

Before the
Office of the United States Trade Representative
Washington, DC

In re

Country Practice Review of South Africa

Docket No. USTR–2019–0020

WRITTEN COMMENT OF PUBLIC KNOWLEDGE
REGARDING REVERSION OF RIGHTS

Public Knowledge appreciates the opportunity to comment in the above-captioned proceeding.

IIPA’s petition alleges that South Africa’s pending copyright legislation includes terms which “would fundamentally impair the value of copyrighted materials by depriving rights holders of the ability to license and otherwise derive value from their property interest in their copyrighted works and sound recordings.” It objects in particular to a provision which prohibits assignments of rights for longer than 25 years. In essence, these provisions effectuate a mandatory, automatic reversion of rights to a work’s original author after 25 years.

In the early 1970s, Congress made a policy decision to include a mechanism for rights reversion in American law. Although the execution was different, the goal was the same: to give artists more equal bargaining power and allow them to more fully capture the value generated by their work. The policy goal of South African lawmakers in creating a reversion right is neither radical nor unreasonable. It is, in fact, one which the United States has embraced for nearly a half-century.

Nor are the means through which South African lawmakers chose to achieve those ends radical or unreasonable. Reversion rights in America have been difficult to execute precisely because of the procedural hurdles that Congress placed before creators seeking to terminate eligible licenses. We recently released a report on how these termination rights work (or, more often, don’t) in practice in the United States, and have attached a copy below, lightly edited to accommodate comment page limits. We believe that it illustrates a simple premise: the South African schema of automatic reversion at 25 years is a method that is both reasonable and prudent to achieve a policy goal which the United State itself embraces, and thus does not fall short of providing “adequate and effective protection” of intellectual property rights.

Respectfully submitted,

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Appendix

From Dylan Gilbert, “Making Sense of the Termination Right: How the System Fails Artists and How To Fix It” (Abridged) (2019). Full text available at <https://actnow.io/IaOs4Ua>.

Introduction

In June of 2019, the House Committee on the Judiciary held a hearing dedicated to oversight of the U.S. Copyright Office (“Copyright Office”). At the hearing, Register of Copyrights Karyn Temple made a simple but powerful statement: “Copyright is a social justice issue.”¹ Few things illustrate the intimate connection between copyright law and social justice better than an artist’s exercise of the federal “termination right.”

The termination right allows authors of creative works to cut short or “terminate” existing licenses for the use of their work, thus bringing the rights back under the author’s control. This right cannot be waived, by contract or otherwise; in legal jargon, this right is “inalienable.” Because of its power to put artists and creators in control of their financial and artistic futures, the termination right implicates core social justice issues of unfettered access to, and inclusion in, the social, cultural, and economic life of the country.² Despite its complexity and relative obscurity, the termination right has nevertheless made headlines, particularly since certain termination provisions became widely available to artists in 2013.

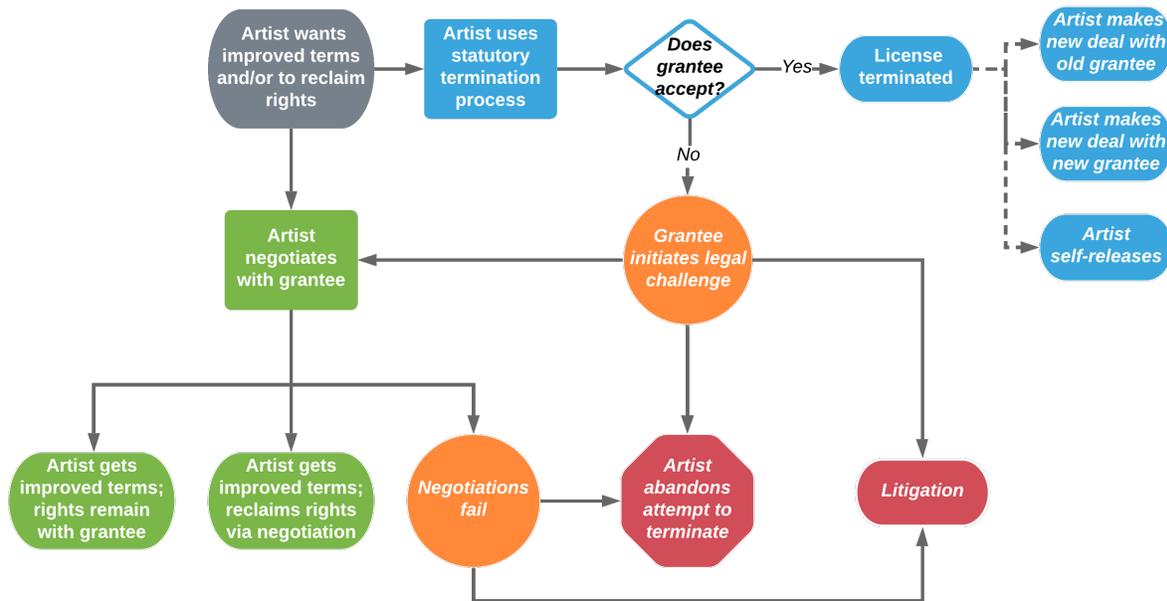
Artists and creators are the lifeblood of America’s rich cultural heritage. They are also an incredibly diverse cohort, working in a variety of media. Each artist has unique artistic, personal, and commercial priorities. Some artists might use the statutory termination right process to try and fully reclaim their rights so they can pursue future endeavors on their own or with existing or new business partners. Others may use the termination right as leverage to obtain better contract terms than those that they initially negotiated with early business partners. Unfortunately, legal challenges can (and do) deter many artists from achieving their desired outcomes. Often, non-disclosure agreements (“NDAs”) keep

¹ *Oversight of the U.S. Copyright Office Before the H. Comm. on the Judiciary*, 116th Cong. (2019) (Statement by Karyn Temple, Register of Copyrights & Dir. of the Copyright Office, during questioning by Rep. Sheila Jackson-Lee) (accessed at house.judiciary.gov, *Hearings*, Copyright Office Oversight Hearing 2:11:15, <https://www.govinfo.gov/app/collection/chr/116/house/Committee%20on%20the%20Judiciary>).

² *See Our Vision for Intellectual Property x Social Justice*, Institute for Intellectual Property & Social Justice (acc. Aug. 6, 2019), <https://iipsj.org/our-mission-vision/>.

the results of the termination right negotiations between artists and business partners out of the public eye.

While not exhaustive, the chart below illustrates various goals, pathways, and outcomes for artists exercising the termination right.



Unfortunately, scarce public information exists regarding whether artists are successfully achieving their preferred outcomes. The information that *is* available – largely via court records, academic studies, and press reports – points to disfunction within the exercise and administration of the termination right. Most of the available evidence of artist challenges comes from the sound recording side of the music industry, but perhaps authors in other creative fields are facing struggles as well. In theory, the termination right should allow artists and creators either to remove themselves from or renegotiate disadvantageous contracts so that they can more robustly monetize their own work. However, power imbalances between authors and the companies they partner with to fund, develop, produce, distribute, and promote their work – including a company’s ability to initiate grueling litigation that can exhaust all but the most determined and moneyed artists’ means – has created an environment where many artists appear unable to successfully exercise their inalienable statutory right to achieve their preferred outcome.

There are a number of potential policy solutions that can help artists better control and exercise their termination rights. We suggest the following:

- Revising the Copyright Act so that the termination right vests automatically
- Revising the Copyright Act so that the termination right vests sooner than 35 years after a grant of rights under § 203 or 56 years after the copyright is first obtained under § 304
- Eliminating or revising the “work made for hire” exception or statutory definition
- Mitigating the need for artists to litigate ownership disputes prior to exercising their termination right by revising the statute of limitations or codifying the *Wilson v. Dynatone* holding that the mere act of registering an adverse claim with the Copyright Office is not an effective repudiation of an ownership claim
- Addressing derivative works issues through statutory clarification
- Conducting a formal study on the exercise and administration of the termination right, including the effects of the termination right on contract negotiation and renegotiation

Public Knowledge recommends the Copyright Office conduct a formal study of the termination right under the direction of Congress in order to raise education and awareness around the issue and to determine exactly how and why the right is failing artists – and what to do about it. Whatever policies Congress ultimately pursues, the goal should be to create a system that both enables artists and the general public to understand how the right functions and that helps artists effectively use their termination right as they see fit.

The Termination Right in U.S. Copyright Law

As far back as the 1909 Copyright Act, Congress sought to provide statutory protection for authors³ who had assigned away the rights to their works before the full commercial value of those works could be recognized.⁴ Under the 1909 Act, authors enjoyed an initial 28 years of copyright protection, which could then be renewed for another 28.⁵ During the initial 28 year period, the author could sign away his renewal right. If he didn't do so, however, the copyright automatically reverted back to him at the close of the 28 year term.⁶ In the 1943 case of *Fisher v. Witmark*, the Supreme Court held that authors could assign away their renewal right in advance of the original term's twenty-eighth year, reasoning that, "if an author cannot make an effective assignment of his renewal, it may be worthless to him when he is most in need. Nobody would pay an author for something he cannot sell."⁷ *Fisher* therefore established a precedent that copyright renewal rights could be given away before they had vested.⁸

In the ensuing years, it became common practice for publishers to require that authors sign away their renewal rights as part of their initial license contract.⁹ This frustrated the ultimate policy goal of automatic rights reversion because, as a matter of practice, "to get their works commercially published, authors generally had no option but to assign their rights to both terms of protection."¹⁰ In response to *Fisher* and its deleterious effects on authors' rights, Congress introduced a new "termination right" in the 1976 Copyright Act, which continues to be available to authors today.

A brief overview of the 1976 Copyright Act's termination provision will provide both context and some insight into the law's complexity. While a certain level of complexity is inevitable for any statute, the legal complexity of the termination right imposes costs on

³ For purposes of this paper "author," "artist," and "creator" are used interchangeably to mean an individual who has created a copyright-protected work.

⁴ See Brian D. Caplan, *Navigating US Copyright Termination Rights*, WIPO Magazine (Aug. 2012), http://www.wipo.int/wipo_magazine/en/2012/04/article_0005.html.

⁵ *Id.*

⁶ *Id.*

⁷ *Fred Fisher Music Co. Inc. v. M. Whitmark & Sons*, 318 U.S. 643, 657 (1943).

⁸ See Kate Darling, *Occupy Copyright: A Law & Economics Analysis of U.S. Author Termination Rights*, 63 *Buffalo L. Rev.* 147, 152 (Jan. 1, 2015).

⁹ *Id.*

¹⁰ *Id.*

creators seeking to exercise it – costs which fall especially heavy on those who cannot afford to enlist professional legal help. Any serious effort to improve the administration and exercise of the termination right should therefore consider ways to streamline or simplify the underlying legal framework as much as possible.

Overview of the Law

Title 17 of the U.S. Code grants authors or their heirs the right to terminate the exclusive or nonexclusive grant of a transfer (or license) of an author’s copyright in a work, or of any right under a copyright. The “window of termination” during which a termination may occur spans a certain number of years after the grant is executed or the copyright is first obtained by the author.¹¹ Sections 203, 304(c), and 304(d) lay out the termination provisions.¹² Which section applies depends on a number of factors, including when the grant was made to the grantee, who executed the grant, and when the work’s copyright was originally secured to the author.¹³

Eligibility

- Generally, a living author may terminate a grant. Specific eligibility rules are contingent upon the nature of the grant’s executor(s) and who is seeking to exercise the termination right.¹⁴
- **17 U.S.C. § 203** governs grants that were made by an author on or after January 1, 1978, regardless of when the copyright was first secured.¹⁵
- **17 U.S.C § 304(c)** applies when both the copyright and the grant by the author or the author’s heirs occurred before January 1, 1978.¹⁶

¹¹ See United States Copyright Office, *Notices of Termination*, copyright.gov, <https://www.copyright.gov/recordation/termination.html>. (“CO Guidance”).

¹² See 17 U.S.C. §§ 203, 304.

¹³ See CO Guidance, *supra* note 11.

¹⁴ If an author is deceased, a grant executed by the author can generally be terminated by a majority interest of the author’s heirs. If an author has no heirs, then the author’s executor, administrator, personal representative, or trustee can terminate. If a grant was executed by one or more of the author’s heirs, the grant can be terminated by the surviving person or persons who executed the grant. If a grant was executed by one or more of the author’s heirs, the grant can be terminated by the surviving person or persons who executed the grant. *Id.*

¹⁵ For certain works, the grant was executed before the January 1, 1978 cut-off date, but the work was created on or after that date. Filings related to these “gap” grants are made pursuant to § 203. See *CO Guidance*, *supra* note 12. If the grant was made by one or more authors, it may be terminated by a majority of the authors. See 17 U.S.C. § 203.

¹⁶ Under § 304(c), grants by one or more authors may be terminated by any author to the extent of his/her share. See 17 U.S.C. § 304(c).

- **17 U.S.C § 304(d)** applies when the copyright was secured between January 1, 1923 and October 26, 1939, but the grant by the author or the author’s heirs was executed before January 1, 1978.¹⁷

Timing

The statute’s complex timing requirements have been a source of litigation and controversy, not to mention headaches for authors (and their lawyers) seeking termination.¹⁸ Ironically, these requirements make it *more* challenging for artists to exercise – and easier to lose – what is supposed to be their inalienable statutory right to terminate a license agreement. The timing requirements can be broadly summarized as follows:

- Authors seeking to terminate a grant may only do so during a specific window of time. They must also specify the date that the termination goes into effect.
- The effective termination date must fall within a five-year “termination period,” which is based on factors provided in §§ 203, 304(c), or 304(d).
- The notice must be served no earlier than 10 years before the effective date, and no later than two years before the effective date.
- The notice must also be recorded with the Copyright Office before the effective date.¹⁹

So, for example, imagine that an author secures a copyright in a biography on June 1, 1960, and the author or the author’s heirs granted the rights in the book in perpetuity to a publisher some time before January 1, 1978. Under § 304(c), the date of termination would need to fall between June 1, 2016 and June 1, 2021. Let’s say that the author chose June 1, 2020 as the date of termination. The notice of termination would need to be recorded with the Copyright Office. The notice would also need to be served on the publisher on or after June 1, 2010 and before June 1, 2018. Determining when to exercise the termination right – and who to notify at that time – can be a vexing process.

¹⁷ Section 304(d) provides that grants made by one or more authors may be terminated by any author to the extent of his/her share. *See* 17 U.S.C. § 304(d).

¹⁸ Of note is the fact that Congress intended to do away with any automatic vesting of the termination right when crafting the 1976 legislation: “Instead of being automatic, as is theoretically the case under the present renewal provision, the termination of a transfer or license under § 203 would require the serving of an advance notice within specified time limits and under specified conditions. However, although affirmative action is needed to effect a termination, the right to take this action cannot be waived in advance or contracted away.” H.R. Rep. No. 94-1476 (1976).

¹⁹ The last day to serve a notice of termination under § 304(d) was October 26, 2017. *See CO Guidance, supra* note 11.

Formalities

Those seeking to exercise their termination right need to comply with certain formalities when submitting notices of termination to the Copyright Office for recordation. These formalities include the Copyright Act’s statutory requirements and the Copyright Office’s regulations and instructions.²⁰ The submitted notice must:

- Be a true, correct, complete, and legible copy of the signed notice of termination as served on the grantee or successor-in-title.²¹
- Be accompanied by a statement that provides the date on which notice was served and the manner of service.²²
- Have been timely served and the effective date of termination must be later than the date of recordation.²³
- Be accompanied by the correct filing fee.²⁴

Exceptions

Two important exceptions to the termination right regime are worth briefly highlighting – the “work made for hire” exception, and the derivative works exception.

Works “**made for hire**” are expressly excluded from the § 203 and § 304 termination provisions.²⁵ Under the work-for-hire legal doctrine, initial ownership in a work made for hire automatically vests with the employer of the person who would otherwise be considered the author of a work. Justifications for this theory range from notions of fairness for employers who are subject to liability for bad employee behavior, to the idea that employers have ultimate control (including creative control) over employees, to a legally recognized *quid pro quo* arrangement in which employer ownership is allowed in exchange for the benefits that they provide to employees like salary and medical benefits.²⁶ It is worth noting that labeling it as an “exception” to the termination rights

²⁰ The Copyright Act’s statutory requirements are (17 U.S.C. §§ 203, 304(c), 304(d)) and the Office’s regulations are (37 C.F.R. § 201.10(f)) respectively.

²¹ See 37 C.F.R. § 201.10(f)(1)(i)(A).

²² See 37 C.F.R. § 201.10(f)(1)(i)(B).

²³ See 37 C.F.R. § 201.10(f)(1)(ii).

²⁴ See 37 C.F.R. § 201.3(c).

²⁵ A work is “made for hire” only if: (1) it is prepared by an employee within the scope of their employment; or (2) it is specially ordered or commissioned from an independent contractor pursuant to a written agreement and the work falls within one of nine statutorily defined categories. See 17 U.S.C. §§ 101 *et seq.*

²⁶ See Robert Brauneis & Roger E. Schechter, *Copyright: A Contemporary Approach* 568 (Thompson Reuters 2012).

regime is perhaps not the best terminology (as there was never a transfer of rights to terminate),²⁷ but the term is nevertheless widely used.²⁸

Whether an author is an “employee” and “within the scope of his or her employment” under the law is, importantly, a judicial determination with underlying Supreme Court precedent.²⁹ Nevertheless, contracts involving creative works include language characterizing the output of the relationship as a work-for-hire. This is largely an artifact of the time before the 1976 Act, when the work-for-hire relationship between an author and an employer was relatively easy to establish.³⁰ In the music industry, for example, both pre-1976 and post-1976 recording contracts characterize recording artists as employees of their record label, and the recording as a work-for-hire.³¹ This tension between legal standards and common practice is important, as will be discussed later.

The second exception involves “**derivative**” works, which incorporate some elements of a pre-existing work while also adding new, copyrightable authorship to the prior work.³² Well-known examples of derivative works include motion pictures based on a play or novel, and musical arrangements of previously released songs. Derivative works that are “prepared under the authority of the grant before its termination” are unaffected by the termination; such works “may continue to be utilized under the terms of the grant [even] after its termination.”³³

What does utilization “under the terms of the grant” look like in the real world? As a practical matter, it means that termination does not “ripple” downstream to sweep in

²⁷ The distinction between authors who immediately transfer their rights (or never give them up) and creators who are never considered “authors” to begin with due to their employment can directly affect the outcome of a case. For instance, a court has recently ruled that composer Ennio Morricone can proceed with his termination claims concerning several movie soundtracks because under Italian law he was considered an “author” even if under American law he would not have been. See Ashley Cullins, *Ennio Morricone Scores Big Appellate Win in Copyright Termination Suit*, HOLLYWOOD REPORTER (Aug. 21, 2019), <https://www.hollywoodreporter.com/thr-esq/ennio-morricone-scores-big-appellate-win-copyright-termination-suit-1233645>.

²⁸ The statutory exception also entails that a corporation, even if it is legally considered the “author” of a work, cannot itself exercise termination rights, since any such works are necessarily works for hire.

²⁹ See *CCNV v. Reid*, 490 U.S. 730 (1989); see also *Aymes v. Bonelli*, 980 F.2d 857 (2d Cir. 1993).

³⁰ See Owen, Wickersham & Erickson, P.C., *Resources*, “Legalities 4: What is Work Made for Hire?”, <https://www.owe.com/resources/legalities/4-what-is-work-made-for-hire/>.

³¹ See Randy S. Frisch & Matthew J. Fortnow, *Termination of Copyrights in Sound Recordings: Is There a Leak in the Record Company Vaults?*, 17 Colum.-VLA J. L. & Arts 211, 217 (1993); Tuneen E. Chisolm, *Whose Song Is That? Searching For Equity and Inspiration For Music Vocalists Under the Copyright Act*, 19 YALE J.L. & TECH. 274, 311 fn 175 (2017) for an example of specific contract language.

³² See Copyright Office, Circular 14, CO 14-1013, *Copyright in Derivative Works and Compilations*, <https://www.copyright.gov/circs/circ14.pdf>.

³³ 17 U.S.C. §203(b)(1).

derivative works. Take, for example, a talented new writer. She grants the rights to her debut novel to a publisher under terms that allow the publisher to license out the rights to a movie adaptation to a film studio. If the publisher successfully licenses those rights, resulting in a movie adaptation of the novel, the author's termination of her rights to the publisher does not impact the contractual relationship between the publisher and the movie studio. The publisher may continue to collect royalties on the movie as a derivative work, and the movie studio may continue monetizing the movie no matter if or when the author terminates the rights to her novel with the book's original publisher.

During the negotiation of the 1976 Act, stakeholders (such as film industry producers) who frequently rely on derivative works licenses opposed the creation of an inalienable termination right without the inclusion of a derivative works exception.³⁴ As a result, the termination right returns fewer rights to the author than the 1906 Act's renewal term reversion.³⁵ While the creator of a newly-terminated work should not be able to singlehandedly remove derivative works from the marketplace, neither should the original grantee (such as the publisher in the above example) be able to capture *all* royalty and other payments arising from the derivative work. Nor should derivative works or grants made prior to termination effectively negate the artist's termination right. Attempts to define the scope of the derivative works exception have resulted in uncertainty for artists and grantees, raising important policy considerations.

Policy Rationale

Congress justified including a novel termination right within the 1976 Act on both economic and moral grounds. In a 1961 House Judiciary Committee Report, the Register of Copyrights noted that while some authors had joined organizations that offered the benefits of collective bargaining, most authors remained unrepresented and tended to engage in "lump-sum" assignments that provided them with an unfairly small revenue share derived from the work.³⁶ Artists of color were particularly affected by these

³⁴ See Lionel Bently & Jane C. Ginsburg, "The Sole Right ... Shall Return to the Authors": Anglo-American Authors' Reversion Rights from the Statute of Anne to Contemporary U.S. Copyright, 25 Berkeley Tech. L.J. 1475, 1575 (2010).

³⁵ *Id.*

³⁶ See Staff of H.R. Comm. on the Judiciary, 87th Cong., Rep. of the Register of Copyrights on the General Revision of the U.S. Copyright Law 54 (Comm. Print 1961) ("It has been argued that most authors do not need or want to be treated as incompetent to handle their business affairs. Many of them have banded together in organizations which negotiate standard contracts providing for continuing royalties. Their assignments can be and often are given for limited periods of time. It is still true, however, that most

exploitative contracts, as we discuss *infra*. The termination provisions were created to protect authors and their heirs against unprofitable agreements by giving them an opportunity to share in the later economic success of their works.³⁷ Congress believed that the reversionary provisions within the 1909 Act needed to be “eliminated” and that the new termination right provided an adequate substitute to safeguard against unremunerative transfers.³⁸ Congress also sought to improve authors’ bargaining power after their work’s value had been sufficiently determined by allowing them to leverage the imminent threat of rights termination to enter into new, more economically advantageous grants.³⁹

In addition to its concerns about the dysfunctional economics of copyright transfers under the 1909 Act, Congress recognized that the power dynamics at play within copyright grant negotiations disadvantaged authors: “A provision of this sort is needed because of the unequal bargaining position of authors, resulting in part from the impossibility of determining a work’s value until it has been exploited.”⁴⁰ With regard to the § 304 provisions governing grants made prior to January 1, 1978, lawmakers noted that under the 1909 Act, any statutory beneficiary of the author could validly make a binding transfer or license of future renewal rights if the author was dead and the person who executed the grant was the proper renewal claimant.⁴¹ This led to publishers obtaining numerous contingent transfers of future renewal rights from widows, widowers, children, and next of kin.⁴² The 1976 Act offered statutory beneficiaries who had signed such disadvantageous grants with a chance, “to reclaim the extended term.”⁴³ In other words, by enacting the termination provisions, Congress gave authors sought to provide authors the chance to obtain an equitable reversion of rights by reclaiming ownership over the copyright they had granted or licensed away.⁴⁴

authors are not represented by protective organizations and are in a relatively poor bargaining position. Moreover, the revenue to be derived from the exploitation of a work is usually unpredictable, and assignments for a lump sum are still common. There are no doubt many assignments that give the author less than his fair share of the revenue actually derived from his work. Some provision to permit authors to renegotiate their disadvantageous assignments seems desirable.”).

³⁷ See Lind at 1.

³⁸ See H.R. Rep. No. 94-1476 (1976).

³⁹ See Brauneis & Schechter, *supra* note 26, at 755.

⁴⁰ *Id.*

⁴¹ *Id.*

⁴² *Id.*

⁴³ *Id.*

⁴⁴ See 3 Nimmer on Copyright § 11.01 (2019).

The Exercise of Termination Rights in Practice

Despite Congress' best intentions in creating the termination right provisions, evidence suggests that authors seeking to enforce them face an uphill battle that often ends in costly litigation. This reality points to both structural and administrative dysfunction within the statutory scheme.

Complications in Case Law

Litigation has been common in the four decades since the 1976 Copyright Act revision – and in particular since 2013, when the Act's provisions became widely available to recording artists. To the extent that these cases have settled, they have largely done so under NDAs, making empirical study of the termination right's effectiveness exceedingly difficult. Although it is rare for termination right disputes to make it all the way to a final judgment at trial, a small body of case law exists that nevertheless raises significant policy concerns.

Authors May Be Required to Definitively Litigate Their Ownership Interests Prior to Filing for Termination

Ownership disputes add another layer of complexity for artists seeking to exercise their termination right. The termination right is only available to an author who “owns” the rights that were previously assigned or licensed to a grantee. If a termination right dispute ends up in litigation, it is possible that issues of ownership may be barred from consideration by the court by copyright law's three-year statute of limitations. This can lead to an author who is the rightful author of a work being unable to terminate their grant.⁴⁵

While ownership of a copyright may be straightforward for some single-author works, for others, it is a complex and unclear calculation. Many works are authored by multiple artists. In a perfect world, joint authorship would be non-controversial, well-documented, and all authors would be timely compensated in accordance with the terms of their agreement. Reality is, of course, messier. Collaborations are often marked by disputes over issues ranging from the contours of each party's contributions and rights, to errors or omissions in documentation of authorship, or to royalties that go unpaid or unclaimed. For example, a grantee may disagree with a collaborator's claim of co-authorship in a

⁴⁵ See 17 U.S.C. § 507(b) (“No civil action shall be maintained under the provisions of this title unless it is commenced within three years after the claim accrued.”).

work and decline to pay the collaborator royalties. A court, when considering a later termination challenge, may decide that the grantee's decision to not pay royalties started the statute of limitations period on the ownership dispute to run.

This issue played out in 2011 when Victor Willis, a founding member of the music group The Village People, served a notice of termination on his publisher, Scorpio Music. Scorpio challenged the notice in the California District Court, arguing that Willis did not actually own the rights in question because he had previously transferred them to a publishing administrator. When Willis filed a counterclaim seeking to adjudicate his ownership of the copyrights, Scorpio sought to have it dismissed by arguing that it was barred by the statute of limitations.⁴⁶

The dispute revolved around one key issue: When did Willis' ownership claim in the disputed songs accrue – i.e., take legal effect? Recall that once accrued, artists have only a three-year window in which they can dispute ownership in court before being barred by the statute of limitations. Willis argued that his claim to ownership arose when he filed his notice of termination with the Copyright Office in January, 2011. He noted that it wasn't fair for an artist like himself to have to settle (through litigation or otherwise) ownership disputes years in advance of the termination process. Scorpio argued that the ownership claim "accrued" years earlier when the publisher had given a "plain and express repudiation" of his ownership in the work. Because Willis had failed to litigate the dispute at the time Scorpio denied he had ownership rights, he had lost his chance to claim ownership and was thus barred from pursuing a termination of his rights.

The court noted that requiring authors to litigate ownership interests prior to the exercise of their termination right could undermine the policy behind the right because "authors often have neither the means nor incentive to litigate authorship disputes up front, and ... many authors will suffer as a result of 'dirty' copyright registrations that list 'authors' who did not actually contribute to the work."⁴⁷ Countervailing policy concerns were also discussed, including potential unfairness in allowing "the putative co-owner [of a work] to lie in the weeds for years after his claim has been repudiated ... and then pounce on the prize after it has been brought in by another's effort."⁴⁸

Ultimately, the court found that when ownership claims are raised in the context of grant termination, "[the] § 507(b) [statute of limitations] operates as it normally does – e.g., it bars claims brought more than three years after plain and express repudiation of the

⁴⁶ See *Scorpio Music S.A. v. Victor Willis*, 2013 WL 790940 (S.D. Cal 2013) ("*Willis*").

⁴⁷ *Id.* at 12.

⁴⁸ *Id.* at 13 (citing *Haas v. Leo Feist, Inc.* 234 F. 105, 108 (S.D.N.Y. 1916) (Learned Hand, J.) ("Delay under such circumstances allows the [putative] owner to speculate without risk with the other's money.")). The court also noted that "Policy arguments can also be made for avoiding the filing of lawsuits decades after the creation of a work, when witnesses may be dead, documents lost, and memories faded." *Id.* at 13-14.

ownership claim.”⁴⁹ The court determined that to hold otherwise would be impermissible judicial activism: “Although Willis [] raise(s) legitimate policy concerns, it is Congress’s job, not this Court’s, to amend the law to conform to its intent.”⁵⁰

More recently, in *Wilson v. Dynatone Publishing Co.*, the Second Circuit Court of Appeals granted a small victory to legacy artists who may seek to exercise their termination right. The court found that “the mere act of [a grantee] registering an adverse claim in the Copyright Office was not an effective repudiation” of an author’s ownership claim in the context of automatically vesting copyright renewal terms under 17 U.S.C. § 304(a).⁵¹ The court noted that to hold otherwise would amount to forcing rightful owners to “maintain constant vigil over new registrations.”⁵² While helpful for artists using § 304’s termination provision, *Wilson* doesn’t apply to authors like Victor Willis, whose case fell under § 203.

The Derivative Works Exception Can Weaken the Termination Right’s Effectiveness

As previously discussed, Congress created a continued-use exception to the 1976 Act termination right.⁵³ Under this derivative works exception, “a derivative work prepared under authority of the grant before its termination may continue to be utilized under the terms of the grant after its termination.”⁵⁴ Thus, the scope of the exception is governed entirely by the terms of the grant – or, in other words, the contractual agreement between the author and the grantee.

In *Mills Music, Inc. v. Snyder*, the Supreme Court found that, because the original contract between a songwriter and his publisher allowed the publisher to re-grant derivative works rights, the publisher was still entitled to mechanical license royalties derived from the reproduction of records that were made before the termination, even after the author terminated his grant of the original work.⁵⁵ This grantee-friendly interpretation of the statute received some pushback from the Second Circuit in *Fred Ahlert Music Corp. v. Warner/Chappell Music, Inc.*, 155 F.3d 17 (2d Cir. 1998). The *Ahlert* court found that a grantee who had authorized a derivative work (a sound recording of the song “Bye-Bye Blackbird”) pre-termination could not authorize a new exploitation of that same derivative work (using the recording in a film soundtrack) after the songwriter had

⁴⁹ *Id.* at 8-9.

⁵⁰ *Id.* at 12-13 (citing *Lamie v. U.S. Trustee*, 540 U.S. 526, 542, 124 S. Ct. 1023, 157 L. Ed. 2d 1024 (2004)).

⁵¹ *Wilson v. Dynatone Publ. Co.*, 892 F.3d 112, 119 (2nd Cir. 2018).

⁵² *Id.*

⁵³ See Bently & Ginsburg, *supra* note 34, at 1575.

⁵⁴ 17 U.S.C. 304(a)(1)(A).

⁵⁵ See *Mills Music, Inc. v. Snyder*, 469 U.S. 153, 177 (1985) (“no support [exists] ... for the proposition that Congress expected the author to be able to collect an increased royalty for the use of a derivative work.”).

reclaimed his rights.⁵⁶ Instead, the rights to the post-termination exploitations, such as licensing and royalty payments, reverted to the author or the author's heirs.⁵⁷

Because the language of the initial contract governs the scope of the later termination, grantees may take advantage of *Mills* and avoid *Ahlert* by requiring expansive terms for grants – such as, for example, authorizing the grantee to exercise unilateral control over all exploitations of derivative works.⁵⁸ Such terms are easy to impose in situations of unequal bargaining power.⁵⁹ Perversely, the derivative works exception can be readily exploited and exacerbated by the very structural inequities that the termination right was designed to address.

In addition, grantees could attempt to monetize derivative works post-termination by initiating the large-scale creation of “derivative works” based on mere technical changes to the original work (like remasters of sound recordings, for example) after receiving notices of termination but before the effective date. Given that some courts have broadly interpreted the definition of derivative work under 17 U.S.C. § 101,⁶⁰ this type of strategy could be appealing to sophisticated and strategically minded grantees.

Works for Hire and Loan-Out Corporations

Suits over termination rights are also likely to run up against the work-for-hire exception. “Work made for hire” clauses are common, boilerplate language in contracts that govern the assignment or license of ownership rights, in no small part because (as discussed above) works-for-hire are exempted from the termination provisions in §§ 203 and 304.⁶¹ However, whether something is a work made for hire – i.e., whether it was prepared by an employee within the scope of employment – is determined by statute, not by contract.⁶²

It is important to re-emphasize that the termination right is *inalienable*; it cannot be waived or granted away, even by contract. If the work is in fact for-hire, then the “author”

⁵⁶ See *Fred Ahlert Music Corp. v. Warner/Chappell Music, Inc.*, 155 F.3d 17 (2d Cir. 1998).

⁵⁷ *Bently & Ginsburg*, *supra* note 34, at 1579.

⁵⁸ *Id.* (quoting *Woods v. Bourne Co.*, 60 F.3d 978, 987 (2d Cir. 1995)).

⁵⁹ The negative effect of the derivative rights exception is made worse by ambiguity in the meaning of “derivative” works. For further discussion, see Daniel Gould, *Time's Up: Copyright Termination, Works-For-Hire and the Recording Industry*, 31 *Colum. L.J. & Arts* 91, 131-134; see also *ABS Entm't, Inc. v. CBS Corp.*, 900 F.3d 1113, 2018 U.S. App. LEXIS 23097, 127 U.S.P.Q.2D (BNA) 1646, 2018 WL 3966179.

⁶⁰ See, e.g., Pamela Samuelson, *The Quest for a Sound Conception of Copyright's Derivative Work Right*, 101 *Geo. L. J.* 1505, 1509 (2013).

⁶¹ See 17 U.S.C. § 203(a).

⁶² See 17 U.S.C. §§ 101 *et seq.* To be clear, this means that a contract between two parties cannot simply state that a given work is a work-for-hire and make it so. A contract may be evidence that a work was created in the “scope of employment” but a work is a work-for-hire *only* if the statutory criteria are met.

of the work (in the eyes of the law) is the employer, not the employee. In work-for-hire scenarios, the artist or creator never possessed any rights in the first place, and as such could not create a grant that could be terminated in the future. From an efficiency standpoint, this makes some sense; we do not generally think that employees of an advertising agency, for example, should own the rights to the ads that they create for the agency. Problems occur, however, when artists seeking termination must concurrently resolve a dispute over whether they were independent authors or employees of the grantee.

Such disputes, when they arise, generate uncertainty, inefficiency, and significant costs, particularly because they create a legal question of fact that must be resolved by a court. The weight of this uncertainty falls perhaps most heavily on legacy musicians of color, who were often subjected to record deals that did not provide them with long-term financial stability.⁶³

While commentators have generally agreed that the courts will not hold recording artists to be “employees” under the controlling *Reid* and *Aymes* line of cases,⁶⁴ the question of whether sound recordings are works-for-hire under a typical recording contract remains unsettled.⁶⁵ Despite the 1976 Act’s decision to leave interpretations of “work made for hire” to the courts, some contracts continue to include work-for-hire clauses in addition to “irrevocable” assignment clauses that grant all of the author’s rights to the grantee.⁶⁶ Grantees determined to avoid contract renegotiations or settlements can reasonably be expected to invoke the work-for-hire exception as a legal defense during litigation.⁶⁷

The common practice of authors using “loan-out” corporations to conduct their business operations further complicates the issue.⁶⁸ A loan-out corporation is a small business entity, typically structured as a sole proprietorship, created to provide an artist with tax

⁶³ See, e.g., Jeff Carter, *Strictly Business: A Historical Narrative and Commentary on Rock and Roll Business Practices*, 78 *Tenn. L. Rev.* 213, 229-30. See also Chisolm, *supra* note 29, at 324.

⁶⁴ *CCNV v. Reid*, *supra* note 30, at 748, sets out a multi-prong test for resolving both the nature of the employment relationship and the scope of employment in WMFH disputes. *Aymes v. Bonelli* distills the most relevant factors to emerge in the *Reid* line of cases, which are (1) the right to control and the manner and means of production; (2) requisite skill; (3) provision of employee benefits; (4) tax treatment of the hired party; (6) whether the hired party may be assigned additional projects. See *Aymes v. Bonelli*, *supra* note 30, at 861.

⁶⁵ See Gould, *supra* note 59, at 102.

⁶⁶ *Id.* at 97.

⁶⁷ The work-for-hire exception is not exclusively raised in music-related cases. See, e.g., Eriq Gardner, *The Philadelphia Phillies Sue to Keep Their Mascot From Becoming a Free Agent*, *Hollywood Reporter* (Aug. 2, 2019), <https://www.hollywoodreporter.com/thr-esq/philadelphia-phillies-sue-keep-mascot-becoming-a-free-agent-1228956> (concerning a dispute over the Philly Phanatic).

⁶⁸ See Donald S. Passman, *All You Need to Know About the Music Business* 176 (9th ed. 2015) (“As you get more successful, you will want a loan-out corporation. Everybody on the block has one.”)

or other business advantages.⁶⁹ These benefits make loan-out corporations a popular choice for professional artists.⁷⁰ However, in the context of termination right disputes, this practice can raise questions around whether an author is formally “employed” by the loan-out corporation – again, often a sole proprietorship held by the artist herself – within the statutory meaning. If true, the work made for the loan-out “employer” would be a work-for-hire, and all subsequent grants made by the loan-out corporation would be non-terminable. This understanding appears in some (but not all) employment agreements between artists and loan-out companies, which can provide that the artist’s services for the company are works-for-hire.⁷¹ As with all work-for-hire determinations, those involving loan-out corporations are determined on a case-by-case basis, and courts have been inconsistent in their findings of whether artists were “employees” of such corporations.⁷² Adding to the confusion is the lack of an answer as to whether a grant executed through a loan-out corporation may be deemed “executed by the author” under the plain language of § 203.

The complex interplay between loan-out business arrangements and legal work-for-hire definitions creates questions (both statutory and factual) that can only be resolved by courts. Thus, the questions continue to be litigated.⁷³ Until Congress permanently resolves these ambiguities by passing laws that clarify the termination right, numerous artists and creators will lack the financial and legal resources to resolve disputes related to the exercise of their termination rights through actual or potential litigation.

⁶⁹ See Aaron J. Moss and Kenneth Basin, Copyright Termination and Loan-out Corporations: Reconciling Practice and Policy, 3 Harv. J. of Sports & Ent. 55 at 72.

⁷⁰ See Adam Freeman, *Benefits of Establishing a Loan-Out Company for a Music Artist*, Medium (Aug. 28, 2018), <https://medium.com/@adamcofreedman/benefits-of-establishing-a-loan-out-company-for-a-music-artist-e1b544a961cb>.

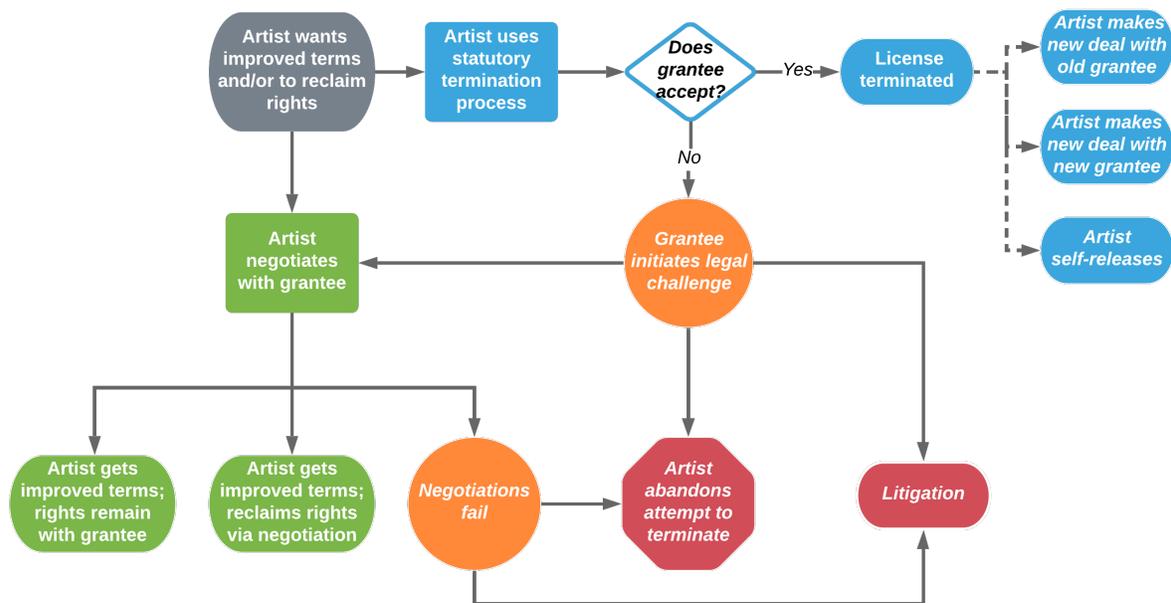
⁷¹ Moss and Basin, *supra* note 64, at 76.

⁷² *Martha Graham Sch. & Dance Found. v. Martha Graham Ctr. Of Contemporary Dance, Inc.*, 380 F3d 624 (2d Cir. 2004) (parenthetical).

⁷³ See, e.g., *Waite v. UMB Recordings, Inc.* (S.D.N.Y) Memorandum of Law In Support of Defendant UMG Recordings, Inc.’s Motion to Dismiss the Complaint at 5-7.

Policy Concerns Raised by Media Reports and Other Anecdotal Evidence

The termination right is a powerful tool for artists who seek to achieve their personal, artistic, and professional goals. Some artists may enter into a business contract with the goal of later reclaiming the rights they have in their works. Others may envision using rights reversion to renegotiate better contractual terms. Recall the various paths that an informed artist may take when using the termination right:



Whether or not the negotiations between artist and grantee are fair and functional depends largely on the balance (or imbalance) of power and information regarding the termination right. For example, if an artist is unaware that the termination right exists, or has an incomplete understanding of her right, she may not use it as leverage to negotiate a better contract, and she risks being taken advantage of by a grantee or a legal agent. Even if an artist does know about her termination right, she may lack the power – e.g. the leverage afforded by wealth or fame – to use the termination right tool to its full capability. Moreover, power and information dynamics can change, for better or for worse from the artist’s perspective, for the duration of her career and beyond.

Analysis of publicly available data, primarily from media reports and other publications, reveals several points of failure that may have adverse consequences for authors, and

particularly artists and creators of color, who seek to exercise their termination right. These include power asymmetries governing the negotiation, assignment, and reversion of the ownership rights of copyrighted works; the paucity of comprehensive and up-to-date information on the nature and scope of artist deals across the creative ecosystem; the limited knowledge artists have about their rights; and onerous and confusing procedural requirements for exercising those rights.

While termination rights are ostensibly designed to level the playing field between creators and grantees, public success stories are virtually non-existent. It is challenging to determine whether the termination right is generating the positive outcomes for artists when the details of termination right negotiations and settlements are largely concealed by NDAs. As a result, public information on the fate of these cases is sparse and anecdotal. The overwhelming majority of what we *do* know is limited to firsthand accounts of artists and lawyers involved in termination disputes that tells an unhappy story for artists.

Imbalanced Power Dynamics

Evidence exists (mostly in the context of the sound recording side of the music industry) to indicate that some dysfunction within the termination right regime may be due to long-standing, systemic power imbalances between creators and the companies that help fund, develop, resource, market, and distribute those creators' outputs. These imbalances can affect authors both during the original process of signing over ownership rights early in their careers, as well as in later attempts to reclaim those rights or negotiate new partnership terms using the termination right provisions as leverage. Artists of color have historically been disproportionately affected by these imbalances.

While songwriters appear to have comparatively less difficulty reclaiming their publishing rights,⁷⁴ the song is not, apparently, so sweet for recording artists. Earlier this year, a class of artists, including Phil Collins, John Waite, and New York Dolls vocalist, David Johansen, sued their record labels, claiming that the labels have “routinely and systematically refused to honor [the Notices of Termination that the artists served upon the labels].”⁷⁵ While numerous high-profile legacy artists such as Pat Benatar, Joni Mitchell, and The Police have reportedly filed termination requests, few appear to have succeeded in reclaiming their rights – or else have signed NDAs that keep related

⁷⁴ See Chris Cooke, *US advocacy group backs artists in termination rights case against the majors*, completemusicupdate.com (Feb. 22, 2019), <https://completemusicupdate.com/article/us-advocacy-group-backs-artists-in-termination-rights-case-against-the-majors/>. (“On the songs side of the music business, plenty of songwriters are now exercising this [termination] right to reclaim copyrights that were part of long-term assignment deals with music publishers back in the day.”). *But see* Willis, *supra* note 48.

⁷⁵ Class Action Complaint for: (1) Copyright Infringement; and (2) Declaratory Relief at 2, para. 4., filed by Plaintiffs in *John Waite v. UMG Recordings, Inc.*, Case No.: 1:19-cv-01091 (S.D.N.Y. Feb. 5, 2019).

information out of the public eye.⁷⁶ Evan Cohen, a lawyer and publishing catalogue administrator who is part of the legal team representing the plaintiffs in the *Waite* litigation, has gone on record claiming that many artists, such as Asleep At The Wheel, Suzi Quatro, the Fleshtones, Rita Coolidge, Stephen Bishop, and Robbie Dupree, were able to exercise their termination right (with, notably, his representation).⁷⁷ Some record label executives have denied Cohen's claim.⁷⁸

If artists are struggling to exercise their termination right, to what extent are the power imbalances of the sort that led to exploitative deals for some legacy artists persisting?⁷⁹ Have other legacy artists tried and failed to reclaim their rights, or have they instead used the right to renegotiate favorable deals? What about current artists? Presumably, their situation is better now than it was decades ago. But, as noted above, the important information – the outcome – is often locked away from public view.

Ongoing consolidation among industry grantees and content distribution platforms may also play a part in the narrative surrounding termination rights. Today's "Big 3" record labels – Universal Music Group, Sony Music Entertainment, and Warner Music Group – dominate the domestic music marketplace, with a total recorded-music-revenue-market share of 68 percent in 2017.⁸⁰ Book publishing is similarly consolidated, with the "Big 5" publishers – The Hachette Group, Simon and Schuster, MacMillan, Penguin Random

⁷⁶ Ed Christman, *Inside the Secretive, Difficult Struggle Between Artists & Labels Over Album Copyrights*, *Billboard* (Sep. 28, 2017), <https://www.billboard.com/articles/business/7981597/album-copyrights-master-recordings-1976-law>. (Paywall).

⁷⁷ *Id.*

⁷⁸ *Id.*

⁷⁹ History is replete with accounts of authors being subjected to exploitative contractual agreements and other opaque business practices – like accounting practices and royalty computations – with artists and creators of color often being the most impacted. A common practice in the early days of rock and roll, for example, was for record labels – usually owned by whites – to offer black artists a flat fee to compose and record a song, in lieu of ongoing royalties. See Charles A. Gallagher Cameron D. Lippard, *Race and Racism in the United States: An Encyclopedia of the American Mosaic*, 824, (ABC-CLIO 2014) (“It was typical in the early days of the music recording industry for black musicians to compose and record a song for a record label, get paid a small fee for the work in the studio, and then lose the rights to the song because they were deceived by unscrupulous record label owners and producers.”)

Even white artists were not immune to power imbalances. Tommy James, who along with his band The Shondells performed the hit song, “I Think We’re Alone Now,” was reportedly kept from claiming between \$30 and 40 million that his label, Roulette Records, owed him. See Jay Lustig, *Tommy James tells all: The glorious highlights and little-known dark side of a hit-filled career*, *NewJersery.com* (Sep. 5, 2010), https://www.nj.com/entertainment/music/2010/09/tommy_james_tells_all_the_glor.html.

⁸⁰ See Music & Copyright, *Global recorded-music and music publishing market share results for 2018*, Music & Copyright's Blog (May 8, 2019), <https://musicandcopyright.wordpress.com/tag/market-share/>.

House, and HarperCollins – reportedly holding 80 percent of the U.S. market.⁸¹ In addition, grantees seeking to distribute their artists’ works online can face limited choice in online platforms. For example, Spotify and Apple Music comprise about 80 percent of subscription streaming among U.S. subscribers.⁸² We urge policymakers to explore what effect increased corporate consolidation has had on termination provisions or renegotiations in artist deals.

A lack of diverse representation in boardrooms and at the negotiating table may exacerbate the power imbalances that can disrupt the functionality of the termination right regime. Notably, corporate leadership across the entertainment industry (and particularly in the film industry) continues to be overwhelmingly white and male.⁸³ The legal field is similarly uniform; 85 percent of American lawyers are white, and 65 percent are men.⁸⁴ Inclusive representation among the field of intellectual property is even more lacking; according to the American Intellectual Property Law Association, a mere “1.8 percent of IP attorneys are African American, 2.5 percent are Hispanic or Latino and less than 0.5 percent are Native American.”⁸⁵ Although these communities are (and have been for many years) the creative *axis mundi* of the modern music industry, the legal infrastructure – and the negotiating power it can wield – has not followed suit.

Prince represents a rare success story of an artist who was able to regain control of his recordings through a herculean combination of activism, determination, and star power. Throughout his career, Prince demanded an unusual degree of control over his copyrights and was unafraid to place those demands on his labels and representation.⁸⁶ He famously clashed with his record label, Warner Brothers, over when and how often he could release

⁸¹ See Thad McIlroy, *What the Big 5’s Financial Reports Reveal About the State of Traditional Book Publishing*, BookBusiness (Aug. 5, 2016), <https://www.bookbusinessmag.com/post/big-5-financial-reports-reveal-state-traditional-book-publishing/>.

⁸² See Mordor Intelligence, *Cloud Music Services Market – Growth, Trends, and Forecast (2019 -2024)*, Key Market Trends (2018), <https://www.mordorintelligence.com/industry-reports/cloud-music-services-market>.

⁸³ See Matt Donnelly and Rebecca Rubi, *Diversity Soars On-Screen but Lags in Hollywood’s Rooms of Power*, Variety (May 9, 2019), <https://variety.com/2019/biz/news/hollywood-diversity-movies-executives-1203208080/>.

⁸⁴ American Bar Association. ABA National Lawyer Population Survey: 10-Year Trend in Lawyer Demographics (2017), https://www.americanbar.org/content/dam/aba/administrative/market_research/national-lawyer-population-10-year-demographics-revised.authcheckdam.pdf.

⁸⁵ Am. Intellectual Prop. Law Ass’n, 2017 Report of the Economic Survey, at F-10 (2017), https://www.americanbar.org/groups/intellectual_property_law/publications/landslide/2017-18/march-april/diversifying-intellectual-property-law/#10.

⁸⁶ Ryan Faughnder, *Prince took a protective stance on music copyrights*, Los Angeles Times (Apr. 21, 2016), <https://www.latimes.com/entertainment/envelope/cotown/la-et-ct-prince-copyrights-20160421-story.html>.

music, as well as setting compensation rates comparable to his industry peers.⁸⁷ By the early 1990s, the battle had shifted from compensation and timing, to ownership of master recordings. At subsequent labels, he retained ownership of his master recordings, and in 2014 he was able to finally obtain master rights to his Warner Brothers catalog in exchange for releasing two new albums through the label.⁸⁸ However, the extent to which his termination right served as a useful tool in that effort is, at best, unclear.

Prince appears to be the exception to the rule. His success, while important, serves as an important meter stick for the degree of fame, wealth, and sheer daring that a recording artist must possess to reclaim their rights. At least one hugely successful white recording artist has reportedly struggled to regain ownership of his content; multi-platinum singer-songwriter Billy Joel tried and failed to exercise his termination right in 2013.⁸⁹ According to Joel, “the record company dug in and got their battery of lawyers and we never got the stuff back. So I still don’t own my recordings.”⁹⁰ Perhaps these challenges lay behind the trend towards contemporary artist representatives negotiating a broader suite of options for their artists beyond transfer of rights in perpetuity. For example, label services deals that “bake in” rights reversion to the artists via the contractual arrangement.⁹¹

Note that this same power asymmetry underlies the policy problems illustrated in the previous section. If the law requires artists to litigate their ownership interests prior to termination, those without the resources to engage in costly and time-consuming legal battles will be unable to even reach the doorstep of termination. Add to that the costs of the actual termination right negotiation and, potentially, litigation, and artists can quickly become priced out of their basic statutory rights. Less resourced or influential artists’ relative lack of bargaining power leaves them ill-positioned to defend against an aggressive grantee, and incentivizes them to give up before the process has even formally begun. Similarly, it is unlikely that most authors possess the negotiating leverage needed to guard against grantee abuse of the derivative rights exception, particularly through contract negotiation early in their careers.

⁸⁷ See Melinda Newman, *Inside Prince’s Career-Long Battle to Master His Artist Destiny*, *Billboard* (Apr. 28, 2016), <https://www.billboard.com/articles/news/cover-story/7348551/prince-battle-to-control-career-artist-rights>.

⁸⁸ *Id.*

⁸⁹ See David Marchese, *In Conversation: Billy Joel*, *vulture.com* (Jul. 2018), <http://www.vulture.com/2018/07/billy-joel-in-conversation.html>.

⁹⁰ *Id.*

⁹¹ See, e.g., Mark Mulligan, *Taylor Swift and the Rise of Label Services*, *hyperbot.com* (Nov. 26, 2018), <https://www.hypebot.com/hypebot/2018/11/taylor-swift-and-the-rise-of-label-services-mark-mulligan.html>.

Information Asymmetries

Copyright is a uniquely complex area of law. It is unsurprising, then, that there exists a sizable expertise gap between well-moneyed, legally well-heeled grantees, and even the most diligent artists and creators. To successfully exercise the termination right, an author needs specialized knowledge of copyright law or access to those who possess such knowledge. Creators frequently lack both. This information asymmetry takes several forms.

First (and arguably most easily addressed) is the degree to which artists are even *aware* of their statutory right to terminate a license. In September 2013, after six years of litigation, the court decided in Victor Willis' favor, and he regained control of his share of the popular songs he had co-written as a member of the Village People.⁹² This appears to be the first well-publicized example of an artist from the disco era who successfully exercised a termination right. Willis has noted that he had no knowledge of his legal rights when he was a young artist.⁹³ In fact, he only became aware of the termination rights issue because his wife is a lawyer.⁹⁴ Perhaps other artists have already missed out on an opportunity to reclaim their rights because they were not as fortunate as Victor Willis to have a source of information about their termination right.

The second, and more complex, knowledge gap relates to the scope and limitations of the termination right. The stringent timeline and complex sequence of formalities⁹⁵ have prevented even well-represented artists from successfully terminating straightforward grants.⁹⁶ The work-for-hire and derivative works exceptions, when invoked, are thorny questions of law and fact and frequently require further litigation. And cases featuring multiple collaborators introduce even further complexity. In the music industry, for example, most recording deals involve “chain” agreements including subcontractors, such as producers and session musicians.⁹⁷ In addition, as previously discussed authors often create “loan out” corporations for favorable tax treatment, and in doing so may inadvertently disqualify their work from termination rights under the work-for-hire

⁹² Larry Rohter, *A Copyright Victory, 35 Years Later*, The New York Times (Sep. 10, 2013), <https://www.nytimes.com/2013/09/11/arts/music/a-copyright-victory-35-years-later.html>.

⁹³ *Id.*

⁹⁴ *Id.*

⁹⁵ See U.S. Copyright Office, *Section 203: Grants Executed by the Author on or after January 1, 1978, that did not Convey the Right of Publication*, <https://www.copyright.gov/comp3/docs/termination-table-section203dp.pdf>.

⁹⁶ See, e.g., *Burroughs v. Metro Goldwyn Mayer, Inc.*, 683 F.2d 610 (2nd Cir. 1982) (finding that Burroughs' heirs' “undoubtedly inadvertent” failure to include five works in their notice of termination preserved MGM's right to reuse Tarzan and other characters in its 1981 film, “Tarzan, the Ape Man.”).

⁹⁷ Gould, *supra* note 58, at 114.

exception even if they own the loan out company.⁹⁸ Given this minefield of potential missteps, it's no wonder that termination right disputes regularly end up in litigation – real or threatened. Even for parties operating in good faith, many of the determinative questions can only be answered definitively by a judge.

A third, more speculative asymmetry is the knowledge of how to *practically* administer and exercise one's termination right. Even if authors know how to begin the process of terminating their grant under § 203 or § 304, many might be at a loss of what to do if they receive a vaguely (or explicitly) threatening letter back from the grantee. Artists and creators are not trained to be lawyers and agents. Time and energy spent handling the administrative duties of termination right administration means less time and energy spent on creative endeavors. The fact that artists should be expected to hire legal professionals to assist in reclaiming an inalienable right seriously calls into question whether the termination right is providing authors and creators with the chance to obtain an equitable reversion of rights as Congress intended. They are disincentivized to passionately pursue the reclamation of their rights when such tradeoffs are involved.

⁹⁸ *Id.*

Potential Solutions

There is no “quick fix” for dysfunction in the termination right regime. Political disagreements among stakeholders and a lack of comprehensive empirical data to inform good policymaking combine to create a uniquely challenging proposition. In this section, we explore a few targeted solutions and whether they might be applied in practice.

Automatic Reversion

The most commonsense fix to the various termination right problems is to simply revise the law to create an automatic reversion of granted rights back to the original author at the appointed time. Artists who would prefer to renegotiate their contracts could have the option to delay and opt-out of such reversion if they are able to reach a satisfactory agreement. This approach presents the most powerful means to realign the information and power asymmetries between artists and grantees. If implemented, grantees would be unable to leverage statutory timing and formalities requirements into expensive litigation or quick settlements with artists. Authors would not need to understand the complexities of these requirements; they could rest easy knowing that they get their rights back automatically if they so chose. Further, this solution has historical precedent, as it would restore the 1909 Act’s automatic reversion of previously granted ownership rights back to the author.⁹⁹

Despite its elegance, this solution has its problems. The law would require a mechanism to address joint authorship disputes, which can be highly complex.¹⁰⁰ More works could potentially go out of print and become unavailable to the public as artist apathy, disagreements, inability to locate joint authors or their heirs, or other factors could lead to works becoming unavailable for commercial use. More problematically, the work-for-hire and derivative rights exceptions would still be available to grantees, which would continue to incentivize the kind of legal disputes that can exhaust the time and resources of even the most successful artists and creators. Such a change would likely need to be

⁹⁹ While outside the scope of this paper, in addition to an automatic reversion, Congress could consider also imposing a duty of care on grantees to steward the physical or digital copies or phonorecords – e.g. a sound recording master or a digital manuscript – owned, assigned, or licensed to them for the duration of a grant. Grantees could be subject to legal liability for negligent practices in their care of these copies. Further, they could be required to return these “master” copies to the author upon the reversion of the author’s rights in whatever relevant form or medium gave rise to the author’s copyright protection. This would ensure that authors can effectively exploit their reverted copyrights in media where commercially available copies may not be suitably high-quality, or complete.

¹⁰⁰ Consider for example the role of the producer and the performers in the creation of a sound recording, particularly in the context of legacy sound recordings that may have been made in the absence of well-defined contractual arrangements.

limited to future grants; giving the automatic reversion a retroactive effect could significantly disrupt the operation of the content industries. And to the extent that an automatic reversion of rights might adversely affect non-exclusive licensing arrangements such as for open source works, statutory exceptions would likely need to be implemented.

Ultimately, a revision of this scope would generate considerable political opposition, and its practical viability is uncertain at best. But even in a political environment favorable to its implementation, it would have to be carefully structured to ensure that in its final form, the mechanism was equitable to both authors and grantees alike.

Shorten the Time Required for Eligibility

Another potential artist and creator-friendly revision of the termination right scheme would be to shorten the period of time that must pass before authors can exercise their federal termination right. The current period is at least 35 years after the date of the grant for § 203¹⁰¹ and at least 56 years after the copyright was first obtained under § 304. A shorter term could enable artists to enjoy the benefit of the termination right while they are more likely to still be in the active part of their careers, reduce the number of complex disputes involving heirs, and increase the likelihood that documentary evidence, witnesses, and so forth are available in the event of a dispute about the facts of a work's creation. Recognizing the importance of rights reversion to its roster of artists, independent record label Merge Records has always offered deals stipulating that the rights involved will revert back to the artist after a certain number years.¹⁰² Authors appear to be having some success in the book publishing world with negotiating termination provisions in contracts that are triggered by certain conditions such as a work's out-of-print status or the publisher's active use of the work.¹⁰³ Nevertheless, a nearer termination horizon makes sense for artists because while contracts can contain artist and creator rights to terminate at-will, the inclusion of such provisions is no guarantee. In addition, while emphasis on music catalog is growing both in digital and physical formats in the streaming era, it is rare in other media for works to remain widely distributed and promoted for decades. For example, many 20th century books are not

¹⁰¹ Or, if the grant includes the right of publication, the shorter of 35 years from the date of publication under the grant or 40 years from the grant's execution. See 17 U.S.C. § 203(a)(3).

¹⁰² See Harley Brown, *Merge Turns 30: Co-Founder Laura Balance on Perils of Running an Indie Today*, Billboard (July 19, 2019), available at <https://www.billboard.com/articles/business/8520725/merge-laura-balance-interview-indie-label-30-anniversary>. (Paywall) ("Something I'm struggling with recently is, we've always done these really artist-friendly deals – with an expiration date – and most other indie labels at this point are doing perpetuity deals.")

¹⁰³ See Author's Alliance, *Rights Reversion*, authorsalliance.org <https://www.authorsalliance.org/resources/rights-reversion-portal/>; Author's Alliance, *Reversionary Rights Around the World*, authorsalliance.org (April 9, 2019), <https://www.authorsalliance.org/2019/04/09/reversionary-rights-around-the-world/>.

available for purchase as new copies either in print or in digital form online.¹⁰⁴ If an industry standard, or something resembling a standard, exists in a particular industry, such a standard could be used as a model to determine the revised termination rights period.

Eliminate or Revise the Work Made for Hire Exception

Recall that the contracts that govern grants of rights have historically contained provisions asserting that the works being granted are works made for hire. A significant and challenging tension exists then between Congress' intent to provide through the termination right an equitable statutory tool for artists and creators, and the courts' general unwillingness to curtail freedom of contract.¹⁰⁵ Add to this the necessity of settling many termination-related contractual disputes through litigation, and the cards are significantly stacked against authors seeking to reclaim their rights. A solution to address dysfunctions when the work-for-hire exception is involved with the termination right is to eliminate the statutory exception through new or revised legislation. The simplest revision would be to strike work-for-hire language from the termination right provisions. In the context of 17 U.S.C. § 203, such a revision would be as follows:

(a) Conditions for Termination.—~~In the case of any work other than a work made for hire,~~ The exclusive or nonexclusive grant of a transfer or license of copyright or of any right under a copyright, executed by the author on or after January 1, 1978, otherwise than by will, is subject to termination under the following conditions...

Either the termination right provisions or the definition of a “work made for hire” itself in 17 U.S.C. §101 could be clarified to address issues raised by artists using loan-out corporations to assign their rights to grantees. Such a clarification could, for example, entail mandating that a grant executed through a loan-out corporation shall be deemed “executed by the author” under the plain language of the statute.

It is unclear whether such a revision could be given retroactive effect due to potential interference with standing contracts. It would also risk having an overbroad effect as scores of employees in the creative industries sought to cash in on successful works that they legitimately created for hire. Additionally, a revision of the work-for-hire clause in the termination right provisions might permit corporations – not the class of beneficiaries

¹⁰⁴ See Paul J. Heald, *How Copyright Keeps Works Disappeared*, 11 J. Empirical L. Studies 829 (2014), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2290181.

¹⁰⁵ See, e.g., *Penguin Group (USA) Inc. v. Steinbeck*, 537 F.3d 193 (2nd Cir. 2008) (holding that publisher's 1994 agreement with author's widow terminated and superseded author's original 1938 agreement, thereby eliminating the estate's right to terminate the grants in the 1938 agreement under 17 U.S.C. § 304(c) and (d)).

Congress sought to protect – to terminate transfers of works they are considered the author of. If applied prospectively, it would, however, provide increased clarity and ease for both authors and grantees going forward and could help to resolve the significant uncertainty that has generated the litigation disputes discussed *supra*.

Revise the Statute of Limitations or Codify *Wilson v. Dynatone*

Disputes over ownership interests can layer additional and highly burdensome litigation requirements for artists and creators on top of the potential need to resolve more “core” termination right issues in court. As *Willis* illustrates, an ownership disagreement between an author and a grantee can inadvertently trigger the statute of limitations, barring the issue from consideration in later termination disputes. Given the incentive corporate grantees have to maintain ownership of works for as long as possible for valuation purposes,¹⁰⁶ authors may face swift and express repudiations of their ownership claims by grantees years before the authors qualify to exercise their termination rights. Under *Willis*, an artist receiving such a repudiation would have to immediately litigate the issue, or risk foreclosing their ability to terminate three decades down the road. Artists and creators should not be expected to endure multiple rounds of preventative legal battles merely to exercise what is *supposed* to be an inalienable statutory right.

A targeted policy solution would be to create a limited exception to the statute of limitations in copyright law (17 U.S.C. § 507) for purposes of termination right exercise. Under this exception, any joint authorship claims brought in the context of a termination right action would be exempted from tolling the statute of limitations. This would help to ease the information and power imbalances by streamlining some of the complex procedural requirements to exercise the termination right. Such a proposal risks, however, being challenged as overbroad. Consider a situation in which an artist believes they are a co-author but have not been receiving royalties, so they engage with private talks with the grantee. During those talks, the grantee expressly rejects the author’s

¹⁰⁶ Music publishing catalogues, for example, have proven to be a valuable commodity, attracting institutional investors like private equity firms and pension funds due to their predictable income streams and tendency to appreciate. Recent acquisitions of publishing assets have reached into the hundreds of millions or even billions. See, e.g., Eamonn Ford, *For What It’s Worth: Putting a Value on Music Publishing Catalogues*, Synchtank.com (Jan. 25, 2019), <https://www.synchtank.com/blog/for-what-its-worth-putting-a-value-on-publishing-catalogues/>; Ed Christman, *Label Prices Gone Wild? Why Wall Street Is Buzzing Even As Music Companies Take a Conservative View*, Billboard.com (Dec. 6, 2018), <https://www.billboard.com/articles/business/8488931/label-prices-music-companies-pros-cons-wall-street-publishing>. (Paywall).

ownership claim. Should the author be able to litigate his ownership claim years (or even decades) later after filing a notice of termination? To address similar scenarios, an exception to the exception could be created for documented or certified repudiation of ownership claims via direct communication in the interest of clarity and equity for grantees. Regardless of the legal mechanism, the most pressing problem is a situation in which an artist is genuinely unaware that his rights have in effect been “adversely possessed” during the multi-decade termination right period, despite a legitimate claim to the contrary during the five-year termination period.

At a minimum, the Second Circuit’s *Wilson v. Dynatone* holding – i.e., that the mere act of registering an adverse claim in the Copyright Office is not an effective repudiation of an ownership claim – could be codified. The scope of this revision would need to extend beyond the context of § 304 to apply to authors seeking to terminate prior grants of ownership under § 203 as well.

Clarify “Derivative Works”

After receiving a notice of termination and prior to the effective date of termination, grantees and licensees should not be able to work around the termination right by creating numerous “derivative works” that they can continue to monetize at the expense of future re-licensing by the artist. One way to address this problem is by revising the definition of derivative work in § 101 (or elsewhere in federal copyright law) to clarify that certain works involving mere technical changes and improvements are *per se* not “derivative works” under the law. In the context of the termination right, a good place to start is by precluding sound recording remasters from the definition of “derivative works.” Other edge cases could be explored by the Copyright Office through a rulemaking or other public process.

Grantees also should not be permitted to continue to profit off of the copyrighted elements of the author’s pre-existing work after the author’s rights have reverted. Existing streams of royalty payments, for instance, should revert to the author, along with the rights themselves. A statutory provision codifying this prohibition could protect authors from abuse of the derivative works exception. It would, however, require a procedure for disgorgement of funds if the original grantee simply asked for a lump payment from the licensee of the derivative work to try and circumvent future, post-termination royalty payments to the original author.

Conduct a Study at the U.S. Copyright Office

Perhaps the lowest-hanging policy fruit for the problems outlined in this paper is for the U.S. Copyright Office to conduct a study of the termination right in practice under the

direction of Congress. Congress has already shown an interest in such a study,¹⁰⁷ and the Copyright Office has completed a number of related studies that could be used as models.¹⁰⁸ Such a study can build upon this paper and other academic efforts by identifying policy issues arising out of case law and engaging in both public hearings and private fact-finding to gather relevant data and information that can be used for informed policymaking. Given that the Copyright Office cannot compel stakeholders to submit confidential documents, it would be necessary for the Office to implement a mechanism to facilitate voluntary confidential submissions, perhaps under seal or in redacted form. Such a system would be valuable in “pulling back the curtain” on how the termination right operates in practice.

The study should investigate the negotiation and execution of past and present ownership grants, including an analysis of current trends, to help determine what proactive changes are merited. In addition, the study could research ways to further artist education, raise awareness around the termination right issue, and outline how best to address any power and information imbalances that lead to dysfunction.

Recommendation

Given the complexity of the termination right regime, the substantial lack of empirical data and other relevant information that is available to policymakers, and the political challenges inherent in getting even the most targeted of legislative amendments signed into law, Public Knowledge recommends that the U.S. Copyright Office conduct a fulsome study of the federal termination right regime. The study should be inclusive and transparent, with every reasonable effort made to shine a light on the parts of the termination right story that have been kept hidden from public view. To the extent that it identifies dysfunction in the system, the study should explore meaningful reforms to best help artists take control of their creative futures, support themselves and their families, and spur on the creation of new and original works that benefit us all.

¹⁰⁷ *Hearing on H.R. 5283 Before the H. Comm. on the Judiciary*, judiciary.house.gov, *Mark-Ups*, <https://docs.house.gov/meetings/JU/JU00/20180411/108128/HMKP-115-JU00-Transcript-20180411.pdf> (Statement by Rep. Sheila Jackson-Lee).

¹⁰⁸ *See, e.g., Federal Copyright Protections for Pre-1972 Sound Recordings*, U.S. Copyright Office (Dec. 2011), <https://www.copyright.gov/docs/sound/pre-72-report.pdf>.