



**Remedies for Small Copyright Claims: Response to Third Request for Comments
(78 FR 13094) (Docket No. 2011-10)**

Submitted By
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Copyright Office Statement.

The Copyright Office is studying whether and, if so, how the current legal system hinders or prevents copyright owners from pursuing copyright claims that have a relatively small economic value and will discuss, with appropriate recommendations, potential changes in administrative, regulatory, and statutory authority. At this time, the Office seeks additional comments on possible alternatives to the current system to improve the adjudication of such claims.

APA Comment.

The Office's inquiry stems from the fact that the existing legislative scheme does not provide adequate remedies for copyright infringement. This is true for cases of higher value. But it is especially true for cases of nominal value considering the impracticality of legal proceedings, in cases of nominal value, where the legal costs may be high. As a result of these costs, only a small number of infringement cases, large or small, are pursued. And as a further result, copyright infringement is widespread and flagrant.

In explicating some of the obstacles imposed by the current legal system to infringement claims, one comes to easily understand why copyright law has become ineffective, why infringement is rampant, and why many valid copyright claims are ignored.

I. The Inadequacy of Damages Under the Current Legislative Scheme

The first and most obvious problem lies in the existing statutory scheme for awarding damages.

A. Statutory Damages

As a preliminary matter, only works registered prior to an infringement qualify for statutory damages pursuant to 17 U.S.C. Section 505, subject to certain exceptions (See, e.g., 17 U.S.C. Section 412). This archaic registration requirement has never proven to effectively encourage registration of rights, particularly in cases where non-corporate, individual rights owners are involved. And in any case, registration could be better incentivized by simplifying the registration requirement, by permitting multiple and group registrations so that more works could be registered with less effort and with lower cost, by permitting published and unpublished works to be registered together to simplify the registration procedure, and by reducing registration filing fees to make registration more affordable. Were these procedures to be adopted, rights owners would be better able to qualify for attorney's fees, and would be better able to pursue their claims, large or small. Another answer would be to eliminate the requirement of registration for statutory damage awards entirely. Yet another solution would be to make work eligible for statutory damages once the work is registered, even though an infringement has already commenced, thereby accomplishing any purpose that registration may serve, while still providing the rights owner with the attorney's fees that make proceedings viable. Alternatively, and to specifically address small claims, attorney's fees could be made available without registration for claims under a certain ceiling, e.g. \$80,000 (excluding fees). In this manner, the rights owner would be able to, and would be encouraged to, proceed with counsel to prosecute infringement claims, provided that they limit the relief being requested.

Another and also obvious problem with the statutory scheme for pursuing copyright claims lies in the fact that the statutory awards are currently capped at \$150,000 for willful infringement, and \$30,000 where the infringement is not willful. See 17 U.S.C. Section 504(c). That said, in awarding statutory damages, courts generally award amounts which conservatively enhance actual damages. In certain cases, the infringer may seek to reduce the award to as little as \$250 for an innocent infringement. (See 17 U.S.C. Section 504(c)(2). Consequently, the law gives prospective infringers an incentive to infringe because the prospective infringers pay only a nominal increase over the actual damages or licensing costs where statutory fees are awarded. If the law truly wishes to protect rights owners against infringement, the law should not be providing any escape hatch for infringers. Only by compelling infringers to take licenses will the law make licensing as an option more attractive than infringing. The real solution to this problem is clear: to both increase the statutory caps under 17 U.S.C. Section 504; but also to substantially increase the statutory minimums, and to eliminate entirely the statutory reduction for "innocent infringement." In this regard, Chapter 5 remedies should be raised above the current Chapter 12 minimum remedies for infringement (\$2,500 per infringement); currently they fall well below that level. (Cf. 17 U.S. C. Section 1203(c)(3).

B. Profits as Actual Damages.

An additional and critical problem with the current system for computing damage awards

lies in the means by which actual damages are calculated. In profit recovery cases (for which a pre-infringement registration is not required), and which is one of the few remedies currently allowed the rights owner in the majority of cases in which they have not registered their work, the plaintiff is required to prove gross revenue for the infringement, and the infringer is required to prove the expenses attributable to infringement. 17 U.S.C. Section 504(b). This frequently results in a more complex legal proceeding designed to prove what is, and what is not, net profit. This typically involves the expense of discovery, interrogatories, document production requests, and complex procedures to protect the parties' confidential business information. This typically involves the retention of expensive experts, on both sides, as well as the time and expense of depositions to obtain explanations of complex financial information, and to conduct an analysis of infringer costs, frequently detailing the exact manner and rational for why any given expense should be or should not be deductible. For the rights owner, and in many cases, it is therefore only at considerable expense that they can pursue the infringers' profits, a scenario under which they may find that they have spent more to recover than what the recovery itself amounts to in the end. And ironically, when followed to fruition, this procedure only disgorges from the infringer the profits they obtained. In other words, if the infringer does not get caught, they profit from their activity, and if they are caught and sued, they lose nothing. Infringement, at worst, is a zero sum game. In any case, it is the mere cost of adducing evidence, and computing the revenues, that makes the proceedings costly, and impractical for the rights owner.

There are several possible answers. The first would be a mandatory requirement that the defendant in any infringement case make a full disclosure of their net profits taking into account actual sales and direct expenses. Another possibility is to compensate the rights owner, if not with the profits (if any) ultimately computed through the proceedings, then with the fees incurred in order to undertake the computation. Yet another is to make the alternative "statutory" damage awards available, and to assure that there is a minimum damage award that is truly compensatory. Another possibility is to treble the profits, once they are established.

C. Reasonable Royalties.

Another significant problem with the current scheme of determining the rights owner's damage award is in the means by which reasonable royalties are computed. Under current law, the rights owner can recover under the rubric of "actual loss" a reasonable royalty in certain cases where the owner can establish that a license may have applied. (17 U.S.C. Section 504(b)). As is the case with profits, it is currently to the infringer's benefit to infringe. If they get caught, they lose nothing, and in the case of a royalty recovery, the infringer pays nothing more than the royalty they would have paid in an arms length transaction. And this assumes that the rights owner convinces the court that a royalty award is warranted. The answer to this problem would be to treble the reasonable royalty so that it costs the infringer more to infringe than it would to license the work, and thereby encourage the licensing to take place. The larger award possibility would thereby deter infringement and would increase the benefit of proceeding, thereby allowing room for rights owner to compensate counsel and to pay costs.

D. Attorney's fees

The fact that the rights owner's attorney's fees will exceed their recovery is probably the single foremost impediment to their proceeding with an infringement claim. Attorney's fees must therefore be made available to a prevailing plaintiff in all cases; not only where the work was registered prior to infringement. Unless this obstacle is removed, there is little hope that copyright owners will really be able to pursue their claims because in the vast majority of cases, it will cost more to do so than they will be likely to recover, particularly under the currently inadequate and limited damage awards that are possible.

E. Apportionment

Yet another stumbling block is interposed by the rules for "apportionment." Under the law of apportionment, 17 U.S.C. Section 504(b), the damage recovery in copyright cases may be apportioned for any profits not "attributable" to the infringing work. The apportionment rules have, on the one hand, turned intentional infringement in the marketplace into a science. The use of multiple images or copyrightable contributions, even additional infringing work, guarantees the infringer that they will pay only a fraction of the damages awardable to any one infringed rights owner once an apportionment is performed. As a result, multiple infringements are frequently found in one infringing article based on the infringer's knowledge that, if caught, the infringer will pay only a portion of the damages or profits from their work to any one rights owner, as long as they take pains to infringe many other works at the same time. Unless all of the rights owners are found, this makes fractional the recovery for any one infringement. One solution to this problem is to limit apportionment to non-infringing works, which may be included in the infringing article. Another is to cap apportionments to no more than 50% of the net profits, in any case, so as to guaranty that the copyright infringement will find a meaningful remedy.

F. Attorney's fees for the Prevailing Defendant

Were the foregoing impediments to proceeding with a claim not more than sufficient to deter the rights owner from proceeding, the law adds yet a further obstacle: the threat that were the rights owner to lose their case, they confront the possibility of an attorney's fee award against themselves, in favor of the defendant. While there currently exists a registration precondition for the rights owner to obtain their attorney's fees if they prevail, a prevailing defendant has no formal pre-requisite to obtaining an award of attorney's fees should they win against the rights owner. This creates a manifest imbalance between the rights owner and infringer in legal proceedings, weighing heavily in the infringer's favor. Were the rights owner to lose, even as a result of a technical problem such as a registration error, or an unforeseen statute of limitations issue, the results could be financially devastating if a fee award against the rights owner were granted. As a result, the rights owner faces a significant disincentive to proceed, while

the law empowers the infringer with retaliatory tools should the rights owner decide to move forward. If there is any rational in the law for this imbalance, the net effect of it is to advance the interests of infringers over anyone wishing to protect their rights.

G. Fed.R.Civ.P. Rule 68

Rule 68 of the Federal Rules of Civil Procedure currently awards costs to a defendant in any case in which the plaintiff does not obtain by judgment or settlement an amount exceeding the defendant's Rule 68 award. While the current status of Rule 68 remains somewhat in flux, and there are complications in its application, there are at least some judicial pronouncements that award attorney's fees to defendants as part of costs in copyright cases under Rule 68. Under these cases, even if the plaintiff rights owner prevails, they still must pay the defendant's costs, possibly including attorney's fees under at least some cases, unless they also win an amount that is more than what the defendant offered. Such a possibility must be eliminated if copyright enforcement is to be a practical reality.

II. Structural Impediments in the Legal System

For those copyright owners who are prepared to brave the currently available legal remedies, there is some good news. Under the current system the parties to litigation are afforded the opportunity to design a case plan that is sometimes efficient and that will often meet the needs of their case. This derives from Rule 26, and Rule 16, of the Federal Rules of Civil Procedure, which require the parties to meet and confer early in the case, to formulate a plan for joinder of parties, amendment of pleadings, discovery including document production, interrogatories, and depositions, time for filing dispositive motions, time for designation of experts, submission of pretrial statements, and other case management issues, and pursuant to which the Court issues a scheduling order. In addition, Rule 26 requires at least the disclosure, early in the case, of witnesses and the identity of documents, which may be used to support a party's claims or defenses. Unfortunately, the prospect of a scheduling order, and case management plan, conducive to a resolution of a case, does not necessarily encourage the litigant with a smaller claim to proceed in seeking a judicial remedy due to the various other obstacles identified above. However, Rule 26 does add some certainty and the possibility of streamlining proceedings, to make case processing more orderly, and less expensive in some instances.

III. APA's proposal

As outlined in APA's previous submissions, APA endorses the use of magistrates, for cases designated by the plaintiff as having an \$80,000 maximum, under a voluntary system for claims resolution. Having pointed out, above, the need to eliminate the registration requirements as a condition for obtaining attorney's fees, this procedure would be available to current registrants, until such time as the registration requirement for fees is eliminated. The qualifying case would require a waiver of equitable relief (of

prospective benefit the copyright defendant), and waiver of a jury trial, and would involve an expedited timeline. The plan would provide attorney's fees to losing defendants who make a judgment offer, unless the plaintiff recovered more than the defendant's offer. The Plaintiff would be required to make an offer and would recover attorney's fees if they recovered what they offered or more. If the recovery was between the plaintiff's and defendant's offer the court would have discretion to award attorney's fees to the plaintiff.

In recommending its small claim procedure, APA does not mean to suggest that it is a substitute for enhancing the recoverable damages in a copyright case, for a statutory revision allowing prevailing copyright owners their attorney's fees, or for a simplification and liberalization of existing registration procedures, or improvement in procedures for damage computations. All of these are crucial to an effective copyright law. Pending that, APA is merely suggesting what APA envisions as enhancements to the current process to expedite small claims.

In order to achieve an expedited ruling, APA specifically suggests that the parties be required to disclose the financial information necessary to resolve the case early in the proceeding. More specifically APA recommends that in addition to the currently required Rule 26 disclosures, the parties in the proceeding make additional disclosures that otherwise might require extensive and time consuming discovery, and which would shed light on the financial dimensions of a case. These "sunshine" disclosures would be made with other Rule 26 disclosures.

a) This would include a statement of the basis for each party's claims regarding copyright ownership, or lack thereof, without a formal discovery demand from the opposing party.

b) This would also include the plaintiff's and defendant's disclosure of any royalty fee information either may use in support of claim for a royalty, without a formal discovery demand from the opposing party.

c) This would also include the defendant's disclosure in any case for which profits were sought of an accounting for all monies received from the infringement, and a detailed, itemized account of all of the expenses claimed and how they were computed, when they were incurred, and which expenses were direct or indirect expenses associated with the infringement.

d) This would also include the defendant's disclosure in any case for which profits were sought of an accounting for any apportionment claimed, and a description of the basis for the apportionment, without any formal discovery demand.

e) This would also include the names and addresses of any John Does.

After the provision of this supplemental information each party would be permitted to verify the opposing party's information through proceedings approved by the magistrate,

whether that be through interrogatories, document production requests, depositions and or other discovery.

After such verification, each party would be required to make their judgment offer.

The expedited provision of the supplemental Rule 26 information would greatly enhance each party's ability to understand the issues affecting case valuation, and would greatly expedite a resolution of the claim. Additionally, defendants would have an incentive to make financial disclosures early in the case, because doing so would theoretically apprise the plaintiff of any limitations on the plaintiff's damage claims, and put the plaintiff in a position to determine the reasonableness of the defendant's judgment offer. Further, it would allow defendant recovery of attorney's fees, if their offer, based on this information, were not exceeded. There is, therefore, a significant incentive for the infringing defendant to empower the rights owner with the information required, even if it reduces the rights owner's expense, because doing so would entitle the defendant to fees from any opportunistic rights owner who sought to recover more than their case was worth. While additional damage remedies are needed, along with reforms for computing copyright damages, the implementation of such an interim procedure would at least help reduce the current costs of proceeding and -- subject to the existing limitations which the rights owners now confront -- help to at least reduce the obstacles and costs associated with case proceedings and case valuation, particularly in the small claims context.

It is noted that many federal courts have introduced Alternative Dispute Resolution (ADR) as a mandatory, or at least a voluntary, proceeding, where a case can undergo an early Neutral evaluation, or can go through Mediation, or Arbitration. These programs have been highly successful for the federal courts. While APA's proposal is intended as an alternative to these programs, APA does not seek to supplant any of these programs where they are already being practiced as these programs already present positive possible solutions for small claims holders in federal cases. The ADR programs already used by the courts should be mandatory in all federal copyright cases.

Responding, seriatim, to the Copyright Offices specific requests for comments, APA's recommended procedure would not utilize a new adjudicative body, would employ the existing system, and would not supplant arbitration or mediation. It would be 1) Voluntary, 2) apply to all works, 3) would not consider other claims, 4) require waiver of injunctive relief, 5) would not change the requirement for secondary liability, 6) would employ attorneys for obtaining a solution) 7) would follow existing law, 8) would be binding, 9) would not depend on a finding of innocence or willfulness, 9) use existing means of service, 10) Would eliminate application of Rule 68, 11) allow default, 12) use existing means of enforcement, 13) require john doe identification (as part of the Rule 26 disclosures), 14) utilize the existing tracking systems 15) avoid constitutional issues, 16) does not implicate international issues, and 17) should be tested to obtain empirical data.

The APA has a core value of advocacy for its members, as well as for the benefit of all photographers. The organization greatly appreciates the Copyright Office's request to

submit comments on the issue of small infringement claims. Towards that end, the APA has participated with other visual art organizations in discussions on the subject of Remedies for Copyright Small Claims. Those organizations include Graphic Artists Guild (GAG), Professional Photographers of America (PPA), Picture Archive Council of America (PACA), American Society of Media Photographers (ASMP), North American Nature Photography Association (NANPA) and National Press Photographers Association (NPPA).

Some of those other organizations are anticipated to file their own comments with the Copyright Office, at times expressing divergent recommendations from those highlighted herein. Nonetheless, APA shares with each of those entities the goal of protecting the copyright of all members, along with all copyright holders in general. The APA and the other trade organizations listed above are all jointly committed to achieving a fair system that provides more opportunity for copyright holders whose rights are infringed to be able to vindicate their rights in a court of law.