January 17, 2012

Catherine Rowland
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United States Copyright Office
101 Independence Ave. S.E.
Washington DC 20559

Re: Notice of Inquiry: Remedies for Small Copyright Claims, Docket 2011-10

Dear Ms. Rowland:

Google Inc. submits these comments in connection with the above-referenced Notice of Inquiry ("NOI"). Google welcomes this opportunity to discuss copyright damages and how they can be handled better within our legal system. Our view is that there may perhaps be a few categories of copyright cases that are well-suited for adjudication in a small claims court, but there are many more categories of cases that are not. In this majority of cases, a small claims court would be unjust to the defendant and bad for the development of copyright law. Further, we are not confident the categories of cases that would benefit from small claims court treatment can be defined *ex ante*, so we doubt a statute defining the jurisdiction of the court can be properly drafted. The following comments therefore identify problems that would need to be solved before any such court came into existence, but do not lay out a workable model.

Before addressing particulars, we should note: a small copyright claim is a rare bird these days. In cases where statutory damages are available, a single momentary use of a single work can entitle a copyright owner to make a claim for $30,000, or in some cases $150,000. Even when statutory damages are not available, rightholders who approach Google with a copyright complaint rarely demand small payments. The availability of very high damages has long warped the copyright system: defendants settle claims that they have a good chance of winning, innovators hesitate to introduce new products that are likely legal, and the economic relations between licensors and licensees are distorted. Important questions of copyright law never get litigated and resolved, and entire industries are kept in legal limbo for decades. Fictitious damages thus undermine core policies of the copyright system:

> Because copyright law ultimately serves the purpose of enriching the general public through access to creative works, it is peculiarly important that the boundaries of copyright law be demarcated as clearly as possible. To that end, defendants who seek to advance a variety of meritorious copyright defenses should be encouraged to litigate them to the same extent that plaintiffs are encouraged to litigate meritorious claims of infringement. . . .

> Thus a successful defense of a copyright infringement action may further the policies of the Copyright Act every bit as much as a successful prosecution of an infringement claim by the holder of a copyright.

Fogerty v. Fantasy Inc., 510 U.S. 517, 527 (1994). If a small claims court were to provide an efficient mechanism to compensate copyright owners for their *actual* damages from certain types of infringement, and if this in turn decreased the use of the statutory damages system, we believe the court could benefit the copyright system. Indeed, whatever justifications might now exist for having statutory damages at all would be greatly weakened if a copyright owner could quickly and efficiently recover actual damages in all cases. As noted above, however, we are not confident the jurisdiction of a small claims court can be defined so that the court lets in appropriate cases but keeps out inappropriate cases--and without a proper filter, the benefits to the system will not be realized.

Which claimaints?

One question not addressed in detail in the NOI is: what sort of claimant is this court supposed to help? The NOI mentions "small copyright claimaints" but there are many types of small copyright claimants. Is the purpose of the court to assist (1) an amateur photographer who finds his Creative-Commons-licensed photograph being used in violation of the license in a magazine; (2) a movie studio that wants to bring 10,000 cases against P2P downloaders; or (3) an independent illustrator who spots his work being used in a store poster without permission? The structure of the court would depend on the answer to those questions. For example, if the focus is on impecunious plaintiffs not large corporations, then concerns over the costs of accessing the court (filing fees, location of the court, etc.) will be more important.

Which defendants?

If the court is not voluntary for the defendant, how will the court obtain jurisdiction over the defendant? Would the Federal Rules of Civil Procedure ("FRCP") govern service of process (assuming the court is federal)? If the FRCP do not govern, the court's rules of process and jurisdiction will have to be carefully vetted in order to protect the due process rights of the defendant. If the court were to require personal appearance, and were located only in one place (e.g. Washington, D.C.) the cost to the parties of participation would often exceed the amount in dispute and would render the proceeding unworkable and unfair. However, if the proceedings are conducted on paper only, the analogy to state small claims courts becomes strained, and the goal of making the court expeditious may be defeated. Finally, clear and fair rules regarding jurisdiction over the defendant will be needed in order to enforce the court's judgments.

Which court?

Google strongly opposes the idea of amending 28 USC § 1338 to allow state small claims courts to hear copyright claims. As the Office noted in the NOI, "State courts do not have expertise in

copyright jurisprudence," and Section 301 preempts state claims that are equivalent to copyright, so state courts do not even have experience with equivalent claims. NOI at 66,760. The NOI also noted that state courts "may not have sufficient resources to devote to a claim's intricacies, especially when limited in a small claims context." *Id.* We agree with these comments, and strongly urge the Office not to recommend this approach.

Which law?

Copyright law varies significantly from Circuit to Circuit: which law would a federal small claims court apply to the cases before it? Especially relevant here is the Sixth Circuit's controversial holding that there is no *de minimis* defense to reproduction of a sound recording. *See Bridgeport Music Inc. v. Dimension Films*, 410 F.3d 792, 798 (6th Cir. 2005). That is not the law outside the Sixth Circuit,[1] so if a plaintiff were to bring an action in a federal small claims court for reproduction of a tiny portion of a sound recording, should the court dismiss the action as *de minimis*, or award damages under *Bridgeport*? No good solution to this problem comes to mind.

Even determining the threshold question of the jurisdiction of the court will require a choice among different Circuit laws. Assuming that the court will not hear state-law license disputes, the court will need to distinguish between federal-law infringement actions and state-law contract actions. "It is common for courts to say that if there is a material breach of a condition of the license, the copyright owner has the option of suing for copyright infringement or breach of contract, but if there is a violation of a covenant, only a breach-of-contract claim will lie." *Patry on Copyright* § 17:43 (2011); *accord Nimmer on Copyright* § 10.15[A][2] (2011). The Ninth Circuit recently held, however, that only certain contract requirements can qualify as conditions, regardless of the structure and language of the license contract: "To recover for copyright infringement based on breach of a license agreement, (1) the copying must exceed the scope of the defendant's license *and (2) the copyright owner's complaint must be grounded in an exclusive right of copyright (e.g., unlawful reproduction or distribution)*." *MDY Indus. v. Blizzard Entertainment*, 629 F.3d 928, 940 (9th Cir. 2011) (emphasis added). Other Circuits use different tests.[2] A small claims court would need to decide whether it could hear the class of claims that would be considered copyright infringement in Circuits other than the Ninth Circuit, but not in the Ninth. There does not appear to be a good way to make that choice.

The United States Court of Appeals for the Federal Circuit does not provide a useful model here. One of the goals of that court is to homogenize patent jurisprudence, so the court follows its own

[1] *See generally Patry on Copyright* § 9:60 (2011).

[2] For example, the Court of Appeals for the D.C. Circuit has defined a condition as "any fact or event which qualifies a duty to perform." *Costello Pub. Co. v. Rotelle*, 670 F.2d 1035, 1045 n.15 (D.C. Cir. 1981). Even something as basic as payment receives differing treatment among the Circuits: "Some courts have held that payment is a condition precedent to a license; some regard payment as a covenant, not a condition; while yet others have held that withholding royalty payments supports rescission of the contract." *Patry on Copyright* § 17.43 at 17-144 (2011).

precedents on patent matters. *See, e.g.*, *Delta & Pine Land Co. v. Sinkers Corp.*, 177 F.3d 1343, 1350 (Fed. Cir. 1999). The goals of a small claims court, by contrast, should not include influencing the direction of copyright law: decisions of the court will often be made quickly, based on a superficial record, without the benefit of briefing by counsel. And even if the court did develop its own body of copyright law, that law would be ignored on appeal anyway, if the appeals were heard by District Courts across the U.S. (because each District Court would apply its Circuit's law). Nor would it improve matters to send all appeals from the small claims court to a single District Court, because then all litigants across the U.S. would be subject to a single Circuit's law, which would give undue importance to that Circuit.

Which claims should be excluded?

Unsubstantiated claims: The court would need to have some procedural 'speed bumps' in order to prevent abuse. For example, a purely paper process could lead to abuse, because it would require less commitment on the part of the plaintiff than a physical small claims court, where the plaintiff is typically required to appear in person, at a time not of her choosing, swear an oath, and confront the defendant. If the process for filing a complaint amounts to writing a short letter, the court will be overwhelmed with claims and many defendants will be have to respond to frivolous complaints. That would replace one injustice with another.

The NOI stated: "It has been suggested that defendants should not be required to appear at a small copyright claim proceeding until the copyright owner provides a *prima facie* case of infringement." NOI at 66,760. Google agrees that this is a good idea. We also believe there should be penalties for knowingly making false claims, and the penalties should not be small. Also, if a plaintiff knowingly brings multiple false claims, she should be barred from using the court (although she could still use District Court). These provisions are just a start: other procedural safeguards would probably be needed.

Complex claims: The purpose of a small claims court will be defeated if litigating a case in the court is time-consuming or expensive. Moreover, the analogy to state small claims courts breaks down when the parties must debate technical legal precedents in order to make or defend their claims. Therefore, the court's jurisdiction should be limited to simple cases. Since copyright cases are very often complex, this means the court will at best have jurisdiction over a small subset of cases. The court should be required to dismiss without prejudice all complex cases, based on its assessment of the law and facts, and should also be required to dismiss automatically any case in the following categories of inherently complex cases:

> Fair use: As the NOI noted, "The affirmative defense of fair use defense [sic] is extremely fact-specific and typically requires courts to examine decades of judicial precedent." NOI at 66,760. For that reason, claims that raise the issue of fair use should not be handled by a small claims court. At the 2006 hearing on this topic,[3] the Authors

[3] *Remedies for Small Copyright Claims*, Hearing before the Subcommittee on Courts, the Internet and

Guild proposed that if there is a substantial fair use defense apparent from the face of the documents, the court must dismiss the complaint without prejudice. Hearing at 5. Google supports that idea.

License: As noted above, Circuits apply various tests to license cases, to determine whether the dispute is a state-law contract action or a federal infringement action. Even if one could determine which test to apply, application of the tests to particular cases often involves complex questions of fact and law, and requires review of numerous precedents. Therefore, if a case presents a colorable question as to whether the defendant was licensed to make the allegedly infringing use, the court should dismiss without prejudice.

Secondary liability: Secondary copyright liability is determined according to judge-made rules that are vague on their face, with their substance supplied by construction of case law. Terms such as "material contribution," "direct financial benefit," "right and ability to control", and "inducement" have little meaning apart from the precedents that construe them. Therefore, construction of numerous precedents is almost always required. With direct infringement, by contrast, there is at least the possibility that the liability rule is clear: the defendant has performed one of the acts listed in Section 106. (A defendant may still raise a complex defense, of course.) Also, fair use is often at issue in secondary liability cases, *see, e.g.*, *Sony Corp. v. Universal City Studios*, 464 U.S. 417 (1984), and (as discussed above) colorable fair use cases should not be adjudicated by the court.

Uncopyrightable subject matter: Cases in which defendants argue that the plaintiff's allegedly infringed work is uncopyrightable often require complex legal analysis. For example, cases related to useful articles delve into metaphysical questions of "physical or conceptual separability." *See generally Patry on Copyright*, §§ 3:136 to 3:147. As with fair use, if a colorable defense of this nature appears on the face of the complaint or in the defendant's answer, the court should dismiss the action without prejudice.

Claims for an amount over a cap: It won't be a small claims court, and it won't be quick and cheap, unless there is a cap on the available damages. In our view, the cap should not be greater than $10,000. Whatever the cap, there will need to be some way to prevent a plaintiff from atomizing a large case into multiple small cases in order to evade the cap. For example, a Google product should not be subject to multiple claims by the same rightholder: otherwise, a plaintiff who owned 10,000 works could file 10,000 small claims for $1000 each, rather than one District Court action for the same alleged infringements, claiming $10,000,000 in damages. Without such a rule, the small claims court would be overwhelmed and defendants would have to fight piecemeal litigation unfairly. The solution can perhaps be modeled on Rule 20 of the Federal Rules of Civil Procedure, which refers to the "same transaction, occurrence, or series of

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Intellectual Property of the House Committee on the Judiciary, 109th Cong., Serial No. 109-92 (2006).

transactions or occurrences."

The NOI asked about "allowing trade associations or other group representatives to bring a single, large filing on behalf of a sizeable group of small copyright owners". NOI at 66,760. Our view is that it would be unfair to hold a defendant liable for millions of dollars in a proceeding that allowed minimal (or no) discovery and briefing. Further, allowing trade associations or group representatives to bring a single large filing implicates complex issues of associational standing and class action rules and procedure, which also weighs against allowing such collective action. A large group of rightholders that has claims against a single defendant (and based on a single infringement) can bring a single action against that defendant in the rightholders' own names in District Court. In such a case, the problem a small claims court is supposed to solve--i.e. the high cost of litigating in District Court deters small claimants from pursuing their rights--does not arise because aggregating claims spreads the litigation costs. In any event, even if the complex issues of standing and procedure could be resolved and associational standing cases were allowed, they would be pointless: if the defendant lost, it would always appeal to District Court and re-litigate the case, this time with the benefit of discovery and full briefing. We therefore do not think aggregation of claims in this way should be permitted.

Claims for an injunction: In District Court, an injunction can only be obtained after a rigorous evidentiary showing, but a small claims court will not have the ability to collect or hear such extensive evidence. An injunction (TRO, preliminary, or permanent) is too extreme a remedy for a small claims court to grant. Injunction power would also make a mockery of the idea that the court deals only in small claims: the court would become a way to hold up a defendant on the eve of an important product launch or movie premiere. If the court were to grant an injunction (even a temporary one) in such a circumstance, the economic value to the plaintiff in its negotiations with the defendant could be millions of dollars. This would effectively evade the cap on damages, and would make the court a venue for gamesmanship.

What claims should be included?

Possibly, a narrow class of infringement claims: As noted above, our view is that only simple cases should be included, and we are not confident that simple cases can be defined *ex ante*, so we are not confident there is a workable definition of cases to include.

In considering this question, the Office should also ask whether a defendant should be able to invoke the jurisdiction of the court in an infringement action. The high cost of litigation can deter defendants as well as plaintiffs from litigating their claims, and (as noted above) the availability of statutory damages exacerbates this problem. One solution would be to allow defendants to remove to small claims court when the amount of actual damages in dispute is under $10,000 (or whatever the damages cap is set at). This would be regardless of the amount of statutory damages the plaintiff could claim in District Court, and once the case was in small claims court, the plaintiff could recover at most $10,000. The burden of proving damages would remain with the plaintiff, and the plaintiff could return the case to District Court by making a *prima facie*

showing that more than $10,000 of actual damages is in dispute. Another approach would be: if the final judgment for a plaintiff in a District Court action is under $10,000 (so the case could have been brought in small claims court), then the defendant automatically gets attorneys fees.

Section 512(f) claims: An infringement action is not the only species of action under the Copyright Act that is deterred in practice by high litigation costs. If the Office is concerned that the cost of litigation is preventing people from vindicating their rights under the Act, then the small claims court should also hear actions under Section 512(f).

Section 512(f) provides:

> Any person who knowingly materially misrepresents under this section (1) that material or activity is infringing, . . . shall be liable for any damages, including costs and attorneys' fees, incurred by the alleged infringer, by any copyright owner or copyright owner's authorized licensee, or by a service provider, who is injured by such misrepresentation in removing or disabling access to the material or activity claimed to be infringing, or in replacing the removed material or ceasing to disable access to it.

Google often receives Section 512 notifications that, in our view, materially misrepresent that material or activity is infringing, yet Google is deterred by the high cost of litigation from suing the persons who make these bogus notifications. Google incurs damages in processing these notifications, in the form of lost employee time. Opening the court to Section 512(f) claims would not only help Google (and others) recover lost costs, it would also act as a deterrent to the filing of false notifications.

Of course, individuals are also likely deterred by high litigation costs from collecting the money owed to them under Section 512(f). As *Lenz v. Universal Music Corp.*, 572 F. Supp.2d 1150 (N.D. Cal. 2008), illustrated, individual users of Google's YouTube service sometimes feel that a video they posted was taken down as a result of an illegitimate notification by a rightholder. In most of these cases, the user does not sue under Section 512(f) because litigation costs are prohibitive. The *Lenz* opinion exists only because Ms. Lenz was fortunate enough to find *pro bono* legal representation; the vast majority of people in her circumstance are of course not so lucky. It is also important to note that this case is still pending and Ms. Lenz has not received a penny from the defendant: the problem of "justice delayed is justice denied" thus operates in the Section 512(f) context just as it does in the infringement context.[4]

[4] Because the *Lenz* case involved a claim of fair use, it is not a good example of a case that should be heard by a small claims court. There will, though, be Section 512(f) claims that do not implicate fair use: for example, cases of simple impersonation, where the party who served the Section 512 notification fraudulently represented that she was the relevant rightholder.

Discovery?

Discovery is expensive and time-consuming: we thus do not see a workable way for it to be incorporated into a small claims court procedure. The jurisdiction of the court should therefore exclude classes of cases where discovery is important, for example cases in the online context where plaintiffs need discovery to determine the identity of the defendant, and the complex cases discussed above.

Appeals?

There would of course have to be an appeal process. Even though the amount in dispute might be small, and the precedent non-binding, justice requires that defendants have the opportunity to correct erroneous decisions. Assuming the small claims court would be federal, the appeal should be to United States District Court, and defendants should be entitled to full discovery in the District Court action.

Intersection with Section 512(g)(2)(C)?

Under the DMCA, an intermediary is exempt from liability for taking down content if the intermediary (a) "takes reasonable steps promptly to notify the subscriber that it has removed or disabled access to the material"; (b) provides a copy of the counter-notification (if any) to the party who filed the notification and informs that party that the intermediary will restore the material in 10 days; and (c):

> replaces the removed material and ceases disabling access to it not less than 10, nor more than 14, business days following receipt of the counter notice, *unless its designated agent first receives notice from the person who submitted the notification under subsection (c)(1)(C) that such person has filed an action seeking a court order to restrain the subscriber from engaging in infringing activity relating to the material on the service provider's system or network.*

17 U.S.C. § 512(g)(2)(A) - (C) (emphasis added). Our view is that any claim filed in a small claims court should not count as "an action seeking a court order to restrain the subscriber from engaging in infringing activity" because a small claims court should not have the authority to issue *any* injunctions (see above), so an action before it is not an action seeking an order to restrain a particular activity. Even though Section 512(g)(2)(C) thus would not apply on its face, that fact should be spelled out clearly.

Concluding remarks

We hope the comments above make clear that the idea of a copyright small claims court presents many difficult questions with few obvious answers. We are in favor of exploring new ways to get payments to rightholders for uses of their works, but we are concerned that a small

claims court will create unfair burdens on defendants, and will have negative effects on the development of copyright law.

Respectfully submitted,

/s/

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