Against the Grain

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Questions and Answers-Copyright Column

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LEGAL ISSUES

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Cases of Note — Copyright

Guesstimating Lost Sales

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United States Naval Institute v. Charter Communications, Inc. and Berkley Publishing Group. United States Court of Appeals for the Second Circuit, 936 F.2d 692; 1991 U.S. App. Lexis 12802.

Wouldn't you know it. A university press hits one out of the ballpark, but there has to be litigation. Yes, I'm talking *Hunt for Red October.* Of course. It had to be that or *Confederacy of Dunces.*

It was the 1980s when the publishing world had convinced itself that men didn't read and decided to publishing nothing they would want to read.

Tom Clancy wanted Annapolis, but was nearsighted and instead became a frustrated insurance salesman who wrote on weekends. And no one wanted his book.

Enter the **Naval Institute Press** which had never published a novel before. When **Clancy** asked to come make a pitch, they thought he wanted to sell them insurance. And of course he had never been on a submarine, althought the details were so accurate the Secretary of the Navy thought someone had leaked classified info.

They paid him $5,000, *and* they took copyright. And then **Ronald Reagan** told *Time* magazine it's "my kind of yarn."

The book vaulted **Tom Clancy** into the ranks of major writers, got him a $3 million contract with **Putnam**, and the prequel, the 1987 bestseller *Patriot Games*. And the mystery field had a new sub-genre: the techno-thriller.

Clancy had 28 books, 17 *New York Times* bestsellers, co-founded **Red Storm Entertainment** (video games), died young at age 66.

Red October became the hit movie of 1990 with **Sean Connery**. And curiously, there is a phony **Christopher Columbus** quote at the end. *"And the sea will grant each man new hope, as sleep brings dreams of home."* It was an invention of the screenwriter.

But let's go back to the earliest days.

Naval Institute Press (holding copyright) licensed **Berkley** to publish a paperback edition "not sooner than October 1985." This of course was to exhaust hardback sales before paper appeared.

Berkley jumped the gun and sent books out for sale in September, 1985. Sales were near the top of paperback best-sellers lists before the end of that month.

Naval asserted copyright infringement and asked for the September profits estimated at $724,300.

The district court held that though "the *extent* of the breach was a relatively trivial matter of two weeks of sales, the *term* breached was crucial to the scope of the license, as it governed when the license would take effect." ***Naval I,*** 875 F.2d at 1049-51.

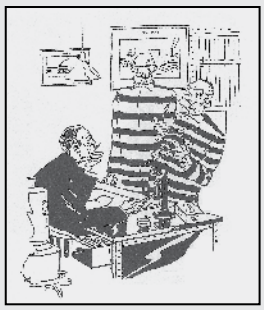
The court looked at the downward trend in hardback sales of the novel from March through August, decided most of the paperback buyers would not have bought a hardback, and awarded $35,380.50 in actual damages.

Talk about your wild guesstimates.

The Appeal

Which was what **Berkley** claimed on appeal, calling the $35-thou speculative.

The court held it is true that the $724-thou figure does not define **Naval's** loss because many buyers were waiting for the paperback anyway. But although there was a declining trend, **Naval** continued to sell hardbacks through the end of 1985 at around 3,000 a month.



The fact-finder court was within its prerogative to look to **Naval's** August sales. The evidence is of necessity hypothetical, but it is not error to lay the normal uncertainty at the door of the wrongdoer. *See, e.g.,* ***Lamborn v. Dittmer,*** 873 F.2d 522, 532-33 (2d Cir. 1989); ***Lee v. Joseph E. Seagram & Sons, Inc.,*** 522 F.2d 447, 455-56 (2d Cir. 1977).

Berkley provided no evidence that sales are evenly spread across a month. It in fact conceded that "to a large degree, book sales depend on public whim and are notoriously unpredictable …" (**Berkley** brief on appeal at 31 n.15).

So it was quite possible that hardback sales might have picked up in the end of September. And it was proper for the court to exercise generosity towards **Naval** rather that the breaching **Berkley**.

And what does that get you by way of understanding. Well, not much I'd say unless we saw the sales figures and the judge's guesstimate. Which would put everyone to sleep.

Questions & Answers — Copyright Column

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QUESTION: A professor of music asks about the recent bills that would expand the U.S. copyright law to protect pre-1972 recordings.

ANSWER: Oddly enough, although musical compositions have been protected by copyright in the United States since 1831, sound recordings were not protected until 1972. Earlier sound recordings remain unprotected by federal copyright. Since passage of the ***Copyright Act of 1976***, there has been debate about the lack of protection for pre-1972 music recordings. Many of these recordings are still

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played on the radio, and new digital streaming services often play these recordings and pay no royalties. H.R. 3301, called the ***Classics Act***, was introduced on July 19, 2017; it addresses streaming rights for these recordings and creates a new source of royalties for the artists that contributed to the making of the recording. The bill creates a compulsory license that permits the performance of these recordings without seeking permission of the copyright owner as long as the service pays the royalties and complies with other requirements set by the Copyright Royalty Board.

Another bill, H.R. 1836, was introduced March 30, 2017. The ***Fair Play Fair Pay Act*** addresses pre-1972 sound recordings. It basically extends performance rights to these recordings by any means of audio transmission. It also requires AM/FM radio stations to pay royalties to recording artists and not just to owners of the copyright in the underlying musical composition.

A third bill, H.R. 3350, the ***Transparency in Music Licensing and Ownership Act*** was introduced on July 20, 2017. It requires the U.S. Copyright Office to create a new database of recorded music that would help small business owners as licensees of ASCAP, BMI and SEASAC to understand what they can play for their customers when they acquire a music license. The bill is a response to small business owners who have complained for decades that the current licensing system does not give them sufficient information to determine whether they need a license.

The bills have been referred to the House Judiciary Committee. There is little speculation on the potential for these bills to become law before a new Register of Copyrights is appointed. *See* this Copyright Q&A in the September 2017 issue of ***ATG*** for a discussion about pending legislation to change how the Register is appointed.

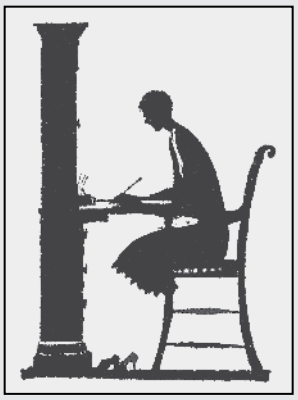
QUESTION: A corporate librarian asks what is the difference between a table of contents service that copies articles for employees upon request and the employee making his or her own copies. Academic institutions often offer this type of service for faculty members.

ANSWER: First, assume that a university library does not have site licenses for the articles it is copying for faculty members. In that instance, a table of contents service lists new articles. The user reviews the list and from the list requests an article; this is no problem. Under section 108(d) of the ***U.S. Copyright Act***, libraries are permitted to make a copy of an article for a user of no more than one article from a periodical issue. The copy must become the property of the user and the library has no notice that the copy will be used for other than fair use purposes. Further, the library displays prominently where copying orders are placed and on the order form a warning in according with the Register of Copyright's regulation. With a table of contents service, the warning could appear on each issue of the table of contents service. Additionally, academic libraries often have access to digital journal content through license agreements, and these licenses permit the making of copies without the restrictions found in section 108(d). If the faculty member makes his or her own copy from unlicensed journals, it governed by section 107 fair use rather than section 108.

In the corporate setting, fair use is a more difficult concept, and many corporations have opted to take a license from the **Copyright Clearance Center**. If the company has a corporate license, then it makes no difference who makes the copy. However, not everything is covered by the **CCC** license and individual arrangements for licenses or royalties need to be made with individual publishers and copyright owners.

QUESTION: A Canadian academic librarian asks about the copyright infringement case against York University for royalties associated with both paper and digital course packs.

ANSWER: This case is similar to the ***Georgia State University*** case in the United States that is still ongoing. **Access Copyright**, the RRO (Royalty Rights Organization) for English-speaking Canada, similar to the **Copyright Clearance Center** in the United States, sued **York University** for royalties for both print and digital coursepacks. The Federal Court held in favor of **Access Copyright** (*see* 2017 FC 669). At issue was the enforcement of an Interim Tariff issued by the Copyright Board of Canada in 2010 covering education copying such as course packs. The court held that **York** must comply and pay the tariff.



York University claimed fair dealing, and indeed the purpose of the copying was for research, private study, education, parody or satire. The court agreed that **York** satisfied the first fair dealing prong but failed the second prong that embodies the same tests embodied in fair use determinations in the United States. These include character of the dealing, the amount of the dealing, alternatives to the dealing, the nature of the work, and the effect of the dealing (in addition to the purpose of the dealing). The court found that the copying was wide-ranging and large volume which tends toward unfairness. **York** made no case that there were no alternatives to the dealing, and the justification of cheaper access cannot be a determinative factor. Finally, the court held that **York** had done nothing to review, audit or enforce its own Fair Dealing Guidelines. **York** has announced its intention to appeal the ruling.

A class action was recently certified on behalf of authors and publishers in Quebec involving an unlicensed university brought by **Copibec** (the RRO for French-speaking Canada) against **Université Laval**. It will address similar issues.

QUESTION: A public librarian asks about the consequences for a person found with illegally reproduced music, movies, etc.

ANSWER: Damages for copyright infringement can be quite high. The ***Copyright Act*** provides for two types of damages: actual damages and profits and statutory damages. Copyright owners mostly sue for actual damages and profits (section 504(b) of the ***Act***) against commercial concerns that have sold pirated copies, infringed major works such as motion pictures, etc. The copyright owner must be able to prove actual damages in order to recover them.

Statutory damages, section 504(c), appear to be increasingly popular with copyright owners. Statutory damages range from $750 to $30,000 per act of infringement (how many works were infringed). If the court finds that the defendant acted willfully, damages may be increased to $150,000 per act of infringement.

There have been some high damage awards against individuals primarily in music infringement cases. In those cases, the individuals had downloaded and distributed MP3 and other digital music files. Whether the owner actually is able to collects those damages is another matter.

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been designed, from the ground up, to be easy to understand with a clean codebase in a modern web framework. In turn, this makes it easy to hire technical staff at rates that won't break the bank to maintain scholarly communication infrastructures. **Andy Byers**, who has recently joined **Birkbeck**, **University of London** as **Senior Publishing Technologies Developer** in order to take on the Lead Developer role on **Janeway**, said: "my experience with some of the existing platforms was one of frustration — complex architectures that were difficult to maintain unless you knew them inside out. The goal with **Janeway** was to have a fast, modern web framework do most of the lifting so that we can concentrate on the features that open-access publishers need."

Janeway is still under heavy development and requires testers and other users to report bugs. Basic installation instructions are available on the Wiki. Please direct all issues to the GitHub page of the project.

Saw this article recently in ***The Bookseller*** about the "crisis of oversupply" in the

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