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The Google Book Settlement and International Intellectual Property Law

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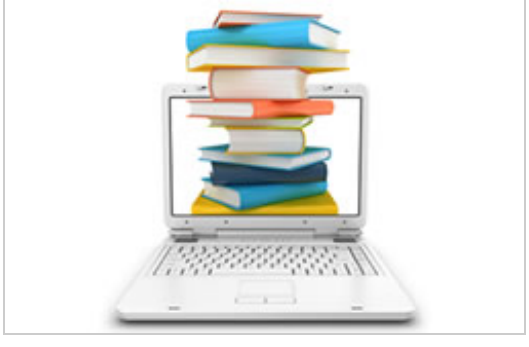

Introduction

On March 22, 2011, New York Federal District Court Judge Denny Chin rejected a proposed settlement in two lawsuits against Google. The lawsuits were structured as class actions filed by groups representing mostly trade authors and major publishers.[1] The settlement would have allowed Google to continue scanning copyrighted books into its search index and displaying the text to its users in exchange for the payment of license fees to copyright holders. The proposed settlement came under intense scrutiny and criticism, and, interestingly, a number of foreign copyright holders and foreign governments opposed the deal.[2] Judge Chin found that the settlement

> would simply go too far. It would permit this class action – which was brought against defendant Google Inc. ('Google') to challenge its scanning of books and display of 'snippets' for on-line searching – to implement a forward-looking business arrangement that would grant Google significant rights to exploit entire books, without permission of the copyright owners. Indeed, the [settlement] would give Google a significant advantage over competitors, rewarding it for engaging in wholesale copying of copyrighted works without permission, while releasing claims well beyond those presented in the case.[3]

As Judge Chin noted, by binding the class, the Google Books settlement would have had a real impact on foreign rightholders, who had argued the settlement would violate U.S. obligations under the Berne Convention[4] and the World Trade Organization ("WTO") Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS").[5] This *Insight* examines the Berne and TRIPS arguments raised in the case and evaluates the

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settlement's compatibility with these agreements. Incompatibility with either the Berne Convention or TRIPS could lead to a WTO dispute against the United States because TRIPS Article 9 requires that WTO Members comply with almost all of the substantive provisions of the Berne Convention, including those discussed below.

The Policy Background

The settlement reviewed by Judge Chin was an amended version of an earlier deal.[6] Under the amended settlement, rightholders whose books had been digitized by Google based on an agreement with a number of libraries could receive a one-time payment of $60 per book, or $5 to $15 for partial works (called "inserts"), plus 63% revenues associated with the exploitation of their works, such as subscriptions, referrals, and advertisements. To obtain this payment, a rightholder had to claim his or her book via an online registration process. Rightholders could alter the so-called default display settings. The amended agreement also provided that rightholders could renegotiate the revenue share with Google, including discounts. It also created an obligation to hold payments for a number of years that would be due to owners of "orphan works," that is, copyright works the owner of which is unknown or unlocatable. An opt-out period was also provided for either books or entire catalogs to be excluded from the license granted under the settlement.

However, probably the most important difference between the original and amended settlements was the treatment of foreign rightholders. While the original settlement applied to rightholders in all countries, the amended agreement would have applied only to foreign books published in Australia, Canada, or the United Kingdom, or registered with the United States Copyright Office as of January 5, 2009.[7] The last inclusion is significant: thousands of foreign works by rightholders around the world were registered before 1989 when the mandatory registration requirement was modified to allow the United States to join the Berne Convention, which, as discussed below, prohibits a number of mandatory formalities. The process was thus expressly extraterritorial in its reach: it targeted copyright holders in three foreign countries and a vast number of rightholders in pre-1989 works as members of the class(es).[8]

The litigants and objectors raised arguments based on the Berne Convention and TRIPS, and Judge Chin dealt with them, and with the arguments by foreign rightholders and governments, in a specific section of the order. He noted in particular that "France and Germany, as well as many authors and publishers from countries such as Austria, Belgium, India, Israel, Italy, Japan, New Zealand, Spain, Sweden, Switzerland, and the United Kingdom continue to object to the [amended settlement], even with the revisions."[9] Moreover, many "foreign objectors express concern as to whether the [amended settlement] would violate international law, including the Berne Convention" and TRIPS.[10] Rejecting Google's argument that the case was just about the United States, Judge Chin noted that this argument "ignores the impact the ASA would have on foreign rightholders."[11]

Germany made one of the most interesting arguments, mainly that the proposed settlement amounted to legislative reform. The issue of orphan works is a global one, the Court noted, and quoted the German government's brief, which argued that "[c]ourts and class action settlements are not the proper province for creating a cutting edge copyright . .

. framework to bind future generations and impact global competition for the future of digital libraries."[12] The French government and a number of French publishers argued that legislative efforts to address problems associated with the use of orphan works are underway in many countries, including the United States.[13]

TRIPS, Berne, and the Google Books Settlement

In applying TRIPS to the Google Books settlement, the first question that comes to mind is whether the settlement would have constituted a prohibited formality. The settlement raises two additional questions, namely (a) whether the national treatment obligations of the Berne Convention and TRIPS Article 3 are violated, and (b) whether the proposed settlement is compatible with the most-favored nation ("MFN") obligation in TRIPS Article 4.[14]

The No-Formality Rule

Article 5(2) of the Berne Convention prohibits "formalities" such as mandatory registration requirements or any requirement to deposit a copy of a work, when such formalities are a condition for the existence of copyright or its exercise, especially in enforcement proceedings. TRIPS Article 9.1 requires that WTO Members comply with various articles of the Berne Convention including Article 5(2). The proposed settlement could have survived a challenge under Article 5(2) even though, as certain objections have mentioned, the specific opt-out mechanism was particularly burdensome and subject to strict time delays.[15] While some formalities of an operational nature are allowed and, in some cases, inevitable (e.g., filing pleadings), they must be reasonable and cannot amount to a barrier to the legitimate exercise of rights recognized under the Convention.[16]

National Treatment

The national treatment obligations of Berne Article 5(1) provide that authors must enjoy "the rights which their respective laws . . . grant to their nationals;" in a slightly different formulation of the same principle, TRIPS Article 3 requires that WTO Members accord nationals of other Members "treatment no less favorable than it accords its own nationals with regard to the protection of intellectual property." Could it be said that the settlement violated these provisions? One would have to argue that the settlement was a form of preferential treatment accorded to rightholders in the United States and the three foreign countries to which it applied. The "advantage" would be that some rightholders would be included by default (that is, unless they opt out). A rightholder from a third country not so included could presumably *ask* Google to be included in the settlement. The prejudice would be limited to having to ask to be added (opt in rather than opt out)—not necessarily a convincing basis for making the case that TRIPS obligations were violated. Essentially, the "advantage" would come from being part of Google's licensing scheme by default—although an included rightholder still had to claim his or her books to obtain payment and modify display rules etc., as explained above.

Most-Favored Nation Treatment

The MFN clause in TRIPS Article 4 requires each WTO Member to accord any "advantage, favour, privilege or immunity" that it grants to nationals of any other country with regard to

intellectual property protection, “immediately and unconditionally” to the nationals of all other Members. Unlike the MFN clause in the GATT, which applies to goods, the TRIPS MFN clause applies to “nationals,” that is, natural or legal persons who are rightholders. [17]

The settlement raised prima facie MFN questions because some foreign nationals/rightholders (Australia, Canada, United Kingdom) were clearly treated *differently* than others, including rightholders from countries where English is a predominant language (e.g., New Zealand). Two questions must be answered, however, before concluding that there was a possible MFN violation. First, was the settlement a “favor, privilege or immunity . . . with regard to the protection of intellectual property?” Second, was a favor, privilege, or immunity “granted by a Member”? One must also check that none of the TRIPS exceptions to MFN applied.

“*Advantage, favor, privilege or immunity*”

Whether one views being included by default in the settlement as an advantage is an interesting question, yet not one that must be answered to determine whether an MFN violation exists. The material question is whether the difference in treatment amounts to an advantage for someforeign nationals that is denied to others.

No WTO decision has yet interpreted TRIPS Article 4. [18] However, two WTO cases interpreting the terms “advantage, favor, privilege or immunity” in GATT Article I support a broad and liberal interpretation of the notion of “advantage.”[19] In one case, a Canadian import duty exemption for motor vehicles imported by designated Canadian manufacturers (which in fact imported only from exporters affiliated to them in a small number of countries) was found to be inconsistent with MFN obligations.[20] The Appellate Body emphasized the notions of “*any* advantage” and “*all* other Members” used in the GATT MFN provisions.[21] Earlier, in the *Indonesia-Autos* case, a panel report pointed out the historically “broad definition” given to the term “advantage.”[22]

“*Granted by a Member*”

In the proposed settlement, the differential treatment of Australian, Canadian, and British rightholders would have been imposed by a court of law. Court decisions typically affect only specific rightholders—those party to the dispute. Put differently, a court decision does not normally draw distinctions between rightholders based on nationality. For this reason, court decisions rarely, if ever, come under MFN scrutiny. Yet, by using the class action system and targeting certain foreign rightholders—but not all—*based on their nationality*, the settlement would likely have given rise to an MFN violation. The fact that the source of the violation is a court does not immunize it. The two other branches of government can act in ways that are MFN-incompatible and, as Professor Ehlermann notes, “[d]espite the fact that judiciaries are usually independent in countries that live under the rule of law, States are responsible for the acts of their courts.”[23] There is indeed no doubt that a WTO Member is responsible for the actions of its courts.[24]

Finally, none of the MFN exceptions in Article 4 of TRIPS apply. Those exceptions are contained in or stemming from international agreements on judicial assistance or law enforcement of a general nature; exceptions allowed under the Berne Convention (1971) or

the Rome Convention authorizing reciprocity instead of national treatment; exceptions in respect of the rights of performers, producers of phonograms and broadcasting organizations not provided under TRIPS; and treatment deriving from notified international agreements related to the protection of intellectual property which entered into force prior to the entry into force of the WTO Agreement. None of these cases apply.

Credible doubts about the TRIPS-compatibility of the proposed settlement thus emerge when the spotlight is turned towards the TRIPS MFN clause. A disadvantage would have been imposed on one group of foreign rightholders based on the nationality of its members when compared to groups of nationals of other WTO members, and such disadvantage is imposed by a branch of the U.S. government.

At this stage, Judge Chin has asked the parties to revise their agreement, possibly making it opt-in for all rightholders.[25] This would not solve the orphan works issue, but it might solve the MFN issue if all foreign rightholders have an equal opportunity to join. However, it is not at all clear that Google—which has the money to withstand a protracted legal battle with publishers—will find an opt-in settlement commercially worthwhile.

About the Author:

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Endnotes:

[1] Complaint, McGraw-Hill Cos. v. Google Inc., No. 05-CV-8881 (S.D.N.Y. Oct. 19, 2005); Complaint, Author's Guild, Inc. v. Google Inc., No. 05-CV-8136 (S.D.N.Y. Sept. 20, 2005).

[2] *See* Memorandum of Law in Opposition to the Settlement Proposal on Behalf of the Federal Republic of Germany, No. 05-CV-8136 (S.D.N.Y. Aug. 31, 2009), *available at* http://docs.justia.com/cases/federal/district-courts/new-york/nysdce/1:2005cv08136/273913/179/0.pdf.

[3] Authors Guild et al. v. Google Inc., S.D.N.Y., at 1.

[4] Paris Act Relating to the Berne Convention for the Protection of Literary and Artistic Works, July 24, 1971, 1161 U.N.T.S. 18388 [hereinafter Berne Convention].

[5] Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, 1869 U.N.T.S. 299, 33 I.L.M. 1197 (1994) [hereinafter TRIPS Agreement], *available at* http://www.uspto.gov/web/offices/com/doc/uruguay/finalact.html.

[6] Settlement Agreement, Authors Guild, Inc. v. Google Inc., No. 05-CV-8136 (S.D.N.Y. Nov. 13, 2009) (proposed), *available at* http://www.googlebooksettlement.com/r/view_settlement_agreement [hereinafter Amended Settlement Agreement].

[7] *Id*. § 1.19.

[8] Google argued that the case was about U.S. copyrights and not extraterritorial. Yet there is no denying that the parties picked three countries and included them in the settlement. We will see how Judge Chin dealt with that argument below (*see* note 13).

[9] Author's Guild v. Google Inc., No. 05-CV-8136, at *41-42 (S.D.N.Y. Mar. 22, 2011), *available at* http://www.indianprinterpublisher.com/Kodak-ad/Judgement.pdf.

[10] *Id.* at 42.

[11] *Id.* at 43.

[12] *See id.* at 44.

[13] *Id.* Proposals made by the U.S. Copyright Office are available at http://www.copyright.gov/orphan/.

[14] National treatment obligations are contained both in the Berne Convention (Article 5) and the TRIPS Agreement (Articles 3 and 9).

[15] "For example, the Objections of Carl Hanser Verlag and Dr. Lynley Hood and the Brief of Amici Curiae Börsenverein Des Deutschen Buchhandels, Schweizer Buchhändler – Und Verleger–Verband Sbvv, Hauptverband Des Österreichischen Buchhandels, Associazione Italiana Editori, and the New Zealand Society of Authors (Pen NZ Inc.) . . . ." Daniel Gervais, *The Google Books Settlement and the TRIPS Agreement*, Stan. Tech. L. Rev. 1, 5 n.41 (2011), *available at* http://stlr.stanford.edu/pdf/gervais-google-books-and-trips.pdf (quoting Case No. 05 CV 8136-DC (ECF) (Jan. 28, 2010)).

[16] *See* World Intellectual Property Organization, Berne Convention Centenary: 1886-1986 at 148-149 (1986); Sam Ricketson & Jane C. Ginsburg, 1 International Copyright and Neighbouring Rights: The Berne Convention and Beyond 323-8 (2d ed. 2006); and Mihály Ficsor, Guide to the Copyright and Related Rights Treaties Administered by WIPO and Glossary of Copyright and Related Rights Terms 41 (2004).

[17] *Compare id.* art. 4, *with* General Agreement on Tariffs and Trade art. I, Oct. 30, 1947, 61 Stat. A-11, 55 U.N.T.S. 194 [hereinafter GATT].

[18] *See* Daniel Gervais, The TRIPS Agreement: Drafting History and Analysis 188-95 (3rd ed. 2008).

[19] *See* Paul Edward Geller, International Copyright Law and Practice § 5[4][a][ii].

[20] Appellate Body Report, *Canada—Certain Measures Affecting the Automotive Industry*, 3, WT/DS139/AB/R (May 31, 2000).

[21] *Id*. ¶ 79 (emphasis added).

[22] *See* Panel Report, *Indonesia—Certain Measures Affecting the Automobile Industry*, ¶ 14.138, WT/DS54/R (July 2, 1998).

[23] Claus-Dieter Ehlermann & Lothar Ehring, *WTO Dispute Settlement and Competition Law: Views from the Appellate Body's Experience*, 26 Fordh. Int'l L.J. 1505, 1527-28 (2002-03).

[24] *See* Appellate Body Report, *Brazil - Measures Affecting Imports of Retreaded Tyres*, ¶ 7.305, AB-2007-4, (Dec. 3, 2007); Appellate Body Report, *United States - Import Prohibition of Certain Shrimp And Shrimp Products*, ¶ 173, AB-1998-4 (Oct. 12, 1998). In the latter case, the Appellate Body stated: "We acknowledge that the greatly differing periods for putting into operation the requirement for use of TEDs resulted from decisions of the Court of International Trade. Even so, this does not relieve the United States of the legal consequences of the discriminatory impact of the decisions of that Court. The United States, like all other Members of the WTO and of the general community of states, bears responsibility for acts of all its departments of government, including its judiciary."

[25] *Author's Guild*, No. 05-CV-8136 at *46.