VIRGINIA JOURNAL OF LAW & TECHNOLOGY

SPRING 2007 UNIVERSITY OF VIRGINIA VOL. 12, NO. 4

Cost and Resource Allocation Under the Orphan Works Act of 2006: *Would the Act Reduce Transaction Costs, Allocate Orphan Works Efficiently, and Serve the Goals of Copyright Law?*

DAVID B. SHERMAN[†]

ABSTRACT

As a result of legislation passed to extend the duration of copyright protection[±] and to eliminate the formalities previously required to obtain it,[‡] a large category of works has been created that are protected by copyright, but whose copyright owners cannot be identified or contacted to obtain permission to use the works.[§] These "orphan works" are problematic because the uncertainty over their copyright status often leads to substantial transaction costs that prevent them from being used in new creative works or

[*] J.D., 2007, Seton Hall University School of Law; B.A., 2004, Colgate University. The author would like to extend his thanks to David W. Barnes, Distinguished Professor of Law, Seton Hall University, whose assistance was invaluable.

[±] The Copyright Act of 1909 provided that copyrights were entitled to protection for twenty-eight years; at the end of year twenty-eight, the author or owner needed to file a renewal application to maintain protection for an additional twenty-eight-year period. 17 U.S.C. §§ 301 et seq. (1964). The Copyright Act of 1976 continued this trend by extending the term of copyright protection to the life of the author, plus fifty years. The 1976 Act also provided that "works made for hire" were to be given a fixed term of protection of seventy-five years from creation. 17 U.S.C. §§ 301 et seq. (1976). In 1998, Congress increased the duration of protection again by passing the Sonny Bono Copyright Term Extension Act (the "CTEA"), which provides authors with a twenty-year extension on their current copyright. Pub. L. No. 105-298, 112 Stat. 2827 (1998) (codified in scattered sections of 17 U.S.C.).

‡ In an attempt to harmonize U.S. copyright law with international law, Congress enacted the 1976 Act and The Berne Convention Implementation Act of 1988 in order to eliminate formalities such as notice, registration, and renewal, which were previously required to obtain and maintain copyright protection. Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, 102 Stat. 2853.

§ Orphan Works, 70 Fed. Reg. 3739 (Jan. 26, 2005).

made available to the public, even when there is no one claiming copyright ownership, or the copyright owner would permit such use at no cost. As a result of the inefficient resource allocation caused by such transaction costs, the public is forced to bear the substantial economic, social, and cultural costs of orphan works being used unproductively. In response to this problem, the House Judiciary Subcommittee on Courts, the Internet, and Intellectual Property, on May 24, 2006, approved a bill known as the "Orphan Works Act of 2006."** If passed, the Act would limit the relief available to copyright owners whose "orphan works" are infringed upon by a user who performed a reasonably diligent search in good faith to find the copyright owner in order to obtain permission, but did not succeed.†† In doing so, it would allocate a portion of the transaction costs of initiating negotiations from the potential orphan works user to the copyright owner, thereby reducing the value of the copyright monopoly. Surprisingly, there has been almost no discussion by either the U.S. Copyright Office or anyone else about how the Act would allocate transaction costs. However, the effectiveness of the Act will ultimately depend upon whether such cost allocations would allocate orphan works more efficiently than they are now and thus, reduce the economic, social, and cultural costs of the orphan works problem. Because efficiency increases alone do not justify intentional copyright infringement, this paper examines whether the Act‡‡ would minimize overall transaction costs, whether such cost allocations would cause copyright orphans to be used more efficiently than the current system, and whether any potential efficiency increases would comport with the goals of copyright law, such that the Act would provide a meaningful solution to the orphan works problem.

** On September 12, 2006, Rep. Lamar Smith (R, TX), Chairman of the House Judiciary Subcommittee on Courts, the Internet, and Intellectual Property, and sponsor of the Orphan Works Act of 2006, proposed the Copyright Modernization Act of 2006, H.R. 6052, 109th Cong. (2006), which incorporates the Orphan Works Act of 2006, H.R. 5439, 109th Cong. (2006), nearly verbatim, and proposes several additional amendments to the Copyright Act. On September 27, 2006, Rep. Smith announced that he was withdrawing the bill from consideration for the remainder of 2006 and plans to introduce it as part of another bill when the new Congress convenes in 2007. Copyright Modernization Act of 2006, H.R. 6052, 109th Cong. § 514 (2006). For citation purposes, the Orphan Works Act of 2006 will be referred to as "the Act."

†† Orphan Works Act of 2006, H.R. 5439, 109th Cong. § 514 (2006).

‡‡ While a number of other solutions to the orphan works problem were proposed, this paper is limited to discussion of the Orphan Works Act of 2006.

TABLE OF CONTENTS

I. INTRODUCTION

¶ 1 Terry is a filmmaker developing a documentary about the first pop culture phenomenon of the 20th century: American picture postcards. Despite her attempts, Terry has found it seemingly impossible to locate and obtain permission from the copyright owners of these nearly century-old photographs and illustrations. Since these rightsholders may be dead, unknown, or even publishing companies that no longer exist,[1] Terry faces the prospect of more costly and tedious research – with no guarantees it will yield results[2] – not to mention the possibility of being sued for copyright infringement if she were to use the works without obtaining permission from the owner.

¶ 2 Such uncertainty about copyright ownership is not uncommon, particularly in the case of older works. A historian who discovers and desires to publish a series of letters

[1] This example is borrowed from an online news article. Katie Dean, *Copyright Reform to Free Orphans?*, WIRED NEWS, April 12, 2005, http://www.wired.com/news/culture/0,1284,67139,00.html.

[2] U.S. COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS 32 (2006), *available at* http://www.copyright.gov/orphan/orphan-report-full.pdf.

written by Industrial Era American immigrants might never achieve publication due to copyright concerns.[3] Despite the fact that the historian may spend years preparing the letters with her own original commentary, and despite the obvious commercial and scholarly value of the work, a publisher may refuse to publish the work until the historian obtains permission from the letters' copyright owners.[4] Barring costly investigatory techniques, the historian may find it impossible to locate the owners, and as a result, the historian's work might never be published despite the fact that the rightsholders, if asked, might have approved her use at no cost.

¶ 3 Given the inability of most individual authors and small publishers to bear the high costs of litigation, orphan works are often not used in situations where the user might have been able to obtain permission if she were able to find the copyright owner.[5] This scenario illustrates the essence of the orphan works problem. When a person seeks to use a work in a manner that requires permission from the copyright owner,[6] but decides not to use the work because she cannot locate the copyright owner, the copyright owner misses an opportunity to obtain a licensing fee, the potential user loses the opportunity to create and profit from a new work, and the public is deprived of the benefits of new and future works created by the new user. In other words, the transaction costs associated with using orphan works often prevent the efficient and beneficial use of such works.

¶ 4 Despite the costs and "deadweight losses"[7] incurred because of orphan works, Congress could not grant free access to potential users of orphan works because orphan works are, by definition, protected by copyright.[8] Indeed, copyright protection is predicated upon the notion that the public welfare will be served by securing to authors for limited times the exclusive rights to their writings.[9] In other words, Congress' enactment of copyright legislation is not based upon any natural right that the author has in his writings; rather, it is premised upon the notion that the public is best served when the law encourages individual innovation and creative expression.[10] If Congress merely permitted the use of a copyrighted work whenever a quick search did not produce the copyright owner, authors would be deprived of motivation and the fruits of their labor.

---

[3] This example is borrowed from the story of a Civil War researcher. Jerry Brito & Bridget Dooling, *An Orphan Works Affirmative Defense to Copyright Infringement Actions*, 12 MICH. TELECOMM. & TECH. REV. 75, 78-79 (2005) (citing Peter B. Hirtle, *Unpublished Materials, New Technologies, and Copyright: Facilitating Scholarly Use*, 49 J. COPYRIGHT SOC'Y U.S. 259 (2001)).

[4] Although any work created before 1923 would be in the public domain, it becomes more difficult to determine the duration of copyright protection for works created after 1923 as a result of amendments to the Copyright Act. *Compare* 17 U.S.C. §§ 101 et seq. (1964), *with* 17 U.S.C. §§ 101 et seq. (1976), *with* 17 U.S.C. §§ 101 et seq. (2006).

[5] Orphan Works, 70 Fed. Reg. 3739, 3741 (Jan. 26, 2005).

[6] Generally speaking, the owner of a copyright has the exclusive right to reproduce, distribute, perform publicly, display publicly, or prepare derivative works of their copyrighted work. *See* 17 U.S.C. § 106 (2006).

[7] "Deadweight loss" is a term of art used in economics, often in association with monopoly pricing, which may be used to describe any excess burden or deficiency caused by an inefficient allocation of resources. *See* KARL E. CASE & RAY C. FAIR, PRINCIPLES OF ECONOMICS 442 (Prentice-Hall 5th ed. 1999).

[8] Orphan Works, 70 Fed. Reg. 3739, 3739 (Jan. 26, 2005).

[9] H.R. REP. NO. 60-2222, at 7 (1909).

[10] *Id.*

For this reason, "Congress must consider two questions [when enacting copyright law]: first, how much will the legislation stimulate the producer and so benefit the public, and, second, how much will the granted monopoly be detrimental to the public?"[11] Since the goal of copyright law is to strike a balance between the interests of authors, on one hand, and society's competing interest in the free flow of ideas, information, and commerce, on the other, Congress has amended the U.S. Copyright Act on numerous occasions.[12]

¶ 5 In response to the growing number of orphan works and problems related thereto, Congress and U.S. Copyright Office joined forces in an effort to craft a solution. On January 26, 2005, the Copyright Office issued a Notice of Inquiry[13] soliciting advice from all interested parties regarding the issues raised by orphan works. During the next three months, the Copyright Office received over 850 written responses[14] containing comments, proposals, and concerns from everyone from individual freelance photographers and illustrators to large corporate copyright holders. After holding three additional days of roundtable discussions[15] and a number of informal meetings with private organizations, the U.S. Copyright Office issued its Report on Orphan Works ("the Report")on January 31, 2006.[16] The Report is a product of the issues raised in the comments and during the roundtable discussions, and provides a comprehensive analysis of the orphan works problem and the proposed means by which to address it.[17] In essence, the Report concluded that any meaningful proposal should reduce the inefficiencies and uncertainties associated with the orphan works problem and restore a balance, in keeping with the goals of copyright law, which encourages private authors to create works for the purpose of benefiting the public.[18] Surprisingly, however, the Report discusses neither cost allocation under the current system nor how transaction costs would and should be allocated under the Act.

¶ 6 On May 24, 2006, the House Judiciary Subcommittee on Courts, the Internet, and Intellectual Property approved a bill known as the Orphan Works Act of 2006.[19] If

---

[11] *Id.*

[12] Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 429 (1984) (citing H.R. REP. NO. 60-2222, at 7 (1909)).

[13] Orphan Works, 70 Fed. Reg. 3739, 3739 (Jan. 26, 2005).

[14] *See generally* U.S. Copyright Office, Orphan Works Initial Comments, http://www.copyright.gov/orphan/comments/index.html (last visited Nov. 29, 2006); U.S. Copyright Office, Orphan Works Reply Comments, http://www.copyright.gov/orphan/comments/reply/ (last visited Nov. 29, 2006).

[15] These public roundtable discussions on orphan works took place in Washington, D.C., on July 26 and 27, 2005, and in Berkeley, California, on August 2, 2005. *See* U.S. Copyright Office, Orphan Works Roundtable (July 26, 2005), http://www.copyright.gov/orphan/transcript/0726LOC.PDF; U.S. Copyright Office, Orphan Works Roundtable (July 27, 2005), http://www.copyright.gov/orphan/transcript/0727LOC.PDF; U.S. Copyright Office, Orphan Works Roundtable (Aug. 2, 2005), http://www.copyright.gov/orphan/transcript/0802LOC.PDF.

[16] *See generally* U.S. COPYRIGHT OFFICE, *supra* note 2.

[17] *Id.*

[18] *Id.* at 92.

[19] *See* Orphan Works Act of 2006, H.R. 5439, 109th Cong. (2006). As a press release from Rep. Smith noted, the Orphan Works Act of 2006 "is the product of over 20 hours of negotiations among various interested parties and the Subcommittee on Courts, the Internet, and Intellectual Property." Press Release, Lamar Smith, Representative of the 21st District of Texas, Smith Introduces Copyright Bill (May 23, 2006), http://lamarsmith.house.gov/news.asp?FormMode=Detail&ID=810 (last visited Nov. 29, 2006).

signed into law, the Act would amend the Copyright Act by adding a new section 514, entitled, "Limitation on remedies in cases involving orphan works."[20] Generally speaking, the Act proposes to limit the injunctive and monetary relief[21] available to copyright owners whose "orphan works" are infringed upon by a user who performed a reasonably diligent search in good faith to find the copyright owner in an effort to obtain permission, but did not succeed.[22]

¶ 7 In the words of Rep. Lamar Smith (R, TX), Chairman of the House Judiciary Subcommittee on Courts, the Internet, and Intellectual Property, and sponsor of the Orphan Works Act of 2006, the Act "upholds the rights of copyright owners while providing rational limitations and remedies for cases in which the owner cannot be located."[23] However, not all copyright owners agree. In particular, some authors argue that the Act threatens to deprive orphan work owners of an economically feasible mechanism to enforce their rights and preserve their commercial earning power.

¶ 8 In light of the ongoing debate over the Act's passage and the potential impact, and in the absence of any substantial writing on the subject, this paper examines whether the proposed legislation would effectively allocate the transaction costs associated with orphan works. Specifically, would the Act minimize transaction costs such that it would permit orphan works to be allocated more efficiently, in a manner that serves the goals of copyright law? Unlike most traditional cost allocation studies, however, this analysis is not predicated upon comprehensive economic or statistical data; it *could not* be, because no such data about orphan works exists.[24] It is most likely because of this dearth of information and the relative newness of the Act that, at the present time,[25] there exist few scholarly articles, if any, which directly discuss the allocation of transaction costs and resources under the Act.[26]

---

[20] *See* Orphan Works Act of 2006, H.R. 5439, 109th Cong. (2006).

[21] Under the Act, the aggrieved copyright owner would only be permitted to recover "reasonable compensation," the amount of which would be negotiated for by the copyright owner and the infringer. Orphan Works Act of 2006, H.R. 5439, 109th Cong. § 514(b)(1) (2006). However, if the copyright owner could prove that the infringer did not negotiate in good faith, then "the court may award full costs, including a reasonable attorney's fee." H.R. 5439, § 514(b)(3).

[22] H.R. 5439, § 514.

[23] Press Release, Lamar Smith, Representative of the 21st District of Texas, Smith Introduces Copyright Bill (May 23, 2006), http://lamarsmith.house.gov/news.asp?FormMode=Detail&ID=810 (last visited Nov. 29, 2006).

[24] As one of the few law review articles regarding orphan works notes, "comprehensive data on the frequency with which orphan works impede creative efforts – how many unsuccessful searches potential users perform, how irreplaceable the works sought after are, how often users decide to risk infringement and use the work any – does not exist." Olive Huang, *U.S. Copyright Office Orphan Works Inquiry: Finding Homes For The Orphans*, 21 BERKELEY TECH. L.J. 265, 266 (2006).

[25] This paper was written from September through December of 2006.

[26] To date, there are three identifiable scholarly articles that discuss the orphan works problem primarily and directly: (i) C.E. Petit, *Cost Allocation and Copyright Orphans*, SOC. SCI. RES. NETWORK, August 2006, http://ssrn.com/abstract=921610 (last visited Nov. 29, 2006) (author permission granted); (ii) Olive Huang, *U.S. Copyright Office Orphan Works Inquiry: Finding Homes For The Orphans*, 21 BERKELEY TECH. L.J. 265 (2006); and (iii) Jerry Brito & Bridget Dooling, *An Orphan Works Affirmative Defense to Copyright Infringement Actions*, 12 MICH. TELECOMM. & TECH. L. REV. 75 (2005). Of these three articles, Petit's is the most relevant to the present inquiry. In sum, Petit discusses the cost-allocation implications of various visions of an actual policy concerning orphan works, whereas Huang provides an

¶ 9 To fill this void, this paper proposes an economic analytical framework to analyze transaction cost allocation under the Act by drawing upon theories of property law, law and economics, and copyright law. At the core of this framework is the Normative Coase Theorem, which suggests that property law ought to minimize the obstacles to private agreements over resource allocation by reducing transaction costs to promote bargaining between parties because such negotiation ensures that resources *and* costs are allocated in an economically efficient manner.[27] Moreover, when cooperative bargaining is not possible, liability rules should be used to allocate rights and transaction costs efficiently when such rules are practicable.[28] These concepts are particularly relevant to the orphan works problem because it arises when a person seeks to use a work in a manner that requires permission from the copyright owner,[29] but decides not to use the work because she cannot locate the copyright owner to negotiate a license fee and because she fears being held liable for infringement, should the owner come forward.

¶ 10 At every step of the process, the Act would allocate transaction costs and resources more efficiently than the current law. At the outset, the proposed search guidelines would limit search costs, reduce the obstacles to bargaining, and make it more likely that potential users, who would have abstained from searching, will search for the copyright owner, find the copyright owner, and negotiate an economically efficient agreement. If a "reasonably diligent" search did not produce the copyright owner, the Act would reduce the administrative costs of enforcement and promote efficiency by limiting copyright owner's available monetary damages to "reasonable compensation," the amount of which would be negotiated[30] for by the copyright owner and the

---

overview of the orphan works problem and the pre-Act efforts undertaken to solve it, and Brito and Dooling critique pre-Act proposals to solve the orphan works problem and propose an orphan works "affirmative defense" which, to an extent, is similar to the Act. However, even Petit's article does not specifically discuss cost allocation under the Orphan Works Act of 2006. As part of a larger work on the tension between economic incentives and non-economic values, such as progress and the First Amendment, embedded in U.S. copyright law, Petit's article discusses how the Register's shift from considering rights from the point of view of the copyright owner to considering them from the perspective of the prospective user "represents an unstated shift in the paradigm of copyright protection and permission . . . from presuming opt-in to presuming opt-out as the default condition of copyright." Petit, *supra*, at 3. In addition, Petit draws upon Judge Learned Hand's famous "B < PL" formula, which describes the relationship between negligence and efforts to avoid mishaps, to create a conceptual framework within which to analyze cost allocation in the orphan works context. Using this framework, Petit determines that, in the case of using a copyrighted work, it is not economically efficient to incur any avoidance costs because a fair use is not an infringement under 17 U.S.C. § 107 (2004) because any value of B is greater than the product of P and L since L, in the context of fair use, is zero. Petit, *supra*, at 4. In the orphan works context, however, the scope of the "use" goes beyond "fair," thereby reducing the costs to the potential user at the expense of the copyright owner. *Id.* at 6.

[27] ROBERT COOTER & THOMAS ULEN, LAW AND ECONOMICS 97 (4th ed. Pearson Addison Wesley 2004).

[28] Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*, 95 HARV. L. REV. 1089, 1127 (1972).

[29] *See supra* note 6.

[30] Although the parties would, in theory, be able to negotiate for a fee in the same amount they would have prior to the infringement, case law recognizes that this expectation may be unrealistic. *See, e.g.*, Data Gen. Corp. v. Grumman Sys. Support Corp., 36 F.3d 1147, 1176-77 (1st Cir. 1994) (noting that to approximate a "reasonable" fee would be to condone a license the plaintiff never intended to grant); Sands, Taylor & Wood v. Quaker Oats Co., 34 F.3d 1340, 1351 (7th Cir. 1994) ("[T]he award [based solely on a

infringer.[31] When such a cooperative bargain could not be reached, the Act would allocate transaction costs efficiently by reducing the amount of available monetary damages based on whether the nature of the use is commercial or non-commercial. Similarly, the Act's limitations on injunctive relief[32] would promote efficiency because they would mitigate the costs incurred when an orphan work user commences use in reliance upon a reasonably diligent, good faith search without reducing the financial benefit provided to the copyright owner from the payment of "reasonable compensation." Additionally, by providing potential users with search guidelines and limited liability, the Act would function similarly to adverse possession and prescriptive easements in property law because it would facilitate the allocation of rights and resources from an owner who is not using his intellectual property rights, or fails to object to another's use of his rights, to someone using the rights as an owner normally would.[33]

¶ 11 Although the Act would minimize transaction costs and allocate copyrighted works more efficiently than the current law, such efficiency increases would be insufficient to justify intentional copyright infringement unless they served the goals of copyright law. Although the Act's effectiveness would ultimately depend on how judges interpret it, its proposed search requirements would serve the goals of copyright law by promoting the beneficial use of orphan works without unduly compromising the underlying purpose of the copyright monopoly granted to authors. Moreover, the concerns of copyright owners who fear the Act would deprive them of an "economically feasible" mechanism by which to enforce their rights and preserve their commercial earning power[34] are unfounded because there are simple, cost-effective steps that

---

hypothetical analysis that merely] seeks to mirror the bargain at which the parties would have arrived had negotiations taken place . . . becomes for the malefactor simply the cost of doing business. There is no incentive to engage in protracted, expensive, and perhaps unsuccessful licensing negotiations when the consequence of getting caught for trade piracy is simply to pay what should have been paid earlier. Nunc pro tunc payment of the royalty fee becomes simply the 'judicial expense' of doing business." (quoting Playboy Enters., Inc. v. Baccarat Clothing Co., Inc., 692 F.2d 1272, 1275 (9th Cir. 1982))); Deltak, Inc. v. Advanced Sys., Inc., 767 F.2d 357, 363 n.5 (7th Cir. 1985) (A defendant infringer "cannot expect to pay the same price in damages as it might have paid after freely negotiated bargaining, or there would be no reason scrupulously to obey the copyright law." (quoting Iowa State Univ. Research Found., Inc. v. Am. Broad. Cos., 475 F. Supp. 78, 83 (S.D.N.Y. 1979))); Panduit Corp. v. Stahlin Bros. Fibre Works, Inc., 575 F.2d 1152, 1158 (6th Cir. 1978) ("[T]he infringer would have nothing to lose and everything to gain if he could count on paying only the normal, routine royalty noninfringers might have paid.").

[31] The proposed "limitation on remedies" would only apply if the infringer negotiated in good faith and paid the copyright owner a reasonable fee. Orphan Works Act of 2006, H.R. 5439, 109th Cong. § 514(b) (2006). In cases of non-commercial use, however, such a fee might be zero. In cases of commercial use where the infringer does not negotiate in good faith, the copyright owner may be entitled to receive attorneys' fees, the award of which would be determined under 17 U.S.C. § 505 (2006), subject to 17 U.S.C. § 412 (2006). Orphan Works Act of 2006, H.R. 5439, 109th Cong. § 514(b)(3) (2006).

[32] Orphan Works Act of 2006, H.R. 5439, 109th Cong. § 514(b)(2)(B) (2006).

[33] These theories assume that the adverse possessor values the land more than the person not using the land or, in the alternative, that the person not objecting to the use of which he reasonably could have been aware would suffer less harm from the adverse user's continued use than the adverse possessor would suffer if barred from the use or possession after so long. DAVID W. BARNES & LYNN A. STOUT, THE ECONOMICS OF PROPERTY RIGHTS AND NUISANCE LAW 40 (West Publishing Co. 1992).

[34] *See generally* U.S. Copyright Office, Orphan Works Initial Comments, http://www.copyright.gov/orphan/comments/index.html (last visited Nov. 29, 2006); U.S. Copyright

copyright owners can take to protect themselves. Thus, while the Act would allocate additional enforcement costs to copyright owners, it would balance the equities between private authors and the public good, reduce transaction costs and inefficiencies, and increase the amount of works created for the public benefit, thereby serving the constitutional aims of copyright law.

¶ 12 As a whole, the Act would provide a meaningful solution to the orphan works problem. The Act would reduce the substantial costs of the orphan works problem currently borne by potential users and the public. While these benefits would be accomplished by allocating transaction costs to the copyright owner,[35] the Act provides an adaptable framework to protect against the abuse of orphan works, such that minimal efforts by copyright owners could relieve many of the concerns expressed in response to the proposed cost allocation. As such, the Act would allocate transaction costs efficiently at every step of the process, from encouraging searches and negotiation before infringement to providing for more efficient non-cooperative remedies after infringement. In doing so, the Act would serve the goals of copyright law because it would make it more likely that the public will benefit from orphan works. Therefore, the Act would provide a meaningful solution to the orphan works problem.

¶ 13 Accordingly, section II of this paper analyzes the plain language of the Copyright Clause, case law, and copyright legislation, and examines the goals of copyright law. Section III.A and Section III.B outline the causes of the orphan works problem and identify the problems that any orphan works proposal must address. Section III.C highlights how the orphan works problem undermines the goals of copyright law and describes the substantial economic and cultural costs caused by orphan works. Section IV identifies the primary conclusions of the *Report on Orphan Works* and analyzes the substance of the Orphan Works Act of 2006. Section V establishes the economic analytical framework for analyzing cost allocation under the Act, discusses why the Act would allocate transaction costs and orphan works efficiently, and reconciles these efficiency increases with the goals of copyright law. Section VI concludes with a brief discussion of why the proposal would provide a meaningful solution to the orphan works problem.

II. THE GOALS OF COPYRIGHT LAW

¶ 14 Congress derives its power to enact copyright law from Article I, Section 8, Clause 8 of the U.S. Constitution. The Constitution's Copyright clause provides, "Congress shall have Power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."[36]

¶ 15 Historical records reveal that there was very little, if any, debate over the meaning

---

Office, Orphan Works Reply Comments, http://www.copyright.gov/orphan/comments/reply/index.html (last visited Nov. 29, 2006).

[35] *See* discussion *infra* Section V.B.

[36] U.S. CONST., art. I, § 8, cl. 8.

of the Constitution's Intellectual Property Clause[37] at the Federal Convention.[38] Despite the lack of legislative history regarding the Copyright Clause, a review of the plain language of the clause, case law, and subsequent copyright legislation reveals that the primary goal of copyright law is to encourage private authors to create works that will benefit the public.[39]

A. The Plain Language of the Copyright Clause

¶ 16 The plain language of the Copyright Clause indicates that the Framers intended Congress to extend copyright protection to authors as a means to an end: the promotion of science and the useful arts. Many scholars have suggested that the founding fathers permitted copyright because they believed that democracy and the nation's economy would benefit if individuals were encouraged to create new works and pursue useful ideas.[40] For this reason, and despite the Framers' aversion to permitting monopolies,[41] the Copyright Clause authorizes Congress to grant monopolies to individual authors in order to provide them with an economic incentive to create and disseminate works.[42] However, the clause prohibits perpetual monopolies by providing that Congress may only secure for authors the exclusive right to their work for a limited period of time.[43] By restricting the duration of protection,[44] the plain language of the Copyright Clause confirms that private protections are granted to authors in order to inspire the creation of works that will benefit the public.[45]

B. Case Law Interpreting the Copyright Clause

¶ 17 The Supreme Court has repeatedly recognized that the primary purpose of the monopoly granted to copyright owners is to benefit the public by stimulating the production of creative works.[46] Therefore, while Congress has the authority to grant to

---

[37] *Id.* This clause is also referred to as the "Intellectual Property" clause because the words "useful arts" and "Inventors" have been construed as authorizing Congress to enact patent law, in addition to copyright law.

[38] Thomas B. Nachbar, *Intellectual Property and Constitutional Norms*, 104 COLUM. L. REV. 272, 338 (2004).

[39] *Universal City*, 464 U.S. at 429 n.10 (citing H.R. REP. NO. 60-2222, at 7 (1909)).

[40] *See, e.g.*, Lydia Pallas Loren, *The Purpose of Copyright*, 2 OPEN SPACES Q. 1, *available at* http://www.open-spaces.com/article-v2n1-loren.php. Loren explains that, "the founding fathers wanted copyright to be a mechanism by which our democracy would grow and flourish - a way in which our storehouse of knowledge is stocked."

[41] *See, e.g.*, 12 THE PAPERS OF THOMAS JEFFERSON 440 (Julian P. Boyd, ed., Princeton University Press 1956) (citing letter from Thomas Jefferson to James Madison (Dec. 20, 1787)).

[42] Loren, *supra* note 40.

[43] U.S. CONST. art. I, § 8, cl. 8.

[44] Once the copyright in the work expires, the work enters into the public domain and the former copyright owner no longer owns any rights in the work.

[45] U.S. CONST. art. I, § 8, cl. 8.

[46] *See, e.g.*, Fogerty v. Fantasy, Inc., 510 U.S. 517, 524 (1994) (holding that prevailing plaintiffs and prevailing defendants must be treated alike regarding the award of attorneys' fees under 17 U.S.C. § 505 because the "primary objective of the Copyright Act is to encourage the production of original literary, artistic, and musical expression for the good of the public. . . . '[E]ntities which sue for copyright infringement as plaintiffs can run the gamut from corporate behemoths to starving artists; the same is true

individual authors the exclusive right to reproduce, distribute, perform, display, or prepare derivative works of their copyrighted work,[47] this power is predicated upon two notions: first, that public benefits from the creative activity of authors, and second, that the copyright monopoly is a necessary condition to the full realization of such creative activities.[48] Additionally, as Judge Walker of the Second Circuit noted, "[T]he copyright law seeks to establish a delicate equilibrium. On the one hand, it affords protection to authors as an incentive to create, and, on the other, it must appropriately limit the extent of that protection so as to avoid the effects of monopolistic stagnation."[49] Accordingly, most decisions regarding copyright law reflect an attempt to strike the proper balance between these competing interests.

¶ 18 The Court has often acknowledged that the provision of financial rewards to authors is a secondary concern.[50] In *Mazer v. Stein*, the Court noted that "[t]he economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in 'Science and useful Arts.'"[51] In other words, copyright law is intended to stimulate the production of literature, music, and the arts because our society values these creative works. Thus, the primary reason that authors are provided with a monopoly – and the financial rewards that may accompany it – is to stimulate the creation of new works that contribute to the general public good.[52]

¶ 19 Despite the general recognition that copyright law is ultimately intended to benefit the public, recent Supreme Court decisions indicate an increase in the protections made available to authors. Most notably, in *Eldred v. Ashcroft*, the Court ruled that repeated extensions to the term of copyright do not constitute a perpetual copyright.[53] In that case, the United States Supreme Court rejected a challenge to the Sonny Bono

---

of prospective copyright infringement defendants.'" (citations omitted) (quoting Cohen v. Va. Elec. & Power Co., 617 F. Supp. 619, 620-623 (E.D. Va. 1985), *aff'd on other grounds*, 788 F.2d 247 (4th Cir. 1986))); Feist Publ'ns, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 349-55 (1991) (rejecting the "sweat of the brow" doctrine because the *sine qua non* of copyright is originality, as the primary objective of copyright is not to reward the labor of authors, but "[t]o promote the Progress of Science and useful Arts," and because it would be contrary to the goals of copyright law to extend protection to facts and ideas in the public domain since such protection would not protect and encourage the creation of "writings" by "authors"); Mazer v. Stein, 347 U.S. 201, 219 (1954) (granting copyright protection to statuettes, arguably protectable under patent law, because copyright law is intended to grant valuable, enforceable rights to authors to encourage the production of new works to benefit the public); *see also* H.R. REP. NO. 60-2222 (1909).

[47] 17 U.S.C. § 106 (2006).

[48] MELLVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 1.03 (Matthew Bender 2002) (citing Quinto v. Legal Times of Washington, Inc., 511 F. Supp. 579, 581 (D.D.C. 1981)); *see also* Video Pipeline, Inc. v. Buena Vista Home Entm't, Inc., 342 F.3d 191 (3d Cir. 2003), *as amended*, (Sept. 19, 2003), *cert. denied*, 540 U.S. 1178 (2004) (explaining that the ultimate aim of copyright law is to stimulate artistic creativity for the general public good)).

[49] Computer Associates Int'l Inc. v. Altai, Inc., 982 F.2d 693, 696 (2d Cir. 1992).

[50] *Id.* at 711.

[51] *Mazer*, 347 U.S. at 219.

[52] Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156 (1975) (citing Fox Film Corp. v. Doyal, 286 U.S. 123 (1932)).

[53] Eldred v. Ashcroft, 537 U.S. 186 (2003).

Copyright Term Extension Act.[54] The petitioners argued that successive retroactive extensions of copyright were functionally unlimited and thus, violated the "limited times" language of the clause.[55] The Court rejected this argument, reasoning that the terms provided by the Act were limited in duration and noting that Congress had a long history of granting retroactive extensions.[56] Upholding the Copyright Term Extension Act as constitutional, the Court approved Congress' grant of more rights to copyright owners, thereby tilting copyright law's delicate balance between public and private interests further in favor of authors.

C. Copyright Legislation

¶ 20 As case law confirms, however, the goal of copyright law is to strike a balance between the interests of authors and society's competing interest in the free flow of ideas, information, and commerce.[57] To this end, Congress has amended the U.S. Copyright Act on numerous occasions.[58] When enacting copyright law, "Congress must consider two questions: First, how much will the legislation stimulate the producer and so benefit the public, and, second, how much will the monopoly granted be detrimental to the public?"[59] Over the past century, the determination of whether legislation strikes an appropriate balance between these interests has been particularly affected by technological developments, economic and social trends, and international sentiment.[60] However, as history indicates, when a legislative scheme impedes the constitutional goals of copyright law, that scheme should be amended.

¶ 21 Before analyzing any proposed amendment to the Copyright Act, it is helpful to briefly review some of the terminology used to discuss copyright law. "Copyright" is the exclusive right to publish, reproduce, distribute, sell, perform, display, or prepare derivative works of a literary, artistic, dramatic, or musical work, architectural design,

---

[54] The passage of the Sonny Bono Copyright Term Extension Act of 1998 provided copyright owners with a twenty-year extension in the term of copyright protection. Thus, works protected under the 1909 Act were protected for sixty-seven years, and works protected under the 1976 Act received protection for the life of the author, plus seventy years, and works for hire received protection for a fixed term of ninety-five years from the date of creation. *See* Pub. L. No. 105-298, 112 Stat. 2827 (1998).

[55] *Eldred*, 537 U.S. at 198.

[56] *Id.* at 188.

[57] *See Universal City*, 464 U.S. at 430 (citing H.R. REP. No. 2222, at 7 (1909)).

[58] *Id.*

[59] *Id.* at 430 n.10.

[60] The legislative history of the 1976 Act indicates that the Congress (a) extended the term of protection and (b) eliminated the formalities required for protection because: (i) the growth in communications media has substantially lengthened the commercial life of a great many works and a short term is discriminatory against serious creative works whose value may not be recognized until after many years; (ii) too short a term harms the author without giving any substantial benefit to the public since the public frequently pays the same for works in the public domain as it does for copyrighted users works produced at the author's expense; (iii) a system based on the life of the author would simplify the concept of 'publication,' and would provide a much clearer method for computing the term; (iv) renewal is one of the worst features of the present copyright law because it is unclear and highly technical and results in a substantial burden and expense; and (v) U.S. copyright law should be harmonized with international law. *See* H.R. REP. NO. 94-1476, at 134 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5750-51.

software, motion picture, or sound recording.[61] Certain limited exceptions, such as the "fair use" doctrine,[62] permit the unauthorized use of copyrighted material for parody, review, or criticism.[63] When such an exception does not apply, the copyright owner or licensee may sue the unauthorized user in order to obtain injunctive and/or monetary relief in the form of either[64] "actual damages and profits"[65] or "statutory damages."[66] Other important terms regarding copyright protection include "renewal,"[67] which was the process for filing an application with the Copyright Office to extend the term of copyright protection,[68] and "duration of protection,"[69] which is the term of the copyright monopoly granted by Congress to authors. Using these terms, the following section identifies the causes and costs of the orphan works problem for the purpose of establishing a framework to analyze the Orphan Works Act of 2006.[70]

III. CAUSES OF THE ORPHAN WORKS PROBLEM

¶ 22 While there is no single direct cause of the orphan works problem, it is often described as an unintended consequence of the major developments in copyright law during the twentieth century.[71] By extending the duration of protection and eliminating copyright formalities such as registration and renewal, Congress has created a system that protects works for an extended period of time but often makes it difficult to identify and

[61] *See* 17 U.S.C. § 106 (2006).

[62] While "fair use" existed previously as a common law doctrine, Congress codified the "fair use" doctrine as part of the 1976 Act. In order to determine if there is "fair use," courts generally apply a four-factor balancing test, which considers: "(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work." 17 U.S.C. § 107 (2006).

[63] *See, e.g.*, Campbell v. Acuff-Rose Music, 510 U.S. 569 (1994) (holding that commercial parody can be fair use).

[64] The copyright owner may elect whether to receive actual or statutory damages, with certain exceptions, at any point before a final judgment is rendered. 17 U.S.C. § 504(c)(1) (2006).

[65] "Actual damages and profits" are "the actual damages suffered by [the copyright owner] as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages." 17 U.S.C. § 504(b) (2006).

[66] Generally, statutory damages are only available to copyright owners who have registered with the Copyright Office. *See* 17 U.S.C. § 412 (2006). The amount of statutory damages is typically between $750 and $30,000 per work, depending upon a court's discretion, and may be increased to as much as $150,000 per work if the plaintiff can prove willful infringement or decreased to as little as $200 per work if the infringer "was not aware and had no reason to believe that his or her acts constituted an infringement of copyright." 17 U.S.C. § 504(c)(1)-(2) (2006).

[67] "Renewal" is not required under the current law. However, under the Copyright Act of 1909, copyrights were protected for an initial term of twenty-eight years. At the end of year twenty-eight, the copyright owner needed to file a renewal application if he or she wanted to maintain protection for an additional twenty-eight years. This second twenty-eight-year term was known as the "renewal" term. *See* H.R. REP. NO. 94-1476, at 133-134 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5749-50.

[68] *See* discussion *infra* Section III.A.

[69] Under the current law, the "duration of protection" is generally the life of the author, plus seventy years. During this period, the author is said to own the "copyright" in the work. 17 U.S.C § 302(a) (2006).

[70] Orphan Works Act of 2006, H.R. 5439, 109th Cong. § 514 (2006).

[71] *See, e.g.*, Brito & Dooling, *supra* note 3, at 82-83.

locate the copyright owner.[72] In addition, while technology has made it easier for the private actors to create and disseminate new works, it has also caused many works to become orphans and drawn attention to the ever-growing costs of the orphan works problem.[73] Further, creative works may also become orphans because of everyday events such as the death of a copyright owner, copyright abandonment, industry-imposed barriers to copyright use,[74] and the reorganization, bankruptcy, or sale of a corporate copyright owner.[75]

¶ 23 The existence of orphan works undermines the goals of copyright law because it discourages potential users from incorporating existing works into new creative efforts that could benefit the public economically and culturally. Although orphan works are protected by copyright, it is rare that the exclusive rights in that work are still providing the copyright owner with any economic benefit or incentive to create new works that would benefit the public. As a result, the constitutional monopoly granted by Congress ceases to serve the goals of copyright law because it results in stagnation, against which the Framers[76] and federal judges[77] have warned, thus incurring substantial economic and cultural costs upon the public. Given the growing magnitude of the orphan works problem, the public will continue to bear these escalating costs until the law is amended to reduce them.

A. Legislative Causes of the Orphan Works Problem

¶ 24 Generally speaking, Congress has acted repeatedly during the past century to increase the duration and strength of the monopoly provided to authors.[78] In particular, Congress has extended the term of copyright protection and eliminated the formalities previously required to obtain and maintain such protection.[79] While developments have provided greater protection and arguably greater incentive to authors, they have also made it more difficult for the public to use and trace the ownership of copyrighted works.[80] As a result, the following legislative acts are generally regarded as primary causes of the orphan works problem.[81]

---

[72] *See* Huang, *supra* note 24, at 268.

[73] DUKE CTR. FOR THE STUDY OF THE PUB. DOMAIN, ORPHAN WORKS ANALYSIS AND PROPOSALS 2 (2005), http://www.law.duke.edu/cspd/pdf/cspdproposal.pdf.

[74] As discussed in the Introduction of this paper, a scholar who is unable to pay for the search costs of using orphan works may create a literary work that is never published. In addition, in the film industry, many movie studios now require a film to carry insurance for infringement liability before they agree to distribute or market that film. If a film cannot meet the minimum thresholds imposed by its studio, the film may not be distributed and thus, could become an orphan. *See generally* PATRICIA AUFDERHEIDE & PETER JASZI, UNTOLD STORIES: CREATIVE CONSEQUENCES OF THE RIGHTS CLEARANCE CULTURE FOR DOCUMENTARY FILMMAKERS, (2004), http://www.centerforsocialmedia.org/rock/backgrounddocs/printable_rightsreport.pdf.

[75] Brito & Dooling, *supra* note 3, at 79.

[76] *See, e.g.*, 12 THE PAPERS OF THOMAS JEFFERSON, *supra* note 41, at 439-40 (citing letter from Thomas Jefferson to James Madison (Dec. 20, 1787)).

[77] *See, e.g.*, *Altai*, 982 F.2d at 696.

[78] *See generally* 17 U.S.C. §§ 101-810 (2006).

[79] *Id.*

[80] *See generally* U.S. COPYRIGHT OFFICE, *supra* note 2, at 41-44.

[81] *Id.*; *see also* Huang, *supra* note 24, at 268.

¶ 25 Congress first extended the term of copyright protection during the twentieth century under the Copyright Act of 1909 ("the 1909 Act"). The 1909 Act provided that copyrights were entitled to protection for twenty-eight years; at the end of year twenty-eight, the author or owner needed to file a renewal application to maintain protection for an additional twenty-eight-year period.[82] The Copyright Act of 1976 ("the 1976 Act")[83] continued this trend by extending the term of copyright protection to the life of the author, plus fifty years. In addition, the 1976 Act provided that "works made for hire" were to be given a fixed term of protection of seventy-five years from creation. In 1998, Congress increased the duration of protection again by passing the Sunny Bono Copyright Term Extension Act of 1998 (the "CTEA"), which provides authors with a twenty-year extension on their current copyright. [84]

¶ 26 In an attempt to harmonize U.S. copyright law with international law, Congress eliminated formalities that were previously required to obtain and maintain copyright protection.[85] In particular, the 1976 Act reduced the need for notice, registration, and renewal by providing authors with copyright protection upon creating a work for the entire permissible duration of protection.[86] Moreover, under the 1976 Act, authors of works created on or after January 1, 1978 did not have to file a renewal registration to obtain the full length of protection.[87] While the primary reason behind these reforms was international harmonization, Congress has also attempted to rationalize the elimination of formalities as a way to protect unsuspecting authors from inadvertently allowing copyrighted works to fall into the public domain.[88]

¶ 27 These legislative developments have caused concern that copyright law has shifted the balance too far in the favor of authors, thereby placing an undue burden on the public by discouraging those who seek to use orphan works.[89] Pursuant to the constitutional goals of copyright law, private protection is a secondary consideration that

---

[82] The 1909 Act was later amended to extend the renewal term to fourty-seven years, which was further extended to sixty-seven years following passage of the Sonny Bono Copyright Term Extension Act in 1998. *See* Sonny Bono Copyright Term Extension Act, Pub. L. No. 105-298, 112 Stat. 2827, 2828 (1998).

[83] The 1976 Act became effective on January 1, 1978. *See* 17 U.S.C. § 301 (1976).

[84] Thus, works protected under the 1909 Act were protected for sixty-seven years, and works protected under the 1976 Act received protection for the life of the author, plus seventy years, and works for hire received protection for a fixed term of ninety-five years from the date of creation. *See* Sonny Bono Copyright Term Extension Act, Pub. L. No. 105-298, 112 Stat. 2827, 2828 (1998).

[85] Orphan Works, 70 Fed. Reg., 3739-01, 3740 (Jan. 26, 2005).

[86] The Berne Convention Implementation Act of 1988 amended the 1976 Act to harmonize U.S. copyright law with the requirements of the Berne Convention, which entered into force on March 1, 1989, and injected "entirely new elements into the copyright equation." NIMMER & NIMMER, *supra* note 48, § 17.01(C)(2)(b). According to Nimmer, "[t]he primary change effected by Berne adherence and the Berne Convention Implementation Act ("BCIA") is that the United States has had to sacrifice (or, from the more enlightened perspective of the rest of the world, to relieve itself of) its obsession with copyright formalities... [and] self-execution." *Id.*

[87] H.R. REP. NO. 94-1476, at 134 (1976).

[88] *See* U.S. COPYRIGHT OFFICE, *supra* note 2, at 3. Contrary to this rationale, one would think that an author who was so unsuspecting as to allow his copyright to lapse would not be gaining a requisite level of economic incentive from the copyright monopoly to justify its existence.

[89] *Id.* at 1.

is only provided for the purposes of nourishing the public good.[90] Moreover, this grant of protection is premised on the notion that exclusive rights benefit the copyright owner by permitting him to generate income by using the work, charging fees to others for permission to use the work, or selling the copyrighted work to others who are better able to exploit them.[91] As a result of the aforementioned developments in copyright law, only works created before 1923 have ever fallen into the public domain, and no works created after 1923 will enter the public domain until 2019.[92] Because the current law grants such extensive protection to authors without requiring any additional action on their part, copyright owners are more difficult to locate and orphan works situations arise more frequently.[93]

B. Technology as a Cause of the Orphan Works Problem

¶ 28 Technology has played a leading role in exacerbating the orphan works problem. Using digital and computer technology, artists are able to easily create innumerable artistic, musical, and visual works and post them on the Internet, where they are readily accessible to the public.[94] As a result, potential users may enjoy and distribute online the creative works of others. Perhaps more disturbingly, these users may use computer programs or other technologies to alter or remove the attribution from creative works. While this freedom to create, disseminate, and modify information would seem to serve the goals of copyright law by benefiting the public, the over-abundance of works it has made accessible on the Internet has made it even more difficult to identify authors of creative works.[95] As a result, technology mirrors the aforementioned copyright legislation and the copyright monopoly as a cause of the orphan works problem; while it has facilitated immense creative output, it has magnified the scope of the problem by creating an abundance of orphan works that impedes the creative potential that new technologies could unleash.[96]

---

[90] *See, e.g.*, *Fogerty*, 510 U.S. at 517 (holding that prevailing plaintiffs and prevailing defendants must be treated alike regarding the award of attorneys' fees under 17 U.S.C. § 505 because the "Copyright Act's primary objective is to encourage the production of original literary, artistic, and musical expression for the public good; and plaintiffs, as well as defendants, can run the gamut from corporate behemoths to starving artists"); *Feist Publ'ns*, 499 U.S. at 348-54 (rejecting the "sweat of the brow" doctrine because the *sine qua non* of copyright is originality, because the primary objective of copyright is not to reward the labor of authors, but "[t]o promote the Progress of Science and useful Arts," and because it would be contrary to the goals of copyright law to extend protection to facts and ideas in the public domain since such protection would not protect and encourage the creation of "writings" by "authors"); *Mazer*, 347 U.S. at 219 (granting copyright protection to statuettes, arguably protected by patent, because copyright law is intended to grant valuable, enforceable rights to authors to encourage the production of new works to benefit the public).

[91] Edward Samuels, *Orphan Works: The Copyright Office Report*, INTELL. PROP. COUNS., at 2, *available at* http://www.edwardsamuels.com/copyright/beyond/articles/Orphan%20Works.htm.

[92] *See* 17 U.S.C. §§ 301 et seq. (1964).

[93] *See* U.S. COPYRIGHT OFFICE, *supra* note 2, at 32.

[94] DUKE CTR. FOR THE STUDY OF THE PUB. DOMAIN, *supra* note 73, at 3-4.

[95] *Id.*

[96] Huang, *supra* note 24, at 268.

C. Problems with the Current System

¶ 29 To better analyze the potential effectiveness of the proposed Act, it is helpful to categorize the shortcomings of the current system based on whether they relate to (i) the goals of copyright law or (ii) the economic and cultural costs of orphan works. The current system undermines the goals of copyright law because it permits the constitutional monopoly granted by Congress to cause the type of economic and cultural stagnation against which the Framers [97] and federal judges [98] have long warned. Moreover, the growing magnitude of the orphan works problem suggests that these costs will escalate perpetually until copyright law is amended to stop them. As a result, potential users will continue to be forced to choose between an expensive and potentially dead-end search or avoiding the use of an orphan work for fear of liability, and the public will continue to endure the "needlessly disintegrating films,[99] incomplete and spotted histories, thwarted scholarship, digital libraries put on hold,[100] delays to publication" and other such problems which have become typical because of orphan works. [101] Accordingly, an effective solution to the orphan works problem would reduce these high transaction costs, which perpetuate the aforementioned economic and cultural losses, while striking an appropriate balance between encouraging the use of orphan works and protecting the exclusive rights granted to copyright owners under the U.S. Constitution.[102]

1. The Orphan Works Problem Undermines the Goals of Copyright Law

¶ 30 The monopoly granted to authors is intended to promote the production of creative works that benefit the public. However, once a work may be legitimately classified as an orphan, it likely has stopped providing any economic benefit to its author. As a result, the long term of protection provided to authors may cease to provide any encouragement to authors to create new works. [103] If a copyright owner were so

---

[97] *See, e.g.*, 12 THE PAPERS OF THOMAS JEFFERSON, *supra* note 41, at 439-40 (citing letter from Thomas Jefferson to James Madison, (Dec. 20, 1787)).

[98] *See, e.g.*, *Altai*, 982 F.2d at 696.

[99] The Study notes that

> [o]rphan films make up the overwhelming majority of our cinematic heritage, and are a vital part of the culture and cultural record of the 20th century. Indeed the Library of Congress declared that it is in the task of restoring these orphan films that "the urgency may be greatest" because these works are *literally disintegrating*.

DUKE CTR. FOR THE STUDY OF THE PUB. DOMAIN, *supra* note 73, at 3 (emphasis in original). *See also* Letter from Larry Urbanski, Chairman, Am. Film Heritage Ass'n, to Strom Thurmond, Senator (Mar. 31, 1997), http://homepages.law.asu.edu/~dkarjala/OpposingCopyrightExtension/letters/AFH.html (estimating that up to seventy-five percent of films from the 1920's are orphan works).

[100] The Study quotes Duke University librarians who note that "[t]o create digital collections that include 'orphan works,' the library must go to extraordinary and expensive lengths to establish confidence that it is not violating cannot be obtained conclusively." DUKE CTR. FOR THE STUDY OF THE PUB. DOMAIN, *supra* note 73, at 3.

[101] *Id.*; *see also* Brito & Dooling, *supra* note 3, at 84.

[102] U.S. CONST., art., I, § 8, cl. 8.

[103] Generally speaking, authors and artists hope for short-term rewards and not long-term royalties. For example, in a recent interview, Ray Manzarek, keyboardist for the rock band "The Doors," was asked:

interested in reaping the fruits of his labor, that owner would likely be more inclined to exercise sufficient vigilance throughout the entire term of protection in order to ensure a return on his work and to prevent it from obtaining orphan status. The failure of the current system to accommodate this reality undermines the goals of copyright law because it promulgates the existence of monopolies that do not serve the public good.[104]

¶ 31 Furthermore, the current system prevents creative works from becoming available to the public regardless of whether the copyright owner is dead, alive, or would have consented to the subsequent use of her trademark.[105] By its nature, the orphan works problem describes a situation in which a potential user is unable to identify or to locate the copyright owner.[106] This uncertainty prevents subsequent users from using orphan works for fear of being held liable for infringement if the copyright owner decided to assert his rights. Without a mechanism in place to compensate for a potential user's fear of litigation, potential users are less likely to create new works using orphan works, and the public is more likely to lose.[107] Accordingly, any proposed solution to the problem must allocate resources – here, the copyright orphans – more efficiently in a manner that pays homage to the goals of copyright law by restoring an appropriate balance between private protection and the public interest that encourages authors to create new works for the benefit of the public.[108]

2. Economic and Cultural Costs of the Orphan Works Problem

¶ 32 While not easily measurable by statistics, the economic costs of the orphan works problem are substantial. One primary reason these costs are so high is that anyone who violates the exclusive rights of the copyright owner of an orphan work without consent may be subject to liability for copyright infringement.[109] Depending on the facts of the particular case, an infringer's liability could total upwards of $150,000.[110] As a result of the potential costs of a lawsuit, prospective users of orphan works generally conduct searches to locate and to obtain permission from the copyright owner before using an orphan work to alleviate the risk of being sued. In other words, the high transaction costs

---

"In your wildest dreams, did you ever think that people would still be listening to the songs that you recorded for your first album, four decades later?" Speaking like a true musician, Manzarek answered, "Hardly, but on the other hand, that's not [a musician's] concern. I don't think musicians play music thinking in terms of posterity. It's just the opposite. You have to think in that individual moment in time, the Zen moment in time. And if you capture the energy, then you do what a musician is supposed to do. If by the grace of the gods on Mount Olympus you happen to be liked 40 years from now, that's only a testament to the Doors' audience as far as I'm concerned." *People Still Catching Up on The Doors*, CNN.COM, Nov. 16, 2006, http://www.cnn.com/2006/SHOWBIZ/Music/11/16/music.doors.reut/index.html (last visited Nov. 19, 2006).

[104] U.S. COPYRIGHT OFFICE, *supra* note 2, at 15-16.

[105] DUKE CTR. FOR THE STUDY OF THE PUB. DOMAIN, *supra* note 73, at 3.

[106] U.S. COPYRIGHT OFFICE, *supra* note 2, at 1.

[107] DUKE CTR. FOR THE STUDY OF THE PUB. DOMAIN, *supra* note 73, at 4-5.

[108] *Id.*

[109] *See* 17 U.S.C. § 501(a) (2006).

[110] *See* 17 U.S.C. § 504 (2006). A copyright owner may be entitled to recover more than $150,000 if he can prove that much as actual damages or lost profits. 17 U.S.C. § 504(b) (2006). However, if the copyright owner elects to receive statutory damages before the entry of a final judgment, then that copyright owner may recover a sum not more than $150,000. 17 U.S.C. § 504(c)(2) (2006).

associated with using orphans works inflict additional economic and cultural costs upon the public because they make the use of orphan works more unlikely.

¶ 33 Under the current system, the search costs incurred by an author seeking to obtain permission to use an orphan work often become prohibitive.[111] After all, orphan works are "copyrighted works whose owners are difficult or even impossible to locate."[112] As a result, authors expend a considerable amount of time, energy, and money searching for a copyright owner with no guarantee of ever finding that owner or, in the alternative, having their potential future liability limited as a result of their efforts. While some wealthy individuals and large corporations might be willing to bear these financial risks,[113] many authors are not. As a result, most individual authors and small publishers generally try to avoid using orphan works altogether because they lack the financial, legal, and human resources to withstand the potentially devastating costs of a lawsuit.[114]

¶ 34 The inevitable result of these high transaction costs is that many "productive and beneficial uses of orphan works" are precluded[115] – not because the copyright owner has asserted any rights in the work or because an agreement cannot be negotiated between the owner and the user – but merely because the user could not locate the owner.[116] The responses to the Copyright Office's Notice of Inquiry describe numerous instances that illustrate the severe cultural costs of this situation. For example, Duke Law School's Center for the Study of the Public Domain submitted a report to the Copyright Office entitled, *Orphan Works: Analysis and Proposal*. The Duke study highlights that "the costs of an inadequate system of access to orphan works are huge: needlessly disintegrating films,[117] prohibitive costs for libraries, incomplete and spotted histories, thwarted scholarship, digital libraries put on hold,[118] [and] delays to publication,"[119] all

[111] *See* discussion *supra* Section I.

[112] Orphan Works, 70 Fed. Reg. 3739 (Jan. 26, 2005).

[113] Even large publishers might not be willing to bear the cost of potential copyright claims. For example, the Duke proposal discusses the case of two professors who received from Penguin Classics, a publisher, "*very* clear limitations in terms of our publishing guidelines; since they were operating on limited budgets, there was no room to even consider any works that fell outside of 1922, even if they seemed to be free of copyright claims." DUKE CTR. FOR THE STUDY OF THE PUB. DOMAIN, *supra* note 73, at 1.

[114] *Id.*

[115] *See supra* pp. 3-4. The cases of the filmmaker and historian illustrate this point precisely.

[116] *See* U.S. COPYRIGHT OFFICE, *supra* note 2.

[117] The Study notes that "orphan films make up the overwhelming majority of our cinematic heritage, and are a vital part of the culture and cultural record of the 20th century. Indeed, the Library of Congress declared that it is in the task of restoring these orphan films that 'the urgency may be greatest' because these works are *literally disintegrating*." DUKE CTR. FOR THE STUDY OF THE PUB. DOMAIN, *supra* note 73, at 3; *see also* Letter from Larry Urbanski, Chairman of the Am. Film Heritage Ass'n, to Strom Thurmond, Senator (Mar. 31, 1997), http://homepages.law.asu.edu/~dkarjala/OpposingCopyrightExtension/letters/AFH.html (estimating that seventy-five percent of films from the 1920's are orphan works).

[118] The Duke Study quotes Duke University librarians who note that "[t]o create digital collections that include 'orphan works,' the library must go to extraordinary and expensive lengths to establish confidence that it is not violating copyright laws. The typical result is to avoid digitizing significant resources for scholarship if clearance cannot be obtained conclusively." DUKE CTR. FOR THE STUDY OF THE PUB. DOMAIN, *supra* note 73, at 3. These sentiments are echoed in the comments of other leading proponents of digital libraries. *See, e.g.*, Letter from Carol Fleishauer, Ass. Dir. for Collection Servs., Mass. Inst. Tech. Libraries, to Jule Sigall, Ass. Register for Policy and Int'l Affairs, U.S. Copyright Office (Mar. 15, 2005),

without any tangible benefit to the copyright owner.[120] Museum representatives are prevented from displaying hundreds or even thousands of orphan works because the possibility of even minimal monetary liability in each instance is prohibitive,[121] while scholars, such as those described in the introduction,[122] and libraries are unable to engage in academic non-commercial use of orphan works that could preserve our culture.

¶ 35 In exchange for all of the problems it causes the public, the current system provides copyright owners with very little benefit in return. Although "[t]he economic philosophy behind the clause empowering Congress to grant . . . copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors,"[123] orphan work owners only benefit from licensing their works when they can be located. Moreover, even if the orphan work did not appear to be capable of generating profits, at some point an author might consider legacy to be equally if not more important than financial gain.[124] Under the current system, the author would not even gain the recognition they would have received if the potential user were able to use the work and properly attribute the owner's contribution. All the while, the long term of protection provided to authors consequently ceases to provide any encouragement to authors to create new works.[125] Given the diminishing marginal returns[126] of the copyright monopoly in the orphan works context, it is critical that legislation be passed to curb the substantial economic and cultural costs that are currently being incurred.

IV. LEGISLATING ORPHAN WORKS: THE ORPHAN WORKS ACT OF 2006

¶ 36 The Orphan Works Act of 2006 is intended to provide a meaningful solution to the problems caused by orphan works under the current system. In particular, it seeks to make it more likely that a potential user can find the copyright owner, provide a method by which to resolve disputes when the copyright owner cannot be found but appears after an unauthorized use, and serve the goals of copyright law by encouraging the production of creative works for the benefit of the public. In response to the high transaction costs imposed by the current system, and the economic and cultural losses such costs

---

http://www.copyright.gov/orphan/comments/OW0515-MIT-Libraries.pdf; Comment of the Library of Congress, In re Orphan Works, No. 630 (Mar. 25, 2005), http://www.copyright.gov/orphan/comments/OW0630-LOC.pdf; Letter from Sidney Verba, Dir., Harvard Univ. Library, to Jule Sigall, Ass. Registrar for Policy and Int'l Affairs, U.S. Copyright Office (Mar. 25, 2005), http://www.copyright.gov/orphan/comments/OW0639-Verba.pdf.

[119] DUKE CTR. FOR THE STUDY OF THE PUB. DOMAIN, *supra* note 73, at 3; *see also* Brito & Dooling, *supra* note 3.

[120] DUKE CTR. FOR THE STUDY OF THE PUB. DOMAIN, *supra* note 73, at 3.

[121] U.S. COPYRIGHT OFFICE, *supra* note 2, at 12.

[122] *See supra* pp. 2-3.

[123] *Mazer*, 347 U.S. at 219.

[124] Lawmeme, *Shaky Assumptions in the Orphan Works Bill: An Author's View of Public Domain Enhancement*, http://research.yale.edu/lawmeme/modules.php?name=News&file=article&sid=1767 (last visited Nov. 10, 2006).

[125] *See Altai*, 982 F.2d at 696.

[126] "Diminishing marginal returns" is a term of art used in economics to describe a system in which each additional unit of input yields less and less output. *See, e.g.*, CASE & FAIR, *supra* note 7.

perpetuate, the Act proposes to limit the injunctive and monetary relief available to copyright owners whose "orphan works" are infringed upon by a user who performed a reasonably diligent search in good faith to find and obtain permission from the copyright owner, but did not succeed.[127] The bill represents the joint efforts of Congress and the U.S. Copyright Office, and, if passed, would amend the Copyright Act to include a new Section 514, entitled "Limitation on remedies in cases involving orphan works."[128]

A. Conclusion of the *Report on Orphan Works*

¶ 37 The Orphan Works Act of 2006, in addition to the events leading to its creation, officially confirms that, "[t]he orphan works problem is real."[129] In its *Report on Orphan Works*, the U.S. Copyright Office indicated that any system intended to address the orphan works problem should

> make it more likely that the user can find the relevant owner in the first instance, and negotiate a voluntary agreement over permission and payment, if appropriate, for the intended use of the work. In this sense the system should encourage owners to make themselves known and accessible to potential users, and encourage users to make all reasonable efforts to find the owners of the works they wish to use.[130]

¶ 38 In other words, any proposal should help make the searches of potential users more productive and less wasteful. In addition, "where the user cannot identify and locate the copyright owner after a reasonably diligent search, then the system should permit that specific user to make use of the work, subject to provisions that would resolve issues that might arise if the owner surfaces after the use has commenced."[131]

¶ 39 Moreover, any proposal should balance the interests of the copyright owner and the new user who has commenced use of the purportedly orphan work in reliance on the results of a failed search for its owner.[132] In doing so, the system would eliminate much of the uncertainty for potential users of orphan works, thereby encouraging new users to create new works that would benefit the public. Other practical considerations include keeping the orphan works provision independent of the existing exemptions and limitations to copyright, such as fair use, and making the solution to the problem as administratively efficient and flexible as possible in order to accommodate the ongoing

---

[127] Orphan Works Act of 2006, H.R. 5439, 109th Cong. § 514 (2006).

[128] *See supra* note 19.

[129] U.S. COPYRIGHT OFFICE, *supra* note 2, at 7.

[130] *Id.* at 93-94 (citing Orphan Works Roundtable (July 26, 2005)), *supra* note 15, at 63 ("[A] properly constructed orphan works solution both creates incentives for rights holders and would-be licensees to get together and frees up works that otherwise would be locked up for lack of being able to identify a rights holder . . . . [T]hese are [not] inherently antagonistic goals.") (statement of Michael Godwin, Public Knowledge), 64-65 ("I would think that the objective of this process is two-fold. One is to make the existing system work better by helping users and owners to get together. The other objective is to create a safety valve for users that genuinely cannot find an owner so that they can use a work, particularly for transformative purposes.") (statement of Fritz Attaway, MPAA).

[131] *Id.* at 94.

[132] *Id.*

changes in copyright law.[133] By providing threshold requirements for a "reasonably diligent" search and a "closed list" limiting the remedies available to the copyright owner when the user can prove that he conducted a reasonably diligent search, the Orphan Works Act is intended to restore a balance that better encourages private authors to create works that will benefit the public.[134]

B. The Orphan Works Act of 2006

¶ 40 Generally speaking, the Orphan Works Act proposes to amend the Copyright Act by limiting, in certain circumstances, the liability of unauthorized users of orphan works. In order to enjoy the Act's proposed limits on liability for infringement, an unauthorized user would have to perform in good faith a "reasonably diligent" search. The Act broadly provides that a "reasonably diligent" search must include steps that are "reasonable under the circumstances" to locate the copyright owner and obtain their permission to use the work.[135] A search is not "reasonably diligent" solely because it includes reference to the fact that the work lacks information identifying the copyright owner.[136] Rather, although the Act does not define the requirements of a "reasonably diligent" search, such a search must meet minimum diligence requirements, which may include searches of:

> (i) the records of the Copyright Office that are relevant to identifying and locating copyright owners;
>
> (ii) other sources of copyright ownership information reasonably available to users;
>
> (iii) methods to identify copyright ownership information associated with a work;
>
> (iv) sources of reasonably available technological tools and reasonably available expert assistance; and
>
> (v) best practices[137] for documenting a reasonably diligent search.[138]

¶ 41 In essence, "the [B]ill would establish Copyright Office guidelines that users could follow to reduce the threat of lawsuits later."[139] If a user followed these search guidelines prior to the unauthorized use,[140] then the relief available to the orphan work's owner would be limited under the Act.

---

[133] *Id.* at 94-95.

[134] *Id.* at 96-98.

[135] Orphan Works Act of 2006, H.R. 5439, 109th Cong. § 514(a)(2)(B) (2006).

[136] Orphan Works Act of 2006, H.R. 5439, 109th Cong. § 514(a)(2)(B)(i)(II) (2006).

[137] As a whole, the proposed search criteria are intended to be broad enough to encourage individual groups and industries to develop and publish best practices or guidelines to facilitate negotiation between potential users and copyright owners of orphan works. U.S. COPYRIGHT OFFICE, *supra* note 2, at 109-110.

[138] Orphan Works Act of 2006, H.R. 5439, 109th Cong. § 514(a)(2)(C) (2006).

[139] Shweta Govindarajan & Seth Stern, *"Orphan Works" Bill Advances In Subcommittee Markup*, CONG. Q., May 24, 2006, 2006 WLNR 9210956.

[140] The Copyright Office's Report indicates that the Orphan Works Act's search requirements are deliberately vague and not exclusive in order to permit the Act to be interpreted flexibly to keep up with advances in technology and the interests of the parties or sectors involved in orphan works disputes. U.S. COPYRIGHT OFFICE, *supra* note 2, at 109-110.

¶ 42 An infringer who performed a good faith, "reasonably diligent," but unsuccessful search before commencing the unauthorized use would only be required to provide "reasonable [monetary] compensation"[141] to the owner of an orphan work for the infringer's use of that work.[142] Unlike current law, the Act would not entitle the owner of an orphan work to recover statutory damages[143] for copyright infringement. Under the Act, the aggrieved copyright owner would only be permitted to recover "reasonable compensation," the amount of which would be negotiated[144] by the copyright owner and the infringer.[145] However, if the copyright owner proves that the infringer did not act in good faith during these negotiations, "the court may award full costs, including a reasonable attorney's fee," the amount of which would have to be proven by the owner of the infringed copyright.[146]

¶ 43 Furthermore, the Act proposes to eliminate monetary damages entirely where an infringer uses the copyrighted orphan work primarily for a "charitable, religious, scholarly, or educational purpose,"[147] without intent to benefit commercially and then promptly ceases the infringing use upon receiving notice of the infringement claim.[148] As an exception to this ban on monetary relief, the Act would permit the copyright owner to receive "reasonable compensation" if the owner proved, and the court found, that the infringer earned proceeds directly attributable to the infringement.[149]

¶ 44 In addition, the Act proposes two ways in which to limit injunctive relief when an unauthorized user infringes upon an orphan work after performing a good faith, "reasonably diligent," but unsuccessful search.[150] First, the Act would require courts to limit the type of injunctive relief imposed when such relief would harm the infringer. In other words, "to the extent practicable," the injunctive relief imposed by courts would "account for any harm that the relief would cause the infringer for relying upon a 'reasonably diligent' search."[151] Second, where the infringer integrates the orphan work into a new work, injunctive relief would not be imposed, provided that the infringer agreed to (i) pay the owner "reasonable compensation" and (ii) "provide attribution to the owner . . . in a reasonable manner."[152] If an infringer who created a new work could not satisfy these conditions, then a court would be able to impose injunctive relief.

---

[141] "Reasonable compensation" is intended "to represent the amount the user would have paid to the owner had they engaged in negotiations before the infringing use commenced." In other words, "reasonable compensation" would be in the amount of a reasonable licensing fee. *Id*. at 12.

[142] Orphan Works Act of 2006, H.R. 5439, 109th Cong. § 514(b)(1)(A) (2006).

[143] *See supra* note 66.

[144] *See supra* note 30.

[145] Orphan Works Act of 2006, H.R. 5439, 109th Cong. § 514(b)(3) (2006).

[146] The award of attorneys' fees would be determined under 17 U.S.C. § 505 (2006), subject to 17 U.S.C. § 412 (2006). Orphan Works Act of 2006, H.R. 5439, 109th Cong. § 514(b)(1)(B)(ii) (2006).

[147] Orphan Works Act of 2006, H.R. 5439, 109th Cong. § 514(b)(1)(B)(i) (2006).

[148] *Id.* § 514(b)(1)(B)(ii).

[149] *Id.* § 514(b)(1)(B)(i)(II).

[150] *Id.* § 514(b)(2).

[151] *Id.* § 514(b)(2)(A).

[152] *Id.* § 514(b)(2)(B).

V. COST ALLOCATION UNDER THE ORPHAN WORKS ACT

¶ 45 Given the substantial economic and social costs currently incurred by orphan works, the effectiveness of any legislation proposed to address the orphan works problem will inevitably turn on whether the proposed legislation minimizes transaction costs so as to encourage the efficient and beneficial use of orphan works. Much like the wide variety of problems and proposed uses mentioned in the comments received by the Copyright Office make it difficult to quantify the extent and scope of the orphan works problem,[153] the absence of any reliable data on the costs[154] of the orphan work problem makes it difficult to analyze whether the proposed legislation would allocate transaction costs effectively. Therefore, since there are few articles, if any,[155] which directly discuss cost allocation under the Act, it is necessary to create an economic analytical framework under which to analyze the Act.

¶ 46 Theories of tort and property law often discussed in the context of the law and economics provide the foundation for this framework. In particular, the Coase Theorem provides that "as long as there are no obstacles to bargaining between the parties involved, resources will be allocated efficiently regardless of how property rights are initially assigned."[156] Such is not the case with orphan works, which have become increasingly problematic because substantial transaction costs and imperfect information often prevent potential users and copyright owners from finding one another and negotiating. As a result, the Normative Coase Theorem becomes particularly relevant. It is often stated as follows: property law should serve to minimize the obstacles to private agreements over resource allocation by reducing transaction costs to promote bargaining because negotiation among parties ensures that resources and costs are allocated in an economically efficient manner.[157] Given that cooperative bargaining is not always possible, liability rules should be used to allocate rights and costs efficiently when such rules are practicable.[158] These theories are particularly useful because the orphan works problem arises when a person seeks to use a work in a manner that requires permission from the copyright owner,[159] but decides not to use the work because the copyright owner cannot be located to negotiate a license fee.

¶ 47 The Act would allocate transaction costs and resources more efficiently than the

---

[153] *The Copyright Office's Report on Orphan Works: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property H. Comm. on the Judiciary*, 109th Cong. 2d Sess. (2006) (statement of Jule L. Sigall, Associate Register for Policy & International Affairs), *available at* http://www.copyright.gov/docs/regstat030806.html.

[154] Relevant data would include the frequency with which orphan works impede creative efforts, how many unsuccessful searches potential users perform, how irreplaceable the works sought after are, and how often users decide to risk infringement and use the work without receiving permission. *See* Huang, *supra* note 24.

[155] *See supra* note 26.

[156] Ronald H. Coase, *The Problem of Social Cost*, 3 J.L. & ECON. 1 (1960).

[157] ROBERT COOTER & THOMAS ULEN, LAW AND ECONOMICS 101 (4th ed. Pearson Addison Wesley 2004).

[158] Calabresi & Melamed, *supra* note 28, at 1127.

[159] Generally speaking, the owner of a copyright has the exclusive right to reproduce, distribute, perform, display, or prepare derivative works of their copyrighted work. *See* 17 U.S.C. § 106 (2006).

current law. Specifically, the Act would facilitate bargaining between interested parties because by reducing the transaction costs involved in searching, it increases the likelihood that potential users who would have abstained from searching will search for the copyright owner, find the copyright owner, and negotiate an economically efficient agreement with the copyright owner for use of their work that benefits both parties and the public. In addition, the Act would reduce the administrative costs of enforcement when a potential user conducts a "reasonably diligent," good faith search that did not produce the copyright owner,[160] by limiting the copyright owner's available monetary damages to "reasonable compensation," the amount of which would be negotiated[161] by the copyright owner and the infringer.[162]

¶ 48 When such a cooperative bargain could not be reached, the Act would promote the efficient allocation of resources by distinguishing between commercial and non-commercial uses as a means of reducing the inefficiencies incurred by the non-cooperative award of monetary damages. Similarly, the Act's limitations on injunctive relief[163] would promote efficiency because they would mitigate the costs incurred when an orphan work user commences use in reliance upon a reasonably diligent good faith search without reducing the financial benefit provided to the copyright owner from the payment of "reasonable compensation." Additionally, the Act, by providing potential users with search guidelines and limited liability, would function similarly to adverse possession and prescriptive easements in property law because it would facilitate the allocation of rights from an owner who is not using his intellectual property rights or fails to object to another's use of his rights to someone using the rights as an owner normally would.[164] In doing so, the Act would alleviate a portion of the costs currently incurred when use of orphan works is forsaken despite the fact that the copyright owner might have consented to use of the work if asked or might no longer exist. Potential users who performed a search "reasonably diligent" enough to procure the Act's limitations on remedies would be more likely to proceed with use of the orphan work despite the risk of being sued for infringement.

¶ 49 Because economic efficiency alone does not justify intentional copyright infringement, the Act's allocation of costs would only be effective to the extent it served the goals of copyright law. Although its effectiveness would ultimately depend on how judges interpret it should it be passed, the Act's proposed search requirements would reduce the economic and cultural costs currently borne by the public. By allocating to copyright owners a portion of the transaction costs incurred when a potential user cannot locate them, the Act would promote the efficient use of orphan works without unduly compromising the intended effect of the copyright monopoly granted to authors. Despite the concerns of copyright owners who fear that the Act would deprive them of an "economically feasible" mechanism by which to enforce their rights and preserve their

[160] Orphan Works Act of 2006, H.R. 5439, 109th Cong. § 514(a)(1) (2006).
[161] *See supra* note 30.
[162] *See supra* note 31.
[163] Orphan Works Act of 2006, H.R. 5439, 109th Cong. § 514(b)(2)(B) (2006).
[164] *See supra* note 6.

commercial earning power,[165] there are simple, cost-effective steps that copyright owners can take to protect their works from infringement and themselves from application of the Act. Given the high transaction costs under the current system, in addition to the substantial economic and cultural costs borne by the public when orphan works are used inefficiently, the price of the Act would be worth the additional transaction costs it would allocate to copyright owners. As such, the Act's proposed limitations on remedies would allocate transaction costs more effectively than the current law because they would make it more likely that the public could benefit economically and socially from orphan works.

A. Creating an Economic Analytical Framework

¶ 50 In the absence of any comprehensive statistical data regarding the costs of the orphan works problem, it is helpful to analyze cost allocation under the Act by drawing upon related doctrine from property law, law and economics, and copyright law. Ronald Coase's *The Problem of Social Cost* provides a useful starting point for this analysis[166] because it lays the foundation for the Coase Theorem, which is often stated as follows: as long as there are no obstacles to bargaining between the parties involved, resources will be allocated efficiently regardless of how property rights are initially assigned.[167] In *The Problem of Social Cost*, Coase noted, "if there are no obstacles to exchanging legal entitlements, they will be allocated efficiently by private agreement, so the initial allocation by the courts does not influence the efficiency of the final allocation."[168] In other words, the assignment of property rights does not matter economically when transaction costs are zero; in such a situation, it would only matter in determining distribution. However, initial property rights do have an economic effect when there are sufficient transaction costs. Such costs may include discovering who one must deal with, informing people that one wishes to deal and on what terms, conducting negotiations leading up to a bargain, drawing up the contract, undertaking the inspection needed to make sure that the terms of the contract are being observed, and so on.[169] Thus, when such costs are associated with market transactions, as they are in the orphan works context, the initial allocation of legal rights has an effect upon efficiency because one arrangement of rights may bring about a greater value of production than another.[170]

¶ 51 Because successful bargaining promotes the efficient allocation of legal rights regardless of the governing rule of law,[171] initial resource allocation would be most efficient if it were done in a manner that insured bargaining would be possible.[172] In other words, economic efficiency would ultimately be attained if rights were initially

---

[165] *See generally* U.S. Copyright Office, Orphan Works Initial Comments, http://www.copyright.gov/orphan/comments/index.html (last visited Nov. 29, 2006); U.S. Copyright Office, Orphan Works Reply Comments, http://www.copyright.gov/orphan/comments/reply/ (last visited Nov. 29, 2006).

[166] Coase, *supra* note 156.

[167] *Id.*

[168] COOTER & ULEN, *supra* note 27, at 101 n.11.

[169] Coase, *supra* note 156, at 7.

[170] *Id.* at 8.

[171] COOTER & ULEN, *supra* note 27, at 105.

[172] *See, e.g.*, Calabresi & Melamed, *supra* note 28, at 1094.

assigned in a way that ensured negotiation between parties. While such an allocation would undoubtedly minimize the administrative costs of enforcement,[173] it would only be practicable to the extent that society, by and through the legislature, determined that the rights in question were so unalienable that they should be provided to all people at the expense of individual desires.[174] While the right to education, clothes, and bodily integrity[175] are examples of such unalienable rights, the same cannot be said of copyright.[176] Accordingly, when it is not possible to allocate resources initially in a manner that ensures bargaining,[177] the law should, when practicable, facilitate efficient outcomes similar to what would have been achieved if the parties could have bargained with one another.[178]

¶ 52 Despite the notion that successful bargaining can cure inefficient laws, the law becomes significant when parties are unable to bargain because non-cooperative outcomes often affect the distribution of costs and resources adversely.[179] In other words, when parties are unable to cooperate, the outcome is more likely to be inefficient because compensatory damage awards and injunctive relief generally fail to achieve the result the parties would have negotiated. Moreover, each of the potential non-cooperative outcomes – compensatory damages or an injunction – would provide different payoffs to each of the parties, whereby each party would prefer the rule of law that provided him with the greatest payoff.[180] Generally speaking, the plaintiff's payoff in a property dispute is at least as great when the remedy is injunctive relief as when the remedy is damages. Therefore, plaintiffs would prefer the remedy of injunctive relief, while defendants would prefer the damage remedy or, better yet, no remedy.[181] In property cases, however, relief may be granted to a defendant in the form of a prescriptive easement or adverse possession.[182] These doctrines are intended to promote efficient property use by allocating rights from an owner who is not using his land, or fails to

---

[173] Calabresi & Melamed, *supra* note 28, at 1093 (citing OLIVER W. HOLMES, JR., THE COMMON LAW 76-77 (Howe ed. 1963)).

[174] *Id.* at 1100.

[175] *Id.*

[176] Indeed, the Constitution provides to authors, for limited times, the exclusive rights to their creative works. U.S. CONST. art. I, § 8, cl. 8.

[177] *See, e.g.*, Calabresi & Melamed, *supra* note 28, at 1094.

[178] *Id.* at 1127.

[179] COOTER & ULEN, *supra* note 27, at 105.

[180] *Id.*

[181] *See, e.g.*, COOTER & ULEN, *supra* note 27, at 105, describing Guido Calabresi & A. Douglas Melamed, *supra* note 28, as follows:

> where an externality has arisen, the court should choose between compensatory damages and an injunction on the basis of the parties' ability to cooperate in resolving the dispute. Where there are obstacles to cooperation, the preferred remedy is the award of compensatory money damages. Where there are few obstacles to cooperation, the preferred remedy is the award of an injunction against the defendant's interference with the plaintiff's property.

[182] BARNES & STOUT, *supra* note 33, at 40 ("Prescriptive easements have a counterpart in the law of adverse possession, which permits a person in possession of another's land to acquire not only the right to use that land but even title to that land. In either case, the use (for an easement) or possession (for title) must be 'open and notorious' and the adverse use or possession must continue for a statutory time period. This ensures that the landowner will have an opportunity to detect the use or possession and its averse character.").

object to another's use or possession of his land, to someone using the land as an owner normally would.[183] Generally speaking, these examples illustrate that liability rules may be used to effectuate the efficient allocation of legal rights and costs when cooperative bargaining is not possible.

¶ 53 The aforementioned doctrine forms the basis of the Normative Coase Theorem, which is discussed in the following section.

B. Economic Analysis of the Orphan Works Act of 2006

¶ 54 Under Normative Coase Theorem, the Act would allocate transaction costs and resources more efficiently than they are under current law at every stage of the process. At the outset, the Act would facilitate bargaining between interested parties because it would reduce search costs and increase the likelihood that potential users who currently abstain from searching will search for the copyright owner, find the copyright owner, and negotiate an efficient agreement for the use of their work. When compliance with the search guidelines failed to locate the copyright owner, the Act would promote efficiency and reduce the administrative costs of enforcement by encouraging the parties to reach a cooperative bargain[184] that would pay the copyright owner "reasonable compensation" for the use of their work. If the parties were unable to agree upon the amount of "reasonable compensation," the proposed limitations on remedies would promote efficient non-cooperative outcomes because they consider whether the use is commercial or non-commercial in determining the amount of monetary relief available, and because they consider fairness to the infringer when determining the extent of injunctive relief available to copyright owners. This mitigates the costs incurred by orphan works users who commence the unauthorized use of a work in reliance upon a reasonably diligent and good faith search. In cases where the copyright owner never came forward to object to the use but might have consented to the use if asked, the Act would serve a function similar to those served in property law by prescriptive easements and adverse possession. The Act would make it more likely that potential users who performed a "reasonably diligent" search would use an orphan work despite the risk of being sued for infringement, thereby effectively allocating rights[185] from an owner who is not using them, or fails to object to another's use of them, to someone using the rights as an owner normally would.[186]

¶ 55 The Act would reduce the prohibitive transaction costs often associated with private agreements regarding the use of orphan works that have historically deterred potential new users from searching for copyright owners under the common system. By

[183] *See supra* note 6.

[184] Calabresi & Melamed, *supra* note 28, at 1093-1094 (citing OLIVER W. HOLMES, JR., THE COMMON LAW 76-77 (Howe ed. 1963)).

[185] The Act would not assign title to the potential user as adverse possession does under property law, but it might encourage the potential user to act as if he had been provided with an easement, so to speak, to use the work. In other words, the Act would make it more likely that potential users who performed a search "reasonably diligent" enough to procure the Act's limitations on remedies would proceed with use of the orphan work despite the risk of being sued for infringement.

[186] *See supra* note 6.

providing guidelines for what constitutes a "reasonably diligent" search, the Act considers the orphan works problem from the perspective of the potential user.[187] Because a potential user's compliance with these search guidelines would provide a measure of certainty that his potential liability for infringement would not exceed the reasonable license fee he would have paid had he and the copyright owner negotiated prior to the infringing use,[188] the Act would encourage potential users to follow the guidelines. In doing so, it would likely result in lower costs of avoidance and more efficient searches and expenditures. As such, the Act would facilitate bargaining between interested parties. By reducing the transaction costs involved in searching, it thereby increases the likelihood that potential users who would have abstained from searching will search for the copyright owner, find the copyright owner, and negotiate an economically efficient agreement with the copyright owner for use of their work that benefits both parties and the public.

¶ 56 The Act acknowledges that orphan works have become increasingly problematic because even potential users who conduct exhaustive searches are not guaranteed to find the copyright owner. Indeed, copyrighted works become orphans for many reasons, and a potential user may not be able to locate the copyright owner for reasons wholly unrelated to the cost, duration or depth of their search.[189] Thus, if a potential user conducted a "reasonably diligent," good faith search that did not produce the copyright owner,[190] the Act would limit the monetary damages available to the copyright owner to "reasonable compensation," the amount of which would be negotiated[191] for by the copyright owner and the infringer.[192] In other words, although orphan works users could still be found liable if the copyright owner came forward, the Act would theoretically limit their liability to what they would have paid if they had been able to find the owner and negotiate a license fee for the use. Therefore, the Act would promote more efficient

---

[187] Petit, *supra* note 26. Petit notes that the Registrar's shift from considering rights from the point of view of the copyright owner to considering them from the perspective of the prospective user "represents an unstated shift in the paradigm of copyright protection and permission . . . from presuming opt-in to presuming opt-out [on the owner's part] as the default condition of copyright." *Id.* at 2-3.

[188] The *Report on Orphan Works* cites *Davis v. The Gap, Inc.*, 246 F.3d 152 (2d Cir. 2001), for the proposition that a "reasonable license fee" would be appropriate in the orphan works situation. U.S. COPYRIGHT OFFICE, *supra* note 15, at 116. The *Report* notes:

> The Gap was not seeking, like [other] defendant[s], to surreptitiously steal material owned by a competitor . . . . [T]he Gap and Davis could have happily discussed the payment of a fee, and . . . Davis's consent, if sought, could have been had for very little money, since significant advantages might flow to him from having his [work] displayed in the Gap's ad. Alternatively, if Davis's demands had been excessive, the Gap would in all likelihood have simply eliminated Davis's [work] from the photograph. Where [a prior court case was] motivated by its perception of the unrealistic nature of a suggestion that the infringer might have bargained with the owner, . . . such a scenario was in no way unlikely in the present case.

Id. at 116 (quoting *Davis*, 246 F.3d at 164). In order to determine the level of "reasonable compensation," the court would look to what "similar transactions" had concluded. *Id.* at 116 n.383 (citing *Davis*, 246 F.3d at 161).

[189] *See* discussion *supra* Section III.

[190] Orphan Works Act of 2006, H.R. 5439, 109th Cong. § 514(b)(1)(B)(ii) (2006) (explaining the consequences if the infringer fails to negotiate in good faith).

[191] *See supra* note 30.

[192] *See supra* note 30.

allocation of resources because it would reduce the administrative costs of enforcement by encouraging the parties to reach a cooperative bargain.[193] In addition, such bargaining would allocate transaction costs more efficiently than the current system because negotiation generally produces more efficient results than non-cooperative outcomes, such as the award of compensatory damages or an injunction, which often provide a benefit to one party at the expense of the other party and economic efficiency.[194]

¶ 57 The Act's proposed limitations on remedies allocate transaction costs efficiently even when the parties are unable to strike a bargain after finding one another. Much like other sections of the Copyright Act,[195] the Act distinguishes between commercial and non-commercial use. Notably, the Act would eliminate all monetary relief available to a copyright owner from an infringer who used the copyrighted work primarily for a "charitable, religious, scholarly, or educational purpose" with no intent to benefit commercially.[196] In addition, the Act would eliminate monetary relief where the user is making a non-commercial use of the work and, upon receiving notice of the infringement claim, promptly ceases the infringing use.[197] As a practical matter, these bans on monetary relief would not apply if the copyright owner proved, and the court found, that the infringer earned proceeds directly attributable to the infringement.[198] Thus, while the distinction between commercial and non-commercial use does not achieve the precise outcome that the parties would have negotiated, it promotes the efficient allocation of resources because it reduces the inefficiencies incurred by non-cooperative awards of monetary damages.

¶ 58 The proposed limitations on remedies would also reduce the economic inefficiencies caused by an award of injunctive relief. While plaintiffs generally prefer the remedy of injunctive relief in property disputes because it provides a payoff at least as great as when the remedy is damages,[199] the Act limits – and in some cases, eliminates – the amount of injunctive relief available. If an infringer satisfied the proposed search requirements, the Act would require courts to limit the injunctive relief imposed "to the extent practicable" if it would harm the infringer for relying upon his "reasonably diligent" search.[200] Second, where the infringer integrated the orphan work into a new work, injunctive relief would not be imposed, provided that the infringer agreed to (i) pay the owner "reasonable compensation" and (ii) "provide attribution to the owner . . . in a reasonable manner."[201] These limitations on remedies would allocate resources more efficiently than the current law[202] because they would not enjoin the beneficial use of a copyrighted work. Therefore, the Act as a whole would allocate transaction costs more

[193] *See supra* note 181.
[194] *Id.*
[195] For example, as the first prong of the four part balancing test for "fair use," courts consider "the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes." 17 U.S.C. § 107 (2006).
[196] Orphan Works Act of 2006, H.R. 5439, 109th Cong. § 514(b)(1)(B)(i)(I) (2006).
[197] *Id.* at § 514(b)(1)(B)(i)(II) (2006).
[198] *Id.* In such a case, the copyright owner would be permitted to receive reasonable compensation.
[199] COOTER & ULEN, *supra* note 27, at 104-05 (citing Calabresi & Melamed, *supra* note 28).
[200] Orphan Works Act of 2006, H.R. 5439, 109th Cong. § 514(b)(2)(A)-(B) (2006).
[201] *Id.* at § 514(b)(2)(B) (2006).
[202] 17 U.S.C. § 502 (2006).

efficiently than the current law because it would mitigate the costs incurred by an orphan work user who commenced use in reliance upon a reasonably diligent and good faith search without reducing the financial benefit provided to the copyright owner from the payment of "reasonable compensation."

¶ 59 Finally, in cases where the copyright owner never came forward to object to the use, the Act would serve a function similar to those served by prescriptive easements and adverse possession in the context of property law. By providing potential users with search guidelines and limited liability, the Act would, in certain circumstances, facilitate the allocation of rights from an owner who is not using his intellectual property rights or fails to object to another's use of his rights to someone using the rights as an owner normally would.[203] While the Act would not assign title to the potential user as adverse possession does under property law, it might encourage the potential user to act as if he had been provided with an easement, so to speak, to use the work.[204] In other words, the Act would make it more likely that potential users who perform a "reasonably diligent" search to procure the Act's limitations on remedies would proceed with use of the orphan work despite the risk of being sued for infringement. Thus, when a potential user commenced using an orphan works because of the Act, the Act would promote the efficient allocation of costs and resources by alleviating the costs currently incurred when use of orphan works is forsaken despite the fact that the copyright owner might have consented to use of the work if asked or might no longer exist to object.

C. Reconciling the Proposed Increases in Efficiency with the Goals of Copyright Law

¶ 60 The proposed efficiency increases are compatible with the goals of copyright law because they make it more likely that the public will benefit economically and culturally from orphan works. Although the ultimate effectiveness of the Act will depend upon how it is interpreted by judges, the text of the Act, the comments received by the Copyright Office, and the *Report on Orphan Works*, testimony before the House and Senate Subcommittees suggest that the Act's flexible but pointed search criteria would facilitate negotiation between parties. This would permit orphan works, as well as the transaction costs currently incurred by potential users and the public, to be allocated in a more economically efficient manner without significantly undercutting the incentives that the copyright monopoly provides to authors. In fact, none of the Act's proposed limitations on remedies would even apply unless transaction costs or uncertainty over copyright ownership after a "reasonably diligent" search precluded successful negotiations between the copyright owner and the potential user from taking place. Moreover, none of the proposed limitations would apply if the infringer negotiated for the use in bad faith. As such, the Act would only allocate transaction costs to copyright owners in a very limited number of circumstances, wherein it would be unlikely that the allocation of such additional enforcement costs would make copyright owners significantly worse off than they are now. Therefore, the Act would serve the goals of copyright law because it would promote the efficient allocation of costs and resources in

[203] *See generally*, *supra* note 6.
[204] BARNES & STOUT, *supra* note 33, at (1992).

a manner that would facilitate the increased production of creative works that would benefit the public.

1. Reduced Transaction Costs and Benefits to Potential Users and the Public

¶ 61 The Orphan Works Act of 2006 would reduce many of the economic and social costs incurred by the public as a result of the orphan works problem.[205] Unlike recent copyright legislation, which is written from the author's perspective,[206] the Act considers the orphan works problem from perspective of the potential user.[207] As such, the proposed search guidelines would reduce the inefficiencies and deadweight losses incurred under the current system by providing potential users with more certainty that their potential liability for infringement would not exceed the reasonable license fee the user would have paid to the owner had they negotiated it prior to the infringing use.[208] Thus, the proposed search guidelines promote lower costs of avoidance and more efficient searches and expenditure for potential users. As a result, many of the current causes of the orphan works problem – prohibitive search costs,[209] fears of potential liability, and litigation expenses – would no longer discourage the use of orphan works.[210]

¶ 62 Although orphan works users could still be liable if the copyright owner came forward, the Act would theoretically limit their liability to what they would have paid if they had been able to find the owner and negotiate a license fee for the use.[211] Moreover, "to the extent practicable,"[212] the injunctive relief imposed by courts would "account for any harm that the relief would cause the infringer for relying upon a 'reasonably diligent' search."[213] Assuming the user would be willing to negotiate in good faith and pay the copyright owner a reasonable fee[214] for these uses, the Act would serve the primary goal of copyright by promoting the valuable use of orphan works for the benefit of the public.

¶ 63 As evidenced by the accolades the Act has received by book publishers, libraries, archives, museums, educational institutions, record companies, motion picture studios, independent filmmakers, software publishers and others,[215] the potential cultural benefits

---

[205] *See supra* Section III.C.2.

[206] *See supra* Section II.C.

[207] Petit, *supra* note 26, at 2-3 (unpublished article online at SSRN). Petit notes that the Registrar's shift from considering rights from the point of view of the copyright owner to considering them from the perspective of the prospective user "represents an unstated shift in the paradigm of copyright protection and permission . . . from presuming opt-in to presuming opt-out as the default condition of copyright." *Id.*

[208] *See* Orphan Works Act of 2006, H.R. 5439, 109th Cong. § 514(b)(1)(B)(ii) (2006).

[209] *See* discussion *supra* note 3.

[210] DUKE CTR. FOR THE STUDY OF THE PUB. DOMAIN, *supra* note 73, at 3.

[211] *See* Orphan Works Act of 2006, H.R. 5439, 109th Cong. § 514(b)(2)(A) (2006).

[212] *Id.* For example, where a user who complied with the search guidelines has invested substantial money in creating a new work to publish, a court could deny the request for injunctive relief of a copyright owner who appears out of thin air on the eve of the new work's release.

[213] *Id.*

[214] In cases of non-commercial use, such a fee might be zero.

[215] *The Copyright Office's Report on Orphan Works: Hearing Before the Subcomm. on Courts, the Internet, and Intell. Property of the H. Comm. on the Judiciary*, 109th Cong. (2006) (statement of Jule L.

of greater orphan work use are undeniable. The Act's proposed limitations on available remedies make it more likely that potential users will be less discouraged from taking advantage of orphan works. Of particular significance are the provisions of the Act that would eliminate all monetary relief available to a copyright owner where an infringer with no intent to benefit commercially uses the copyrighted orphan work primarily for a "charitable, religious, scholarly, or educational purpose."[216] As a result, museums would be able to display thousands of never-before-seen copyright orphans. Historians and scholars would be able to better preserve our nation's heritage and culture by preserving national treasures such as early films, photographs, writings, and sketches, and incorporating them into academic works. Moreover, the ever-growing number of digital library projects[217] could obtain and catalog these works in a manner that would "stock our storehouse of knowledge" in precisely the way the Framers intended.[218]

2. Additional Transaction Costs Allocated to the Copyright Owner

¶ 64 In essence, the proposed limitations on available relief would allocate a portion of the transaction costs associated with the orphan works problem from potential users onto copyright owners.[219] Specifically, the Act shifts the cost of initiating negotiations from the new author to the copyright owner. In doing so, the Act represents a departure from the current system, under which the potential user bears the entire cost of avoiding an infringement claim,[220] including the cost of identifying and contacting the copyright owner and the cost of paying a fee to the copyright owner for permission to use their work. Because the goals of copyright law would be best served when a user is able to locate and negotiate a licensing fee with the copyright owner,[221] the limitations on remedies would only apply when the user could prove compliance with the Act's search and attribution guidelines. In light of the potential licensing fees and recognition the Act could generate for copyright owners whose works would remain unused under the current

---

Sigall, Associate Register for Policy & International Affairs), *available at* http://www.copyright.gov/docs/regstat030806.html.

[216] Orphan Works Act of 2006, H.R. 5439, 109th Cong. § 514(b)(1)(B)(i) (2006).

[217] Because of the orphan works problem, a philosophical debate has emerged between digital library projects regarding whether to use orphan works in such libraries and whether the user of orphan works in such cases should have the exclusive right to display the orphan work or whether they should share the link to the document with other digital library projects. *See* Michael Liedtke, *Google Book Scanning Effort Sparks Debate*, ASSOCIATED PRESS, Dec. 20, 2006, at 1.

[218] Loren, *supra* note 40, at 3.

[219] Petit, *supra* note 26.

[220] *Id*. (When individual authors work with publishers or production companies, the publishers or companies sometimes agree, via contract, to bear a portion of costs associated with obtaining permission to use the work. The terms of these contracts vary from industry to industry. As Petit notes, "some book contracts require the publisher to actually bear the cost of the permission process. More often, the publisher and author split the cost, typically by having the author pay any formula permission fees (often through an additional advance against royalties) while the publisher's staff cross-checks the permissions and determines which elements require permission. Periodical publishing, however, places virtually the entire burden of obtaining permission on the author, as typical contracts explicitly require the author to warrant that he has obtained all necessary permissions.").

[221] The Supreme Court has repeatedly noted that "[t]he economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by *personal gain* is the best way to advance public welfare through the talents of authors and inventors in 'Science and useful Arts.'" *Mazer*, 347 U.S. at 219 (emphasis added).

system, the primary transaction cost that the Act would allocate to copyright owners would be the attorneys' fees incurred by hiring a lawyer to pursue orphan work users who refused to cease use of the work and negotiate reasonable compensation.

¶ 65 Given the wide array of potential uses and types of orphan works, the proposed search criteria are intended to be broad enough to encourage individual groups and industries to develop and publish best practices or guidelines to facilitate negotiation between potential users and copyright owners of orphan works.[222] Moreover, the purpose of requiring "good faith" and "diligent" searches is "to safeguard against abuse of the orphan works exception by users who may conduct superficial searches merely as a pretext for exploiting a protected work."[223] If applied as intended, the Act would make it rare that an author would not be found after a potential user conducted the type of "reasonably diligent" search required to limit the available remedies.[224] If the potential user's search did not produce the copyright owner, the user would, in theory, have to prove that the level of diligence exercised correlated to nature and extent of the use.[225] In other words, the more prominent, commercially beneficial, and widely disseminated a copyright owner's use of an orphan work is, the more diligent a search a potential user would need to conduct in order to obtain the protections afforded by the "limitations on remedies" provisions.[226]

¶ 66 Despite these safeguards intended to protect authors, a significant number of responses to Congress' Notice of Inquiry indicate that photographers, illustrators,[227] visual artists,[228] and members of the textile and apparel industries have expressed concern that the Act would create an undue burden on their ability to protect their copyrighted works. Specifically, these copyright owners allege that the Act makes them more vulnerable because their works, which do not always identify or provide attribution to the copyright owner, would be more likely to be considered orphans. As a result, they argue it would be more likely that their available remedies would be limited under the Act. Since "reasonable compensation" under the Act would generally not include attorneys' fees,[229] these parties argue that the high costs of legal representation could exceed their means or the value of the copyrighted work, depriving them of an "economically feasible" mechanism by which to enforce their rights and preserve their

---

[222] U.S. COPYRIGHT OFFICE, *supra* note 2, at 109-10.

[223] *Id.* at 98.

[224] *Id.*

[225] *Id.* at 108.

[226] *Id.* at 109-10.

[227] *See, e.g.*, Letter from Michiko Stehrenberger to Jim McDermott, Congressman (July 12, 2006), http://www.illustratorspartnership.org/01_topics/article.php?searchterm=00235.

[228] *See, e.g.*, Megan E. Gray, *Orphan Works Will Harm Business*, http://www.illustratorspartnership.org/01_topics/article.php?searchterm=00226 (noting that visual artists may produce apparel, stationary, holiday cards, shower curtains, pillows, jewelry, tattoos, photographs, ceramic tiles, wrapping paper, carpet, etc.).

[229] Orphan Works Act of 2006, H.R. 5439, 109th Cong. § 514(b)(1) (2006) (disallowing monetary relief other than an order requiring reasonable compensation, but reserving an option for recovery, including attorneys' fees, where the infringer fails to negotiate in good faith to determine reasonable compensation).

commercial earning power.[230]

¶ 67 While this possibility undoubtedly exists,[231] the Copyright Office has suggested several measures by which authors could better protect themselves. First, concerned creators can take precautionary measures to prevent their works from becoming orphans. Such measures may include marking copies of their works, developing mechanisms such as collective licensing organizations that can provide ownership and licensing information to users, and developing technology to permit users to search for owners when they have only an image and no contextual information. [232] Second, the Copyright Office, bearing in mind that the goal of any orphan works solution should be to make it easier for users and owners to find each other, noted it would be willing to examine alternative mechanisms by which to address these parties' concerns.[233]

¶ 68 Given the reality of the orphan works problem and the economic and social costs incurred by it,[234] the proposed allocation of transaction costs to the copyright owner represents a justifiable shift in the balance of copyright law back in favor of the public. Indeed, the proposed limitations on remedies would only apply in certain limited circumstances. For example, if the user locates the copyright owner but the owner is unwilling to negotiate, the proposed limitations on remedies would not apply.[235] In addition, where a potential user found the copyright owner but acted in bad faith while negotiating a licensing fee, the owner would be entitled to obtain full relief,[236] including reasonable attorneys' fees.[237]

¶ 69 Therefore, the price of the Act would be worth the additional transaction costs it allocates to authors. If a reasonably diligent search did not produce the copyright owner, it would be unlikely that the orphan work produces substantial profits for the owner. Additionally, if a potential user's new uses of the orphan work contribute to making that

---

[230] *See, e.g.*, Gray, *supra* note 228. *See generally* U.S. Copyright Office, Orphan Works Initial Comments, http://www.copyright.gov/orphan/comments/index.html; U.S. Copyright Office, Orphan Works Reply Comments, http://www.copyright.gov/orphan/comments/reply.

[231] *See, e.g., Report on Orphan Works by the Copyright Office: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the H. Comm. on the Judiciary*, 109th Cong. (2006) (statement of Jule L. Sigall, Associate Register for Policy & International Affairs), *available at* http://www.copyright.gov/docs/regstat030806.html.

[232] *Id.*

[233] *Id.* ("We will be pleased to work with the Subcommittee and interested parties in exploring possible new procedures; however, the key to enhancing copyright protection in visual images is not increased litigation, but making it easier for owners and users to find each other, which our orphan work proposal encourages.").

[234] *See* discussion *supra* Section III.C.2.

[235] U.S. COPYRIGHT OFFICE, *supra* note 2, at 9 ("Several commentators complained of the situation where a user identifies and locates the owner and tries to contact the owner for permission, but receives no response from the owner . . . . [The Act would not apply because such a situation] touches upon some fundamental principles of copyright, namely, the right of an author or owner to say no to a particular permission request, including the right to ignore permission requests.").

[236] *Id.* at 98 ("[T]he proposed language explicitly requires 'good faith,' in addition to 'diligence.' The purpose of requiring good faith and a reasonable degree of diligence for every search is to safeguard against abuse of the orphan works exception by users who may conduct superficial searches merely as a pretext for exploiting a protected work."); *see also* Orphan Works Act of 2006, H.R. 5439, 109th Cong. § 2(a) (2006).

[237] Orphan Works Act of 2006, H.R. 5439, 109th Cong. § 514(b)(1)(B)(ii) (2006).

original work more commercially viable, the copyright owner would be entitled to collect licensing fees from the new exposure that might not have been available previously. Thus, while the Act could reduce the value of some copyrights, it would likely lead to additional licensing fees for copyright owners and it would undoubtedly make many currently unavailable works available to the public. Moreover, any reduction in the value of copyrights caused by the potential costs of hiring an attorney – the risk of which already exists under the current system – would not provide authors with any less of an incentive to create new works than they currently have now.

VI. CONCLUSION

¶ 70 As a whole, the Act would provide a meaningful solution to the orphan works problem. The Act would indirectly reduce the substantial economic and cultural costs of the orphan works problem currently borne by potential users and the public by minimizing the transaction costs associated with the use of orphan works. While these benefits would be obtained by allocating additional transaction costs to the copyright owner,[238] the Act would provide an adaptable framework to protect against the abuse of orphan works, so that minimal efforts by copyright owners could relieve many of the concerns expressed in response to the proposed transaction cost allocation. As such, the Act would allocate transaction costs efficiently at every step of the process, from encouraging searches and negotiation before infringement to providing for more efficient non-cooperative remedies after infringement. In doing so, the Act would allocate resources efficiently and would serve the goals of copyright law, making it more likely for potential users to use orphan works in a manner that benefits the public.

[238] *See* discussion *supra* Section V.C.2.