitrator determines that the price is too high or that Google is not achieving the broad access required by the settlement, he or she can order Google to adjust the price.<sup>461</sup> The adjustment amount is limited to Google's net revenue (in essence, 37% of the subscription price).<sup>462</sup>

### *c. Discounts*

Google can subsidize the purchase of institutional subscriptions by fully participating and cooperating libraries—categories explained below. The Amended Agreement with the University of Michigan requires Google to provide Michigan with a free institutional subscription for 25 years, assuming that Michigan meets certain conditions.<sup>463</sup> These conditions include that Michigan makes its collection available to Google for scanning, and that its full-time equivalent ("FTE") student body not exceed 60,000.<sup>464</sup> After the 25-year period, Google will provide Michigan with a discount of the institutional subscription price of one FTE for each 50 books Google scanned from Michigan's collection.<sup>465</sup> Under this formula Michigan would receive a free institutional subscription for providing three million books to be scanned, a number that it has already exceeded.<sup>466</sup> Thus, so long as it meets the conditions noted above, Michigan would receive a free institutional subscription.<sup>467</sup> The Amended Agreement also requires Google to provide Michigan with a discount to subscriptions that it may offer in the future that contain works proffered by Michigan but not subject to the settlement.<sup>468</sup>

## *4. Other Services*

The settlement contemplates two other services—the free public access service and the research corpus.

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<sup>458</sup> *Id.* § 3(c)(2).

<sup>459</sup> *Id.*; *see also* Settlement Agreement, *supra* note 76, art. IX (describing arbitration procedures).

<sup>460</sup> Amended Michigan Cooperative Agreement, *supra* note 450, at Attach. A, ¶ 3(c)(2).

<sup>461</sup> *Id.* § 3(c)(3).

<sup>462</sup> *Id.*

<sup>463</sup> Amended Michigan Cooperative Agreement, *supra* note 450, ¶ 23(a) (to supplement the Michigan Cooperative Agreement as § 4.4.4(a)).

<sup>464</sup> *Id.*

<sup>465</sup> *Id.*

<sup>466</sup> *See id.*

<sup>467</sup> *See id.*

<sup>468</sup> *Id.* ¶ 23(b) (to supplement the Michigan Cooperative Agreement as § 4.4.4(b)).



*a. Free Public Access Service for Public Libraries and Universities*

Google will provide free Public Access Service (“PAS”) to each public library and not-for-profit higher education institution that requests PAS.<sup>469</sup> A user sitting at a PAS terminal will be able to view full text of all books in the Institutional Subscription Database.<sup>470</sup> As noted above, this generally corresponds to books in the in-copyright, not commercially available category.<sup>471</sup> A user can print pages of material viewed on the PAS terminal for a “reasonable” per-page fee set by the Registry.<sup>472</sup> The user will not be able to copy and paste text or annotate books accessed through the PAS.

Google can provide free PAS to one terminal in each library building in a public library system.<sup>473</sup> A public library is a library that (a) is accessible by the public; (b) is part of a not-for-profit or government-funded institution other than an institution of higher education under the Carnegie Classification; and (c) allows patrons to take books and other materials off the premises.<sup>474</sup> The settlement does not treat any library primarily funded or managed by the federal government as a public library.<sup>475</sup>

For higher education institutions that do not qualify as Associate Colleges under the Carnegie Classification of Institutions of Higher Education, Google can provide free PAS to one terminal for every 10,000 full-time equivalent students.<sup>476</sup> For higher education institutions that qualify as Associate Colleges under the Carnegie Classification of Institutions of Higher Education, Google can provide free PAS to one computer terminal per 4,000 full-time equivalent students.<sup>477</sup>

Google and the Registry can agree to expand the PAS service by making additional terminals available for free or an annual fee, but the settlement provides no further details on the terms for this expansion.<sup>478</sup>

*b. Research Corpus*

The settlement allows for the creation of two centers (in addition to Google) that would host the Research Corpus, the set of all digital copies made in connection with the Google Library Project.<sup>479</sup> The libraries providing Google with in-copyright books to scan—what the settlement terms “fully participating” and “cooperating” libraries—will select the host sites.<sup>480</sup> The host site could be a fully participating or cooperating library, or another institution.<sup>481</sup>

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<sup>469</sup> Settlement Agreement, *supra* note 76, § 4.8(a)(i).

<sup>470</sup> *Id.* §§ 1.115, 4.8(a)(i).

<sup>471</sup> *See id.* § 3.2(d)(i).

<sup>472</sup> *Id.* § 4.8(a)(ii).

<sup>473</sup> *Id.* § 4.8(a)(i)(3).

<sup>474</sup> *Id.* § 1.119.

<sup>475</sup> *Id.*

<sup>476</sup> *Id.* § 4.8(a)(i)(1).

<sup>477</sup> *Id.* § 4.8(a)(i)(2).

<sup>478</sup> *Id.* § 4.8(a)(iii).

<sup>479</sup> *Id.* §§ 1.130, 7.2(d)(ii).

<sup>480</sup> *Id.* § 7.2(d)(ii).

<sup>481</sup> *Id.* The host site must abide by the same security procedures as Google and the fully participating libraries. *Id.* § 8.1. These are discussed below. *See* discussion *infra* Part IV.E.1.c.



The host sites may provide on-site and remote access to qualified users to use the Research Corpus for non-consumptive research.<sup>482</sup> Qualified users must be affiliated with a fully participating or cooperating library, an accredited college or university, a not-for-profit research organization such as a museum, or a governmental agency.<sup>483</sup> Additionally, an individual can become a qualified user by demonstrating to a fully participating or cooperating library that he has the necessary capability and resources to conduct non-consumptive research.<sup>484</sup>

The settlement defines non-consumptive research as research involving computational analysis on books, but not research where the researcher reads and displays substantial portions of a book to understand its intellectual content.<sup>485</sup> Categories of non-consumptive research include: (1) image analysis and text extraction—computational analysis of the digitized image artifact to improve the image (e.g., de-skewing) or extracting textual or structural information from the image (e.g., OCR); (2) textual analysis and information extraction—automated techniques designed to extract information to understand or develop relationships among or within books (e.g., concordance development, collocation extraction, citation extraction, automated classification, entity extraction, and natural language processing); (3) linguistic analysis—research to understand language, linguistic use, semantics, and syntax as they evolve over time and across different genres; (4) automated translation—research on translation techniques; and (5) indexing and search—research on different techniques for indexing and search of textual content.<sup>486</sup>

The host site is responsible for oversight of the research performed on the Research Corpus, including ensuring that no person uses materials in the Corpus for purposes that involve reading portions of a book to understand its intellectual content.<sup>487</sup> Qualified users may read material as reasonably necessary to perform non-consumptive research, or to explain, discuss, or verify research results.<sup>488</sup>

Direct, for-profit, commercial use of information extracted from books in the Research Corpus is prohibited.<sup>489</sup> Qualified users may report the results of their non-consumptive research in scholarly publications, including scholarly publications sold to the academic community or the public.<sup>490</sup> Commercial exploitation of algorithms developed when performing non-consumptive research is permitted.<sup>491</sup> Use of data extracted from a specific book to provide services that compete with services offered by the book's rightsholder are prohibited.<sup>492</sup>

Prior to engaging in research, a qualifying user must file with the host site a research agenda—a document that describes the project in sufficient detail to

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<sup>482</sup> Settlement Agreement, *supra* note 76, § 7.2(d)(iii).

<sup>483</sup> *Id.* § 1.121(a)–(c).

<sup>484</sup> *Id.* § 1.121.

<sup>485</sup> *Id.* § 1.90.

<sup>486</sup> *Id.*

<sup>487</sup> *Id.* § 7.2(d)(vi)(1).

<sup>488</sup> *Id.* § 7.2(d)(vi)(2)–(3).

<sup>489</sup> *Id.* § 7.2(d)(viii).

<sup>490</sup> *Id.* § 7.2(d)(vii)–(viii).

<sup>491</sup> *Id.* § 7.2(d)(x).

<sup>492</sup> *Id.* § 7.2(d)(ix).



demonstrate that it is non-consumptive research.<sup>493</sup> Before permitting the qualified researcher to perform the research, the host site will review the research agenda to ensure that the research described is non-consumptive.<sup>494</sup>

A third party selected by the Registry will perform regular audits on the host sites to ensure that it complies with the terms of the settlement.<sup>495</sup> The copyright owner of a commercially available book may request that the book be withdrawn from the Research Corpus.<sup>496</sup>

### 5. *Users With Print Disabilities*

Google must “use commercially reasonable efforts” to accommodate users with print disabilities.<sup>497</sup> The settlement defines a print disability as any condition in which a user is unable to read or use standard printed material due to blindness, visual disability, physical limitations, organic dysfunction, or dyslexia.<sup>498</sup> The accommodations include screen enlargement, voice output, and refreshable Braille displays.<sup>499</sup> The objective is to accommodate “users with Print Disabilities so that such users have a substantially similar user experience as users without Print Disabilities.”<sup>500</sup> Google must make these accommodations available with respect to the Preview, Consumer Purchase, Institutional Subscription, and Free Public Access services at no extra charge to the users.<sup>501</sup> If within five years of the effective date of the settlement Google fails to offer these accommodated services, the fully participating and cooperating libraries can require Google to work with a third party to provide these services.<sup>502</sup>

Under Attachment A to the Amended Agreement with the University of Michigan, Google will provide the public with an accessible, searchable, online database listing which of the works obtained from libraries are accessible to people who have print disabilities.<sup>503</sup> Google agrees to make public domain books available to people with print disabilities in the same manner as books under the settlement.<sup>504</sup>

### *E. Library Types*

Under the original Google Library Project, Google had numerous partner libraries that provided it with in-copyright and public domain books to scan. In

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<sup>493</sup> *Id.* §§ 1.129, 7.2(d)(xi)(2).

<sup>494</sup> *Id.* § 7.2(d)(xi)(3).

<sup>495</sup> *Id.* § 7.2(d)(xi)(6).

<sup>496</sup> *Id.* § 7.2(d)(iv).

<sup>497</sup> *Id.* § 7.2(g)(ii)(1).

<sup>498</sup> *Id.* § 1.112.

<sup>499</sup> *Id.* § 7.2(g)(i).

<sup>500</sup> *Id.* § 3.3(d).

<sup>501</sup> *Id.* § 7.2(g)(i); *see also id.* § 1.1 (“Institutional Subscriptions, Consumer Purchase and the Public Access are the only Access Uses Authorized.”); *id.* § 4.3(a) (“Google may offer a free Preview Use to allow users to sample a Book prior to making a purchase decision.”).

<sup>502</sup> *Id.* § 7.2(g)(ii)(2)(a).

<sup>503</sup> Amended Michigan Cooperative Agreement, *supra* note 450, at Attach. A ¶ 6(c).

<sup>504</sup> *Id.* ¶ 28 (to supplement the Michigan Cooperative Agreement as § 4.5.4).



exchange, Google provided these partner libraries with digital copies of the books.<sup>505</sup> The settlement creates four categories of partner libraries with different rights and responsibilities: fully participating libraries, cooperating libraries, public domain libraries, and other libraries.<sup>506</sup>

### 1. Fully Participating Libraries

To become a fully participating library, a library must sign an agreement with the Registry.<sup>507</sup> The agreement releases the library from any liability for copyright infringement for participating in the Google Library Project, and for any activity that falls within the scope of the agreement.<sup>508</sup>

A fully participating library will provide Google with in-copyright books to scan into its database, and will receive in return a digital copy of each book it provides.<sup>509</sup> The set of digital copies Google provides the library is the library digital copy ("LDC").<sup>510</sup> Google can provide a fully participating library with digital copies of books in that library's collection that Google did not obtain from that library (i.e., Google obtained the book from another fully participating library).<sup>511</sup> For a library with more than 900,000 books in its collection, Google can provide it with digital copies from other libraries only if Google scans more than 300,000 books from that library's collection.<sup>512</sup> For a library with less than 900,000 books in its collection, Google can provide LDCs from other libraries only if it scans more than 30% of the library's collection.<sup>513</sup> (For purposes of this calculation, only in-copyright books count.) However, Google can provide the library only with digital copies of books contained in that library's collection.<sup>514</sup>

For institutional consortia, different minimum levels of participation apply before a library can receive digital copies made from another library's collection.<sup>515</sup> Google must have scanned at least 10,000 books from that library's collection.<sup>516</sup>

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<sup>505</sup> See Settlement Agreement, *supra* note 76, § 7.2(a)(i). Google had contracts with each of its partner libraries specifying the obligations of each party. See *id.*

<sup>506</sup> See *id.* § 1.101.

<sup>507</sup> See *id.* § 7.1; e.g., *id.* at Attach. B1.

<sup>508</sup> See *id.* § 10.1(b). Michigan, the University of California, the University of Wisconsin-Madison, the University of Texas, and Stanford University will be fully participating libraries. *Id.* at Attach. G. Other libraries partnering with Google under the original Library Project likely will also become fully participating libraries under the settlement. Harvard provided Google with access to in-copyright under the original Library Project, but has decided not to provide Google with in-copyright books under the settlement. See *id.* It appears that Harvard believes that the obligations placed on Fully Participating Libraries, discussed below, are too stringent to justify its continued participation. See generally *id.* at Attach. B1 (laying out the requirements and obligations of member libraries). However, Harvard may continue to provide Google with access to public domain books.

<sup>509</sup> *Id.* § 1.78.

<sup>510</sup> *Id.*

<sup>511</sup> *Id.* § 7.2(a)(ii).

<sup>512</sup> *Id.*

<sup>513</sup> *Id.*

<sup>514</sup> *Id.*

<sup>515</sup> *Id.* § 7.2(a)(iii).

<sup>516</sup> *Id.*



Additionally, if the consortium has more than 2,000,000 books, Google must have scanned more than 650,000 of those books; and if the consortium has less than 2,000,000 books, Google must have scanned more than 30% of the books in the consortium's collection.<sup>517</sup>

*a. Permitted Uses of the LDC*

The settlement specifies in detail what a fully participating library can and cannot do with its LDC. The library may reproduce and make technical adaptations of the LDC “as reasonably necessary to preserve, maintain, manage, and keep technologically current its LDC.”<sup>518</sup> The library may use its LDC to create a print replacement copy of a book in its collection that is damaged, destroyed, deteriorating, lost or stolen, or if the format in which the book is stored has become obsolete, provided that the library has determined that an unused replacement copy cannot be obtained at a fair price.<sup>519</sup> “[A]n unused replacement for a copy in print format means an unused copy that is offered for sale in print format . . .”<sup>520</sup>

The library may provide special access to books in the LDC to a user with print disabilities, i.e., “a user . . . unable to read or use standard printed material due to blindness, visual disability, physical limitations, organic dysfunction, or dyslexia.”<sup>521</sup> These provisions concerning users with print disabilities are different from those discussed above with respect to the Google services. Those provisions obligate Google to accommodate print disabled individuals to enable them to use the services made available by Google. In contrast, these more stringent provisions concern the accommodations fully participating libraries can provide print disabled individuals to access the LDC.<sup>522</sup> Fully participating libraries can provide screen enlargement, voice output, or refreshable Braille displays.<sup>523</sup> This special access cannot be provided in a way that would make a copy accessible to anyone other than the disabled user, or that would make the special access available longer than necessary to facilitate the special access.<sup>524</sup>

This special access is available only to a person who has provided written documentation that a “competent authority” has certified that the user has a print disability.<sup>525</sup> A competent authority is a person (1) employed in a professional occupation qualified to diagnose print disabilities under federal law and regulations that govern the National Library Service for the Blind and Physically Handicapped; or (2) licensed under applicable state law to diagnose the existence of a print disability under standard and generally accepted methods of clinical evaluation.<sup>526</sup> Additionally, a professional librarian may certify a user's claimed print disability

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<sup>517</sup> *Id.*

<sup>518</sup> *Id.* § 7.2(b)(i).

<sup>519</sup> *Id.* § 7.2(b)(iii)(1).

<sup>520</sup> *Id.*

<sup>521</sup> *Id.* §§ 1.112, 7.2(b)(ii)(1).

<sup>522</sup> *See id.* § 7.2(b)(ii).

<sup>523</sup> *See id.* § 7.2(b)(ii)(1).

<sup>524</sup> *Id.*

<sup>525</sup> *Id.*

<sup>526</sup> *Id.* § 1.29.



only if the user affirms in writing that no competent authority is available, or if the user has a print disability that is readily apparent upon physical observation of the user.<sup>527</sup> The user must also provide written documentation that he or she will not reproduce or distribute books in a manner prohibited by the Copyright Act.<sup>528</sup>

The library may develop its own finding tools that allow its users to identify pertinent material within its LDC.<sup>529</sup> These tools may permit users to read or view only snippets of text from the LDC.<sup>530</sup> The library may allow users to conduct “non-consumptive research” on its LDC, provided that the library agrees to the terms of a host site of a Research Corpus.<sup>531</sup>

The library of a higher education institution may permit faculty and research staff to read, print, download, or otherwise use five pages of any book in its LDC that is not commercially available for personal scholarly use and classroom use that is limited to students in the class for the term in which the class is offered.<sup>532</sup> The library must keep track of such uses and report them to the Registry in the course of the audits required under the security provisions discussed below.<sup>533</sup> At any time that an institutional subscription is not being offered, additional uses of books that are not commercially available may be authorized jointly by the university librarian and the university general counsel.<sup>534</sup> However, such uses cannot include sale of access, interlibrary loan, e-reserves, course management systems, or any infringing uses.<sup>535</sup>

The library may allow its support personnel, archivists, information technology personnel, and legal counsel to read, print, download, and otherwise use books from the LDC as reasonably necessary to carry out their responsibilities with respect to the LDC.<sup>536</sup>

The library may authorize another fully participating library to host and store its LDC together with or separately from the hosting library’s LDC.<sup>537</sup> The library may authorize other third parties to exercise its rights and perform its obligations, including the hosting and storage of the LDC.<sup>538</sup> However, it will be the library’s responsibility that such third parties comply with the settlement, particularly the security obligations described below.<sup>539</sup>

The library is prohibited from using its LDC: (1) for directly or indirectly selling books or access to books; (2) for interlibrary loan; (3) for e-reserves; (4) in course management systems; and (5) any other use that would violate copyright law.<sup>540</sup>

<sup>527</sup> *Id.* § 7.2(b)(ii)(1).

<sup>528</sup> *Id.* § 7.2(b)(ii)(2). A user with print disabilities does not need any of the certifications in order to gain access to the accommodations provided by Google. *See id.* § 7.2(g).

<sup>529</sup> *Id.* § 7.2(b)(iv).

<sup>530</sup> *Id.*

<sup>531</sup> *Id.* § 7.2(b)(vi). Non-consumptive research and the Research Corpus are discussed above in greater detail. *See discussion supra* Part IV.D.4.b.

<sup>532</sup> Settlement Agreement, *supra* note 76, § 7.2(b)(vii).

<sup>533</sup> *Id.*

<sup>534</sup> *Id.* § 7.2(c)(ii).

<sup>535</sup> *Id.* § 7.2(c)(i), (iii)–(vi).

<sup>536</sup> *Id.* § 7.2(b)(viii).

<sup>537</sup> *Id.* § 7.2(b)(x)(1).

<sup>538</sup> *Id.* § 7.2(b)(x)(2).

<sup>539</sup> *Id.*

<sup>540</sup> *Id.* § 7.2(c)(i), (iii)–(vi).



*b. Michigan Provisions*

The Amended Agreement between Google and the University of Michigan contained additional provisions concerning the copies Google provided to Michigan.<sup>541</sup> If Google digitizes more than 5 million works provided by Michigan, Google will provide to Michigan digital copies of books in Michigan's collection that Google obtained from another library.<sup>542</sup> This obligation applies both to books in copyright (and under the settlement) and books in the public domain (and thus not covered by the settlement).<sup>543</sup>

Michigan is permitted to provide digital copies of the public domain books to academic institutions and research or public libraries for non-commercial research, scholarly, or academic purposes.<sup>544</sup> Before Michigan can provide it with a digital copy, the academic institution or library must agree in writing not to redistribute the copy (other than to scholars and users for educational or research purposes).<sup>545</sup> The academic institution or library must also agree to use reasonable efforts to prevent bulk downloads of the copies, and to implement technological measures such as the robots.txt protocol to restrict automated access to websites where the content will be available.<sup>546</sup> Michigan can provide copies of public domain books to other not-for-profit and government entities on similar terms, provided that Google agrees.<sup>547</sup> Google cannot unreasonably withhold or delay agreement.<sup>548</sup> In twenty years,

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<sup>541</sup> Compare generally Michigan Cooperative Agreement, *supra* note 57 (setting out the terms of the Google and University of Michigan's cooperative agreement) with generally Amended Michigan Cooperative Agreement, *supra* note 450 (amending the previous agreement). On July 8, 2009, the University of Wisconsin-Madison and the University of Texas entered into similar expanded agreements with Google. John Lucas, *UW-Madison Expands Agreement with Google*, Nov. 21, 2009, <http://www.news.wisc.edu/16886>; The University of Texas at Austin News, *Libraries and Google Amend Book Search Agreement*, July 9, 2009, [http://www.lib.utexas.edu/about/new/libraries\\_and\\_google\\_amend.html](http://www.lib.utexas.edu/about/new/libraries_and_google_amend.html); see also Posting of Tamar Fruchtmann Senior Corporate Counsel, *University of Wisconsin-Madison and University of Texas Expand Google Books Agreements*, to Inside Google Books, <http://booksearch.blogspot.com/2009/07/university-of-wisconsin-madison-and.html> (July 9, 2009, 10:27 AM) (announcing the expanded agreements for the University of Wisconsin-Madison and the University of Texas).

<sup>542</sup> Amended Michigan Cooperative Agreement, *supra* note 450, ¶ 18 (to supplement the Michigan Cooperative Agreement as § 4.4.4(a)).

<sup>543</sup> *Id.* ¶¶ 17–18 (to supplement the Michigan Cooperative Agreement as §§ 4.4.3(b), 4.4.4(a)).

<sup>544</sup> *Id.* ¶ 18 (to supplement the Michigan Cooperative Agreement as § 4.4.4(b)). Michigan can similarly distribute digital copies of books whose rightsholders have granted Google the right to make available the full text of the book without charge. *Id.* ¶ 24 (to supplement the Michigan Cooperative Agreement as § 4.4.9). The Amended Agreement does not place restrictions on distribution of print-on-demand copies based on the scans made by Google. See generally *id.* (omitting distribution restrictions for print-on-demand copies). In July, 2009, Michigan and Amazon.com announced that they would be making 400,000 public domain titles from the Michigan library collection available for purchase on a print-on-demand basis. Agreement with Amazon Will Make U-M Digital Books Widely Available, <http://www.lib.umich.edu/news/amazon-agreement> (last visited Nov. 21, 2009). Many of these copies would be printed from scans made by Google and provided to Michigan in the course of the Library Project. See *id.*

<sup>545</sup> Amended Michigan Cooperative Agreement, *supra* note 450, ¶ 18(b) (to supplement the Michigan Cooperative Agreement as § 4.4.4(b)).

<sup>546</sup> *Id.*

<sup>547</sup> *Id.*

<sup>548</sup> *Id.*



Michigan can provide the copies of public domain books to any other entity, so long as the entity does not provide search or hosting services similar to Google's.<sup>549</sup>

If Google does not allow end users to search, view, and print the full text of a public domain book it has scanned, the restrictions listed above on what Michigan can do with the copy of that book will not apply.<sup>550</sup> However, Google is permitted to exclude a book from these displays for quality, technical, or legal reasons.<sup>551</sup>

If Google redacts any information such as photographs from the digital copies it provides Michigan, Google must inform Michigan of the location of the redaction.<sup>552</sup>

When Google improves a copy of a work provided to it by Michigan, Google must provide an improved copy to Michigan.<sup>553</sup> To "improve" is defined as "to make changes to a Digital Copy that materially improve the viewability of text or the fidelity of the work."<sup>554</sup> Examples of improvements are to "make the text of a work easier to view by users with print disabilities and improvements to the Digital Copy from increased OCR accuracy."<sup>555</sup>

### *c. Security Obligations*

A fully participating library must follow detailed procedures to protect the security of its LDC. These same procedures apply to libraries hosting the Research Corpus, discussed above, as well as Google.<sup>556</sup>

A fully participating library needs to develop a security implementation plan that meets the requirements of the Security Standard, which is set forth in an attachment to the settlement agreement.<sup>557</sup> The seventeen-page Security Standard addresses topics such as: (1) security management, including security awareness, designation of a security representative, and incident response; (2) identification and authentication, including user identification and authentication, and authentication and password management; (3) access controls, including account management, access approval process, and access control supervision; (4) audit and accountability, including logging and audit requirements, marking of image files, and forensic analysis; (5) network security, including electronic perimeter, network firewall, device hardening, network security testing, remote network accessing, and encryption of digitized files; (6) media protection, including media access, media inventory, media storage, and media sanitization and disposal; (7) physical and environmental protection, including physical access authorizations, physical access control, visitor control, and access records; (8) risk assessment.<sup>558</sup>

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<sup>549</sup> *Id.* ¶ 18(c) (to supplement the Michigan Cooperative Agreement as § 4.4.4(c)).

<sup>550</sup> *Id.* ¶ 18(d) (to supplement the Michigan Cooperative Agreement as § 4.4.4(d)).

<sup>551</sup> *Id.*

<sup>552</sup> *Id.* ¶ 19 (to supplement the Michigan Cooperative Agreement as § 4.4.5).

<sup>553</sup> *Id.* ¶ 20 (to supplement the Michigan Cooperative Agreement as § 4.4.6).

<sup>554</sup> *Id.*

<sup>555</sup> *Id.*

<sup>556</sup> Settlement Agreement, *supra* note 76, § 8.1.

<sup>557</sup> *Id.* § 8.2(a)(ii); *id.* at Attach. D.

<sup>558</sup> *Id.* at Attach. D (i)–(ii) (listing the minimum requirements for the Security Standard in the table of contents).



The Security Standard can be revised every two years by agreement between the Registry and representatives of fully participating libraries “to take account of technological developments, including new threats to security.”<sup>559</sup> Disagreements between the Registry and the libraries concerning modifications to the Security Standard are subject to binding arbitration.<sup>560</sup>

The fully participating library must submit its security implementation plan to the Registry for approval.<sup>561</sup> If disagreements between the fully participating library and the Registry as to whether the security implementation plan complies with the Security Standard cannot be resolved, they will be submitted to binding arbitration.<sup>562</sup>

Each fully participating library must permit a third party to conduct an annual audit of the library’s security and usage to verify compliance with its security implementation plan.<sup>563</sup> Google and the Registry will share in the costs of the audits.<sup>564</sup>

Upon learning of a prohibited or unauthorized access to the LDC, the fully participating library must notify the Registry of the breach and attempt to cure it, *e.g.*, block the unauthorized access.<sup>565</sup> The library must confer with the Registry on ways to prevent such breach from reoccurring, and must negotiate with the Registry or the affected rightsholder an appropriate monetary remedy.<sup>566</sup> If the parties cannot agree on an appropriate remedy, the issue will be submitted to binding arbitration.<sup>567</sup>

The settlement establishes a schedule of monetary remedies. If a breach of the security implementation plan does not result in a prohibited access by the library or an unauthorized access by a third party, the range of the remedy is \$0–\$25,000, depending on whether the breach is inconsequential, the recklessness or willfulness of the breaching conduct, the promptness of the cure, and the number of breaches with the same root cause.<sup>568</sup> If an inadvertent or negligent breach results in a prohibited access by the library itself, the remedy will be the actual damages, with a cap of \$300,000 for all breaches resulting from the same root cause.<sup>569</sup> If the breaching conduct was reckless, willful, or intentional, the cap is \$5 million for reckless breaches and \$7.5 million for willful or intentional breaches.<sup>570</sup> If a third party’s unauthorized access is not the result of the library’s failure to comply with the security implementation plan, then the library owes no damages.<sup>571</sup> In contrast, if a third party’s unauthorized access is the result of the library’s failure to comply with its security implementation plan, the remedy should attempt to approximate the actual damages.<sup>572</sup> The damages are capped at \$2 million if the breaching

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<sup>559</sup> *Id.* § 8.2(b).

<sup>560</sup> *Id.*; *see id.* art. IX.

<sup>561</sup> *Id.* § 8.2(a)(iv).

<sup>562</sup> *Id.*; *see id.* art. IX.

<sup>563</sup> *Id.* § 8.2(c)(i).

<sup>564</sup> *Id.* § 8.2(c)(ii).

<sup>565</sup> *Id.* § 8.3(a).

<sup>566</sup> *Id.*

<sup>567</sup> *Id.* § 9.3(e)(ix)–(x).

<sup>568</sup> *Id.* § 8.4(b).

<sup>569</sup> *Id.* § 8.5(a).

<sup>570</sup> *Id.* § 8.5(b).

<sup>571</sup> *Id.* § 8.6(a).

<sup>572</sup> *Id.* § 8.6(b).



conduct was negligent, \$3 million if the breaching conduct was reckless, and \$5 million if the breaching conduct was intentional.<sup>573</sup>

*d. Attachment A Information Sharing*

Attachment A to the Amended Agreement between Google and the University of Michigan requires Google to provide partner libraries with the following information:

- A unique identifier number for each work Google obtains from a library;<sup>574</sup>
- Whether Google is treating the work as being in the public domain in the United States, and the factual basis for the determination;<sup>575</sup>
- Whether the Registry has objected to Google's public domain classification and the outcome of any dispute regarding its classification;<sup>576</sup>
- Whether Google is treating the work as a government work;<sup>577</sup>
- Whether Google is treating the work as subject to the settlement agreement (a work is not subject to the settlement if it is in the public domain, its copyright owner opts out of the settlement, it is not a "book" within the meaning of the settlement, etc.);<sup>578</sup>
- Whether the work is being treated as commercially available;<sup>579</sup>
- Whether Google is making the work available through revenue models such as consumer purchase, institutional subscriptions, or advertising uses;<sup>580</sup>
- For public domain and government works, whether Google has received requests to exclude inserts;<sup>581</sup> and
- Whether the work has been registered with the Copyright Office.<sup>582</sup>

Google will disclose to the public whether it is treating a work as being in the public domain.<sup>583</sup> The partner libraries cannot disclose to the public any of the other information listed above.<sup>584</sup>

Google will disclose to the partner libraries through their designated representative its pricing strategies for the institutional subscription.<sup>585</sup> The partner libraries may not share this information with third parties.<sup>586</sup>

Additionally, in response to a request from the partner libraries' designated representative, Google must provide information concerning whether a book is being excluded from any display uses for editorial or non-editorial reasons, and if for non-

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<sup>573</sup> *Id.*

<sup>574</sup> Amended Michigan Cooperative Agreement, *supra* note 450, at Attach. A, ¶ 10(a)(i).

<sup>575</sup> *Id.* at Attach. A, ¶ 10(a)(ii).

<sup>576</sup> *Id.* at Attach. A, ¶ 10(a)(iii).

<sup>577</sup> *Id.* at Attach. A, ¶ 10(a)(iv).

<sup>578</sup> *Id.* at Attach. A, ¶ 10(a)(v).

<sup>579</sup> *Id.* at Attach. A, ¶ 10(a)(vi).

<sup>580</sup> *Id.* at Attach. A, ¶ 10(a)(vii).

<sup>581</sup> *Id.* at Attach. A, ¶ 10(a)(ix).

<sup>582</sup> *Id.* at Attach. A, ¶ 10(a)(x).

<sup>583</sup> *Id.* at Attach. A, ¶ 10(a)(ii), (c).

<sup>584</sup> *Id.* at Attach. A, ¶ 10(g).

<sup>585</sup> *Id.* at Attach. A, ¶ 10(d).

<sup>586</sup> *Id.* at Attach. A, ¶ 10(g).



editorial reasons, whether the exclusion was for quality, technical, or legal reasons.<sup>587</sup> A library may disclose to the public the identity of books excluded for editorial reasons.<sup>588</sup>

Furthermore, Google must disclose to the partner libraries through their designated representative information that will enable the partner libraries to determine whether Google is meeting its obligations under the settlement agreement.<sup>589</sup> This information includes:

(i) the number of Library Scans made by or for Google at any time; (ii) the number of such Library Scans that are Commercially Available; (iii) the number of Excluded Replaced Books; (iv) the number of Not Counted Library Works; (v) the number of Display Books; (vi) the number of No Display Books; (vii) the number of Library Scans that are not authorized to be included in Institutional Subscriptions pursuant to the terms of the Settlement Agreement; (viii) the Required Library Services being provided for each of the Library Scans; and (ix) the number of Library Scans for which each of the Required Library Services is being provided.<sup>590</sup>

“Google will identify, if requested by the [d]esignated [r]epresentative, the relevant specific [b]ooks . . . [in] each category . . . above . . . .”<sup>591</sup> This information cannot be shared with the public.<sup>592</sup>

## 2. Additional Library Categories

The settlement recognizes three other categories of libraries partnering with Google in the Library Project: cooperating libraries, public domain libraries, and other libraries.<sup>593</sup>

- “Cooperating libraries” are libraries that intend to provide in-copyright books to Google for inclusion in Google Book Search.<sup>594</sup> However, these libraries have decided not to retain digital copies of in-copyright books provided by Google, and therefore do not have to comply with the settlement’s security provisions.<sup>595</sup> These libraries must destroy the in-copyright digital copies previously provided by Google, and in exchange receive a release from any copyright infringement liability for cooperating with Google.<sup>596</sup> In addition, these cooperating libraries have the ability to force Google to meet certain obligations discussed below.

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<sup>587</sup> *Id.* at Attach. A, ¶ 10(e).

<sup>588</sup> *Id.*

<sup>589</sup> *Id.* at Attach. A, ¶ 10(f).

<sup>590</sup> *Id.*

<sup>591</sup> *Id.*

<sup>592</sup> *Id.* at Attach. A, ¶ 10(g).

<sup>593</sup> Settlement Agreement, *supra* note 76, §§ 1.36, 1.99, 1.101, 1.118.

<sup>594</sup> *Id.* § 1.36.

<sup>595</sup> *Id.*

<sup>596</sup> *Id.* §§ 1.36, 10.1(b)–(c), (n), 10.2(a).



- “Public domain libraries” are libraries that intend to provide Google only with public domain books.<sup>597</sup> In exchange for destroying any in-copyright digital copies previously provided by Google, these libraries receive a release for any past infringements, and any future inadvertent infringements, e.g., inadvertently providing Google with an in-copyright book.<sup>598</sup>
- “Other libraries” are libraries that have agreed to provide Google books to scan, but have chosen not to participate in the settlement.<sup>599</sup> Such a library presumably would retain the digital copies Google has provided it. However, a library that does not participate in the settlement in theory could find itself the target of infringement actions by the copyright owners. Going forward, Google could continue scanning public domain books obtained from such a library, and providing the library a digital copy of these public domain books. In this event, neither Google nor the library would qualify for the settlement’s safe harbor for erroneous classification of public domain materials, because this activity would not be released by the settlement.<sup>600</sup>

### F. Revenue Sharing

Rightsholders can receive several forms of compensation under the settlement. First, Google must pay between \$60 and \$300 to the rightsholder of each book scanned prior to May 5, 2009.<sup>601</sup> Google must provide a settlement fund with at least \$45 million to distribute for these scans.<sup>602</sup> The amount each rightsholder receives will depend on how many rightsholders file claims with respect to the scan.<sup>603</sup> A rightsholder must register by January 5, 2010, in order to receive this fee.<sup>604</sup>

Additionally, Google must provide to the Registry 63% of the revenue it generates through advertising, institutional subscriptions, and consumer sales.<sup>605</sup> The Registry will then distribute the revenue to the rightsholders who have claimed their books with the Registry.<sup>606</sup> The settlement contains a complex plan of allocation the Registry must follow in distributing this revenue.<sup>607</sup> Once it has

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<sup>597</sup> *Id.* § 1.118 (stating that a “Public Domain Library” will not provide materials to Google it knows are “Books”; *id.* at Attach. B-3, § 2(a) (“[Public Domain] Library agrees that it will not provide materials to Google for Digitization when it knows that those materials are Books.”); *see also id.* § 1.16 (stating that a “Book” is a written or printed work that is subject to a copyright interest).

<sup>598</sup> *Id.* §§ 1.118, 10.1(j)–(k), 10.2(a).

<sup>599</sup> *Id.* § 1.99 (defining “Other Library” as a library that “has signed a Digitization Agreement with Google.”); *see also id.* § 1.45 (stating that a “Digitization Agreement” is “an agreement between Google and a library to Digitize works held by that library”).

<sup>600</sup> *See id.* § 3.2(d)(v) (“Safe Harbor Public Domain Determination.”). *See generally id.* at Attach. E (“Safe Harbor Public Domain Process”).

<sup>601</sup> *Id.* § 5.1(a); *id.* at Attach. C, § 3.2. Google must pay \$15 for each insert scanned before May 4, 2009. Settlement Agreement, *supra* note 76, § 5.1(a).

<sup>602</sup> *Id.* § 5.1(b).

<sup>603</sup> *Id.* § 5.1(a); *id.* at Attach. C, § 3.2.

<sup>604</sup> Google Book Settlement FAQs, *supra* note 159. As discussed in Part VI.B.1.e., the Amended Settlement Agreement extends this deadline to March 31, 2011.

<sup>605</sup> Settlement Agreement, *supra* note 76, §§ 2.1(a), 4.5.

<sup>606</sup> *Id.* §§ 2.1(a), 5.4. *See generally id.* at Attach. C (explaining how Google will distribute its revenues to rightsholders).

<sup>607</sup> *See generally id.* at Attach. C (“Plan of Allocation” for all revenues Google receives).



collected sufficient revenue from Google, the Registry will pay each registered rightsholder an inclusion fee of \$200.<sup>608</sup> Additionally, the Registry will pay rightsholders usage fees based on how many users access a particular book.<sup>609</sup> The Registry will escrow funds due to an unregistered rightsholder for five years.<sup>610</sup> If the rightsholder does not register a claim within the five years, the Registry will retain some funds to cover its operating costs, and disburse the rest to registered rightsholders and charities.<sup>611</sup>

Attachment A to the Settlement Agreement contains rules for dividing the rightsholder's share of the revenue between a given book's author and publisher.<sup>612</sup> If a book is in-print, the revenues will be divided between the publisher and the author in accordance with the existing book contract between the author and publisher.<sup>613</sup> If the book is out-of-print and the rights have reverted to the author, the author will receive 100% of the revenue.<sup>614</sup> If the book is out-of-print, the rights have not reverted to the author, and the book was published in or after 1987, the author and the publisher will divide the revenue 50%/50%.<sup>615</sup> If the book is out-of-print, the rights have not reverted to the author, and the book was published before 1987, the author will receive 65% of the revenue and the publisher 35%.<sup>616</sup> Importantly, Attachment A has its own definition of when rights have reverted to the author: a) when the author's rights have reverted under the book contract between the author and publisher; or b) when the rights have reverted in accordance with the procedures set forth in Attachment A.<sup>617</sup> Attachment A arguably tilts towards the author because it provides the author with a larger share of the revenue than she would have received under her book contract with the publisher.

### *G. Non-Exclusivity*

As discussed below in greater detail, one of the primary criticisms of the settlement is that it bestows upon Google a monopoly over the digital distribution of in copyright, out-of-print books.<sup>618</sup> To assess this claim, it is critical to understand precisely what the settlement itself says about competition. The settlement explicitly

neither authorizes nor prohibits, nor releases any Claims with respect to . . . any Participating Library's Digitization of Books if the resulting Digitized Books are neither provided to Google pursuant to this Settlement Agreement nor included in any LDC, or the use of any such Digitized Books

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<sup>608</sup> *Id.* at Attach. C, § 1.2(f)(i)(2).

<sup>609</sup> *Id.* at Attach. C, § 1.1(a).

<sup>610</sup> *Id.* § 6.3(a)(i).

<sup>611</sup> *Id.*

<sup>612</sup> *See generally id.* at Attach. A ("Procedures Governing Author Sub-Class and Publisher Sub-Class Under the Settlement Agreement").

<sup>613</sup> *Id.* § 5.5.

<sup>614</sup> *Id.* § 6.2(a).

<sup>615</sup> *Id.* § 6.2(c)(iii).

<sup>616</sup> *Id.* § 6.2(c)(i).

<sup>617</sup> *Id.* § 4.1.

<sup>618</sup> *See* discussion *infra* Part V.A.



that are neither provided to Google pursuant to this Settlement Agreement nor included in any LDC.<sup>619</sup>

In other words, the settlement does not restrict fully participating, cooperating, public domain, or other libraries from engaging in other digitization projects outside of the settlement.

Likewise, the settlement does not limit any rightsholder's "right to authorize, through the Registry or otherwise, any Person, including direct competitors of Google, to use his, her or its Books or Inserts in any way, including ways identical to those provided for under this Settlement Agreement."<sup>620</sup> Thus, even if a rightsholder registers her book with the Registry, she can still license other entities to digitize and distribute her book.<sup>621</sup>

Additionally, the Registry may license rightsholders' United States copyrights to third persons to the extent permitted by law.<sup>622</sup> At first blush, this appears to allow the Registry to authorize a Google competitor to scan and offer display services with respect to all the books that fall within the settlement. However, the Registry can grant licenses only with respect to rightsholders that register with it and grant it the ability to act as their agent with respect to parties other than Google.<sup>623</sup> Accordingly, if the rightsholders of only 10% of the out-of-print books register with the Registry and authorize it to act as their agent, then the Registry will be able to license to a Google competitor the right to scan and display just 10% of the out-of-print books, while Google will be able to scan and display 100% of the books.

This limitation on the Registry is not a function of the settlement, but the limits of the class action mechanism.<sup>624</sup> The class action mechanism cannot bind rightsholders with respect to third parties, such as Google's potential competitors, not participating in the settlement.<sup>625</sup>

Nonetheless, Google opponents point to other provisions of the settlement that discourage competition, most notably the "most favored nation" clause in section 3.8(a).<sup>626</sup> Critics have suggested that this provision requires the Registry to extend to Google the same terms it negotiates with any other entity, thereby discouraging new entrants. The provision in fact is far narrower than the critics indicate. It only applies when the Registry grants rights "from a significant portion of Rightsholders other than Registered Rightsholders."<sup>627</sup> After parsing through the definitions of Rightsholder and Registered Rightsholder,<sup>628</sup> it becomes clear that this condition can be satisfied only if Congress enacts legislation granting the Registry the authority to

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<sup>619</sup> Settlement Agreement, *supra* note 76, § 2.2.

<sup>620</sup> *Id.* § 2.4.

<sup>621</sup> *Id.* §§ 2.4, 3.1(a).

<sup>622</sup> *Id.* § 6.2(b).

<sup>623</sup> *Id.*

<sup>624</sup> *See* FED. R. CIV. P. 23(e).

<sup>625</sup> *See id.*; *Hansberry v. Lee*, 311 U.S. 32, 40 (1940) ("It is a principle of general application in Anglo-American jurisprudence that one is not bound by a judgment in personam in a litigation in which he is not designated as a party or to which he has not been made a party by service of process.") (citations omitted).

<sup>626</sup> *See* Settlement Agreement, *supra* note 76, § 3.8(a).

<sup>627</sup> *Id.*

<sup>628</sup> *Id.* §§ 1.122, 1.132.



represent the unregistered rightsholders—a highly unlikely eventuality, particularly within 10 years of the settlement taking effect, as the provision requires.

The settlement also contains a provision that allows the partner libraries and the Registry to compete with Google in the event that Google does not deploy services in a timely fashion.<sup>629</sup> If Google fails within five years of the effective date of the settlement to provide free search (including permitted displays), the Public Access Service, and institutional subscriptions for 85% of the in-copyright, out-of-print books it has scanned, the partner libraries or the Registry may seek to engage a third party to provide these services.<sup>630</sup> If the libraries and the Registry cannot identify or reach agreement on a third party, the libraries may provide these services themselves, using their LDCs.<sup>631</sup>

### *H. The Choices Available to Rightsholders*

The settlement creates many opportunities and challenges for the holders of United States copyright interests in books. The threshold decision was whether to opt out of the settlement.

#### *1. Opting Out*

All class members, including non- United States owners, had until September 4, 2009, to opt out of the settlement.<sup>632</sup> A publisher or author who did not formally opt out of the settlement by that date will be bound by the settlement (if it is approved by the court).<sup>633</sup> As a result, the rightsholder will release Google from copyright claims relating to the Library Project, and will not be able to pursue his or her own litigation against Google in the United States.<sup>634</sup>

Conversely, if a rightsholder did opt out, then he can pursue copyright claims against Google, but his books will not be included in the services Google will provide under the settlement, and he will not receive any share of the revenue these services

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<sup>629</sup> *Id.* § 7.2(e)(i)–(ii).

<sup>630</sup> *Id.*

<sup>631</sup> *Id.* § 7.2(e)(ii).

<sup>632</sup> See Order Extending Opt-Out Deadline at 2, *Authors Guild v. Google, Inc.*, No. 05 CV 8136 (S.D.N.Y. Apr. 28, 2009) [hereinafter Order] (extending the opt-out deadline from May 5, 2009 to September 4, 2009).. The opt-out deadline was originally May 5, 2009, but Judge Chin pushed it back by four months in response to requests by several authors and U.C. Berkeley Law Professor Pamela Samuelson. *Id.*; see also Settlement Agreement, *supra* note 76, § 1.98 (“Opt-Out Deadline’ means the deadline fixed by the Court to opt out of the Settlement pursuant to Rule 23 of the Federal Rules of Civil Procedure.”). As discussed below in Part VI, the Amended Settlement Agreement extends this deadline to January 28, 2010.

<sup>633</sup> *Id.* § 1.132; see FED. R. CIV. P. 23(e).

<sup>634</sup> Settlement Agreement, *supra* note 76, § 10.2(a); see also *id.* § 10.1(m) (“Rightsholders Releasors’ means Plaintiffs, any and all Rightsholders, and each Plaintiff’s and Rightsholder’s heirs, executors, administrators, beneficiaries, predecessors, successors, assigns, employees, and agents, any person claiming to by or through any Rightsholder and any Person representing any or all Plaintiffs and/or Rightsholders.”). To opt out, a rightsholder must contact the Settlement Administrator on or before September 4, 2009. Order, *supra* note 632, at 2.



generate.<sup>635</sup> However, even if he opted out of the settlement, he can still participate in the Partner Program Google offers copyright owners.<sup>636</sup> Thus, the rightsholder can still grant Google a license to make his books available to the public on terms agreed upon by Google and the rightsholder.<sup>637</sup>

## 2. Control Over Titles

If a rightsholder stays within the settlement, he can exercise significant control over Google's use of individual titles in which he may have a copyright interest by varying the default rules. The rightsholder can remove a specific title from all uses, while allowing Google to display other titles.<sup>638</sup> Furthermore, the rightsholder has the ability to change the default rules with respect to a particular title.<sup>639</sup> For example, for an out-of-print book, the rightsholder can instruct Google to exclude a title from consumer purchase or to display less under the preview service.<sup>640</sup> The rightsholder can also vary the price of a book available for consumer purchase from the price set algorithmically by Google; indeed, the rightsholder can require Google to make the book available for free.<sup>641</sup> Significantly, the rightsholder can direct Google to change how to use a particular title at any time, thereby allowing the rightsholder to experiment with different services.<sup>642</sup> To exercise these choices, and to receive revenue from the Registry for Google's uses, the rightsholder must register with the Registry.<sup>643</sup> Given this high degree of control and flexibility, there appears to have been little advantage to opting out of the settlement unless the rightsholder planned on filing his own infringement action against Google.

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<sup>635</sup> See Settlement Agreement, *supra* note 76, § 10.2(b).

<sup>636</sup> See Google Book Settlement FAQs, *supra* note 159.

<sup>637</sup> See *id.*

<sup>638</sup> Settlement Agreement, *supra* note 76, § 3.5(a)(i). If a rightsholder submits the removal request before Google scans a book, Google will refrain from scanning it. If Google receives the removal request after it scans a book, but before the April 5, 2011, removal deadline, Google cannot make any display uses of the book, but Google and its library partners can retain their digital copy of the book. See Google Book Settlement FAQs, *supra* note 159. If a rightsholder does not remove a title by the removal deadline, he still will be able to exclude the book from specific services. *Id.* However, the book will be included in Google's search database, and Google will be able to display bibliographic information concerning the book in response to search queries. As discussed in Part VI, the Amended Settlement Agreement modifies the removal deadline.

<sup>639</sup> Settlement Agreement, *supra* note 76, § 3.5(b)(i).

<sup>640</sup> *Id.* If a rightsholder of a book that is not commercially available excludes a book from the ISD, then the book will be excluded from sale to individual customers. See Google Book Settlement FAQs, *supra* note 159.

<sup>641</sup> *Id.*

<sup>642</sup> Settlement Agreement, *supra* note 76, § 3.5(b)(i). The author-publisher procedures in Attachment A contain rules for determining whether the publisher or author of a given book can exercise these options. Google will provide display services for an in-print book only if the both the author and publisher agree. Once a display use has been authorized, however, either the author or the publisher can request Google to turn off the display. For an out-of-print book, if the rights have reverted to the author, only the author can request removal or exclusion. But if the rights have not reverted, either the publisher or the author can request removal or exclusion.

<sup>643</sup> See *id.* § 1.122 ("Registered Rightsholder" means any Person who is a Rightsholder and who has registered with the Registry his, her or its Copyright Interest in a Book or Insert."); *id.* § 5.1(b)(i); Google Book Settlement FAQs, *supra* note 159.



### 3. Filing Comments with the Court

Rightsholders that did not opt out of the settlement had another choice to make by September 4, 2009: whether to file comments with the court urging approval or rejection of the settlement.<sup>644</sup> The court received hundreds of objections, largely from foreign rightsholders or associations representing foreign rightsholders.<sup>645</sup> The court also received comments from rightsholders that supported (or did not oppose) the settlement.<sup>646</sup> Finally, dozens of amicus briefs were filed, both supporting and opposing the settlement.<sup>647</sup>

## V. THE DEBATE CONCERNING APPROVAL OF THE SETTLEMENT

Announcement of the settlement precipitated a public debate even more heated than the debate over whether fair use permitted the original Library Project.<sup>648</sup> This debate intensified in the weeks leading up to the September 4, 2009 deadline for filing comments with the court. It continued after the filing deadline with a public hearing in the European Commission on September 7, and in the House Judiciary Committee on September 10.<sup>649</sup> Many of the arguments for and against approval of the settlement echo the equitable arguments concerning whether Google's original Library Project fell within the fair use privilege.<sup>650</sup>

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<sup>644</sup> See Order, *supra* note 632, at 1. The court extended the deadline for the electronic filing of amicus briefs and oppositions to September 8, 2009 because the court's electronic filing system was offline for maintenance purposes between September 3 and September 8. *Id.* As discussed below in Part VI, the Amended Settlement Agreement extends this deadline to January 28, 2010.

<sup>645</sup> *E.g.*, Objection of Canadian Standards Ass'n to Proposed Settlement, Authors Guild v. Google, Inc., No. 05 Civ 8136 (DC) (S.D.N.Y. Sept. 8, 2009).

<sup>646</sup> *E.g.*, Letter from Karl ZoBell, Senior Counsel, DLA PiperLLP, and Millie Basden, Of Counsel, DLA Piper LLP, to the Honorable Denny Chen, U.S. Dist. Court for the S. Dist. of N.Y. (Aug. 28, 2009) (on file with The John Marshall Review of Intellectual Property Law).

<sup>647</sup> *E.g.*, Amicus Brief of Antitrust Law and Economics Professors in Support of the Settlement, Authors Guild, No. 05 Civ 8136 (JES) (S.D.N.Y. Sept. 8, 2009); see also The Public Index, *supra* note 238 (providing an index of many of the filings).

<sup>648</sup> For a discussion of the arguments for and against approval of the settlement, see Pamela Samuelson, *Google Book Search and the Future of Books in Cyberspace*, 94 MINN. L. REV. (forthcoming Jan. 2010), available at <http://ssrn.com/abstract=1535067>.

<sup>649</sup> See Google Books Settlement Hearing Agenda (EC Sept. 7, 2009), available at <http://thepublicindex.org/docs/ec/agenda.pdf>. As discussed below, in response to the objections raised by class members and the United States government, the parties began negotiating possible modifications to the settlement. *E.g.*, Letter from Mayer Brenner to the Honorable Denny Chen, U.S. Dist. Court for the S. Dist. of N.Y. (Apr. 29, 2009) (on file with The John Marshall Review of Intellectual Property Law). On September 22, 2009, the plaintiffs asked the court to adjourn the scheduled October 7, 2009, fairness hearing, to provide the parties with time to continue the negotiations. Plaintiffs' Memorandum in Support of Unopposed Motion to Adjourn October 7, 2009 Final Fairness Hearing and Schedule Status Conference at 3, Authors Guild, No. 05 Civ 8136 (DC) (S.D.N.Y. Sept. 22, 2009). The parties filed an amended agreement with the court on November 13, 2009. See discussion *infra* Part VI.

<sup>650</sup> See Brandon Butler, *The Google Book Settlement: Who is Filing and What Are They Saying?*, Sept. 28, 2009, <http://www.arl.org/bm~doc/googlefilingcharts.pdf>, for a summary of the objections made by various entities. For an overview of the debates concerning the settlement see Sarah Glazer, *Future of Books*, 19 CQ RESEARCHER 473 (2009); Anna Stolley Persky, *Paper or Plastic? Google's Plan to Digitize Materials Pits Book Lovers v. Book Innovators*, WASH. LAW, June



Many support approval of the settlement because it enables Google to provide people in the United States with unprecedented online access to books.<sup>651</sup> At no cost, and from the convenience of her home, school, or workplace, a Google user will be able to search millions of books for responsive terms.<sup>652</sup> Depending on the nature of the book, the user will see up to fifteen continuous pages each time the term appears, and up to 20% of the entire book.<sup>653</sup> The settlement allows consumers to purchase perpetual online access to the full text of individual books, with at least 80% priced below \$10 for an initial period.<sup>654</sup> Additionally, the settlement permits universities and other institutions to purchase subscriptions that would provide authorized users within the institution full text access to millions of books.<sup>655</sup> The settlement also would “[t]urn every public library building in the U.S. into a world-class research facility by providing free access to the online portal of out-of-print books.”<sup>656</sup>

Significantly, this access will be available to people with print disabilities.<sup>657</sup> The settlement thus has the potential of dramatically improving the educational opportunities of a large, disadvantaged population.<sup>658</sup>

Supporters of the settlement further argue that it will benefit the authors of out-of-print books.<sup>659</sup> The settlement would allow their books to reach new audiences, thereby enhancing their reputations, disseminating their ideas, and rewarding them financially.<sup>660</sup> The settlement would save these out-of-print books from “oblivion”:

What once seemed at least debatable has now become irrefutable: If it's not online, it's invisible. While increasing numbers of long-out-of-date, public-

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2009, [http://www.dcbarr.org/for\\_lawyers/resources/publications/washington\\_lawyer/june\\_2009/google\\_digitize.cfm](http://www.dcbarr.org/for_lawyers/resources/publications/washington_lawyer/june_2009/google_digitize.cfm).

<sup>651</sup> See, e.g., Comments of Disability Organizations of or for Print-Disabled Persons in Support of the Proposed Settlement at 8–9, *Authors Guild*, No. 05 Civ 8136 (DC) (S.D.N.Y. Sept. 8, 2009); Letter from Jonathan Brown, President, Ass’n of Indep. Cal. Colls. & Univs., to the Honorable Denny Chin, U.S. Dist. Court for the S. Dist. of N.Y. (Aug. 27, 2009) (on file with The John Marshall Review of Intellectual Property Law).

<sup>652</sup> See Letter from Andrew J. Imparato, President & Chief Executive Officer, Am. Ass’n of People with Disabilities, to the Honorable Denny Chin, U.S. Dist. Court for the S. Dist. of N.Y. (Aug. 5, 2009) (on file with The John Marshall Review of Intellectual Property Law).

<sup>653</sup> Settlement Agreement, *supra* note 76, § 4.3(b)(i)(1).

<sup>654</sup> *Id.* § 4.2(a), (c)(i)–(ii).

<sup>655</sup> *Id.* §§ 1.74, 4.1(e).

<sup>656</sup> Press Release, Tom Allen, President, Ass’n of Am. Publishers, An Open Letter from the President and CEO of the Ass’n of Am. Publishers (June 25, 2009) (on file with The John Marshall Review of Intellectual Property Law), available at <http://www.publishers.org/main/PressCenter/Archives/2009%20June/TomAllenOpenLetterGoogle.htm>.

<sup>657</sup> See Letter from Andrew J. Imparato to the Honorable Denny Chin, *supra* note 652.

<sup>658</sup> See *id.*

<sup>659</sup> Brief of *Amicus Curiae* Computer & Communications Industry Ass’n (CCIA) on Proposed Settlement at 9–10, *Authors Guild v. Google, Inc.*, No. 05 Civ 8136 (DC) (S.D.N.Y. Sept. 8, 2009) [hereinafter Brief of CCIA] (citing Einer Elhauge, *Why the Google Books Settlement is Procompetitive* 2–3, 10 (Harvard Univ., John M. Olin Center for Law, Econ., & Bus., Discussion Paper No. 646, 2009), available at [http://www.law.harvard.edu/programs/olin\\_center/papers/pdf/Elhauge\\_646\\_Revised.pdf](http://www.law.harvard.edu/programs/olin_center/papers/pdf/Elhauge_646_Revised.pdf)).

<sup>660</sup> See Press Release, Tom Allen, President, An Open Letter from the President and CEO of the Ass’n of Am. Publishers, Ass’n of Am. Publishers (June 25, 2009) (on file with The John Marshall Review of Intellectual Property Law), available at <http://www.publishers.org/main/PressCenter/Archives/2009%20June/TomAllenOpenLetterGoogle.htm>.



domain books are now fully and freely available to anyone with a browser, the vast majority of the scholarship published in book form over the last 80 years is today largely overlooked by students, who limit their research to what can be discovered on the Internet.<sup>661</sup>

At the same time, a wide range of criticisms has emerged. Some rightsholders question the fairness of this “confiscation” of their rights without their authorization.<sup>662</sup> They feel that the settlement overturns longstanding principles of copyright law by placing on them the burden of removing their books from the services Google will offer.<sup>663</sup> Some authors argued that the settlement provides insufficient compensation for Google’s infringements.<sup>664</sup> Other rightsholders objected to the possibility that Google and registered rightsholders might profit from the use of the unregistered rightsholders’ books.<sup>665</sup>

Much of the criticism concerns the use of the class action settlement procedure. The Copyright Office opined that the settlement was “tantamount to creating a private compulsory license through the judiciary,” which thus represented an “end run around legislative process and prerogatives.”<sup>666</sup> The Copyright Office observed

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<sup>661</sup> Tim Barton, *Saving Texts from Oblivion: Oxford U. Press on the Google Book Settlement*, CHRON. HIGHER EDUC. (Wash., D.C.), June 29, 2009, <http://chronicle.com/article/Saving-Texts-From-Oblivion-/46966/>.

<sup>662</sup> See, e.g., Letter from Virginia Aronson to the Honorable Denny Chen, U.S. Dist. Court for the S. Dist. of N.Y. (Aug. 28, 2009) (on file with The John Marshall Review of Intellectual Property Law).

<sup>663</sup> E.g., Memorandum of Law in Opposition to the Settlement Proposal on Behalf of the Federal Republic of Germany at 9–11, *Authors Guild*, No. 05 Civ 8136 (DC) (S.D.N.Y. Aug. 31, 2009) [hereinafter *Objection of the Federal Republic of Germany*]; *Objection of Scott E. Gant to Proposed Settlement, and to Certification of the Proposed Settlement Class and Sub-Classes at 10, Authors Guild*, No. 05 Civ 8136 (DC) (S.D.N.Y. Aug. 19, 2009) [hereinafter *Objection of Scott E. Gant*].

<sup>664</sup> See, e.g., *Objection of Scott E. Gant*, *supra* note 663, at 25–27.

<sup>665</sup> See, e.g., *Objection of the Federal Republic of Germany*, *supra* note 663, at 13–14; *Objection of Scott E. Gant*, *supra* note 663, at 33. The state attorneys general for Connecticut and Texas filed objections to the Registry’s handling of unclaimed funds under their charitable trusts law. *Objection of the State of Connecticut to Class-Action Settlement at 2, 10–13, Authors Guild*, No. 05 Civ 8136 (DC) (S.D.N.Y. Sept. 8, 2009); Letter from Greg Abbott, Att’y Gen. of Tex., to the Honorable Denny Chin, U.S. Dist. Court for the S. Dist. of N.Y. (Sept. 9, 2009) (on file with The John Marshall Review of Intellectual Property Law).

<sup>666</sup> *Hearing on Competition and Commerce in Digital Books: The Proposed Google Book Settlement Before the H. Comm. on the Judiciary*, 111th Cong. 2–3 (2009) [hereinafter *Proposed Google Book Settlement Hearing*] (statement of Marybeth Peters, Reg. of Copyrights, United States Copyright Office). In her oral testimony, Register Peters went further, stating that the settlement “mak[es] a mockery of Article One of the Constitution.” *Hearing on Competition and Commerce in Digital Books Before the H. Comm. on the Judiciary*, 111th Cong. (2009) [hereinafter *Digital Books Hearing*] (testimony of Marybeth Peters, Reg. of Copyrights, United States Copyright Office). At the September 10 hearing, Congressman Hank Johnson (D-GA) agreed with Peters, stating “the settlement is coming very close to whittling away the powers of the United States Congress. The treatment of orphan works rights holders is a matter that should be decided by Congress.” *Id.* (testimony of Rep. Hank Johnson). However, Congressman Mel Watt (D-NC) said “the best protection to the prerogatives of the legislative branch is for us to legislate and since we haven’t done very aggressively and effectively the legislation on the orphan works, it’s kind of hard for me to condemn the courts for having a case before it that questions what can be done and can’t be done with orphan works.” *Id.* (testimony of Rep. Mel Watt). Similarly, Congresswoman Zoe Lofgren (D-CA) said “[w]hat I look at in the settlement is really the private sector achieving what we failed to



that “[c]ompulsory licenses in the context of copyright law have traditionally been the domain of Congress.”<sup>667</sup> Accordingly, “[a]s a matter of copyright policy, courts should be reluctant to create or endorse settlements that come so close to encroaching on the legislative function.”<sup>668</sup> Additionally, “Congress is much better situated than the judiciary to consider such important and far-reaching changes to the copyright system.”<sup>669</sup>

The Copyright Office and other opponents made the narrower legal argument that the settlement represented an inappropriate use of the class action settlement process to create a commercial arrangement to prevent liability for future infringements.<sup>670</sup> The Copyright Office objected to employment of the class action procedure to “create mechanisms by which Google could continue to scan with impunity, well into the future, and to . . . create yet additional commercial products without the prior consent of rights holders.”<sup>671</sup> The Copyright Office conceded that the class action procedure was used in the remedies phase of an infringement action brought by freelance writers against database publishers.<sup>672</sup> The proposed settlement in that case, which was approved by the district court, would grant the infringers a license to continue infringing.<sup>673</sup> However, the Copyright Office distinguished that settlement on the grounds that it did not involve “future uses of copyrighted products that were not the subject of the original infringement action.”<sup>674</sup> The Copyright Office “wonder[ed] whether, as a constitutional matter, a class action

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achieve” with orphan works legislation. *Id.* (testimony of Rep. Zoe Lofgren). Congresswoman Lofgren also indicated that Congress helped create the orphan works problem by extending the term of copyrights by 20 years in 1998. See *id.* Congressman Brad Sherman (D-CA) added that Congress had acted irresponsibly by failing to find a way to provide “access to all the knowledge, in all the books for which authors cannot be found,” and that it would be irresponsible to prevent others from doing so. *Id.* (testimony of Rep. Brad Sherman).

<sup>667</sup> *Proposed Google Book Settlement Hearing*, *supra* note 666, at 5 (statement of Marybeth Peters, Reg. of Copyrights, United States Copyright Office). At the hearing, Google’s Chief Legal Officer objected to the characterization of the settlement as a judicial compulsory license, noting that rightsholders could opt out of the settlement or vary its terms. See *Digital Books Hearing*, *supra* note 666. (testimony of David Drummond, Senior Vice President of Corporate Development and Chief Legal Officer, Google, Inc.).

<sup>668</sup> *Proposed Google Book Settlement Hearing*, *supra* note 666, at 5 (statement of Marybeth Peters, Reg. of Copyrights, United States Copyright Office).

<sup>669</sup> *Id.* at 8. The Office stated that the settlement “could affect the exclusive rights of millions of copyright owners, in the United States and abroad, with respect to their abilities to control new products and new markets, for years and years to come.” *Id.* at 2.

<sup>670</sup> *Id.* at 2; see, e.g., Objection of Scott E. Gant, *supra* note 663, at 11–12.

<sup>671</sup> *Proposed Google Book Settlement Hearing*, *supra* note 666, at 2 (statement of Marybeth Peters, Reg. of Copyrights, United States Copyright Office).

<sup>672</sup> *Id.* at 7 n.10 (citing *In re Literary Works in Elec. Databases Copyright Litig.*, MDL No. 1379 (S.D.N.Y.)).

<sup>673</sup> See *In re Literary Works in Elec. Databases Copyright Litig.*, 509 F.3d 116, 119–20 (2d Cir. 2007), *cert. granted sub nom.*, *Reed Elsevier, Inc. v. Muchnick*, 129 S. Ct. 1523 (2009). Whether 17 U.S.C. § 411(a) posed a jurisdictional bar to including unregistered works in the settlement is now before the Supreme Court in *Reed Elsevier, Inc. v. Muchnick*, 129 S.Ct. 1523 (2009).

<sup>674</sup> *Proposed Google Book Settlement Hearing*, *supra* note 666, at 7 (statement of Marybeth Peters, Reg. of Copyrights, United States Copyright Office). As discussed above, the original complaint concerned the permissibility of Google’s scanning books into its search database for the purpose of displaying snippets as search results. See discussion *supra* Part III. In contrast, the settlement allows Google to provide services that involve the sale of access to the full text of books. See Settlement Agreement, *supra* note 76, §§ 1.32, 4.2.



settlement could decide issues that were not properly before the Court as part of the case and controversy presented during the litigation.”<sup>675</sup>

Some rightsholders made even more technical legal arguments about satisfaction of the class action requirements in Rule 23 of the Federal Rules of Civil Procedure. They contended that the parties had made inadequate efforts to provide individual notice to class members.<sup>676</sup> Rightsholders also asserted that the parties had not met the class certification standards. Scott Gant, for example, identified four groups of authors with materially distinct interests who should therefore have separate class representatives and separate class counsel.<sup>677</sup> Professor Pamela Samuelson argued that the Authors Guild did not adequately represent the interests of academic authors.<sup>678</sup>

Other criticisms were raised as well. Academics voiced concern with commercial entities exercising control over so much information, and would have preferred for this digital storehouse of knowledge to have been maintained by entities that served the public interest, such as the Library of Congress or a consortium of research libraries.<sup>679</sup> Law professors condemned Google for “abandoning” its fight for fair use, and establishing a pay-per-use precedent for accessing digital works.

While these critics suggest that the settlement goes too far, others believe that it does not go far enough. Observers have noted possible deficiencies with the corpus of books stored in Google’s database.<sup>680</sup> Because the settlement allows the rightsholder of a work contained within another rightsholder’s book to exercise his rights under the settlement independently, a book in the Google database may lack important parts of the printed book.<sup>681</sup> A book in the database might be missing an essay, poem, short story, foreword, chart or table that appears in the printed version.<sup>682</sup> Similarly, because the settlement does not apply to pictorial works, Google will black out photographs and illustrations with a different rightsholder from the book’s rightsholder.<sup>683</sup> The quality of Google’s scans has been criticized, as well as the

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<sup>675</sup> *Proposed Google Book Settlement Hearing*, *supra* note 666, at 7 (statement of Marybeth Peters, Reg. of Copyrights, United States Copyright Office). The Copyright Office, however, acknowledged that “[w]e are not experts on the proper scope of class actions settlements . . .” *Id.*

<sup>676</sup> See Objection of Scott E. Gant, *supra* note 663, at 13–14. For an analysis of the merits of Gant’s Opposition, see James Grimmelman, *Scott Gant’s Attack on the Class*, LABORATORIUM, Aug. 21, 2009, [http://laboratorium.net/archive/2009\\_08](http://laboratorium.net/archive/2009_08).

<sup>677</sup> See Objection of Scott E. Gant, *supra* note 663, at 31–34. The four categories are: 1) an owner of a copyright in an orphan work copied by Google without permission; 2) an owner of a copyright in a non-orphan work copied by Google without permission; 3) an owner of a copyright in an orphan work not copied by Google or copied with permission; and 4) an owner of a copyright in a non-orphan work not copied by Google or copied with permission. *Id.* at 34.

<sup>678</sup> Letter from Pamela Samuelson, Professor of Law & Info., Univ. of Cal., Berkeley, to the Honorable Denny Chin, U.S. Dist. Court for the S. Dist. of N.Y. (Sept. 3, 2009) (on file with The John Marshall Review of Intellectual Property Law).

<sup>679</sup> Robert Darnton, *Google & the Future of Books*, N.Y. REV. BOOKS, Feb. 12, 2009, <http://www.nybooks.com/articles/22281>.

<sup>680</sup> See, e.g., Letter from Pamela Samuelson to the Honorable Denny Chin, *supra* note 678.

<sup>681</sup> See Settlement Agreement, *supra* note 76, § 3.5(b)(i).

<sup>682</sup> See *id.* § 1.72 (defining the term “Insert”); *id.* § 1.122 (defining “Registered Rightsholder” to include a rightsholder who has registered an insert).

<sup>683</sup> *Id.* § 3.5(b)(i); see *id.* § 1.72 (“The term ‘Insert’ does not include . . . pictorial works, such as photographs, illustrations (other than children’s Book illustrations), maps or paintings . . .”).



quality of the metadata Google uses for conducting its searches.<sup>684</sup> Additionally, some public libraries called for an expansion of the free Public Access Service to every computer terminal in public libraries and public schools.<sup>685</sup>

Although the debate has spanned this broad range of topics, the most persistent critics have focused on a narrower cluster of issues: the absence of competition, and the possible consequences of that absence on the price of the institutional subscription, user privacy, and censorship.<sup>686</sup> And while critics have agreed on the existence of these problems, they have diverged on how to address them. Some have called for rejection of the settlement combined with Congressional action to permit multiple entities to scan and display the full text of books. Others believe that the court presiding over the litigation should approve the settlement, but vigorously oversee its implementation.<sup>687</sup>

### A. Competition

The class action settlement provides Google with a mechanism for eliminating the significant transaction costs of clearing the indexing rights in tens of millions of in-copyright books. Further, for the more than 80% of these books that are out-of-print, Google can display large amounts of text.

However, because Google was the only defendant in the class action, the settlement permits only Google to provide these services. To be sure, the Registry will have the power to license to Google competitors rights for books whose rightsholders file claims with the Registry and authorize it to act as their agent.<sup>688</sup> But it is safe to assume that a large proportion of the rightsholders will not claim their books.<sup>689</sup> Many of the rightsholders will not even know that they are rightsholders; they may be heirs of deceased authors whose books have been out of print for decades. Other rightsholders will not know about the settlement or the Registry. Still others will decide that the small amount of money the Registry will distribute to them does not warrant the bother of filing claims. It is impossible to know at this point how many rightsholders will not claim their books, but it certainly is possible that the rightsholders of as much as 75% of the out-of-print books will remain unclaimed.

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<sup>684</sup> Robert B. Townsend, *Google Books: What's Not to Like?*, A.H.A. TODAY, Apr. 30, 2007, <http://blog.historians.org/articles/204/google-books-whats-not-to-like>.

<sup>685</sup> See, e.g., Letter from Susan Benton, President & Chief Executive Officer, Urban Libraries Council, to the Honorable Denny Chin, U.S. Dist. Court for the S. Dist. of N.Y. (Aug. 27, 2009) (on file with The John Marshall Review of Intellectual Property Law).

<sup>686</sup> See discussion *infra* Parts V.A–C.

<sup>687</sup> See, e.g., Letter from Karin Wittenborg, Univ. Librarian, Univ. of Virginia, to the Honorable Denny Chin, U.S. Dist. Court for the S. Dist. of N.Y. (Sept. 3, 2009) (on file with The John Marshall Review of Intellectual Property Law).

<sup>688</sup> Settlement Agreement, *supra* note 76, § 2.4.

<sup>689</sup> In the debate over approval of the settlement, works unregistered with the Registry were labeled “orphan works.” This is an incorrect use of the term. Orphan works are works whose rightsholder cannot be identified or located. REGISTER OF COPYRIGHTS, U.S. COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS 1 (2006). Here, no one has looked for the rightsholders, so no one knows whether they are in fact orphaned. All that is known is that the rightsholder has not registered a claim with the Registry.



In sum, the settlement will place Google in a privileged position relative to any competitors; the settlement immunizes only Google from copyright infringement liability for scanning and displaying the unclaimed books. Opponents claim that Google could use this privileged position to deepen its control over the search market, and to achieve domination in other markets such as e-book distribution and publishing generally.<sup>690</sup>

### 1. *Proposed Solutions to the Competition Problem*

#### a. *Replicating the Class Action*

Google has responded to the competition criticism by contending that nothing in the settlement prevents other entities from embarking on library projects like Google's.<sup>691</sup> They could scan books from libraries not partnering with Google, thereby precipitating a class action that could be settled on terms similar to the Google settlement.<sup>692</sup>

Settlement opponents counter that there is too much uncertainty with this approach. The competitor's scanning might not induce a class action, or if it does, the class representatives might not agree to the same settlement as Google's.<sup>693</sup>

#### b. *Legislation*

Accordingly, most settlement opponents advocate a legislative solution, noting that orphan works legislation passed the Senate in 2008.<sup>694</sup> The proponents of this

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<sup>690</sup> See Memorandum of Amicus Curiae Open Book Alliance in Opposition to the Proposed Settlement Between the Authors Guild, Inc., Association of American Publishers, Inc., et al., and Google Inc. at 7–8, *Authors Guild v. Google, Inc.*, No. 05 Civ 8136 (DC) (S.D.N.Y. Sept. 8, 2009) [hereinafter *Brief of Open Book Alliance*]. Google competitors organized the Open Book Alliance to counter the settlement. Members include Amazon, Microsoft, Yahoo, as well as other groups such as the Internet Archive, Science Fiction and Fantasy Writers of America, the Special Libraries Association, American Society of Journalists and Authors, the Council of Literary Magazines and Presses, the New York Library Association, and the Small Press Distribution. Open Book Alliance, <http://www.openbookalliance.org/members> (last visited Dec. 3, 2009). At the same time, the Computer & Communications Industry Association (“CCIA”) argued that the competition issues arising from the settlement appear to be overstated. *Brief of CCIA, supra* note 659, at 1. CCIA noted that digital books account for less than 1% of all book sales. *Id.* Further, out-of-print books account for only 3% of sales. *Id.* Thus, the settlement as a practical matter affects a very small proportion of the market for books. See *id.* CCIA also called the argument concerning Google's control over orphan works “counterintuitive”—“that Google's license to use books that no one wanted would create a product with which no one can compete.” *Id.* at 12.

<sup>691</sup> *Digital Books Hearing, supra* note 666 (testimony of David Drummond, Senior Vice President of Corporate Development and Chief Legal Officer, Google, Inc.).

<sup>692</sup> See *id.*

<sup>693</sup> See generally James Grimmelman, *When the Unprecedented Becomes Precedent: Class Actions in a Google Book Search World*, LABORATORIUM, Aug. 4, 2009, [http://laboratorium.net/archive/2009/08/04/gbs\\_blogging\\_when\\_the\\_unprecedented\\_becomes\\_preced](http://laboratorium.net/archive/2009/08/04/gbs_blogging_when_the_unprecedented_becomes_preced) (providing a more detailed discussion of a copy-cat class action).



approach overlook the substance of the orphan works legislation. As noted above, the legislation would have limited the remedies for infringement only if the user made a reasonably diligent search for the copyright owner prior to commencing the use.<sup>695</sup> The cost of performing millions of searches is precisely what Google is attempting to avoid through the settlement. Thus, Congress would have to adopt legislation far more generous to users than what it has rejected in the past two Congresses; it would have to adopt a compulsory license that required no search by the user for the rightsholder.

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

A much more productive path would be for Google to engage with this Committee and with other stakeholders to discuss whether and to what degree a diligent search for the rights holder should be a precondition of a user receiving the benefits of orphan works legislation, or whether a solution that is more like a compulsory license may make sense for those engaged in mass scanning.<sup>696</sup>

In response to a question from Congressman Lamar Smith (R-Tex), the ranking Republican on the Judiciary Committee, concerning limits on Congressional power to enact orphan works legislation, Register Peters suggested that a statutory compulsory license for the mass digitization of books may be inconsistent with international treaty obligations.<sup>697</sup> In other words, Register Peters believes that the settlement is a judicial compulsory license that trespasses on Congressional prerogatives, but that Congress itself perhaps cannot enact a compulsory license for book digitization without violating international obligations.<sup>698</sup> In effect, Register Peters is saying that creation of a relatively comprehensive digital library providing access to the full text of in-copyright books may be a legal impossibility. In the absence of either a judicial or statutory compulsory license, the digitizer would have to bear the cost of searching for the rightsholders of millions of books. This cost would be so overwhelming as to preclude any entity from undertaking such an endeavor.<sup>699</sup>

However, many of those who advocate a legislative solution believe that Congress does have the power to enact a compulsory license for the digitization of

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<sup>694</sup> See Shawn Bentley Orphan Works Act of 2008, S. 2913, 110th Cong. (2008) (passed the Senate on September 26, 2008).

<sup>695</sup> *Id.* § 514(b)(2)(A)(i).

<sup>696</sup> *Proposed Google Book Settlement Hearing*, *supra* note 666, at 7–8 (statement of Marybeth Peters, Reg. of Copyrights, United States Copyright Office).

<sup>697</sup> *Digital Books Hearing*, *supra* note 666 (testimony of Marybeth Peters, Reg. of Copyrights, United States Copyright Office).

<sup>698</sup> *Id.* At the very least, Register Peters appears to believe that such a statutory compulsory license would subject the United States to “diplomatic stress.” See *Proposed Google Book Settlement Hearing*, *supra* note 666, at 3 (statement of Marybeth Peters, Reg. of Copyrights, United States Copyright Office).

<sup>699</sup> Register Peters took no position on the merits of Google’s fair use defense with respect to its creation of a digital index under the original Library Project.



books. Underlying the preference for a legislative solution is the belief that legislative process is more open and transparent than a court approved class-action settlement, and that Congress would be more responsive than Judge Chin to concerns raised by their particular constituency.<sup>700</sup> But the settlement has been criticized from all directions; rightsholders, users, and potential competitors have complained that the settlement does not sufficiently accommodate their interests. These interests often are incompatible. If more competition leads to lower prices for users, for example, then the rightsholders would receive less revenue.<sup>701</sup> Likewise, more protection for rightsholders inevitably would result in less robust services for consumers. A legislated compulsory license could very well not apply to the works of foreign rightsholders, which would result in a much smaller, less useful digital library.<sup>702</sup>

The legislative process, therefore, would be highly contentious; and in the unlikely event Congress succeeded in enacting a compulsory license, it would reflect political compromises and the relative lobbying strength of stakeholders. One cannot predict whether a particular stakeholder would do better in Congress than under the settlement; and one certainly cannot predict whether the compromises in legislation would be more “fair” than the compromises in the settlement.<sup>703</sup>

### *c. Restructuring the Settlement*

Other settlement opponents believe that the settlement should be restructured so that the class plaintiffs grant to the Registry the ability to license the rights of all class members to any entity on a non-discriminatory basis.<sup>704</sup> While theoretically

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<sup>700</sup> Legal scholars who have criticized the legitimacy of the class action mechanism here have in the past condemned amendments to the Copyright Act as reflecting the entertainment industry’s undue influence on Congress.

<sup>701</sup> CCIA observed that the concerns about the anticompetitive misbehavior of the Registry is another example of the fundamental tension in the various objections to the settlement: insofar as one entertains the pure speculation of objectors, the proposed BRR cannot simultaneously be unfair to the class *and* anticompetitive, since any anticompetitive conduct that the BRR engaged in would benefit class members, if anyone.

Brief of CCIA, *supra* note 659, at 15.

<sup>702</sup> The Copyright Act already provides preferential treatment to foreign works. For example, registration is not a prerequisite for a rightsholder of a non-United States work to initiate an infringement action. *See* 17 U.S.C. § 411(a) (2006). Some foreign rightsholders can be expected to lobby vigorously for exclusion from a Congressionally mandated compulsory license. *See, e.g.*, Memorandum of Law in Opposition to the Settlement Proposal on Behalf of the French Republic at 13–17, *Authors Guild v. Google, Inc.*, No. 05 Civ 8136 (DC) (S.D.N.Y. Sept. 8, 2009); Objection of the Federal Republic of Germany, *supra* note 663, at 11. The Copyright Office appears to support such an exclusion. *See Proposed Google Book Settlement Hearing, supra* note 666, at 8–10 (statement of Marybeth Peters, Reg. of Copyrights, United States Copyright Office).

<sup>703</sup> CCIA stated “[s]ome assert the deal is not good enough for certain interests; others claim it is too good. This lack of consensus among objectors may itself be evidence that an equitable compromise was struck between the parties.” Brief of CCIA, *supra* note 659, at 16. In any event, Congress is most likely to take action in this area only as a reaction to judicial approval of the settlement. *See* Barton, *supra* note 661.

<sup>704</sup> James Grimmelmann, *How to Fix the Google Book Search Settlement*, J. INTERNET L., Apr. 2009, at 15, available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1363843](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1363843).



possible, there are at least two problems with this approach. First, it would involve an even more sweeping use of the class action mechanism than the settlement as originally proposed. The settlement in effect assigns the digitization rights of the absent rightsholders to the Registry only with respect to Google. The proposed restructuring of the settlement would require an assignment of the digitization rights of the absent rightsholders with respect to all entities. Thus, this approach “confiscates” even more of the rights of the absent rightsholders, and concentrates them in the hands of the Registry. Given the discomfort of some rightsholders with the current class action mechanism, broader use of the mechanism would encounter even fiercer resistance.

Second, the class representatives likely will not agree to such a restructuring. The class representatives might be willing to allow Google to engage in this massive scanning and display undertaking because Google is a known entity with a proven track-record of data security and financial stability. Conversely, the class representatives might be far more reluctant to release their copyright claims against every entity that wants to scan and display all in-copyright, out-of-print books.<sup>705</sup>

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<sup>705</sup> Peter Eckersley of the Electronic Frontier Foundation called for an even more extreme solution:

[T]o require that anyone who takes a blanket license (whether under the Google Book Search settlement, or under any legislation that might expand the settlement to others) must deposit a copy of the raw scans that they create with the Library of Congress or with the entity that administers the blanket license (e.g., the Books Rights Registry). After a period of years, let's say 14, the term of the Founder's Copyright, those scans should be made available at no cost to any others who take the relevant copyright licenses.

Posting of Peter Eckersley, *Google Book Search Settlement: Foster Competition, Escrow the Scans*, to Electronic Frontier Foundation Deeplinks Blog, <http://www.eff.org/deeplinks/2009/06/should-google-have-s> (June 11, 2009). Eckersley notes that “[t]his would not only encourage market entry and competition in the online digital books arena, but would also foster innovation in the field.” *Id.* He argues that

[i]t makes no economic sense for us to force every future pair of graduate students who want to experiment with the book dataset to spend those hundreds of millions of dollars before they can launch their new startup. On the other hand, Google deserves some fair reward for navigating the obstacles and getting the books scanned. A compromise like a 14-year escrow rule might be just the way to achieve that.

*Id.* Google, of course, would never agree to relinquish control over its \$750 million investment after 14 years. Nor would Congress require it to do so.

The Open Book Alliance similarly stated that “[a]ppropriate modifications of the parties’ proposal might begin with compulsory licensing of the database.” Brief of Open Book Alliance, *supra* note 690, at 29. It further stated that

Google should be ordered to license the database with all attendant rights to a number of competitors, under the supervision of the Department of Justice. Unlike physical assets such as plants and equipment, the database can be copied quickly and accurately, and conveyed through licensing agreements to companies that will compete against Google by selling digital books and library subscriptions. These licensees must be permitted, in turn, to sell competitors of Google and the publishers the right to crawl and index the database for their own commercial uses, in order to prevent competitive injury to the search market.

*Id.* at 29–30. The Open Book Alliance asserted that “[c]ompetitors should pay, at most, nominal amounts to Google to license the database for resale. Not-for-profit institutions that wish to scan orphan works for the purpose of creating a better database than the one Google offers should be entitled to license the necessary rights from Google free of charge.” *Id.* at 31.



*d. Common Flaws*

The three approaches discussed above—replication of Google’s steps, legislation, and restructuring of the settlement—have two other critical infirmities.<sup>706</sup> First, all three approaches assume that entities exist that are willing to invest hundreds of millions of dollars in the scanning of book once the copyright clearance problem is addressed. However, Google has a five year lead-time advantage over potential competitors, during which it has refined the scanning process and scanned as many as twelve million books into its search database.<sup>707</sup> Considering Google’s significant head-start, it is unlikely that any commercial entity will enter this unproven market.<sup>708</sup> There also is no indication that the federal government or private foundations would fund the creation of a digital library to compete with Google’s.

Second, assuming that a competitor to Google did emerge, the competition problem would remain because the Registry would still control the rights to the unregistered books.<sup>709</sup> The Registry would have no competition, and it could attempt to push the price of the institutional subscription to a profit maximizing point. As discussed above, Google and the Registry will jointly set the price of the institutional subscription.<sup>710</sup> If they cannot reach agreement, the price will be determined by an arbitrator.<sup>711</sup> Google’s current business model, based on advertising revenue, suggests that Google may have the incentive to negotiate vigorously with the Registry to set the price of the institutional subscription as low as possible to maximize the number of authorized users with access to the ISD. The Registry, on the other hand, may seek a profit maximizing price structure that has the effect of reducing access.

Libraries have great interest in the pricing of the institutional subscription because they constitute the target market for these subscriptions.<sup>712</sup> Faculty and students performing serious research are among the largest and most likely populations to demand the ability to read the full text of out-of-print books.<sup>713</sup> Three library associations, in comments filed with the court presiding over the litigation, explained their concern over the pricing of the institutional subscription:

[T]he predominant model for pricing of scientific, technical, and medical journals in the online environment has been based on low volume and high prices. Major commercial publishers have been content with strategies that maximize profits by selling subscriptions to few customers at high cost. Typically these customers are academic and research libraries. Therefore,

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<sup>706</sup> See discussion *supra* Part V.A.1.a–c.

<sup>707</sup> Library Association Comments on the Proposed Settlement at 5, *Authors Guild v. Google, Inc.*, No. 05 Civ 8136 (DC) (S.D.N.Y. Sept. 9, 2009) [hereinafter *Library Association Comments*].

<sup>708</sup> See *id.* at 5 n.11.

<sup>709</sup> See Settlement Agreement, *supra* note 76, §§ 13.1, 13.4. But see *id.* § 17.33 (“Effect of Opt-Out.”).

<sup>710</sup> *Id.* § 4.1(a)(vi)(4)(a); see discussion *supra* Part IV.D.3.a.

<sup>711</sup> Settlement Agreement, *supra* note 76, § 9.7.

<sup>712</sup> Library Association Comments, *supra* note 707, at 3.

<sup>713</sup> *Id.*



the Registry . . . may seek to emulate this strategy in the market for institutional subscriptions.<sup>714</sup>

The Library Associations continued to describe other features of the settlement's provisions concerning the pricing of the institutional subscription that increase the likelihood of this outcome:

[T]he Settlement states that the price of the institutional subscription will be based in part on the prices of "comparable products and services. . . ." Although there are no comparable products or services to an online database of in-copyright, not commercially available books, the Registry or the arbitrators might erroneously treat online journals as comparable products. In this event, the institutional subscription would become cost prohibitive for most libraries. The annual subscription for some scientific, technical, and medical journals can exceed \$20,000 per journal. A university library spends an average total of \$4.3 million a year for online journal subscriptions. If journal subscriptions are "comparable" to the institutional subscription, and a library pays \$4.3 million for access to 31,000 journals, one can only imagine the price the Registry might insist upon for a subscription to millions of books.<sup>715</sup>

The settlement provides that the price of the institutional subscriptions will be governed by two objectives: "(1) the realization of revenue at market rates for each Book and license on behalf of Rightsholders and (2) the realization of broad access to the Books by the public, including institutions of higher education."<sup>716</sup> The Library Associations feared that the Registry may convince Google or the arbitrator to set the institutional subscription price at a level that favors the first objective over the second.<sup>717</sup>

The Library Associations further suggested that they might have little leverage in the negotiations concerning the price of an institutional subscription:

Students and faculty members at higher education institutions with institutional subscriptions will be able to access the ISD from any computer -- from home, a dorm room, or an office. Accordingly, it is possible that faculty and students at institutions of higher education will come to view the institutional subscription as an indispensable research tool. They might insist that their institution's library purchase such a subscription. The institution's administration might also insist that the library purchase an institutional subscription so that the institution can remain competitive

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<sup>714</sup> *Id.* at 8. The author of this article assisted the Library Associations in the drafting of these comments.

<sup>715</sup> *Id.* at 8–9 (footnotes omitted) (ellipsis in original).

<sup>716</sup> Settlement Agreement, *supra* note 76, § 4.1(a)(i).

<sup>717</sup> Library Association Comments, *supra* note 707, at 6.



with other institutions of higher education in terms of the recruitment and retention of faculty and students.<sup>718</sup>

In short, enabling Google's hypothetical competitors to scan and display the unregistered books would not reduce the Registry's ability to push the price of the institutional subscription up to a profit maximizing point.

## 2. *Taming the Registry*

The settlement agreement permits only Google and the Registry to submit disputes concerning the pricing of the institutional subscription to arbitration; the libraries have no recourse to the arbitrator.<sup>719</sup> In response to concerns raised by libraries over the pricing of the institutional subscription, Google and the University of Michigan agreed on May 20, 2009, to a new procedure that would allow Michigan and the other libraries that provided Google with in-copyright books to request an arbitrator to review the pricing of the institutional subscription.<sup>720</sup> The new "pricing review" procedure would occur after the price-setting process described in the settlement, including any arbitration between Google and the Registry.<sup>721</sup>

Although this new pricing review could be helpful to libraries, it contains several significant limitations. First, only Google's partners can initiate the review. If these partner libraries receive discounts on the institutional subscription similar to Michigan's, they may not have the financial incentive to pursue this new procedure.<sup>722</sup> Second, while the procedure allows the arbitrator to order Google to adjust the price downwards, the adjustment amount is limited to Google's net revenue—37% of the subscription price.<sup>723</sup> Thus, the subscription price might remain beyond the means of many libraries.<sup>724</sup> Third, the arbitrator's decision is final and unappealable.<sup>725</sup> This could be problematic to the extent that the arbitrator just "splits the baby" and does not engage in thorough review of the pricing.

The Library Associations proposed two solutions for the problem of the influence the Registry would have over the pricing of the institutional subscription. Both solutions are rooted in the court's continuing jurisdiction over the settlement.<sup>726</sup> The settlement specifically provides that "[t]he Court shall retain jurisdiction over the interpretation and implementation of [the] Settlement Agreement."<sup>727</sup> The Library Associations asserted that by this statement the parties acknowledged the court's authority to regulate their conduct under the settlement.<sup>728</sup> "The Library

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<sup>718</sup> *Id.* at 4–5.

<sup>719</sup> See Settlement Agreement, *supra* note 76, § 4.1(a)(vi)(4), (viii)–(ix).

<sup>720</sup> Amended Michigan Cooperative Agreement, *supra* note 450, at Attach. A, ¶ 3(c).

<sup>721</sup> See Settlement Agreement, *supra* note 76, § 4.1(a).

<sup>722</sup> See Amended Michigan Cooperative Agreement, *supra* note 450, ¶23 (to supplement the Michigan Cooperative Agreement as § 4.4.8(a)).

<sup>723</sup> See *id.* at Attach. A, ¶ 3(c)(3).

<sup>724</sup> See Library Association Comments, *supra* note 707, at 9.

<sup>725</sup> Settlement Agreement, *supra* note 76, § 9.7.

<sup>726</sup> *Id.* § 17.23.

<sup>727</sup> *Id.*

<sup>728</sup> Library Association Comments, *supra* note 707, at 19.



Associations urge the court to exercise this authority vigorously to ensure the broadest possible public benefit from the services the Settlement enables.”<sup>729</sup>

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

[a]ny library or other possible institutional subscriber must have the ability to request this Court to review the pricing of an institutional subscription. The Court’s standard of review should be whether the price meets the economic objectives set forth in the Settlement, *i.e.*, “(1) the realization of revenue at market rates for each Book and license on behalf of Rightsholders and (2) the realization of broad access to the Books by the public, including institutions of higher education.”<sup>730</sup>

In a lengthy footnote, the Library Associations analogized the Registry to two organizations that collectively manage performance rights: the American Society of Composers, Authors and Publishers (“ASCAP”) and Broadcast Music, Inc. (“BMI”).<sup>731</sup> The Library Associations observed that

[b]oth ASCAP and BMI are subject to consent decrees resolving antitrust actions brought by the U.S. Department of Justice. The ASCAP consent decree has existed, with modifications, since 1941; and the BMI consent decree since 1966. Under the consent decrees, ASCAP and BMI must grant, on a non-discriminatory basis, either a blanket license to their entire catalogue, or a license for the performance of a particular work.<sup>732</sup>

The Library Associations noted that a court in the same district as the court presiding over the settlement has continuing jurisdiction over the ASCAP and BMI consent decrees, and has established a rate court to resolve disputes concerning license fees.<sup>733</sup> In proceedings before the rate court, ASCAP and BMI have the burden of proving the reasonableness of the rates they seek.<sup>734</sup> The Library Associations asserted that “[e]stablishment of a rate court in this case is premature. However, this Court has the authority to adopt the procedures necessary to ensure the fairness of the price of the institutional subscription.”<sup>735</sup>

The Library Associations’ second suggestion concerned the composition of the Registry’s Board of Directors.<sup>736</sup> The settlement stipulates that the Author Sub-Class and the Publisher Sub-Class will have equal representation on the Registry’s Board of Directors, but the settlement is silent on who will select these board members and how class members can ensure that the Registry will in fact advance their objectives.<sup>737</sup> The Library Associations expressed concern that the Registry’s Board

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<sup>729</sup> *Id.*

<sup>730</sup> *Id.* (quoting Settlement Agreement, *supra* note 76, § 4.1(a)(i)).

<sup>731</sup> *Id.* at 19 n.47.

<sup>732</sup> *Id.*

<sup>733</sup> *Id.*

<sup>734</sup> *Id.*

<sup>735</sup> *Id.*

<sup>736</sup> *Id.* at 18.

<sup>737</sup> Settlement Agreement, *supra* note 76, § 6.2(b).



of Directors might not adequately represent the true interests of many class members:

[T]he Library Associations are both authors and publishers of books, and thus fall within both sub-classes of plaintiffs. However, writing and publishing books is ancillary to the core mission of libraries – to provide the public with access to information. Tens of thousands of members of the Author Sub-Class are similarly situated to the Library Associations: teachers at all levels write books not for financial gain, but to support their core missions of education and scholarship. Many, if not most, of these class members care far more about the potential impact of the Settlement on the advancement of knowledge than about the modest license fees they may receive under the Settlement.<sup>738</sup>

The Library Associations, accordingly, argued that “many class members will not want the Registry to maximize its profits; rather, they will want the Registry to maximize public access to books.”<sup>739</sup> The Registry will act as the agent for rightsholders whose books will be in Google’s database.<sup>740</sup> Google is building its database by scanning books found in the collections of major research libraries.<sup>741</sup> The Google database, therefore, will reflect the nature of the research libraries’ collections.

The collections of research libraries are fundamentally different from the collection of a typical public library or the types of books sold in bookstores. Research libraries contain primarily scholarly books. Research libraries acquire popular books only if they are of scholarly interest. Thus, of the 45,429 titles a major distributor sold to research libraries in North America between July 1, 2007 and June 30, 2008, the distributor categorized only 1,572 as “popular:” “a work intended for a public library or a browsing collection.” The distributor labeled none of these 45,429 titles as “geared toward a wide readership,” and classified 32,009 titles as aimed at “specialists:” “those who have a familiarity with the subject matter and knowledge of the conventions of the field.” Similarly, 12,297 of these titles were published by university or other non-profit publishers. While these books are all in print, the proportions likely are similar for the older, out-of-print books in the research libraries’ collections. That is, probably less than 10% of the books are of a popular nature, and more than 25% of the books were published by university or other non-profit publishers.<sup>742</sup>

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<sup>738</sup> Library Association Comments, *supra* note 707, at 18 (citing Letter from Pamela Samuelson to the Honorable Denny Chin, *supra* note 678).

<sup>739</sup> *Id.*

<sup>740</sup> See Settlement Agreement, *supra* note 76, § 6.2(b); Library Association Comments, *supra* note 707, at 16–17.

<sup>741</sup> Library Association Comments, *supra* note 707, at 3 n.4.

<sup>742</sup> Supplemental Library Association Comments on the Proposed Settlement at 11–12, *Authors Guild v. Google, Inc.*, No. 05 Civ 8136 (DC) (S.D.N.Y. Sept. 2, 2009) [hereinafter Supplemental Library Association Comments] (footnote omitted).



To ensure that the Registry's Board adequately reflects the perspectives of academic authors, the Library Associations contended that

[a]ny class member must have the ability to request this Court to review the procedures by which the Registry selects members of its board of directors, and to evaluate whether the Registry properly considers the interests of all class members in its decision-making.<sup>743</sup>

The Library Associations also requested the court to regulate the Registry on matters other than the price of the institutional subscription.<sup>744</sup> The Library Associations observed that although the settlement permits the Registry to license the rights of registered rightsholders to third parties, the settlement does not require it to do so.<sup>745</sup> "Nor does [the settlement] provide standards to govern the terms by which the Registry would license these rights. This means that the Registry could refuse to license the rights to Google competitors on terms comparable to those provided to Google under the Settlement."<sup>746</sup> Accordingly, "[a]ny entity must have the ability to request this Court to review the Registry's refusal to license copyrights to books on the same terms available to Google."<sup>747</sup>

### 3. *Pro-Competitive Effects of the Settlement*

Complaints about the absence of competition to Google and the Registry under the settlement prompted both the Antitrust Division of the Department of Justice and several states attorney general to launch investigations of the proposed settlement.<sup>748</sup> These investigations were pending at the writing of this article.<sup>749</sup>

At the same time, some argued that the settlement actually would promote competition. First, by making the out-of-print books commercially available, the settlement would encourage competition between out-of-print books and in-print books.<sup>750</sup> Second, by establishing Google as a major retailer of books, the settlement

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<sup>743</sup> Library Association Comments, *supra* note 707, at 20.

<sup>744</sup> *Id.* at 19–20.

<sup>745</sup> *Id.* at 17.

<sup>746</sup> *Id.* at 17–18.

<sup>747</sup> *Id.* at 20.

<sup>748</sup> *See, e.g.*, Letter from William F. Cavanaugh, Deputy Assistant Attorney Gen., Department of Justice, Antitrust Division, to the Honorable Denny Chin, U.S. Dist. Court for the S. Dist. of N.Y. (July 2, 2009). In a July 2, 2009 letter to Judge Chin, Deputy Assistant Attorney General William Cavanaugh informed the court that the United States had opened an antitrust investigation into the proposed settlement. *Id.* The letter stated that the Justice Department had not yet reached any conclusions about "what impact this settlement may have on competition. However, we have determined that the issues raised by the proposed settlement warrant further inquiry." *Id.* Accordingly, the Department had issued civil investigative demands seeking documents and information from parties to the litigation. *Id.*

<sup>749</sup> *See generally* Jerry A. Hausman & J. Gregory Sidak, *Google and the Proper Antitrust Scrutiny of Orphan Books*, 5 J. COMPETITION L. & ECON. 411 (2009) (providing a more detailed exploration of these antitrust questions). Whether the competition issues posed by the settlement raise actionable antitrust claims is beyond the scope of this article.

<sup>750</sup> Ed Black, *Google Venture: No Violation of Copyright or Antitrust Laws*, HILL, June 10, 2009, <http://thehill.com/opinion/letters/7012-google-venture-no-violation-of-copyright-or-antitrust>



would create a significant competitor for Amazon.com, which some publishers believe acts as a monopsonist in that market.<sup>751</sup>

Third, the competitive concern with the settlement is rooted in the assumption that many rightsholders will not register with the Registry. But what if many do? Moreover, the rightsholders with the most commercially valuable books are precisely those who are likely either to register with the Registry or to opt out of the settlement. Thus, the Registry may well have the ability to license to entities other than Google the rights to make available the text of a large number of books.<sup>752</sup> In other words, the settlement may enable other entities to compete with Google for the sale of individual out-of-print books as well as institutional subscriptions.<sup>753</sup>

Finally, Google and the class representatives argue that they built price discipline into the settlement.<sup>754</sup> They claim that the free preview of up to 20% of a book, and the public access terminals in public libraries and higher education institutions that will provide free access to the full text of books, will limit the ability of the Registry and Google to extract monopoly rents through the institutional

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laws. In July, 2009, the University of Michigan and Amazon.com announced that they would be making 400,000 public domain titles from the Michigan library collection available for purchase on a print-on-demand basis. Lynn Monson, *University of Michigan, Amazon Announce Book-Printing Deal*, MLIVE.COM, July 21, 2009, [http://www.mlive.com/news/annarbor/index.ssf/2009/07/university\\_of\\_michigan\\_amazon.html](http://www.mlive.com/news/annarbor/index.ssf/2009/07/university_of_michigan_amazon.html). Many of these copies would be printed from scans made by Google and provided to Michigan in the course of the Library Project. *Id.*

<sup>751</sup> Mark Gimein, *In Defense of Google Books: Don't Listen to Dystopian Monopoly-Mongers*, BIG MONEY, June 23, 2009, <http://www.thebigmoney.com/articles/money-trail/2009/06/23/defense-google-books?page=full>.

<sup>752</sup> See Settlement Agreement, *supra* note 76, § 6.2(b); Library Association Comments, *supra* note 707, at 16–17.

<sup>753</sup> CCIA described how the settlement could ease market entry: “Because the settlement is non-exclusive, potential Google competitors may take advantage of the Registry’s labors and license newly-clarified books for competing services.” Brief of CCIA, *supra* note 659, at 10. The Registry will also resolve “uncertain or gridlocked claims over works,” thereby reducing “the cost[] of licensing dormant yet non-orphaned works.” *Id.*; see also David Balto, *Booklovers Should Cheer Google’s Plan*, FIN. TIMES, June 24, 2009, [http://www.ft.com/cms/s/0/8bf99ea8-6057-11de-a09b-00144feabdc0.html?ncklick\\_check=1](http://www.ft.com/cms/s/0/8bf99ea8-6057-11de-a09b-00144feabdc0.html?ncklick_check=1) (arguing that the settlement will enhance competition and open new markets). In fact, at the September 10, 2009, House Judiciary Committee on the settlement, David Drummond, Google’s Chief Legal Officer, announced that for the out-of-print books (including orphan works) being made available through the Google Books settlement, Google will let any book retailer sell access to those books. Google will host the digital books online, and retailers such as Amazon, Barnes & Noble or your local bookstore will be able to sell access to users on any Internet-connected device they choose. *Digital Books Hearing*, *supra* note 666 (testimony of David Drummond, Senior Vice President of Corporate Development and Chief Legal Officer, Google, Inc.). Drummond stated that Google would split its 37% of the revenue from the sale with the retailer, with the retailer receiving a larger portion than Google. See *id.* James Grimmelmman opined that “this resembles an affiliate marketing program; the service on offer is still fundamentally Google’s, although others may run the storefront.” James Grimmelmman, *GBS: What Exactly Does Google’s Marketing Agreement Mean?*, LABORATORIUM, Sept. 10, 2009, [http://laboratorium.net/archive/2009/09/10/gbs\\_what\\_exactly\\_does\\_googles\\_marketing\\_agreement](http://laboratorium.net/archive/2009/09/10/gbs_what_exactly_does_googles_marketing_agreement). After the hearing, Amazon indicated that it had no interest in acting as Google’s reseller: “‘The Internet has never been about intermediation,’ said Paul Misener, Amazon’s vice president of global policy. ‘We’re happy to work with rights holders without anybody else’s help.’” Stephen Shankland, *Google Offers Rivals a Place in E-books Program*, CNET NEWS, Sept. 10, 2009, [http://news.cnet.com/8301-30685\\_3-10349301-264.html?tag=newsEditorsPicksArea](http://news.cnet.com/8301-30685_3-10349301-264.html?tag=newsEditorsPicksArea).

<sup>754</sup> *Digital Books Hearing*, *supra* note 666 (testimony of David Drummond, Senior Vice President of Corporate Development and Chief Legal Officer, Google, Inc.).



subscriptions.<sup>755</sup>

### *B. Other Concerns*

Many other concerns have been raised in connection with the settlement. This section briefly summarizes some of them.

#### *1. Privacy*

The settlement does not specify how Google and the Registry will protect user privacy.<sup>756</sup> Because Google will provide consumers who have purchased a book with perpetual online access to the book, it must keep records to ensure that the consumer's access persists over time, particularly as the consumer uses different computers to access the book.<sup>757</sup> But the settlement is silent concerning what information Google will retain concerning the consumer, how it will use the information, and what measures it will take to protect the information's security.<sup>758</sup>

The settlement also contains few details about user information in the institutional subscription context.<sup>759</sup> Because only authorized users will be able to access the ISD, Google may have the ability to determine which user is accessing which book in the ISD. Moreover, the settlement states that when a user prints out pages of a book in the ISD, Google will include a visible watermark which displays encrypted session identifying information "which could be used to identify the authorized user that printed the material or the access point from which the material was printed."<sup>760</sup> Here, too, the settlement does not indicate whether Google will retain this information, how it will use the information, and what measures it will take to protect the information's security.<sup>761</sup>

The settlement's silence concerning user privacy contrasts with its detail concerning the measures Google and partner libraries must take to protect the security of their digital copies of books.<sup>762</sup> In the settlement negotiations, the class representatives evidently insisted on these measures to protect the security of digital

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<sup>755</sup> *Id.*

<sup>756</sup> Brief *Amicus Curiae* of the Center for Democracy & Technology in Support of Approval of the Settlement and Protection of Reader Privacy at 4, *Authors Guild v. Google Inc.*, No. 05 Civ 8136 (DC) (S.D.N.Y. Sept. 4, 2009) [hereinafter Brief of the Center for Democracy & Technology].

<sup>757</sup> Settlement Agreement, *supra* note 76, § 4.2. Amazon similarly retains records concerning a consumer's purchases of e-books for the Kindle to enable the consumer to re-download copies of all the books he purchased in the event he loses his Kindle. *See* Kindle (Global Wireless) License Agreement and Terms of Use, <http://www.amazon.com/gp/help/customer/display.html?ie=UTF8&nodeId=200399690> (last visited Dec. 4, 2009).

<sup>758</sup> *See* Settlement Agreement, *supra* note 76, § 4.2.

<sup>759</sup> *Id.*

<sup>760</sup> *Id.* § 4.1(d).

<sup>761</sup> *Id.* Likewise, the settlement says nothing about user privacy in the public access service context. *Id.* § 4.8.

<sup>762</sup> *Id.* §§ 8.1, 8.2. These measures are discussed in the Michigan Cooperative Agreement. Michigan Cooperative Agreement, *supra* note 57, § 4.5.2.



copies of their books; but no one demanded protection of user privacy.<sup>763</sup> Users of the services enabled by the settlement also cannot rely on competitive forces to preserve their privacy.<sup>764</sup> In the online environment, competition is perhaps the most powerful force that can help to insure user privacy.<sup>765</sup> If a user does not like one search engine firm's privacy policy, he can switch to another search engine.<sup>766</sup> Similarly, a user has many choices among online retailers, email providers, social networks, and Internet access providers.<sup>767</sup> The competitive pressure often forces at least a minimal level of privacy protection.<sup>768</sup> However, with the services enabled by the settlement, there will be no competitive pressure protecting user privacy.<sup>769</sup>

In response to the concerns raised by libraries and others, Google on July 23, 2009, issued a statement about privacy and the settlement.<sup>770</sup> Google stated that because the settlement had not yet been approved, and the services authorized by the agreement had not yet been built or even designed, "it's very difficult (if not impossible) to draft a detailed privacy policy."<sup>771</sup> Google added that

[w]hile we know that our eventual product will build in privacy protections – like always giving users clear information about privacy, and choices about what if any data they share when they use our services – we don't yet know exactly how all this will work. We do know that whatever we ultimately build will protect readers' privacy rights, upholding the standards set long ago by booksellers and by libraries whose collections are being opened to the public through this settlement.<sup>772</sup>

The statement linked to an "FAQ" which provided additional detail. In the FAQ, Google stated that "[i]mportant principles from our Google Privacy Policy would apply to this service, as with every Google service. For example, we will never sell personal information about our users. In fact, we will never share individual users' information at all unless the user tells us to . . . ."<sup>773</sup> Google made clear that it would not provide individual user data to the Registry. Google explained that is not required under the settlement to provide individual user data to the Registry; to the contrary, "the settlement specifies that in circumstances where the Registry seeks this data, it should use legal processes to do so."<sup>774</sup> The Registry would receive

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<sup>763</sup> See Brief of the Center for Democracy & Technology, *supra* note 756, at 5.

<sup>764</sup> *Id.* at 8–9.

<sup>765</sup> Library Association Comments, *supra* note 707, at 13–14.

<sup>766</sup> *Id.* at 14.

<sup>767</sup> *Id.*

<sup>768</sup> *Id.* "To be sure, there are switching costs, and many service providers have adopted a 'lowest common denominator' approach to user privacy." *Id.* at 14, n.35.

<sup>769</sup> *Id.* at 14.

<sup>770</sup> Posting of Dan Clancy, Engineering Director for Google Books, *The Google Books Settlement and Privacy*, to Google Public Policy Blog, <http://googlepublicpolicy.blogspot.com/2009/07/google-books-settlement-and-privacy.html> (July 23, 2009 1:35 PM EST).

<sup>771</sup> *Id.*

<sup>772</sup> *Id.*

<sup>773</sup> Inside Google Books: The Google Books Settlement and Privacy: Frequently Asked Questions, <http://booksearch.blogspot.com/2009/07/google-books-settlement-and-privacy.html> (last visited Dec. 4, 2009).

<sup>774</sup> *Id.*



aggregate usage data that is needed for the allocation of revenues under the settlement, but this data would not include information specific to individual users.

According to the FAQ, users of the preview function will not be required to have a Google account nor to provide personal information to Google; thus, “[a]nyone can freely search Google Books and preview up to 20% of most books without logging into Google.”<sup>775</sup> With the institutional subscription, “users will be authenticated either using the student's or the institution's [Internet Protocol] address, or using other methods such as Shibboleth -- a technology that lets Google confirm that a user is part of a subscribing institution without knowing who that user is.”<sup>776</sup> Likewise, for the free Public Access Service terminals in public libraries, “authentication will be based upon IP and Google will not have information about the individual user.”<sup>777</sup> Accordingly, unless a user “chooses to log in to use a Google account, [Google] will not have any information that would uniquely identify them when they access Google Books from a public access terminal in a public library.”<sup>778</sup>

Finally, the FAQ explained why privacy provisions were not included in the settlement itself:

The settlement was a negotiation between the plaintiffs in the lawsuits and Google. It settles the copyright claims that were raised, and addresses the new uses authorized by the copyright holders under the settlement -- including detailed provisions for security of scanned files, and other considerations relevant to the lawsuit. It does not attempt to prescribe Google's product plans beyond the points that related to this authorization . . . .<sup>779</sup>

In other words, the settlement resolved the copyright dispute between Google and the rightsholders, while privacy was a matter between Google and its users. Hence, Google asserted that privacy was beyond the scope of the settlement.<sup>780</sup>

On the same day that Google posted its statement concerning privacy and the settlement, the American Civil Liberties Union of Northern California, the Electronic Frontier Foundation, and the Samuelson Law, Technology & Public Policy Clinic at Berkeley Law School wrote a letter expressing concerns about user privacy in Google Book Search to Eric Schmidt, the Chairman and Chief Executive Officer of Google. In the letter, the groups urged Google to make commitments concerning: protection against disclosure, limited tracking, user control, and user transparency.<sup>781</sup> In response to the letter and a related blog posting, Dan Clancy, the Engineering

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<sup>775</sup> *Id.*

<sup>776</sup> *Id.*

<sup>777</sup> *Id.*

<sup>778</sup> *Id.*

<sup>779</sup> *Id.*

<sup>780</sup> *See id.*

<sup>781</sup> Letter from Cindy Cohn, Legal Dir., Elec. Frontier Found., Nicole A. Ozer, Tech. and Civil Liberties Dir., ACLU of N. Cal., and Jennifer Lynch, Lecturer in Residence & Supervising Attorney, Samuelson Law, Tech. & Pub. Policy Clinic, to Eric Schmidt, Chairman and Chief Executive Officer, Google Inc. (July 23, 2009) (on file with The John Marshall Review of Intellectual Property Law), available at [http://www.eff.org/files/gbs\\_privacy\\_schmidt\\_letter.pdf](http://www.eff.org/files/gbs_privacy_schmidt_letter.pdf).



Director for Google Book Search, wrote that “none of the examples in the EFF post would be an issue with [the] book search offering.”<sup>782</sup>

On September 3, 2009, after continued pressure from the Federal Trade Commission, the Library Associations, and privacy advocates, Google posted a more formal privacy policy relating to Google Books in general and the services under the settlement in particular.<sup>783</sup> First, the policy stated that all of the provisions of the main Google Privacy Policy apply to the Google Books service.<sup>784</sup> Google explained that this meant that it would not share a user’s personal information with third parties, except in the narrow circumstances described in the Privacy Policy, such as emergencies or in response to valid legal process.<sup>785</sup> Further, when a user employs Google Books, Google receives log information similar to what it receives in a Web Search.<sup>786</sup> This includes: the query term or page request (which may include specific pages within a book the user is browsing), Internet Protocol (“IP”) address, browser type, browser language, the date and time of the request and one or more cookies that may uniquely identify the user’s browser.<sup>787</sup>

Google also explained that other optional services might require a Google Account and might “receive and store information from Google Books” in association with a user’s account.<sup>788</sup> Google stated that unless a user is “logged in and using such a service,” her activity on Google Books will not be associated with her Google Account.<sup>789</sup> Further, Google Books features that store information with an Account will show the user the information she has stored and allow her to delete it unless Google is required to keep it by law or for business purposes such as fraud investigations.<sup>790</sup> Google can use the information it stores for the “purposes discussed in the main Google Privacy Policy, including to improve . . . services and report on aggregate user trends.”<sup>791</sup> Google further stated that “[u]sage data from the Books product is subject to the same security standards that are outlined in [its] main Privacy Policy.”<sup>792</sup>

Next, Google described policy practices specific to the current Google Books product.<sup>793</sup> It noted that “Google Books operates a lot like Web Search and other basic Google web services, so there are relatively few privacy practices that are unique to the Google Books product.”<sup>794</sup> The unique practices include using log information (including IP address and cookie from the user’s browser but not including user account information) to enforce security limits set forth in license arrangements with rightsholders, such as restrictions on the number of pages users

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<sup>782</sup> Posting of Daniel Clancy to Read20 List (July 24, 2009) (on file with The John Marshall Review of Intellectual Property Law).

<sup>783</sup> Google Books Privacy Policy, <http://books.google.com/googlebooks/privacy.html> (last visited Dec. 4, 2009).

<sup>784</sup> *Id.*

<sup>785</sup> *Id.*

<sup>786</sup> *Id.*

<sup>787</sup> *Id.*

<sup>788</sup> *Id.*

<sup>789</sup> *Id.*

<sup>790</sup> *Id.*

<sup>791</sup> *Id.*

<sup>792</sup> *Id.*

<sup>793</sup> *Id.*

<sup>794</sup> *Id.*



can see from a particular book.<sup>795</sup> Google also described special legal privacy protections that may apply in cases where law enforcement or civil litigants ask Google for information about what books an individual user has looked at.<sup>796</sup> Google noted that:

Some jurisdictions have special "books laws" saying that this information is not available unless the person asking for it meets a special, high standard - such as proving to a court that there is a compelling need for the information, and that this need outweighs the reader's interest in reading anonymously under the United States First Amendment or other applicable laws. Where these "books laws" exist and apply to Google Books, we will raise them. We will also continue our strong history of fighting for high standards to protect users, regardless of whether a particular "books law" applies. In addition, we are committed to notifying the affected user if we receive such a request that may lead to disclosure of their information; if we are permitted to do so by law and if we have an effective way to contact the user, we will seek to do so in time for the user to challenge the request.<sup>797</sup>

Google then addressed practices specific to services proposed under the settlement.<sup>798</sup> The Registry will receive aggregate, non-personally identifiable information about usage of Google Books.<sup>799</sup> Additionally, "the Registry will not have access to individual user information unless it goes through proper legal processes or in other narrow circumstances set out in the Privacy Policy."<sup>800</sup> Google will not require users to create Google accounts, or register their identity with Google, in order to use the Preview Service, the institutional subscription, or the Public Access Service at public libraries.<sup>801</sup> Institutional subscribers will be able to authenticate users based on the user's or the institution's IP address, or using other technologies that allow Google to confirm that a user is part of a subscribing institution without knowing who that user is.<sup>802</sup> With respect to the Public Access Service terminals in public libraries, Google will receive IP address and cookie information that may identify internet connection or browser, but not the actual user.<sup>803</sup>

Google confirmed that users will need to have Google Accounts in order to purchase books because such information is needed to provide access to the user who bought the book.<sup>804</sup> However, Google plans to limit the information (such as book titles) available to credit card companies about book purchases, and to enable users to delete or disassociate the titles of books purchased from their Google Account.<sup>805</sup>

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<sup>795</sup> *Id.*

<sup>796</sup> *Id.*

<sup>797</sup> *Id.*

<sup>798</sup> *Id.*

<sup>799</sup> *Id.*

<sup>800</sup> *Id.*

<sup>801</sup> *Id.*

<sup>802</sup> *Id.*

<sup>803</sup> *Id.*

<sup>804</sup> *Id.*

<sup>805</sup> *Id.*



Google further stated that any publicly available product authorized by the settlement will have a privacy policy comparable to policies currently available in Google's Privacy Center.<sup>806</sup> Google observed that

that policy, in combination with the main Google Privacy Policy, will explain what information Google receives and stores when [a user employs] the product, including any unique identifiers such as [user] account information, what [Google] may do with that information, what security standards protect it against unauthorized access, and what choices [the user has] about data provided to Google when [the user employs] the product as well as information about [Google's] data retention practices.<sup>807</sup>

On September 3, 2009, Jane Horvath, Google's Global Privacy Counsel, posted a blog on the Google Books privacy policy.<sup>808</sup> She stated that "[i]t's important to note that like all of our privacy policies, this one is legally enforceable by the FTC . . . ."<sup>809</sup> The blog also referenced an exchange of letters between Jane Horvath and David C. Vladeck, the Director of the Federal Trade Commission's Bureau of Consumer Protection, concerning this privacy policy.<sup>810</sup>

## 2. Intellectual Freedom.

Settlement critics have observed that the absence of privacy protection "could have a chilling effect on a user's right to read because the user might fear the third party monitoring of his or her lines of inquiry."<sup>811</sup> The settlement could stifle

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<sup>806</sup> *Id.*

<sup>807</sup> *Id.*

<sup>808</sup> Posting of Jane Horvath, *An Update on Google Books and Privacy*, to Google Public Policy Blog, <http://googlepublicpolicy.blogspot.com/2009/09/update-on-google-books-and-privacy.html> (Sept. 3, 2009 6:59 PM EST).

<sup>809</sup> *Id.*

<sup>810</sup> *Id.*; see Letter from David C. Vladeck, Dir. Bureau of Consumer Prot., Fed. Trade Comm'n, to Jane Horvath, Global Privacy Counsel, Google, Inc. (Sept. 2, 2009) (on file with The John Marshall Review of Intellectual Property Law), *available at* <http://www.ftc.gov/os/closings/090903horvathletter.pdf>. A group of authors and publishers filed an objection that argued that "the lack of privacy protections in the current settlement will deter readers and thereby harm their expressive and financial interests in sustaining and building a readership that browses, reviews, and purchases their works." Privacy Authors and Publishers' Objection to the Proposed Settlement at 1, *Authors Guild v. Google, Inc.*, No. 05 Civ 8136 (DC) (S.D.N.Y. Sept. 8, 2009). These rightsholders claimed that Google's new privacy for Book Search, as well as its main privacy policy, can be revised by Google at any time so at best they represent Google's current position about user privacy. More importantly, if this Court does not retain jurisdiction over these privacy policies, they may not be enforceable by authors, publishers, or readers using Google Book Search even when they are clearly violated, at least in the eyes of some courts.

*Id.* at 7 (citations omitted). Accordingly, these rightsholders urged the Court not to "approve the settlement until privacy protections . . . are put into place, either through the terms of the Settlement itself or through an enforceable commitment by Google backed by the ongoing jurisdiction of this Court." *Id.* at 3.

<sup>811</sup> Library Association Comments, *supra* note 707, at 14.



intellectual freedom in another way as well. The settlement requires Google to provide free search (including the permitted previews), the public access service, and institutional subscriptions for only 85% of the in-copyright, out-of-print books it has scanned.<sup>812</sup> An unintended consequence of this provision is that it may allow Google to exclude over a million books from the ISD. While Google on its own might not choose to exclude books, it probably will find itself under pressure from state and local governments or interest groups to censor books that discuss topics such as alternative lifestyles or evolution. After all, the settlement will allow minors to access up to 20% of the text of millions of books from the computers in their bedrooms and to read the full text of these books from the public access terminals in their libraries.<sup>813</sup> Although public libraries have often contended with demands to eliminate or restrict access to specific books, any collection management decision by a particular librarian affected only that community.<sup>814</sup> Here, by contrast, if Google bends to political pressure to remove a book, it will suppress access to the book throughout the entire country.<sup>815</sup>

Similarly, foreign governments probably will attempt to coerce Google to exclude books the governments consider embarrassing or threatening. On numerous occasions, foreign governments have pressured Google and other search engine firms to remove links to websites to which the governments objected.<sup>816</sup> For example, China has demanded the removal of links to sites promoting free speech and civil liberties in Tibet;<sup>817</sup> Thailand has required the removal of websites critical of the King of Thailand;<sup>818</sup> and Turkey has requested the removal of sites that discuss the Armenian genocide.<sup>819</sup> It is safe to assume that these governments might attempt to

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<sup>812</sup> Settlement Agreement, *supra* note 76, §§ 4.3, 4.8(a), 7.2(e)(i)(1)–(2). If Google fails to meet this requirement within five years of the Settlement's effective date, the participating libraries and the Registry may engage a third party to provide these services, using the digital copies Google provided to the libraries. *Id.* § 7.2(e)(i). This provision is intended to force Google to roll out the services under the Settlement in a timely manner. *Id.*

<sup>813</sup> See Settlement Agreement, *supra* note 76, §§ 4.3(b)(i)(1), 4.8(a).

<sup>814</sup> See Mark S. Nadel, *The First Amendment's Limitations on the Use of Internet Filtering in Public and School Libraries: What Content Can Librarians Exclude?*, 78 TEX. L. REV. 1117, 1127 (2000) ("[L]ibraries . . . compile their collections based on the roles they choose for serving the needs, interests, and priorities of their community.").

<sup>815</sup> See Settlement Agreement, *supra* note 76, § 3.7(e).

<sup>816</sup> See, e.g., *The Internet in China: A Tool for Freedom or Suppression?: Joint Hearing Before the H. Comm. on International Relations*, 109th Cong. 5–6 (2006) [hereinafter *The Internet in China Hearing*] (statement of Christopher H. Smith, Chairman, Subcomm. On Africa, Global Human Rights and International Operations), available at <http://www.foreignaffairs.house.gov/archives/109/26075.pdf> (stating that United States companies like Google, Yahoo, Microsoft and Cisco Systems have "aided and abetted" the Chinese government in monitoring, filtering, and blocking content).

<sup>817</sup> *Id.* at 213 (statement of T. Kumar, Advocacy Director for Asia and the Pacific, Amnesty International USA) (noting that filtering software in China blocks key words such as "Tibet" and "human rights").

<sup>818</sup> See OPENNET INITIATIVE, THAILAND 2–3 (2007), available at <http://opennet.net/sites/opennet.net/files/thailand.pdf> (discussing "lèse majesté" or inflammatory comments regarding the king as a basis for the blocking and removal websites).

<sup>819</sup> The Volokh Conspiracy, *No First Amendment Problem With Excluding Turkey-Friendly Materials from an Armenian Genocide Curriculum*, <http://volokh.com/posts/1245106017.shtml> (June 15, 2009, 6:46 PM).



pressure Google to exclude politically offensive books from the ISD.<sup>820</sup> To preempt anticipated complaints, Google might err on the side of caution and proactively suppress entire categories of books. This, in turn, could deprive students, scholars, journalists and policymakers of access to historically significant materials.

To address this concern, the Library Associations argued to the court that “any user must have the ability to request th[e] Court to direct Google to provide the user with a list of books excluded from any of its services for editorial or non-editorial reasons, and an explanation of why it was excluded.”<sup>821</sup> Attachment A to the Amendment Agreement between Google and Michigan, signed two weeks after the Library Associations’ filing, requires Google to provide partner libraries with information concerning whether a book is being excluded from any display uses for editorial or non-editorial reasons, and if for non-editorial reasons, whether the exclusion was for quality, technical, or legal reasons.<sup>822</sup> A library in turn may disclose to the public the identity of books excluded for editorial reasons.<sup>823</sup>

The Library Associations contended that the settlement also may not sufficiently safeguard intellectual freedom with respect to the Research Corpus.<sup>824</sup>

The settlement allows Google and two institutions to host the set of all digital copies made by Google in the Library Project for purposes of “non-consumptive research” by “qualified users.” Non-consumptive research involves computational analysis of the books, and does not include research relating to the intellectual content of the books. The host site has the authority to determine whether a person meets the criteria for a qualified user, and whether her research meets the standards for non-consumptive research. However, the settlement does not provide a mechanism for a researcher to challenge a host site’s rejection of her qualifications or her proposed research agenda. Thus, the host sites could privilege particular lines of inquiry while hampering others, thereby shaping the direction of scholarly research in certain disciplines.<sup>825</sup>

Based on this concern, the Library Associations argued to the court that “[a]ny researcher must have the ability to request th[e] Court to review the reasonableness of a Research Corpus host site’s refusal to allow the researcher to conduct a research

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<sup>820</sup> See *The Internet in China Hearing*, *supra* note 816, at 188 (statement of Tom Malinowski) (contending that if China succeeds in “bend[ing] Internet providers to its will,” other repressive governments “will insist on the same degree of compliance”). Even though Google may provide access to the services permitted under the Settlement only to users in the United States, users in other countries can employ technologies to deceive Google’s servers concerning their location. See, e.g., *id.* at 38–39 (statement of James R. Keith, Senior Advisor for China and Mongolia, Bureau of East Asian and Pacific Affairs, U.S. Dept. of State) (noting an anti-censorship program called “Anonymizer” would allow safe and filter-free searching of the Internet by savvy Chinese Internet users). Thus, foreign governments would seek to eliminate certain books from the ISD to prevent their citizens from reading them. See *id.* at 188.

<sup>821</sup> Library Association Comments, *supra* note 707, at 20.

<sup>822</sup> Amended Michigan Cooperative Agreement, *supra* note 450, at Attach. A, ¶ 10(e).

<sup>823</sup> *Id.*

<sup>824</sup> Library Association Comments, *supra* note 707, at 16.

<sup>825</sup> *Id.*



project at the host site.”<sup>826</sup>

### 3. *Foreign Rightsholders*

Non-United States rightsholders have both principled and practical concerns with the settlement.<sup>827</sup> As a matter of principle, they resent Google’s use of their books without their permission, and the class action mechanism that would enable Google to do so.<sup>828</sup> Indeed, some have suggested that forcing a non-United States author to opt out of the settlement to prevent Google’s use is a “formality” prohibited by the Berne Convention and the TRIPs Agreement.<sup>829</sup> However, because the opt-out arises from a general procedural requirement in the context of a specific copyright enforcement litigation, the World Trade Organization is unlikely to treat the opt-out as a formality.<sup>830</sup> Requiring a rightsholder to opt-out of the settlement of an infringement action in order to preserve his right to sue Google independently is no more a formality than requiring an owner to file a complaint and comply with the other Federal Rules of Civil Procedure to enforce his copyrights. Stated differently, the opt-out is not a formality that creates a copyright.<sup>831</sup> Rather, it is a procedure the rightsholder must follow if he wants to reject one remedy in favor of another.

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<sup>826</sup> *Id.* at 20.

<sup>827</sup> See *Digital Books Hearing*, *supra* note 666 (testimony of Mary Beth Peters, Register of Copyrights). Many foreign publishers filed objections with the court, including over 90 from Germany, 15 from Sweden, 25 from the Netherlands. See The Public Index, *supra* note 238. Also filing oppositions were associations representing publishers in Japan, Austria, Denmark, Finland, the Federal Republic of Germany, Norway, Sweden, and Switzerland. *Id.* Numerous foreign authors and associations of authors filed oppositions as well. *Id.* Additionally, the Federal Republic of Germany and the French Republic filed amicus briefs opposing the settlement. See *id.* As discussed in Part VI, the Amended Settlement Agreement excludes books published outside of the United States, with the exception of books published in the United Kingdom, Canada, and Australia. Accordingly, this set of concerns no longer applies to most foreign rightsholders, other than rightsholders of books published in these three countries.

<sup>828</sup> See, e.g., Objection of the Federal Republic of Germany, *supra* note 663, at 4–5. Register Peters stated that “[w]hile it would be appropriate to allow foreign nationals to participate voluntarily in licensing programs that may be developed by the [Registry] or other collectives, they should not be automatically included in the terms of the settlement.” *Proposed Google Book Settlement Hearing*, *supra* note 666, at 8 (statement of Marybeth Peters, Reg. of Copyrights, United States Copyright Office). The Copyright Office further stated “to the extent foreign works are implicated at all, they should have been published in the United States and registered with the U.S. Copyright Office.” *Id.* at 9.

<sup>829</sup> *Id.* at 12. Under the Berne Convention and the TRIPs Agreement, a copyright comes into existence at the moment of creation, and the author need not follow formal statutory procedures such as attaching a copyright notice to the work or filing a registration with a government office. Berne Convention for the Protection of Literary and Artistic Works, art. 5(2), Sept. 9, 1886, S. Treaty Doc. No. 99-27, 1161 U.N.T.S. 3, available at [http://www.wipo.int/export/sites/www/treaties/en/ip/berne/pdf/trtdocs\\_wo001.pdf](http://www.wipo.int/export/sites/www/treaties/en/ip/berne/pdf/trtdocs_wo001.pdf); Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, § 1, art. 9(1), Legal Instruments—Results of the Uruguay Round, 33 I.L.M. 1125 (1994), available at [http://www.wto.int/english/docs\\_e/legal\\_e/27-TRIPS.pdf](http://www.wto.int/english/docs_e/legal_e/27-TRIPS.pdf).

<sup>830</sup> See Settlement Agreement, *supra* note 76, § 1.98 (defining the opt-out deadline).

<sup>831</sup> See *Digital Books Hearing*, *supra* note 666 (testimony of David Drummond, Senior Vice President of Corporate Development and Chief Legal Officer, Google, Inc.). Sam Ricketson, one of the leading experts on the Berne Convention, concluded that the settlement and Rule 23 “fall[]



A related matter of principle is that foreign rightsholders as a group are less likely to register their claims with the Registry, which means that Google and registered rightsholders are more likely to profit from the use of their books.<sup>832</sup> The Registry will escrow funds due to an unregistered rightsholder for five years.<sup>833</sup> If the rightsholder does not register a claim within the five years, the Registry will retain some funds to cover its operating costs, and disburse the rest to registered rightsholders and charities.<sup>834</sup> Of course, the rightsholder can cure the perceived unfairness by registering her claim.<sup>835</sup>

A non-United States rightsholder may have the practical concern that users outside the United States will circumvent the geographical restrictions placed by Google and access his content.<sup>836</sup> Such access is unlikely to have any negative financial impact on the rightsholder. The non-United States user at most will have free access only to the preview.<sup>837</sup> To get access to the full text, the user will have to purchase the book, in which case the rightsholder will benefit if he registers with the Registry.<sup>838</sup> Furthermore, the book will be available for consumer purchase only if it is out-of-print, meaning that the author currently is receiving no revenue from its sale.<sup>839</sup>

On the other hand, non-United States copyright rightsholders might see the settlement as a model for similar settlements in their countries, whereby they can receive some revenue for out-of-print books. And as lovers of books, they might view

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squarely within the province allocated exclusively to the law of the protecting country (the USA) under both arts 5(1) and (2) of Berne, and no complaint of Berne non-compliance can arise.” Sam Ricketson, *Memorandum of Advice: The Compatibility of the Proposed Google Settlement with the Provisions of the Berne Convention* 15 (Sept. 16, 2009), <http://thepublicindex.org/docs/commentary/Ricketson.pdf>.

<sup>832</sup> Objection of the Federal Republic of Germany, *supra* note 663, at 21.

<sup>833</sup> See Settlement Agreement, *supra* note 76, § 6.3(a)(i).

<sup>834</sup> See *id.*

<sup>835</sup> Objection of the Federal Republic of Germany, *supra* note 663, at 6 (arguing that Google will use the “fair use” argument that it used defending the Authors’ Guild case). At a hearing on the settlement hosted by the European Commission in Brussels on September 7, Google made two announcements concerning foreign rightsholders. First, Google noted that the Authors Guild and AAP had each committed to reserve one of their four seats on the Registry board for foreign rightsholders. Second, Google stated that if a book was commercially available outside the United States, Google would consider it as commercially available under the settlement, and apply the default rules for commercially available books. The settlement states that “commercially available” means “that the Rightsholder of such Book . . . is, at the time in question, offering the Books . . . for sale new through one of more then-customary channels of trade in the United States.” Settlement Agreement, *supra* note 76, § 1.28. The scope of this definition was unclear. If a Dutch publisher offered a book for sale through a website hosted in the Netherlands, and would ship the book to a purchaser in the United States, was the book “commercially available” under the settlement? Was the publisher offering it for sale through a customary channel of trade in the United States? Google asserted that this announcement was not a concession to foreign rightsholders, but simply a clarification of the meaning of the settlement agreement.

<sup>836</sup> See Objection of the Federal Republic of Germany, *supra* note 663, at 6.

<sup>837</sup> See Settlement Agreement, *supra* note 76, § 4.3(a).

<sup>838</sup> *Id.* § 4.2.

<sup>839</sup> See Objection of the Federal Republic of Germany, *supra* note 663, at 7. The non-United States user will not have access to books through an institutional subscription because only United States institutions can purchase an institutional subscription. *Id.* at 9. The only exception would be a non-United States user who is an appropriate individual within a subscriber institution, e.g., a non-United States student of a university with an institutional subscription. See *id.*



the settlement as a means of making books more useful and relevant to a new generation that obtains most of its information from websites.<sup>840</sup>

### *C. The Library Associations' Bottom Line*

At this point, the level of demand for the out-of-print books available through the Consumer Purchase service cannot be determined with any certainty.<sup>841</sup> These books, after all, are out-of-print, which generally means that their publishers have concluded that the demand for them is insufficient to justify the cost of an additional print run. On the other hand, the likely demand among research libraries for an institutional subscription is high; faculty and students performing serious research can be expected to desire the ability to search and read the full text of out-of-print books.<sup>842</sup> This means that libraries can be expected to be among the primary fee-paying users of the services enabled by the settlement. Accordingly, the court and other policymakers should pay special attention to the perspectives of libraries on the approval and implementation of the settlement.

In the introduction to their comments, the Library Associations stated:

The Library Associations do not oppose approval of the Settlement. The Settlement has the potential to provide unprecedented public access to a digital library containing millions of books. Thus, the Settlement could advance the core mission of the Library Associations and their members: providing patrons with access to information in all forms, including books. However, the digital library enabled by the Settlement will be under the control of Google and the Registry. Moreover, the cost of creating such a library and Google's significant lead time advantage suggest that no other entity will create a competing digital library for the foreseeable future.

The Settlement, therefore, will likely have a significant and lasting

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<sup>840</sup> See generally Int'l Fed'n of Library Ass'ns & Insts., *IFLA Position on the Google Book Settlement*, Aug. 28, 2009, <http://www.ifla.org/files/clm/statements/ifla-google-position.pdf> [hereinafter *IFLA Position*] (discussing the benefits of digitization of books). The International Federation of Library Associations and Institutions (IFLA) on August 28, 2009, stated that it "hopes that the proposed settlement will serve as the beginning of a fruitful cooperation that will benefit the millions of users whom libraries serve throughout the world, bringing us closer to the achievement of our goal of providing equitable access to information." *Id.* at 1. IFLA recognized that the expanded services permitted under the settlement could be provided only to users in the United States. *Id.* IFLA further recognized that "[t]he expanded services would be available to users located in countries outside USA only if Google reaches settlements with rights owner's organisations on a country-by-country basis." *Id.* This would depend "on the copyright legislation of the countries - e.g., whether their laws allow for class actions or extended collective licensing, or whether they have collecting societies or other organisations with sufficiently broad legal authority to enter into an agreement with Google." *Id.* IFLA expressed concern "that if the Google settlement is approved in the United States and if Google is not able or willing to reach agreements with rights holders in other countries, the consequence will be an ever-widening inequality in access to books in digital format . . . ." *Id.*

<sup>841</sup> See *id.* at 2 (commenting that some experts estimate the cost at \$750 million for scanning 30 million books).

<sup>842</sup> Library Association Comments, *supra* note 707, at 3.



impact on libraries and the public, including authors and publishers. But in the absence of competition for the services enabled by the Settlement, this impact may not be entirely positive. The Settlement could compromise fundamental library values such as equity of access to information, patron privacy, and intellectual freedom. In order to mitigate the possible negative effects the Settlement may have on libraries and the public at large, the Library Associations request that this Court vigorously exercise its jurisdiction over the interpretation and implementation of the Settlement. Indeed, in its order approving the Settlement, the Court should make clear that it intends to oversee the Settlement closely.<sup>843</sup>

In the concluding paragraphs of their comments, the Library Associations expressed similar sentiments:

In these comments, the Library Associations have identified certain foreseeable problems that may require this Court's intervention in the future. The Settlement, however, is potentially so far-reaching that its full implications are unknowable at this time. While the Settlement's impact might be limited to the creation of a research tool of use only to serious scholars, the Settlement might also lead to a restructuring of the publishing industry and a dramatic change to the nature of libraries. The Court should be prepared to exercise whatever oversight is necessary, for as long as necessary, to maximize the public benefit from the services enabled by the Settlement.<sup>844</sup>

Much of the negative commentary on the settlement has a utopian quality. Many critics measure the settlement against a digital library created and maintained in an idealized manner, without regard to the realities on the ground.<sup>845</sup> In contrast, the members of the Library Associations have patrons to serve and budgets to meet.<sup>846</sup> When assessing the settlement, they asked a series of questions. Will the settlement enable services patrons demand? Could these services come into existence in the foreseeable future in a manner other than a class action settlement? Could the settlement be restructured to permit more competition without causing the settlement to collapse? Would a differently structured settlement actually lead to more competition? In the absence of competition, how can the prices of the institutional subscription be kept affordable? The answers to these questions led the Library Associations to conclude that the only practical way forward to the objective of a universal digital library was strict judicial supervision of the existing settlement.<sup>847</sup>

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<sup>843</sup> *Id.* at 2.

<sup>844</sup> *Id.* at 20–21.

<sup>845</sup> See Statement of Interest of the United States of America Regarding Proposed Class Settlement at 6–10, *Authors Guild v. Google*, No. 05 Civ 8136 (DC), 2009 WL 3045979 (S.D.N.Y. Sept. 18, 2009) [hereinafter Statement of Interest of the United States of America] (stating that these concerns are “more theoretical than real”).

<sup>846</sup> See Library Association Comments, *supra* note 707, at 9–10.

<sup>847</sup> *Id.* at 20–21. The Library Associations reiterated these points in a July 29, 2009, letter to William F. Cavanaugh, Deputy Assistant Attorney General in the Antitrust Division of the U.S.



## VI. THE AMENDED SETTLEMENT AGREEMENT

A. *The United States' Statement of Interest*

On September 18, 2009, the path of the Google Library Project took another sharp turn: the United States Department of Justice filed a statement with the court presiding over the settlement, advising it to “reject the Proposed Settlement in its current form and encourage the parties to continue negotiations to modify it so as to comply with Rule 23 and the copyright and antitrust laws.”<sup>848</sup> The Statement reiterated many of the concerns identified above regarding the representation of absent rightsholders and the lack of competition.<sup>849</sup> The Statement contended that “the owners of orphan works are an incredibly diverse group,” and that the settlement pits their interests against the interests of known rightsholders.<sup>850</sup> The Statement further raised concerns with respect to the adequacy of representation of the foreign rightsholders.<sup>851</sup>

Turning to competition issues, the Statement conceded that the Department of Justice’s investigation was not yet complete, and that “the United States cannot now state with certainty whether the Proposed Settlement violates the antitrust laws in any respect.”<sup>852</sup> However, “the Department’s views on certain core issues are sufficiently well developed that articulating them now may be beneficial to the Court in its consideration of the Proposed Settlement and to the parties in their continuing negotiations regarding possible modifications.”<sup>853</sup> The Statement opined that the settlement “appears to give book publishers the power to restrict price

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Department of Justice, following-up on a meeting the Library Associations had with Antitrust Division staff on May 27, 2009. Letter from Mary Ellen Davis, Executive Dir., Ass’n of Coll. & Research Libraries, Keith Michael Fiels, Executive Dir., Am. Library Ass’n, Charles B. Lowry, Executive Dir., Ass’n of Research Libraries, to William F. Cavanaugh, Deputy Assistant Attorney Gen., Antitrust Division, U.S. Dep’t of Justice (July 29, 2009) (on file with The John Marshall Review of Intellectual Property Law). Furthermore, the Library Associations urged the Division to take a proactive role in the implementation of the Settlement:

During our meeting, we mentioned that the settlement agreement was in essence a “*de facto* consent decree.” We now believe that the Division should treat the settlement, if approved, as a consent decree to an antitrust action it brought. It should monitor the parties’ compliance with the settlement’s provisions as it would monitor the conduct of parties under an antitrust consent decree, and it should request the court to take action when it concludes that the parties have not met their obligations under the settlement.

*Id.* On September 2, 2009, the Library Associations filed supplemental comments with the court presiding over the settlement to address developments that had arisen since the Library Associations filed their initial comments with the court on May 4, 2009. Supplemental Library Association Comments, *supra* note 742, at 1. These developments did not change the Library Associations’ position on the settlement: “to prevent the possible negative effects the Settlement may have on equity of access to information, patron privacy, and intellectual freedom, this Court must regulate the conduct of the Book Rights Registry (Registry) and Google under the Settlement.” *Id.*

<sup>848</sup> Statement of Interest of the United States of America, *supra* note 845, at 27.

<sup>849</sup> See discussion *supra* Part V.

<sup>850</sup> Statement of Interest of the United States of America, *supra* note 845, at 8.

<sup>851</sup> *Id.* at 8, 11–13.

<sup>852</sup> *Id.* at 16.

<sup>853</sup> *Id.*



competition.”<sup>854</sup> Additionally, “other digital distributors may be effectively precluded from competing with Google in the sale of digital library products and other derivative products to come.”<sup>855</sup>

The Statement noted that the parties were negotiating modifications to the settlement to address the concerns raised by objectors and the United States in its discussion with the parties.<sup>856</sup> Further, the parties had notified the court of these discussions, and of the possibility that they would present a modified version of the settlement in the future.<sup>857</sup> While the United States recognized that it was up to the parties to decide how to modify the settlement, it provided a detailed list of suggestions.<sup>858</sup> It stated that “changing the forward-looking provisions of the current Proposed Settlement applicable to out-of-print rightsholders from an opt-out to an opt-in would address the bulk of the Rule 23 issues raised by the United States.”<sup>859</sup> The United States acknowledged that “[s]uch a revision would, of course, not give Google immediate authorization to use all out-of-print works beyond the digitization and scanning which is the foundation of the plaintiffs’ Complaint in this matter.”<sup>860</sup> Thus, the United States urged the parties to consider “[a] settlement that simply authorized Google to engage in scanning and snippet displays . . . .”<sup>861</sup>

In other words, the United States encouraged the parties to take the Library Project back to where it started: an index with snippet displays of search results. The institutional subscription and consumer purchase would be available only with respect to books whose rightsholders had opted-in for such access.<sup>862</sup> Observing that Google had suggested that the vast majority of known authors and publishers of out-of-print works who had received notice of the settlement would wish to be bound by it, the United States opined that “creating an opt-in mechanism would not seem to work a significant hardship for a broad category of affected works.”<sup>863</sup> This is a complete non-sequitor. Google’s belief that most known rightsholders would not oppose the settlement does not mean that both the known and the unknown rightsholders are likely to opt-in to an electronic distribution system. Given the small amount of probable compensation, many rightsholders might not bother to file claims with the Registry.<sup>864</sup> Moreover, because most of these books currently have no economic value, the heirs of the authors of many of these books do not even know that they are rightsholders. Accordingly, an opt-in institutional subscription database would probably be far less comprehensive, and thus far less useful to serious research, than the institutional subscription database proposed under the settlement.

The Statement also suggested that if unclaimed profits were devoted entirely to searching for the rightsholders of unclaimed books, these newly found rightsholders

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<sup>854</sup> *Id.*

<sup>855</sup> *Id.*

<sup>856</sup> *Id.* at 1.

<sup>857</sup> *Id.*

<sup>858</sup> *Id.* at 13–16.

<sup>859</sup> *Id.* at 13–14.

<sup>860</sup> *Id.* at 14.

<sup>861</sup> *Id.* at 15.

<sup>862</sup> *See id.* at 14–15.

<sup>863</sup> *Id.* at 14.

<sup>864</sup> *See* Settlement Agreement, *supra* note 76, § 2.1(b).



might opt-in to full-text display services such as the institutional subscription or consumer purchase.<sup>865</sup> The United States, however, failed to appreciate the cost of identifying and locating the rightsholders of millions of books.<sup>866</sup> Additionally, in the absence of a robust institutional subscription database or consumer purchase service, the Registry will have no profits to devote to searching for the absent rightsholders.<sup>867</sup>

The Statement asserted that the “risk of market foreclosure would be substantially ameliorated if the Proposed Settlement could be amended to provide some mechanism by which Google’s competitors’ could gain comparable access to orphan works (whatever such access turns out to be assuming the parties negotiate modifications to the settlement).”<sup>868</sup> The Statement then cited the settlement in the case of freelance writers against database publishers, where “numerous companies beyond the named defendants [were] allowed to obtain [the] benefits of [the] settlement.”<sup>869</sup> The United States recognized that there was an obvious tension between a settlement that provided Google’s competitors with comparable access to unclaimed works and a settlement that protects the rights of absent rightsholders.<sup>870</sup> The United States might believe that the settlement could satisfy these competing objectives only if its scope were limited to permitting Google and its competitors to scan and display snippets of books.<sup>871</sup>

After the United States filed the Statement, the parties requested the Court to cancel the scheduled fairness hearing, and resumed negotiations in an effort to address the concerns raised by the United States and the objecting class members.

### *B. The Proposed Amendments*

On Friday, November 13, 2009, Google, the Authors Guild, and the Association of American Publishers filed an Amended Settlement Agreement (“ASA”) with the

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<sup>865</sup> See Statement of Interest of the United States of America, *supra* note 845, at 15.

<sup>866</sup> See *id.* at 14 (“As noted in testimony by the Authors Guild before the House Judiciary Committee, ‘finding the rights owners of a book is not as daunting as many seem to believe.’” (citation omitted)).

<sup>867</sup> After describing this radical reduction in the scope of the settlement, the United States added that it:

[D]oes not mean to suggest, however, that such a modification is the only means to revise the Proposed Settlement to make it consistent with Rule 23. A combination of other revisions affecting the scope of the forward-looking license provisions and protecting the interests of absent class members could also alleviate at least some of the United States’ concerns.

*Id.*

<sup>868</sup> *Id.* at 25.

<sup>869</sup> *Id.* (citing *In re Literary Works in Elec. Databases Copyright Litig.*, MDL No. 1379, *rev’d on other grounds*, 509 F.3d 116 (2d Cir. 2007), *cert. granted sub nom.*, *Reed-Elsevier, Inc. v. Muchnick*, 129 S. Ct. 1523 (2009)).

<sup>870</sup> *Id.* “Analysis of such provisions would have to take into account the limitations of Rule 23 . . .” *Id.*

<sup>871</sup> See *id.* at 15.



court.<sup>872</sup> The amendments proposed by the parties focus more on the Rule 23 concerns raised by the United States than on the competition issues. The ASA significantly reduces the scope of the settlement by excluding most books published outside of the United States.

# 1. *Changes Directed at Rule 23 Concerns*

## a. *Books Within the ASA*

The original settlement applied to: 1) books first published in the United States and registered with the United States Copyright Office before January 5, 2009; and 2) books published outside the United States before January 5, 2009, regardless of copyright registration.<sup>873</sup> The overwhelming majority of class members who objected to the original settlement were foreign rightsholders of books published outside the United States. Moreover, the Department of Justice and the Copyright Office argued that the inclusion of the foreign rightsholders within the plaintiff class did not meet the requirements of Rule 23 of the Federal Rules of Civil Procedure, which governs class actions.<sup>874</sup>

In response to these concerns, the ASA does not apply to books published outside the United States unless: 1) the books were published in Canada, Australia, or the United Kingdom before January 5, 2009; or 2) the books were registered with the Copyright Office before January 5, 2009.<sup>875</sup> Perhaps as much as 50% of the titles in the research libraries partnering with Google are not in English; and most of these foreign language titles probably were published outside the United States and were not registered with the Copyright Office. The ASA, therefore, likely applies to half as many books as the original settlement. The foreign (non-Anglo) books will not be available for the full-text display services under the ASA such as the institutional subscription, consumer purchase, and the free public access.<sup>876</sup>

Google does, however, intend to continue scanning the foreign books into its search base, and to display snippets in response to search queries. In other words, Google intends to continue the existing Library Project with respect to the foreign books. Because the ASA does not cover these books, their rightsholders could sue Google for copyright infringement for scanning and snippet display, and Google presumably would defend itself by claiming that its activities fall within the fair use

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<sup>872</sup> Amended Settlement Agreement, *Authors Guild v. Google, Inc.*, Case No. 05 Civ 8136 (DC) (S.D.N.Y. Nov. 13, 2009) (proposed), *available at* [http://www.googlebooksettlement.com/r/view\\_settlement\\_agreement](http://www.googlebooksettlement.com/r/view_settlement_agreement) [hereinafter Amended Settlement Agreement].

<sup>873</sup> See Manuel, *supra* note 311, at 9.

<sup>874</sup> See Statement of Interest of the United States of America, *supra* note 845, at 4–16; *Proposed Google Book Settlement Hearing*, *supra* note 666, at 4–5 (statement of Marybeth Peters, Reg. of Copyrights, United States Copyright Office).

<sup>875</sup> Amended Settlement Agreement, *supra* note 872, § 1.19.

<sup>876</sup> See *id.* The ASA also tightens the exclusion of books primarily used to play music. *Id.* Further, the ASA clarifies that comic books (as opposed to graphic novels) are considered periodicals and therefore are not books under the settlement. *Id.* § 1.104; see also *id.* § 1.19 (stating that “[t]he term ‘Book’ does not include . . . Periodicals”). Additionally, the ASA clarifies that a bound compilation of periodicals is not a book under the settlement. *Id.* § 1.104.



privilege of 17 U.S.C. § 107.<sup>877</sup> Google also will attempt to negotiate for permission for full text display from foreign collecting societies that have the authority to represent the copyright interests of authors and publishers in their countries.<sup>878</sup>

Eliminating the foreign books from the settlement means the elimination of many of the foreign rightsholders from the class of plaintiffs. The plaintiff class is defined as the holders of a United States copyright interest in a book under the settlement; if a foreign book no longer is covered by the settlement, its rightsholder no longer is a member of the plaintiff class.<sup>879</sup> By removing foreign language books and their rightsholders from the settlement, the parties have removed the source of much of the controversy concerning the settlement. At the same time, the products available under the ASA will be far less comprehensive.

### *b. Registry Representation*

The ASA provides that the Board of Directors of the Registry will have at least one representative of the Author Sub-Class and one representative of the Publisher Sub-Class from each of the following countries: the United States, the United Kingdom, Australia, and Canada.<sup>880</sup> The ASA does not, however, provide for any Board representation for academic authors, contrary to the request of the Library Associations.

### *c. Unclaimed Works*

The original settlement was criticized for not adequately protecting the interests of rightsholders who did not file ownership claims with the Registry. The Registry was to hold revenue from the unclaimed books and inserts in escrow for five years.<sup>881</sup> If the funds remained unclaimed after the five years elapsed, the Registry could use them for its operating expenses, and distribute the rest to rightsholders who filed claims or to charities.<sup>882</sup>

The ASA establishes an independent fiduciary responsible for representing the interests of the rightsholders of the unclaimed works.<sup>883</sup> The Unclaimed Works Fiduciary will not be a published book author or a book publisher, and will be chosen

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<sup>877</sup> See 17 U.S.C. § 107 (2006). Infringement actions over these foreign works are unlikely. Google will continue to honor rightsholders' requests to opt-out of the Library Project. Moreover, these foreign works were unregistered at least until January 5, 2009. Their rightsholders, therefore, will be entitled only to actual damages for any infringement that occurred prior to registration. See *id.* § 504(b). This significantly decreases any rightsholder's incentive sue.

<sup>878</sup> Additionally, Google will continue to negotiate license arrangements with individual foreign publishers.

<sup>879</sup> See Amended Settlement Agreement, *supra* note 872, § 1.13; see also discussion *infra* Part VI.B.3.d (discussing the amendments to "inserts").

<sup>880</sup> Amended Settlement Agreement, *supra* note 872, § 6.2(b)(ii).

<sup>881</sup> Settlement Agreement, *supra* note 76, § 6.3(a)(i).

<sup>882</sup> *Id.*

<sup>883</sup> Amended Settlement Agreement, *supra* note 872, § 6.2(b)(iii).



by a supermajority of the Registry Board of Directors and must be approved by the Court.<sup>884</sup>

Under the ASA, the unclaimed funds will not be used for the Registry's operating expenses and will not be distributed to rightsholders who filed claims. Rather, the Registry, in collaboration with rightsholder organizations in Canada, Australia, and the United Kingdom, and in consultation with the Unclaimed Works Fiduciary, can spend up to 25% of the unclaimed funds held for five years on searching for absent rightsholders.<sup>885</sup> After holding the remaining 75% for another five years, the Registry, with the approval of the Unclaimed Works Fiduciary, may petition the Court for approval to distribute the unclaimed funds to literacy-based charities.<sup>886</sup> The Registry must notify the attorneys-general of the state governments,<sup>887</sup> all rightsholders located by the Registry, and Google's partner libraries of its motion to distribute the unclaimed funds.<sup>888</sup>

#### *d. Commercially Available Books*

The ASA defines a book as "commercially available" for purposes of the default rules for displays if it is available for sale new from sellers anywhere in the world to purchasers in the United States, the United Kingdom, Canada, or Australia.<sup>889</sup> For commercially available books, either Google or the rightsholders will have the ability to request renegotiation of the 63%/37% standard revenue split.<sup>890</sup>

#### *e. Revised Deadlines*

The ASA creates a new window for rightsholders to request "removal" of books from uses by Google. As under the original agreement, if Google receives a removal request before it scans a book, it cannot scan the book.<sup>891</sup> And if the rightsholder requests removal by April 5, 2011 of a book already scanned by Google, Google and fully participating libraries must stop all uses of their digital copies of the book (although they can store the copies).<sup>892</sup> The ASA adds a new removal period: if the rightsholder requests removal between April 5, 2011 and March 9, 2012, Google must stop using the digital copy, except for the limited purpose of providing digital copies and updated files to fully participating libraries.<sup>893</sup> If a rightsholder makes a removal request after March 9, 2012, Google may not display any of the book's text,

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<sup>884</sup> *Id.*

<sup>885</sup> *Id.* § 6.3(a)(i)(2).

<sup>886</sup> *See id.* § 6.3(a)(i)(3).

<sup>887</sup> State laws contain provisions regarding the disbursement of abandoned funds.

<sup>888</sup> Amended Settlement Agreement, *supra* note 872, § 6.3(a)(i)(3).

<sup>889</sup> *Id.* § 1.31.

<sup>890</sup> *Id.* § 4.5(a)(iii); *see id.* § 2.1(a).

<sup>891</sup> *Id.* § 3.5(a)(i).

<sup>892</sup> *Id.* § 1.126(a).

<sup>893</sup> *Id.* § 1.126(b).



but it can make “non-display uses” of the book (*e.g.*, retain the book in its search database and displaying bibliographic information in response to queries.)<sup>894</sup>

The ASA revises other deadlines as well. It extends until March 31, 2011 the deadline for rightsholders to file claims for payment for works scanned by Google prior to May 5, 2009.<sup>895</sup> On the recommendation of the parties, the court established January 28, 2010, as the new deadline for opting out of the ASA.<sup>896</sup>

## 2. *Changes Directed at Competition Concerns*

The United States criticized the original settlement for granting Google a privileged position with respect to the unclaimed books.<sup>897</sup> Under the original settlement, Google was the only entity that received a release from infringement liability for the full text display of the unclaimed books.<sup>898</sup> The ASA does not change this situation. Significantly, the Unclaimed Works Fiduciary will not have the power to authorize third parties to scan and display unclaimed books.<sup>899</sup> Although the United States advised the parties to provide some mechanism by which Google’s competitors’ could gain comparable access to the unclaimed works, the United States also recognized the tension between providing such access and protecting the rights of absent class members as required by Rule 23.<sup>900</sup> The ASA does, however, address other issues relating to competition.

### a. *“Most Favored Nation” Clause*

The original settlement included a “most favored nation” (“MFN”) clause that required the Registry to extend to Google the same terms it negotiated with any other entity that provided services of the same scope as those permitted under the settlement.<sup>901</sup> The United States objected to the MFN clause as discouraging the creation of competitive services. The ASA deletes the MFN clause.<sup>902</sup>

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<sup>894</sup> *Id.* § 3.5(a)(iii).

<sup>895</sup> *Id.* § 13.4; *see id.* § 5.1(a).

<sup>896</sup> *Id.* at Attach. N, p. 5.

<sup>897</sup> *See* Statement of Interest of the United States of America, *supra* note 845, at 21–22.

<sup>898</sup> Settlement Agreement, *supra* note 76, § 10.2(a).

<sup>899</sup> *See* Amended Settlement Agreement, *supra* note 872, § 6.2(b)(i) (empowering the Unclaimed Works Fiduciary to make unclaimed works available to competitors “to the extent permitted by law,” but copyright law currently permits no such licensing).

<sup>900</sup> *See* Statement of Interest of the United States of America, *supra* note 845, at 9.

<sup>901</sup> Settlement Agreement, *supra* note 76, § 3.8(a).

<sup>902</sup> *See* Amended Settlement Agreement, *supra* note 872, § 3.8 (omitting any reference to a “Most Favored Nations” framework).



*b. Consumer Purchase Pricing*

The United States expressed concern that the pricing of individual books for consumer purchase could discourage competition among publishers.<sup>903</sup> Under the original agreement, Google could offer only temporary discounts from the list price. In contrast, the ASA removes any time limits on Google's right to discount the list price of books for consumer purchase.<sup>904</sup> The ASA clarifies that Google's pricing algorithm to establish the consumer purchase pricing will be developed to simulate the prices in a competitive market.<sup>905</sup> The price for a book will be set without regard to changes in the price of any other book.<sup>906</sup> The ASA clarifies that the Registry has no involvement in the development of the pricing algorithm.<sup>907</sup> The pricing bins are under Google's control, although rightsholders will be able to set minimum and maximum pricing bins.<sup>908</sup> The Unclaimed Works Fiduciary has the right to approve Google's establishment of additional pricing bins for unclaimed works.<sup>909</sup>

*c. Resale of Consumer Purchase*

The ASA requires Google to allow third parties to sell consumer access to books offered through the consumer purchase service.<sup>910</sup> The reseller will receive a majority of Google's 37% share of the revenue split.<sup>911</sup> Google had previously announced that it would voluntarily allow third party resale.

*d. Additional Revenue Models*

The original settlement allowed the Registry to authorize Google to provide unspecified additional revenue-generating services.<sup>912</sup> The United States objected to the settlement favoring Google in this manner.<sup>913</sup> The ASA permits only the following three additional revenue models to be developed in the future: print on demand; file (*e.g.*, PDF) download; and consumer subscription.<sup>914</sup> Rightsholders of claimed books and the Unclaimed Works Fiduciary must be given advanced notice of these new services, with the opportunity to exclude works from those services.<sup>915</sup>

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<sup>903</sup> Statement of Interest of the United States of America, *supra* note 845, at 22.

<sup>904</sup> See Amended Settlement Agreement, *supra* note 872, § 4.5(b)(ii), (v).

<sup>905</sup> *Id.* § 4.2(c)(ii)(2).

<sup>906</sup> *Id.*

<sup>907</sup> *Id.*

<sup>908</sup> *Id.* § 4.2(c)(i).

<sup>909</sup> *Id.* § 6.2(b)(iii)–(iv).

<sup>910</sup> *Id.* § 4.5(b)(v)(2).

<sup>911</sup> *Id.*; see *id.* § 2.1(a).

<sup>912</sup> Settlement Agreement, *supra* note 76, § 4.7.

<sup>913</sup> See Statement of Interest of the United States of America, *supra* note 845, at 9.

<sup>914</sup> Amended Settlement Agreement, *supra* note 872, § 4.7.

<sup>915</sup> *Id.*



*e. Noerr Waiver*

Under the *Noerr-Pennington* doctrine, if an activity receives government approval, it cannot form the basis of antitrust liability.<sup>916</sup> Some have suggested that if the court approved the settlement, Google, the rightsholders, and the Registry would receive antitrust immunity with respect to their conduct under the settlement. The new proposed Final Judgment and Order of Dismissal (attached to the ASA) provides that the order does not provide antitrust immunity to the parties or any other person.<sup>917</sup> Professor Randal Picker of the University of Chicago Law School observes that this waiver

changes substantially the opportunities and choices that the Department of Justice faces with regard to the settlement agreement. With the possibility of immunity attaching, DOJ faced a possible all-or-nothing judgment about whether to challenge the agreement now. Failing to mount a challenge now might forfeit that challenge seemingly forever. . . . DOJ can now wait to assess how the pricing issues actually play out under the agreement. DOJ can use the normal tools of antitrust investigations—civil investigative demands and the like—as it would for any other joint venture.<sup>918</sup>

*3. Other Amendments*

The ASA proposed a variety of other more technical amendments to respond to other concerns and questions raised about the settlement.

*a. Public Access Terminals*

The ASA provides the Registry with the authority to increase the number of free public access terminals in a public library branch.<sup>919</sup> Increasing the number of terminals would be purely discretionary on the part of the Registry.

*b. Library Digital Copies*

The original settlement permitted Google to provide a fully participating library<sup>920</sup> with digital copies of books in that library's collection that Google did not

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<sup>916</sup> See *E. R.R. President's Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 136 (1961).

<sup>917</sup> Amended Settlement Agreement, *supra* note 872, at Attach. L, ¶ 17.

<sup>918</sup> Randal C. Picker, *Assessing Competition Issues in the Amended Google Book Search Settlement* 4 (Univ. of Chicago Law & Econ., John M. Olin Law & Econ. Working Paper No. 499, 2009), available at <http://ssrn.com/abstract=1507172>.

<sup>919</sup> Amended Settlement Agreement, *supra* note 872, § 4.8(a)(i)(3).

<sup>920</sup> A fully participating library is a library that allows Google to scan in-copyright books in its collection, that receives in return digital copies of the books made available to Google, and that enters into the required agreement with the Registry. See Settlement Agreement, *supra* note 76, § 1.62.



obtain from that library (*i.e.*, Google obtained the book from another fully participating library), provided that Google scanned more than 300,000 books from that library's collection.<sup>921</sup> Because the ASA employs a narrower definition of "book," the threshold requirement now refers to "volumes" rather than "books."<sup>922</sup> This ensures that fully participating libraries do not receive fewer digital copies from Google by virtue of the ASA's exclusion of the foreign books.

### *c. Privacy*

The ASA clarifies that Google will not provide the Registry with personally identifiable user information "other than as required by law or valid legal process."<sup>923</sup> Other privacy issues are addressed in the privacy policy that Google developed for Book Search.<sup>924</sup>

### *d. Inserts*

The original settlement allowed the rightsholder of a work contained within another rightsholder's book (e.g., a book's foreword) to exercise her rights under the settlement independently, and to receive separate compensation from Google through the Registry.<sup>925</sup> The ASA clarifies, and thereby arguably narrows, the definition of such "inserts." Under the original settlement, the insert had to be "covered by a registration with the United States Copyright Office."<sup>926</sup> The ASA clarifies this phrase by adding that the insert had to be registered "as a stand-alone work or as part of another, registered work from which it was excerpted."<sup>927</sup> In other words, if A included in his book an essay by B, and A filed a copyright registration for his book, B's essay is not an insert under the settlement unless B had registered the essay on a stand-alone basis or as part of B's own book of essays. If B's essay is not an insert, B is not entitled to separate compensation and Google does not have to honor his request to exclude his essay from displays of the book.<sup>928</sup>

The ASA also excludes illustrations in children's books from the definition of inserts.<sup>929</sup>

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<sup>921</sup> *Id.* § 7.2(a)(ii). If a library has fewer than 900,000 volumes in its collection, the threshold is 30% of the volumes in that library's holdings. *Id.*

<sup>922</sup> Amended Settlement Agreement, *supra* note 872, § 7.2(a)(ii)–(iii).

<sup>923</sup> *Id.* § 6.6(f).

<sup>924</sup> *See id.*

<sup>925</sup> *See* Settlement Agreement, *supra* note 76, § 5.1(a).

<sup>926</sup> *Id.* § 1.72. This requirement applies only to inserts first published in the United States. *See id.*

<sup>927</sup> Amended Settlement Agreement, *supra* note 872, § 1.75.

<sup>928</sup> Nonetheless, Google probably would honor such a request because the essay is not covered by the settlement and B could sue Google for infringement if it displayed the full text of the essay.

<sup>929</sup> Amended Settlement Agreement, *supra* note 872, § 1.75.



*e. Creative Commons Licenses*

The ASA provides that the Registry will facilitate rightsholders' requests that their works be made available through alternative licenses for consumer purchase, such as through a Creative Commons license.<sup>930</sup> The ASA clarifies that the rightsholders can set the consumer purchase price for their book at zero.<sup>931</sup>

*f. Modification of Restrictions on Users*

The ASA allows rightsholders to authorize Google to modify or remove the default restrictions such as the number of pages that can be cut and paste or printed out with one command.<sup>932</sup>

*g. Arbitration*

The original settlement agreement required rightsholders to resolve disputes among themselves (*e.g.*, a dispute between a book's author and publisher) through an arbitration procedure.<sup>933</sup> The ASA allows rightsholders to agree to resolve disputes in other fora, such as courts.<sup>934</sup>

*4. Process Going Forward*

The ASA can go into effect only if the court determines that it is fair, reasonable, and adequate.<sup>935</sup> The court has accepted the parties' recommended schedule and set January 28, 2010, as the deadline for class members to opt out of the ASA or to file objections, and February 4, 2010, as the deadline for the United States to file its comments.<sup>936</sup> The court will hold the fairness hearing on February 18, 2010.<sup>937</sup>

The modifications contained in the ASA respond to the Rule 23 concerns raised by the United States and objecting class members—particularly foreign rightsholders. At the same time, the ASA does not address the central competition problem; Google remains the only entity that can provide full text display services with respect to the unclaimed books. Evidently the parties concluded that these two sets of concerns were fundamentally irreconcilable. Providing potential Google competitors with a release from liability for full text displays inevitably exacerbated the perceived unfairness of the settlement to the absent rightsholders. The parties, therefore, elected to accommodate only the Rule 23 concerns.

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<sup>930</sup> *Id.* § 4.2(a)(i); *see id.* § 1.44 (defining "Creative Commons License").

<sup>931</sup> *Id.* § 4.2(b)(i)(1).

<sup>932</sup> *Id.* § 3.3(g); *see id.* §§ 4.1(d), 4.2(a).

<sup>933</sup> Settlement Agreement, *supra* note 76, § 9.1(a).

<sup>934</sup> Amended Settlement Agreement, *supra* note 872, § 9.1(a).

<sup>935</sup> FED. R. CIV. P. 23(e)(2).

<sup>936</sup> Amended Settlement Agreement, *supra* note 872, at Attach. N, p. 5.

<sup>937</sup> *Id.* at 6.



Nonetheless, the *Noerr* waiver preserves ability of the United States to pursue antitrust claims against the Registry and the parties in the future. The United States might well conclude that although the ASA leaves Google in a privileged position relative to potential competitors, the *Noerr* waiver provides the United States with sufficient flexibility that it will not object to judicial approval of the ASA.

Of course, even if the court approves the ASA, the case is far from over. Class members can appeal the court's decision to the Second Circuit. Likewise, if the court rejects the ASA, the parties can appeal that decision to the Second Circuit. Moreover, foreign rightsholders excluded from the ASA could bring copyright infringement actions against Google for scanning and displaying snippets of their works. In short, the long and winding road to the Google Books settlement is far from its ultimate destination.



## **The Google Books Settlement: Copyright, Rule 23, and DOJ Section 2 Enforcement**

Gregory K. Leonard

The proposed Google Books settlement raises a number of interesting issues. The Department of Justice has objected to the settlement on antitrust and other grounds, and its antitrust objections provide a window into the current administration's stance toward antitrust enforcement, especially Section 2 enforcement. In addition, if the Google Books settlement is ultimately approved by the court, that could have important implications for how class action settlements are negotiated in the future.

The adoption of the class action mechanism in the U.S. legal system was motivated by efficiency. The Google Books settlement, in resolving a purported class action, similarly generates substantial efficiency considerations. The central question is whether these efficiencies are sufficient to outweigh the objections raised by critics of the settlement.

### **History**

In 2004, Google initiated the "Google Library Project." Google's plan was to enter into partnerships with libraries and then scan the books held by those libraries to create a searchable digital library.<sup>1</sup> A user, having entered a search term, would be shown information about relevant books, including "snippets" of text that would give context to the books' use of the search term.<sup>2</sup> On September 20, 2005, several groups of copyright owners brought a class-action lawsuit against Google, alleging that the scanning of books under copyright, and the provision of snippets from those books, violated copyright. Google responded that its actions constituted "fair use."

On October 28, 2008, Google and the plaintiffs announced a proposed settlement of the litigation. The proposed Settlement Agreement was remarkable because it went far beyond resolving the specific allegations contained in the complaint, which concerned whether Google's scanning of books and providing snippets violated copyright law.<sup>3</sup> Under the proposed Settlement Agreement, Google would have the right to do much more than merely provide snippets. In particular, Google would have the right to sell users access to the full text of the books in its digital library, under a revenue-sharing arrangement specified in the Settlement

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<sup>1</sup> <http://books.google.com/googlebooks/library.html>

<sup>2</sup> *Id.*

<sup>3</sup> The initial proposed settlement agreement (Initial Settlement Agreement) is available at [http://www.googlebooksettlement.com/r/view\\_settlement\\_agreement](http://www.googlebooksettlement.com/r/view_settlement_agreement).



Agreement.<sup>4</sup> Moreover, because the named plaintiffs claimed to represent a class consisting of all copyright holders, the Settlement Agreement would give these rights to Google, not just with respect to the named plaintiffs' copyrighted works, but also with respect to any other book under copyright.

A firestorm of complaints about the Settlement Agreement arose immediately from a wide variety of objectors, including copyright owners, the DOJ, and potential competitors to Google like Amazon.<sup>5</sup> Google and the plaintiffs revised the Settlement Agreement in an attempt to address these objections. The result was the Amended Settlement Agreement (ASA).<sup>6</sup> On November 19, 2009, the court preliminarily approved the ASA and preliminarily certified classes "for settlement purposes only."<sup>7</sup>

The DOJ and other objectors have stated that, while the ASA moved in the right direction, it did not resolve fully a number their concerns.<sup>8</sup> Supporters of the ASA have offered counter-arguments over the course of the debate over the initial Settlement Proposal and the ASA.<sup>9</sup> On

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<sup>4</sup> *Id.* § 2.1(a).

<sup>5</sup> *See, e.g.*, Statement of Interest of the United States of America Regarding Proposed Settlement Agreement (Sept. 18, 2009); Objection of Amazon.com, Inc. to Proposed Amended Settlement (Jan. 27, 2010), *available at* [http://thepublicindex.org/docs/amended\\_settlement/amazon.pdf](http://thepublicindex.org/docs/amended_settlement/amazon.pdf); Supplemental Memorandum of Amicus Curiae Open Book Alliance In Opposition to the Proposed Settlement Between the Authors Guild, Inc., Association of American Publishers, Inc. et al. and Google Inc. (Jan. 28, 2010), *available at* <http://www.openbookalliance.org/wp-content/uploads/2010/01/01282010OBA-Supplemental-Brief.pdf>; Letter from Pamela Samuelson [Richard M. Sherman Distinguished Professor of Law and Information, University of California, Berkeley] to Judge Denny Chin (Jan. 27, 2010), *available at* [http://thepublicindex.org/docs/amended\\_settlement/Samuelson\\_supplemental\\_objection.pdf](http://thepublicindex.org/docs/amended_settlement/Samuelson_supplemental_objection.pdf).

<sup>6</sup> The ASA is available at [http://www.googlebooksettlement.com/r/view\\_settlement\\_agreement](http://www.googlebooksettlement.com/r/view_settlement_agreement).

<sup>7</sup> *See* Order Granting Preliminary Approval of Amended Settlement Agreement, Authors Guild, Inc. v. Google, Inc., Case No. 05 CV 8136 (DC) (S.D.N.Y. Nov. 19, 2009), *available at* [http://counsel.cua.edu/fedlaw/Court%20Order%20on%20Supplemental%20Notice%20\(2\).pdf](http://counsel.cua.edu/fedlaw/Court%20Order%20on%20Supplemental%20Notice%20(2).pdf).

<sup>8</sup> *See, e.g.*, Statement of Interest of the United States of America Regarding Proposed Amended Settlement Agreement (Feb. 4, 2010) (DOJ Brief), *available at* <http://www.justice.gov/atr/cases/authorsguild.htm>; James Grimmelman, *The Amended Google Books Settlement Is Still Exclusive*, CPI ANTITRUST J. (Jan.2010(2)), *available at* [http://works.bepress.com/cgi/viewcontent.cgi?article=1025&context=james\\_grimmelman](http://works.bepress.com/cgi/viewcontent.cgi?article=1025&context=james_grimmelman).

<sup>9</sup> *See, e.g.*, Jerry A. Hausman & J. Gregory Sidak, *Google and the Proper Antitrust Scrutiny of Orphan Books*, 5 J. COMP. L. & ECON. 411 (2009); Einer Elhauge, *Framing the Antitrust Issues in the Google Books Settlement*, GCP: THE ANTITRUST CHRONICLE, Oct. 2009, *available at* <http://www.law.harvard.edu/faculty/elhauge/pdf/Elhauge%20Framing%20the%20Issues%20in%20the%20Google%20Books%20Settlement%20CPI%20article.pdf>; Einer Elhauge, *Why*



February 18, 2010, the court held a fairness hearing at which argument was heard from proponents and opponents of the settlement, as well as the parties.<sup>10</sup> The court's opinion is currently pending.

Three common themes that emerge from the objectors' expressed concerns are that the ASA abridges the rights of copyright owners, goes beyond what Rule 23 allows, and violates antitrust law.<sup>11</sup>

### **Does the ASA Abridge the Rights of Copyright Owners?**

Critics of the ASA have asserted that the ASA abridges the rights of copyright owners in two respects. First, the ASA requires that copyright owners who do not wish to allow Google to include their books in its digital library must opt out of the ASA. Critics suggest, rather, that an opt-in mechanism would be more appropriate and consistent with the rights provided to copyright owners under the Copyright Act. Typically, before using copyrighted material, the user must obtain affirmative approval from the copyright owner, a procedure which is more akin to opt-in than opt-out. However, an opposing consideration is that the ASA's use of an opt-out mechanism is consistent with the standard approach taken in class actions, where class members who desire to bring their own case or otherwise do not want to be covered by the class settlement must actively opt out. Class actions are thought to be justified by their efficiency in resolving a large number of cases in a single action. This efficiency is due, in part, to the opt-out mechanism that is used; the efficiency would be decreased if an opt-in mechanism were used instead. In the case of the ASA, a potential abridgement of the rights of copyright owners needs to be weighed against the efficiencies that are made possible by the opt-out mechanism.

The second way in which the ASA abridges the rights of copyright owners, according to critics, relates to so-called "orphan works," i.e., works that are under copyright, but for which the owner is unknown or cannot be located. Critics point out that, while active copyright owners at least have the opportunity to opt out, the copyright owners of orphan works will, almost by definition, not even have that opportunity (unless they materialize and the orphaned works are no longer orphaned). However, it would again seem that the potential abridgement of the rights of copyright owners needs to be weighed against the efficiencies provided by the ASA. As discussed further below, there is reason to think that the value of the copyright on an orphaned work is small in most cases.

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*the Google Books Settlement Is Procompetitive* (Dec. 30, 2009), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1459028](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1459028); Mark A. Lemley, *An Antitrust Assessment of the Google Book Search Settlement* (2009), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1431555](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1431555)

<sup>10</sup> For a blow-by-blow description of the fairness hearing, see [http://laboratorium.net/archive/2010/02/20/gbs\\_fairness\\_hearing\\_report](http://laboratorium.net/archive/2010/02/20/gbs_fairness_hearing_report).

<sup>11</sup> Various objectors have raised additional issues, e.g., privacy concerns. See Samuelson Letter, *supra* note 5, at 15.



It should also be noted that it is not unprecedented for courts to abridge the rights of intellectual property owners. For example, in *eBay*, the Supreme Court made it clear that a patent owner was not necessarily entitled to an injunction after a finding of patent validity and infringement.<sup>12</sup> Yet, an injunction is the mechanism by which a patent owner exerts the “right to exclude.” Thus, in *eBay*, the Supreme Court found that certain circumstances warranted effectively taking away the patent owner’s right to exclude.

Overall, it is reasonable to conclude that the significant gains to efficiency and consumer welfare that would result from approval of the Google Books settlement (as discussed further below) justify the possible abridgement of the rights of copyright owners that have been identified by critics of the ASA.

### **Assessing the ASA Under Rule 23**

The second common theme sounded by critics of the ASA is that its terms go well beyond what should be allowable under Rule 23.<sup>13</sup> Specifically, while plaintiffs’ allegations were limited to Google’s scanning of books and providing of snippets, the ASA sets up what amounts to an entirely new business framework under which Google can pursue a business strategy substantially wider in scope than its original conception for the Google Library Project. The ASA permits Google to sell whole works in their digital form and even outlines the compensation Google will pay to the copyright owners.<sup>14</sup> A “registry” will be formed to administer the rights of copyright owners and a “fiduciary” will be designated to represent the non-present owners of copyrights to orphaned works.<sup>15</sup> Google can (with agreement from the registry and fiduciary) employ “additional revenue models” in the future.<sup>16</sup>

Of course, it is not at all unusual for litigation to be settled with an arrangement that goes well beyond the scope of the allegations in the underlying litigation. For example, two companies engaged in litigation over infringement of a single patent may settle the case by entering into a broad cross license that covers their entire respective patent portfolios. What distinguishes the ASA, however, is that the underlying litigation is a class action. Thus, if the ASA is approved, the substantial new business framework that the named plaintiffs have negotiated with Google will apply not just to them, but also to other members of the class who

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<sup>12</sup> *eBay, Inc v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

<sup>13</sup> *See, e.g.*, DOJ Brief, *supra* note 8, at 4-11.

<sup>14</sup> ASA § 2.1(a).

<sup>15</sup> *Id.* at art. VI

<sup>16</sup> *Id.* § 4.7.



were not directly represented at the bargaining table.<sup>17</sup> Critics of the ASA have argued that this is not an appropriate use of Rule 23.<sup>18</sup>

A preliminary question is whether the proposed classes in the litigation satisfy the Rule 23 requirements for class certification.<sup>19</sup> For a class to be certified under Rule 23, among other things, it must be shown that the class representatives have claims “typical” of those of the class, that the class representatives will “fairly and adequately protect the interests of the class,” and that “questions of law or fact common to class members predominate over any questions affecting only individual class members.”<sup>20</sup> Courts have increasingly demanded rigorous analysis of whether the Rule 23 requirements have been met, especially in antitrust class actions.<sup>21</sup>

The purpose of the Rule 23 requirements is to ensure that what is good for the class representative is good for every other member of the class (or “substantially all” other members of the class). Then, the efficiency gains of a class action can be achieved without any danger that some members of the class will be made worse off by the litigation choices made by the class representatives—for example, in negotiating a settlement of the litigation. If the Google Books proposed classes satisfy the Rule 23 requirements, a settlement that was good for the named plaintiffs would be good for all members of the class.<sup>22</sup>

In this case, the court has preliminarily certified the proposed classes “for settlement purposes only,”<sup>23</sup> as is typically the case when settlement occurs before the class certification hearing. As a result, there has been no “rigorous analysis” of the class certification question and therefore it is not clear that the Rule 23 requirements are actually met. For example, the DOJ

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<sup>17</sup> See Grimmelman, *supra* note 8, at 1-2 (“[T]he settlement rests on the fiction that the class members consent to Google’s future actions...[f]or orphan owners, the fiction is a transparent lie.”).

<sup>18</sup> The DOJ also argues that the scope of the ASA is not consistent with existing legal precedent that governs the settlement of class actions. See DOJ Brief, *supra* note 8, at 4-11.

<sup>19</sup> The court has preliminarily certified an “Amended Settlement Class” consisting of “[a]ll persons that...have a Copyright Interest in one or more Books or Inserts” and two sub-classes, an “Author” sub-class and a “Publisher” sub-class, that are contained within the overall Amended Settlement Class. See Order Granting Preliminary Approval of Amended Settlement Agreement at 3.

<sup>20</sup> Fed. R. Civ. Proc. 23.

<sup>21</sup> See, e.g., *In re Hydrogen Peroxide Antitrust Litig.*, 552 F.3d 305 (3d Cir. 2008).

<sup>22</sup> In principle, while the proposed class may satisfy the Rule 23 requirements for the purposes of litigating the allegations of the complaint, it may not satisfy those requirements with respect to a proposed settlement that went far beyond the allegations. Here, however, it is hard to see how, if common issues predominate with respect to the allegations in the complaint, they would not predominate with respect to the ASA.

<sup>23</sup> Order Granting Preliminary Approval of Amended Settlement Agreement at 2-3.



suggests that the named plaintiffs are not adequate representatives of the proposed class because their incentives are not aligned with those of the owners of copyrights to orphaned works.<sup>24</sup>

In any event, the ability of each proposed class member to opt out if they find the ASA not to be in its interest ameliorates the problem of the named plaintiffs having negotiated a deal that is bad for some members of the proposed class. But this returns us to the question of whether the opt-out provision abridges the rights of copyright owners, and whether any such abridgement is outweighed by efficiency considerations. The business framework that the ASA would create—which would bring substantial benefits to users and Google—may not be possible unless it covers all copyright owners subject to an opt-out provision.

### **Assessing the ASA Under the Antitrust Laws**

Critics of the ASA have raised three types of antitrust concerns: horizontal price-fixing, exclusionary conduct targeted at competitors of the named plaintiffs, and exclusionary conduct targeted at competitors of Google. The DOJ's expressed concerns are of significant interest to antitrust practitioners because they provide insight into how the current administration is approaching antitrust enforcement generally and Section 2 enforcement specifically. While the DOJ states in its introductory remarks that "[t]he United States is committed to working constructively with all stakeholders on the scope and content of an appropriate settlement of this matter,"<sup>25</sup> a reading of its brief suggests that it would be satisfied only with a substantially scaled-back settlement, or one that gives to Google's competitors the same rights as it gives to Google.

The DOJ's brief starts by describing the Division's Section 1-related concerns. The ASA specifies a revenue-sharing formula under which Google would compensate a copyright owner for use of the owner's work.<sup>26</sup> The DOJ suggests that, because this "price" was negotiated by plaintiffs jointly on behalf of all copyright owners, it may amount to horizontal price-fixing and may therefore be illegal *per se*.<sup>27</sup> While this concern is potentially valid in the abstract, in this case, there are several efficiency considerations that would necessitate rule of reason treatment. First, the revenue-sharing formula and the registry serve to avoid the substantial transactions costs and time that would be incurred if Google had to negotiate separately with each copyright owner. Such transactions-related efficiencies were an important motivation in the Supreme

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<sup>24</sup> DOJ Brief, *supra* note 8, at 12.

<sup>25</sup> *Id.* at 4.

<sup>26</sup> *See* ASA at art. IV.

<sup>27</sup> DOJ Brief, *supra* note 8, at 16-19. The DOJ notes that changes from the initial Settlement Agreement reduce the concerns about horizontal price fixing, particularly now that Google is allowed to reject the ASA's revenue sharing formula with respect to any commercially available work and instead negotiate a separate compensation arrangement with the copyright owner for that work. However, the DOJ's concerns are not entirely eliminated because, among other things, Google would not have the right to reject the ASA's formula with respect to non-commercially available work. *See Id.* at 16-17.



Court's decision in the *BMI* case to evaluate blanket music licenses under the rule of reason.<sup>28</sup> The role of the revenue sharing formula and the registry under the ASA is similar to the role that BMI and ASCAP play in music licensing.<sup>29</sup> Second, many copyright works are complements for each other, rather than substitutes. This is particularly true given that there are network effects related to the size of the library that Google can create. Joint negotiation by providers of complementary products is generally pro-competitive. A rule of reason analysis is required to weigh these possible justifications.<sup>30</sup>

While the DOJ's Section 1-related concerns might have been expected from almost any administration, its Section 2 concerns may well be a result of the current administration's pledge of more vigorous antitrust enforcement, particularly in Section 2 cases. The DOJ's brief identifies two types of Section 2 concerns. The first (which also has a Section 1 component) is that the owners of copyrights on non-orphan works (i.e., the named plaintiffs) are in effect negotiating the price for the absentee owners of copyrights on orphaned works.<sup>31</sup> If the two sets of works were substitutes, the owners of copyrights on non-orphan works would have the incentive to raise the price of the orphan works above the level that the copyright owners of those works would negotiate on their own. While again valid in the abstract, given that the named plaintiffs negotiated a single revenue sharing formula that would apply to all works—their own works as well as the orphaned works—this concern does not appear to be very serious in this particular case (unless the class representatives turn around and opt out of the ASA). Moreover, the ASA provides for a “fiduciary” that, in principle, would be independent of the registry and would be charged with representing the interests of the owners of the orphaned works.<sup>32</sup>

The DOJ's second Section 2 concern, shared with a number of other objectors, is that Google will gain a certain degree of de facto exclusivity since the ASA provides Google an advantage that its competitors will not be able to duplicate.<sup>33</sup> Specifically, objectors maintain

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<sup>28</sup> *Broadcast Music Inc. v. CBS, Inc.* 441 U.S. 1 (1979). Elhauge, *supra* note 9, at 7 argues that the ASA is more precompetitive than the arrangement found to be precompetitive under BMI.

<sup>29</sup> To be sure, there are some differences as well. For example, in the music industry, ASCAP and BMI compete to represent rights owners, while there would be only a single registry under the ASA. In addition, rights owners opt in to either ASCAP or BMI, whereas they would have to opt out of the ASA.

<sup>30</sup> The ASA also specifies the retail pricing “algorithm” that Google would use for all works (ASA at § 4.2). The DOJ objects to this as horizontal competitors (the copyright owners) “delegat[ing] to a common agent [Google] pricing authority for all of their wares” (DOJ Brief, *supra* note 8, at 19). Again, however, under *BMI*, this practice likely is justified given the efficiencies involved in avoiding numerous bilateral negotiations between Google and users.

<sup>31</sup> DOJ Brief, *supra* note 8, at 20.

<sup>32</sup> ASA at art. VI. The DOJ is concerned that the fiduciary does not have sufficient authority, e.g., it cannot renegotiate the revenue split with Google for unclaimed works. *See* DOJ Brief, *supra* note 8, at 20.

<sup>33</sup> *See, e.g.,* DOJ Brief, *supra* note 8, at 21; Grimmelman, *supra* note 8, at 1.



that Google will be able to sell access to orphaned works while its competitors will not be able to do so without violating copyright law.<sup>34</sup> This fact—even if true—is not by itself sufficient to show that the ASA harms competition. A proper analysis requires that the level of competition be compared in the world with the ASA in its current form and in the world “but for” the ASA. Although the critics of the ASA are not clear as to their assumptions regarding the but-for world, there are seemingly two possibilities.<sup>35</sup> First, the ASA could be abandoned (or cut back substantially to deal only with the specific allegations cited in plaintiffs’ complaint).<sup>36</sup> Second, the ASA could be extended to companies other than Google that wanted to start providing digital library services.<sup>37</sup>

In the first but-for world, where there would be no ASA at all or a severely diminished ASA, it is unlikely that Google could generate a Google Books service that was as attractive to consumers and available as quickly as it will be under the ASA.<sup>38</sup> This is because of the substantial costs and time that would be involved in engaging in separate transactions with each copyright owner. As the critics of the ASA have noted, the ASA creates an entirely new business framework. This business framework, the products it would create, and the benefits these products would generate for consumers likely would not be available without the ASA.<sup>39</sup> Orphan works, in particular, would not be available digitally to consumers because, by definition, Google (or its competitors) could not locate and negotiate with the copyright owners of these works. The contrast is quite sharp: with the ASA, products will be available to consumers that

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<sup>34</sup> Grimmelman, *supra* note 8, at 1. It is unclear whether the ASA allows the registry to give licenses to Google’s competitors for orphaned works. *See* Lemley, *supra* note 9, fn. 18 and Elhauge, *supra* note 9, at 3. Grimmelman, *supra* note 8, at 3-4, thinks that this would not be permissible under copyright law.

<sup>35</sup> Elhauge, *supra* note 9, at 2 argues that the only but-for world that should be considered is the one without the ASA because objectors should not be permitted to condemn the ASA on the basis that there exists an alternative settlement agreement that would have been even better for consumers than the ASA.

<sup>36</sup> *See, e.g.*, DOJ Brief, *supra* note 8, at 23.

<sup>37</sup> *See, e.g.*, the DOJ’s brief objecting to the original settlement agreement, Statement of Interest of the United States of America Regarding Proposed Class Settlement (Nov. 18, 2009) at 25, *available at* <http://www.justice.gov/atr/cases/authorsguild.htm> (“[t]he risk of market foreclosure would be substantially ameliorated if the Proposed Settlement could be amended to provide some mechanism by which Google’s competitors could gain comparable access to orphan works”).

<sup>38</sup> Critics of the ASA may have in mind that an alternative approach to the ASA is for Congress to pass legislation to deal with the orphan works problem. *See* DOJ Brief, *supra* note 8, at 10. However, it may be a long wait before Congress acts. *See, e.g.*, Lemley, *supra* note 9, at 12. There seems little reason to delay the benefits to consumers of the ASA. Approval of the ASA would not prevent Congress from passing such legislation in the future. *Id.*

<sup>39</sup> If Google is unable, without the ASA, to create a Google Books service as good and as quickly as the one it could create with the ASA, it is extremely unlikely that any other competitor would be able to do so.



would not be available at any price without the ASA. Accordingly, consumers would be unambiguously better off in the world with the ASA than they would be in the first of the possible but-for worlds.<sup>40</sup>

In the second possible but-for world, Google's competitors would be allowed to free-ride on Google's efforts in obtaining the ASA. Google took on significant costs and risks in pursuing the Google Books Project and demonstrated "superior skill, foresight, and industry" in negotiating the ASA.<sup>41</sup> Free-riding undermines a company's incentives to undertake these types of efforts. Indeed, it is possible that Google would rather scuttle the ASA than create competition for itself by allowing other companies a free ride. As the DOJ notes, Google is far ahead of the competition, such as Amazon, in terms of scanning works.<sup>42</sup> Google might prefer to take the slow approach, where it would have a substantial head start, rather than the quick approach where it would have no head start due to free-riding by competitors. Thus, in the second but-for world, it is not necessarily the case that consumers would be better off even if only the effects in the digital library services market are taken into consideration. The argument against allowing free-riding becomes even stronger if the broader effects on the economy are considered because a general policy of allowing free-riding by competitors will decrease companies' incentives in the future to take risks and incur costs as Google did in this case.

The foregoing discussion assumes that Google would in fact be the only provider of digital library services if the ASA is approved. However, this is not at all clear. Seemingly, nothing stands in the way of a competitor pursuing exactly the same course as Google did and thereby obtaining its own settlement similar to the ASA. The DOJ and other critics have stated that they think this is unlikely.<sup>43</sup> But the ASA increases the likelihood of such settlements being reached simply by providing a model that could be duplicated easily.<sup>44</sup> In addition, copyright owners would have the incentive to foster downstream competition by entering settlements with Google's competitors that give those competitors the same rights and ability to compete that Google has.<sup>45</sup>

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<sup>40</sup> The supporters of the ASA have focused on this point. *See, generally*, Hausman & Sidak, *supra* note 9; Lemley, *supra* note 9, at 9-10; Elhauge, *supra* note 9, at 4.

<sup>41</sup> Grimmelman, *supra* note 8, at 2 argues that Google will have received "exclusivity" over orphan works due to "the stroke of a judge's pen" rather than any superior "business acumen." However, a creative litigation settlement strategy is reasonably considered business acumen.

<sup>42</sup> DOJ Brief, *supra* note 8, at 21.

<sup>43</sup> *See, e.g., Id.* at 21; Grimmelman, *supra* note 8, at 4.

<sup>44</sup> This may be particularly true given that the ASA provides a means to resolve copyright ownership disputes and to keep track of the copyright owners for each work. *See* Lemley, *supra* note 9, at 4; Elhauge, *supra* note 9, at 3.

<sup>45</sup> Grimmelman, *supra* note 8, at 4 is "not so sure" that copyright owners will want to settle with one of Google's competitors. However, copyright owners will have the incentive to facilitate entry by competitors to Google if Google is exercising market power in the downstream



The DOJ and other critics maintain that, in the absence of their own comparable settlements, competitors will be unable to include orphan works or works with ambiguous ownership in their libraries, which would put them at such a substantial disadvantage to Google that they would be unable to survive in the market.<sup>46</sup> By itself, this argument has little antitrust merit. Antitrust does not punish a company for gaining a competitive advantage by doing something other companies cannot do. Nor does antitrust punish a company for being the first to accomplish something, even if, once accomplished, competitors cannot duplicate it. This simply means that it was a “winner take all” market, where Google won.

A potentially more sophisticated argument is that, assuming competitors cannot duplicate the ASA, Google will have market power over orphan works and will be able to leverage this market power into the provision of digital library services for non-orphan works. However, orphan works have little value relative to non-orphaned works. Since an economically rational copyright owner would not lose track of a work that had substantial value, it reasonably can be inferred that most orphan works have relatively little value.<sup>47</sup> The low value stems from a low level of market demand for an orphan work. Because of the low levels of demand for and value of orphan works, they would seem to be a dubious source of market power.<sup>48</sup>

Similarly, the claim that competitors would need access to orphan works to compete with Google is ill-founded. Small bookstores with specialized or other limited titles on hand compete with large bookstores that carry a large number of titles. Wal-Mart competes with large bookstores by selling only the limited set of best-sellers. Thus, there is no reason to think that Amazon or other potential competitors to Google would be greatly hindered in competing with Google even if it did not have access to orphan works.

Finally, the DOJ argues that “Google’s exclusive access to millions and millions of books may well benefit Google’s existing online search business ... Google already holds a relatively dominant market share in that market.... That dominance may be further entrenched by its

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market. The copyright owners’ economic incentives lead them to favor efficient distribution of their works to consumers. If increased competition downstream would increase the efficiency of distribution (e.g., by removing double marginalization), copyright owners would want to facilitate entry of competitors to Google. On the other hand, copyright owners’ incentive to keep the downstream market competitive is somewhat blunted by the ASA’s revenue sharing formula (if downstream competition drives the price of a work to zero, the copyright owner ends up with a share of nothing). But, the registry presumably could negotiate a change in the compensation scheme, e.g., to a per download payment, in order to solve this problem, at least for future works.

<sup>46</sup> See, e.g., DOJ Brief, *supra* note 8, at 21-22.

<sup>47</sup> If an orphan work turns out to have substantial value, the copyright owner would have an incentive to step forward to claim the royalties. See, e.g., Lemley, *supra* note 9, at 4.

<sup>48</sup> Lemley, *supra* note 9, at 6 also argues that a digitally available orphan work likely has many substitutes, both alternative works in digital form and the orphaned work itself in hardcopy form at libraries.



exclusive access to content through the ASA.”<sup>49</sup> This is an ambitious Section 2 argument, based on the idea that Google’s alleged market power in search could be maintained by preventing competitors from entering or building strength in search using a digital library service.<sup>50</sup> While proving up such an argument would face many practical obstacles in court (e.g., whether Google has market power in search, whether Google’s integration of the two services would have pro-competitive benefits, etc.), it may be indicative of the type of aggressive Section 2 enforcement that the DOJ under the current administration is willing to pursue. Certainly, it is consistent with AAG Christine Varney’s now famous remarks to the effect that Google is the new Microsoft and that vigorous Section 2 enforcement is needed.<sup>51</sup>

## Conclusions

The DOJ’s objections to the ASA suggest that the current administration is attempting to fulfill its promise to engage in more energetic Section 2 enforcement than its predecessor. This is reflected by the DOJ’s focus on “exclusivity” for Google and “foreclosure” of competitors. Such a focus runs the risk of overly discounting the procompetitive benefits of the ASA, including the introduction of a new service that might otherwise not exist for some time.

The ASA raises other issues that could be relevant for antitrust practitioners. If the court approves the ASA, it could have a substantial impact on the way in which some class actions are settled. For example, a Section 2 class action brought by a small competitor against a dominant firm could be settled by the dominant firm agreeing to enter into a business arrangement with all the members of the class in some unrelated line of business. The terms of the arrangement negotiated by the class representative would be binding on all members of the class that did not opt out. The class action mechanism has been recognized for its efficiency in litigating a large number of related claims. The ASA suggests another way in which the class action mechanism can promote efficiency—by allowing the defendant to settle litigation and simultaneously set up a business arrangement that would be costly and time-consuming to achieve through individual negotiations between the defendant and each putative class member.

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<sup>49</sup> DOJ Brief, *supra* note 8, at 22.

<sup>50</sup> See, e.g., Dennis Carlton & Michael Waldman, *The Strategic Use of Tying to Preserve and Create Market Power in Evolving Industries*, 33 RAND J. Econ. 194 (2002).

<sup>51</sup> <http://www.antitrustinstitute.org/archives/Varney.ashx>



*Note: This is a draft version of an essay forthcoming in the Buffalo Intellectual Property Law Journal. If you would like to cite or distribute this essay, please be sure to check whether the final version has been published. Updated information will be available at the journal website (<http://wings.buffalo.edu/law/biplj/>) and at my personal website (<http://james.grimmelmann.net/>).*

## The Elephantine Google Books Settlement

JAMES GRIMMELMANN<sup>†</sup>

### INTRODUCTION

The genius—some would say the evil genius—of the proposed Google Books settlement<sup>1</sup> is the way it fuses legal categories. The settlement raises important class action, copyright, and antitrust issues, among others. But just as an elephant is not merely a trunk plus legs plus a tail, the settlement is more than the sum of the individual issues it raises.<sup>2</sup> These “issues” are, really just different ways of describing a single, overriding issue of law and policy—a new way to concentrate an intellectual property industry.

In this essay, I will argue for the critical importance of seeing the settlement all at once, rather than as a list of independent legal issues. After a brief overview of the settlement and its history (Part I), I will describe some of the more significant issues raised by objectors to the settlement, focusing on the trio of class action, copyright, and antitrust law (Part II). The settlement’s proponents have responded with colorable defenses to every one of these objections. My point in this Part is not to enter these important debates on one side or the other, but rather to show that the hunt to characterize the settlement has ranged far and wide across the legal

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<sup>1</sup> Amended Settlement Agreement [hereinafter ASA], *Authors Guild, Inc. v. Google Inc.*, No. 05 CV 8136-DC (S.D.N.Y. filed Nov. 13, 2009) available at [http://www.googlebooksettlement.com/r/view\\_settlement\\_agreement](http://www.googlebooksettlement.com/r/view_settlement_agreement) (last visited Apr. 5, 2010).

<sup>2</sup> This is not a case of blind men feeling the elephant. In the actual *Authors Guild* case, the National Federation of the Blind led a coalition of disability-rights organizations in filing an amicus brief strongly supporting the settlement. See Comments of Disability Organizations of or for Print-Disabled Persons in Support of the Proposed Settlement, *Authors Guild*, No. 05 CV 8136-DC (S.D.N.Y. 2009).



landscape.

Truly pinning down the settlement, however, will require tracing the connections between these different legal areas. I will argue (Part III) that the central truth of the settlement is that it *uses an opt-out class action to bind copyright owners (including the owners of orphan works) to future uses of their books by a single defendant*. This statement fuses class action, copyright, and antitrust concerns, as well as a few others. It shows that the settlement is, at heart, a vast concentration of power in Google's hands, for good or for ill. The settlement is a classcopytrustliphant, and we must strive to see it all at once, in its entirety, in all its majestic and terrifying glory.

## I. BACKGROUND

This Part will provide the minimal necessary overview of the proposed settlement's history and terms.<sup>3</sup> The settlement is large, complicated, and full of rabbit holes, any one of which could make for a full article in its own right. Therefore, this Part will discuss only those settlement provisions that are essential to the discussion that follows. The reader interested in a fuller account should consult Jonathan Band's authoritative *The Long and Winding Road to the Google Books Settlement*.<sup>4</sup>

### A. *The Lawsuit*

In 2004, Google announced partnerships with major academic libraries to digitize the books in their collections. Google's employees, using specially designed machines, would take a photograph of each page in a book; Google computers would then look over the images to recognize the words on that page. The goal was to create a searchable index of books, akin to Google's searchable index of web pages.

At first, the project included only books in the public domain, but it soon expanded to include books under copyright as well. Although Google lets viewers view and download full PDF versions of the public-domain books, it displays only "snippets" from books under copyright—short sections of text above and below the appearance of the term the user searched for. If the copyright owner agrees, Google will show more of the book; if the copyright owner objects, Google turns off even the snippets.

After some jousting in the public arena, copyright owners sued Google in late 2005. Five named authors and the Authors Guild, a professional association representing about 8,000 United States authors, were the first,

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<sup>3</sup> See The Public Index, <http://thepublicindex.org> (a web site maintained by PIBSI, which has a large archive of documents related to the settlement).

<sup>4</sup> Jonathan Band, *The Long and Winding Road to the Google Books Settlement*, 9 J. MARSHALL REV. INTEL. PROP. L. 227 (2009).



giving the case the caption *Authors Guild, Inc v. Google Inc.* Five major publishers followed with their own suit shortly thereafter.<sup>5</sup> Importantly, the Authors Guild structured its lawsuit as a class action (on behalf of all copyright owners whose books were held by the University of Michigan library, Google's first library partner).

The lawsuits attracted substantial public attention when filed,<sup>6</sup> but dropped off the radar as it went into discovery. In 2006, however, after being prompted by the court to discuss settlement, the parties quickly hit on the general outlines of a deal that they could all agree to. The details of this "groundbreaking" settlement, however, were complicated enough that it took another two years to hammer them all out. On October 28, 2008, they announced a proposed settlement and filed it with the court.<sup>7</sup>

#### B. *The Settlement's Terms*

Many observers had thought that *Authors Guild, Inc v. Google Inc* would turn on whether Google could establish a fair use defense for its scanning, indexing, and snippet display.<sup>8</sup> The settlement let both sides claim victory on these issues. On the one hand, Google would be allowed to continue scanning and indexing on much the same terms as before: the only significant use it agreed to give up was snippet display for in-print books.<sup>9</sup> On the other hand, Google would pay for its past scans: \$60 for each book scanned before May 5, 2009.<sup>10</sup>

This much was relatively unsurprising. The more interesting—and controversial—parts of the settlement are the "Revenue Models" it authorizes Google to offer to the public. The details are immensely

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<sup>5</sup> See *McGraw Companies, Inc. v. Google Inc.*, No. 05 CV 08881 (S.D.N.Y. complaint filed Oct. 19, 2005), available at <http://thepublicindex.org/docs/complaint/publishers.pdf>.

<sup>6</sup> See, e.g., Edward Wyatt, *Googling Literature: The Debate Goes Public*, N.Y. TIMES, Nov. 19, 2005, at B7 (describing "face[] off" between copyright owners and Google in debate held at New York Public Library).

<sup>7</sup> See Notice of Motion for Preliminary Settlement Approval, *Authors Guild*, No. 05 CV 8136 (DC) (S.D.N.Y. filed Oct. 28, 2008), available at <http://thepublicindex.org/docs/motions/approval/motion.pdf>.

<sup>8</sup> For academic views on the fair use issue, see Band, *supra* note 4, at 236-60; see also Douglas Lichtman, *Copyright as Information Policy: Google Book Search from a Law and Economic Perspective*, in 9 INNOVATIVE POLICY AND THE ECONOMY 55-77 (Josh Lerner, et al. eds., 2008), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1472167](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1472167); Matthew Sag, *The Google Book Settlement and the Fair Use Counterfactual*, 55 N.Y.L. Sch. L. Rev. (forthcoming 2010), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1437812](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1437812); Hannibal Travis, *Google Book Search and Fair Use: iTunes for Authors, or Napster for Books?*, 61 U. MIAMI L. REV. 87 (2006), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=944048](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=944048).

<sup>9</sup> ASA, *supra* note 1 §§ 3.1(a), 3.4.

<sup>10</sup> *Id.* § 5.1(a).



complicated, and the version I will present is enormously simplified, but for our purposes, there are three Revenue Models of note:

*Consumer Purchase:* Google will sell individual online e-books to users. For example, a reader might pay \$7.99 and obtain perpetual access, whenever she wants, to a version of Randall Stross's *Planet Google* stored on Google's servers.<sup>11</sup>

*Institutional Subscription:* Google will also sell all-you-can-eat access to its entire catalog of books. A library or university could buy a year's worth of access to every book in Google's collection, at any time, by all of its members or students.<sup>12</sup> Presumably, this year's worth of access will cost rather more than \$7.99

*Preview Use:* Google will show up to 20% of the pages of a book for free to web users, while showing paid ads alongside the pages.<sup>13</sup>

All three of these uses will generate revenue. Google will keep 37% and pass 67% along to copyright owners, to be split between authors and publishers.<sup>14</sup> A new institution, to be called the Book Rights Registry, will actually administer the handling of the money.<sup>15</sup> The Registry will cut checks to copyright owners who have claimed their books, and hold the money in escrow for owners who have not.<sup>16</sup>

Copyright owners will retain substantial ongoing control over these uses. They have a year and a half to tell Google not to scan their book at all; if it has already scanned the book, it will delete the files.<sup>17</sup> At any point, a copyright owner can move her book in or out of these various uses—deciding, for example, to start selling it, or to allow Preview access only.<sup>18</sup> In the Consumer Purchase Revenue Model, an owner can set the selling price if she wants, or choose to let Google pick a price.<sup>19</sup> The Registry is also responsible for negotiating with Google on the terms of possible new uses like print-on-demand and PDF download.<sup>20</sup>

The settlement's defaults are also extremely important. Google must not display or sell in-print books unless and until the copyright owner

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<sup>11</sup> *Id.* §4.2.

<sup>12</sup> *Id.* § 4.1

<sup>13</sup> *Id.* §§ 4.3..

<sup>14</sup> *Id.* § 4.5(a) (requiring Google to pay 70% of its revenues to copyright owners), 1.86–87 (allowing Google to reduce the amount it pays copyright owners by 10% to pay its “operating costs”). After ten years, unclaimed funds may be given to charity instead. *See id.* § 6.3(a)(i)(3).

<sup>15</sup> *Id.* § 6.1.

<sup>16</sup> *Id.* § 6.3.

<sup>17</sup> *Id.* § 3.5(a).

<sup>18</sup> *Id.* § 3.2(e)(i).

<sup>19</sup> *Id.* § 4.2(b).

<sup>20</sup> *Id.* § 4.7.



individually authorizes it to.<sup>21</sup> For out-of-print books, the default is exactly the opposite: Google will sell copies through the Consumer Purchase Revenue Model, unclude them in the Institutional Subscription Revenue Model, and allow Previews.<sup>22</sup> The copyright owner of an out-of-print book can tell Google to turn off these uses, but by default they start on.

### C. *Where Are We Now?*

The core terms of the settlement, described in the previous Section, have remained substantially unchanged since the settlement was filed in October 2008.<sup>23</sup> The year and a half since then, however, has hardly been uneventful. Because the proposed settlement would be a class-action settlement, its approval requires notice to the class, an opt-out and objection period, and a fairness hearing.<sup>24</sup> After District Judge John Sprizzo, who had been hearing the case, signed the scheduling order, he passed away in December 2008.<sup>25</sup> The case was reassigned to District Judge Denny Chin.<sup>26</sup> The class-action notice program began in January 2009, with an opt-out/objection deadline in May and a fairness hearing in June.<sup>27</sup>

After a relatively quiet winter and early spring, controversy around the settlement began to heat up as the May deadline approached. A group of authors, led by John Steinbeck's literary estate, asked for—and were granted—a four-month delay, pushing the opt-out/objection deadline back to September 4 and the fairness hearing to October 7.<sup>28</sup> This revised filing

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<sup>21</sup> *Id.* § 3.2(b).

<sup>22</sup> *Id.*

<sup>23</sup> Notice of Motion for Preliminary Settlement Approval, *Authors Guild, Inc. v. Google Inc.*, No. 05 CV 8136-JES, (S.D.N.Y. filed Oct. 28, 2008), available at <http://thepublicindex.org/docs/motions/approval/motion.pdf>.

<sup>24</sup> FED. R. CIV. P. 23(e).

<sup>25</sup> Bruce Weber, *Judge Sprizzo, 73, U.S. Judge, Dies*, N.Y. TIMES, Dec. 18, 2008, at B12, available at <http://www.nytimes.com/2008/12/18/nyregion/18sprizzo.html>.

<sup>26</sup> Notice of Reassignment, *Authors Guild*, No. 05 CV 8136 (S.D.N.Y. Jan. 1, 2009), available at <http://docs.justia.com/cases/federal/district-courts/new-york/nysdce/1:2005cv08136/273913/70/>. Judge Chin has since been appointed to a seat on the Second Circuit. See Benjamin Weiser, *Appeals Court Judge and US Attorney Are Confirmed*, N.Y. TIMES, Apr. 23, 2010, at A24, available at <http://www.nytimes.com/2010/04/23/nyregion/23appoint.html>. He has not indicated whether he intends to issue a ruling in the case or to allow it to be assigned to a third District Judge.

<sup>27</sup> Order Granting Preliminary Settlement Approval, *Authors Guild*, No. 05-CV-8136-JES (S.D.N.Y. filed Nov. 17, 2008) available at [http://thepublicindex.org/docs/motions/approval/order\\_granting\\_preliminary\\_approval.pdf](http://thepublicindex.org/docs/motions/approval/order_granting_preliminary_approval.pdf).

<sup>28</sup> Letter from Andrew C. Devore to J. Chin, Apr. 24, 2009, available at <http://thepublicindex.org/docs/motions/approval/devore.pdf> (proposed extension dates); *Authors Guild*, No. 05 CV 8136 (DC) (S.D.N.Y. filed Apr. 24, 2009) available at [http://thepublicindex.org/docs/motions/approval/order\\_allowing\\_extension.pdf](http://thepublicindex.org/docs/motions/approval/order_allowing_extension.pdf) (order granting extension).



deadline more or less held, with hundreds of objections and letters supporting and opposing the settlement pouring in during late August and early September.<sup>29</sup>

The most influential filing was a Statement of Interest offered by the United States on September 18.<sup>30</sup> It praised some aspects of the settlement, but expressed substantial skepticism about the settlement's class-action bona fides and antitrust implications.<sup>31</sup> In response, the parties to the settlement withdrew it,<sup>32</sup> promising to offer a revised version forthwith.<sup>33</sup> "Settlement 2.0" arrived on November 13, just before midnight,<sup>34</sup> the accelerated re-notice schedule provided for objections and fresh opt-outs to be filed by January 28, 2010, with a fairness hearing on February 18.<sup>35</sup>

The most significant change from Settlement 1.0 to Settlement 2.0 was a significant narrowing of the settlement's geographic scope. Settlement 1.0 applied to all books that were the subject of a United States copyright interest—essentially, any book published anywhere in the world that Google managed to find a copy of and scan in the United States.<sup>36</sup> Settlement 2.0 applies only to books registered with the United States Copyright Office or published in the United Kingdom, Canada, or Australia.<sup>37</sup> Settlement 2.0 also creates an Unclaimed Works Fiduciary to

<sup>29</sup> See The Public Index, Responses to the Settlement, <http://thepublicindex.org/documents/responses> (last visited Apr. 17 2010).

<sup>30</sup> Statement of Interest of the United States of America Regarding Proposed Class Settlement, [hereinafter Statement of Interest] *Authors Guild, Inc. v. Google Inc.*, No. 5 CV 8136 (DC) (S.D.N.Y. filed Sept. 18, 2009) available at <http://thepublicindex.org/docs/letters/usa.pdf>.

<sup>31</sup> *Id.*

<sup>32</sup> Notice of Unopposed Motion to Adjourn Oct. 7, 2009 Final Fairness Hearing and Schedule Status Conference, *Authors Guild*, No. 5 CV 8136 (DC) (S.D.N.Y. filed Sept. 22, 2009) available at [http://thepublicindex.org/docs/motions/hearing/adjourn\\_motion.pdf](http://thepublicindex.org/docs/motions/hearing/adjourn_motion.pdf); Order Granting Unopposed Motion to Adjourn Oct. 7, 2009 Final Fairness Hearing and Denying Adjournment of Schedule Status Conference, *Authors Guild*, No. 5 CV 8136-DC (S.D.N.Y. filed Sept. 24, 2009) available at [http://thepublicindex.org/docs/case\\_order/20090924.pdf](http://thepublicindex.org/docs/case_order/20090924.pdf).

<sup>33</sup> Transcript of Oct. 7, 2009 Schedule Status Conference, *Authors Guild*, No. 5 CV 8136 (DC) (S.D.N.Y. Oct. 7, 2009) available at [http://thepublicindex.org/docs/case\\_order/Status%20Conference%20Transcript.pdf](http://thepublicindex.org/docs/case_order/Status%20Conference%20Transcript.pdf).

<sup>34</sup> Notice of Motion for Preliminary Approval of Amended Settlement Agreement, *Authors Guild*, No. 5 CV 8136 (DC) (S.D.N.Y. Nov. 13, 2009) available at <http://docs.justia.com/cases/federal/district-courts/new-york/nysdce/1:2005cv08136/273913/768/>.

<sup>35</sup> Order Granting Preliminary Approval of Amended Settlement Agreement, *Authors Guild*, No. 5 CV 8136 (DC) (S.D.N.Y. Nov. 19, 2009) available at [http://thepublicindex.org/docs/amended\\_settlement/order\\_granting\\_prelim\\_approval.pdf](http://thepublicindex.org/docs/amended_settlement/order_granting_prelim_approval.pdf).

<sup>36</sup> Declaration of Michael J. Boni in Support of Plaintiffs' Motion for Preliminary Settlement Approval, Exhibit 1 § 1.16, at 3, *Authors Guild*, No. 05 Civ. 8136-JES (S.D.N.Y. filed Oct. 28, 2008), available at [http://thepublicindex.org/docs/amended\\_settlement/Boni\\_declaration.pdf](http://thepublicindex.org/docs/amended_settlement/Boni_declaration.pdf).

<sup>37</sup> ASA, *supra* note 1, § 1.19.



monitor the handling of unclaimed funds and to take a few ministerial actions on behalf of owners who haven't claimed their books.<sup>38</sup>

The filings this time were fewer in number—a few dozen fully briefed objections and a slightly larger number of less formal letters—but no less contentious.<sup>39</sup> The parties replied in a trio of memoranda that ran to some 350 pages, supported by thousands of pages of supporting affidavits.<sup>40</sup> The fairness hearing featured some twenty-six objectors and amici, plus responses from the parties, and a strong statement from the Department of Justice—now firmly in the “opposed” camp.<sup>41</sup> At the close of the hearing, Judge Chin took the case under advisement, offering no hint as to when he would rule.<sup>42</sup>

## II. CLASS ACTION, COPYRIGHT, ANTITRUST

The description above barely scratches the surface of a large and very complicated settlement. But it should be enough to give a sense of the multifarious legal issues the proposed *Authors Guild* settlement raises. This Part will sketch a few of the more prominent ones, with emphasis on the Big Three: class action, copyright, and antitrust. The question to keep in mind will be: Do these legal issues get at what is truly remarkable about this settlement?

### A. *Class Action*

Although they are interesting and controversial,<sup>43</sup> I would like to leave aside the purely “procedural” class action issues: Have the class members been given adequate notice of the settlement and the meaningful ability to opt out, as required by Rule 23?<sup>44</sup> Even if not, these sorts of defects are at least theoretically fixable. The parties could spend more money on better translations, wider mailings, and a more usable settlement website. An indictment of this particular animal doesn't necessarily doom the rest of its

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<sup>38</sup> *Id.* § 6.2(b)(iii).

<sup>39</sup> See The Public Index: The Amended Settlement and Responses, [http://thepublicindex.org/documents/amended\\_settlement](http://thepublicindex.org/documents/amended_settlement).

<sup>40</sup> See *id.*

<sup>41</sup> Transcript of Fairness Hearing, *Authors Guild, Inc v. Google Inc*, No. 05 Civ. 8136 (S.D.N.Y. Feb. 18, 2010), available at [http://thepublicindex.org/docs/case\\_order/fairness-hearing-transcript.pdf](http://thepublicindex.org/docs/case_order/fairness-hearing-transcript.pdf).

<sup>42</sup> *Id.* at 166.

<sup>43</sup> See, e.g., Objections of Harrassowitz, Media24, Studentlitteratur AB, Norstedts Förlagsgrupp AB, Norstedts Kartor AB, & Leopard Förlag AB to Proposed Settlement & Brief of Amici Curiae Börsenverein des Deutschen Buchhandels *et al.*, *Authors Guild*, No. 05 Civ. 8136-DC (ECF) (S.D.N.Y. filed Aug. 31, 2009) [hereinafter Harrassowitz Objections], available at <http://thepublicindex.org/docs/objections/harrassowitz.pdf>.

<sup>44</sup> FED. R. CIV. P. 23(c)(2)(B); 23(e)(1).



species.

Similarly, we can pass relatively quickly over the equally strenuous objections to particular economic provisions of the settlement, such as Google's 37% share of the money and the relative split of revenues between publishers and authors.<sup>45</sup> Even if the objectors are right that Settlement 2.0 is financially unfair to some or all copyright owners,<sup>46</sup> it is possible to imagine a Settlement 3.0 that gets the numbers right. Additionally, the settlement is replete with opportunities for copyright owners to remove their books from the various revenue models at any point.<sup>47</sup> They would still be bound by the settlement's terms,<sup>48</sup> so this option is something less than a true opt-out from the class action. Still, these "internal opt-outs," as I like to call them, do give copyright owners the ability to withdraw from many of the settlement's commercial programs, should they prove unfair.

The more interesting and most fundamental class-action issues go to the question of future claims. The prototypical damages class action (under Rule 23(b)(3)) gives class members a cash payout in exchange for their release of claims against the defendant. Imagine a check for \$50, intended to cover the average cost to repair a defective gas grill. The *Authors Guild* settlement, however, requires plaintiff class members to give up not only their *past* claims against Google for the books it has scanned, but also their *future* claims against Google for all the uses it will make of those scans when it sells copies of them.<sup>49</sup>

In a damages class action, the only thing class members have at stake is their claim for damages. Even if their lawsuit is mismanaged or compromised too cheaply, nothing worse will happen to them. Their harms are over and done with; the lawsuit is only a dispute about compensation. When future claims are on the table, though, class members face the risk that a bad settlement could expose them to future harms as well.

At first glance, the settlement appears to run afoul of Supreme Court precedents, established in asbestos cases, expressing grave skepticism about future claims.<sup>50</sup> But the issue is hardly clear-cut. Courts have sometimes entered class-action settlements that require plaintiffs to release future claims against the defendant.<sup>51</sup> The parties here have pointed to settlements

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<sup>45</sup> See ASA, *supra* note 1, § 4.5(a).

<sup>46</sup> See, e.g., Objections of Arlo Guthrie, Julia Wright, Catherine Ryan Hyde, & Eugene Linden to Proposed Class Action Settlement Agreement, *Authors Guild*, No. 05 Civ. 8136 (DC) (S.D.N.Y. Sept. 2, 2009), available at <http://thepublicindex.org/docs/objections/guthrie.pdf>.

<sup>47</sup> ASA, *supra* note 1, § 3.5.

<sup>48</sup> *Id.* § 10.2.

<sup>49</sup> *Id.*

<sup>50</sup> See *Ortiz v. Fibreboard Corp.*, 527 U.S. 815 (1999); *Amchem Prods., Inc. v. Windsor*, 521 U.S. 591 (1997).

<sup>51</sup> See Brief of Google Inc. in Support of Motion for Final Approval of Amended



in mass trespass<sup>52</sup> and nuisance<sup>53</sup> cases in which the plaintiffs were ultimately compensated for transferring an easement to the defendant. A challenge to the *Authors Guild* settlement on future-claims grounds, then, must either repudiate these cases or distinguish them.

The Second Circuit deals with future-claims questions in class actions by allowing the release of claims not part of the original lawsuit only if they and the claims sued on are based on an “identical factual predicate.”<sup>54</sup> Here, the settlement’s opponents claim that the “factual predicate” to the lawsuit was Google’s scanning and display of snippets, *not* the sale of whole books.<sup>55</sup> The settlement’s proponents counter that the “factual predicate” was Google’s infringement in making digital uses of complete books, basically the same thing as the settlement would allow.<sup>56</sup> This is an important, subtle question, with enormous implications for the settlement. But it is *subtle*—surely there is something more going on with this settlement than the exact language of the original complaints.

## B. Copyright

We see the same pattern repeated when we look at copyright issues. The most widely repeated copyright objection is that the settlement impermissibly imposes an “opt-out” system on copyright owners.<sup>57</sup> The Constitution,<sup>58</sup> the Copyright Act,<sup>59</sup> and international copyright treaties<sup>60</sup> all emphasize the “exclusive” rights of authors. Once an author has created a copyrightable work, she alone can authorize its use—or refuse

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Settlement Agreement at 8–14, *Authors Guild*, No. 05 Civ. 8136 (DC) (S.D.N.Y. filed Feb. 11, 2010) [hereinafter Google Brief in Support], available at [http://thepublicindex.org/docs/amended\\_settlement/google\\_final\\_approval\\_support.pdf](http://thepublicindex.org/docs/amended_settlement/google_final_approval_support.pdf); Plaintiffs’ Supplemental Memorandum Responding to Specific Objections at 45–51, *Authors Guild*, No. 05 Civ. 8136 (DC) (S.D.N.Y. Feb. 11, 2010), available at [http://thepublicindex.org/docs/amended\\_settlement/Supplemental\\_memoirandum\\_of\\_law.pdf](http://thepublicindex.org/docs/amended_settlement/Supplemental_memoirandum_of_law.pdf).

<sup>52</sup> *Uhl v. Thoroughbred Tech. & Telecomms., Inc.*, 309 F.3d 978 (7th Cir. 2002).

<sup>53</sup> *Alvarado v. Memphis-Shelby County Airport Auth.*, Nos. 99-5159, 99-5162, 2000 WL 1182446 (6th Cir. Aug. 15, 2000).

<sup>54</sup> *See, e.g., Wal-Mart Stores, Inc. v. Visa U.S.A., Inc.*, 396 F.3d 96, 107 (2d Cir. 2005).

<sup>55</sup> *See, e.g., Objections of Microsoft Corp. to Proposed Amended Settlement & Certification of Proposed Settlement Class & Sub-class at 13–15, Authors Guild*, No. 05 Civ. 8136 (DC) (S.D.N.Y. filed Jan. 28, 2010) [hereinafter Microsoft Objections], available at [http://thepublicindex.org/docs/amended\\_settlement/Microsoft\\_Objection.pdf](http://thepublicindex.org/docs/amended_settlement/Microsoft_Objection.pdf).

<sup>56</sup> Google Brief in Support, *supra* note 51, at 24–28.

<sup>57</sup> *Id.*

<sup>58</sup> U.S. CONST. art. I, § 8, cl. 8.

<sup>59</sup> 17 U.S.C. § 106 (2006).

<sup>60</sup> Berne Convention for the Protection of Literary and Artistic Works art. 9, Sept. 9, 1886, S. TREATY DOC. NO. 99-27 (1986), 828 U.N.T.S. 221, [hereinafter Berne Convention] available at [http://www.wipo.int/treaties/en/ip/berne/trtdocs\\_wo001.html](http://www.wipo.int/treaties/en/ip/berne/trtdocs_wo001.html).



permission.<sup>61</sup> In this sense, copyright is an “opt-in” regime. Unless the author affirmatively opts in to allow a use, no one else is allowed to engage in it.

The settlement, however, imposes an “opt-out” system on copyright owners. This is most apparent for out-of-print books. There, unless a copyright owner objects, Google is allowed to sell complete copies of the book both to individuals and as part of its subscription service.<sup>62</sup> The copyright owner *can* object at any time, but unless and until she *does*, Google is allowed to engage in these uses. That is an opt-out rule, not an opt-in. In the words of no less than the Register of Copyrights herself, the settlement would thus “flip copyright on its head.”<sup>63</sup>

Matters in the courtroom are not quite so black-and-white, however. “Opt-in only” is not actually a binding rule of copyright law. There are plenty of precedents for exceptions to this principle. United States law authorizes certain nonprofit public performances unless the copyright owner opts out by serving a notice of objection.<sup>64</sup> Many national collecting societies represent copyright owners on an opt-out basis.<sup>65</sup> International copyright law recognizes an entire category of “exceptions and limitations” to exclusive rights.<sup>66</sup>

If “opt-in only” has any traction, it is as a general principle that is operationalized in the texts of specific legislation and treaties. Those specific instantiations of the principle, however, come with their own definitions and qualifications. Once you start arguing about these details, you have arguably left the realm of really fundamental analysis. Should how we think about the *Authors Guild* settlement depend on the exact way that the Berne Convention use the term “formality”<sup>67</sup> or on the legislative history of Section 201(e) of the Copyright Act?<sup>68</sup>

The second-most prominent copyright issue raised by the settlement

<sup>61</sup> 17 U.S.C. § 201(a) (vesting initial ownership of copyright in a work’s author).

<sup>62</sup> See *supra* text accompanying note 22.

<sup>63</sup> *Competition and Commerce in Digital Books: Hearing Before the H. Comm. on the Judiciary*, 111th Cong. 64 (2009) (testimony of Marybeth Peters, Reg. of Copyrights, U.S. Copyright Office).

<sup>64</sup> 17 U.S.C. § 110(4).

<sup>65</sup> See Thomas Riis & Jens Schovsbo, *Extended Collective Licenses and the Nordic Experience - It's a Hybrid but is It a Volvo or a Lemon?*, 33 COLUM. J.L. & ARTS (forthcoming 2010), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1535230](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1535230).

<sup>66</sup> See, e.g., Berne Convention, *supra* note 58, art. 9.2.

<sup>67</sup> Berne Convention, *supra* note 58, art. 5.2, at 6; cf. Harrassowitz Objections, *supra* note 41, at 17–21.

<sup>68</sup> 17 U.S.C. § 201(e) (2006); cf. Objection of Amazon.com, Inc., to Proposed Settlement at 32–34, *Authors Guild, Inc. v. Google Inc.*, No. 05 Civ. 8136-DC (S.D.N.Y. filed Sept 1, 2009), available at <http://thepublicindex.org/docs/letters/amazon.pdf>.



concerns so-called “orphan works.”<sup>69</sup> Many works are under copyright but have owners who cannot be found. Would-be users, in turn, cannot find an owner to ask permission for their uses, leaving the works to languish, unused. The absentee owners lose, too, since their works are yielding neither royalties nor exposure. This is a known problem in copyright law, going well beyond just books.<sup>70</sup>

The settlement would make orphan books—which are, almost by definition, currently out of print—available again. Since the owner cannot be found, she is also unlikely to pull the “opt-out” lever on her book in the settlement. The result is that Google will sell full copies of it online. These books thus go from being mostly unavailable to being widely available. What is more, the owner will be accruing revenues from these sales. When she shows up to claim her book, she will also receive a check for her share of the money—giving her an incentive to come forward.

So far, then, the orphan works point sounds like an argument for the settlement, rather than the basis of an objection to it.<sup>71</sup> To the extent that there is an “orphan works objection” purely within copyright law, it would go something like this: The orphan works problem is so big and so far-reaching that it is inherently legislative. Solving it will require balancing the interests of authors, publishers, libraries, readers, and others; that kind of political compromise is a job for Congress. Indeed, Congress has been actively considering orphan works legislation in its most recent sessions.<sup>72</sup> The court should respect Congress’s role in setting copyright policy by declining to approving a settlement that engages in *de facto* orphan works

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<sup>69</sup> See, e.g., Brief of Amicus Curiae Public Knowledge in Opposition to the Proposed Settlement, *Authors Guild*, No. 05 Civ. 8136 (S.D.N.Y. filed Sept. 8, 2009), available at <http://thepublicindex.org/docs/letters/pk.pdf>.

<sup>70</sup> COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS 55 (2006), available at <http://www.copyright.gov/orphan/orphan-report-full.pdf>.

<sup>71</sup> Google in particular has made this point heavily. See Google Brief in Support, *supra* note 49, at 1-2, 66-67. It has also recruited nonprofit and academic allies who admire this aspect of the settlement. Letter from Gregory Crane, Editor in Chief, Perseus Project, to Denny Chin, Judge, S.D.N.Y. (Aug. 7, 2009), available at <http://thepublicindex.org/docs/letters/crane.pdf>; Letter from Kenneth L. Frazier, Director, General Library System, Univ. of Wisconsin, to Denny Chin, Judge, S.D.N.Y. (Aug. 27, 2009), available at <http://thepublicindex.org/docs/letters/wisconsin.pdf>. And for many public-interest observers of the settlement, its effect on orphan works has weighed heavily in their considerations, tipping some of them into supporting the deal, despite other misgivings. See, e.g., Brief Amicus Curiae of the Center for Democracy & Technology in Support of Approval of the Settlement & Protection of Reader Privacy, *Authors Guild*, No. 05 Civ. 8136 (S.D.N.Y. Sept. 4, 2009) [hereinafter CDT Brief], available at [http://thepublicindex.org/docs/letters/cdt\\_amicus.pdf](http://thepublicindex.org/docs/letters/cdt_amicus.pdf); Letter from Jonathan Band to Denny Chin, Judge, S.D.N.Y. (Sept. 3, 2009), available at <http://thepublicindex.org/docs/letters/ALA%20complete.pdf>.

<sup>72</sup> See Shawn Bentley Orphan Works Act of 2008, S. 2913, 110th Cong. (2008); Orphan Works Act of 2008, H.R. 5889, 110th Cong. (2008).



reform.<sup>73</sup>

This is an important policy point about institutions and copyright law, but it is not exactly a legal argument against the settlement.<sup>74</sup> The Copyright Act nowhere mentions “orphan works”; the court must apply copyright law and class action law to decide the case before it.<sup>75</sup> “Don’t step on Congress’s toes,” is, at most, a prudential argument—one that could hardly prevail over Congress’s explicit directions as reflected in the United States Code. Even in the realm of policy, Congress’s inaction could also be regarded as an argument *for* the settlement: it accomplishes something of great social value that Congress has been unable to. At any rate, Congress has certainly not forbidden the courts from ever touching orphan works in any way, shape, or form. Thus, while the settlement’s effects on orphan works are perhaps central to its appeal, they are not—at least on their own—also central to the legal concerns it raises.

### C. *Antitrust*

The third substantial body of law clearly implicated by the settlement is antitrust. Both the Consumer Purchase and the Institutional Subscription Revenue Models give Google the power to set prices on behalf of a large group of copyright owners, who are normally competing with each other in the market for readers. That is the kind of arrangement that normally raises antitrust eyebrows.<sup>76</sup> Consider the two programs in turn.

To sell an individual e-book in the Consumer Purchase, Revenue Model, Google needs to set a price. One option under the settlement is a Specified Price, chosen by a copyright owner.<sup>77</sup> This approach has to be fine for antitrust purposes. Half.com is not a cartel even though thousands of sellers all use it to sell their books. But the settlement also allows for a Settlement Controlled Price, set by Google, using an algorithm it will develop for this purpose.<sup>78</sup> That’s “algorithm,” singular. This fact ordinarily rings antitrust alarm bells: the famous *Socony-Vacuum* case

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<sup>73</sup> Microsoft Objections, *supra* note 55, at 6–16.

<sup>74</sup> The amicus brief I worked on, which focuses on the orphan works issue, ultimately recommends only that the court proceed with great caution, rather than recommending approval or rejection on this basis. Brief of Amicus Curiae Institute for Information Law and Policy [hereinafter IILP] at 1, 25, *Authors Guild, Inc. v. Google Inc.*, No. 05 Civ. 8136 (DC) (S.D.N.Y. filed Sept. 3, 2009), available at <http://thepublicindex.org/docs/letters/nyls-iilp.pdf>.

<sup>75</sup> Google Brief in Support, *supra* note 51, at 5–7.

<sup>76</sup> Randal C. Picker, *The Google Book Search Settlement: A New Orphan Works Monopoly?* 15-17 (*Univ. of Chicago John M. Olin Law & Econ., Working Paper No. 462, 2009*), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1387582#](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1387582#).

<sup>77</sup> See ASA, *supra* note 1 § 4.2(b)(i)(1).

<sup>78</sup> *Id.* § 4.2(b)(i)(2).



forbade agreements to use a common “formula” to set prices.<sup>79</sup> While the copyright owner can choose whether to use the Settlement Controlled Price,<sup>80</sup> it is the default, and applies unless the copyright owner takes action to set a price.<sup>81</sup>

This sounds damning, save for one very important fact. Google is specifically directed to design an algorithm that will price each book as though in a competitive market: i.e., to “maximize revenues for the Rightsholder for such Book and without regard to changes to the price of any other Book.”<sup>82</sup> This is arguably the anti-formula: a price-fixing scheme designed *not* to distort the natural workings of the market.<sup>83</sup> If Google acts in good faith in designing the algorithm, and if the algorithm works as intended, then Settlement Controlled Pricing will avoid the cardinal economic sin of antitrust: collectively raising prices above the level they would be at under true competition. This is not necessarily an unlikely prospect. Who else would be in a better position to find smart prices than Google, with its enormous treasure-houses of data?

Of course, the fact that the algorithm is *economically* harmless doesn’t necessarily make it *legally* harmless. Moreover, the algorithm’s secrecy raises its own concerns. What if Google gets the prices wrong? Will Google be tempted to cheat and raise prices collectively? Will the Registry have the right incentives to monitor Google’s adherence to the settlement? Will copyright owners have incentives to make the scheme stick if Google does raise prices? These are legitimate questions about a novel and untried scheme—but if the only question about the algorithm is whether it will work in practice, then we are not quite in the heartland of antitrust trouble we seemed to start out in.<sup>84</sup>

Turning to the Institutional Subscription Revenue Model, the coordination is in a sense even more explicit than with the individual purchases. Google will set a single price that applies to everyone’s books.<sup>85</sup> Indeed, the Registry, which speaks for all the copyright owners in the settlement programs, will explicitly participate in setting that price.<sup>86</sup> Once again, it seems that the settlement actually requires coordinated price-

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<sup>79</sup> United States v. Socony-Vacuum Oil Co., 310 U.S. 150, 222–23 (1940).

<sup>80</sup> See ASA, *supra* note 1 § 4.2(b)(i).

<sup>81</sup> *Id.* § 4.2(b)(iii).

<sup>82</sup> *Id.* §§ 4.2(b)(i)(2), 4.2(c)(ii)(2).

<sup>83</sup> Einer Elhauge, *Why the Google Books Settlement is ProCompetitive*, 33–35, (Harvard Law & Econ. Discussion Paper No. 646, 2009), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1459028](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1459028), at 33–35.

<sup>84</sup> See *generally* Elhauge, *supra* note 81 (extensively discussing incentives under the settlement and likely outcomes).

<sup>85</sup> See ASA, *supra* note 1 § 4.1(a)(ii).

<sup>86</sup> *Id.*



fixing by competitors.

Once again, however, things are not quite as they seem. This system—a single price for a blanket license to a large collection of copyrighted works—is substantially equivalent to the system used by so-called “performance rights organizations” (PROs) like BMI and ASCAP to sell licenses to the public performance rights for musical works. Their prototypical client is a coffee shop that plays CDs over its speaker system all day: by purchasing licenses from the PROs, it engages in one-stop shopping to make those hundreds of daily public performances legal.

The PROs have faced antitrust scrutiny—and passed. When BMI was sued on a theory that its blanket license was a price-fixing scheme, the Supreme Court heard the case and blessed the arrangement, citing the efficiencies of one-stop-shopping and the nonexclusivity of the relevant contracts.<sup>87</sup> This, of course, is not the end of the matter. Scholars have challenged the economic reasoning behind the Supreme Court’s decision.<sup>88</sup> Moreover, the *Authors Guild* settlement conspicuously lacks a consent decree comparable to the one under which BMI lives—and the Supreme Court pointed to the consent decree as one of its reasons for blessing BMI’s programs.<sup>89</sup> One could readily imagine a principled antitrust case against the Institutional Subscription that distinguishes *BMI* or seeks to overturn it. But that case is tentative and uncertain and depends on complicated issues in both antitrust economics and antitrust law. Whatever makes this settlement great or horrifying, it is surely not the presence or absence of District Court review of subscription pricing.

### III. THE CLASSCOPYTRUSTLIPHANT

These separate analyses—class actions, copyright, and antitrust—are all onto something important about the settlement. But on their own, they seem to raise only incremental concerns about it. Even when summed, these three analyses make the settlement seem like no big deal. It happens to be a controversial, hundred-million-dollar no-big-deal, but the legal questions seem neither novel nor dramatic.

I would like to argue that this impression is an illusion. The settlement *is* a big deal, and it raises unprecedented legal questions of fundamental importance. To understand why, we need to integrate the perspectives of class action, copyright, and antitrust law. Putting them together shows how groundbreaking the settlement really is—and allows us

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<sup>87</sup> *Broad. Music, Inc. v. Columbia Broad. Sys., Inc.*, 441 US 1, 19-21 (1979).

<sup>88</sup> See Ariel Katz, *The Potential Demise of Another Natural Monopoly: Rethinking the Collective Administration of Performing Rights*, 1 J. COMPETITION LAW & ECON. 541, 571-76 (2005), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=547802](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=547802).

<sup>89</sup> *Broad. Music*, 441 U.S. at 23-24.



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ELEPHANTINE GOOGLE BOOKS SETTLEMENT

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to ask the really hard questions about it.

A. *All of the Above*

In a sentence:

The settlement uses an opt-out class action to bind copyright owners (including the owners of orphan works) to future uses of their books by a single defendant.

That is the heart of the settlement. It doesn't break down neatly into a class action issue, a copyright issue, and an antitrust issue. Instead, it raises a *single* issue of law and policy, one that touches on all three areas. Class action law recognizes its trunk; copyright its legs; antitrust its tail. But an elephant is not a trunk plus legs plus a tail; it is a single animal. So here: The settlement is a classcopyrightphant. To see it in all its glory, we must trace the connections:

1. *The settlement uses an opt-out class action to bind copyright owners.* The settlement is a class action, yes—but it is a *copyright* class action. This fact sets up an immediate tension between the opt-out world of class-actions and the opt-in world of copyright. It also provides one of the strongest responses to the “opt-in only” argument against the settlement. *Of course* a class action will be in tension with the opt-in logic of copyright; its whole *point* is collective adjudication. If it were opt-in, it wouldn't be a class action. By choosing to allow class actions, the United States has already made a trans-substantive choice that opt-in rights, copyright included, must sometimes yield.

But this point also works in reverse. To the extent that copyright is an exclusive opt-in right protected by a property rule, the law has made a deliberate choice to prize not just the economic value of the work but also the copyright owner's autonomy to choose which uses to allow. A class action's opt-out logic undermines that choice. This is not to say that class actions cannot deal in copyrights, only that when they do, the stakes are higher.

2. (*. . . including the owners of orphan works . . .*). One subclass of copyright owners is of special importance to this settlement: orphan owners. On the one hand, they provide the biggest policy justification for the settlement. The impossibility of obtaining permissions from un-findable owners would have doomed any purely voluntary attempt to build a comprehensive index; it is also responsible for the unavailability of many of these books. To the extent that the settlement “solves” the orphan works problem for books, it does so *because* it imposes an opt-out class action on their owners. The class action is a game-changer; it breaks free of the opt-in logic keeping these books out of circulation.

But this fact should also give us pause. Orphan copyright owners, by



definition, cannot be found. If there is one class of copyright owners we would expect *not* to opt out of a proposed settlement or to show up at the fairness hearing, it would be orphan owners. As in a Zen koan, the orphan owner whose voice can be heard in court is not the true orphan owner. (That is why several amicus filers, my institute included, recommended that the court appoint separate counsel to represent the interests of an orphan “subclass.”<sup>90</sup>) The opt-out class action helps break the orphan works logjam, but it is also uniquely dangerous precisely because we are dealing with orphan works.

For this reason, the internal opt-outs in the settlement are almost certainly essential, and so is the Unclaimed Works Fiduciary. The orphan works debate reminds us that many copyright owners are unlikely to identify themselves any time soon. As of the opt-out deadline, only about a million books had been claimed (out of some twelve million scanned).<sup>91</sup> Does the Unclaimed Works Fiduciary have sufficient powers to protect the interests of copyright owners who have yet to claim their books? Do they have sufficient internal opt-out rights to protect their interests once they do? These questions of class-action fairness cannot be answered without a close look at the copyright-policy issues pointed out by the orphan works debate.

3. . . . *to future uses of their books* . . . As discussed above, class actions that release future claims pose special dangers. Future *copyright* claims are particularly interesting, and delicate. In one sense, a copyright is nothing but an indeterminate set of future claims. The owner of tangible property almost always has a privilege to use as well as the right to exclude; the owner of a copyright has only the right to exclude.<sup>92</sup> The real-property future-use cases that involved the transfer of an easement transferred only an intangible exclusionary interest, leaving the owners’ substantial privileges to use largely intact. But to compromise a copyright owner’s right to sue is to compromise everything.

The copyright perspective also sheds new light on the question of whether the claims released in the settlement stem from the “identical factual predicate” as the original lawsuit. In one sense, yes, both involved claims of copyright infringement for Google’s use of digitized books. However, there is also a world of difference between the claims the

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<sup>90</sup> See Brief of Amicus Curiae ILLP, *supra* note 74.

<sup>91</sup> Declaration of Daniel Clancy in Support of Motion for Final Approval of Amended Settlement Agreement, *Authors Guild, Inc. v. Google Inc.*, No. 05 CV 8136 (DC) (S.D.N.Y. filed Feb. 11, 2010) available at [http://thepublicindex.org/docs/amended\\_settlement/dan\\_clancy\\_declaration.pdf](http://thepublicindex.org/docs/amended_settlement/dan_clancy_declaration.pdf).

<sup>92</sup> In Hohfeldian terminology, a tangible property owner has both privileges (to use) and claim-rights (to exclude); the owner of a copyright has only claim-rights. See Wesley Newcomb Hohfeld, *Some Fundamental Legal Conceptions as Applied in Judicial Reasoning*, 23 YALE L.J. 16 (1913).



copyright owners could have asserted against Google (which were subject to a strong, albeit debatable, fair use defense<sup>93</sup>) and the claims that would be released under the settlement (many of which are subject to no plausible fair use defense and would obviously be infringing if undertaken without the settlement's protection). By keeping book sales as *future* uses, Google avoided numerous copyright risks associated with those sales—a fact that ought to enter into the question of whether it is proper for a class action settlement to authorize such sales.<sup>94</sup>

4. . . . *by a single defendant.* And so we come to the antitrust angle. In Part II.C, we saw that the antitrust objections to the settlement were surprisingly indeterminate. The explanation for this fact, I would submit, is that if there is a compelling antitrust issue here, it has to do more with the manner of creating these programs than with the programs themselves. If the Institutional Subscription Revenue Model appeared on our doorstep one day, fully formed, I would have a hard time saying we ought to chase it away. Nevertheless, I would have a very different attitude toward the mad scientists whose unnatural experiments with class action law created it.

In particular, this was a class action explicitly structured to be exclusive. True, it is formally nonexclusive—nothing in it prohibits copyright owners from licensing anyone else to sell their books.<sup>95</sup> But in a world with orphan works in it, formal nonexclusivity will often be practically worthless. Google will have a good-to-go license; its competitors will have no one to turn to. The Department of Justice asked the parties to consider extending the licenses in the settlement to others; they declined.<sup>96</sup> (One possible reason: providing releases to non-defendant third-parties might cause the settlement to run afoul of . . . wait for it . . . class action law's limits on released claims.) Thus: class action law plus a known copyright issue together yield exclusivity, normally antitrust's domain!

One counter to this view might be that others wishing to compete with Google could obtain similar settlements of their own.<sup>97</sup> Whether this

<sup>93</sup> See, e.g., Sag, *supra* note 8.

<sup>94</sup> James Grimmelmann, *When the Unprecedented Becomes Precedent: Class Actions in a Google Book Search World*, Aug. 4, 2009, <http://james.grimmelmann.net/essays/UnprecedentedPrecedent>.

<sup>95</sup> See James Grimmelmann, *The Amended Google Books Settlement Is Still Exclusive*, CPI ANTITRUST JOURNAL (2010), available at [http://works.bepress.com/james\\_grimmelmann/26](http://works.bepress.com/james_grimmelmann/26).

<sup>96</sup> See Statement of Interest, *supra* note 30.

<sup>97</sup> See David Balto, *The Earth is Not Flat: The Public Interest and the Google Book Settlement: A Reply to Grimmelmann*, American Constitution Society, <http://www.acslaw.org/node/13812> (Jul. 22, 2009, 15:39 EST); but see James Grimmelmann, *The Google Book Search Settlement: Questions Remain*, American Constitution Society, <http://www.acslaw.org/node/13837> (Jul. 28, 2009, 14:49 EST).



possibility is serious enough to count in the antitrust analysis depends on both class-action and copyright law. The class action would need to face the same kinds of justiciability, procedural, and fairness concerns as the present one (plus the added difficulty of not being based on a collusive lawsuit). Furthermore, whether copyright owners would be interested in negotiating a deal (or should be presumed to be interested by a court, given copyright's opt-in logic) depends on economic issues at the intersection of copyright and antitrust law: what are the incentives of sellers in a differentiated market with various intermediary business models? My tentative conclusion is that "me-too settlements" are highly unlikely; the procedural bars are serious and the plaintiffs in the present suit would have an incentive to fight similar settlements for others.<sup>98</sup>

Thus, taking the settlement's practical exclusivity as a given, the real antitrust question becomes whether we should consider it problematic. This is subtly different from the paradigm case of exclusionary behavior that raises the entry barriers faced by competitors. Instead, Google would be using the legal system to selectively lower entry barriers for Google and no one else. Randal Picker has analogized the situation to the acquisition of a government-granted franchise.<sup>99</sup> I would add that this would be a very unusual franchise, one granted not by a legislature but by a court deciding a lawsuit.<sup>100</sup>

Some commentators have praised the settlement because it raises the availability of books to consumers.<sup>101</sup> For books that are out of print, the market will see an increase in the number of competitors (one rather than zero), normally a good thing in antitrust law. However, things may look rather different when copyright is part of the picture. Copyright cares about more than just increasing the supply of books that already exist; it also cares about authors' incentives to create new books. The effect of the settlement on future incentives, however, depends not just on what it does to the future claims of current book copyright owners (a copyright question) but also the

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<sup>98</sup> See Grimmelmann, *supra* note 95.

<sup>99</sup> Randal C. Picker, *Antitrust and Innovation: Framing Baselines in the Google Book Search Settlement*, (Univ. of Chicago Law & Econ., Olin Working Paper No. 493, 2009), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1499482](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1499482).

<sup>100</sup> Picker also raised the possibility that the settlement, because it was entered by a court, could be categorically immune from antitrust scrutiny under the *Noerr-Pennington* doctrine. Picker, *supra* note 76. The parties specifically waived *Noerr-Pennington* in Settlement 2.0, but note again the antitrust/class-action connection. See ASA, *supra* note 1, attachment M at 7.

<sup>101</sup> Letter from Lateef Mtimba, Professor of Law and Dir., and Steven D. Jamar, Professor of Law and Assoc. Dir., Inst. of Intellectual Prop. & Social Justice, Howard University School of Law, to Denny Chin, Judge, S.D.N.Y. (Sept. 7, 2009) [hereinafter IIPSJ Letter] available at [http://thepublicindex.org/docs/letters/Inst\\_IP\\_Social\\_Justice.pdf](http://thepublicindex.org/docs/letters/Inst_IP_Social_Justice.pdf); see Elhaug *supra* note 81.



extent to which future creators will think themselves sufficiently similarly situated to the plaintiffs here that a future settlement in another case might affect *them* (a class-action question). This “antitrust” question turns out to depend crucially on both copyright and class-action issues!<sup>102</sup>

#### B. *Concentrated Power*

Is the Google Books settlement primarily about class actions, copyright, antitrust, or other issues? All of the above. The central truth of the settlement is that it uses a class action to gather together scattered copyrights. This concentrating effect touches on deep-seated concerns all across the law. Antitrust law, of course, owes its birth (and its name) to late 19th-century fears of the enormous power of the “trusts,” and continues to scrutinize combinations, agreements, mergers, market share and other manifestations of concentrated economic power.<sup>103</sup> But it is hardly the only area of law with similar worries.

Class action law worries about protecting large and diffuse classes against more powerful defendants. To give the class members a fighting chance in the courtroom, the law lets them join together under the banner of a single champion: class counsel. But having concentrated so much power in class counsel’s hands, class action law must also protect the class from its own lawyers.<sup>104</sup> This tension between safety in numbers and a single point of failure animates all of class-action law.

Meanwhile, copyright law also struggles with the danger of concentrated power. Modern Anglo-American copyright law was born with the 1709 Statute of Anne, a deliberate choice for creative and economic decentralization and a rejection of the concentrated power of the Stationers’ Guild.<sup>105</sup> But this decentralization also creates anti-commons problems (orphan works being only one example), which copyright worldwide often tries to solve with centralized institutions: registries, compulsory licenses, and collecting societies.

Indeed, it is noteworthy how many of the other objections to the settlement—not just the Big Three—are driven by this concentration of power. Take, for example, the fear that Google could choose to censor its

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<sup>102</sup> But see, IIP SJ Letter, *supra* note 101 (arguing that increased availability of the works themselves further the goals of copyright); see also Brief of Amicus Curiae IILP *supra* note 74.

<sup>103</sup> See RUDOLPH J.R. PERITZ, *COMPETITION POLICY IN AMERICA: HISTORY, RHETORIC, LAW* (OXFORD UNIVERSITY PRESS, 200) (1996).

<sup>104</sup> See, e.g., Susan P. Koniak & George M. Cohen, *Under Cloak of Settlement*, 82 VA. L. REV. 1051, 1279 (1996).

<sup>105</sup> See LYMAN RAY PATTERSON, *COPYRIGHT IN HISTORICAL PERSPECTIVE* (Vanderbilt University Press, 1968).



collection of digitized books.<sup>106</sup> This fear would recede if Google were a small distributor of a few books, competing vigorously with thousands of others. It is the possibility that Google could become the only source for millions of books that gives this concern its urgency.<sup>107</sup> The same could be said about privacy: watching how I read one book is creepy, but watching how I read all my books is profoundly unnerving.<sup>108</sup>

Even the dry, detailed questions—such whether 37%/67% is a fair revenue split or how many class notices were mailed—take on a special urgency when the class is so large and the settlement so far-reaching in its effects on them. One of the most telling filings came from a coalition of visual artists led by the American Society of Media Photographers, which objected to the exclusion of pictorial works from the settlement and also to the settlement's fairness.<sup>109</sup> At first, this pair of objections sounds logically inconsistent: if the settlement is as a bad deal as they claim, the photographers should be happy to be excluded. But their objection makes more sense if one also accepts their premise that the settlement will so profoundly define the terms on which digitized out-of-print books are made available that it will, as a practical matter, also define the deal visual artists will receive when their day comes. They understand that the *Authors Guild* settlement will all but preempt the field.

#### CONCLUSION

I can understand zero and I can understand infinity—but one, I'm not so sure about. A possible response to the orphan works dilemma would be to say that we really do care about copyrights, even those held by owners who are hard to find. On this view, orphan owners aren't dead to the world, only sleeping, and it is our duty to them to safeguard their rights against the day of their return. If having no sellers of a given work is the price we must pay for taking copyrights seriously, then so be it: that's what it *means* to

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<sup>106</sup> See, e.g., General Library System letter *supra* note 69; See also ASA, *supra* note 1 § 3.7(e). (explaining that whether those provisions go far enough is, like so much else with this settlement, controversial).

<sup>107</sup> See PATTERSON, *supra* note 105 (describing a long reflected concern of copyright law: the Stationers' Guild was also an instrument of royal press censorship, through the "licensing" system, so that eliminating their monopoly privileges also helped cut printing free of government control); ADRIAN JOHNS, *THE NATURE OF THE BOOK* 230–48 (University of Chicago Press, 1998).

<sup>108</sup> See Privacy Authors and Publishers' Objection to Proposed Settlement, *The Authors Guild, Inc. v. Google, Inc.*, No. 05 CV 8136-DC (S.D.N.Y. Sept. 8, 2009) available at [http://thepublicindex.org/docs/letters/privacy\\_authors.pdf](http://thepublicindex.org/docs/letters/privacy_authors.pdf); see also CDT Brief, *supra* note 69.

<sup>109</sup> See Objections of Class Members The American Society of Media Photographers, Inc., et al., *Authors Guild*, No. 05 CV 8136-DC (S.D.N.Y. filed Sept. 2, 2009) available at <http://thepublicindex.org/docs/letters/asmp.pdf>.



take rights seriously. If so, then the *Authors Guild* settlement is obviously wrongful; it uses a class-action shell game to misappropriate copyrights away from their rightful owners.

Another possible response would be to say that the cost of trying to reunite orphan works with their parents far outweighs the social benefits of doing so. On this view, orphan works—long out of print and producing no value for owners who will never be found—are casualties of copyright law’s excessively long term. It is our duty to fix copyright law and move them into the public domain—or at least make them broadly available to everyone on generous and straightforward terms. If the occasional copyright owner who just nipped down to the corner for a quick pint loses out, so be it: that’s a small price to pay for a copyright system that works, and won’t seriously undermine creators’ incentives going forward. If so, then the *Authors Guild* settlement is troubling because it wraps books up in endless, needless layers of red tape, DRM, and legal restrictions.

Both of these views—that there should be no sellers of unclaimed works and that there should be any number—make simple, intuitive sense. One need not find them equally convincing to appreciate the philosophies behind them and the intellectual rigor that has gone into articulating them. They correspond, very roughly, to objections that the settlement goes too far or doesn’t go far enough. At times it has seemed that the settlement was simply caught between the Scylla of overprotecting copyrights and the Charybdis of providing too much access, the twin poles of copyright policy since time immemorial. No compromise, no matter how elegant, could ever satisfy both camps.

From the perspective of concentrated power, however, the actual proposed *Authors Guild* settlement, elegant though it may be, may also actually be *worse* than either extreme. A world with no sellers of orphan books and a world where anyone can sell them are both still primarily decentralized. The settlement, however, would create *one* seller of orphan books, pulling together all of the necessary rights into a single company’s hands. This “compromise” between authors’ rights and the public’s access to books just so happens to also hand Google a dominant position in selling older books.<sup>110</sup>

Ultimately, like every other question of concentrated power in the information society, the *Authors Guild* settlement is also a question about the role of the state. The settlement is a form of collective copyright management, giving Google the right to sell books unless and until their copyright owners object. The class-action settlement uses the coercive power of the state to create and enforce its provisions. But unlike other

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<sup>110</sup> Cf. Molly Van Houweling, *Author Autonomy and Atomism in Copyright Law*, 96 VA. L. REV. 549, 618–61 (2010) (discussing “consolidating power” of proposed settlement).



state-sponsored experiments in information centralization, which at least were established through democratic processes and subject to public oversight, the Google-Registry complex would be the result of a process instigated by a handful of private parties on terms worked out in two years of strictly confidential negotiations. Creating an elephant *ex nihilo* may be a remarkable feat—but the settlement remains a wild and dangerous beast.



## Academic Author Objections to the Google Book Settlement

Pamela Samuelson\*

The vision of a universal digital library that would contain the accumulated knowledge embodied in tens of millions of books from the collections of major research libraries—a digital library that would last forever—is unquestionably an inspiring one.<sup>1</sup> Proponents of the Proposed Amended Settlement Agreement (PASA) of the *Authors Guild v. Google* lawsuit hold out this vision as the principal reason why courts should approve this proposal.<sup>2</sup> The PASA would give Google a license to make available to members of the public millions of books and inserts (e.g., separately authored book chapters) published in the U.S., Canada, UK, and Australia.<sup>3</sup> Following approval of the PASA, Google plans to make digital books available for free through one public access terminal each at public libraries and through “preview” uses of the books (displaying up to 20% of their contents) in response to Google search queries.<sup>4</sup> Full texts of these books could also become available through institutional subscriptions or consumer purchases of individual books.<sup>5</sup> While academic authors and researchers can easily understand the appeal of this vision and heartily hope that it will come to pass, this article will explain why approval of the PASA is unlikely to fulfill the universal digital library ambition and why academic authors should object to some of its important terms.

### I. The Genesis of the Proposed Google Book Settlement

Google did not initially set out to create a universal digital library with the Google Book Search (GBS) project. In early public statements, its spokesmen proclaimed that Google was scanning books to promote greater public access to them by indexing their contents, providing a few small snippets of texts that were responsive to Google users’ search queries, and supplying links to libraries from which relevant books could be obtained and to vendors from whom the books could be purchased.<sup>6</sup> While Google scanned some books for GBS with the permission of copyright owners through its Partner

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\* Richard M. Sherman Distinguished Professor of Law and Information, University of California, Berkeley. I wish to thank Jonas Herrell for his excellent research assistance and Patrick Hanlon, my co-instructor, and the students in my class on the Google Book Search (GBS) Settlement and the Public Interest at Berkeley Law School for stimulating conversations about the settlement that contributed to my thinking on this complex matter. This article is a derivative work of a letter that I sent to Judge Denny Chin on January 27, 2010, on behalf of 150 academic authors who joined me in objecting to the GBS settlement. Appendix A provides a list of signatories of that letter.

<sup>1</sup> Google is far from the only seer to recognize the societal value of such a library. See, e.g., ROBERT DARNTON, *THE CASE FOR BOOKS* 10-20 (2009).

<sup>2</sup> See Sergey Brin, *A Library to Last Forever*, N.Y. TIMES, Oct. 8, 2009, at A31, available at, <http://www.nytimes.com/2009/10/09/opinion/09brin.html>. See Amended Settlement Agreement, Authors Guild, Inc. v. Google, Inc., No. 1:05 CV 8136 (S.D.N.Y.).

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<sup>6</sup> See Eric Schmidt, *Books of Revelation*, WALL ST. J., Oct. 18, 2005, available at <http://googleblog.blogspot.com/2005/10/point-of-google-print.html>. At that time, GBS was known as “Google Print.” *Id.* Other early public statements characterized Google Books as an “enhanced card catalog.” See <http://books.google.com/googlebooks/library.html>.



Program,<sup>7</sup> the overwhelming majority of books in the GBS corpus have come from the collections of major research libraries, such as the University of Michigan's.<sup>8</sup> There are currently about 12 million books in the GBS corpus, of which about 2 million are in the public domain and 10 million in-copyright.<sup>9</sup> Google has consistently asserted that this scanning, indexing, and snippet-providing is a fair and non-infringing use of in-copyright books.<sup>10</sup>

The Authors Guild and the Association of American Publishers disagreed with this assessment. In September 2005 the Guild and three of its members brought a class action lawsuit against Google alleging that its book scanning project was copyright infringement.<sup>11</sup> Soon thereafter, five major trade publishers, all of whom were at the time members of the Google Partner Program, brought a similar lawsuit.<sup>12</sup> Rather than litigating the case, however, the parties soon entered into settlement negotiations. Representatives of the publisher plaintiffs and of the Authors Guild approached Google with the idea of settling the two lawsuits by combining them into one class action, with a publisher subclass and an author subclass, through which a new digital marketplace for books could be established.<sup>13</sup> Under this deal, Google would pay a relatively modest sum (\$60 per book) to copyright owners whose books it had scanned, and the settlement class would then give Google a license to commercialize out-of-print books.<sup>14</sup> Copyright owners would get paid most of the revenues from this commercialization through either the Google Partner Program or a Book Rights Registry that would be established with funds from the settlement.<sup>15</sup> Google found this proposition agreeable, and the parties spent 30 months hammering out the details.<sup>16</sup> Google's library partners participated in some of these negotiations, for the agreement included commitments to provide institutional subscriptions at reasonable prices to these libraries, along with releases of liability that they might otherwise incur for contributing to Google's scanning project.<sup>17</sup> The Proposed Settlement Agreement (PSA) was announced on October 28, 2008.

## II. Mixed Reactions to the PSA

Harvard's Librarian, Robert Darnton, was among the first commentators to express reservations about the PSA.<sup>18</sup> Though he recognized the substantial benefits of improving access to books, Darnton worried about the long term consequences of giving one firm a monopoly over access to books.<sup>19</sup> Darnton's concerns were echoed and amplified in comments of three library associations—the American Library Association, the Association of Research Libraries, and the Association of College and Research

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<sup>7</sup> Schmidt, *supra* note 2.

<sup>8</sup> See, e.g., Jeffrey Toobin, *Google's Moon Shot*, NEW YORKER, Feb. 5, 2007, available at [http://www.newyorker.com/reporting/2007/02/05/070205fa\\_fact\\_toobin](http://www.newyorker.com/reporting/2007/02/05/070205fa_fact_toobin) (reporting that Michigan expected Google to copy all seven million books in its collections in six years).

<sup>9</sup> See, e.g., Fred von Lohmann, *Google Book Settlement 2.0: Assessing Access*, Electronic Frontier Foundation, Nov. 17, 2009, available at <http://www.eff.org/deeplinks/2009/08/google-book-search-settlement-access>.

<sup>10</sup> See Schmidt, *supra* note 2; Toobin, *supra* note 4.

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<sup>18</sup> Robert Darnton, *Google and the Future of Books*, N.Y. REV. OF BOOKS, Feb. 12, 2009.

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Libraries—concerning the settlement.<sup>20</sup> On the one hand, they welcomed the greatly enhanced public access to books that approval of the settlement could provide,<sup>21</sup> and recognized that the settlement was the most efficient way to “cut the Gordian knot” of high transaction costs of rights clearances that might otherwise hinder creation of a digital book database.<sup>22</sup> On the other hand, they worried that because no one but Google would be able to create an institutional subscription database (ISD) of these books, subscription prices would over time become prohibitively expensive.<sup>23</sup> Moreover, unless the court retained jurisdiction and engaged in vigilant oversight, the associations warned that approval of the settlement might “compromise fundamental library values such as equity of access to information, patron privacy, and intellectual freedom.”<sup>24</sup> Google reserved the right under the proposed settlement to exclude books from the ISD for editorial or non-editorial reasons,<sup>25</sup> and there was reason to expect governments and other groups to pressure Google to exercise this censorship power.<sup>26</sup>

University faculty also began to become concerned about the proposed settlement. In late April 2009, for example, sixteen professors sent a joint letter to Judge Denny Chin who was scheduled to preside over the fairness hearing on the proposed GBS settlement to ask for a six month postponement of that hearing and a concomitant extension of time for opting out, commenting on, or filing objections to the settlement. This letter pointed to considerable ignorance and confusion about the proposed settlement among academic authors, and expressed concern that some of its terms, including provisions for close monitoring of uses of books without privacy protections and restrictions on annotation-sharing, were inconsistent with norms of academic communities.<sup>27</sup> At the behest of the University of California-wide committee on libraries, the Academic Council of the University of California decided to send a letter to the judge to express reservations about the risks of excessive pricing, inadequate attention to open access preferences of academic authors, and lack of privacy protections that might result from approval of the GBS settlement without modifications.<sup>28</sup>

Judge Chin granted an extension of time for comments, objections, and opt-outs to September 4, and rescheduled the fairness hearing for October 7.<sup>29</sup> By the September deadline, approximately 400 comments, objections, and amicus curiae briefs were filed with the court, the overwhelming majority of which were highly critical of the settlement.<sup>30</sup> France and Germany, as well as numerous publisher and author groups from other countries, were strongly opposed to the inclusion of foreign books in the settlement and expressed outrage at inadequacies of notice to foreign class members.<sup>31</sup> Some U.S.-based author organizations—notably including the National Writers Union—expressed strong opposition to the settlement, largely because its terms were unfair to authors,<sup>32</sup> a conclusion with which many authors

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<sup>20</sup> Library Association Comments on the Proposed Settlement, *Authors Guild, Inc. v. Google, Inc.*, No. 05 CV 8136-DC (S.D.N.Y. May 19, 2009), *available at* [http://thepublicindex.org/docs/letters/acrl\\_ala\\_arl.pdf](http://thepublicindex.org/docs/letters/acrl_ala_arl.pdf)

<sup>21</sup> *Id.* at 2.

<sup>22</sup> *Id.* at xx.

<sup>23</sup> *Id.* at 7-9.

<sup>24</sup> *Id.* at 2.

<sup>25</sup>

<sup>26</sup> *Id.* at xx.

<sup>27</sup> Letter to Judge Denny Chin, April 27, 2009.

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seemed to agree.<sup>33</sup> A September 3 letter on behalf of 65 academic authors objected to the settlement on numerous grounds, including the lack of meaningful constraints on the pricing of institutional subscriptions.<sup>34</sup>

Some libraries, researchers, and civil liberties groups expressed support for the GBS settlement,<sup>35</sup> but the tide turned against the PSA after the U.S. Department of Justice (DOJ) filed a Statement of Interest in mid-September recommending against approval of the PSA.<sup>36</sup> The DOJ also questioned whether the PSA complied with the strictures of Rule 23 of the Federal Rules of Procedure, which establishes standards about adequacy of representation of absent class members, fair notice of the settlement terms, and the like.<sup>37</sup> The DOJ also regarded numerous provisions to be inconsistent with the antitrust laws.<sup>38</sup>

Shortly after the DOJ's submission, lawyers representing the author and publisher subclasses asked for a postponement of the fairness hearing to give them a chance to produce a revised settlement agreement that would respond to DOJ and other objections.<sup>39</sup> On November 13, the parties filed the PASA.<sup>40</sup> Supplemental notice of the amended agreement was ordered, and the fairness hearing was reset for February 18, 2010.<sup>41</sup> Class members were given a new chance to opt out, object, or otherwise file comments on the PASA by January 28.<sup>42</sup> One of the sixty filings by that deadline was a letter submitted on behalf of 150 academic authors whose objections to the PASA are related in the remainder of this article.<sup>43</sup>

### III. The Authors Guild Failed to Adequately Represent the Interests of Academic Authors

The January 27, 2010, academic author objection letter began with the observation that the Google enterprise envisioned in the PASA is not a library.<sup>44</sup> It is instead a complex and large-scale commercial enterprise in which Google—and Google alone—will obtain a license to sell millions of books for decades to come. If the PASA is approved, millions of rights holders will be forced to join the BRR or the Google Partner Program to exercise any control over Google's use of their books. The litigants who spent two and a half years negotiating the initial Proposed Settlement Agreement and now the PASA have interests and preferences that dramatically diverge from those of many rights holders who were not at the negotiating table, including academic authors. It is thus unsurprising that hundreds of authors and

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<sup>34</sup> Letter of Pamela Samuelson to Judge Denny Chin on behalf of academic authors, *Authors Guild, Inc. v. Google, Inc.*, No. 05 CV 8136 (S.D.N.Y. Sept. 3, 2009) ("Academic Author Letter").

<sup>35</sup> See, e.g.,

<sup>36</sup> See

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<sup>44</sup> See Pamela Samuelson, *Google Books Is Not a Library*, HUFF. POST, Oct. 13, 2009, available at [http://www.huffingtonpost.com/pamela-samuelson/google-books-is-not-a-lib\\_b\\_317518.html](http://www.huffingtonpost.com/pamela-samuelson/google-books-is-not-a-lib_b_317518.html). Nor will GBS be "universal," given the narrowing of the class, the opt-out, exclusion and removal requests, and directions from some rights holders not to scan their books. See Part III-E. See also Lawrence Lessig, *For the Love of Culture*, THE NEW REPUBLIC, Jan. 26, 2010, available at <http://www.tnr.com/article/the-love-culture>.



other rights holders have objected to the settlement and even more have opted out. Nor is it surprising that several public interest organizations have expressed opposition to the settlement,<sup>45</sup> for there were no consumer or public interest advocates at the negotiating table either. Because of this, the PASA is fundamentally tainted.

The January 27 academic author letter supplemented one submitted to the court on September 3, 2009, on behalf of sixty-five academic authors and researchers, setting forth numerous objections to the proposed settlement.<sup>46</sup> Among other things, that letter expressed concerns about the lack of meaningful constraints on price increases for the Institutional Subscription Database (ISD), the de facto monopoly that Google would obtain to orphan books, inadequate user privacy protections, and excessive restrictions on non-consumptive research.

The January 27 letter reaffirmed the earlier academic author objections to the PSA because the PASA does not adequately respond to objections set forth in that letter.<sup>47</sup> It stated some new objections because certain amendments to the PASA are contrary to the interests of academic authors who are members of the Author Subclass.

Both sets of academic author objections are rooted in the same fundamental flaw in the GBS settlement process: the Authors Guild and the named author plaintiffs did not fairly and adequately represent the interests of academic authors in negotiating either the PSA or the PASA.<sup>48</sup> Simply put, the Authors Guild and its members do not share the interests, professional commitments or values of academic authors.<sup>49</sup> Only a small fraction of Authors Guild members write scholarly books of the sort likely to be

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<sup>45</sup> See, e.g., Brief Amicus Curiae of Consumer Watchdog in Opposition to the Settlement, *Authors Guild Inc. v. Google Inc.*, No. 1:05-CV-8136 (S.D.N.Y. Sept. 8, 2009), available at <http://thepublicindex.org/docs/letters/cw.pdf>; Brief of Amicus Curiae Public Knowledge in Opposition to the Settlement, *Authors Guild Inc. v. Google Inc.*, No. 1:05-CV-8136 (S.D.N.Y. Sept. 8, 2009), available at <http://thepublicindex.org/docs/letters/pk.pdf>.

<sup>46</sup> Academic Author Letter, *supra* note xx. For a more complete discussion of the possible benefits and risks of the proposed GBS settlement, see Pamela Samuelson, *Google Book Search and the Future of Books in Cyberspace*, 95 MINN. L. REV. (forthcoming 2010), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1535067](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1535067).

<sup>47</sup> An exception is a provision of the PASA that now expressly recognizes that some rights holders may want to make books and inserts available on an open access basis, such as by Creative Commons licenses. See PASA, § 4.2 (a)(i). However, there is still reason to be concerned that the Book Rights Registry (BRR) will not welcome and might even discourage academic authors' exercise of this option because the BRR will collect no revenues from Google if books are available on open access terms. BRR will find it difficult to have sufficient revenues to sustain its operations if academic authors exercise this option with any frequency.

<sup>48</sup> Scott Gant has made a set of vigorous objections to the PSA as to class action notice deficiencies and other Rule 23 problems with the PSA. See Objection of Scott E. Gant to Proposed Settlement, and to Certification of the Class and Subclasses, *Authors Guild, Inc. v. Google, Inc.*, No. 05 CV 8136 (S.D.N.Y. Aug. 19, 2009), available at <http://thepublicindex.org/docs/objections/gant.pdf>.

<sup>49</sup> The Authors Guild, for instance, generally limits its membership to authors who have contracts with established American publishers that include a "royalty clause and a significant advance." See Authors Guild Membership Guidelines, available at <http://www.authorsguild.org/join/eligibility.html>. Few academic authors would meet these criteria. The interests of professional writer-members of the Authors Guild in maximizing revenues are reflected in the PSA and the PASA. An example is PASA, § 4.8(a)(ii), which requires paying fees for pages printed out at public access terminals. Academic authors would regard printing a few pages from an out-of-print book to be fair use. See Academic Author Letter, *supra* note 4, at 2-7.



found in major research libraries.<sup>50</sup> Nor does the Association of American Publishers (AAP) share the commitments and values of scholarly authors, as is evident from its recent efforts to thwart open access policies for government-funded academic research,<sup>51</sup> policies which scholars generally support.<sup>52</sup> Academic authors, almost by definition, are committed to maximizing access to knowledge. The Guild and the AAP, by contrast, are institutionally committed to maximizing profits.

Nor does the Guild have the same legal perspective as most academic authors on the central issue in litigation in the *Authors Guild* case, to wit, whether scanning books in order to index their contents and make snippets available constitutes copyright infringement. (This issue necessarily forms the basis on which any settlement must be based.) Academic authors are more likely than Guild members to consider scanning books for information-locating purposes to be a non-infringing use because indexes and snippets advance scholarly research and improve access to knowledge, especially when, as with GBS, searches yield links to libraries from which the relevant books can be obtained.<sup>53</sup>

Rule 23 of the Federal Rules of Civil Procedure requires courts to consider whether there is sufficient commonality of interest and typicality of claims among those who are within a putative class before certifying it or approving a class-binding settlement. While this letter focuses on academic author objections to the PASA, we are aware that we are not the only rights holders who believe the Guild and the AAP had interests quite different from and/or in conflict with theirs. Indeed, when we consider the diverse complaints about the settlement expressed in the hundreds of objections already filed in this matter, we question whether the Rule 23 standards have been or can be met for a class consisting of all persons owning U.S. copyright interest in one or more books or inserts published in the U.S., UK, Canada, or Australia.

That said, we believe that the perspectives of academic authors on the PSA and the PASA should be given particular weight in this court's determination about whether the PASA is fair and worthy of approval. The overwhelming majority of books in the GBS corpus are from the collections of major research libraries, such as the University of Michigan and the University of California.<sup>54</sup> Not

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<sup>50</sup> The Authors Guild website links to approximately 3000 of their member's websites. A review of those websites reveals that slightly over 10 per cent of these Guild members have written books of the sort likely to be found in major research libraries whose collections Google has scanned. So far as we can tell from these websites, the Guild's members primarily write works aimed at non-scholarly audiences. They write, for instance, romance novels, erotica, travelogues, magazine articles, and magic books. They may be accomplished writers, but they are unrepresentative of the interests of academic authors whose books constitute most of the GBS corpus.

<sup>51</sup> Ass'n of Research Libraries, *Issue Brief: AAP PR Campaign Against Open Access and Public Access to Federally Funded Research*, available at <http://www.arl.org/bm~doc/issue-brief-aap-pr.pdf>.

<sup>52</sup> The negotiating party whose interests most closely align with the values of scholarly communities is, ironically enough, Google. However, that firm cannot be an adequate representative of the interests of scholarly authors in negotiating a class action settlement.

<sup>53</sup> Most academic commentary on Google's fair use defense supports it. See, e.g., Hannibal Travis, *Google Book Search and Fair Use: iTunes for Authors or Napster for Books?*, 61 U. MIAMI L. REV. 601 (2006) (arguing that scanning books to index them is fair use); Matthew Sag, *The Google Book Settlement and the Fair Use Counterfactual* (Working paper Series, Aug. 2009) at 11-25, available at <http://ssrn.com/abstract=1437812> (comparing the proposed GBS settlement to fair use outcome). See also Frank Pasquale, *Copyright in an Era of Information Overload*, 60 VAND. L. REV. 135 (2007) (discussing the need for broad fair use for search engines to help people find information).

<sup>54</sup> See, e.g., *Competition and Commerce in Digital Books: Hearing Before the H. Comm. on the Judiciary*, 110th Cong. 1-3 (2009) ["Hearing"] (Prepared Statement of David Drummond, Senior Vice President of Corporate



surprisingly, a large majority of those books were written by scholars for scholarly audiences.<sup>55</sup> Academic authors also far outnumber the members of the Authors Guild. There are about 800,000 full-time academics working at colleges and universities in the U.S.,<sup>56</sup> for many of whom publication of books, book chapters, and the like is a career requirement, as well as a source of deep satisfaction. The books and inserts written by academic authors are also of the sort likely to be found in the collections of major research libraries.

Of course, academic authors sometimes assign their copyrights to publishers of their books, but this does not necessarily change the calculus. Rights to authorize electronic editions of these books may well be new and unforeseen uses of their works, rights in which would seem to reside in authors under *Random House, Inc. v. Rosetta Books L.L.C.*, 283 F.3d 490 (2d Cir. 2002). This case held that authors of literary works have the right to authorize third parties to make e-books of them, even though they had assigned rights to publishers to make and distribute print versions.<sup>57</sup> Many publishing contracts also provide that copyrights revert to authors when their books go out of print (which millions of books in the GBS corpus are). For these reasons, academic authors likely hold the relevant copyright interest in many books and inserts in the GBS corpus.

While approval of the GBS settlement would bring about some public benefits, chiefly by providing significantly improved access to books, it is important for the court to recognize and give appropriate weight to the substantial risks that the proposed settlement poses. These risks can be avoided or ameliorated in one of two ways: either by rejecting the settlement altogether or by conditioning its approval on the parties' willingness to make changes to the PASA that address meritorious objections.

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Development and Chief Legal Officer of Google, Inc.) (estimating that 2 million of the 10 million books then in the GBS corpus are books in the Google Partner Program, while 8 million were obtained from research library partners). A transcript of this hearing is available at [http://judiciary.house.gov/hearings/printers/111th/111-31\\_51994.PDF](http://judiciary.house.gov/hearings/printers/111th/111-31_51994.PDF).

<sup>55</sup> See, e.g., Brian Lavoie & Lorcan Dempsey, *Beyond 1923: Characteristics of Potentially In-copyright Print Books in Library Collections*, D-LIB MAG., Nov.-Dec. 2009, at 14, available at <http://www.dlib.org/dlib/november09/lavoie/11lavoie.html> (reporting that 78% of the non-fiction books in the collections of three of Google's research library partners are scholarly books and that non-fiction books constitute more than 90% of library collections).

<sup>56</sup> Data from the U.S. Dept. of Labor, Bureau of Labor Statistics indicates that there are more than 800,000 post-secondary educators in the United States.

<sup>57</sup> The court considered the widely used contractual language in book publishing contracts—"to publish the work in book form"—as a limited grant, not a grant of all copyright interests. *Random House*, 283 F.3d at 491. It is worth noting that the Authors Guild submitted an amicus curiae brief in support of Rosetta in that case, while the AAP submitted one in support of Random House. Hidden underneath the surface of the proposed GBS settlement is a set of compromises, set forth in Appendix A, that address serious conflicts that exist between authors and publishers over rights to control and be compensated for e-book publications. This is reflected in testimony that Paul Aiken, Executive Director of the Authors Guild, gave before Congress: "One of the reasons this thing [the PSA] took 30 months to negotiate was that we weren't just negotiating with Google. It was authors negotiating with publishers, and we rarely see eye to eye. So we had months and months and months of negotiations, trying to work out our differences." Transcript of Hearing, supra note xx, at 143. Had Random House tried to resolve this e-book rights issue by bringing a class action lawsuit on behalf of a class of publishers against a class of authors in order to negotiate a settlement along the lines of Appendix A, the case would have been dismissed because the dispute would have involved both varying contract language and different state laws so that Rule 23 requirements could not have been satisfied. Appendix A takes advantage of the settlement on other issues as to which Google is the antagonist to bring about a new allocation of copyright ownership, licensing, and reversion rights and procedures that, but for the settlement, could only have been accomplished through legislative action.



Section A discusses objections to provisions in the PASA concerning the collection and disposition of revenues derived from “orphan” and other unclaimed books.

Section B discusses an amendment to the proposed settlement that is susceptible to an interpretation that would disadvantage academic authors of what the PSA and PASA designate as “inserts” (e.g., book chapters).

Section C objects to PASA amendments omitting reference to a termination agreement negotiated by the litigants. If there is a termination agreement that is still in force, it ought to be disclosed to members of the class, as well as to the Court. If not, the litigants should explicitly abjure it.

Section D raises concerns about whether the parties’ professed aspirations for GBS to be a universal digital library are being undermined by their own withdrawals of books from the regime the settlement would establish, as well as by actions of other rights holders who have opted out of the settlement because they find its terms unacceptable. Information has come to light since early September 2009 that undermines the confidence of academic authors that the settlement will bring about the public benefits the litigants say they intend.

Part V offers a list of changes that should be made to the PASA to make the settlement fair and adequate as to academic authors. Even with these modifications, however, we recognize that serious questions remain about whether the class defined in the PASA can be certified consistent with Rule 23, whether the settlement is otherwise compliant with Rule 23, whether the settlement is consistent with the public interest, and whether approval of this settlement is an appropriate exercise of judicial power. These questions have been addressed in numerous other submissions, and while our supplemental objection does not discuss them, we do share the misgivings that others have expressed.

#### A. Objections to the Unclaimed Work Provisions of the PASA

The PSA would have created a blatant conflict of interest between those class members who had registered their books with the BRR, as the Guild expects its members to do, and those who had not.<sup>58</sup> Funds from unclaimed books would have been held in escrow for five years, after which revenues from Google’s commercialization of them would have been paid out to BRR-registered rights holders.<sup>59</sup> This would not only have given BRR-registrants a windfall from books in which they owned no rights, but it also would have created structural disincentives for BRR to search for owners of unclaimed books. Not surprisingly, the Department of Justice objected to this as inconsistent with Rule 23.<sup>60</sup>

Amendments in the PASA seemingly acknowledge the existence of this intra-class conflict, but do not resolve it in a manner that is fair, reasonable, or adequate to class members or consistent with the public interest.

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<sup>58</sup> Statement of Interest by the U.S. Dept. of Justice Regarding the Proposed Settlement at 9, *Authors Guild, Inc. v. Google, Inc.*, No. 05 CV 8136 (S.D.N.Y. Sept. 18, 2009) (DOJ Statement).

<sup>59</sup> PSA, § 6.2(a).

<sup>60</sup> DOJ Statement, *supra* note xx, at 9-10. The initial willingness of the class representatives to negotiate such a provision reflects considerable insensitivity to the interests of unclaimed work rights holders. It should not have required an objection from DOJ to get fair treatment for these rights holders.



The PASA calls for the appointment of an unclaimed work fiduciary (UWF) to make certain decisions about Google's exploitation of unclaimed works and to act as a gatekeeper for funds owed to rights holders of unclaimed works.<sup>61</sup> It also directs that funds generated by Google's commercialization of unclaimed works should be held in escrow for ten years, that these funds are to be used to search for rights holders, and that after ten years, unclaimed work funds can be paid out to charities or otherwise allocated in a manner consistent with state laws.<sup>62</sup>

These provisions are objectionable for several reasons.

First, there are no meaningful guarantees of independence for this so-called fiduciary, and insufficient criteria for how he/she should perform a fiduciary role in respect of the unclaimed books. The UWF is, for example, to be chosen by a supermajority of the BRR Board,<sup>63</sup> and will apparently be housed in the BRR offices. The BRR, not the fiduciary, will hold onto the unclaimed funds; after five years, BRR is authorized to use a significant portion of the unclaimed work funds to search for rights holders, although this is subject to the UWF's approval.<sup>64</sup>

Second, the powers the PASA grants to the UWF are in some respects too limited and in at least one respect too broad. The UWF can, for instance, choose to change the default setting for an unclaimed in-print book from "no display" to "display," but not the reverse.<sup>65</sup> The UWF also has the power to approve changes in pricing bins for unclaimed books available through the consumer purchase model,<sup>66</sup> but seemingly no power to set prices for individual unclaimed books nor to provide input about price-setting of institutional subscriptions. This seems strange because all or virtually all of the unclaimed books will be in the ISD and revenues derived from the ISD are likely to be substantial. The UWF also has the power to disapprove of Google's plan to discount prices of unclaimed books,<sup>67</sup> but apparently not to recommend discounts.

Of particular importance to academic authors, the UWF lacks power to make unclaimed books available on an open access basis.<sup>68</sup> While divining the preferences of unclaimed rights holders may be challenging as to many others, most unclaimed books in the GBS corpus are likely to be books written by scholars for scholars, and most such authors would prefer that their out-of-print books be available on an open access basis, especially insofar as Google is making these books available to institutions of higher learning.<sup>69</sup> The UWF should have the authority to make books available on an open access basis.

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<sup>61</sup> PASA, § 6.2(b)(iii). The only qualification PASA provides for this position is a negative one: he/she cannot be a book author or publisher. *Id.*

<sup>62</sup> *Id.*, §§ 6.2(b)(iv), 6.3(a).

<sup>63</sup> *Id.*, § 6.2(b)(iii).

<sup>64</sup> *Id.*, § 6.3(a)(i).

<sup>65</sup> *Id.*, §§ 6.2(b)(iii), 3.2(e)(i). The UWF would have structural incentives to exercise the power to switch the default for unclaimed in-print books from "no display" to "display uses" in order to generate revenues that could be used to search for their rights holders to encourage them to claim the books.

<sup>66</sup> *Id.*, § 4.2(c)(i).

<sup>67</sup> *Id.*, § 4.5(b)(ii). There may be little incentive for the UWF to agree to discounts as it would reduce the revenues over which he will have some control. BRR may also not want unclaimed works to be discounted, as these books will compete with those of registered rights holders.

<sup>68</sup> Nor apparently can the UWF direct Google to exclude unclaimed books from any newly approved revenue models or to remove them from the GBS corpus. Most of the UWF's powers are directed to revenue-enhancement.

<sup>69</sup> See *Random House*, 283 F.3d 490 (2d Cir. 2002), discussion, *supra* note xx.



One highly objectionable power the PASA grants to the UWF is the power to authorize Google to alter the texts of unclaimed books.<sup>70</sup> Academic authors can imagine no circumstance under which changes to the historical record embodied in books from major research libraries would be justifiable. Granting the UWF the power to authorize alteration of texts poses risks of censorship.

Third, if books remain unclaimed after ten years during which the UWF and BRR have made a reasonably diligent search to find their rights holders, the books should be deemed to be “orphans,” a term which is typically defined to include works whose rights holders could not be found after a reasonably diligent search.<sup>71</sup> The PASA should contain a provision requiring the UWF to disclose which unclaimed books it has concluded are, in fact, orphans so that others could decide whether to make them available.<sup>72</sup>

Fourth, the PASA would intrude upon Congressional prerogatives in respect of its consideration of orphan works legislation in a post-settlement world. The PASA gives the UWF authority to license copyright interests in unclaimed books to third parties “to the extent permitted by law.”<sup>73</sup> Existing law does not allow *any* licensing of in-copyright books to third parties without the rights holders’ permission. The only way that the UWF could get the legal authority to issue such licenses would be from Congress, presumably through the passage of orphan works legislation.

By establishing a private escrow regime for collecting and distributing revenues Google may earn from its commercialization of orphan books, the PASA seems to be setting up the UWF as an intermediary for the licensing of orphan books to third parties. It also establishes a regime through which revenues from these books are to be distributed (e.g., to the UWF’s favorite charities). The UWF would have a financial stake in the continuation and extension of the escrow regime and in persuading Congress that escrowing was the best solution to the problem posed by unclaimed works.

It is, however, for Congress to decide what should be done with orphan works, not for those who negotiated the PSA and PASA, nor for this Court. A substantial restructuring of rights under copyright law is the constitutionally mandated domain of the U.S. Congress.<sup>74</sup> The orphan works legislation that Congress has considered up in recent years has not adopted the escrow model.<sup>75</sup> Indeed, these bills are

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<sup>70</sup> PASA, § 3.10(c)(i).

<sup>71</sup> See U.S. COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS (2006), *available at* <http://www.copyright.gov/orphan/orphan-report.pdf> (“Orphan Work Report”).

<sup>72</sup> The settlement agreement should also require the UWF, as well as the BRR and Google, to make publicly available any information they possess about books they discover to be in the public domain (owing, for instance, to the author’s failure to renew copyright). These actors may have financial incentives to withhold this information because they may benefit from Google’s commercialization of public domain books. The PASA even allows registered rights holders to share in revenues mistakenly earned by Google from the sale or licensing of public domain books. PASA, § 6.3(b).

<sup>73</sup> *Id.*, § 6.2(b)(i).

<sup>74</sup> *Eldred v. Ashcroft*, 537 U.S. 186, 222 (2003).

<sup>75</sup> See, e.g., Shawn Bently Orphan Works Act of 2008, S. 2913, 110<sup>th</sup> Cong., 2d Sess. (2008); Public Domain Enhancement Act, H.R. 2408, 109<sup>th</sup> Cong., 1st Sess. (2005).



more closely modeled on the recommendations of the U.S. Copyright Office which concluded that orphan works should be freely usable if rights holders cannot be found.<sup>76</sup>

The treatment of orphan books is no small matter. No one knows how many books will ultimately be unclaimed in the aftermath of a GBS settlement.<sup>77</sup> Google spokesmen have tended to offer fairly conservative estimates about the proportion of books in the GBS corpus that will be orphans. David Drummond, chief legal officer of Google, estimated in his testimony before Congress that about 20% of the out-of-print books in GBS would likely be orphans.<sup>78</sup> With approximately 8 million such books now in the GBS corpus, Drummond's estimate would yield 1.6 million orphan books; if GBS grows to 50 million books, as some expect,<sup>79</sup> and the proportion of out-of-print and orphan books remained stable, that would mean that about 7.5 million books would be orphans.<sup>80</sup>

The proportion of orphan books may, however, be higher than Mr. Drummond estimated, perhaps even much higher. "Older" books, especially books published before the 1980s,<sup>81</sup> are especially likely to be unclaimed. In the 30 years or more since the publication of these books, the publishers may have gone out of business and authors may have passed away (and heirs may be ignorant about rights in their forebearers' books or too numerous or dispersed to track down), be suffering from debilitating states, or otherwise uninterested in overtures from the BRR.

Orphan books will likely be sold through the consumer purchase model at prices ranging from \$1.99 to \$29.99.<sup>82</sup> The goal of the PASA pricing algorithm is to maximize revenues for each book.<sup>83</sup> Google also plans to license these books as part of the ISD to thousands of universities, public libraries, and other entities. ISD subscription prices are supposed to approximate market returns for a multi-million book database,<sup>84</sup> and there is reason to worry that prices for the ISD will rise over time to astronomical levels.<sup>85</sup>

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<sup>76</sup> See Orphan Works Report, *supra* note 29, at 11. The Office recommended that if a rights holder later came forward to claim the work, the person who reasonably believed the work was an orphan might continue the use for future compensation. *Id.* at 115.

<sup>77</sup> See Statement of William Morris Endeavor Entertainment, Aug. 2009, available at <http://thepublicindex.org/docs/commentary/wme.pdf> (noting a Financial Times estimate that between 2.8 and 5 million of the 32 million books protected by copyright in the U.S. are likely to be orphans).

<sup>78</sup> Hearing, *supra* note xx, at 6.

<sup>79</sup> See, e.g., Letter from Paul Courant to Judge Denny Chin at 1, *Authors Guild, Inc. v. Google, Inc.*, No. 05 CV 8136 (S.D.N.Y. Sept. 4, 2009), available at <http://thepublicindex.org/docs/letters/Courant.pdf> (estimating that Google will scan 50 million unique books for GBS).

<sup>80</sup> There is reason to believe that the proportion of orphans and of out-of-print books would be substantially higher as the number of books in the GBS corpus approaches 50 million, for there is a limited number of in-print books, and Google may be scanning most of them through its partner program.

<sup>81</sup> Roughly half of the books in U.S. library collections were published before 1977 and one-third before 1964. Lavoie & Dempsey, *supra* note xx, at 4-5. Moreover, research library collections tend to include a higher percentage of older books. *Id.* at 12.

<sup>82</sup> PASA, § 4.2 (setting percentages for algorithmic pricing bins).

<sup>83</sup> *Id.* at § 4.2(c)(ii)(2).

<sup>84</sup> *Id.*, § 4.1.

<sup>85</sup> Academic Author Letter, *supra* note xx, at 3-5.



The PASA provides that after 10 years of collecting profit-maximizing revenues for orphan books, the UWF would become a philanthropist,<sup>86</sup> distributing these funds to charities in various countries that promote literacy, freedom of expression, and education. The PASA also authorizes the UWF to continue to collect funds for orphan books for the remainder of their copyright terms, and to continue paying orphan funds to these charities. The eleemosynary impulse underlying these provisions may be admirable, but the PASA takes the wrong approach to making orphan books available.

While Congress is the proper governing body for decisions about what to do about orphan works, academic authors are likely to believe that if books are true orphans, they should be freely available for use by all, including non-profit institutions such as the colleges and universities with which we are affiliated. Treating unclaimed orphan books as public domain works would be more consistent with the utilitarian purpose of U.S. copyright law, insofar as unclaimed works lack an author or publisher in need of exclusive rights to recoup investments in creating and disseminating these works.<sup>87</sup>

In contradiction of this utilitarian purpose, the PASA contemplates that the UWF will continue to collect funds from Google for its commercial exploitations of orphan books until their copyrights expire and that these funds should be distributed to charities selected by the UWF. This treatment for orphan works is objectionable.

Finally, it is worth noting that the economics of digital publishing and digital networks have made it possible for unclaimed/orphan books to draw readers online, even though their publishers could not justify keeping the books in print. A high quality digital copy of a print book can be made for \$30; reproduction and distribution of digital copies of the same book are essentially costless. Digital networks make it easier for people with niche interests to communicate about their preferences, so books written long ago on seemingly esoteric subjects may reach audiences in the digital world that would be economically unviable in the print realm. The public interest would be better served by making these books widely available to all, either as public domain works or through licenses to other firms so that the public's interest in access to these books would be subject to the rigors of competition and not to Google's de facto monopoly.

#### B. The Apparent Exclusion of Unregistered Inserts Is Unfair, and the Exclusion of Unregistered Books May Be Unfair Under a Pending Supreme Court Case.

Many academic authors have contributed chapters for edited volumes or written book forewords, which fall within the PASA's definition of "inserts."<sup>88</sup> Under the PSA, academic authors had reason to believe that they were in the settlement class as to these inserts as long as the books in which their writings

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<sup>86</sup> PASA, § 6.3(a)(i)(3).

<sup>87</sup> It is disheartening that Google Books sometimes provides links to sites where books can be purchased, but not to sites where the same books are available for free. An example is JAMES GOSLING & BILL JOY, THE JAVA LANGUAGE SPECIFICATION, a free copy of which is available at <http://java.sun.com/docs/books/jls/>. Google Books points only to sites where copies of this book can be purchased for prices ranging from \$1.99 to \$999.99, see [http://books.google.com/books?id=Ww1B9O\\_yVGsC&sitesec=buy&source=gbs\\_navlinks\\_s](http://books.google.com/books?id=Ww1B9O_yVGsC&sitesec=buy&source=gbs_navlinks_s). This book is widely used by Java programmers.

<sup>88</sup> PASA, § 1.75 (defining "insert").



appeared had been registered with the U.S. Copyright Office.<sup>89</sup> The PASA has amended the definition of inserts in a manner that can be construed to exclude inserts that have not been separately registered with the U.S. Copyright Office.<sup>90</sup> If this interpretation of the PASA is correct, academic authors would object to this change.

Newly published books are commonly registered with the U.S. Copyright Office because of certain benefits of registration.<sup>91</sup> Chapters in edited volumes and other individually authored contributions to books are much less likely to be registered separately from the book, for there is little perceived need to do so. If the book as a whole is registered and infringed, authors of chapters in an edited volume may expect that the editor would be able to vindicate the interests of contributing authors. Should the need for separate registration arise—for example, because someone republished one chapter of a book without permission—it is a simple matter for its author to register the copyright at a later time. The Copyright Act of 1976 makes clear that copyright protection is available to authors from the moment their works are first fixed in a tangible medium.<sup>92</sup> Copyright protection does not depend on registration under current law.<sup>93</sup>

The GBS litigants may have restricted the class of rights holders eligible to participate in (or opt out of) the settlement to those who had registered their books with the Copyright Office in deference to a Second Circuit Court of Appeals decision, *In re: Literary Works in Electronic Databases Litigation*.<sup>94</sup> That case ruled that unregistered rights holders were ineligible to participate in the settlement of a class action lawsuit alleging copyright infringement because U.S. copyright law requires registration as a precondition of suing infringers of U.S. works.<sup>95</sup>

Restricting the GBS settlement class to registered U.S. rights holders may have been understandable because of the Second Circuit's ruling. However, the Supreme Court has decided to review that ruling. If the Supreme Court reverses the Second Circuit in *Reed Elsevier v. Muchnick*, it would become possible for owners of copyrights in unregistered books and inserts to participate in class action settlements of copyright lawsuits; indeed, it would then probably be unreasonable to exclude them. The PASA inelegantly defines the settlement class in a gerrymandered manner so that books owned by Australian, Canadian, and UK rights holders automatically are within the settlement, but those owned by American rights holders are ineligible unless registered. This definition of the settlement class would be unreasonable but for the Second Circuit's ruling.

The court presiding over the GBS fairness hearing should withhold its decision about whether to approve the settlement until the Supreme Court has resolved this issue. If the Supreme Court decides that

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<sup>89</sup> PSA, § 1.72. This definition suggested that inserts were within the settlement if the book in which they appeared had been registered with the U.S. Copyright Office.

<sup>90</sup> See, e.g., Kenneth Crews, *Google Books: Dude, Where're My Inserts?*, Columbia University Libraries, Copyright Advisory Office, Dec. 17, 2009, available at <http://copyright.columbia.edu/copyright/2009/12/17/google-books-dude-where-re-my-inserts/>.

<sup>91</sup> 17 U.S.C. § 412. Prompt registration allows owners to be eligible to be awarded attorney fees and statutory damages.

<sup>92</sup> *Id.*, § 102(a).

<sup>93</sup> *Id.*, § 4.08(a).

<sup>94</sup> 509 F.3d 116 (2d Cir. 2007), *cert. granted, sub nom.* Reed Elsevier, Inc. v. Muchnick, 129 S.Ct. 1523 (2009).

<sup>95</sup> 17 U.S.C. § 411(a).



unregistered rights holders can participate in copyright class action settlements, the court should ask the litigants to renegotiate the PASA to address the unregistered rights holders issue. Indeed, the lawyers for the Author Subclass should *sua sponte* make a request for reconsideration of the settlement terms if the Supreme Court reverses the Second Circuit ruling. However, if they do not do so, the court should refuse to approve the settlement until the class is redefined, as it would be unfair to deny unregistered copyright owners an ability to decide whether they wish to participate in the PASA (or to opt out) if the *Reed Elsevier* case allows their inclusion.

It is unclear what uses Google plans to make of inserts that have not been separately registered with the Copyright Office, assuming that these works are not within the settlement and their rights holders are ineligible for compensation for Google's uses of them. The same question arises as to books that Google has scanned that do not fall within the PASA's definition of "book" (i.e., U.S. unregistered books, such as doctoral dissertations on the shelves of many research libraries, and books by foreign rights holders that are no longer within the settlement). The litigants should clarify this matter.

While many academic authors may be pleased for their inserts to be freely available through a digital database such as GBS, they would prefer to have the right to control the dedication of our works to the public domain or making works available under a Creative Commons license rather than being treated as though they have no right to control Google's commercialization of their works merely because they didn't separately register copyright claims in them.

Finally, it seems that the Authors Guild did nothing to encourage book or insert rights holders to register their claims of copyright before the Jan. 5, 2009, the cut-off date for book inclusion in the settlement class. Because the notice to class members did not commence until after the cut-off date, there was no opportunity for those who had not already registered their works to do so in order to participate in the settlement. As explained above, insert authors had reason to believe that their inserts would be within the settlement as long as the books in which the works appeared were registered. Any change in the PASA that alters academic author rights in inserts is objectionable.

#### C. The Court Must Require Disclosure of Any Termination Agreement That Pertains to the GBS Settlement.

Article XVI of the PSA referred to the existence of a supplemental agreement negotiated by the litigants to terminate the PSA if certain unnamed conditions were met. The PSA indicated that the terms of that supplemental agreement were confidential and that the parties did not intend to file it with the Court.

Rule 23(e)(3) of the Federal Rules of Civil Procedure requires disclosure of any agreement among the litigants made in connection with a proposed settlement of a class action lawsuit. It would seem impossible for the court to determine if the PASA is fair, reasonable, and adequate without having access to the whole agreement, which necessarily includes terms highly relevant to the pending settlement agreement insofar as it sets forth termination conditions and consequences. It is unacceptable that a separate termination agreement which so deeply affects the interests of class members would not be revealed to them, or to the court.

The existence of a termination agreement is especially important to academic authors because an important reason many are staying in the settlement and not opting out is because they expect their books



and inserts, as well as those of other scholars, to be available through GBS for decades to come. Academic authors also care about their institutions having the access to books in GBS through the ISD. That the settlement agreement could terminate at some point in time without academic authors knowing on what basis this could occur is deeply troubling.

The PASA has “intentionally omitted” Article XVI. It is not clear what this means. If the termination agreement referred to in the PSA is still in existence and in force, its terms should be revealed not only to the court, but also to members of the class, including academic authors, as it has a bearing on the benefits and risks posed by the settlement. If the termination agreement is no longer in force, the litigants who negotiated it should be required to explain why the termination agreement was itself terminated.

#### D. The Publisher Plaintiffs May Be Undermining the PASA.

In testimony before Congress, as well as in other public statements, Google and representatives of the Authors Guild and the AAP have waxed eloquent about the broad public access to the knowledge embodied in books that would be enabled if the GBS settlement is approved.<sup>96</sup>

While academics were not expecting approval of the settlement to mean that in-print books would be available through ISD subscriptions to our universities, they were given reason to believe that the ISD would include digital copies of many millions of out-of-print books from the collections of major research libraries. Academic researchers would benefit from the broader availability of these books.

The PASA allows rights holders of out-of-print books to withhold their books from “display uses” such as inclusion of the books in the ISD.<sup>97</sup> However, GBS proponents have suggested that rights holders are unlikely to withhold out-of-print books from the ISD because allowing display uses would bring new commercial life to their books.<sup>98</sup>

The DOJ Statement of Interest, filed on September 18, 2009, raised the possibility that the aspiration that GBS would be a universal digital library of virtually all out-of-print books, as Google’s co-founder predicted,<sup>99</sup> may be undermined by the publishers who negotiated this settlement. DOJ observed:

It is noteworthy that the parties have indicated their belief that the largest publisher plaintiffs are likely to choose to negotiate their own separate agreements with Google..., while benefiting from the out-of-print works that will be exploited by Google due to the effect of the opt-out requirement for those works. There are serious reasons to doubt that the class representatives who are fully protected from future uncertainties created by the settlement agreement and who will benefit in the

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<sup>96</sup> See, e.g., Hearing, *supra* note xx, at 4, n.3 (Statement of Paul Aiken, Executive Director of the Authors Guild: “[W]e expect the settlement to make at least 10 million out-of-print books available”).

<sup>97</sup> PASA, § 3.2.

<sup>98</sup> See, e.g., Hearing, *supra* note xx, at 5, 14-24 (Statement of Paul Aiken, Executive Director of the Authors Guild). The PASA requires rights holders who want to sell individual books through the consumer purchase model to make the same books available through the ISD. PASA, § 3.5(b)(iii).

<sup>99</sup> See Brin, *supra* note 1.



future from the works of others can adequately represent the interests of those who are not fully protected and whose rights may be compromised as a result.<sup>100</sup>

This suggests that the parties to this settlement have negotiated a deal that they expect to bind millions of other right holders, including academic authors, but not themselves.<sup>101</sup> The PASA does nothing to rectify this problem. If the GBS settlement is really a fair resolution of the litigation and a fair allocation of rights among all stakeholders, one might expect the named plaintiffs to keep at least their out-of-print in the settlement and participate in what they hail as its benefits. Instead, the DOJ Statement suggests they do not intend to include their books in the regime that would be established by the settlement.

Equally important, the aspiration for GBS to be a universal library of out-of-print books may also be undermined by other rights holders' decisions to exclude their books from display uses in GBS, to opt out of the settlement, to insist that Google not scan their out-of-print books, and to demand that Google remove books already scanned.<sup>102</sup> It is unknown at this point how many books have already been removed, excluded, or opted out, but the court should require the parties to make information of this sort available before the fairness hearing. If the opt-out rates among sophisticated parties are high, that might suggest that the GBS settlement is not as fair and adequate as Google, AAP and Guild spokesmen proclaim.<sup>103</sup>

The Publisher Plaintiffs seem not to be the only ones excluding their books from the settlement.<sup>104</sup> Most authors and author groups that have spoken out about GBS have urged authors to oppose or opt-out of the GBS settlement because they regard it as unfair.<sup>105</sup> It is noteworthy that not a single U.S. author group, apart from the Authors Guild, has come out publicly in support of the GBS settlement.<sup>106</sup>

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<sup>100</sup> DOJ Statement, *supra* note xx, at 10. One important benefit of the Google Partner Program as compared with the commercial regime to be established by the PASA is that partners can negotiate with Google to reduce the risks of uncertainty about the future for their books and tailor the agreements to meet their concerns. The future of the revenue models in the PASA is much more uncertain.

<sup>101</sup> See also Statement of William Morris Endeavor Entertainment, Aug. 2009, available at <http://thepublicindex.org/docs/commentary/wme.pdf> ("Few if any major publishers currently intend to make their in print books available for sale through the Settlement Program....It appears that most major publishers will not allow their out of print books to be sold through the Settlement Program either.")

<sup>102</sup> See PASA, § 3.5. The corpus of books eligible for inclusion in the ISD has already shrunk by about half because the PASA no longer includes most of the non-Anglophone foreign books scanned from major research library collections. See, e.g., Lavoie & Dempsey, *supra* note xx, at 8 (estimating that half of the books in major research library collections are foreign-language books). Some librarians mourn this loss. See, e.g., Kenneth Crews, *GBS 2.0: The New Google Book (Proposed) Settlement*, Columbia University Libraries, Copyright Advisory Office, Nov. 17, 2009, available at <http://copyright.columbia.edu/copyright/2009/11/17/gbs-20-the-new-google-books-proposed-settlement/> ("Because the settlement is now tightly limited [by the exclusion of foreign books], so will be the ISD [Institutional Subscription Database]. The big and (probably) expensive database is no longer so exciting").

<sup>103</sup> The BRR may not be able to sustain its operations if a very large number of rights holders for out-of-print books opt out of the PASA or take their books out of the regime it would establish by signing up as a Google Partner. This would undermine another benefit that the settlement was supposed to accomplish. Only the UWF is guaranteed to have a stable revenue source in the first decade post-settlement.

<sup>104</sup> Authors Guild Executive Director Paul Aiken testified before Congress on Sept. 10, 2009, about his expectation that publishers might decline to participate in the settlement. Hearing Transcript, *supra* note xx, at 143. Reed Elsevier and Warner Books are among the major publishers that have opted their books out of the settlement.

<sup>105</sup> See, e.g., Motoko Rich, *Writers Groups Oppose Google Settlement*, N.Y. TIMES, Jan. 6, 2010, available at <http://mediadecoder.blogs.nytimes.com/2010/01/06/writers-groups-oppose-google-settlement.html> (reporting that



The more numerous are the requests to exclude books from the ISD or the settlement, the less likely it is that the public benefit of the promised 10 million book database will materialize.

#### E. Consolidated Academic Author Objections

The ten highest priority academic author objections to the PSA and PASA, as expressed in the September 3 and January 27 letters to Judge Chin, include:

1. Objections to provisions of the PASA that do not create true independence for the fiduciary for unclaimed works, nor criteria for accomplishing the fiduciary responsibilities and objectives for this role. In particular, this fiduciary should have the explicit authority to set prices for unclaimed books at \$0 or make them available under Creative Commons licenses or other open access terms insofar as there is reason to think that their academic authors would prefer for them to be made available on these terms. The UWF should not have the power to authorize Google to alter the texts of books.
2. Objections to provisions in the PASA that would continue to monetize books unclaimed after ten years. If the BRR and the unclaimed works fiduciary are unable to locate an appropriate rights holder by then, these books should be deemed orphans and made freely available to all. It is for Congress, not for the litigants or the Court, to address orphan work issues.
3. Objections to the PASA's seemingly narrowed definition of "inserts," and more generally to the narrow definition of "book" in both PSA and PASA. This court should withhold approval of the PASA until after the Supreme Court decides the *Reed Elsevier v. Muchnick* case. If the Supreme Court rules that owners of copyrights in unregistered works are eligible to participate in copyright class action settlements, the court should direct the parties to renegotiate the agreement to offer unregistered rights holders of books and inserts the opportunity to participate in the settlement.

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the National Writers Union, the American Society of Journalists and Authors, and the Science Fiction and Fantasy Writers of America oppose the Google settlement as unfair to authors and are urging authors to opt out); Motoko Rich, *William Morris Advises Clients To Say No to Google*, N.Y. TIMES, Aug. 9, 2009, available at <http://mediadecoder.blogs.nytimes.com/2009/08/07/william-morris-advises-clients-to-say-no-to-google-settlement/>; Lynn Chu, *Very Important Notice to Writers' Rep Clients*, WritersRep.com, Jan. 2010, available at <http://www.writersreps.com/> ("We urge all of our clients, indeed all authors, to take advantage of this new opportunity to opt themselves out."); Ursula LeGuin, *LeGuin on the Google Settlement*, Book View Café Blog, Jan. 7, 2010, available at <http://blog.bookviewcafe.com/2010/01/07/le-guin-on-the-google-settlement/#comments> (explaining LeGuin's objections to the Google settlement, supplemented with comments by authors who are joining her opposition to the settlement).

<sup>106</sup> See, e.g., Objections of Harold Bloom, et al. to Settlement Agreement, *Authors Guild, Inc. v. Google, Inc.*, No. 1:05-CV-8136 (S.D.N.Y. Sept. 8, 2009).



4. Objections to the failure of the litigating parties to provide this court and members of the class with access to the termination agreement which they negotiated amongst themselves, which was referred to in the PSA.
5. Objections to the PASA because it, like the PSA, contains no meaningful limits on ISD price increases, especially as to higher educational institutions such as those with which we are affiliated. Because approval of the agreement will give Google a license to tens of millions of out-of-print books—a license that no competitor can feasibly get—the settlement agreement should contain some constraint on price increases. The Authors Guild did not adequately represent the interests of academic authors in negotiations with Google and the Publisher Plaintiffs on this important issue because their members have the same interests as the AAP publishers in prices being as high as possible.<sup>107</sup>
6. Objections to the insufficient privacy protections for GBS users.<sup>108</sup>
7. Objection to the fee that the PSA and PASA requires public libraries and other institutions with public access terminals to pay for user print-outs of pages from out-of-print books, which would undermine fair use.<sup>109</sup>
8. Objections to the PSA and PASA restrictions on annotation-sharing and non-consumptive research,<sup>110</sup> and the weakness of Google’s commitment to improve the quality of GBS book scans and metadata associated with them.
9. Objections to the PASA for its grant of power to Google to exclude books from the corpus for editorial reasons and for its grant of power to exclude up to 15% of books eligible for the ISD from that database.<sup>111</sup>
10. Objections to the PASA because it, like the PSA, contains no back-up plan to preserve university access to books in the ISD in the event that Google chooses to discontinue as a provider of required library services under the agreement and no third party provider steps forward to take over this role.<sup>112</sup> The PASA should be amended so that fully participating library partners in the GBS enterprise have the

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<sup>107</sup> Academic Author Letter, *supra* note xx, at 2-5.

<sup>108</sup> *Id.* at 6-7. The Privacy Authors’ Objection offered numerous specific recommendations about the privacy protections that should be part of any GBS settlement agreement. *See* Privacy Authors and Publishers’ Objection to Proposed Settlement at 1, *Authors Guild Inc. v. Google Inc.*, No. 1:05-CV-8136 (S.D.N.Y. Sept. 4, 2009), available at [http://thepublicindex.org/objections/privacy\\_authors.pdf](http://thepublicindex.org/objections/privacy_authors.pdf). Although the PASA is better than the PSA in providing that Google will not give personally identifiable data about users to the BRR without legal process, see PASA, § 6.6(f), more user privacy protections are needed.

<sup>109</sup> *Id.*, § 4.8(a)(ii). Academic Author Letter, *supra* note xx, at 7.

<sup>110</sup> *Id.* at 6, 8.

<sup>111</sup> *Id.* at 9-10.

<sup>112</sup> *Id.* at 10-11.



authority to take over or reassemble from their library digital copies a corpus of books for continuing to provide the ISD to university research communities.<sup>113</sup>

Whatever the outcome of the fairness hearing, academic authors recognize that the public good is served by the existence of digital repositories of books, such as the GBS corpus. It would, however, be better for Google not to have a monopoly on a digital database of these books. The future of public access to the cultural heritage of mankind embodied in books is too important to leave in the hands of one company and one registry that will have a de facto monopoly over a huge corpus of digital books and rights in them. The settlement of a class action lawsuit is not a proper way to make such a profound set of changes in rights of authors and publishers, in markets for books, and procedures for resolving disputes as the PASA would bring about.

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<sup>113</sup> The HathiTrust would seem to be an appropriate entity to take on this responsibility for the nonprofit research library community. See HathiTrust, Welcome to the Shared Digital Future, <http://www.hathitrust.org/> (last visited Jan. 25, 2010).



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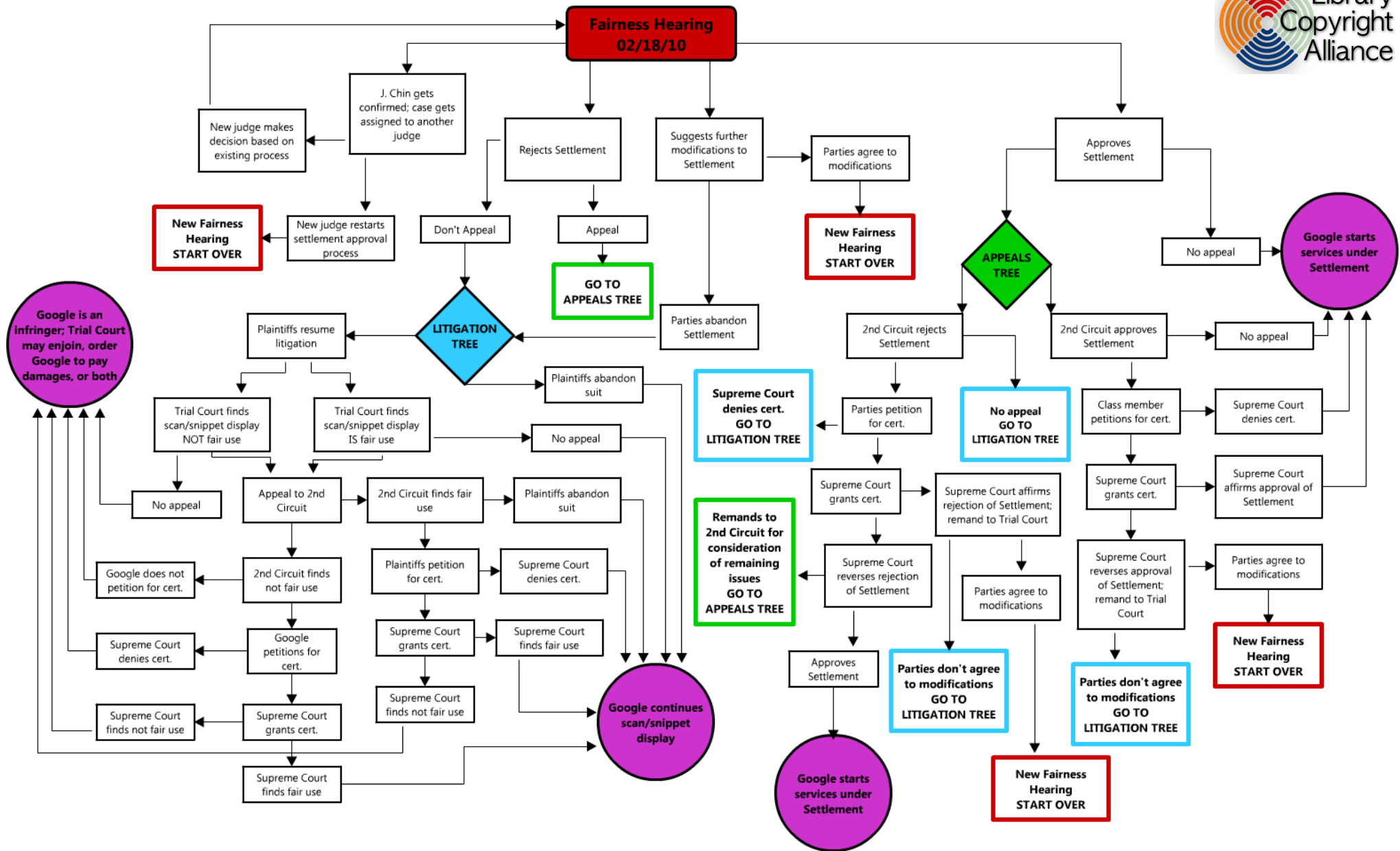
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# GBS March Madness: Paths Forward for the Google Books Settlement





UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

THE AUTHORS GUILD, INC. *et al.*,

Plaintiffs,

v.

GOOGLE INC.,

Defendant.

05 Civ. 8136 (DC)

**ECF CASE**

**STATEMENT OF INTEREST OF THE UNITED STATES OF AMERICA  
REGARDING PROPOSED CLASS SETTLEMENT**

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The United States of America, by and through counsel, submits this statement of its views concerning the proposed class action settlement (the “Proposed Settlement” or “Agreement”) between the American Association of Publishers, *et al.* (the “Class Plaintiffs”) and Google Inc. (“Google”).

The United States has been informed by the parties that they are continuing to consider possible modifications of the Proposed Settlement to address the many concerns raised by various commenters and by the United States in its discussions with the parties. The Proposed Settlement is one of the most far-reaching class action settlements of which the United States is aware; it should not be a surprise that the parties did not anticipate all of the difficult legal issues such an ambitious undertaking might raise. Further, the parties have represented to the United States that they put this Court on notice of their ongoing discussions and that they may present a modified version of the Proposed Settlement in the future. The United States is committed to working with the parties constructively with respect to alterations the parties may propose.

The United States strongly supports a vibrant marketplace for the electronic distribution of copyrighted works, including in-print, out-of-print, and so-called “orphan” works. The Proposed Settlement has the potential to breathe life into millions of works that are now effectively off limits to the public. By allowing users to search the text of millions of books at no cost, the Proposed Settlement would open the door to new research opportunities. Users with print disabilities would also benefit from the accessibility elements of the Proposed Settlement, and, if the Proposed Settlement were approved, full text access to tens of millions of books would be provided through institutional subscriptions. Finally, the creation of an independent, transparently-operated Book Rights Registry (the “Registry”) that would serve to clarify the



copyright status and copyright ownership of out-of-print works would be a welcome development.

Nonetheless, the breadth of the Proposed Settlement – especially the forward-looking business arrangements it seeks to create – raises significant legal concerns. As a threshold matter, the central difficulty that the Proposed Settlement seeks to overcome – the inaccessibility of many works due to the lack of clarity about copyright ownership and copyright status – is a matter of public, not merely private, concern. 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. If such a significant (and potentially beneficial) policy change is to be made through the mechanism of a class action settlement (as opposed to legislation), the United States respectfully submits that this Court should undertake a particularly searching analysis to ensure that the requirements of Federal Rule of Civil Procedure 23 (“Rule 23”) are met and that the settlement is consistent with copyright law and antitrust law. As presently drafted, the Proposed Settlement does not meet the legal standards this Court must apply.

This Memorandum sets forth the concerns of the United States with respect to the current version of the Proposed Settlement; these concerns may be obviated by the parties’ subsequent changes to the agreement. Commenters’ objections to the Proposed Settlement fall into three basic categories: (1) claims that the Proposed Settlement fails to satisfy Rule 23; (2) claims that the Proposed Settlement would violate copyright law; and (3) claims that the Proposed Settlement would violate antitrust law. In the view of the United States, each category of objection is serious in isolation, and, taken together, raise cause for concern. The Proposed Settlement seeks to implement a forward-looking business arrangement rather than a settlement of past conduct, using



the mechanism of Rule 23 in a manner that implicates the principle that copyright owners generally control whether and how to exploit their own works during the term of copyright. At the same time, the Proposed Settlement would establish a marketplace in which only one competitor would have authority to use a vast array of works – especially so-called “orphan” works<sup>1</sup> – that may provide significant value both to Google and to the Registry, a collective which would control exploitation of those works. As the United States has previously advised the Court, the Antitrust Division of the Department of Justice is investigating the Proposed Settlement; although that investigation is still ongoing, the United States is providing in this Memorandum a preliminary explanation of its antitrust concerns.

The United States’ views on the Proposed Settlement are informed by three basic principles. *First*, one goal of the settlement – making large numbers of copyrighted works available to the public in electronic form while providing compensation to authors and publishers – is a public benefit that, to date, has not come to pass due to certain realities of the copyright system, including, for example, the fact that copyright owners are not required to formally register or otherwise assert their ownership. In particular, the rediscovery of currently unused or inaccessible works and the digitization of those works in formats that are accessible to persons with disabilities are important public policy goals. The United States believes that, through the actions of private entities and Congress (if necessary), steps should be taken to advance these objectives.

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<sup>1</sup> The United States notes that, as a general matter, “orphan works” refers to the subset of rightsholders who likely cannot be located after a diligent search. In the context of the settlement, some out-of-print works will be orphan works, while others may belong to copyright owners who may be locatable but will not come forward to join the Registry.



*Second*, the end result should be a marketplace in which consumers can be assured that they are paying competitive prices for the benefit they receive – in a marketplace in which they have multiple outlets from which to obtain access to works. The benefits of this settlement should not be achieved through unjustified restrictions on competition.

*Third*, the structural safeguards of Rule 23 must be satisfied to ensure that the rights of absent class members are fully protected. This Court should engage in a careful and searching examination of the Proposed Settlement and any revised version that may be submitted.

The United States recognizes that the only question before the Court is whether to approve or disapprove the Proposed Settlement. Given the parties' express commitment to ongoing discussions to address concerns already raised and the possibility that such discussions could lead to a settlement agreement that could legally be approved by the Court, the public interest would best be served by direction from the Court encouraging the continuation of those discussions between the parties and, if the Court so chooses, by some direction as to those aspects of the Proposed Settlement that need to be improved. Because a properly structured settlement agreement in this case offers the potential for important societal benefits, the United States does not want the opportunity or momentum to be lost.

**I. Aspects of the Proposed Settlement in Its Current Form Require Modification to Satisfy Rule 23**

Rule 23 is designed to ensure that the settlement of a class action resolves disputes on behalf of plaintiffs who have aligned interests and protects the legal rights of absent class members whose interests may diverge from those of the named class representatives. To prevent abuses and to provide structural guarantees of fundamental fairness, Rule 23 requires that the class be defined in terms of commonality, typicality, and adequacy of representation, and that



class settlements be fair, reasonable, and adequate. *See Amchem Prods., Inc. v. Windsor*, 521 U.S. 591, 620, 628-29 (1997); *Gen. Tel. Co. of the Sw. v. Falcon*, 457 U.S. 147, 157 n.13 (1982); *E. Tex. Motor Freight Sys., Inc. v. Rodriguez*, 431 U.S. 395, 403-05 (1977).

The United States submits that, as currently drafted, the Proposed Settlement does not satisfy these requirements. As discussed below, there are changes that the United States has identified that may reduce potential conflicts among class members and address concerns about the adequacy of representation for absent class members. Moreover, the most sweeping forward-looking licensing provisions of the current Proposed Settlement (which give open-ended control to the Registry and Google for the exploitation of the rights of absent class members unless those class members opt out of those provisions) both exacerbate potential conflicts between the interests of the class representatives and those of absent class members – especially rightsholders of out-of-print works and foreign rightsholders – and are difficult to square with the requirements of Rule 23. In addition, as discussed below, the record at this time does not establish that the class was afforded adequate notice, which is critical given the size and geographic scope of the class, and the alteration in copyright protection that the Proposed Settlement would effectuate.

The parties have indicated that they are renegotiating a number of aspects of the Proposed Settlement. Until the parties agree on new provisions, however, it is impossible to determine whether a modified settlement will satisfy Rule 23's strictures. Accordingly, the United States respectfully submits that, as identified below, there are various ways to address the foregoing concerns that the parties should consider in their future discussions. The United States looks



forward to the opportunity to provide the Court with its comments regarding any modified version of the Proposed Settlement that the parties may negotiate.

**A. The Most Forward-Looking Provisions of the Agreement Require Modification to Satisfy Rule 23**

Various commenters have suggested that the Proposed Settlement must be limited to compensation for past conduct and should provide for little in the way of forward-looking relief (other than a prohibitory injunction going forward). Citing cases such as *Amchem*, 521 U.S. at 620, 628-29, *National Super Spuds, Inc. v. New York Mercantile Exch.*, 660 F.2d 9, 17 (2d Cir. 1981), and *Wal-Mart Stores, Inc. v. Visa U.S.A., Inc.*, 396 F.3d 96, 106-13 (2d Cir. 2005), these objectors contend that Rule 23 precludes settlements of claims that go beyond the four corners of the complaint filed, or that address claims that have not arisen. The United States does not advocate such a categorical view here. As a theoretical matter, a properly defined and adequately represented class of copyright holders may be able to settle a lawsuit over past conduct by licensing a broader range of conduct to obtain global “copyright peace.” At least one federal court of appeals has approved a class action settlement with a forward-looking licensing component covering claims that had not yet fully accrued. *See Uhl v. Thoroughbred Tech. & Telecomms., Inc.*, 309 F.3d 978, 982 (7th Cir. 2002) (affirming class settlement that resolved trespass and slander of title claims by granting easements in railroad rights-of-way).

That said, the concerns that animated the Supreme Court’s decision in *Amchem*, which rejected a proposed class settlement of all present and future claims by workers exposed to asbestos because the currently-injured plaintiffs had different interests and goals from those workers that had been exposed but had not yet suffered any injury, 521 U.S. at 626-27, and those that led the Second Circuit in *Wal-Mart* to conclude that Rule 23 does not permit release of



claims of absent class members unless those claims arise from the “identical factual predicate,” 396 F.3d at 107, apply with significant force to the most forward-looking provisions of the Proposed Settlement. In *Amchem*, *Wal-Mart*, and other cases, the courts have cast doubt on the circumstances in which class representatives could adequately represent absent class members with respect to as-yet uncertain injuries or rights that were far removed from the facts underlying the complaint.

Against this backdrop, the United States has greater concerns about some provisions in the Proposed Settlement than it has about others. At one end of the spectrum are the provisions that settle the specific allegations of infringement in the Complaint – Google’s scanning of millions of copyrighted works and making available small portions of such works in response to search requests. As to those claims, there are strong arguments that an appropriate set of publisher and author class representatives can adequately represent all members of the class with respect to reaching a settlement for payments to be made to publishers and authors for the use of their works. The claims are based on specific conduct and present facts, and, assuming representation of those with potentially different interests, adequate representation seems possible.

At the other extreme are the provisions of the Proposed Settlement that authorize the Registry to license Google to exploit the copyrighted works of absent class members for unspecified future uses (potentially derivative works or other uses) – essentially authorizing, upon agreement of the Registry, open-ended exploitation of the works of all those who do not opt out from such exploitations. *See* Proposed Settlement Agreement, dated Oct. 28, 2008 (“S.A.”) § 4.7 (allowing the Registry to authorize future business models without any class notification). Such licensing is far afield from the facts alleged in the Complaint. And the rights conferred are so



amorphous and malleable that it is difficult to see how any class representative could adequately represent the interests of all owners of out-of-print works (including orphan works). The parties appear willing to address this problem by limiting the future rights that may be controlled by the Registry and Google. The United States looks forward to working with the parties to address these concerns across the entire spectrum of provisions in the Proposed Settlement.

**B. The Parties Have Not Demonstrated that the Class Representatives Adequately Represent Absent Class Members**

The Proposed Settlement raises concerns about the adequacy of representation afforded to absent class members, especially owners of “orphan” out-of-print works and foreign rightsholders. We address each set of concerns separately.

First, the Proposed Settlement draws distinctions between in-print and out-of-print works. Google must obtain the permission of copyright owners of in-print works before making use of those works (beyond scanning). *See* S.A. §§ 3.2(b), 3.4(b). But Google can incorporate out-of-print works into new commercial products without the owner’s permission, S.A. §§ 3.2(b), 4.7. Copyright owners of out-of-print works can deny Google permission to use their works in certain ways if they learn of the agreement and their rights under it. S.A. §§ 3.2(e)(i), 3.5, 4.7. But, copyright owners of out-of-print works provide a release to Google for any exploitation of their rights that occurred prior to those owners becoming aware of Google’s use. S.A. §§ 10.1(f), 10.1(m)-(n), 10.2(a). And, because the owners of orphan works are an incredibly diverse group that includes not only living authors or active publishers, but heirs, assignees, creditors, and others who acquire the property interest by contract or operation of law, these rightsholders are difficult or impossible to locate, and thus difficult to notify. Moreover, no amount of notice is likely to protect those orphan rightsholders who are unaware of their rights or unclear how or



whether they want to exploit them. Yet, if an out-of-print copyright owner does not come forward within five years, profits from the commercial use of the out-of-print work are distributed to pay the expenses of the Registry and then to the Registry's registered rightsholders. *See* S.A. § 6.3; S.A. Attachment C, Plan of Allocation §§ 1.1(e), 2.3.

The structure of the Proposed Settlement itself, therefore, pits the interests of one part of the class (known rightsholders) against the interests of another part of the class (orphan works rightsholders). Google's commercial use of orphan works will generate revenues, which will be deposited with the Registry. Any unclaimed revenues, however, will inure to the benefit of the Registry and its registered rightsholders. Thus, the Registry and its registered rightsholders will benefit at the expense of every rightsholder who fails to come forward to claim profits from Google's commercial use of his or her work. And, as noted above, the broad scope of the Proposed Settlement's licensing provisions exacerbate this conflict. The greater the economic exploitation of the works of unknown rightsholders by Google and the Registry, the stronger the incentive for known rightsholders to retain the unclaimed revenues for themselves.

The provisions of the Agreement that allow Google to negotiate with the Registry to develop new derivative products create additional adequacy-of-representation concerns. The class representatives who negotiated these terms are all known rightsholders.<sup>2</sup> Thus, while these rightsholders are willing to authorize Google to develop future uses of copyrighted works, their own works are fully protected from unanticipated future uses: these owners can deny Google permission to use their works in ways they deem objectionable. Out-of-print rightsholders,

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<sup>2</sup> The parties have represented that all of the current class representatives have interests in both in-print and out-of-print works, with the exception of a single author representative whose works recently went out-of-print.



however, will not enjoy such protections unless they learn of the Proposed Settlement and its terms (and in some cases their own ownership rights) before Google begins a new use of their works. It is noteworthy that the parties have indicated their belief that the largest publisher plaintiffs are likely to choose to negotiate their own separate agreements with Google (*i.e.*, they will not opt in to the future provisions of the settlement), while benefitting from the out-of-print works that will be exploited by Google due to the effect of the opt-out requirement for those works. There are serious reasons to doubt that class representatives who are fully protected from future uncertainties created by a settlement agreement and who will benefit in the future from the works of others can adequately represent the interests of those who are not fully protected, and whose rights may be compromised as a result.

The parties respond to these concerns by contending that these conflicts are more theoretical than real. They submit that the Proposed Settlement will breathe new economic life into out-of-print works, which will create incentives for their owners to self-identify so that they can benefit from copyrights currently lacking commercial value. This theory is certainly plausible. But where, as here, the structure of a settlement agreement creates a conflict among known and unknown class members, a court cannot ignore or excuse that conflict based on an untested hypothesis that economic incentives will operate to obviate the conflict. *See Amchem*, 521 U.S. at 627 (looking to “structural assurance of fair and adequate representation”). That out-of-print rightsholders might benefit from a fundamental alteration of their rights is insufficient to show that they were adequately represented by named plaintiffs whose rights will not be altered (or who can readily avoid such alteration), and who stand to gain if out-of-print rightsholders do



not opt out.<sup>3</sup> The United States looks forward to reviewing modifications to the Proposed Settlement that will provide structural assurances to minimize this conflict.

Second, the Proposed Settlement raises concerns about the adequacy of representation with respect to foreign rightsholders. The Proposed Settlement operates to sweep in untold numbers of foreign works, whose authors, under current law, are not required to register in the same manner as U.S. rightsholders. Many of those authors have never published works in the United States and are not members of the Authors Guild or the Association of American Publishers, which exclude many foreign copyright owners from membership by virtue of their membership criteria. Moreover, the interests of these class members likely differ from those of the class representatives. As the filings of France and Germany make clear, some of the United States' trading partners have serious concerns about application of the Proposed Settlement to foreign authors<sup>4</sup> and, in any event, the parties have not demonstrated that the class included representation sufficient to protect the interests of these foreign rightsholders.

Thus, although the Proposed Settlement may well provide overall benefits to a wide range of authors and publishers and to the public, there are at present insufficient assurances that absent

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<sup>3</sup> As the Register of Copyrights has explained, the Proposed Settlement's far-reaching authorization to the Registry and ultimately Google to exploit out-of-print works without prior consent of the rightsholders, alters the traditional understanding of copyright law that allows the owner to exclude others from using a copyrighted work absent authorization of the copyright owner. *Hearing on Competition and Commerce in Digital Books: The Proposed Google Book Settlement Before the House Comm. on the Judiciary*, 111th Cong., 1st Sess. at 3, 6-8 (2009) (statement of Marybeth Peters, Register of Copyrights), available at <http://judiciary.house.gov/hearings/pdf/Peters090910.pdf> (accessed Sept. 18, 2009).

<sup>4</sup> See Mem. of Law in Opp'n to the Settlement Proposal on Behalf of the French Republic at 1 (D.E. 179); Mem. of Law in Opp'n to the Settlement Proposal on Behalf of the Federal Republic of Germany, at 1 (D.E. 287) ("Germany Opp'n").



class members' interests were adequately represented. The parties should continue to work on modifications to the Proposed Settlement to address these concerns.

**C. The Scope of the Proposed Settlement Requires Robust Notice, and the Record Requires Further Development of Whether Such Notice Has Been Provided**

Sufficient notice is a distinct requirement of Rule 23. The notice requirement is designed to ensure that absent class members are provided with the opportunity to protect their interests. As the Supreme Court explained in *Amchem*, “[t]o alert class members to their right to ‘opt out’ of a (b)(3) class, Rule 23 instructs the court to ‘direct to the members of the class the best notice practicable under the circumstances, including individual notice to all members who can be identified through reasonable effort.’ Fed. R. Civ. P. 23(c)(2); see *Eisen v. Carlisle & Jacquelin*, 417 U.S. 156, 173-177 (1974) (individual notice to class members identifiable through reasonable effort is mandatory in (b)(3) actions; requirement may not be relaxed based on high cost).” 521 U.S. at 617.

The adequacy of notice is particularly important in this case because the Proposed Settlement seeks to certify a broad class, including individuals or entities who have not yet been injured in any fashion and whose rights may be exploited (without prior consent) in a form as-yet unknown based on future decisions by the Registry and Google. It is a difficult legal question whether notice could be formulated to be legally sufficient with respect to the many undefined and uncertain future uses the Proposed Settlement would authorize Google to make. *Amchem*, 521 U.S. at 628 (noting “the gravity of the question whether class action notice sufficient under the Constitution and Rule 23 could ever be given to legions so unselfconscious and amorphous”). Once again, foreign rightsholders present special problems of notice, especially given the fact that



some may not, to date, have sought to exploit their works in the United States, but may wish to in the future, and because the Proposed Settlement grants Google and the Registry broad rights to unclaimed works.

The record on the notice provided is, at this point, undeveloped. Some commenters have complained that they did not receive notice by any direct means. *See, e.g.*, Objection of Scott E. Gant to Proposed Settlement at 16 n.31 (D.E. 143). Although the United States is not in a position to opine on whether the notice provided by Google has met the strictures of Rule 23, it believes the Court should undertake a searching inquiry to ensure both that a sufficient number of class members will be reached and that the notice provided gives a complete picture of the broad scope of the Proposed Settlement. The Court should not hesitate to require the parties to undertake further efforts to notify the class.

**D. The Parties Should Consider Modifications to Address the Requirements of Rule 23**

The United States is heartened that the parties are actively considering modifications of the Proposed Settlement and believes the best result is a negotiated solution that can satisfy the dictates of Rule 23, the copyright law, and the antitrust laws. The United States is fully cognizant that this is *the parties'* agreement and that even small modifications to the Proposed Settlement may require significant renegotiation. Nevertheless, in an effort to assist the parties in their future discussions and to apprise the Court of the United States' views, the United States identifies below provisions that the parties could consider modifying to address concerns with the Proposed Settlement as currently drafted.

As a threshold matter, changing the forward-looking provisions of the current Proposed Settlement applicable to out-of-print rightsholders from an opt-out to an opt-in would address the



bulk of the Rule 23 issues raised by the United States. This would put the out-of-print rightsholders and in-print rightsholders in the same situation and respond to a significant concern expressed by foreign rightsholders. Such a revision would, of course, not give Google immediate authorization to use all out-of-print works beyond the digitization and scanning which is the foundation of the plaintiffs' Complaint in this matter. Google has suggested that the vast majority of known authors and publishers of out-of-print works who have or will receive notice of the settlement will wish to be bound by it; if that is true, creating an opt-in mechanism would not seem to work a significant hardship for a broad category of affected works. Coupled with enhanced requirements of the Registry to search for rightsholders (who may then elect to opt in), such a change may achieve a significant portion of the benefit of the settlement as currently envisioned without running afoul of Rule 23. As noted in testimony by the Authors Guild before the House Judiciary Committee, "finding the rights owners of a book is not as daunting as many seem to believe."<sup>5</sup>

The United States does not mean to suggest, however, that such a modification is the only means to revise the Proposed Settlement to make it consistent with Rule 23. A combination of other revisions affecting the scope of the forward-looking license provisions and protecting the interests of absent class members could also alleviate at least some of the United States' concerns.

With respect to the interests of owners of out-of-print works (or any rightsholder that does not receive notice), extending the time for opting out of the class and for claiming escrowed profits owed to unknown rightsholders would minimize potential conflicts. Alternatively, the escrow provisions could be revised to eliminate the distribution of residual profits to registered

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<sup>5</sup> See *House Comm. on the Judiciary*, 111th Cong., 1st Sess. (2009) (statement of Paul Aiken, Executive Director of the Authors Guild at 8).



rights owners. Instead, unclaimed profits could be devoted entirely to the search for rightsholders of orphan works, and the Registry could be authorized to petition the court for an alternative distribution based on a showing that search efforts had been fully exhausted. Another possibility would be to appoint persons to the Registry to serve as guardian representatives of orphan works owners. All of these steps could at least partially address the current conflict in the plaintiff class by moderating the incentive of known rightsholders to disadvantage unknown rightsholders or leverage their own economic interests on those of rightsholders who have not come forward.

The risk of such improper leveraging might also be reduced by narrowing the scope of the license. A settlement that simply authorized Google to engage in scanning and snippet displays in the future would limit the profits that others could potentially derive from out-of-print works whose owners fail to learn of their right to claim those profits. Other less significant limitations on the scope of the forward-looking license may be possible, and the United States looks forward to hearing from the parties on possible proposals.

The United States also believes progress can be made with respect to protecting the interests of foreign rightsholders. Google has already indicated that it will take steps to address the concerns of foreign rightsholders, though, to date, those actions do not appear to have addressed the concerns of the United States' trading partners, which believe that an opt-out regime for foreign rightsholders is prohibited. *See, e.g., Germany Opp'n* at 9-11. In addition to consideration of an opt-in, as the parties continue discussions over modifications to the settlement, they should consider addressing the adequacy of representation of foreign rightsholders by adding foreign owners of in-print and out-of-print works to the class



representatives, to provide some assurance that the interests of absent foreign rightsholders have been accommodated.

These are a few of many possible revisions that could be considered. The United States believes such future discussion between the parties is necessary and could be productive.

## **II. The Proposed Settlement May Be Inconsistent with Antitrust Law**

The Department of Justice has opened an investigation into the competitive impact of the Proposed Settlement. That investigation is not yet complete, and future modifications of the Proposed Settlement in response to comments filed in the instant proceeding may bear on the conclusions of that investigation. For these reasons, the United States cannot now state with certainty whether the Proposed Settlement violates the antitrust laws in any respect. Nevertheless, the Department's views on certain core issues are sufficiently well developed that articulating them now may be beneficial to the Court in its consideration of the Proposed Settlement and to the parties in their continuing negotiations regarding possible modifications.<sup>6</sup>

In the view of the Department, the Proposed Settlement raises two serious issues. First, through collective action, the Proposed Settlement appears to give book publishers the power to restrict price competition. Second, as a result of the Proposed Settlement, other digital distributors may be effectively precluded from competing with Google in the sale of digital library products and other derivative products to come. These problems are evident on the face of the Proposed Settlement and the concerns they raise have not to this point been convincingly

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<sup>6</sup> The parties have represented to the United States that, with regard to any potential challenge to the legality of the settlement, they will not raise a defense based on the *Noerr-Pennington* doctrine.



addressed by the parties. The parties have indicated, however, a willingness to consider modifications that would address at least some of the concerns set forth below.

**A. Horizontal Agreements Among Authors and Publishers as to Terms of Sale**

Section 1 of the Sherman Act, 15 U.S.C. § 1, prohibits agreements in “unreasonable” restraint of trade. *State Oil Co. v. Khan*, 522 U.S. 3, 10 (1997). Some restraints are so manifestly anticompetitive and without redeeming value that they are deemed illegal per se under Section 1. *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877, 886 (2007). Other restraints are evaluated under the rule of reason, allowing consideration of the parties’ market power and any procompetitive justifications, as well as the restraint’s anticompetitive effects.

In at least three respects, the collectively negotiated provisions of the Proposed Settlement appear to restrict price competition among authors and publishers: (1) the creation of an industry-wide revenue-sharing formula at the wholesale level applicable to all works; (2) the setting of default prices and the effective prohibition on discounting by Google at the retail level; and (3) the control of prices for orphan books by known publishers and authors with whose books the orphan books likely compete. Although they arise in a unique context, these features of the Proposed Settlement bear an uncomfortably close resemblance to the kinds of horizontal agreements found to be quintessential per se violations of the Sherman Act. *See Arizona v. Maricopa County Med. Soc’y*, 457 U.S. 332 (1982); *Catalano, Inc. v. Target Sales*, 446 U.S. 643 (1980) (per curiam). And, even if the provisions were considered under the rule of reason, a strong countervailing “procompetitive justification,” *NCAA v. Bd. of Regents of Univ. of Okla.*, 468 U.S. 85, 100 (1984), would be needed to avoid antitrust condemnation of what appear to be direct and unnecessary restraints on price competition.



As a threshold matter, the parties contend that the Proposed Settlement's pricing terms should be viewed not as a form of horizontal collective action by publishers and authors actionable under Section 1, but simply as a unilateral offer by Google to each individual rightsholder to contract on specified terms. The Department is not persuaded by this description. Class representatives – who compete with each other – collectively negotiated these pricing terms on behalf of all rightsholders. That some individual authors or publishers might opt out of those terms does not make them any less the product of collective action by competitors.

Alternatively, the parties contend that the Proposed Settlement should be considered a joint venture like the one at issue in *Broadcast Music, Inc. v. Columbia Broadcast System, Inc.*, 441 U.S. 1 (1979). In *BMI*, the Supreme Court held that the blanket licenses issued and priced by the music performing rights organizations ASCAP and BMI were not subject to per se invalidation under Section 1 because: (1) they allowed for new, integrated products “entirely different from the product that any one composer was able to sell by himself,” *see Maricopa*, 457 U.S. at 355;<sup>7</sup> (2) they generated substantial transaction-cost savings; (3) they were a practical necessity if songwriters were to be paid for the use of their compositions; and (4) ASCAP and BMI already operated under DOJ consent decrees.

The present situation is quite different. Wholly apart from whatever new integrated products Google might offer using the rights it obtains in the Proposed Settlement, Google will also act as a joint sales agent, offering each rightsholder's books for individual sale. *Contrast BMI*, 441 U.S. at 22 (approving only blanket license that was distinct from individually licensed

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<sup>7</sup> A legitimate joint venture may set the price for its own offering without incurring per se antitrust liability, *see Texaco Inc. v. Dagher*, 547 U.S. 1 (2006), but it must involve an efficiency-enhancing integration, and not a mere joint marketing of competitors' products. *See Maricopa*, 457 U.S. at 355-57.



compositions). Additionally, the Proposed Settlement's revenue-sharing provision reduces incentives for authors and publishers to compete at the wholesale level through bilateral negotiations with Google. In contrast, ASCAP and BMI have always negotiated separate bilateral agreements with rightsholders, preserving competition among the rightsholders for their share of the blanket license revenues – just as Google (through its Partner Program) and competitors such as Amazon.com and Sony have done with thousands of publishers. Moreover, unlike music rightsholders who need the ASCAP/BMI organizations to detect the “fleeting” uses of their compositions on the airwaves, *id.* at 19, book authors and publishers have not shown that they lack a practical means to be paid for uses of their works in the absence of collectively negotiated pricing mechanisms. Finally, unlike both ASCAP and BMI, *id.* at 10-15, 24, no actor here has its market power constrained by a consent decree with the Department of Justice, which, among other things, allows licensees to ask the court to set the price of a license.

Thus, the parties' threshold arguments do not justify forgoing a thorough inquiry into the anticompetitive potential of the Proposed Settlement's collectively negotiated pricing terms. As will be shown, absent modification by the parties, there is a significant possibility that the Department will conclude that those terms violate the federal antitrust laws.

#### 1. Collective Agreement on Wholesale Terms

Currently, publishers compete with each other over the terms on which they will sell hard-copy and digital books to distributors, including Google. The pricing terms in the Proposed Settlement appear to restrict that competition. The parties have fixed the royalty rate at 63% of all revenues Google earns under the settlement. *See* § 2.1(a). This term operates as a price floor (even for those who elect not to use the Proposed Settlement's default pricing mechanisms),



diminishing the incentives of individual authors or publishers to discount or offer other terms more favorable to the purchaser. *See Goldfarb v. Va. State Bar*, 421 U.S. 773, 781-82 (1975) (holding that price floor for legal services is illegal price fixing); *Maricopa*, 457 U.S. at 349 (agreement among doctors to set maximum fee they would accept for purposes of contracting with health insurers is per se illegal); *Catalano*, 446 U.S. at 646-50 (fixing price related terms in wholesale agreements is per se unlawful). Thus, for antitrust purposes, it is immaterial that authors and publishers can negotiate individually rather than accept the Proposed Settlement's terms. *Maricopa*, 457 U.S. at 341, 349-54.

The parties' contention that this kind of industry-wide pricing mechanism is necessary to create a vibrant market for digital books is difficult to reconcile with the facts on the ground. Millions of digital books are already available for purchase, including growing numbers of out-of-print books, as a result of bilateral negotiations between distributors and individual rightsholders. In the same vein, it is difficult to justify a uniform royalty rate on the theory that it will eliminate transaction costs between Google and publishers. The antitrust laws do not permit parties to justify their conduct on the ground that competition itself is undesirable. *See* XI Herbert Hovenkamp, *Antitrust Law* ¶ 1907c at 246-48 (2d ed. 2005) (reducing transaction "costs of operating the competitive market itself" is not a valid defense because "[o]ur entire market system is built on the premise that these costs are worth their price in the great majority of cases."); *see also, e.g., Nat'l Soc'y of Prof. Eng'rs v. United States*, 435 U.S. 679, 687, 692-95 (1978).



## 2. Restrictions on Retail Price Competition

The Proposed Settlement also directs Google to develop a pricing algorithm to set default retail prices for individual books governed by the settlement.<sup>8</sup> In other contexts, courts have repeatedly rejected as per se illegal the establishment of a joint price-setting mechanism. *Citizen Publ'g, Co. v. United States*, 394 U.S. 131, 134-35 (1969); *Va. Excelsior Mills, Inc. v. FTC*, 256 F.2d 538, 540-41 (4th Cir. 1958); *New York v. St. Francis Hosp.*, 94 F. Supp. 2d 399, 412-14 (S.D.N.Y. 2000). Similarly, courts have held that the use of formulas agreed upon among competitors to set the price of competing goods is per se illegal. *United States v. Socony-Vacuum Oil Co.*, 310 U.S. 150, 198-99, 222-23 (1940); *Va. Excelsior Mills*, 256 F.2d at 540. This feature of the Proposed Settlement warrants particularly close scrutiny.

The Proposed Settlement also restricts Google from discounting off a rightsholder's list price without authorization of the Registry and notification of the rightsholder, either of which may veto the discount. S.A. § 4.5(b)(ii). This term discourages Google from funding discounts and making the rightsholder whole, as any other retailer might.<sup>9</sup> And allowable discounts are limited to 40% off a book's list price. In other contexts, such collective restraints on discounting

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<sup>8</sup> See S.A. §§ 4.2(b)(i)(2), 4.2(c)(ii). The Proposed Settlement also establishes retail "pricing bins," which define the prices at which algorithm-priced books may actually be offered for sale. S.A. § 4.2(c). It identifies twelve initial pricing bins ranging from \$1.99 to \$29.99 and the initial percentage of books to be assigned to each bin, S.A. § 4.2(c)(ii)(1), but also states that Google and the Registry may add or modify the bins at any time, S.A. § 4.2(c)(i). Google will create a pricing algorithm to determine the retail price bin into which each book is placed, as a default option. This algorithm must: (1) "maximize revenue for each Rightsholder," S.A. § 4.2(b)(i)(2); and (2) determine the retail price for books based "upon the aggregate data collected with respect to Books that are similar to such Book," S.A. § 4.2(c)(ii)(2).

<sup>9</sup> The Agreement authorizes Google to fund "temporary" discounts, without elaborating on such a discount's permissible duration. S.A. § 4.5(b)(i). This uncertainty reduces the ability of discounts under this Section to have any meaningful impact on consumer prices.



have been held to be per se violations of Section 1. *See Catalano*, 446 U.S. at 648 (ban on extending credit is “tantamount to an agreement to eliminate discounts, and thus falls squarely within the traditional *per se* rule against price fixing”); *TFWS, Inc. v. Schaefer*, 242 F.3d 198, 210 (4th Cir. 2001) (volume discount ban per se illegal); *United States v. Aquafredda*, 834 F.2d 915, 917 (11th Cir. 1987) (criminal violation based on agreement to cease offering discounts).

### 3. Terms of Sale for Orphan Works

The Proposed Settlement also appears to limit price competition by giving publishers, through the mechanism of negotiations conducted by the Registry, the ability to control the future pricing of orphan works that may compete with the works of known rightsholders. The Registry is effectively controlled by large commercial publishers. Allowing it to set the prices of orphan works effectively allows known rightsholders to choose the price at which their competitors’ books (those of unknown rightsholders) are offered for sale. *Citizen Publ’g*, 394 U.S. at 134-135 (joint sales of newspaper advertising and subscriptions by competing newspapers held to be “plain beyond peradventure” per se violations of § 1). Known rightsholders would appear to have every incentive to ensure that the orphan works will not offer effective competition.

\* \* \* \* \*

In each of the respects described above, the Proposed Settlement’s pricing terms appear to constrain competition among authors and publishers. Moreover, none seems reasonably necessary to achieve the stated benefit of the Proposed Settlement – breathing new commercial life into millions of long-forgotten, commercially unavailable works. Accordingly, absent modification of those terms, there is a significant potential that the Department will conclude that they violate the Sherman Act.



## **B. Potential Foreclosure of Competition in Digital Distribution**

Under the Proposed Settlement, competing authors and publishers grant Google de facto exclusive rights for the digital distribution of orphan works. Such “joint efforts by a firm or firms to disadvantage competitors by either directly denying or persuading or coercing suppliers or customers to deny relationships the competitors need in the competitive struggle” have significant anticompetitive potential and may violate the antitrust laws. *Toys “R” Us, Inc. v. FTC*, 221 F.3d 928, 936 (7th Cir. 2000) (quoting *Nw. Wholesale Stationers, Inc. v. Pac. Stationery & Printing Co.*, 472 U.S. 284, 294 (1985)).

The Proposed Settlement appoints the Registry to negotiate with Google on behalf of the entire class regarding new commercial uses of digital books, and releases Google from any copyright liability arising from those new uses. S.A. §§ 4.7, 10.1(f), 10.2(a). The Proposed Settlement does not forbid the Registry from licensing these works to others. But the Registry can only act “to the extent permitted by law.” S.A. § 6.2(b). And the parties have represented to the United States that they believe the Registry would lack the power and ability to license copyrighted books without the consent of the copyright owner – which consent cannot be obtained from the owners of orphan works. If the parties are correct, the Registry will lack the ability to provide competitors with licenses that will allow them to offer to the public anything like the full set of books Google can offer if the Settlement Proposal is approved.

Google’s competitors are unlikely to be able to obtain comparable rights independently. They would face the same problems – identifying and negotiating with millions of unknown individual rightsholders – that Google is seeking to surmount through the Settlement Proposal. Nor is it reasonable to think that a competitor could enter the market by copying books en masse



without permission in the hope of prompting a class action suit that could then be settled on terms comparable to the Proposed Settlement. Even if there were reason to think history could repeat itself in this unlikely fashion, it would scarcely be sound policy to encourage deliberate copyright violations and additional litigation as a means of obtaining approval for licensing provisions that could not otherwise be negotiated lawfully. Moreover, the “most favored nation” clause in the Proposed Settlement, S.A. § 3.8(a), discourages potential competitors (including those sponsored by rightsholders) from attempting to follow Google into digital-book distribution because it could not obtain better terms than Google.

This de facto exclusivity (at least as to orphan works) appears to create a dangerous probability that only Google would have the ability to market to libraries and other institutions a comprehensive digital-book subscription. The seller of an incomplete database – *i.e.*, one that does not include the millions of orphan works – cannot compete effectively with the seller of a comprehensive product. Foreclosure of newcomers is precisely the kind of competitive effect the Sherman Act is designed to address. *See Assoc. Press v. United States*, 326 U.S. 1, 13-14 (1945). At this stage in the Department’s investigation, it is not at all clear that this aspect of the Proposed Settlement can be “justified by plausible arguments that [it is] intended to enhance overall efficiency and make markets more competitive.” *Nw. Wholesale Stationers*, 472 U.S. at 294. To the contrary, the Proposed Settlement appears to share features of collective agreements courts have rejected. *See Toys “R” Us, Inc.*, 221 F.3d at 936 (condemning agreements between Toys “R” Us and key suppliers “to disadvantage . . . competitors . . . by inducing the suppliers to collude [by selling only through Toys R Us], rather than to compete independently for shelf space in the different [] retail stores.”); *United States v. Columbia Pictures Indus., Inc.*, 507 F. Supp.



412 (S.D.N.Y. 1980) (condemning agreement in which competing movie studios exclusively licensed their movies to a single cable channel formed by the studios through a joint venture, the profits of which were shared according to a profit-sharing agreement).

This risk of market foreclosure would be substantially ameliorated if the Proposed Settlement could be amended to provide some mechanism by which Google's competitors' could gain comparable access to orphan works (whatever such access turns out to be assuming the parties negotiate modifications to the settlement).<sup>10</sup> *See, e.g., In re Literary Works in Elec. Databases Copyright Litig.*, MDL No. 1379 ("Order for Final Approval of Settlement and Final Judgment") (S.D.N.Y. Sept. 25, 2005) (numerous companies beyond the named defendants allowed to obtain benefits of settlement) (available at [www.copyrightclassaction.com/final\\_judge.pdf](http://www.copyrightclassaction.com/final_judge.pdf)), *rev'd on other grounds*, 509 F.3d 116 (2d Cir. 2007), *cert. granted*, *Reed-Elsevier, Inc. v. Muchnick*, No. 08-103 (Mar. 2, 2009). Analysis of such provisions would have to take into account the limitations of Rule 23, but they would have an important impact on the antitrust analysis.

If Rule 23 permits the class to enter into an agreement with Google that extends well beyond the scope of the alleged violation, and to set up an industry-wide arrangement for the licensing of copyrighted works for digital distribution, that arrangement should conform to the procompetitive mandate of the federal antitrust laws. Consumers may benefit from the creation of

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<sup>10</sup> Authorizing the Registry to license the orphan works to third parties would appear to expand only the circumstances under which it could exercise the authority to act as continuing agent for the rightsholders with respect to orphan works already granted to it under the Agreement. *See* S.A. § 4.7 (empowering Registry to authorize Google to distribute books under new, unspecified business models); § 3.7(c) (authorizing Registry to empower "one or more provider(s)" to sell the class's books if Google decides it no longer wants to sell the books as the Agreement envisions).



digital libraries that would not otherwise be feasible, but they should not be required to pay the price of eliminating competition among authors and publishers on the one hand and de facto exclusive control of the library by Google on the other.

### **III. Additional Considerations**

In addition to the issues discussed above, the United States offers two additional observations with respect to the Proposed Settlement.

First, the parties have sought to maximize accessibility in a way that will provide individuals with print disabilities with a substantially similar experience as users without print disabilities. In the Proposed Settlement, Google has committed to providing accessible formats and comparable user experience to individuals with print disabilities – and if these goals are not realized within five years of the agreement, Google will be required to locate an alternative provider who can accomplish these accommodations. Along with many in the disability community, the United States strongly supports such provisions.

Second, given the nature of the digital library the Proposed Settlement seeks to create, the United States believes that, if the settlement is ultimately approved, data provided should be available in multiple, standard, open formats supported by a wide variety of different applications, devices, and screens. Once these books are digitized, the format in which they are made available should not be a bottleneck for innovation. Google has made clear in the past that it started this project on the premise that anyone, anywhere, anytime should have the tools to explore the great works of history and culture. However the Proposed Settlement is modified by the parties, this approach should continue to be at its heart.



### CONCLUSION

This Court should reject the Proposed Settlement in its current form and encourage the parties to continue negotiations to modify it so as to comply with Rule 23 and the copyright and antitrust laws.

Respectfully submitted,

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### **CERTIFICATE OF SERVICE**

I hearby certify that on the 18th day of September, 2009, I caused a true and correct copy of the foregoing STATEMENT OF INTEREST OF THE UNITED STATES OF AMERICA REGARDING PROPOSED CLASS SETTLEMENT to be served electronically via the CM/ECF system on the lead attorneys to be noticed in this matter, including those counsel of record identified below.

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UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

THE AUTHORS GUILD, INC. *et al.*,

Plaintiffs,

v.

GOOGLE INC.,

Defendant.

05 Civ. 8136 (DC)

**ECF CASE**

**STATEMENT OF INTEREST OF THE UNITED STATES OF AMERICA  
REGARDING PROPOSED AMENDED SETTLEMENT AGREEMENT**

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The United States of America, by and through counsel, submits this statement of its views concerning the amended proposed class action settlement (the “Amended Settlement Agreement” or “ASA”) between the Authors Guild, Inc. and the Association of American Publishers, Inc. (“AAP”), et al. (the “Class Plaintiffs”) and Google Inc. (“Google”).

As the United States noted in its September 18, 2009 Statement of Interest (D.E. 720) (“U.S. SOI”), widespread lawful electronic distribution and use of copyrighted works, including in-print, out-of-print, and so-called “orphan” works, holds vast promise. Breathing life into millions of works that are now effectively dormant, allowing users to search the text of millions of books at no cost, creating a rights registry, and enhancing the accessibility of such works for the disabled and others are all worthy objectives.

It was with those objectives in mind that the United States encouraged discussions among the parties regarding possible modifications of the original Proposed Settlement (“Proposed Settlement” or “PS”) to address the many concerns raised by various commenters and the United States. In response, the parties made a number of substantial changes to the Proposed Settlement. For example, the ASA: eliminates the open-ended provisions that would have conveyed to Google the rights to engage in unspecified future uses of the works covered by the ASA (*compare* PS § 4.7 *with* ASA § 4.7); calls for an Unclaimed Works Fiduciary (“Fiduciary” or “UWF”) subject to court approval to protect owners of unclaimed works (ASA § 6.2(b)(iii)); provides that, after five years, 25 percent of unclaimed funds from unclaimed works may be used to locate the respective rightsholders (rather than be redistributed to other members of the Book Rights Registry) (ASA § 6.3(a)(i)(2)); reduces the number of foreign works in the settlement class (*compare* PS § 1.19 *with* ASA § 1.19); and eliminates the most-favored-nation provision (PS § 3.8(a)) that would have guaranteed Google optimal license terms into the future.



Despite this substantial progress, substantial issues remain. Although the United States believes the parties have approached this effort in good faith and the ASA is more circumscribed in its sweep than the original Proposed Settlement, the ASA suffers from the same core problem as the original agreement: it is an attempt to use the class action mechanism to implement forward-looking business arrangements that go far beyond the dispute before the Court in this litigation. As a consequence, the ASA purports to grant legal rights that are difficult to square with the core principle of the Copyright Act that copyright owners generally control whether and how to exploit their works during the term of copyright. Those rights, in turn, confer significant and possibly anticompetitive advantages on a single entity – Google. Under the ASA as proposed, Google would remain the only competitor in the digital marketplace with the rights to distribute and otherwise exploit a vast array of works in multiple formats. Google also would have the exclusive ability to exploit unclaimed works (including so-called “orphan works”<sup>1</sup>) without risk of liability. The ASA’s pricing mechanisms, though in some respects much improved, also continue to raise antitrust concerns.

The United States recognizes that the parties to the ASA are seeking to use the class action mechanism to overcome legal and structural challenges to the emergence of a robust and diverse marketplace for digital books, including through the adoption of an “opt-out” system to address the complexity of managing millions of third-party copyrights. Under existing law, copyrighted works typically cannot be exploited in all of the ways the ASA contemplates without the prior permission of the rightsholders. But for many works, especially out-of-print works, rights clearance may not be possible as a practical matter. Even if the rightsholders can be

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<sup>1</sup> The United States notes that, as a general matter, “orphan works” refers to the subset of works whose rightsholders cannot be identified or located after a diligent search. In the context of the settlement, many additional works will be “unclaimed works,” *i.e.*, their copyright owners are findable but they choose not to affirmatively engage with the Registry.



located, it may not be clear (as between author and publisher, or as among many competing claims to rights in the work) who “owns” or controls the digital licensing of particular works. This is especially likely where publication predated, and contracts did not anticipate, the digital era. Finally, there are no major licensing systems in place by which good faith users can efficiently secure permission from, and render payment to, authors, publishers, and the other rightsholders implicated by the ASA. These realities make it difficult if not impossible to engage in lawful large-scale book digitization projects, thereby denying the public the full corpus of 20<sup>th</sup> century books and, perhaps, unknown benefits of future creativity and economic innovation. The parties to the ASA should be commended for their efforts to find a solution to these challenges.

Despite this worthy goal, the United States has reluctantly concluded that use of the class action mechanism in the manner proposed by the ASA is a bridge too far. The Supreme Court has cautioned that “Rule 23, which must be interpreted with fidelity to the Rules Enabling Act and applied with the interests of absent class members in close view, cannot carry the large load” of restructuring legal regimes in the absence of congressional action – however sensible that restructuring might be. *Amchem Prods., Inc. v. Windsor*, 521 U.S. 591, 629 (1997).<sup>2</sup> That caution should be heeded here. Indeed, it applies with particular force because the legal and structural changes the parties seek to accomplish would confer on one entity a level of market dominance that other competitors without access to the ASA’s special rules and procedures will be hard pressed to challenge for the foreseeable future. For these reasons, the ASA is not the appropriate way to achieve the laudable goals the parties seek.

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<sup>2</sup> See also *id.* at 628-29 (“The argument is sensibly made that a nationwide administrative claims processing regime would provide the most secure, fair, and efficient means of compensating victims of asbestos exposure. Congress, however, has not adopted such a solution.”); *id.* at 613 (“Rules Enabling Act ... instructs that rules of procedure ‘shall not abridge, enlarge or modify any substantive right.’ 28 U.S.C. § 2072(b).”).



At this time, in the view of the United States, the public interest would best be served by direction from the Court encouraging the continuation of settlement discussions between the parties and, if the Court so chooses, guidance as to those aspects of the ASA that need to be addressed. The United States is committed to working constructively with all stakeholders on the scope and content of an appropriate settlement of this matter, and on legislative or market-based solutions to ensure a robust marketplace for digital works.

## **I. Aspects of the ASA Exceed the Proper Bounds of a Class Action Settlement**

### **A. Class Representatives Lack the Authority Under Rule 23 to Grant Google the Broad Rights that the ASA Contemplates**

In response to concerns expressed by many, the ASA eliminates the open-ended ability of Google and the Registry to agree in the future to unspecified business models. *Compare* PS § 4.7 *with* ASA § 4.7. Yet, what remains is nevertheless quite broad and well beyond what the class representatives sought to litigate or could have litigated. The ASA retains Google's ability to sell full access to books in a variety of ways: to libraries, as online access to the complete corpus ("Institutional Subscriptions," ASA § 4.1); to consumers, one online book at a time ("Consumer Purchases," ASA § 4.2); and, pending Registry approval, to consumers, as individually printed volumes ("Print on Demand," ASA § 4.7(a)), to consumers, as ebooks they can read offline ("File Download," ASA § 4.7(b)), and to consumers, as online access to the complete database of digitized works ("Consumer Subscription," ASA § 4.7(c)). These rights alone grant Google sweeping control over the digital commercialization of millions and millions of books.

The United States accepts the proposition that a properly defined and adequately represented class of copyright holders may be able to settle a lawsuit over past conduct by licensing a somewhat broader range of conduct. *See Uhl v. Thoroughbred Tech. & Telecomms.*,



*Inc.*, 309 F.3d 978, 982-83 (7th Cir. 2002) (affirming class settlement that resolved trespass and slander of title claims by granting easements in railroad rights-of-way). *But cf. Isaacs v. Sprint Corp.*, 261 F.3d 679, 682 (7th Cir. 2001) (reversing class certification where “different conveyances by and to different parties made at different times over a period of more than a century” rendered class action treatment “decidedly inappropriate”). Nevertheless, class action settlements must be subject to reasonable limits to ensure that they are used to resolve actual controversies between litigants, and not to abridge or enlarge substantive rights.

The proper legal rubric for analyzing this issue has been the subject of prior submissions by the United States (and other interested parties). The parties have contended in recent discussions with the United States that the ASA should be evaluated under *Local Number 93, International Association of Firefighters v. City of Cleveland*, 478 U.S. 501 (1986), and its progeny, which set forth standards for assessing the scope of a federal court’s remedial authority to enter orders settling cases on terms that exceed the relief a plaintiff could obtain had the case been litigated to a final judgment. Under this line of cases, the Court may approve a settlement that (1) “spring[s] from and serve[s] to resolve a dispute within the court’s subject-matter jurisdiction”; (2) “com[es] within the general scope of the case made by the pleadings”; and (3) “further[s] the objectives of the law upon which the complaint was based.” *Id.* at 525. If a proposed settlement is within the scope of a court’s remedial authority under this test, the parties contend, the only remaining question is whether the proposed settlement meets the standard requirements of Federal Rule of Civil Procedure 23 (“Rule 23”).

In previous submissions to this Court, the United States (and other interested parties) discussed the Rule 23 limitations expressed in *Amchem*, 521 U.S. at 620, 628-29, *see, e.g.*, U.S. SOI at 6-8 (D.E. 720), which suggests that absent class members cannot be adequately



represented as to uncertain injuries or rights that are far removed from the facts underlying the complaint. The United States (and other interested parties) also identified the “identical factual predicate” doctrine as a limitation on the breadth of a class action settlement. *See Wal-Mart Stores, Inc. v. Visa U.S.A., Inc.*, 396 F.3d 96, 107 (2d Cir. 2005) (holding that “class action releases may include claims not presented and even those which could not have been presented as long as the released conduct arises out of the ‘identical factual predicate’ as the settled conduct”); *see also TBK Partners, Ltd. v. W. Union Corp.*, 675 F.2d 456, 460 (2d Cir. 1982); U.S. SOI at 6-7 (D.E. 720).

Although the analytical frameworks set forth in *Firefighters*, on the one hand, and *Amchem* and *Wal-Mart*, on the other hand, differ in certain respects and in their underlying purpose,<sup>3</sup> they converge in recognizing that, while courts must have some flexibility to approve enforceable settlements, this flexibility must not be used to usurp the legislative function, or to permit parties to use the courts as mere “recorders” of private contractual arrangements. As discussed below, however, even under the *Firefighters* rubric preferred by the parties, the ASA falls short.

*Does the settlement resolve a dispute within the Court’s subject matter jurisdiction?* The provisions that settle the specific allegations of infringement in the Class Complaint – those that allow Google to scan millions of copyrighted works and to make available small portions of such works in response to search requests – address disputes within the Court’s subject matter jurisdiction. Those aspects of the ASA are based on specific conduct that falls squarely within the scope of the case made through the pleadings. There are strong arguments that an

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<sup>3</sup> Although *Firefighters* was a class action, its settlement approval standard is very rarely applied by courts approving class settlements, as the case primarily concerns the authority of a court to award extra-statutory remedies.



appropriate set of publisher and author class representatives can adequately represent all members of the class with respect to reaching a settlement as to the uses of their works challenged in the litigation.

The broader aspects of the ASA stand on a somewhat different footing. There has not been – and simply could not be – any allegation in this litigation that Google has sold full access to works for which it lacks the right to do so, or even that such activity was threatened. Indeed, selling such access would have been legally indefensible, and thus would have been at odds with Google’s entire pre-settlement book search strategy, which was premised upon staying within colorable “fair use” grounds. With very good reason, therefore, Google consciously avoided creating precisely the factual predicate that might support the settlement of book- and subscription-selling claims. The business models that the ASA authorizes therefore relate to activities in which Google never engaged or threatened to engage, and thus claims of copyright infringement that could not have been brought. Although Rule 23 does not require the Court to survey the claims of every class member to determine if they are ripe, there are serious questions about whether a settlement that resolves future claims by absent class members for activities well beyond the facts underlying the complaint can meet the first prong of the *Firefighters* test.

*Does the ASA come within the general scope of the case made by the pleadings?* For similar reasons, it is difficult to conclude that the book- and subscription-selling provisions of the ASA are within the scope of the case made by the pleadings. To the extent the consent decrees in the *Firefighters* progeny resolved claims not set forth in the pleadings, they were claims that presumably “could have” been brought at that time by those plaintiffs. In the present case, the parties are not in the same position. The forward-looking business ventures permitted by the ASA would not resolve any judicially cognizable claim.



Moreover, insofar as the *Firefighters* analysis permits courts to grant relief that extends beyond the scope of the conduct alleged in the complaint, it does so as an exercise of a federal court's *remedial* authority. See *Firefighters*, 478 U.S. at 526 (Court's three-part test seeks to define the limits of "the *remedial* authority of a federal court") (emphasis added); see also, e.g., *United States v. Kerr-McGee Corp.*, 2008 WL 863975, at \*6 (D. Colo. March 26, 2008) (awarding relief to remedy a violation of the Clean Air Act); *Jeff D. v. Kempthorne*, 365 F.3d 844, 846, 851-52 (9th Cir. 2004) (awarding relief to remedy constitutional and statutory violations for services to mentally disabled children); *Duran v. Carruthers*, 885 F.2d 1485 (10th Cir. 1989) (awarding relief to remedy unconstitutional prison conditions); *Kozlowski v. Coughlin*, 871 F.2d 241, 244-45 (2d Cir. 1989) (same); *Ayers v. Thompson*, 358 F.3d 356, 359 (5th Cir. 2004) (awarding relief to remedy segregation in institutions of higher learning).

The ASA is also quite different from the consent decrees described above in that the more extensive forms of relief provided in those cases are designed to benefit the party harmed by imposing additional burdens on the defendant(s). The additional concessions made by the defendants generally are acts they could have undertaken voluntarily.<sup>4</sup> Here, in contrast, the ASA authorizes future activities beyond the scope of the conduct alleged in the complaint that do not remedy injuries plaintiffs suffered in the past, nor do they seek to prevent future injuries. Rather, these provisions provide the defendant with benefits it could not have secured either through trial or even through normal private negotiations.

*Does the ASA further the objectives of the law upon which the complaint was based?* The non-remedial character of the ASA's authorization of Google to undertake book sales and other

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<sup>4</sup> See, e.g., *Firefighters*, 478 U.S. at 507-08 (describing "minority promotion" goals defendant city could have adopted without court order); *Kozlowski*, 871 F.2d at 242 (prison visitation procedures); *Kerr-McGee*, 2008 WL 863975, at \*2 (air pollutants emission reduction).



commercial activities also raises difficulties under the third part of the *Firefighters* analysis. In this case, that “law upon which the complaint was based” is the Copyright Act, 17 U.S.C. §§ 101-810, a primary objective of which is to encourage creation by granting to authors the exclusive right to their works for a period of time.<sup>5</sup> To be sure, the Copyright Clause of the Constitution, U.S. Const., art. I, § 8, cl. 8., and the Copyright Act seek to further the free flow of information and advance the First Amendment’s interest in dissemination of expression. *See Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 545 (1985) (“copyright is intended to increase and not to impede the harvest of knowledge”); *accord Stewart v. Abend*, 495 U.S. 207, 228 (1990) (“[T]he Act creates a balance between the artist’s right to control the work during the term of the copyright protection and the public’s need for access to creative works.”). But they do so in a precise way, defined by Congress, in the form of the Copyright Act’s specific delineation of exclusive rights to authors and the many restrictions thereon. *Harper & Row*, 471 U.S. at 546-47 & nn.1-2 (discussing the Act’s grant of “a bundle of exclusive rights” to the copyright owner and the accompanying restrictions).

In its current form, the ASA is inconsistent with the policy of the Copyright Act, as established by Congress, making the argument that the ASA furthers the purposes of the Act a difficult one. The ASA seeks to carve out an exception from the Act’s normal rules and presumptions, which require a rightsholder to affirmatively grant permission for the kinds of uses contemplated by the ASA. The parties claim that creating an opt-out exception would better serve the purposes of the Constitution’s Copyright Clause by promoting the progress of science

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<sup>5</sup> *See Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 524 (1994) (“The primary objective of the Copyright Act is to encourage the production of original literary, artistic, and musical expression for the good of the public.”); *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 392 (2006) (“a copyright holder possesses ‘the right to exclude others from using his property’” (quoting *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932))).



and the useful arts. That, however, is a judgment better suited for legislative consideration, rather than one for courts to make in the context of approving a settlement under Rule 23.

The ASA provisions that afford class members an on-going ability to decline to participate in these various business opportunities reduce, but do not eliminate, the conflict between the ASA's broad grant of rights to Google and the Copyright Act's default rule barring use of copyrighted works without the copyright holder's permission. Rightsholders that have not already opted out by the January 28, 2010 deadline are bound by the terms of the ASA. *See* Nov. 19, 2009 Order at 5 (D.E. 772). Thereafter, to stop Google from utilizing their works in any of its business ventures, rightsholders must list their works with the Registry and direct which revenue models should be extinguished on a work-by-work basis. After March 9, 2012, rightsholders cannot have a previously-scanned book deleted from the research corpus. ASA §§ 1.126, 3.5(a)(iii). Consequently, rightsholders that have not already opted out will have released Google for any copyright infringement liability arising out of Google's use up to the time each rightsholder registers and instructs Google to discontinue use. ASA § 10.2(a), (b). Those rightsholders also are subject to the ASA's provisions that provide Google with certain protections, including mandatory ADR to resolve disputes over its use of a copyrighted work. ASA § 9.1(a).

The United States recognizes that it is the ASA's broad grant of rights to Google, coupled with the settlement's opt-out requirements, that allows for the use of the largest possible universe of digital works. The United States also recognizes that, although Google's activities are commercially motivated, its business plan would generate numerous public benefits. The ASA would achieve these benefits, however, in spite of and not in furtherance of the basic premises of



the Copyright Act. As a consequence, these aspects of the ASA are in some tension with the third prong of the *Firefighters* test.

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In the end, the analysis under *Firefighters*, if applicable, leads to the same conclusion as the Second Circuit’s governing “identical factual predicate” doctrine. This is unsurprising, as the latter doctrine closely parallels the *Firefighters*’ scope-of-the-pleadings prong. See *Wal-Mart*, 396 F.3d at 108 (a settlement may release claims alleged in the complaint and those which could have been alleged “by reason of or in connection with *any matter or fact set forth or referred to in the complaint*”) (emphasis added; quotation and citations omitted). Thus, for the same reasons that the ASA’s grant of broad rights cannot be said to “come within the general scope of the case made by the pleadings,” *Firefighters*, 478 U.S. at 525 (quotation omitted), those same provisions cannot be said to release claims for conduct that arises out of the “identical factual predicate,” or that “share[s] the same integral facts as,” the conduct that gave rise to this suit. *Wal-Mart*, 396 F.3d at 106 (internal quotation omitted).<sup>6</sup> Thus, regardless of whether the Court applies the identical factual predicate doctrine or the *Firefighters* test that the parties propose, the United States believes that the Court lacks authority to approve the ASA.

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<sup>6</sup> The parties have suggested that the “identical factual predicate” doctrine is intended only to prevent class representatives from releasing claims that they do not share in common with other class members, and that the doctrine does not otherwise limit the permissible scope of a class settlement. Although it may have first originated from such concerns, see *Nat’l Super Spuds, Inc. v. N.Y. Mercantile Exch.*, 660 F.2d 9, 16-19 (2d Cir. 1981), the identical factual predicate doctrine operates as an additional limitation on approval of a class settlement, not as a substitute for Rule 23’s “adequacy of representation” requirement. See *Wal-Mart*, 396 F.3d at 106 (“Plaintiffs’ authority to release claims is *limited by* the ‘identical factual predicate’ and ‘adequacy of representation’ doctrines.”) (emphases added); *id.* at 106-113 (analyzing issues separately, and discussing *Super Spuds* only in connection with the latter).



**B. Issues Remain Regarding Whether the Class Representatives Adequately Represent Absent Class Members**

Even apart from the overarching question whether the ASA exceeds the permissible bounds of a Rule 23 settlement, several specific concerns remain regarding the ASA's compliance with traditional Rule 23 factors. One such concern relates to whether foreign rightsholders are adequately represented. The ASA is now limited to books published in Canada, the United Kingdom, or Australia, or registered with the U.S. Copyright Office.<sup>7</sup> ASA § 1.19. In addition, new associational plaintiffs from Canada, the UK, and Australia represented their fellow national rightsholders in negotiating the ASA.<sup>8</sup> Mem. in Supp. of Pls.' Mot. for Prelim. Approval ("Mem. in Supp.") at 15 (D.E. 769). Nonetheless, there are significant numbers of foreign authors from outside Canada, the UK, and Australia whose works were published in one of those countries or registered in the United States, and thus are subject to the ASA, even though the rightsholders may not have been represented by the new associational plaintiffs. This point is made clear by foreign governments, which object to the settlement. *See, e.g.*, Fed. Rep. of Germany Obj. at 2-8 (D.E. 852); French Rep. Obj. at 1-2 (D.E. 853).

Although the parties recognized that (i) foreign rightsholders needed representation at the settlement renegotiation, and (ii) absent rightsholders need an "Unclaimed Works Fiduciary" to make some future business decisions on their behalf, the parties did not put these two pieces together and offer absent rightsholders a seat at the renegotiation table.<sup>9</sup>

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<sup>7</sup> As several objectors point out, the ASA's definition of "Book" has caused confusion about the scope of the class. *See, e.g.*, Literar-Mechana Obj. at 2-4 (D.E. 797); Carl Hanser Verlag, *et. al* Objs., at 5-10 (D.E. 868); The New Zealand Soc'y of Authors Obj. at 2-3 (D.E. 890).

<sup>8</sup> Some authors in Canada, the UK, and Australia continue to oppose the settlement. *See, e.g.*, Can. Ass'n of Univ. Teachers Obj. at 3 (D.E. 900).

<sup>9</sup> Another adequacy of representation issue may be presented if, as has been suggested by some of the plaintiffs, class representatives will opt-out of the forward-looking aspects of the agreement. ASA § 17.9 contemplates that Google has already or will soon reach bilateral deals



With respect to the owners of orphaned and other unclaimed works, the parties added the Fiduciary and also addressed the direct financial conflict by eliminating the diversion to claiming rightsholders of revenues earned on unclaimed book sales. *See* Mem. in Supp. at 9-10 (D.E. 769). While these are both steps in the right direction, it is unclear how independent the Fiduciary truly will be from the Registry. ASA § 6.2(b)(iii). Such questions should be answered expressly by the Registry's charter and other organizational documents, which should be submitted before the Court completes its scrutiny of the ASA.

**C. As Written, the ASA Requires Robust Notice, and the Record Requires Further Development of Whether Such Notice Has Been Provided**

The parties have claimed that the notice provided to date is among the most extensive ever provided in a class action. The United States is not in a position to opine on whether the class settlement notice has met the strictures of Rule 23. As many parties have noted, the original settlement was an extremely complicated document, and the ASA, a no less complicated document, renders important changes thereto. What might be sufficient for notice in the garden-variety class action, however, is not sufficient here.

Accordingly, for the same reasons explained earlier, *see* U.S. SOI at 12-13 (D.E. 720), the United States believes the Court should undertake a searching inquiry to ensure both that a sufficient number of class members have been or will be reached and that the notice provided gives a complete picture of the broad scope of the ASA, which would not just extinguish class

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with individual rightsholders that largely will supersede the ASA as to those rightsholders. To the extent those agreements involve representative plaintiffs, it raises concerns of potential conflicts of interest. *See also* U.S. SOI at 9-10 (noting that the parties believe that the largest publisher plaintiffs are likely to choose to negotiate their own separate agreements with Google, rather than being bound by the forward-looking provisions of the settlement).



members' current claims but also alter their rights in an ongoing manner for their full term of copyright protection. Special attention should be paid to foreign rightsholders.<sup>10</sup>

#### **D. "Attachment A" to the ASA Requires Careful Rule 23(e) Scrutiny**

Further analysis of the ASA raises an additional concern not noted in the U.S. SOI, although it is discussed in a number of the comments filed by interested parties. Gant Obj. at 29-31 (D.E. 143); Gant Supp. Obj. at 7-8 (D.E. 855); Sci. Fiction & Fantasy Writers of Am. Obj. at 18-22 (D.E. 864). Under the ASA, highly individualized disputes between author class members and publisher class members will be addressed and resolved to allow Google, and no other entity, to use the digital rights to particular copyrighted works. Outside of this litigation, authors and publishers have disputed who owns the digital rights to particular works.<sup>11</sup> Such disputes typically turn on the interpretation of the specific publishing contract. They are a well-known consequence of the constant evolution of, and inherent tension between, copyright law, new technology, and new markets, and have been addressed by numerous courts often inconsistently over the years.<sup>12</sup>

Because the ASA implicates works that were first published between 1923 and 2009, it comes as no surprise that in many instances digital rights were not even contemplated, let alone addressed, by publishing contracts. Depending on the contract terms and applicable legal

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<sup>10</sup> See, e.g., Japan P.E.N. Club Obj. at 3-4 (complaining of defective notice and failure to provide Japanese translation of the ASA) (D.E. 848-2); Carl Hanser Verlag, *et al.* Objs. at 4, 17-23 (publishing and authors' associations from Germany, Switzerland, Austria, Italy, and New Zealand contending that ASA notice to foreign rightsholders was inadequate) (D.E. 868).

<sup>11</sup> See, e.g., *Random House, Inc. v. Rosetta Books LLC*, 150 F. Supp. 2d 613 (S.D.N.Y. 2001), *aff'd*, 283 F.3d 490 (2d Cir. 2002); Motoko Rich, *Legal Battles Over E-Book Rights to Older Books*, N.Y. Times, Dec. 12, 2009, at A1.

<sup>12</sup> Compare, e.g., *Bourne v. Walt Disney Co.*, 68 F.3d 621, 630 (2d Cir. 1995) (grant to synchronize musical compositions to celluloid motion pictures includes video cassettes), with *Cohen v. Paramount*, 845 F.2d 851, 853-55 (9th Cir. 1988) (video cassette rights were unknown at time of original contract and thus composer had no opportunity to bargain for them).



precedent, the digital rights may have been (1) expressly reserved by the author, (2) expressly transferred to the publisher, (3) transferred in part to the publisher, or (4) completely unclear from the face of the contract, *i.e.*, subject to interpretation. Moreover, digital rights are not a monolith. It is quite conceivable that an author retained some such rights, *e.g.*, distribution of reprints to on-line book stores such as Amazon, and transferred others, *e.g.*, electronic database rights. Some rights may apply to both digital and non-digital media and may be addressed under more general labels in the contracts, *e.g.*, publication of excerpts or serializations. While such distinctions may make it more difficult to determine ownership of new rights and new markets, the fact remains that copyrights are divisible property. 17 U.S.C § 201(d)(1)-(2).

Under the ASA, Attachment A would settle globally, at least in the first instance, such disputes by “establish[ing] procedures for determining [authors’ and publishers’] respective rights” to the books and revenues in question, to allow Google alone to use those copyrighted works. Attach. A at 1. To take just one example, § 6.2(c) of Attachment A sets author-publisher revenue splits for most out-of-print books. For books first published during or after 1987, publishers and authors split 50-50 the rightsholders’ share of Google Books revenues. For books published prior to 1987, publishers retain 35 percent and authors 65 percent of the rightsholders’ share of the revenues.

Attachment A is not analogous to an allocation of past damages in a class action setting. Attachment A seeks to resolve rights prospectively, vesting in certain authors and publishers proceeds from a copyright interest where no such interest may exist. This suggests a possible conflict of interests among these various subclasses of authors and publishers as to the terms of Attachment A, which raises serious questions concerning Rule 23(a)(4)’s adequacy requirements. *Amchem*, 521 U.S. at 625-26; *see also* Supp. Academic Author Objections at 4



n.15. In addition, because Attachment A – even in the context of non-orphan works – will, in some circumstances, give Google the ability to use works that other competitors may not be able to use due to legal disputes over ownership and rights, it exacerbates the market dominance concerns discussed below. Consequently, Attachment A should be subject to searching scrutiny under Rule 23(e).

## **II. The ASA Continues to Raise Antitrust Concerns**

The Department of Justice continues to investigate the competitive impact of the ASA. In response to some of the concerns expressed in the U.S. SOI, the parties have made constructive revisions. *See supra* at 1. Despite these revisions, the ASA’s collectively agreed-upon constraints on the rightsholders’ relationships with Google continue to raise concerns. In addition, Google’s *de facto* exclusive access to orphan and rights-uncertain works remains unaddressed, producing a less than optimal result from a competition standpoint.

### **A. Horizontal Agreements Among Authors and Publishers**

In at least three respects, the initial Proposed Settlement restricted price competition among authors and publishers: (1) by the creation of an industry-wide revenue-sharing formula at the wholesale level applicable to all works; (2) by the setting of default prices and the effective prohibition on discounting by Google at the retail level; and (3) by the control of prices for orphan books by known publishers and authors with whose books the orphan books likely compete. The ASA seeks to address some, but not all, of these issues.

*Industry-wide wholesale revenue sharing formula.* The parties amended ASA § 4.5(a)(iii) to give Google the right to renegotiate the wholesale revenue split on a bilateral basis with rightsholders and to provide Google with the ability to remove rightsholders’ books if those



negotiations fail.<sup>13</sup> This is a positive development which should lessen the effects of problematic horizontality as to the wholesale revenue split agreement between the rightsholder collective and Google.

But this “fix” is limited in two important respects. First, Google’s ability to force a price renegotiation applies only to “Commercially Available” works. Authors and publishers have kept in place the horizontal agreement not to compete as to price terms for works that are not “Commercially Available.”<sup>14</sup> This fix as to commercially available works may also be of limited impact if class-representative publishers intend to withhold many of their commercially available works from the ASA’s revenue models in order to negotiate their own deals with Google as to those works. If they do so, the result would be a corpus of works governed by the ASA comprised largely of non-commercially available works as to which authors and publishers have agreed not to compete on price. On this point, the United States agrees with a number of commenters that the Court should inquire of the class representatives concerning their intent to be bound by the provisions of the ASA or to separately negotiate terms with Google.

The parties contend that permitting Google to renegotiate price on non-commercially available works would impose too great a burden on class members and put individual authors and small publishers at a disadvantage in potential negotiations with Google. These concerns,

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<sup>13</sup> Previously, the right to renegotiate price rested only with the rightsholders, most of whom are unlikely to choose to depart from the price negotiated by representatives with the bargaining power of an entire class of authors and publishers.

<sup>14</sup> The breadth of “Commercially Available” works subject to a right of renegotiation might be surprisingly narrow. The majority of “Books” covered by the settlement are not currently “Commercially Available” as defined under the agreement. ASA § 1.31. In addition, while the parties have represented to the United States that works available as e-books, but no longer available as new hardcopy books, would be considered “Commercially Available” for purposes of the Amended Settlement Agreement, the ASA seems ambiguous on this point. The definition of “Commercially Available” in § 1.31 refers to a “Book,” which is defined in § 1.19 as material “published . . . as a set of written or printed sheets of paper bound together in hard copy form.”



while perhaps well-intentioned, do not merit antitrust protections. As discussed in the U.S. SOI, horizontal agreements of this type can be deemed *per se* unlawful. See *Goldfarb v. Va. State Bar*, 421 U.S. 773, 781-82 (1975) (holding that price floor for legal services is illegal price fixing); *Arizona v. Maricopa County Med. Soc’y*, 457 U.S. 332, 349 (1982) (agreement among doctors to set maximum fee they would accept for purposes of contracting with health insurers is *per se* illegal); *Catalano v. Target Sales*, 446 U.S. 643, 646-50 (1980) (per curiam) (fixing price related terms in wholesale agreements is *per se* illegal). Even under a rule of reason standard, concerns remain because Google is already negotiating bilaterally with the publishers of many of the “commercially available” works that Google will sell. Granting Google the right to include non-commercially available books in those negotiations hardly seems onerous. Moreover, it is questionable whether there are significant efficiency justifications for allowing these publishers to bring their unavailable (*i.e.*, not “commercially available”) works back into commerce collectively through the ASA and its collectively set price terms, rather than allowing Google to expand its bilateral deals with authors and publishers to cover such works.

The United States recognizes the class representatives’ legitimate interests under Rule 23’s adequacy prong to protect the more commercially vulnerable members of the class from price negotiations with a powerful buyer such as Google. However, reliance on a classwide-negotiated price raises equally important antitrust concerns. See, *e.g.*, *United States v. Socony-Vacuum Oil Co.*, 310 U.S. 150, at 218, 221-22 (1940) (“good intentions” of members of price-fixing combination are no legal justification for lessening price competition); *Gen. Cinema Corp. v. Buena Vista Distrib. Co.*, 532 F. Supp. 1244, 1273-74 (C.D. Cal. 1982) (protecting small, independent movie exhibitors is not a justification for horizontal agreement on price).



The second troubling limitation on § 4.5(a)(iii) is that Google's right to renegotiate as to any work is limited to the price of the works. From an antitrust perspective, price and quality (in this case, digital rights management and usage restrictions, for example) typically are two sides of the same coin – by excluding non-price terms from § 4.5(a)(iii)'s renegotiation right, rightsholders have collectively agreed not to compete against one another on quality. The parties have argued to the United States that this limitation is of no concern because § 3.7(e) of the ASA permits Google to stop distributing any work for any non-editorial reason. If § 3.7(e) in fact gives Google the power to stop distributing works in order to force a bilateral negotiation as to the non-price terms governing Google's access to any work (including “non-commercially available” works), then this argument carries force. But the ASA on its face appears to limit Google's use of § 3.7(e) to “Commercially Available” works under § 4.5(a)(iii) and it does not appear that the authors and publishers have publicly adopted the broader reading.

*Setting of default prices and the effective prohibition on discounting.* The United States does not object to Google's unilateral use of a pricing algorithm. The concern is the horizontal agreement among authors and publishers to have Google price their works that way. It is unlawful for competitors to agree with one another to delegate to a common agent pricing authority for all of their wares. *See Citizen Publ'g Co. v. United States*, 394 U.S. 131, 134-35 (1969); *Va. Excelsior Mills, Inc. v. FTC*, 256 F.2d 538, 540-41 (4th Cir. 1958); *New York v. St. Francis Hosp.*, 94 F. Supp. 2d 399, 412-14 (S.D.N.Y. 2000). The United States' concerns are not addressed by “mak[ing] clear that the Pricing Algorithm will be designed to simulate how a Rightsholder would unilaterally price its Book in a competitive market.” Mem. in Supp. at 6 (D.E. 769). Actual bilateral negotiations – at least where the author and/or publisher can be identified – would be far preferable from a competition standpoint.



The parties have made more progress addressing prohibitions on discounting terms, § 4.5(b)(i) & (ii), but have retained the ability of authors and publishers collectively – through the Registry – to act as a gatekeeper blocking Google and individual rightsholders from agreeing to jointly fund discounts of the rightsholder’s work(s). ASA § 4.5(b)(ii). There is no apparent procompetitive rationale for this restraint.

*Control of prices for orphan works by known publishers and authors.* The initial Proposed Settlement raised antitrust concerns that the Registry’s board, consisting primarily of commercial publishers and authors, would have the ability and incentive to limit competition from unclaimed works. U.S. SOI at 22 (D.E. 720). In response, the parties amended the settlement to create an “Unclaimed Works Fiduciary” vested with some management authority over unclaimed works. *See, e.g.*, ASA § 6.2. While this is a meaningful move in the right direction, concerns remain. For example, the independence of a Fiduciary serving under the Registry’s board remains unclear, particularly as the Registry’s charter and organizational documents were not included as part of the ASA (and have not otherwise been disclosed). In addition, the parties withheld from the Fiduciary many powers that may be necessary to protect the interests of absent rightsholders, such as the ability to renegotiate the 63:37 revenue split, § 4.5(a)(iii), the ability to set prices for works, § 4.2(b)(i)(1), and the ability to turn off the display of a work, § 3.2(e)(i) – all powers granted only to registered rightsholders. Without so empowering the Fiduciary, the defaults set and controlled by the Registry largely dictate those terms for unclaimed works.<sup>15</sup>

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<sup>15</sup> Having a single fiduciary with power to control all unclaimed works – works that may comprise the majority of books in the settlement – also raises competitive concerns and suggests that this power should be disaggregated to some degree in order to ensure competition among unclaimed books in the future.



The United States recognizes that the purpose behind the creation of the UWF is a worthy one. The United States agrees, however, with various interested parties that additional detail and authority is needed.

### **B. Google's *de facto* Exclusivity**

A core issue that arises out of the parties' effort to resolve this matter is the ability of Google, and no other entity, to compete in a marketplace that the parties seek to create. Nothing in the ASA addresses this concern.<sup>16</sup> The issues raised by the United States in its initial submission remain, and the Court is directed to that discussion. *See* U.S. SOI at 23-26 (D.E. 720).

There is no serious contention that Google's competitors are likely to obtain comparable rights independently. For example, Amazon – Google's likely chief rival digital book distributor were the ASA to be approved – began scanning copyright-protected books in 2002, after first securing permission of the works' rightsholder(s). To date, Amazon has amassed a library of approximately three million digital titles. *See* Amazon.com, Inc. Obj. at 1 (D.E. 206). This impressive number pales in comparison to the tens of millions of books Google has scanned or is poised to scan if the ASA is approved. The suggestion that a competitor should follow Google's lead by copying books *en masse* without permission in the hope of prompting a class action suit to be settled on terms comparable to the ASA is poor public policy and not something the antitrust laws require a competitor to do.

Attachment A to the ASA, discussed on pages 14-16, *supra*, also may provide Google with an even greater blanket of security as to its exclusivity. Other distributors cannot benefit from the accord reached in Attachment A (resolving globally author/publisher disputes as to

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<sup>16</sup> The removal of the "most favored nation" clause from the settlement agreement is a positive step, although it does not mitigate Google's *de facto* exclusive rights.



digital rights). Thus, Google's rivals risk a copyright infringement suit if they try to exploit such works without resolving uncertainties about digital rights, which may be a cost-prohibitive undertaking on a work-by-work basis.

The parties suggest that Google's market power could be constrained by Google Book resellers. *See* Mem. in Supp. at 8 (D.E. 769). Under the ASA, however, Google retains its upstream monopoly (*i.e.*, ultimate control of the digital books) with the resellers providing only additional retail channels to reach more customers and thus increasing the total sales of Google Books, but without driving down their prices. Simply put, the reseller clause cannot create new competitors to Google. Moreover, the reseller program is limited to individual book sales and does not address Google's exclusivity over orphan and rights-uncertain works for purposes of the other business ventures envisioned by the ASA.

Finally, wholly apart from the new business ventures contemplated by the ASA, Google's exclusive access to millions and millions of books may well benefit Google's existing online search business.<sup>17</sup> Google already holds a relatively dominant market share in that market.<sup>18</sup> That dominance may be further entrenched by its exclusive access to content through the ASA. Content that can be discovered by only one search engine offers that search engine at least some protection from competition. This outcome has not been achieved by a technological advance in search or by operation of normal market forces; rather, it is the direct product of scanning

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<sup>17</sup> The United States notes complaints raised by objectors related to the potential impact the ASA may have on search. *See, e.g.*, Open Book Alliance Obj. at 14-19 (D.E. 840); Guthrie et al. Obj. at 12 (D.E. 849); Microsoft Obj. at 15-25 (D.E. 874); AT&T Obj. at 19-21 (D.E. 863).

<sup>18</sup> *See* Press Release, U.S. Dep't of Justice, *Yahoo! Inc. and Google Inc. Abandon Their Advertising Agreement*, Nov. 5, 2008 (discussing Department's finding that Internet search advertising and Internet search syndication are each relevant antitrust markets and that Google is the largest provider of such services, with shares of more than 70 percent in both markets), available at <http://www.justice.gov/opa/pr/2008/November/08-at-981.html>.



millions of books without the copyright holders' consent and then using Rule 23 to achieve results not otherwise obtainable in the market.

**III. If the Court Concludes that Class Representatives May Grant to Google Wide-Ranging Rights for Forward-Looking Business Arrangements of the Entire Class, the Court Should Consider Some Additional Safeguards**

Assuming resolution of antitrust issues, the United States continues to believe that an approvable settlement may be achievable here, for example, by requiring rightsholders to “opt-in” to the settlement or by narrowing both the scope of the plaintiff class and the relief, to better align with the actual dispute underlying the case. With respect to the current ASA, if the Court disagrees with the United States, and believes that the ASA's forward-looking sweep is consistent with the Court's Rule 23 authority, the United States recommends that the Court consider the following additional steps, which would mitigate the risks to rightsholders of out-of-print, unclaimed, and orphan works, and reduce some of the tension between the ASA's approach and the core principles of copyright law<sup>19</sup>:

First, as noted previously, an opt-in regime for the forward-looking aspects of the settlement would address many concerns.

Second, to the extent the Court believes an “opt-out” or partial “opt-out” settlement structure may be possible under Rule 23 and copyright law, the United States believes there would be real value in creating a meaningful waiting period before Google may commercially exploit out-of-print works without the permission of the rightsholder (*e.g.*, two years from the time the title is publicly listed in the Registry). Such a waiting period, combined with efforts of the Registry to locate rightsholders, may reduce the number of rightsholders whose works would be exploited without their knowledge and lessen the concerns about the impact of the settlement

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<sup>19</sup> These alternatives primarily address the Rule 23 and copyright issues discussed above; we believe that the parties should also address the antitrust issues discussed in Section II.



on absent class members. Such a waiting period, combined with a diligent search for rightsholders, would more closely align with the sorts of protections that regularly have been proposed in orphan works legislation.

Third, the Court could delay or condition acceptance of the ASA, subject to work by the UWF and the Registry to set standards designed to further reduce the volume of unclaimed works after expiration of the waiting period. This exercise would be an ongoing process that would build on evolving practices and technological tools.

Fourth, at the expiration of the mandatory waiting period, a modified version of the ASA could require a reasonably diligent search for the rightsholder by either Google or the Registry, and public disclosure of the results of that search, before the opt-out provisions of the ASA can apply to exploitation of new commercial products with respect to out-of-print works.

Fifth, the definition of “Book” in ASA § 1.19 could be qualified with respect to foreign rightsholders to capture those books that are (1) “United States work[s]” as defined in 17 U.S.C. § 101 and registered with the U.S. Copyright Office, or (2) if first published in Canada, the UK, or Australia, were also published in the United States at a later date or registered with the U.S. Copyright Office. This would provide greater clarity as to which copyright holders would be subject to the modified ASA and would mitigate some of the foreign authors and publishers’ continuing objections.

Sixth, assuming the Court is inclined to permit Google to commercially exploit the unclaimed works of rightsholders who have not opted in to the settlement, the Court should consider limiting that exploitation to a defined term, such as five or ten years, after which period the marketplace could be reassessed. At the end of this limited license term, renewal of the license could be negotiated by the Registry. Alternatively, the Court could retain jurisdiction



over the case for the sole purpose of reviewing whether the term should be extended or revised upon its expiration.

Seventh, a modified version of the ASA could reflect the parties' agreement to comply with the terms of any copyright legislation enacted in the future governing areas addressed by the modified ASA and assurances that the ASA itself does not become an impediment to future legislation addressing orphan works.

Finally, the United States recognizes that if, as discussed *supra*, class representatives lack the power under Rule 23 to grant Google the power to exploit broadly the digital rights of class members to sell books, create subscription libraries, etc., then neither the class representatives nor Google possesses the power to authorize such activity by third parties. However, if the Court determines that the class representatives possess such rights as to Google, then the Court should carefully examine whether there exists a means for rival distributors to access orphan and rights-uncertain works consistent with Rule 23.

### **CONCLUSION**

Despite the commendable efforts of the parties to improve upon the initial Proposed Settlement, many of the problems previously identified with respect to the original settlement remain in the ASA. The United States remains committed to working with the parties on the settlement's scope and content.



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Dated: February 4, 2010



CERTIFICATE OF SERVICE

I, John D. Clopper, do hereby certify that on the 4th day of February, 2010, I caused a true and correct copy of the foregoing STATEMENT OF INTEREST OF THE UNITED STATES OF AMERICA REGARDING PROPOSED AMENDED SETTLEMENT AGREEMENT to be served electronically via the CM/ECF system on the lead attorneys to be noticed in this matter, including those counsel of record identified below.

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