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GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT):
INTELLECTUAL PROPERTY PROVISIONS

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON INTELLECTUAL PROPERTY
AND JUDICIAL ADMINISTRATION

OF THE

HOUSE COMMITTEE ON THE JUDICIARY

AND THE

SUBCOMMITTEE ON
PATENTS, COPYRIGHTS AND TRADEMARKS

OF THE

SENATE COMMITTEE ON THE JUDICIARY

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

ON

H.R. 4894

GENERAL AGREEMENT ON TARIFFS AND TRADE COPYRIGHT
ACT OF 1994

AND

S. 2368

TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS
IMPLEMENTATION ACT OF 1994

AUGUST 12, 1994

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Testimony of Eugene Volokh regarding H.R. 4894 and S. 2368

Messrs. Chairmen and Members of the Subcommittees.

My name is Eugene Volokh, and I am Acting Professor of Law at the University of California at Los Angeles. I specialize both in copyright and constitutional law. In my opinion, the proposed copyright restoration provisions will sometimes lead to takings of private property, and will thus make the federal government liable for compensation under the Fifth Amendment.

1. The Bills

The two bills—the Hughes Bill, H. R. 4894, and the DeConcini Bill, S. 2368—address a serious problem: Many authors, especially foreign authors, have lost their copyrights in their works because of certain provisions of pre-1989 U. S. copyright law. The Berne Convention and GATT demand that these works be brought back out of the public domain and into their authors' hands. Many think, and I agree, that this sort of restoration of rights is generally quite fair.

The problem is that some people have justifiably relied on the public domain status of some works, and have invested in trying to exploit them. Full restoration of the authors' rights could lose these people—so-called “reliance parties”—a lot of money. For instance,

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someone might have spent millions making a movie based on a public-domain book. If the author's rights in the book were fully restored, it would be illegal for the moviemaker to do anything with his film—show it, make videotapes of it, make sequels, or whatever else. Likewise, someone might have made thousands of copies of a public-domain work, hoping to sell them. If the author's rights, including his distribution right (unencumbered by the first sale doctrine), were restored, then the copies would become unsalable.

The proposed bills accommodate reliance parties to some extent. To reassert his rights in the work, the author must give notice (actual or constructive). Once he does this, reliance parties can no longer make any copies of the work or of any derivative works they might have made. They still, however, have one year in which they can continue to show, perform, and sell previously made copies of the work and their derivative works. Under the Hughes bill, after the year is up all rights revert to the author. Under the DeConcini bill, after the year is up copies of the work which were made before notice were given can still be sold, though only one at a time.

For the copier—the person who just makes copies of a public domain work, without creating any new work based on it—this means two things. First, he has to stop making copies, at least until he buys a license from the author. This might mean losing a lot of his investment in his business.

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Second, under the Hughes bill, the copies that he's already made might become almost valueless, because a year after notice is given they can no longer be sold. Any copies that he can't sell to *consumers* during that year might as well be burnt. Under the DeConcini bill, the copies will still have value, because the reliance party can spend the year selling them in bulk to retailers, who can then continue selling them to consumers indefinitely. Nonetheless, the one-year time limit will probably force the reliance party to sell the copies for less than he otherwise could have.¹

Someone who doesn't just copy the original work, but produces a derivative work based on it, is also in a difficult position. Say he makes a movie based on a public domain book. One year after he gets notice that the book has been restored, he can no longer do anything with that movie. He can't show it in theaters, he can't license it for broadcasting,

1. Because the restoration provisions aren't scheduled to come into effect until January 1, 1996, careful distributors actually have an extra year to year and a half to unload their inventory. Whether one counts this extra time in determining the burden the law would place on reliance parties depends on how one views the law's notice provisions.

Under the proposed § 104A(d)(2), reliance parties are fully entitled to exploit the work until notice is given. If notice is never given, reliance parties are allowed to keep making and selling copies indefinitely. I imagine that for many works, long forgotten by their authors or the authors' heirs, this would indeed happen.

Because making new copies is thus perfectly proper until notice is given, I think it's fair to measure the burden on reliance parties by looking only at the one-year grace period offered after notice. If you disagree with this view, then you might want to consider the law as giving a grace period of two to two and a half years rather than just one year.

he can't make derivative works of it. About all he can do with it is watch it himself.² And this despite the fact that much of the derivative work might be the producer's own creation, and not the original author's.

2. The Takings Clause

What are the Takings Clause implications of each of these situations—(1) the injury to the copier's business, (2) the diminution of value of the copier's copies, and (3) the virtual destruction of value of the derivative work? The Supreme Court has held that two kinds of government conduct can constitute takings and thus require compensation. The first kind is when the government appropriates your property for its own use, or requires you to let others use it. Building a highway across your land; demanding that you let the public use your private beach; allowing a cable company to attach their cables to your property³—all these qualify as “physical takings.” An analogy in the copyright context would be if the government

2. Under the DeConcini bill, the copies made before the restoration of copyright would still be worth something, because they could still be sold. But I believe that selling them would constitute exploitation of the property rights in the copies themselves, rather than exploitation of the copyrighted work. 17 U. S. C. § 109. The Copyright Act makes clear that the copy and the underlying work are two different pieces of property. 17 U. S. C. § 202. Restoration reduces the value of the copyrighted work to virtually nothing, even if the copies still retain some value.

3. See, e.g., *Dolan v. City of Tigard*, 114 S. Ct. 2309 (1994); *Nollan v. California Coastal Comm'n*, 483 U. S. 825 (1987); *Loretto v. Teleprompter Manhattan CATV Corp.*, 458 U. S. 419 (1982).

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prints copies of your book without permission, or declares that certain works, which used to be protected by copyright, are no longer protected.⁴

The second kind of taking is a “regulatory taking”—a government regulation depriving you of all economically viable use of your property.⁵ It’s generally not enough that the regulation make your property less valuable; lots of laws do that. Rather, it’s necessary that all or virtually all the value of the property be lost.

The bills don’t work physical takings, because they don’t let the government or anyone else use a reliance party’s property. The reliance party needn’t return any copies of the work to the original author, nor does the original author get any rights to the derivative works that the reliance party created. Nor do the bills work regulatory takings when the copier loses some of the value of his business (situation 1) or of the copies he’s made (situation 2 under the DeConcini bill). He’s lost value, but he hasn’t lost all value.⁶

4. The Supreme Court has made clear that the Takings Clause applies to intangible property such as copyrights, *Ruckelshaus v. Monsanto Co.*, 467 U. S. 986 (1984), though it has never addressed the question in any detail.

5. *Lucas v. South Carolina Coastal Council*, 112 S. Ct. 2886 (1992).

6. As I alluded to above, under the DeConcini bill the copiers would probably use the year after restoration to sell their stocks in bulk to bookstore (or music or video store) owners. The bookstore owners would then be able to sell the copies to consumers indefinitely, so long as they do it one copy at a time. See sec. 202(b). The copies wouldn’t be worth as much as before restoration, because the pressure of the one-year deadline might force distributors to sell them for less. But they’d still be worth something. The result may be harsh, but it’s probably not harsh enough to give rise to constitutionally compelled compensation.

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But situation 3—where the reliance party has created a derivative work—probably does give rise to a taking, because the restoration of copyright has prohibited the owner of the derivative work from doing virtually *anything* with the work. This is the copyright equivalent of the total bans on development the Court spoke of in cases such as *Lucas v. South Carolina Coastal Council* and *First English Evangelical Lutheran Church of Glendale v. County of Los Angeles*.⁷

Likewise, situation 2 under the Hughes bill, where the reliance party has only a year to sell his entire inventory of copies to consumers, might also involve a taking. If most of the inventory can indeed be sold in a year at a decent price, there'll probably be no problem. But if the reliance party can sell no more than a small fraction—as I expect might happen in many cases—it may be fair to say that he's lost virtually all the value of his property.

3. The Office of Legal Counsel's Memo

Predictions about the Takings Clause are always speculative; Takings Clause jurisprudence is notoriously uncertain. The Office of Legal Counsel suggests the statute wouldn't pose any problem, and it has at least one fairly strong argument for this—that the regulatory takings doctrine might apply only to real estate, and not to personal property.

7. 482 U. S. 304 (1987).

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I disagree with this position; I don't think that there's anything magical about land, or that there's any good reason to treat loss of value of copyright differently from loss of value of land. And the Supreme Court has clearly said that the Takings Clause does generally apply to copyrights.

Nonetheless, there is language in *Lucas* that to some extent supports the Office of Legal Counsel's view.⁸ Moreover, a 1979 case called *Andrus v. Allard*⁹ did hold that a total ban on sale of a product—the bodies of endangered eagles—didn't constitute a taking. On the other hand, Chief Justice Rehnquist and Justice Scalia have specifically said that they think *Andrus* is no longer good law,¹⁰ and Justices O'Connor, Kennedy, and Thomas, who seem to favor a fairly broad reading of the Takings Clause,¹¹ might go along with this view. I think courts will ultimately conclude that *Lucas* applies to personal property, but I can't be positive about this.

8. "[I]n the case of personal property, by reason of the State's traditionally high degree of control over commercial dealings, [the property owner] ought to be aware of the possibility that new regulation might even render his property economically worthless." *Lucas*, 112 S. Ct. at 2899. While this language may validate some regulations that render personal property worthless, I do not think that it will validate all such regulations. And this is especially so where the property involved is a copyright, which is specifically designed to be an incentive for investment, and which historically has not been subject to retroactive regulation.

9. 444 U. S. 51 (1979).

10. *Hodel v. Irving*, 481 U. S. 704, 719 (1987) (Scalia, J., concurring).

11. See *Dolan v. City of Tigard*, 114 S. Ct. 2309 (1994); *Lucas*.

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I am, however, fairly certain that three other arguments that the Office of Legal Counsel makes are incorrect. First, the Office suggests that the one-year grace period might avoid Takings Clause problems. It argues that with the grace period the reliance party wouldn't lose all the value of the derivative work, because the party would still be able to earn one year's worth of income. But the Court has made clear that even temporary regulatory deprivations count as takings.¹² If the government takes your property for a year, it must pay you for that year, even if it gives your property back at the end. Surely, then, if the government takes your property permanently, effective a year from now, it will also have to compensate you.

Second, the Office points out that the reliance party's interest in the derivative work might not be totally destroyed, because "it is conceivable that in some cases a court would award only a manageable amount of damages" for the continued exploitation of the movie "rather than issue an injunction."¹³ But even setting aside the speculative nature of their argument—in fact, whether a court issues an injunction is largely up to the district judge—willful copyright infringement is a *crime*. When it's a crime to use one's property in any economically feasible way, I'd say this means it's lost all its value for Takings Clause purposes.

12. *First English Evangelical Lutheran Church v. County of Los Angeles*, 482 U. S. 304 (1987).

13. OLC Memo at 15.

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Finally, the Office points out that the reliance party could buy a license from the original author that will let him keep using his derivative work. Thus, the Office suggests, the Act doesn't really deprive the reliance party of *all* economically viable use of his copyright.

I agree that many authors might indeed be willing to make a deal that will let the reliance party keep making some money. Some authors, though, would just say no, which under the law would be their absolute right. Moreover, even if they're willing to say yes, the reliance party would be in a horrible bargaining position. For instance, when a producer first approaches an author to buy movie rights, the author knows that if he asks for too much money, the producer can just go away and buy some other screenplay instead. But here the author has the producer over a barrel. The producer has already spent his money and made the movie. The author has a complete veto; the producer has to take virtually any terms the author demands.

The essence of private property is the power to use it *without* having to go to someone else for permission. When the law makes it impossible to make money from one's property unless one gets someone else's blessing, the law has taken away a whole lot. I doubt that courts will find the possibility of getting permission from the original author to be enough to avoid a regulatory taking.

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4. What Is To Be Done

The original author is in a very sympathetic position. Because of a technical failure to comply with a formality (or because of the pre-1972 Copyright Act's refusal to protect sound recordings) he's lost his right to control and profit from his brainchild. From the viewpoint of abstract fairness, this shouldn't have happened. Setting aside the bad effects of restoration on reliance parties, restoration is a good thing.

But the principle behind the Takings Clause is that the government can't just change the rules any time it thinks they're unfair. Takings Clause jurisprudence recognizes this: Under the Takings Clause, when the government first gives you title to your property, it can give it to you subject to all sorts of easements or restrictions or whatnot. But if the government gives it to you free and clear and you invest in it based on this expectation, the government can't just turn around and shout "Surprise!"

There are several things you as legislators can do. To begin with, if you think—in your own independent constitutional judgment—that the proposed legislation does not pose takings problems, and if you think the courts will agree with you, then you can pass the statute as is. The downside to this, of course, is that if courts do find that the statute sometimes works takings, the government might end up on the hook for a lot of money.

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Moreover, once the government is found to owe the money, Congress can't eliminate this liability by just repealing this statute. Even if Congress undoes the restoration provisions, the government would still have to pay for the losses incurred while the provisions were in effect. And undoing the restoration provisions might infringe on the restored property rights of the foreign authors. Once the foreign authors are given copyrights by the proposed bills, these copyrights themselves become property protected by the Takings Clause.

If you are concerned about this, or if, regardless of what the courts say, you think the statute's burden on reliance parties is substantial enough to rise to the level of a taking, you may want to change the Act to deal with this. Several possibilities come to mind. First, you might exempt derivative works altogether from the restoration provisions, much like derivative works are exempted from an author's termination right under section 203(b)(1) of the Copyright Act. Alternatively, you might have some sort of provision for payment of royalties by the derivative work owner; the exact amount of the royalties could be determined by arbitration. And in either case, you might choose the DeConcini version rather than the Hughes version, which will prevent possible takings difficulties relating to distributors who have inventories of copies that they need to sell.

Predicting how other countries would react to these compromises is far outside my expertise. But I am fairly sure that adopting these changes would avoid takings problems.