DOCUMENT RESUME

ED 275 347 IR 051 695

TITLE	Copyright Holder Protection Act. Hearing before the Subcommittee on Patents, Copyrights and Trademarks of the Committee on the Judiciary. United States Senate, Ninety-Ninth Congress, First Session on S. 1384. A Bill to Amend the Copyright Act of 1976 to Clarify the Operation of the Derivative Works Exception (November 20, 1985).
INSTITUTION	Congress of the U.S., Washington, D.C. Senate Committee on the Judiciary.
REPORT NO	Senate-Hrg.-99-774
PUB DATE	86
NOTE	162p.; Serial No. J-99-74. Document contains small print.
AVAILABLE FROM	Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402.
PUB TYPE	Legal/Legislative/Regulatory Materials (090) -- Viewpoints (120)
EDRS PRICE	MF01/PC07 Plus Postage.
DESCRIPTORS	*Authors; *Copyrights; *Federal Legislation; Hearings; Legal Problems; Legal Responsibility; *Publishing Industry
IDENTIFIERS	Congress 99th; Copyright Law 1976; Derivative Works; Royalties

ABSTRACT

This hearing addressed Senate Bill 1384, which deals with the copyright issue and seeks to alter the 5-to-4 decision of the Supreme Court of the United States in the Mills Music case. The question under consideration is whether the law should be made explicit to the effect that the class of intended beneficiaries of all royalties under the termination rights provisions consists exclusively of authors and their heirs (and the other statutory renewal claimants), and that the class of intended beneficiaries of the derivative works exceptions consists exclusively of those who create derivative works, or whether the status quo should be allowed to remain so that a substantial shield against termination is granted to those primary publishers who, under assignments from the author, themselves authorize the preparation of derivative works. Statements and testimony from the following individuals are presented: (1) Howard L. Berman, U.S. Representative, California; (2) Barbara Ringer, former Register of Copyrights; (3) Dean Kay, executive vice president and general manager, Welk Music Group; (4) Michael S. Oberman, counsel, of Kramer, Levin, Nessen, Kamin & Frankel; (5) Irwin Karp, counsel, the Authors League of America, Inc.; and (6) George David Weiss, president, Songwriters Guild of America. Two appendices contain a letter to Senator Charles McC. Mathias, Jr., from Richard Colby, attorney, November 20, 1985, and a letter to Senator Arlen Specter, from Burton L. Litwin, vice president, Belwin Mills Publishing Corp., December 10, 1985. (KM)

S. Hrg. 99-774

COPYRIGHT HOLDER PROTECTION ACT

HEARING

BEFORE THE

SUBCOMMITTEE ON
PATENTS, COPYRIGHTS AND TRADEMARKS

OF THE

COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

ON

S. 1384

A BILL TO AMEND THE COPYRIGHT ACT OF 1976 TO CLARIFY THE OPERATION OF THE DERIVATIVE WORKS EXCEPTION

NOVEMBER 20, 1985

Serial No. J-99-74

Printed for the use of the Committee on the Judiciary

U.S. GOVERNMENT PRINTING OFFICE

57-196 O WASHINGTON : 1986

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

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COPYRIGHT HOLDER PROTECTION ACT

WEDNESDAY, NOVEMBER 20, 1985

U.S. SENATE,
SUBCOMMITTEE ON PATENTS,
COPYRIGHTS AND TRADEMARKS,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:04 a.m., in room SD-226, Dirksen Senate Office Building, Hon. Arlen Specter presiding.

Staff present: Steven J. Metalitz, staff director and acting chief counsel; Kenneth E. Mannella, counsel; Pamela S. Batstone, chief clerk; and Neal S. Manne, chief counsel (Subcommittee on Juvenile Justice).

OPENING STATEMENT OF HON. ARLEN SPECTER, A U.S. SENATOR FROM THE STATE OF PENNSYLVANIA

Senator SPECTER. Good morning, ladies and gentlemen. The hearing will commence. With the authorization of the subcommittee chairman, Senator Mathias, the Subcommitee on Patents, Copyrights and Trademarks of the Committee on the Judiciary will proceed with this hearing on Senate bill 1384, which deals with the copyright issue and seeks to alter the 5-to-4 decision of the Supreme Court of the United States in the *Mills Music* case.

This is a matter of great importance to those in the field. It is my preliminary thought that the Supreme Court decision was not sound and that, as a matter of legislative intent, it is appropriate to have Senate bill 1384 clarify the intent of the Congress, which would have the effect of reversing the Supreme Court decision.

Before coming to a final judgment on the matter, it seems appropriate to me that we proceed with the hearing and an inquiry into all facets of the matter, and for that objective, we have scheduled this hearing this morning, and we shall proceed at this time

[A copy of S. 1384 follows:]

II

99TH CONGRESS
1ST SESSION

S. 1384

To amend the Copyright Act of 1976 to clarify the operation of the derivative works exception.

IN THE SENATE OF THE UNITED STATES

JUNE 27 (legislative day, JUNE 26), 1985

Mr. SPECTER introduced the following bill; which was read twice and referred to the Committee on the Judiciary

A BILL

To amend the Copyright Act of 1976 to clarify the operation of the derivative works exception.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Copyright Holder Protection Act of 1985".

SEC. 2. Section 304(c)(6) of the Copyright Act of 1976 (17 U.S.C. 304(c)) is amended by adding at the end thereof the following:

"(7) Notwithstanding any other provision of law, where an author or his successor, as defined in subsection (c)(2), has exercised a right of termination pursuant to this section and a derivative work continues to be utilized pursuant to subsection (c)(6)(A) of this section, any right to royalties from the utilization of the derivative work shall revert to the person exercising the termination right.".

O

Senator SPECTER. I would like to recognize a distinguished Member of Congress, the Honorable Howard L. Berman, U.S. House of Representatives, from the 26th District of California.

Congressman Berman, we welcome your leadership on this important issue and look forward to your testimony.

STATEMENT OF HON. HOWARD L. BERMAN, A U.S. REPRESENTATIVE FROM THE STATE OF CALIFORNIA

Mr. BERMAN. Thank you very much, Mr. Chairman.

I want to say how much I appreciate Senator Mathias setting this hearing and your legislative effort in this area. I think it is an important issue for the community that is affected by the *Mills Music* case, and I commend you and the subcommittee for conducting these hearings.

I am in support of the legislation to amend the Copyright Act of 1976 in order to clarify the intent of Congress when it adopted the "derivative works exception" to the termination provisions of sections 203 and 304 of the Copyright Act.

I approach this matter with great seriousness. When Congress legislates in the area of copyright, we are exercising a responsibility explicitly charged to us by the Founding Fathers in the Constitution. Equally important, I well understand the years of painstaking effort and compromise that produced the landmark Copyright Act of 1976.

It is for those very reasons that I introduced H.R. 3163. In January of this year, as you indicated in your opening statement, the Supreme Court, in a closely divided 5-4 decision, in my opinion misconstrued the intent of Congress with respect to a key provision of the act and thereby deprived songwriters, authors, and other artists of important benefits Congress meant them to have.

Frankly, as the members of this subcommittee are well aware, it takes a fair degree of patience to master the intricacies of copyright law. But as you also well appreciate, the consequences of copyright legislation and its interpretation by the Supreme Court are serious indeed for the livelihoods of the tens of thousands of creative artists whose works are protected by copyright.

I introduced H.R. 3163 to remedy an injustice effected by the Supreme Court. H.R. 3163 in the House has been referred to the House Subcommittee on Courts, Civil Liberties, and the Administration of Justice, on which I serve, and where I am working to ensure the bill's speedy consideration. In fact, I am hopeful that that subcommittee will be holding hearings on this issue and on my legislation soon after we come back in late January or early February.

Your bill, Mr. Chairman, takes a different approach to rectifying this judicial misconstruction, but both bills share the same objective. And I am delighted that two highly respected former Registers of Copyright, Barbara Ringer and David Ladd, support the position taken by you and me with regard to both congressional intent in the 1976 act and the appropriate copyright policy.

I join with you in urging the subcommittee and the Congress to promptly pass legislation to restore to the creators who enrich our cultural life the benefits we meant for them to have under our copyright laws.

In the Supreme Court decision, *Mills Music*, the Court interpreted the "derivative works exception" to the "termination of transfer and licenses" provision of section 304(C). Section 304 extended the duration of subsisting copyrights from 56 to 75 years, but it also gave authors or certain of their heirs the right to terminate any of the author's grants of rights and to reclaim full copyright ownership during the 19-year extension of the term. In so doing, Congress determined that authors who struck unremunerative bargains with their publishers when their works were in their infancy should have the opportunity to renegotiate their old contracts.

However, Congress crafted the "derivative works exception" to carve out a right of continued utilization of derivative works—motion pictures, sound recordings. The "derivative works exception" was designed, it is generally agreed, to protect the owners of such derivative works from having to renegotiate their rights and thereby to protect the public's interest, which is in having continued enjoyment of those derivative works.

When an author or his or her heirs exercises this terminate right, the copyright reverts from the publisher to the persons filing the termination, but the privilege of utilizing the derivative works is retained by the producer, manufacturer, or distributor, as the case may be, of the derivative work.

The question addressed by the Court in *Mills Music* was to whom the owners of the derivative work must pay royalties. The amount of royalties is not in question. That amount is provided for in their licenses. Five members of the Supreme Court held that the publisher was still entitled to its share of the royalties; four members strenuously dissented that such a conclusion would render meaningless the termination right granted by the 1976 act and that, instead, all royalties should go to the author or his heirs.

Justice White's dissent deserves special consideration because of its clear explanation of the policy questions at stake, but I know that you have a number of witnesses who are far more expert on this issue than I, so I will not take the committee's time to quote from Justice White's dissent, but I do think it is worthy of particular focus.

Shortly after the *Mills Music* decision, no less an authority than Barbara Ringer, Register of Copyrights at the time of the drafting and enactment of the Copyright Act of 1976, voiced her dismay at the *Mills Music* decision. Since Ms. Ringer is going to be a witness at this hearing today, I will not be so presumptuous as to quote from her earlier statements on the subject, but I think her position at that time and her respect in this field is entitled to considerable weight on the question of the original intent of Congress in making those changes.

While the *Mills Music* decision addressed only section 304 of the Copyright Act, I think it is critically important to note that a second provision of that act, section 203, is also subject to the identical "derivative works exception" construed by the Court in *Mills*.

Section 203 establishes that authors and their heirs may terminate grants made after January 1, 1978, at the end of a prescribed period of years, subject to the "derivative works exception." The legislative approach that I have initiated on the House side clarifies the "derivative works exception" in both sections 304 and 203. For Congress to address only section 304 would mean, as Ms. Ringer has noted, that the impact of the Supreme Court's erroneous decision could continue into the indefinite future—a result which I think we should be trying to avoid.

One last point. Because of the complexity of the arrangements involved in creating and distributing a motion picture, I want to be perfectly clear in explaining what is and is not intended by this effort to overturn the result reached in *Mills Music*.

The consequences of H.R 3163 are as follows with regard to extant motion pictures. When an author of a novel terminates the grant of motion picture rights, the distributor is not required to pay to the authors moneys payable under the distribution agreement. Any and all agreements running between the producer and the distributor, screenplay writer, actors, and profit participants, and the numerous license agreements relating to television exhibition, theatrical exhibition, and other exploitation of the motion picture, pertain to the derivative work, not to the underlying copyright, and nothing in H.R. 3163 would disturb those arrangements. Because the motion picture is a derivative work, not subject to termination, there can be no termination of the agreements between the copyright proprietor of the motion picture and any other parties relating to the exploitation of that motion picture.

The only instrument which can be terminated is the license from the author to the motion picture producer of the underlying work. By exercising that right when he or she becomes eligible to do so under the terms of section 203(a)(3) or section 304(c)(3), the author would gain the ability to relicense another producer to make a motion picture of the same novel—bearing in mind that the author would acquire this ability only after the passage of the many years specified in sections 203 and 304.

In conclusion, I am delighted to support the legislation in the Senate to overturn the *Mills Music* decision. I think America's songwriters and authors have created a multitude of works that enrich our lives. In addressing ourselves to copyright legislation, it is important that we bear in mind that the consequences of our actions are just as important, if not more so, to the small, journeyman writers, the creators of the less-than-blockbuster hits, as they are for those relative few who have achieved great financial success and public acclaim.

In this case, we extended important benefits to creators in 1976 only to see those benefits snatched away by the Supreme Court's mistaken interpretation of our intent. In measuring the harm done and the urgency of remedial action, I hope that we will remember that the *Mills Music* issue dramatically affects the livelihoods of thousands of individuals who are the lifeblood of our creative community.

Thank you again for the privilege of testifying today.

[Prepared statement follows:]

PREPARED STATEMENT OF HON. HOWARD L. BERMAN, A U.S. REPRESENTATIVE FROM THE STATE OF CALIFORNIA

Mr. Chairman, I am here today to support legislation to amend the Copyright Act of 1976, in order to clarify the intent of Congress when it adopted the "derivative works exception" to the termination provisions of sections 203 and 304 of the Copyright Act.

I approach this matter with great seriousness. When Congress legislates in the area of copyright, we are exercising a responsibility explicitly charged to us by the Founding Fathers in the Constitution. Equally important, I well understand the years of painstaking effort and compromise that produced the landmark Copyright Act of 1976.

It is for those very reasons that I introduced H.R. 3163. In January of this year, the Supreme Court in a closely divided 5-4 decision misconstrued the intent of Congress with respect to a key provision of the Act, and thereby deprived songwriters, authors, and other artists of important benefits Congress meant them to have.

Frankly, as the members of this subcommittee are well aware, it takes a fair degree of patience to master the intricacies of copyright law. But as you also well appreciate, the consequences of copyright legislation and its interpretation by the Supreme Court are serious indeed for the livelihoods of the tens of thousands of creative artists whose works are protected by copyright.

I introduced H.R. 3163 to remedy an injustice effected by the Supreme Court. H.R. 3163 has been referred to the House Subcommittee on Courts, Civil Liberties, and the Administration of Justice, on which I serve, and where I am working to ensure the bill's speedy consideration.

Senator Specter's bill, S. 1384, takes a different approach to rectifying this judicial misconstruction, but both bills share the same objective. I am delighted that two highly respected former Registers of Copyright, Barbara Ringer and David Ladd, support the position taken by Senator Specter and myself with regard to both congressional intent in the 1976 act and appropriate copyright policy. I join Senator Specter in urging this subcommittee and the Congress to promptly pass legislation to restore to the creators who enrich our cultural life the benefits we meant for them to have under our copyright laws.

THE MILLS MUSIC DECISION

In the Supreme Court decision to which I refer, *Mills Music Inc.* v. *Snyder*, 105 S.Ct. 638 (1985), the Court interpreted the "derivative works exception" to the "termination of transfer and licenses" provision in section 304(c). Section 304 extended the duration of subsisting copyrights from 56 to 75 years, but also gave authors or certain of their heirs the right to terminate any of the author's grants of rights and to reclaim full copyright ownership during the 19-year extension of the term. In so doing, Congress determined that authors who struck unremunerative bargains with publishers when their works were in their infancy should have the opportunity to renegotiate their old contracts.

However, Congress crafted the derivative works exception to carve out a right of continued utilization of derivative works, such as motion pictures and sound recordings. The derivative works exception was designed, it is commonly agreed, to protect the owners of such derivative works from having to renegotiate their rights, and thereby to protect the public which, after all, has an interest in the continued enjoyment of the derivative works.

When an author or his heirs exercise this termination right, the copyright reverts from the publisher to the persons filing the termination, but the privilege of utilizing derivative works is retained by the producer, manufacturer, or distributor—as the case may be—of the derivative work. The question addressed by the Court in *Mills Music* was to whom the owners of the derivative work must pay royalties. The amount of royalties is not in question; that amount is provided for in their licenses. Five members of the Supreme Court held that the publisher was still entitled to its share of the royalties; four members strenuously dissented that such a conclusion would render meaningless the termination right granted by the 1976 act, and that instead, all royalties should go to the author or his heirs.

Justice White's dissent bears quoting because of its clear explanation of the policy questions at stake:

"The derivative works clause reflects an accommodation between two competing concerns: that of providing compensation to authors, and that of promoting public access to derivative works. The majority apparently concludes that its interpretation of the Exception does justice to both of these concerns. But to promote public access to existing derivative works, it is necessary to go no further than to allow the owners of these works to continue to disseminate them. The rights of middlemen to receive royalties under terminated grants do not enter into the balance; regardless of who receives the royalties, the owner of the derivative work may continue to pay the same rate, and public access to the work will be unimpeded.

"By going further than necessary to effect the goal of promoting access to the arts, the majority frustrates the congressional purpose of compensating authors who, when their works were in their infancy, struck unremunerative bargains."

Shortly after the *Mills Music* decision, no less an authority than Barbara Ringer, Register of Copyrights at the time of the drafting and enactment of the Copyright Act of 1976, voiced her dismay at the *Mills Music* decision. In testimony before this Subcommittee, Ms. Ringer stated that "The *Mills* case is not what Congress intended, and . . . it represents a windfall for publishers at the expense of authors and their families." Pointing out that she drafted the provision in question, Ms. Ringer asserted that "The Supreme Court decision seriously undercuts what Congress intended and deprives authors of benefits that are rightfully theirs."

While the *Mills Music* decision addressed only section 304 of the Copyright Act, it is critically important to note that a second provision of the act, section 203, is also subject to the identical "derivative works exception" construed by the Court in *Mills*. Section 203 establishes that authors and their heirs may terminate grants made *after* January 1, 1978, at the end of a prescribed period of years, subject to the derivative works exception. My bill clarifies the "derivative works exception" in both sections 304 *and* 203. For Congress to address only section 304 would mean, as Ms. Ringer has noted, that the impact of the Supreme Court's erroneous decision will continue into the indefinite future, a result I assume we would wish to avoid.

CONSEQUENCES FOR THE MOTION PICTURE INDUSTRY

Because of the complexity of the arrangements involved in creating and distributing a motion picture, I want to be perfectly clear in explaining what is and is not intended by this effort to overturn the result reached in *Mills Music*.

The consequences of H.R. 3163 are as follows with regard to extant motion pictures. When an author of a novel terminates the grant of motion picture rights, the distributor is *not* required to pay to the authors monies payable under the distribution agreement. Any and all agreements running between the producer and the distributor, director, screenplay writer, actors, and profit participants, and the numerous license agreements relating to television exhibition, theatrical exhibition and other exploitation of the motion picture, pertain to the derivative work, and nothing in H.R. 3163 would disturb those arrangements. Because the motion picture is a derivative work not subject to termination, there can be no termination of the agreements between the copyright proprietor of the motion picture and any other parties relating to the exploitation of that motion picture.

The only instrument which can be terminated is the license from the author to the motion picture producer of the underlying work. By exercising that right when he becomes eligible to do so under the terms of section 203(a) (3) or section 304(c) (3), the author would gain the ability to relicense another producer to make a motion picture of the same novel—bearing in mind that the author would acquire this ability only after the passage of the many years specified in sections 203 and 304.

CONCLUSION

I am delighted to support legislation to overturn the *Mills Music* decision. America's songwriters and authors have created a multitude of works that enrich our lives. In addressing ourselves to copyright legislation, it is important that we bear in mind that the consequences of our actions are just as important, if not more so, to the small, journeyman writers, the creators of the less-than-blockbuster hits, as they are for those relative few who have achieved great financial success and public ac claim. In this case, we extended important benefits to creators in 1976 only to see those benefits snatched away by the Supreme Court's faulty interpretation of our intent. In measuring the harm done, and the urgency of remedial action, I hope that we will remember that the *Mills Music* issue dramatically affects the livelihoods of the thousands of individuals who are the lifeblood of our creative community.

I want to thank Senator Mathias for the opportunity to address the subcommittee, and I urge the subcommittee to take action to remedy this clear and unfortunate injustice.

Senator SPECTER. Thank you very much, Congressman Berman.

I believe that you would agree with me that the thrust of H.R. 3163 and Senate bill 1384 are the same, and we can work out the draftsmanship without any difficulty?

Mr. BERMAN. Very much so. I think they are both intended to do exactly the same thing. Sort of on separate tracks, we both decided to try—you, initially—and we, without actually knowing about your bill at the time—attempted to rectify what we felt was the misinterpretation. We have slightly different approaches, but I think they can be easily reconciled.

Senator SPECTER. Thank you very much, Congressman Berman. We very much appreciate your coming over to testify today.

Mr. BERMAN. Thank you. Mr. Chairman.

Senator SPECTER. Is Mr. Ralph Oman here at the moment?

[No response.]

Senator SPECTER. We had heard he might be a little late, so we will proceed at this time.

[Mr. Oman submitted the following statements:]

STATEMENT OF RALPH OMAN

REGISTER OF COPYRIGHTS AND ASSISTANT LIBRARIAN FOR COPYRIGHT SERVICES

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to appear here today. My colleagues and I in the Copyright Office have studied the sparse legislative history of the termination clause of the 1976 Act, and we have concluded that the Specter bill is consistent with congressional sentiment during the reform process. So the Copyright Office weighs in in support of the goals of S. 1384, even though we might have some suggestions for improving it. As you know, I've come directly from testifying on the House side, so if any references to satellite dishes creep into my testimony, please bear with me.

I am accompanied today by Dorothy Schrader, the General Counsel of the Copyright Office, and Marilyn Kretsinger, a Senior Attorney on the General Counsel's staff.

The bill addresses important issues, and in theory millions of dollars ride on the outcome. If the bill passes it may well change dramatically the way authors and publishers do business. And these changes might not necessarily all be in the long-term interests of authors. But on balance, the bill will restore to authors in a very narrow area of the law some of the bargaining power Congress thought it was giving them back in 1976.

The 1976 Act is in many ways a pro-authors' rights document: it gave authors rights they never had before; it extended the length of the life of the author's copyright by many years; and, for the first time it made juke box operators and cable television companies pay the authors for using their works.

Another of the rights the '76 Act gave authors and their families was the right to recapture their copyrights, which they might have negotiated away when they were young and foolish or when they were struggling artists with no bargaining power, and they had to accept a publisher's "Take it or leave it" offer. The '76 Act allows this recapture by letting the author terminate at certain specific times any contract transferring his or her rights in the work -- to a publisher, to an agent, or to a friend.

I won't get into the details of the provision. I'm sure that the earlier witnesses have already done so.

The question we get into today relates to a specific exception to these new recapture rules. We know it as the derivative work exception. A derivative work is a work based on an earlier work in the same or another medium -- a movie based on a novel, like Gone With the Wind; or a Broadway musical based on a play, like Hello Dolly. Congress exempted these works from the recapture provision to prevent hardship.

The situation we face is this: the author assigns his rights to a publisher, including the right to make or authorize others to make derivative works. In return for this arrangement, the author may get a lump sum payment, say $20,000, or a smaller amount in return for a share of future royalties. In turn, the publisher makes a derivative work or sells someone else the right to make a derivative work. And that fee, or royalty, is paid to the publisher. That royalty may be paid on a continuing basis, rather than a lump sum. The author may not get a dime. (I'm simplifying this for the sake of clarity.) Many years later, the author is free to terminate the publisher's assignment, and the author or heirs can get back the copyright -- except for the derivative works. The owner of the rights in the derivative work can continue to use the work under the terms of the original contract. All the derivative work owner has to do is continue to royalties under the contract with the publisher. And that brings us to t estion raised by the Specter bill and the Supreme Court decision -- who should get the royalty?

S.1384 would amend the derivative works exception by specifying that "any right to royalties from the derivative work shall revert to the person exercising the termination right."

Congress wrestled with these termination-recapture provisions for a long time in an attempt to balance the interests of individual authors and their transferees in a fairer way than the renewal provision of the old Copyright law. The derivative works exception of the 1976 Act does not specify how these royalties are to be disbursed; it only specifies that "a derivative work prepared earlier may continue to be utilized under the conditions of the terminated grant." In the Mills Music case the author's heirs terminated the publisher's grant and recaptured the rights during the extended term. But the record company went on using the derivative work and paying royalties to the publisher under his contract. So the issue was joined: who should receive the royalties from recordings licensed by the music publisher under the grant from the author. The Supreme Court held that the royalties for continued use of a derivative work should be disbursed under the terms of the original contract between the author and the publisher. Or, simply stated, all royalties did not revert back to the original author along with the other rights; the author got a 50 percent split, in accordance with the terms of the contract.

The question before the Senate today is how to resolve a dispute between two classes of copyright proprietors: authors and publishers.

As I've already said, evidence of congressional intent on this narrow issue is very sparse. The most that can be said is that Congress wanted the authors to benefit from the windfall nineteen-year increase in the life of existing copyrights. Congress wanted to stimulate creativity, and it seems more likely that Congress wanted this windfall to go to the authors and not to the publisher. It seems to me that the burden of showing the unfairness of the proposed legislation should rest with the publisher.

In enacting the termination clause, Congress wanted to give authors more money for their works that turned out to be popular and long-lived. Congress gave them the chance to get a better deal than they did early in their careers when they were untested and unknown. So a bill that achieves the goal of S.1384 seems on balance an appropriate way to carry out the intent of Congress in balancing the equities between authors and the publishers.

Congress will also have to look at the constitutional issues raised by the bill, especially in terms of impact on existing property rights. That is not an area of expertise in the Copyright Office. If you find no constitutional impediment, the Copyright Office would support the principle of S.1384. I would suggest several refinements. I think the derivative works exception of both the provision terminating subsisting copyrights in Chapter 3 and the provision terminating post January 1, 1978, copyrights in Chapter 2 should be amended. Direct amendment of the clause containing the exception seems preferable to indirect amendment as you do in S. 1384. The latter approach could trigger a new round of litigation to clarify your "clarification." The bill should also be worded to ensure that the royalties go to the person in whom the reverted rights vest. This person may be different than the person exercising the termination right.

The Copyright Office is prepared to help you work out those details.

Thank you. Ms. Schrader, Ms. Kretsinger and I will be pleased to respond to any questions.

PREPARED STATEMENT OF RALPH OMAN

REGISTER OF COPYRIGHTS AND
ASSISTANT LIBRARIAN FOR COPYRIGHT SERVICES

Mr. Chairman and members of the Subcommittee I appreciate the opportunity to appear here today and testify in support of the principle of S. 1384, the "Copyright Holder Protection Act of 1985." This bill would amend 17 U.S.C. §304(c), the termination-reversion provision of the Copyright Act, to provide that "any right to royalties from the utilization of the derivative work shall revert to the person exercising the termination right."

The termination provisions are the result of considerable compromises that attempted to balance the interests of individual authors and their transferees in a fairer way than the renewal provision of the former Act. Basically, the termination right was given authors in order to give them the benefit of a long-lived copyright that they might have assigned to a grantee for less than its worth at a time when the grantee had a more favorable bargaining position. The derivative works exception to the termination provision(s) was designed to protect those creators of derivative works who had used the underlying copyrighted work to create a new work at considerable expense.

The exception of the current Act does not specify how royalties are to be disbursed; it only specifies that "a derivative work prepared earlier may continue to be utilized under the conditions of the terminated grant." At issue in the Mills Music litigation was who should receive the royalties from recordings licensed by the music publisher under a grant from the author. Ultimately the Supreme Court held that the royalties for continued utilization of a derivative work should continue to be disbursed under the agreement that existed between the author and the publisher prior to the author's termination of the grant pursuant to 17 U.S.C. §304(c).

The extension of subsisting copyright created a windfall -- continued copyright protection and profits for a popular work.

Evidence of congressional intent on this narrow issue is very sparse. The most that can be said is that Congress wanted the authors to benefit from the nineteen year extension of the term for subsisting copyrights. In consonance with the underlying purpose of copyright, to stimulate creativity, it is more likely that Congress intended this windfall as a reward to the author instead of the publisher. The burden of showing the unfairness of the proposed legislation should rest with the publisher.

* * *

Mr. Chairman and members of the Subcommittee I appreciate the opportunity to appear here today and testify in support of the principle of S. 1384, the "Copyright Holder Protection Act of 1985." This bill would amend 17 U.S.C. §304(c)(6) the derivative works exception to the termination-reversion provision of the Copyright Act, title 17 U.S.C., by adding a new subsection (7) that clarifies the operation of this exception.

A bill in the other body, H.R. 3163, would amend both the derivative works exception found in 17 U.S.C. §203 and the one in §304(c)(6)(A).

INTRODUCTION

The 1976 Copyright Act contains a "recapture of rights" provision that permits the termination of transfers and licenses executed by the author on or after January 1, 1978, and reversion to the author or heirs, under the conditions set out in 17 U.S.C. §203. The renewal provision of the prior law 1/ was retained for subsisting copyrights but if the copyright is properly renewed, the renewal term is extended for nineteen years §304(b), and section 304(c) permits the termination of transfers and licenses executed by the author or a statutory successor and reversion under the conditions stated.

The conditions that must be met for termination of a grant under §203 and those that must be met under §304, although very similar, differ to some extent because of the constraints of the 1909 Act's renewal provision; however, both §203 and §304 contain an identical derivative works 2/ exception to the termination-reversion provisions, §203(b)(1); §304(c)(6)(A). This

1/ Section 24 of the 1909 Copyright Act gave the author of a work copyright protection for a maximum period of 56 years -- an initial 28 year term and a renewal term of 28 years. Under the 1976 Act works created after January 1, 1978, may be protected for the life of the author plus fifty years. 17 U.S.C. §302(a).

2/ A "derivative work" is defined in 17 U.S.C. §101 as "a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgement, condensation, or any other form in which a work may be recast, transformed, or adapted...."

exception became a part of the termination provisions in order to protect those assignees who had already prepared derivative works before the copyright owner terminated a grant of rights under 17 U.S.C. §203(b)(1) or §304(c). The reversion of rights in both cases is subject to the following limitation:

> A derivative work prepared under authority of the grant before its termination may continue to be utilized under the terms of the grant after its termination, but this privilege does not extend to the preparation after the termination of other derivative works based upon the copyrighted work covered by the terminated grant.

17 U.S.C. §203(b)(1); §304(c)(6)(A).

In January of this year, the Supreme Court ruled on a case questioning the proper disbursement of royalties for derivative works that "continue to be utilized under the terms of the grant after its termination." 3/ The exception itself does not say anything about the payment of royalties, but the Court carefully examined the statutory language and the legislative history before deciding that the petitioner, a music publisher, was entitled to share in the royalties generated by the continued utilization of derivative works, sound recordings, that the publishers had licensed before the composer's heirs terminated the grant under 17 U.S.C. §304(c). Thirteen judges looked at this case; six of them -- five Supreme Court Justices and the district court judge -- felt that the disbursement of royalties should be governed by the author's contract with the music publisher, and seven -- four Supreme Court Justices and three judges for the Court of Appeals for the Second Circuit -- felt all of the royalties should revert to the author.

The decision has been criticized by authors and composers and by Barbara Ringer, former Register of Copyrights, in an appearance before this Subcommittee on April 17, 1985. On June 27, 1985, Senator Specter introduced S.1384, a bill that adds a new subsection to §304 which specifically provides that "any right to royalties from the utilization of the derivative work shall revert to the person exercising the termination right."

This question of how royalties should be divided under the derivative works exception is a technical one involving the balancing of

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3/ Mills Music Inc. v. Snyder, 105 S.Ct. 638 (1985) equities between two types of copyright proprietors: the composer or author of the original work and the publisher or other disseminator who was granted rights to that work and subsequently licensed derivative works. The exception appears in a provision which, since it involves statutory restraints on transfer of property and on freedom of contract, required considerable compromise in order to reconcile opposing views. The compromise was reached, moreover, as part of resolving the larger issues of: duration of copyright; recapture of the copyright by the author and his or her heirs, either through a renewal provision or other reversion mechanism; and if so, under what terms, conditions, and procedures could recapture occur.

I. BACKGROUND TO CONTROVERSY OVER DERIVATIVE WORK ROYALTIES

A. Legislative History of Derivative Work Exception

1. Revision Period 1961-1965. Most of the discussion concerning the derivative work exception occurred during this period. The backdrop for the discussion was the debate regarding one of the crucial issues of any copyright law: how long should copyright protection endure? Under the Act of 1909 then in effect, copyright endured for 28 years from publication or registration as an unpublished work. The right ended at that point unless the copyright was renewed timely (that is, a renewal registration made in the Copyright Office within the 28th year of the first term). One of the major revision issues therefore was whether the 56-year maximum term should be extended; subsidiary, but equally important issues were whether there should be a single term of copyright, and, if so, would the author who sold his or her copyright be able to recapture the copyright, notwithstanding any contract to the contrary. In the context of this debate, derivative work users argued that their investments in new versions (e.g. motion pictures of novels) prepared under license should not be jeopardized or perhaps destroyed by reversion of all rights to the author or the author's heirs.

The Register of Copyrights' Initial Report on the General Revision of the United States Copyright Law recommended a twenty year extension of the renewal term for subsisting copyrights and noted the need to balance the interests involved:

> We believe there would be little justification for lengthening the term unless the author or his heirs were to receive some benefit from it. At the same time, the interests of their assignees must also be considered.
>
> If the assignee is obligated to continue paying royalties or a part of his revenue to the author or his heirs during the entire life of the copyright, we would allow the assignment to remain in effect during the added 20 years. On the other hand, if the author or his heirs would otherwise receive no benefit from the lengthened term, we would terminate the assignment at the end of the 28th year of the renewal term, even if it purported to convey ownership for the length of the copyright "and any extensions thereof": the copyright for the remaining 20 years would then revert to the author or his heirs. 4/

Although the 1961 Report did not refer to an exception from the author's reversion right for derivative works, the reaction to the Register's recommendations shows that a major controversy had arisen. The Motion Picture Association of America was disturbed that the Register's proposal for a reversionary provision provided for the termination of an assignment of renewal rights unless the assignee was obligated to pay royalties or a share of the revenue from the work to the author during the proposed 20-year extension. 5/ Another commentator felt the proposed extension period was too short and argued that any extension should revert to the author and his family and should be inalienable. 6/

The 1963 preliminary draft bill had two sections that contained an

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4/ Report of the Register of Copyrights on the General Revision of the United States Copyright Law, Copyright Law Revision, 87th Cong., 1st Sess. 57-58 (House Judiciary Comm. Print 1961) [hereinafter cited as 1961 Report]. (emphasis added).

5/ Discussion and Comments on Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law. Copyright Law Revision, Part 2, 88th Cong., 1st sess. 360-1, (House Judiciary Comm. Print 1963) [hereinafter cited as Copyright Law Revision, Part 2].

6/ Id. at 392 (John Schulman, Chairman of the American Patent Law Association Committee on Copyright).

exception for derivative works. 7/ The exception was found in §22 "Duration of Copyright: Subsisting Copyrights," and in one alternative to §16 "Limitation on Transfer of Copyright Ownership." 8/ The exception found in §22 stated:

> A derivative work prepared under the authority of a terminated transfer may, despite such termination, continue to be utilized under the terms of said transfer; however, this privilege shall not extend to the making of other derivative works employing the work covered by the terminated transfer. 9/

The §16 exception was almost identical. 10/

Barbara Ringer, then the Assistant Register of Copyrights for Examining, explained the background to the two alternatives for a termination provision found in §16. She observed that this termination provision was based on the Register's proposal, and that it had proved to be "one of the two or three most controversial recommendations in the entire Report." Ms. Ringer summed up the three primary arguments against such a proposal, other than the nature of copyright as property and the inviolability of contracts: (1) authors are not in a weak bargaining position and need no special protection; (2) users, such as motion picture producers and book publishers, contribute a great deal to the success of a work, assume economic losses, should not lose their property, and can't recoup their investment in twenty years; (3) the proposal would cloud the title of a number of copyrights and make them less valuable.

7/ Preliminary Draft for Revised U.S. Copyright Law and Discussions and Comments on the Draft, Copyright Law Revision, Part 3. (House Judiciary Comm. Print 1964) [hereinafter cited as Copyright Law Revision, Part 3].

8/ Alternative A which provided for automatic termination after 25 years contained the exemption. Alternative B permitted an author or his legal representative or heirs to bring an action to terminate the transfer if the assignee's profits are "strikingly disproportionate" to the share received by the author or his successors. Id. at 15-16.

9/ Copyright Law Revision, Part 3, at 21.

10/ "As an exception to the provisions of subsection (a), a derivative work prepared under the authority of a terminated transfer may, despite the reversion of rights, continue to be utilized under the terms of said transfer; however, this privilege shall not extend to the making of other derivative works employing the work covered by the terminated transfer." Id. at 16.

She also noted that authors' groups had urged that limiting reversion to cases where the authors did not continue to receive royalties was illusory since royalties could be a nominal payment made merely to avoid termination. In order to meet these criticisms, Alternative A eliminated the lump sum distribution criterion, extended the period before termination to twenty-five years, and added an exception that would permit the owner of a derivative work to continue to use it. 11/

These changes did not appease either side, but most of the criticism focused on the termination provision(s) rather than the derivative works exception. Alternative B was censured as a provision that would encourage litigation 12/ or was too indefinite. 13/ On the other hand, Alternative A was described as paternalistic 14/ and as giving authors special treatment at the expense of publishers who fared better under the existing law. 15/

Several publishing representatives urged that Alternative A was unfair to publishers:

> The fruits of the publisher's successful exploitation during the 25-year period will belong to others -- indeed to all others, because the licensee of the publisher retains his rights under subsection (b) of Alternative A, with the royalties resulting from the license presumably reverting entirely to the author, etc., under subsection (a). 16/

11/ Id. at 277-8. Alternative B was based on an article that was being considered by the Federal Republic of Germany.

12/ Id. at 279-80 (Colby for Motion Picture Association of America (MPAA)), 281-3 (Manges, American Book Publishers Council); 292 (Wasserstrom, Magazine Publishers Association).

13/ Id. at 289 (Schulman).

14/ Id. at 292 (Wasserstrom).

15/ See, e.g., id. at 281-3 (Manges); 283 (Abeles, Music Publishers Protective Association, Inc.); 284-5 (Wattenberg); 319 (Abeles). Written comments were also filed in which various publishers' groups and the MPAA opposed both alternatives. See 341-2, 388. See also, Further Discussions and Comments on Preliminary Draft for Revised U.S. Copyright Law, Copyright Law Revision, Part 4, 88th Cong. 2d Sess. 249-250; 363-364, (House Judiciary Comm. Print 1964) [hereinafter Copyright Law Revision, Part 4].

16/ Copyright Law Revision, Part 3, at 285; See also Abeles at 319.

Another commentator argued that if the author had reversion, under Alternative B, he would have the opportunity to recover 100% of all income. 17/

Irwin Karp, counsel for the Authors League of America, expressed the view that the derivative works exception should be narrowed "to cover those types of works which might legitimately be entitled to the right to continue on a non-exclusive basis to be shown or published -- works such as motion pictures, which do involve the creation at great expense of something new." 18/

At the next stage in the revision effort, Section 16 of the 1964 revision bill refined Alternative A: the period was extended to thirty-five years, but the derivative works exception remained basically the same. Section 22 still extended subsisting copyrights for 19 years, permitted termination by the author, legal representatives, or heirs, and contained the same derivative works exception. 19/ Comments on the 1964 revision bill again centered on whether or not there should be a termination provision for either subsisting copyrights or copyrights that would come into being after the new law went into effect. On the whole these comments merely repeat the positions that already had been taken by opposing interests. 20/ The only references to the derivative works exception concerned which secondary proprietors or users should be entitled to it. There was no discussion of how royalties should be shared.

Section 203 (b)(1) of the 1965 bill provided a derivative work exception that was basically the same as that found in the 1964 bill and the preliminary

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17/ Id. at 297 (Wattenberg).

18/ Id. at 294; see also Copyright Law Revision, Part 4, at 314 where Karp urged that "The motion picture problem is a unique one. It alone should be excepted."

19/ 1964 Revision Bill with Discussions and Comment, Copyright Law Revision, Part 5, 89th Cong. 1st Sess. (House Judiciary Comm. Print 1965) [hereinafter Copyright Law Revision, Part 5].

20/ See, e.g., id. at 222 (Abeles); at 154 (Wattenberg); at 163 (Manges); at 155-156 (Karp).

draft. Section 304(c)(5)(A) provided the same exception for termination of subsisting copyrights during the extended term.

> A derivative work prepared under authority of the grant before its termination may continue to be utilized under the terms of the grant after its termination, but this privilege does not extend to the preparation after the termination of other derivative works based upon the copyrighted work covered by the terminated grant. 21/

Like both earlier versions, the 1965 bill contains a definition of a "derivative work" that includes sound recordings. 22/

The Register's Supplementary Report described the termination or "reversion problem" as the "most explosive and difficult issue" throughout the drafting phase of the revision program. 23/ He noted that:

> An important question arises as to whether, in a case where their rights have already been transferred, the statute should give the author or his dependents an opportunity to benefit from the extension. The reasons for allowing a termination of transfers and licenses, as under section 203, are particularly strong in the case of the extended term: the extension is a new right that Congress is creating for the first time, and the stated objective of the constitutional clause is to secure copyright protection to authors. 24/

2. Revision Period 1965-1976. During this period a number of copyright bills were introduced in both houses of Congress and a number of hearings were held, but the language of the derivative works exception was not changed. Although certain groups were still opposed to reversion of rights,

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21/ Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law: 1965 Revision Bill, Copyright Law Revision, Part 6, 89th Cong. 1st Sess. 214 (House Judiciary Comm. Print 1965) [hereinafter Copyright Law Revision, Part 6].

22/ Id. at 170-171.

23/ Id. at 71.

24/ Id. at 95.

the derivative works exception had made the proposal "tolerably palatable." 25/

The House Report that accompanied H.R. 4347 summed up the reasoning and purpose behind §203:

> It was obvious at the 1965 hearings that a certain accommodation among the affected interests had been achieved with respect to the so-called "reversion"problem dealt with in section 203. The history of that development is summarized fully and accurately in the Register's Supplementary Report, and the committee is aware of that history.
>
> After careful consideration, the committee has concluded that the reversionary provisions of the present section on copyright renewal (17 U.S.C. sec. 24) should be eliminated, and that the proposed law should substitute for them a provision safeguarding authors against unremunerative transfers. A provision of this sort is needed because of the unequal bargaining position of authors, resulting in part from the impossibility of determining a work's value until it has been exploited.
>
> Section 203 of the amended bill reflects a practical compromise that will further the objectives of the copyright law while recognizing the problems and legitimate needs of all interests involved. The constructive spirit manifested by those who have contributed to this compromise reflects credit on all those responsible.
>
> The committee believes that the framework and principal provisions of section 203 offer a workable solution to the "reversion" problem, and that their adoption would be in the public interest. In its general provisions the section attracted fairly wide support; and, while there was some opposition on principle, motion picture producers for their part indicated that they could accept the compromise if it were not substantially changed to the disadvantage of their industry. The committee has adopted some amendments in the details of section 203, which have required a substantial amount of redrafting, but the broad principles of the compromise have been retained. 26/

25/ Copyright Law Revision: Hearings on H.R. 4347, H.R. 4680, H.R. 6831, H.R. 6835 Before Subcommittee No. 3 of the House Committee on the Judiciary, 89th Cong., 1st Sess. 1035-6 (1965) (prepared statement of the Motion Picture Association of America).

26/ H.Rep. No. 2237, 89th Cong., 2d Sess. 119 (1966) (hereinafter, the 1966 House Report).

The Committee agreed with the Register's statement that arguments for granting a right of termination are even more persuasive under section 304 than they are under section 203. 27/

In later hearings various amendments were proposed, but none of them elaborated on the issue before us today. The Second Supplementary Report of the Register of Copyrights noted:

> Section 203 is a compromise that attempts to balance the interests of individual authors and their transferees in a fairer way than the present renewal provision. The subject is inherently complex, and the bargaining over individual provisions was very hard indeed. The result is an extremely intricate and difficult provision, but one that has appeared to have gained general support. 28/

Since the reports that accompanied the Copyright Bill enacted in 1976 do not add anything to the 1966 House Report, the one unassailable observation is that Congress wanted the author to share in the extended term. 29/ The derivative works exception is mentioned briefly in the general discussion of section 203, and there is no discussion of royalty payments after termination of the license. The Copyright Act only specifies that "a derivative work prepared earlier may 'continue to be utilized' under the conditions of the terminated grant, ..." 30/

B. The Mills Music Litigation

A music publisher's licensing agent brought an action in 1982 that tested the "derivative works exception." The heirs of one of the authors had

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27/ Id. at 136.

28/ Second Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law: 1975 Revision Bill. Chapter XI, p. 10.

29/ See, e.g., S. Rep. No. 473, 94th Cong. 1st Sess. 123 (1975); H.Rep. No. 1476, 94th Cong. 2d Sess. 140 (1976).

30/ S.Rep. No. 473 at 111; H.Rep. No. 1476 at 127.

exercised their right to terminate a subsisting copyright under 17 U.S.C. §304(c). The Harry Fox Agency, which had issued licenses for mechanical recordings of the song, wanted to know who should receive the royalties from the sound recordings of works already licensed when the grant was terminated: the author's heirs or the music publisher. Ultimately the question went to the Supreme Court. 31/

On January 3, 1978, the widow and son of one of the co-authors of the song exercised the right to terminate this co-author's grant to Mills of his one-third interest. The heirs claimed that all of the royalties generated from sound recordings of the composition, even those prepared by record companies before the effective date of termination, should be paid to the authors. Mills claimed that termination was ineffective against it under the terms of the derivative works exception and that it could enforce the provisions of its contract with the record companies. This contract divided royalties 50-50 between the composers and Mills. In order to resolve this dispute, Fox brought an interpleader action. Mills and the Snyders (heirs) brought counter and cross-claims and each moved for summary judgment.

After an exhaustive look at the revision materials, the legislative

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31/ The subject of this litigation was the song, "Who's Sorry Now" composed in the early 1920's. The three composers assigned their copyright in the song to a publisher who registered the copyright in 1923. The publisher granted licenses to recording companies who paid royalties for the use of the song to the publisher who then split these royalties with the composers.

In 1940 the authors assigned the renewal right including the exclusive right to act as publisher to Mills. (The original publisher went bankrupt and assigned the copyright to the defendant in this litigation, Mills Music, Inc. In 1932 Mills recorded its assignment as the exclusive copyright owner and publisher for the balance of the original term.)

In 1958 in accordance with section 1(e) of the 1909 Act , Mills filed a Notice of Use on Mechanical Instruments with respect to "Who's Sorry Now." The Harry Fox Agency acted on Mills' behalf in issuance of licenses with respect to mechanical recordings of the song.

Section 1(e) together with section 101(e) of the 1909 Act, and its successor §115, are known as the mechanical reproduction license provisions and an argument was made that the sound recordings prepared under the arrangement between Mills and the Harry Fox Agency was in the nature of a compulsory license and not "under authority of the grant" from the authors to Mills. This argument was dropped before appeal.

history, and the statute, District Court Judge Weinfeld concluded that the publisher was protected by the derivative works exception. 32/

On appeal the Court of Appeals for the Second Circuit considered only the rights to the mechanical royalties from phonograph records prepared and licensed before the termination of the grant to the publisher, but sold after the termination. The court unanimously reversed the decision below, holding that the derivative works exception did not apply to music publishers. The court based its decision on three propositions:

> 1. Mills is relying on two separate grants, the grant from the authors to Mills, the publisher, and the grant from Mills to the record companies; but the exception is based on one, the grant from the publisher to the record company.
>
> 2. Mills is not a utilizer of the derivative work. Mills only licenses others to create and utilize derivative works. 33/ The exception protects creators who utilize derivative works.
>
> 3. The statute does not expressly address the situation involved -- a grant of rights to use the derivative work by the grantee of the author to a third party. 34/

Based on these propositions, the appellate court examined the purpose of the derivative works exception to determine what Congress would have intended had it faced the "more complex situation, typically found in the music business, of a grant to a music publisher followed by subsequent grants to licensees by the publishers to creators of derivative works." The court

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32/ Specifically, the court found that as to:

1. Relicensing of Sound Recordings: Mills could continue to license new releases of old derivative works that it first licensed prior to termination of the Snyder grant with royalties to be shared as before termination.

2. Post-Termination Licenses: As to sound recordings prepared before termination, but first licensed after termination, the exception did not preserve Mills' right to issue the Post-Termination Licenses. Harry Fox Agency, Inc. v. Mills Music, Inc., 543 F.Supp. 844, 868-9, 878 (S.D.N.Y. 1982).

33/ This is the court's characterization of Mills' role. In instances not before the court, Mills might be a creator of derivative works, e.g. music arrangements.

34/ Harry Fox Agency Inc. v. Mills Music Inc., 720 F.2d 733 (2d Cir. 1983), rev'd. sub nom. Mills Music, Inc. v. Snyder, 105 S.Ct. 638 (1985).

concluded that authors, not publishers, were the intended beneficiaries of the termination provision and that the owners (creators) of derivative works were the beneficiaries of the exception. 35/

On January 8, 1985, in a 5-4 decision the Supreme Court reversed the court of appeals. 36/ As both the appellate court and district court had done, the Supreme Court considered the revision materials, the legislative history, and the statute itself, and concluded that Congress did not intend to draw a distinction between authorizations to prepare derivative works that are based on a single direct grant and those that are based on successive grants.

The Court felt that the key to this "statutory puzzle" is an understanding of the phrase "under the terms of the grant" as it is used in §304(c)(6)(A). The majority of the Court did not accept the court of appeal's view that there were two grants and the exception only preserved one. The Court noted that the word grant was used in the exception three times, that the third reference had to refer to the author's grant to the publisher, and that it is logical to assume that the same word has the same meaning in the same sentence.

The Court also rejected the court of appeal's second proposition that Mills is not a "utilizer" within the exception on the ground that the word "utilized" cannot be separated from its context in the exception. Finally, the Court rejected the appellate court's third proposition that Congress did not consider the specific situation presented in Mills. The Court noted references within the legislative history that indicated Congress was aware of the prevalence of multiparty licensing arrangements in the music-publishing industry. The Court saw no reason to differentiate between a book publisher's license to a motion-picture producer and a music publisher's license to a record company -- i.e. to distinguish a so-called "creative" middleman from a non-creative one.

35/ Id at 742.

36/ Mills Music, Inc. v. Snyder, 105 S. Ct. 638 (1985).

Justice White, dissenting, 37/ accepted the majority's assertions that the terminated grant is the original grant (Snyder-Mills), that the derivative works involved were prepared under the Snyder-Mills grant, and that users of these works may continue to utilize them under the specific terms of the licenses issued by Mills. Justice White disagreed, however, with the majority's extension of benefits to Mills as well as the users of derivative works. Justice White observed that the right to terminate the grant of copyright covered "any right under" that copyright and that it, therefore, included the recapturing of Mills' right to share royalties.

The minority felt that the legislative history did not support Mills' claim to share in the royalties from derivative works. The minority noted that, early in the revision process (1961-1964), comments by the Music Publishers Association and the Music Publishers Protective Association, implied that the royalties would revert entirely to the author. In the absence of any other "legislative history," directly relevant to this point, the minority felt that these statements of interested parties before the Copyright Office could not be ignored. Justice White also noted that the majority's decision would frustrate the congressional purpose of compensating authors in those situations where an author has assigned his rights for a one-time, lump-sum payment. 38/ Justice White argued that, with respect to the extended term, both parties, the author and the grantee, have already reaped the benefit of their bargain, and the only question is which one should receive the windfall conferred by Congress.

37/ 105 S.Ct. 63?,652 (1985).

38/ One commentator has suggested that the situation might work against authors in cases where the author is to receive a set yearly payment obligation from the motion picture producer, and the motion picture producer gives the right to produce the work to a second producer for a percentage. Then if the grant is terminated, the original producer would have no obligation to make any payment to the author. 3 Nimmer on Copyright §11.02 (1984).

C. Post-Litigation Senate Hearing

On April 17, 1985, Barbara Ringer, former Register of Copyrights, appeared before this Subcommittee to urge Congress to reexamine this important issue and to redress the imbalance created by the Supreme Court decision. Ms. Ringer emphasized that the impact of the decision went far beyond the facts of the Mills case:

> First: The decision applies not only to music and sound recordings but also to every conceivable type of copyrightable work and to every conceivable type of derivative work that can be made from a copyrighted work.
>
> Second: In the Mills case the author's grant to the publisher provided for him to receive 50 percent of the record royalties, and his heirs will, under the decision, continue to receive this share. But, especially in fields other then music, the author's grant to the publisher or middleman-entrepreneur may not provide for any author's share of royalties from licensing particular kinds of derivative works. If the publisher or entrepreneur can continue to receive 100 percent of the royalties, the termination of the author's grant becomes a hollow mockery.
>
> Third: The Mills case dealt with section 304 and the 19-year extension of subsisting renewal copyrights. But the 1976 Act contained a parallel and potentially far more important provision in section 203. Under that section, authors and their heirs may terminate grants made after January 1, 1978 at the end of a prescribed period of years, but subject to the same "derivative works exception" as that construed in the Mills decision. Thus, unless the Supreme Court's ruling is changed by Congress, its impact will continue into the indefinite future.
>
> Fourth: Most important of all, the issue in the Mills case raises the fundamental question of whom Congress is seeking to benefit by means of the termination provisions in both sections 304 and 203. Does it really mean to benefit the holders of old contracts that go back for generations, or does it want to give real, rather than illusory, benefits to authors and their heirs? 39/

39/ Civil and Criminal Enforcement of the Copyright Laws: Hearing Before the Subcommittee on Patents, Copyrights and Trademarks of the Senate Committee on the Judiciary, 99th Cong., 1st Sess. 83 (1985) (Barbara Ringer's prepared statement).

Ms. Ringer's testimony summed up the revision process that led to the termination provision and the exception and what she saw as the congressional intent on this issue:

> In my opinion, the intention of Congress was that termination means termination. And if the entrepreneurs rights were only contractual -- if it did not create and own the derivative work in question -- then Congress intended that the entrepreneur's rights would be terminated. assuming that the author went through all the statutory requirements for termination. 40/

II. PF 'LS TO REVERSE MILLS MUSIC

On June 27, 1985, Senator Specter introduced S. 1384, a bill to clarify the operation of the derivative works exception. In introducing the bill, Senator Specter urged that since "the Court's sharply divided 5 to 4 decision was based almost exclusively on its perception of Congress' intent, it is appropriate now for Congress to clarify its intent and alter the effect of the decision in Mills Music." 41/ This bill would amend section 304(c)(6) by adding a new subsection:

> (7) Notwithstanding any other provision of law, where an author or his successor, as defined in subsection (c)(2), has exercised a right of termination pursuant to this section and a derivative work continues to be utilized pursuant to subsection (c)(6)(A) of this section, any right to royalties from the utilization of the derivative work shall revert to the person exercising the termination right.

The Senate bill does not change any language in §304(c)(6); instead the new subsection (7) adds the clarification that any rights to royalties for derivative works utilized pursuant to (c)(6)(A) following termination by an author or his successor as defined in (c)(2) "shall revert to the person exercising the terminated right."

40/ Id. at 93.

41/ Congressional Record, S. 8971 (June 27, 1985).

The new subsection also would specify that this right to royalties exists "Notwithstanding any other provision of law, ..." It is not clear what is meant by the opening phrase of the subsection; perhaps it was drafted to emphasize that the royalties from derivative works would revert to the person exercising the terminated right regardless of any contractual agreement between the author and the assignee, or despite any other provision within the Copyright Act. To accomplish its purpose, moreover, the bill should ensure that the royalties go to the persons in whom the reverted rights vest (who may be different than the person exercising the termination right).

The Senate bill does not amend the derivative work exception to §203, which governs works first copyrighted under the current Act.

Congressman Berman has introduced H.R. 3163 in the House which would amend the derivative works exception found in both §203 terminations and §304 terminations by adding the following phrase within each existing derivative works exception:

> After the effective date of termination, all rights to enforce the terms of any such license or other contract and to receive royalties or other monies from any such continued utilization shall become the property of, and such royalties or other monies shall be payable to, the person or persons in whom the reversion of rights are vested under this subsection. 42/

If Congress concludes that the Mills Music decision should be reversed, the Copyright Office believes the derivative works exception of both §304(c) and §203 should be amended. Direct amendment of the clause containing the exception (the technique of the House bill) seems preferable to indirect amendment (the Senate bill). The latter approach may invite further litigation to test the "clarification."

42/ The amendment to §203 refers to rights vested under this "section" simply because of the different structure of §203 as compared with §304.

III. OBSERVATIONS ON THE DERIVATIVE WORKS EXCEPTION

A. Congressional Intent

The derivative works exception does not mention royalties, and there is no evidence in "pre-legislative" or legislative history that either the Copyright Office or Congress ever considered the specific issue addressed in the Mills case. The district court concluded that the legislative history was ambiguous:

> There is no indication that either the drafters in the Copyright Office of these provisions or the Congress specifically considered the Exception with respect to music publishers. In all of the Office's panel discussions and reports, and all of the hearings, reports and other legislative materials regarding the various bills introduced in Congress, there is no discussion by either the Office or individual members of Congress about the termination of assignments or the derivative works exception specifically as they apply to music publishers. It is an unwarranted assumption that Congress itself ever gave any thought to the issue. In addition, there is no discussion by the Office or by any member of Congress of the general issue of whether the Exception applies to an author's grantee who only authorizes others to make derivative works and is not itself the owner or producer of the derivative works. 43/

The only statements that remotely discuss royalties are by music publishers very early in the revision effort, as part of the debate concerning the author's right to reversion in principle. These remarks have been given different weights by the courts that have addressed them. 44/ The Supreme Court made a judicial determination of congressional intent, which favored the publisher over the author.

If the Court erred in its finding of congressional intent, it did so less in its parsing of §304(c) and its history, than in its inattention to the broad purposes of the 1976 revision. The underlying

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43/ 543 F. Supp. 844, 856 (citations omitted).

44/ See, 543 F. Supp. 849, 863-864; 720 F2d 733, 740, 105 S.Ct. 638, 648-649.

purpose of copyright legislation is to stimulate creativity, i.e., to encourage authors to create. The 19 year extension of the term for subsisting copyrights was clearly a windfall; in consonance with the underlying purpose of copyright legislation, Congress more likely than not intended to reward the author and not the publisher.

In any case, except for its possible significance regarding the constitutionality of ve legislation, as discussed later, further tortuous examination of the "original" intent of the 94th Congress seems less important than a review of the equities of the proposed legislation by the 99th Congress. It i. now that the Congress must make a decision that the authors should receive all royalties due under the terms of grants that have been terminated.

B. The Equities

Unlike many of the copyright issues which have recently come before this Subcommittee, the controversy to which this bill is addressed is not about whether copyright should or should not govern a given activity. Rather, it is a dispute between two classes of copyright proprietors: here, authors and publishers. In most instances the copyright law does not distinguish among classes of copyright owners, and for good reason. In creating a statutory form of private property, Congress has largely left transactions concerning that property to the participants. And, in the market, authors of proven best sellers will usually get a better "deal" from a publisher than will a beginner. Likewise, the composer of a perennial hit tune will derive more income than will the composer of a song which is rarely performed or recorded.

But the marketplace has not been the sole determinant of copyright rewards over the long life of the copyright monopoly. The renewal provisions, which have been supplanted in the present law by the termination provisions, have their origin in the Statute of Anne (1710).

They were intended to provide, among other things, the power to the author to recapture copyrights he or she had previously bargained away. As Senator Specter stated when he introduced S. 1384, the 94th Congress recognized that both the impossibility of predicting a work's value as soon as it has been created and the unequal bargaining power of most authors as against most publishers were proper subjects for legislative redress. The question before you today, Mr. Chairman, is whether Congress shall continue to choose to seek to strengthen the hand of authors -- both original and derivative authors -- in light of the decision in Mills Music. In short, should the law be made explicit to the effect that the class of intended beneficiaries of all royalties under the termination rights provisions consists exclusively of authors and their heirs (and the other statutory renewal claimants) and that the class of intended beneficiaries of the derivative works exceptions consists exclusively of those who create derivative works? The alternative, as I see it, is to leave the status quo alone, i.e., to grant to those primary publishers who, under assignments from the author, themselves authorize the preparation of derivative works, a substantial shield against termination.

In support of the status quo, publishers would presumably argue that the derivative work exception, while of great significance, constituted only part of one of a series of compromises regarding duration of copyright: the decisions to extend the term of copyright both transitionally for subsisting copyrights, and permanently for new copyrights; to allow the author under stated conditions to recapture the copyright after a period of years; to exclude works for hire from the recapture provisions; and to allow the continued utilization of derivative works under the terms of the original grant. Some will argue that it is not equitable to reverse the Supreme Court's finding on one feature of the compromises regarding duration -- especially in view of the sparse evidence of any specific congressional intent opposed to the Court's holding -- without re-examination of the case for any forced reversion of property rights. Publishers could also argue that the impact of the Mills Music decision has been exaggerated by authors. After Mills, authors can terminate licenses and recapture the copyright. They can license new uses of their works including new derivative works that may compete with the one licensed by the publisher. 45/ Authors can receive all of the royalties from phonorecords of derivative sound recordings licensed post termination. They can share in the royalties under the terms of the original grant in the case of phonorecords licensed before termination (if that grant so provides), and the music publisher's right to royalties is limited to this last narrow situation.

Nevertheless, given that the function of the termination right is to grant authors and their heirs a second chance at capturing a fair share of the revenue generated by the exploitation of their works, a bill designed to achieve the goal of S. 1384 seems an appropriate way of balancing the equities between authors and the publishers of their works. The function of the derivative works exception should not be to freeze authors into disadvantageous positions, but to prevent capricious rights owners from denying the public access to derivative works whose preparation and performance was initially authorized. As Justice White observed, the very purpose of the termination provisions is to provide more compensation to those authors whose works are very long-lived than their initial contracts would have provided. To leave the law as stated by the majority in Mills Music frustrates that purpose.

C. Constitutional Issue

It is clear that Congress had the authority to determine who got the royalties at the time the new right (extended term) was created in

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45/ The author's right to license competing derivative works is particularly powerful outside of the music field. It is less significant in the music field because the public performance right is commonly licensed on a nonexclusive basis anyway, and the mechanical reproduction right is subject to a compulsory license.

1976. Now, however, the Supreme Court has interpreted the derivative works exception and held that publishers have a right to the royalties in accordance with the contract under which the derivative work is utilized. Should Congress now amend §304 to clarify that authors (and their statutory renewal successors) are to receive all of the royalties when derivative works continue to be utilized, the question arises whether retroactive application of the amended law interferes with or divests a vested right? 46/

The proposed amendment would be legislation passed to cure defects in prior legislation.

> Generally, curative acts are made necessary by inadvertence or error in the original enactment of a statute or its administration . . . . Because curative legislation ... is concerned specifically with past events and transactions, all constitutional strictures on retroactive legisation are relevant. But because the very reason for curative legislation is to fulfill and secure expectations rather than to frustrate and defeat them, the principles governing decision as to the validity of retroactive legislation do not work to render curative acts invalid. 47/

In the instant case, if passed, the curative statute will follow a judicial pronouncement; consequently, if the curative statute interferes with vested rights, the statute itself may be declared unconstitutional. 48/ This brings us back to the question of whether the music publishers have a vested interest in royalties paid for derivative works that continue to be utilized after termination under the Mills decision.

This is not an easy question since there is no clearcut definition of vested rights. One commentator has said that "settled expectations honestly arrived at with respect to substantial interests ought not to

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46/ See Stancil v. United States, 200 F. Supp 36 (E.D. Va. 1961).

47/ 2 SUTHERLAND, STATUTORY CONSTRUCTION, Id. §§41.11; 41.12. (4th ed. 1973).

48/ Id. §41.20 and §41.06.

be defeated." 49/ Another commentator and several courts have described the term as "conclusory," and indicated that the real question is one of reliance, "How the challenger's conduct or the conduct of others in his class, would have differed if the law in issue had applied from the start." 50/

Another court has said that the due process challenge to a retroactive statute is met by showing that the retroactive application of the legislation is itself "justified by a rational legislative purpose." If so, "[t]he fact that the statute's retroactive application imposes new duties and upsets otherwise settled expectations is not sufficient to invalidate it ... unless the changes it imposes are 'particularly harsh and oppressive.'" 51/ This case concerns imposing new duties on mine operators to make them responsible for compensating families of injured employees. The consideration may be different in matters of private not public interest. 52/

An arguably analogous case is the litigation involving a construction of the Fair Labor Standards Act (FLSA). Following an expansive Supreme Court interpretation of "work-week" Congress enacted a new rule, whose purpose was retroactively to minimize employers from all the suits pending or that could be brought under the Supreme Court definition. If the Supreme Court view had been allowed to stand, the effect would be to give large numbers of employees sizable "windfalls" and impose on employers vast liabilities for which the market economy had made no provision. Both federal and state courts were unanimous in

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49/ Sutherland, _supra_ note 47, at §41.05.

50/ _See_ Hockman, "The Supreme Court and the Constitutionality of Retroactive Legislation," 13 HARV. L. REV. 692, 697 (1960); _Adams Nursing Home of Williamstown, Inc. v. Mathews_, 548 F2d 1077, 1081 (1st Cir. 1977).

51/ _North American Coal Corp. v. Campbell_, 748 F2d 1124, 1128 (6th Cir. 1984) (citations omitted).

52/ _See_ Sutherland _supra_ note 47 at §41.05. _But see_, Hockman, supra note 50, at 722-3.

upholding the new rule primarily on the reasoning that the Supreme Court decision "presupposed an opposite construction of the Act" and that, therefore, the new legislation validated agreements "fulfilling rather than defeating expectations which had attended formation of the employment relationships prior to the date of the unforeseen expansive Supreme Court interpretation," i.e., on the criterion which comprises the traditional justification for "curative" legislation "it fulfills rather than defeats reasonable expectations." 53/

In a similar situation where the Court interpreted a FLSA provision, Congress again enacted a subsequent act prescribing an interpretation which produced results "deemed by Congress to be compatible with what the expectations of the parties had been at the time when they negotiated the agreements." Again the retroactive application was upheld. 54/

As one commentator has noted, "a retroactive statute, by remedying an unexpected judicial decision, may actually effectuate the intentions of the parties." 55/ The same commentator has observed that the true test of constitutionality of a retroactive statute is whether a party has changed its position in reliance upon the existing law or whether the retroactive act gives effect to or defeats the reasonable expectations of the parties." 56/

In making this determination a court considers three major factors:

1. The nature and strength of the public interest served by the statute,

2. The extent to which the statute modifies or abrogates the asserted preenactment right, and

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53/ Sutherland, supra note 47 at §41.05.

54/ Id. see Addison v. Huron Stevedoring Corp., 204 F2d 88 (2d Cir. 1953), cert. denied, 346 U.S. 877.

55/ Hockman, "The Supreme Court and the Constitutionality of Retroactive Legislation," 73 HARV. L. REV 692, 693 (1960).

56/ Id. at 696.

3. The nature of the right which the statute alters. 57/

In determining whether the proposed amendment to the derivative works provision is an unconstitutional interference with a vested right, we must first resolve whether Mills (or any other affected music publisher) has changed its position in reliance on the existing law. The answer to this may be "No" in Mills' case since the agreement under which Mills received rights to the underlying work was made before either the enactment of the derivative works exception or the Supreme Court's interpretation of that exception. In other words neither royalties nor an extended copyright term was foreseen by either party and were, therefore, not part of the original bargain. 58/

The question then becomes whether the proposed amendment gives effect to or defeats the reasonable expectation of the parties. Here the issue is much more complex. Following termination, some publishers apparently received royalties for the derivative works that continued to be utilized under the preexisting contracts. Also, the Mills decision reinforces the expectations that publishers were to be paid. Arguably, then the amendment does defeat a "reasonable" expectation.

the other hand, it can also be argued that this expectation is not r nable. A public interest is served in permitting Congress to cure inadvertent defects in statutes or their administration. In such a case the individual who claims that a vested right has arisen is seeking a windfall since if the provision had had the effect Congress intended, no user right would have arisen. Moreover the relative strengths of the equities underlying competing claims are often relevant in determining the validity of a particular application of a retroactive statute.

57/ Id.

58/ It seems possible, however, that some publishers may have assigned their royalty expectations to third parties since 1978, either before or after the Mills Music decision. Did those third parties change position in reliance on existing law?

In many instances the public interest in retroactive legislation is sufficient to permit the abridgement of rights arising from private contracts without there being a deprivation of due process. 59/ The instant situation is one where the subject matter lies within the control of Congress, and the contract between the publisher and the writer was made before Congress extended the copyright term. This issue could, however, warrant further study. The Copyright Office is not expert on constitutional law, and we have in any case had little time to examine the question.

If there is no constitutional impediment, I would suggest that the burden of showing that the proposals to reverse Mills Music are unfair and unwise rests with the publishers. Authors should presumptively be entitled to the full benefits of the recapture of their rights that Congress legislated in 1976.

59/ See Home Building and Loan Association v. Blaisdell, 290 U.S. 398 (1933); Block v. Hirsh, 256 U.S. 135 (1921).

Senator SPECTER. Next, we will hear from Barbara Ringer, former Register of Copyrights.

Thank you very much for joining us, Ms. Ringer. We appreciate your being here, and we look forward to your testimony.

Ms. RINGER. Thank you, Mr. Chairman.

Senator SPECTER. I might say that all prepared texts will be made a part of the record, as is the custom of the committee and the subcommittee, and to the extent practical, we would appreciate your summarizing your testimony within the allotted time.

STATEMENT OF BARBARA RINGER, FORMER REGISTER OF COPYRIGHTS, WASHINGTON, DC

Ms. RINGER. Thank you, Mr. Chairman.

This is more or less what I plan to do. I have a 13-page statement which I have filed for the record, and I will just make a few very general remarks, if that is agreeable, and then will be open to any questions that you have.

Senator SPECTER. Fine. Thank you.

Ms. RINGER. At a hearing of this subcommittee on the criminal and enforcement questions of the copyright laws on April 17, I was kind of an extra added attraction. I broached the subject of the problems raised by the *Mills* case because I feel very strongly about them. I should say that I do not represent any interest here. I am here strictly as a former Register of Copyrights who knows something about the background of this subject.

On April 17 I did express my disappointment with the *Mills* decision and what I consider its misconstruction of the "derivative works exception" to the termination provisions of the 1976 act.

I must say that, since April, I have been gratified with what action I have seen. As Congressman Berman has said, two good bills have been introduced. They are not exactly the same, but their thrust is exactly the same. We are now having a hearing in the Senate, and I think there is a good chance that they will have one, as he said, in the House next year.

And I think it is worthwhile. This is a very complex and difficult subject. It is the sort of thing that makes people's eyes glaze over when you start trying to tell them what it is all about, but once they get it, they get excited. And I think that the people that I have seen most excited are authors and their families who, when they realize what is going to happen to them, say, "Oh, my God. How did this happen?"

As it stands, the decision takes money away from authors and their families and gives it to entrepreneurs, who did not bargain for it, did not expect it, and did nothing to deserve it.

Something needs to be done fairly quickly—by Congress, because that is the only body that can do anything about this. Unless something is done, we are going to see some very drastic effects, I am afraid. The decision, which sounds very limited upon its face, applies to all types of copyrighted works; it applies to all types of derivative works made from all types of copyright works, and it applies to all uses where there is money coming in under these intermediate license arrangements.

I am not going to go over my whole statement, but there are three points that I would like to make, very briefly.

I was involved very closely with the drafting of the revision bill, and it was my pen that drafted this section. Based on my personal knowledge of what went into the drafting and the intention of Congress with respect to it, I think this decision is just dead wrong.

Let me say first that, with respect to the added term—the 19 years that was added on to the maximum of 56 before the copyright would expire—Congress was very leery. This was a lot of years being added. We were completely changing the duration provision and we were, in fact, finally bringing the United States into line with the rest of the world with respect to duration. But that 19 years looked like a lot to be taking away from the public domain.

Some Congressmen who were leery about it—and some of them were very closely involved with the bill—were much more satisfied when they realized that the money was not just going to go to the same entrepreneurs who had been raking it in before—that there were these termination provisions which were going to be available to authors if they chose to make use of them.

This added term was brandnew. The entrepreneurs had not bargained for it and did not expect it; they expected 56 years, and that is all they were going to get under the old law. If that was a windfall, as some people regarded it, I have absolutely no doubt that what Congress intended was that that "windfall" was to go to the individual authors and their families and not to these holders of old contracts that in some cases went back to the turn of the century.

The whole concept of termination was based on the principle that it would go back to the author.

Second, as far as the future was concerned—the many copyrights that came into existence after January 1, 1978, which was the effective date of the new law—there was a lot of negotiation among the parties. The crucial year on this issue was 1964, which was before the first hearing on revision in Congress. But there were endless negotiations between the publishers and the authors on how that issue was to be handled. The principle was finally agreed to that contracts should terminate at some point. In other words, the term was going to be life of the author plus 50 years, or in some cases, 75 years or upward of 100 years. And the question was how to deal with authors who have made unremunerative contracts at the outset. Nobody—or almost nobody—knows what a work is worth at the beginning. So the question was whether that author should have the right to reclaim the copyright. And it was agreed, fairly early on, that the author should.

Then the question was how long should publishers be given to exploit the works and get their investments back.

We started in our drafting in the Copyright Office with a period of 20 years. In other words, in lieu of the complicated old renewal provision, which I think most people were glad to see the end of, we proposed that assignments would end after 20 years. The question was whether or not contracts should be allowed to run on for the life of the author plus 50 years, or 75 or 100 years, depending on the circumstances, with the author never having a crack at getting his property back, or remaking the deal which he may have made at the outset.

After endless wrangling, we came out with about 35 years. There are variations on this. But the point I am trying to make, Mr. Chairman, is that this—was the agreement between the publishers and the authors. At no point was it even dreamed that they would be able to hook onto the royalties that were coming in through intermediate licenses.

There was an endless wrangle between the publishers and authors over this 35-year period, and at no point was it suggested that, if you had termination, there would be anything other than real termination where the rights were cut off.

My last point is that the utilization of derivative works is the one exception to this, but the derivative works exception was intended as a privilege and not a right with no rights or privileges to the middleman, who had nothing to do with creating or utilizing the derivative work.

The *Mills* case has upset a carefully constructed statutory balance between authors, publishers, and creators of the derivative work that not only hurts authors but undermines the copyright law. I believe it is important that Congress do something about this problem.

Thank you.

[Prepared statement follows:]

PREPARED STATEMENT OF BARBARA RINGER FORMER REGISTER OF COPYRIGHTS

SUMMARY

In Mills Music, Inc. v. Snyder, 105 S. Ct. 638, a sharply-divided U. S. Supreme Court ruled that, even after termination of its contract with an author, a publisher can continue to share royalties from the distribution of sound recordings made by others. On the basis of my personal knowledge of the drafting and purpose behind the "derivative works exception" to the termination provisions of the 1976 Copyright Act, I believe that the Mills decision is wrong. It runs counter to Congressional intent, and is seriously prejudicial to the legitimate rights of authors and their heirs.

The Mills decision not only involves a great deal of money, but its impact also goes far beyond the facts in the case. It applies to all types of copyrightable works, to all types of derivative works that can be made from copyrighted works, and to all conceivable uses of those derivative works. In many cases it will provide a wholly unjustifiable windfall to publishers and other middlemen-entrepreneurs at the expense of authors and their families. Unless changed by Congress, the inequities of the Mills decision will continue into the indefinite future.

For these reasons I am gratified by the introduction of the Specter Bill, S. 1384, and of the Berman Bill, H.R. 3163, both of which are aimed at remedying this serious injustice. I strongly support both bills in principle, and suggest consideration of the draft amendatory language appended to my full statement.

* * *

In January of this year the U.S. Supreme Court handed down its decision in Mills Music, Inc. v. Snyder, 105 S. Ct. 638, a case involving the so-called "derivative works exception" to the termination provisions of section 304 of the Copyright Act. The court ruled that, even after termination of its contract with an author, a publisher can continue to share royalties from the distribution of sound recordings made by others.

I believe that this decision runs counter to Congressional intent and is seriously prejudicial to the legitimate rights of authors and their heirs. I therefore support the principle embodied in the Specter Bill, S. 1384, which is aimed at redressing the imbalance created by the Mills decision.

The Background of the Decision

The Mills case arose under section 304 of the 1976 Copyright Act, dealing with the duration of subsisting copyrights already in existence when the new law took effect. Section 304 extended the total duration of subsisting copyrights from 56 to 75 years; it also gave authors (or certain of their heirs) the right to terminate any of the author's grants of rights and to reclaim full copyright ownership during the 19-year extension of the term.

However, this right of termination was made subject to an exception:

> A derivative work prepared under authority of the grant before its termination may continue to be utilized under the terms of the grant after its termination, but this privilege does not extend to the preparation after the termination of other derivative works based upon the copyrighted work covered by the terminated grant. 17 U.S.C. § 304(c)(6)(A).

The work involved in the Mills case was the 1923 song "Who's Sorry Now?". In 1940 the author, Ted Snyder, assigned his rights under the copyright to the music publisher Mills Music, Inc., in exchange for a commitment to pay royalties, including half of all net royalties received by the publisher from its licenses with record companies. The publisher in turn licensed various record companies to make sound recordings and to manufacture and distribute phonograph records of the song.

The sound recordings made under these licenses are "derivative works" which are owned and exploited by the various record companies licensed by the publisher. The publisher's role here is essentially that of a middleman, since it has nothing to do with the making of the derivative work or with the manufacture and distribution of the records reproduced from it. The publisher was entitled to collect record royalties which, under its agreement with the author, it was obliged to divide equally with the author or his successors. This fifty-fifty split of record royalties between author and publisher was standard in songwriter contracts of the time.

The Effect of the 1976 Statute

Under the new law, which came into effect on January 1, 1978, copyrights already in their second term were automatically extended by 19 years; the 1923 copyright in "Who's Sorry Now?" is thus scheduled to expire at the end of 1998. Taking advantage of the termination provisions of section 304, Ted Snyder's statutory heirs at the proper time filed the necessary notices of termination of his grant to Mills Music.

What were the legal effects of this act of termination? There seems to be general agreement as to the following conclusions:

First, the publisher ceases to be the copyright owner and the persons filing the termination (in this case the author's heirs) become the owners of the copyright.

Second, the record companies can continue to manufacture and distribute records and tapes reproduced from sound recordings already made under their licenses with the publisher. A sound recording is a "derivative work" and, under the "derivative works exception," the record companies clearly have the privilege of continuing to utilize their recordings.

Third, the record companies must continue to pay the same amount of royalties provided for in their licenses. They must pay these amounts to someone, but to whom? This was the question in the Mills case.

The Decision in Mills v. Snyder

The issue facing the Supreme Court in the Mills case was whether the publisher, who had nothing to do with the derivative work other than collecting royalties from it, was still entitled to its share of the royalties, or whether the termination of its grant means that all royalties should go to the author or his heirs.

I believe that Congress meant the author to have the full benefit of the copyright in this situation. In a five-four decision, the Supreme Court decided otherwise, holding that under the derivative works exception the publisher may continue to share the royalties generated by utilization of derivative works by other licensees, even after the author or his heirs have recaptured the copyright. There was a strong dissent for the minority written by Justice White with which I agree.

The decision in Mills Music, Inc. v. Snyder settled questions of statutory construction and is now the law of the land. While I disagree with the majority's interpretation of the wording of the statute, it would be pointless for me to sift over the complex technical arguments on which the decision turned. Technicalities aside, however, I believe that the result reached in the Mills case is not what Congress intended, and that it represents a windfall for publishers at the expense of authors and their families.

Under this decision, authors and their heirs will be deprived of benefits that Congress meant them to have. If, as I believe, the decision runs counter to the legislative intent, then Congress should revise the statute. It should make clear that, following termination, the royalties from utilization of derivative works should go exclusively to authors or their heirs.

The Scope and Importance of the Decision

As obscure and esoteric as this question may appear, it is of immense importance to much of the copyright community. It involves a great deal of money, and its impact goes far beyond the facts in the Mills case. There are four points to be made here:

First: The decision applies not only to music and sound recordings but also to every conceivable type of copyrightable work and to every conceivable type of derivative work that can be made from a copyrighted work.

Second: In the Mills case the author's grant to the publisher provided for him to receive 50 percent of the record royalties, and his heirs will, under the decision, continue to receive this share. But, especially in fields other than music, the author's grant to the publisher or middleman-entrepreneur may not provide for any author's share of royalties from licensing particular kinds of derivative works. If the publisher or entrepreneur can continue to receive 100 percent of the royalties, the termination of the author's grant becomes a hollow mockery.

Third: The Mills case dealt with section 304 and the 19-year extension of subsisting renewal copyrights. But the 1975 Act contained a parallel and potentially far more important provision in section 203. Under that section, authors and their heirs may terminate grants made after January 1, 1978 at the end of a prescribed period of years, but subject to the same "derivative works exception" as that construed in the Mills decision. Thus, unless the Supreme Court's ruling is changed by Congress, its impact will continue into the indefinite future.

Fourth: Most important of all, the issue in the Mills case raises the fundamental question of whom Congress is seeking to benefit by means of the termination provisions in both sections 304 and 203. Does it really mean to benefit the holders of old contracts that go back for generations, or does it want to give real, rather than illusory, benefits to authors and their heirs?.

The Question of Legislative History

Both the majority and minority opinions in the Mills case dwelt at length on the legislative history of the statutory provisions, a subject on which I have some personal knowledge. It is no secret that I was the author of the provision in question, in the sense that it was my pen that drafted the language. The content of the termination provisions had been hammered out following lengthy debates and discussions, although the compromises had been reached and the issues effectively settled before Congress took up the question of general revision of the copyright law in formal hearings. The Copyright Office was the initial drafter of the entire revision bill, including the termination provisions, and it is important to recognize that the Copyright Office, as part of the Library of Congress, is an arm of Congress in the legislative branch. Moreover, counsel from the committees charged with copyright responsibilities in both Houses played an active and continuing role in the whole process that led to the development and drafting of the revision bill.

<u>Legislative Intent: The Relation Between Longer Copyright Terms and Termination of Grants</u>

It is important to recognize that the right of termination given by Congress to authors and their heirs in the 1976 Act was not attached to anything already in existence. In the case of section 304, the termination applied only to the 19-year extension of subsisting renewal copyrights--an entirely new term of copyright carved out of what would otherwise have been the public domain. In the case of section 203, the termination applied only to contracts written after the new law came into effect, and that new law provided for a radically different and much longer term of protection.

In both cases Congress was granting a new right, and I believe it is fair to say that Congress would have been extremely reluctant to do this unless it had been assured that individual authors would at least have the opportunity of enjoying the benefits of these new rights. If the author's old and, in many cases, unfair contracts were to be preserved without any provision for termination, I do not think Congress would have extended the length of the copyright term.

Furthermore, the copyright clause of the Constitution empowers Congress to secure to authors the exclusive right in their writings. Bearing in mind that Congress was creating entirely new rights with these longer terms, I believe there is a genuine question as to whether the new rights could be granted to entities other than authors, which for many older copyrights would have been the case.

The basic purpose of the termination was to make sure that authors or their heirs had the opportunity to renegotiate their old contracts, rather than merely letting the contracts run on through the longer copyright term. In a great many cases, I believe that the Supreme Court decision will effectively defeat this purpose.

Legislative Intent: The Means Congress Chose to Protect the Investments of Publishers and Other Intermediate Entrepreneurs

As already noted, in the 1976 Act Congress enacted two different types of terminations: (1) the section 304 termination of grants covering the 19-year extension of subsisting renewal copyrights and (2) the section 203 termination of grants made after the effective date of the new law. While the two are closely related, they differ in certain important respects.

In cases involving the first type of termination, the publisher or other grantee had received everything it ever had any right to expect. There could be no question of allowing the grantee more time to recover its investment, since it had already had 56 years in which to do so, and had never expected anything more. The added 19-year term was a new right and Congress intended it to go to the author or the author's heirs.

With respect to the second type of termination--that is, terminations made under section 203 of grants executed after January 1, 1978--the thinking was somewhat different. Congress had decided to phase out the old renewal provision, which included the possibility of reversion to the author or the author's heirs after 28 years. The renewal provision was far from satisfactory in practice, but in some cases it did allow authors or their heirs to recapture their copyrights. In absodoning renewals and creating a much longer copyright term (the life of the author plus 50 years, or even longer in some cases), Congress had to face this question: should an unremunerative or unfair contract made by the author at the beginning of a copyright be allowed to run on for upwards of 100 years without the author and his family having any further opportunity to benefit from it?

There were extremely long and difficult negotiations over this question, and they eventually produced a compromise agreement consisting of two main principles:

(1) Authors and theirfamilies should have the opportunity to terminate grants made after the new law comes into effect, but only at the end of a stated period of years.

(2) Starting when the grant is made, that period of years should be long enough to allow the entrepreneur to recover what could reasonably be expected as a return on its investment, but not so long as to constitute a windfall at the expense of the author. After more extended discussions a compromise was reached, and the period was set at 35 years, with some variations.It was in this way that the interests of the entrepreneurial copyright owner--the first grantee--were taken into account: by according it a substantial period of time in which to realize its investment.

Legislative Intent: The Question of Derivative Works

With respect to terminations under both section 304 and section 203, it was agreed after much discussion that the right of termination should be absolute and inalienable. Authors and their heirs could no longer sign away their reversionary expectancy, as they had been regularly induced to do under the renewal section of the 1909 Act. But another question had also been lurking behind the old renewal provision: when a derivative work has been created and exploited during the first 28-year term under license from the copyright owner, what happens when the renewal copyright in the pre-existing work reverts to someone else?

The typical case, which also caused the most concern, involved a motion picture derived from a copyrighted novel or play: if the author of the underlying work recaptured the renewal copyright, did this mean that the motion picture had to be taken out of distribution unless a new license were obtained? In some cases, of course, the derivative work is a more important or valuable property than the pre-existing work.

It was finally agreed that, infairness to the owner of the derivative work, and to avoid depriving the public of access to derivative works in this situation, a "derivative works exception" should be written into both sections 304 and 203. The purpose of the exception was to keep the derivative work in circulation and not to deprive the owner of the derivative work of the use of its own property. The sole beneficiary of the exception was intended to be the owner of the derivative work who wanted to continue utilizing it.

In the context of the Mills case, let us assume that Ted Snyder, instead of granting rights to Mills Music, directly licensed the record companies to make and distribute recordings. Under the exception, the record companies would have the statutorily-sanctioned privilege of continuing to exploit the sound recordings already made before termination, provided the prescribed license fees continued to be paid to the author. The difference in the actual Mills case was that the record companies had taken licenses, not from the author, but from the author's grantee. Should this mean, as the Supreme Court held, that the terminated grant stays in effect as far as royalties from licenses given by the author's grantee are concerned, and that the author is thus deprived of the full share of royalties?

In my opinion, the intention of Congress was that termination should mean termination. In the Mills case situation the publisher had already received everything Congress ever intended to give it. The intended beneficiary of the exception was not the entrepreneur who had originally licensed the work, but the owner of the derivative work who was utilizing it. The middleman is not the owner of the derivative work and is not utilizing anything. I believe that the Supreme

Court decision seriously undercuts what Congress intended and deprives authors of benefits that are rightfully theirs.

.tutory Amendments: Problems of Drafting

Attached to this statement is an addendum suggesting a drafting approach somewhat different from that of either the Spector or the Berman Bill. The following comments may be pertinent here:

(1) Since the language of the "derivative works exception" appears in both sections 203 and 304 of the present law, I believe that it is important to have parallel amendments to both sections. The Mills decision certainly construed both sections; leaving the language of section 203 untouched would seem inconsistent with the purpose of the legislation and would perpetuate the problems now being encountered under section 304.

(2) In reaching its result in the Mills case the Supreme Court construed the meaning of the specific language of the "derivative works exception" in a certain way, and that construction is now the law of the land. If Congress wishes to reverse the Mills result, it should repeal the language that has been misconstrued, and should write completely new language that clearly and unequivocally states its intention. To leave the present language as part of the amendment could raise new problems of construction and invite challenges on due process grounds.

(3) With respect to terminated grants, the Mills decision established the legal right of publishers and other intermediate entrepreneurs to collect or share in royalties from the utilization of derivative works under pre-existing contracts. These are property rights, and to cut them off where terminations have already been effected would, at the least, raise constitutional questions of due process. I believe that the statutory amendment should be given a specific effective date, and that the legislation should make clear that rights under any grant terminated before that date are not affected.

ADDENDUM

Proposed alternative language for amendments to the "derivative works exception" in both sections 203 and 304

(Note: the introductory language and clause numbers would differ in the two sections, butthe basic provisions would be identical)

In all cases the reversion of rights is subject to the following limitations:

(1) When a derivative work, based on the copyrighted work covered by the terminated grant, was prepared before the termination under lawful authority of the grantor or grantee, the person entitled to utilize the derivative work immediately before the effective date of termination shall, thereafter, have the privilege of continuing such utilization under the following conditions:

(i) Subject to the provisions of paragraphs (ii) and (iii) of this clause, the continued utilization shall conform to the terms and conditions of the instrument under which the derivative work was prepared;

(ii) Notwithstanding any provisions of the instrument under which the derivative work was prepared, specifying the recipient of royalties, shares or profits, or other moneys payable under such instrument, any such royalties, shares, or moneys shall be paid directly to, and shall be the sole property of, the person or persons in whom the reverted rights in the copyrighted work are vested pursuant to clause ______ of this subsection; and

(iii) this privilege does not extend to the preparation after the termination of other derivative works based upon the copyrighted work covered by the terminated grant.

Proposed section on effective date

SEC. ____. This Act shall come into effect on ____________ and shall have no effect on the right to receive royalties, shares of profits, or other moneys under any grant terminated before that date.

Senator SPECTER. Ms. Ringer, thank you very much for your testimony. I would like you to stay at the table, and let us now hear from the panel which we have scheduled next, and I will defer questions until we have heard from the panel and have some opposing points of view.

I would like to now call Mr. Irwin Karp, counsel for the Authors League of America; Mr. George David Weiss, president of the Songwriters Guild of America; and Mr. Dean Kay, executive vice president and general manager of Welk Music Group. Mr. Kay is going to be accompanied by Michael Oberman, from the firm of Kramer, Levin, Nessen, Kamin & Frankel in New York, which successfully presented the *Mills Music* case.

Let us reverse the order of the panel, since we have already heard two witnesses testifying in favor of this legislation, and let us turn first of all to you, Mr. Kay, if we may, to get an opposing point of view.

Also, Mr. Oberman is welcome to pull up a chair and sit at the table.

My compliments to you, Mr. Oberman, on your victory.

Mr. OBERMAN. Thank you.

STATEMENT OF A PANEL, INCLUDING DEAN KAY, EXECUTIVE VICE PRESIDENT AND GENERAL MANAGER, WELK MUSIC GROUP, SANTA MONICA, CA, ACCOMPANIED BY MICHAEL S. OBERMAN, COUNSEL, OF KRAMER, LEVIN, NESSEN, KAMIN & FRANKEL, NEW YORK, NY; IRWIN KARP, COUNSEL, THE AUTHORS LEAGUE OF AMERICA, INC., NEW YORK, NY; AND GEORGE DAVID WEISS, PRESIDENT, SONGWRITERS GUILD OF AMERICA, NEW YORK, NY

Mr. KAY. Thank you, Mr. Chairman.

I appreciate the opportunity to speak here today. My name is Dean Kay, and I am the executive vice president and general manager of the Welk Music Group, a music publishing company headquartered in Santa Monica, CA.

I am also a songwriter. My best known work is "That's Life," a song made popular by Frank Sinatra.

The Welk Music Group is probably among the 10 largest music publishing companies in the United States. As the head of the firm, I am in a unique position, I believe, of being a songwriter who truly understands the innermost day-to-day operations of a music publishing company. And as a consequence, I believe I can fairly describe the creative partnership between publishers and songwriters.

I have submitted a written statement, and as you have stated——

Senator SPECTER. All written statements will be made a part of the record, and we would appreciate your summaries within the 5 minutes.

Mr. KAY. Thank you, Mr. Chairman.

When I wrote "That's Life," the song did not go directly from my lead sheet to public acceptance. I was entirely unknown at the time, but I was lucky to have had a publisher who believed in my song, kept it in mind and carried it around until it ultimately was brought to the attention of Frank Sinatra. From the time that Mr. Sinatra recorded "That's Life," I became established as a successful songwriter and as a result have been able to build a career in the music industry.

That, in a nutshell, is what music publishers do. They promote songs and help songwriters. What my publisher did for me, the Welk Music Group and many other music publishers have done for a host of others. Songs do not automatically come to the attention of those who record, produce, and use music. There are hundreds of thousands of songs out there, all competing for the attention of artists, producers, and the public. The publisher's job is to maximize the value of the songs in his catalog, to get as many uses as often as is possible—in recordings, advertising campaigns, movies, television shows, and concerts. The job requires a substantial investment in time, effort, and money. It also requires a willingness to take risks with unknown songs and unknown songwriters, as well as a recognition that most songs do not become hits or standards.

Let me give you some examples of what we do as music publishers. We nurture talent. We presently have under contract 50 songwriters. We give many of them cash advances. We manage their careers. We advise them of commercial opportunities, provide them with places to write, and provide them with modern recording studios to work in.

We promote our songs every day. I have a dozen people on the street who do nothing but promote—not only the new songs, but the catalog material as well. We have submitted, as an example for your review, a publication that we call "Ideas." It presents our catalog in several different ways, each one designed to appeal to a different need of potential music users.

We maintain close relationships with artists and producers and users so that we can bring to a song the attention it deserves.

We even computerized our entire catalog, which currently is at about 30,000 songs, so that we can present those songs to producers in any number of ways, according to any characteristics they might choose.

We [illegible] special promotions, as well. I think a good example is the promotion that we have carried on for this entire year, to celebrate the centennial of the birth of Jerome Kern. Our investment in this promotion has been to date about $150,000. It has resulted in 11 newly recorded albums featuring Kern's work and the rerelease of 7 others, accounting for 291 releases of Jerome Kern's titles during this year alone. Our promotion has also inspired a hit musical which is on its way to Broadway. It has also inspired the use of Kern's music on radio and television, worldwide, and new print uses.

These kinds of activities are what keep the songwriting industry active and profitable. Publishers are not passive middlemen who do nothing but receive and count royalties. The publisher is the industry's mover and shaker, one who sees to it that worthwhile songs find as many uses as possible. I do not think it is unfair or unreasonable to reward publishers for such activities. After all, you have to promote a lot of songs to obtain even a small repertoire of standards that keep generating royalties over the years. It is the publishers' share of these royalties that gives them the financial ability and the incentives to encourage new talent and promote new songs.

The songwriter and the publisher are partners in an enterprise that has to be both creative and commercial if anybody is to benefit. If the proposed bill becomes law, publishers would have less incentive and also less financial ability to promote songs. That surely would not be a good thing for songwriters, and it surely would not help those who recapture copyrights in songs, especially when the songs approach termination.

Thank you very much.

[Submissions for the record follow:]

PREPARED STATEMENT OF DEAN KAY

EXECUTIVE VICE PRESIDENT-GENERAL MANAGER, WELK MUSIC GROUP

My name is Dean Kay. I am the Executive Vice President-General Manager of Welk Music Group, a music publishing company headquartered in Santa Monica, California. I am also a songwriter. My best known work is probably the song "That's Life," popularized by Frank Sinatra.

Because I am both a music publisher and a composer, I do not approach the issue at hand as a question of "us versus them" or of who are the good guys and who are the bad. I am intimately aware of the contributions of both the songwriter and the publisher in the arduous process of creating and exploiting a commercially successful song. I therefore believe that the proper approach in commenting on the bill is to focus on the historic and on-going partnership between songwriters and music publishers. I entirely disagree with and reject the notion that music publishers are mere "middlemen" who passively reap the rewards of songwriters' creativity.

The partnership between songwriters and music publishers has continuously resulted in the creation and dissemination of a grand catalogue of musical compositions for the enjoyment of the public and to the mutual betterment of songwriters and publishers alike. The success of the partnership requires the activity of both the writer and the publisher, activity that was depicted at great length in the hearings leading to passage of the Copyright Act of 1976, including its derivative works exception. District Judge Edward Weinfeld and a majority of the Supreme Court in the Mills Music case acknowledged that historic partnership, and it should be recognized and protected in any consideration of an amendment to the derivative works exception.

Although the publisher's role has been presented to

Congress by various witnesses in the past, I want to reiterate and amplify on those presentations because attempts have been made to obscure the true nature of this role through the use of a label. In the Mills Music case, the songwriter's heirs -- not the songwriter himself -- tried to hang on music publishers the pejorative term "middlemen" and to suggest that publishers are nothing more than passive recipients of undeserved royalties. This attempt to litigate through labels was rebuffed, as should be any similar attempt to seek legislative amendment through inapt labels or misleading characterizations.

It is easy, though seldom fair, to attach labels to people when attempting to minimize what they actually do. Stock traders can be termed middlemen between purchasers and sellers, but without these market makers few shares would change hands. Merchants can be termed middlemen between manufacturers and consumers, but if retail promotional efforts were eliminated, few goods would leave the factory. In each illustration, a look behind the label reveals the important role played by one who searches out a product, promotes it and makes certain that it reaches the public.

The Crucial Role Of Music Publishers

In the entertainment industry, as in every commercial environment, a performance or a product has many contributors. You cannot have a successful motion picture without a screenplay, but the screenwriter cannot do it alone. On the creative side, there are also the director, the designer, the cinematographer, the technicians and, of course, the performers. On the financial side, there are the producers, the distributors and the investors. It is only the blending of creators, risk-takers and promoters that permits success.

It is the same in the music industry. You cannot have a song without a composer, but you rarely have a performance or a recording without a music publisher. When I wrote "That's Life," the song did not go directly from my lead sheet to wide public acceptance, any more than any other song becomes a hit just because a songwriter has thought up a clever lyric or a catchy tune. Between composition and success comes promotion, the publisher's key role. Even before the song is written, the publisher often plays the equally vital role of nurturing creative talent.

Perhaps the clearest indication of the continuing vitality of the publishers' role is that songwriters still enter into agreements with publishers. Indeed, songwriters literally line up at our door, seeking our assistance. This is not surprising once one understands what music publishers actually do.

Our role begins even before the first bar of a song has been conceived. My company, for example, now has some fifty songwriters under contract. We manage their careers. We provide them with cash advances to permit them to write. We maintain and make available to them modern sound studios -- including multi-track recording equipment and state-of-the-art synthesizers -- where they can experiment and create. (We are currently constructing a new twenty-four track recording facility in Nashville.) By keeping in touch with what is happening in the industry, we try to steer the composers toward compositions that will be commercially successful.

When a work has been created, the publisher begins to promote it. Welk currently maintains offices in Hollywood, Nashville, New York and London from which to promote our songs. Some dozen of our employees work full time in promotional efforts. We regularly produce demonstration recordings and, at times, professionally recorded albums to get our songs before the public. We also prepare what are known in the trade as "pitch sheets." A pitch sheet contains information on currently popular musical artists, on the kinds of material each artist prefers, on what producers the artist works with, and on what musical preferences these various producers might have. Our employees are regularly in touch with producers as well as "a & r" (artist and repertoire) representatives of record companies. Over time, we have developed -- and we work hard to preserve -- harmonious relations with record, motion picture, television and commercial producers and with recording artists.

The publisher's promotional activities continue after a song has first been recorded. While a record company might seek to promote only its version of a song, a publisher strives to exploit all versions of the song itself throughout its copyright term. For example, through the efforts of Mills Music, there were 419 recording licenses issued for "Who's Sorry Now" during the twenty-eight year renewal term.

Welk Music Group now utilizes a comprehensive computer library which can cross-reference a myriad of details of any of our more than 30,000 songs. Through the computer, we can sort out and list songs to meet particular needs for stage, screen, recording, advertising or any other use. And we do it all the time. Just recently, our Italian representative received an indication of interest in a country-western album. Though it took us by surprise that Italy might have a market for such a collection, our computer enabled us to provide a list of selections overnight.

In addition, Welk regularly publishes listings of our songs arranged under various headings, such as time periods. This is designed to enable someone like a film or television producer to pick, for example, period songs to match the setting of an upcoming production or to draw from our catalogue songs to meet any other defined need.

As some measure of the success of our ongoing promotional activities, I note that, earlier this year, eighteen of the one hundred songs on Billboard's country music chart -- including six of the top ten -- were published by Welk. That is no coincidence. It is proof of the music publisher at work.

Publishers also engage in special promotions. At Welk, we have recently spent some $[illegible]50,000 to promote the works of Jerome Kern worldwide in connection with the centennial celebration of his birth. Our promotional activities included the compilation of a five-volume set of Kern recordings for broadcast use only. Our efforts prompted the issuance of a Kern commemorative stamp as well as the declaration by President Reagan of "Jerome Kern Day." This extensive promotional effort has been extremely successful. It has stimulated the release of eighteen albums totally devoted to the works of Kern; eleven of them consisted of brand-new recordings. Our efforts also inspired a hit musical in London, "Kern Goes to Hollywood," which is expected to come to Broadway early next year.

Mills Music is in the process of a similar form of promotional activity. It has compiled a collection of one hundred of the top hits from its catalogue, and is distributing some 5,000 copies of the collection to film companies, productic[illegible] panies, performing artists, managers, advertising agencies, [illegible] companies and every other potential group of musical decision-makers. (This collection, by the way, includes "Who's Sorry Now," the song in the <u>Mills Music</u> lawsuit.) Mills's purpose is to place these songs before those who will be selecting music for advertising campaigns, films, television shows, night club acts, and other vehicles. Mills's "top-hundred" sampler is typical of the on-going promotional activities that music publishers, including Welk, routinely undertake.

Recently, Mills collaborated with two other publishers, Robins Music and Tempo Music, to create the successful Broadway

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show "Sophisticated Ladies," which presented a collection of songs by Duke Ellington and spurred new interest in that great music. Mills is now planning to stage an off-Broadway production of the music of Mitchell Parish, the lyricist of such songs as "Stardust," "Stairway to the Stars," and "Deep Purple." In a similar vein, Welk has created and distributed around the nation a radio program that showcases the works of Bob McDill, one of our composers, who this year was BMI's top country songwriter.

Songwriters could, of course, attempt on their own to have their works performed and recorded, but they would have to devote time to those activities that could otherwise be spent creating their works. A few do this. But the vast majority of songs that win public acceptance emerge from the collaborative efforts of songwriters and music publishers, with the writer supplying melody and/or lyrics and the publisher supplying the financial backing, creative development, promotion and salesmanship. If publishers must be called "middlemen," we should at least be given credit for truly being in the middle (that is, at the center) of the process -- giving aid and direction at the creative stage, arranging for uses of works once they are composed, and providing financing throughout.

While the focus these days i [illegible] ten on records and tapes, music publishers also make im[illegible] contributions in the areas of print and educational materials [illegible] e publisher facilitates dissemination of orchestral arrangements, band arrangements, choral arrangements and folios. These have a special place in the music industry, and provide composers with an extra source of royalties.

The mu[illegible] blisher's importance was confirmed by representatives of t[illegible] songwriters themselves in testimony before Congress prior to enactment of the 1976 Act. Burton Lane, president of the American Guild of Authors and Composers, explained that "most writers cannot take the time to exploit the songs they write. Every moment is precious to them in order to create." For that reason, composers have agreed to share royalties with publishers "whose job it is to publish and exploit the songs we write. It is a partnership arrangement which has worked very well through the years." Copyright Law Revision: Hearings on S. 597 before the Subcomm. on Patents, Trademarks and Copyrights of the Senate Comm. on the Judiciary, 90th Cong., 1st Sess. 882 (1967) (emphasis added).

The celebrated composer Marvin Hamlisch, in his testimony before Congress, also stressed the contribution of the music publishers. He stated:

> I feel that the argument is not with the publisher because when I went into New York last year to compose the music for "A Chorus Line," I did it with a new writer by the name of Ed Kleban. He is not a proven writer yet. He has been subsidized for the last few years, been given money by a publishing company to actually be able to live and to be allowed to write.
>
> I think that for every instance where a publisher, say, is a person who does not help, I think that there are a vast amount of people who can tell you that there are people getting paid without yet, you know, giving material, just by having faith in an individual, and, obviously, Ed Kleban now has proved that he is good, and the publisher now has proved that it was worth the investment.
>
> I just want to make sure that you understand that the plight of the composer is not up against the publisher because we have had great success with dealings with publishers.

Copyright Law Revision: Hearings on H.R. 2223 Before the Subcomm. on Courts, Civil Liberties and Admin. of Justice of the House Comm. of the Judiciary, 94th Cong., 1st Sess. 1653 (1975).

Let me add one further illustration close to home. My own success as a songwriter and as a music publisher is due to the efforts made on my behalf by Four Star Music, my music publisher when I was entirely unknown. My publisher believed in a song I had written, kept it in mind and carried it around, looking for just the right opportunity. Through his persistence, the song came to the attention of Frank Sinatra. From the time Frank recorded "That's Life," I became established as a successful songwriter and was able to build a career in the music industry. What Four Star Music did for me Welk Music - and many other music publishers -- have done for a host of others.

The Shared Royalties

Some have suggested that Judge Weinfeld and the Supreme Court -- despite careful parsings of the language of the derivative works exception and painstaking analyses of the lengthy legislative history -- somehow misread in Mills Music what had been intended by Congress in that exception. The bills now introduced in the Senate and House of Representatives illustrate that had Congress actually intended a different result, it could have fashioned in brief compass the words required to carry out that intention. In the end, though, the issue now before Congress is not really whether the courts were right or wrong in interpreting the Act or in finding what Congress once intended. It is the issue of whether anything should now be done to rewrite the law. In my view, the law as it now exists allows a fair sharing of rewards among those who share in the creation of successful songs.

Under the present copyright law, a music publisher continues to share the benefits from utilization of pre-termination derivative works created under licenses the publisher issued prior to termination, provided, of course, that its arrangement with the composer included a sharing of royalties. The derivative works exception states that such sharing of royalties from works licensed by the publisher prior to the effective date of termination continues when these works are utilized after termination. It is neither unfair nor inappropriate to allow a publisher to enjoy the fruits of his contribution -- a portion of the royalties arising from sound recordings licensed during the time the publisher owned the copyright and promoted the song.

On termination, on the other hand, the composer regains full control of, as well as the entire stream of revenues from, all new uses of the song. The music publisher receives no benefit at all from any new post-termination uses of the song, even if these new uses are the result of past promotional activities on the part of the music publisher or past efforts by the music publisher to support and nurture the songwriter. Thus, if a Linda Ronstadt or a Joan Morris -- two popular performers who have been reaching into the repertory of standard hits -- were to record "Who's Sorry Now" in a new collection of standards, Ted Snyder's heirs would collect their full share of mechanical royalties, and Mills Music would get no portion of this share.

Present law recognizes and encourages the collaborative efforts between composer and publisher. By permitting the music publisher to enjoy all rights under a grant for recordings it licensed prior to an effective date of termination, the law motivates the publisher to continue to promote the work throughout the entire period of the grant. Bear in mind that the publisher's share of the royalties is what enables the publisher to finance the extensive promotional activities I have been describing and to nur[illegible] creative talent. If publishers were to be cut off from t[illegible] share in pre-termination derivative works, they would have less incentive to promote works as termination approached. The result might well be to break the momentum of promotional activities and lessen the value of the work reclaimed by a composer or his heirs upon termination.

Left unchanged, present law does not undermine any intended congressional policy. The Supreme Court specifically found that Congress intended in the "termination provisions to produce an accommodation and a balancing among various interests." Mills Music Inc. v. Snyder, 105 S. Ct. 638, 650 n.41 (1985). In this accommodation, an author regains the right to exploit his work and to receive all compensation from this new exploitation, but the author does not gain new or enhanced compensation from pre-termination derivative works. This is the case even if, for example, an author's grant gave up the screen rights to his book for a modest one-time payment and the book later became the box office blockbuster of all time; under the termination provisions, the author gains no benefit. In Mills Music, the composer continued to receive at least fifty percent of all royalties derived from pre-termination sound recordings and gained entirely whatever income can be derived through the creation of new derivative works or other future uses of his song. Thus, the law currently leaves in place and gives effect to agreements governing pre-termination derivative works, but gives all future benefits for new uses to the authors.

The arrangement seen in Mills Music -- which a host of witnesses confirmed to Congress to be the standard within the music industry -- provides for a fifty/fifty sharing of mechanical royalties between composer and publisher. (These days, some songwriters receive an even higher percentage of the royalties.) This is hardly the type of "unremunerative" grant Congress was particularly addressing when it created the termination right -- such as a grant that releases all of a writer's interest in a work in exchange for a modest and one-time lump sum payment. In fact, lump sum transfers are virtually unheard of in the music industry.

It is therefore not a "windfall" if, at the point the composer regains ownership in the copyright, the publisher continues to receive fifty percent of the royalties !.. ·fforts have helped to generate, continuing this shared arrangement through the balance of the nineteen-year extension term. In effect, the publisher and the writer continue to share in what the publisher was responsible for promoting in the past and the writer, upon termination, recaptures all future use and exploitation value without any right by the publisher to share in the new uses.

In the realities of the music business, composers have much greater protection, and much greater bargaining power vis-a-vis publishers, than may first appear. It is as misleading to present songwriters as impecunious creaters at the mercy of publishers as it is to label publishers as "middlemen." The existence of a fifty/fifty standard reflects the historic partnership between composers and publishers, and the greater than fifty percent share that some composers receive today reflects the ability to bargain above the standard.

Moreover, the ability of composer and publisher to negotiate a transaction favorable to the publisher is significantly limited by the termination provisions of the Copyright Act, for there is an inalienable right of termination that the statute preserves for the composer and his heirs. What is more, under current law composers can, on a going forward basis, seek agreements with publishers providing that in the event of termination, 100% of the royalties from pre-termination derivative works will go to the composer. Thus, a composer and a publisher can decide by contract whether the composer will take away the publisher's share of royalties on termination. In view of the contribution made by publishers, there is no sound basis for legislatively writing such a provision into every agreement to license a work to a music publisher, and thereby extinguishing the ability of the parties to address the issue as they see fit.

What is now being proposed is that, despite the accommodation and balancing of interests reflected in current law, an author or composer sh[illegible] over "any right to royalties" derived from the [illegible] of a pre-termination derivative work. Because of the [illegible]istoric relationship between songwriters and music publishers described above and because of the close involvement of music publishers in the creation of many successful songs, I submit there is no reason to reconstruct the balance previously struck by Congress.

To depart from the contractual arrangements governing pre-termination derivative works might create uncertainties in place of now clearly settled law. Multi-party situations are by no means limited to the music industry, and these arrangements are almost certainly implicated by any change in the law. For example, a motion picture deal frequently includes contracts between and among an author of a book, a book publisher, the producer and one or more distributors, in which a copyright might be assigned and royalties allocated to meet a variety of tax and financing considerations and to recognize the respective contributions of each party to the ultimate creation of the motion picture as a derivative work from the book. The law now leaves intact, after termination, contractual arrangements governing such pre-termination works, and the respective parties continue to share in the proceeds generated from their joint creation, consistent with their bargain.

I conclude where I began. I believe composers and publishers have a shared interest and purpose. We work together to create music that the public hears and enjoys. Congress, in the 1976 Act, struck a series of bargains and compromises that reflected and preserved the values of our mutual cooperative endeavors. The Supreme Court in <u>Mills Music</u> affirmed this accommodation of interests. The balance struck in 1976 and reaffirmed this year should not be undone.

THE WELK MUSIC GROUP

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Dean Kay

December 10, 1985

The Honorable Arlen Specter
United States Senate
Washington, D. C. 20510

Re: S.1384

Dear Senator Specter:

Following my appearance at the hearing of November 20, 1985, I forwarded to other music publishers the statements submitted by me and all of the other witnesses.

I have now received, in response, letters that concur in my presentation.

In several instances, the letters also provide further illustration of the role of the music publisher and additional reasons why the derivative works exception should not be amended.

I am enclosing copies of letters received from:
Warner Bros. Music;
Chappell/Intersong Music Group U.S.A.;
Famous Music Publishing Company;
The Lowrey Group of Music Publishing Companies;
Peer-Southern Organization;
September Music Corp.;
Shapiro Bernstein & Co., Inc.;
Jobete Music Co., Inc.;
CBS Songs, Inc.; and
Acuff-Rose Songs

I respectfully request that my letter and these responses be made part of the hearing record.

Respectfully yours,

Dean Kay

WARNER BROS.
MUSIC

Chuck Kaye
Chairman of the Board

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VIA MESSENGER

December 3, 1985

Mr. Dean Kay
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1299 Ocean Avenue (Suite 800)
Santa Monica, CA 90401

Re: S.1384

Dear Dean:

Thanks for sending me a copy of your statement to the Subcommittee on Patents, Copyrights and Trademarks of the Senate Judiciary Committee (as well as the other statements and submissions pro and con, including those of Barbara Ringer, Ralph Oman, Richard Colby, Irwin Karp, and others).

We at Warner Bros. Music believe that the U. S. Supreme Court decided Mills Music correctly, and that this result should not now be overturned legislatively.

Best regards,

Chuck Kaye

A Warner Communications Company

RECEIVED DEC - 5 1985

chappell/intersong
music group-usa

IRWIN Z ROBINSON
President

December 2, 1985

Mr. Dean Kay
The Welk Music Group
1299 Ocean Avenue, Suite 800
Santa Monica, California 90401

Dear Dean:

I have read the statement of your position which you presented on behalf of music publishers at the November 20th hearing of the Senate Judiciary Committee Subcommittee on copyrights chaired by Senator Arlen Specter (R-PA) relating to S. 1384, the bill to legislatively reverse the United States Supreme Court in the Mills Music case.

I think the statement covers all of the important aspects of our role as music publishers and I was particularly interested in the fact that the two writers you quoted, Burton Lane and Marvin Hamlisch, have both had long-term agreements with Chappell.

There is absolutely no question in my mind that Welk Music's activities as well as those of many other publishers, including ourselves, have made it possible for songwriters to hone their skills and reach varying degrees of success in our business.

I heartily support the position you presented at the hearing.

Best regards,

IZR/mas

810 Seventh Avenue New York, NY 10019 (212)399-6920 (TELEX 421749)

RECEIVED DEC - 6 1985

Famous Music Publishing Companies

SIDNEY HERMAN

December 2, 1985

Mr. Dean Kay
The Welk Music Group
1299 Ocean Avenue, Suite 800
Santa Monica, CA 90401

Dear Dean:

We support the position you presented on behalf of music publishers at the November 20, 1985 hearing of the Senate Judiciary Committee Subcommittee on copyrights charied by Senator Arlen Specter (R-PA) relating to S.1384-the Bill to legislatively reverse the U.S. Supreme Court's opinion in the Mills Music Case.

Kindest regards.

Sincerely,

Sidney Herman

SH:mm

1 Gulf + Western Plaza New York, New York 10023/212-333-3433 Cable Famusic

RECEIVED DEC 5 1985

The Lowery Group of Music Publishing Companies

3051 Clairmont Road, N.E.
(at Century Center)
Atlanta, Georgia 30329
404/325-0832

December 2, 1985

Mr. Dean Kay
The Welk Music Group
1299 Ocean Avenue
Suite 800
Santa Monica, CA 90401

Dear Dean:

I support wholeheartedly the position you presented at the Senate Judiciary Subcommittee hearing chaired by Senator Specter.

The publisher and composer truly are on-going partners. As you are aware, we are publishers of some of the big songs to come out of the South: "I Never Promised You A Rose Garden," "Stormy," "Traces," "Games People Play," etc. Renewals have come up only on two songs in our young catalogue: "Young Love" and "Be-Bop-A-Lula." The renewal on "Young Love," which was Number 1 all over the world , were readily assigned to us by the writers who are still living. On Be-Bop-A-Lula, which also was a worldwide hit, we had to deal with their heirs who were not familiar with all the work we had done as publisher in popularizi[illegible] the song and that we were solely responsible for the writer and father ha[illegible]ng a recording contract at Capitol under the name of Gene Vincent and The [illegible] Caps. The living writer, Bill Davis, readily assigned the renewal to us, while it took many months dealing with ambulance-chasing lawyers knowing the renewal was due who had preyed on the young[illegible] as heirs. One was setting up a Publishing Company, which he was half [illegible] of to publish the song. We finally resolved it, but with much concern all of us who worked so hard to make the song the success it has been. We would truly have been upset if we thought the rewards for all the work we had done in the field of motion pictures, television, other recordings, etc., would be the property of someone who, in fact, had nothing to do with the song.

Lowery Music Company, Inc.
Low-Twi, Inc.
Low-Sal, Inc.

Mr. Dean Kay
Page Two
December 2, 1985

The Supreme Court's opinion in the Mills Music Case is fine with me. We might not get the renewals from some copyrights of their terms, but do not take away all the fruits of our past labor.

I am proud to be a part of the music publishing fraternity with people like yourself. May you enjoy continued success.

Best regards,

Bill Lowery

cl

RECEIVED DEC - 6 1985

Peer - Southern Organization

EXECUTIVE OFFICE

December 3, 1985

Mr. Dean Kay
The Welk Music Group
1299 Ocean Avenue
Suite #800
Santa Monica, CA 90401

Dear Dean:

Thank you for a copy of your statement at the hearing of the Senate Judiciary Committee Subcommittee on copyrights relating to S.1384 - the bill which would reverse the Supreme Court's decision in the Mills Music Case.

The statements you made are fair and just. We are in complete agreement.

With kindest regards,

Ralph Peer II

Ralph Peer, II
President

RP/ps

6777 Hollywood Blvd. • Los Angeles, CA 90028 • (213) 469-1667 • Cable: SOUTHMUSIC • TWX: 910 321-4098

RECEIVED DEC 5 1985

Cable: MILLSTAN

September Music Corp.

250 WEST 57th STREET · NEW YORK, N.Y. 10019

(212) LT 1-1338

December 2, 1985

Mr. Dean Kay
The Welk Music Group
1299 Ocean Avenue
Suite 800
Santa Monica, CA 90401

Dear Dean:

We heartily agree with the position you presented on behalf of music publishers at the November 20, 1985 hearing of the Senate Judiciary Committee Subcommittee on copyrights chaired by Senator Arlen Specter (R-PA) relating to S.1384 - the Bill to legislatively reverse the U.S. Supreme Court's opinion in the Mills Music Case.

Sincerely,

Stanley Mills

STANLEY MILLS

SM:mp

RECEIVED DEC - 5 1985

SHAPIRO, BERNSTEIN & CO. INC

December 2, 1985

Mr. Dean Kay
The Welk Music Group
1299 Ocean Avenue
Suite 800
Santa Monica, CA 90401

Re: Senator Specter's Bill
S.1384

Dear Dean,

I read your statement on S 1384 with great interest, and congratulate you for your lucid and honest presentation of the issue.

Because I have been on the front lines of the music business all my adult life, I feel very involved with this issue. During the 1960s I participated in the complex task of copyright revision, and as an active publisher played a role in discussions that lead to several major compromises necessary to get copyright revision accomplished. It is still clear in my mind that a compromise was struck whereby publishers would share in the 19 year extended term on derivative rights. Once that compromise was struck, the matter of duration was all settled. There was no reason for further debate, and that's why the legislative proceedings contain so little on this vital issue.

This company has been in the hands of the same family since 1913 when we were founded. Considering what we have contributed and created over the years, I can only express amazement at anyone who would describe us as "middlemen." Looked at very simply, a writer created a song 56 years ago. We became a partner and worked on that song for 56 years (or 28 years if the partnership began during the renewal term). No matter how much one glorifies the songwriter, no matter how sympathetic one may be toward the person who works only with his mind, I think that the writers are being greedy in asserting that it is right to stop this partnership on all work that has been done in the past, and that they are to get all of the money during the 19 year extended term. It is equitable to continue to share the fruits of that partnership between the publisher and the writer. That is the compromise that was made. The writer still gets reversions. They own the copyright for the next 19 years, and whatever they create they keep. In addition, they inherit the momentum of the song that was built up through the publisher's efforts.

Ralph Oman, register of copyrights, points out in his statement that there is a constitutional issue about the proposed bill. Well, after the Supreme Court decision, I have more than "reasonable expectation" to be paid on derivative works (which income my company shares with the writers).

SHAPIRO, BERNSTEIN & C., INC.

It is a brilliant accomplishment to write a hit song. As you and I both know, it is also a brilliant accomplishment to be the publisher of a hit song. It was our taste that discovered the song, that got it rolling to begin with. It is our brains and creativity that got all those records, printed all that music, got the song performed in films and on television in commercials, etc. etc. which kept it alive. It is most difficult for me to accept the argument that we are not entitled to share in what we have also created. Our creativity is symbiotic with the writers' creativity. Without them we would have nothing; without us they would have nothing.

By asserting that publishers should drop out completely during the extended term, in effect you take away the publisher's incentive to work on a song he is going to lose, say in five years. A publisher might as well spend his money on something brand new or with many years to run on the copyright. That kind of negative incentive seems to be a strange way to help writers.

Sincerely,

Leon Brettler
Executive Vice President

LB/rb

1985

MUSIC COMPANY, Inc.

LESTER SILL
President

December 9, 1985

Mr. Dean Kay
Executive Vice President
General Manager
THE WELK MUSIC GROUP
1299 Ocean Avenue
Suite 800
Santa Monica, CA 90401

Dear Dean:

We support the position you presented on behalf of music publishers at the November 20, 1985 hearing of the Senate Judiciary Committee Subcommittee on copyrights chaired by Senator Arlen Specter (R-PA) relating to S.1384-the Bill to legislatively reverse the U.S. Supreme Court's opinion in the Mills Music Case.

Thank you very much for your efforts on behalf of this very important cause.

Sincerely,

Lester Sill
President

LS:krc

HOLLYWOOD: 6255 SUNSET BOULEVARD, HOLLYWOOD, CALIFORNIA 90028 (213) 468-3643
NEW YORK: 157 W. 57TH STREET, SUITE 402, NEW YORK, NEW YORK 10019 (212) 581-7420

CBS SONGS

April Music Inc
Blackwood Music Inc
1801 Century Park West
Century City, California 90067
(213) 556-4780

Michael Stewart
President

December 10, 1985

MR. DEAN KAY
THE WELK MUSIC GROUP
1299 OCEAN AVENUE - SUITE 800
SANTA MONICA, CALIFORNIA 90401

Dear Dean,

We support the position you presented on behalf of music publishers at the November 20, 1985 hearing of the Senate Judicial Committee Subcommittee on copyrights chaired by Senator Arlen Specter (R-PA) relating to S.1384-the Bill to legislatively reverse the U.S. Supreme Court's opinion in the Mills Music Case.

Sincerely yours,

Michael Stewart

MM/11

ACUFF-ROSE·
OPRYLAND MUSIC

December 10, 1985

Mr. Dean Kay
Executive Vice President
The Welk Music Group
1299 Ocean Avenue
Suite 800
Santa Monica, CA 90401

Re: Senate Bill 1384

Dear Dean:

As a music publisher with many years devoted to the creation and dissemination of music. I have a clear understanding of and appreciation for the important roles played by each person involved in these activities.

I have followed closely the recent efforts to reverse with legislation the Supreme Court's decision in the Mills Music case, and I am of the firm belief that such legislation is ill-advised.

You recently presented a cogent statement on behalf of music publishers before the Senate Judiciary Committee Subcommittee on copyrights which is considering S. 1384, and we support your presentation and position.

The opportunities for creativity and the prospects for reward to all involved in making such creativity successful are currently equitable and sound in the music field. Disrupting the delicate balance which currently exists, we view as unwise the shortsighted with potentially serious adverse implications for the music business as a whole and each participant involved.

Respectfully,

Wesley H. Rose

Wesley H. Rose
President

WHR/nr

Acuff-Rose-Opryland Music, Inc.
2510 Franklin Road, P.O. Box 40427, Nashville, TN 37204-0427, Telephone (615) 385-3031
Cable Acufrose Nas-TLX-55-4366
Publishing Affiliate of Opryland, USA

THE WELK MUSIC GROUP

1299 OCEAN AVENUE SUITE 800 SANTA MONICA CALIFORNIA 90401 (213) 451-5727/870-1582 TLX 181915

Dean Kay
Executive Vice President
General Manager

December 23, 1985

The Honorable Arlen Specter
United States Senate
Washington, D.C. 20510

Re: S. 1384

Dear Senator Specter:

Subsequent to my letter to you of December 10, 1985 (copy enclosed), I have received comments from additional music publishers, which concur with my presentation at the November 20, 1985 hearings relating to the bill captioned above.

I am enclosing copies of letters received from:

Almo Irving
Al Gallico Music Corporation
Theodore Presser Co.
TRO (The Richmond Organization)

I respectfully request that my letter and these responses be made part of the hearing.

Respectfully yours,

THE WELK MUSIC GROUP

Dean Kay
Executive Vice President/General Manager

DK:wh
Encl.

18 HARMS COMPANY • VOGUE MUSIC • BIBO MUSIC PUBLISHERS • HALL-CLEMENT PUBLICATIONS • SOMEBODY'S MUSIC
JACK AND BILL MUSIC COMPANY • HARRY VON TILZER MUSIC PUBLISHING COMPANY • CHAMPAGNE MUSIC CORP

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Lance Freed
President

December 16, 1985

Dean Kay
Executive Vice President
The Welk Music Group
1299 Ocean AVenue - Ste. 800
Santa Monica, CA 90401

Dear Dean:

I understand that you testified before the subcommittee on Patents, Copyrights and Trademarks of the Senate Judiciary Committee on November 20th, 1985 on S. 1384. I extend my thanks to you for taking the time to express your point of view to members of the subcommittee.

I fully support the position you presented on behalf of music publishers at the November 20th, 1985 hearing. The proposed bill, S. 1384 would legislatively reverse the U.S. Supreme Court's opinion in the Mills Music Case. I hope the members of the Senate Judiciary's Subcommittee on copyrights (chaired by Senator Arlen Specter) were receptive to your statement because it accurately reflects the position of music publishers on the proposed legislation.

Thanks again for taking the initiative. You have rendered a veluable service to the music community.

Sincerely,

Lance Freed

LF/par

[illegible] Publishing
[illegible] ASCAP
[illegible] BMI
[illegible] Companies
[illegible] La Brea
[illegible] Calif. 90028
(213) [illegible] Cable [illegible]

AL GALLICO MUSIC CORPORATION

44 East 49th Street • New York, New York 10017
(212) 355-5080

BEVERLY HILLS CALIFORNIA 90210
9301 Wilshire Boulevard
(213) 274-0165

December 18, 1985

Mr. Dean Kay
The Welk Music Group
1299 Ocean Avenue (Suite 800)
Santa Monica, California 90401

Re: S.1384

Dear Dean:

Thanks for sending me a copy of your statement to the Subcommittee on Patents, Copyrights and Trademarks of the Senate Judiciary Committee (as well as the other statements and submissions pro and con, including those of Barbara Ringer, Ralph Oman, Richard Colby, Irwin Karp, and others).

We at Al Gallico Music believe that the U.S. Supreme Court decided Mills Music correctly, and that this result should not now be overturned legislatively.

Sincerely,

Al Gallico

RECEIVED DEC 1985

Theodore Presser Co.
1783-1985
TWO HUNDRED AND TWO YEARS OF MUSIC

December 10, 1985

United States Senator Arlen Specter
33' Hart Building
Washington, DC 20510

Dear Senator Specter:

This letter is to indicate my strong support for the position Dean Kay presented at the November 20, 1985 hearing on S.1384 before the Senate Judiciary Committee Subcommittee. I have read the various positions presented at that time and, based on my forty years' experience as a music publisher of both serious and popular music, I concur completely with the statements made by Mr. Kay.

Thank you for your consideration.

Sincerely,

Arnold Broido

Arnold Broido
President

AB/sh

Presser Place, Bryn Mawr, Pennsylvania 19010
(215) 525-3636

RECEIVED DEC 16 1985

TRO The RICHMOND ORGANIZATION
10 Columbus Circle, New York, N.Y. 10019 / Tel. 765-9889

Al Brackman general manager

December 11, 1985

Mr. Dean Kay
The Welk Music Group
1299 Ocean Avenue
Suite 800
Santa Monica, CA 90401

Dear Dean:

Thank you for the information kit on the progress being made with respect to a decision on "derivative rights".

I am particularly impressed with your comments at a Congressional hearing because I agree with you the "derivative right" is a right to be retained by the publisher controlling the second term of copyright--because the work "he wrought" during the years such publisher controlled the composition and generated income for the composer through promotion efforts, new recording activities, publication of various printed editions, etc. A lot of us should be thankful for your efforts.

Sincerely,

AL BRACKMAN

AB:es

Senator SPECTER. Thank you very much, Mr. Kay.

I would like to turn now to Mr. Irwin Karp, counsel to the Authors League of America.

Mr. Alvin Deutsch is in the hearing room, as well. Mr. Deutsch, we would be delighted to have you join the panel, if you are interested in doing so.

Mr. DEUTSCH. Thank you, Mr. Chairman.

Senator SPECTER. Mr. Karp, please proceed.

STATEMENT OF IRWIN KARP

Mr. KARP. Senator Specter, thank you very much for this opportunity to present the views of the Authors League, which is the national society of professional authors and dramatists.

I would like to submit a copy of my statement for the record, and also I have attached to it two draft proposals, two 1-page drafts of suggested changes in language.

The Authors League supports the bill. We think it is essential, and we are grateful to you for introducing it, and to Representative Berman for introducing his companion bill.

I do not think there would be any problem in working out language changes. I think the important thing is the thrust of your bill and his bill.

Of the 13 judges who decided in *Mills Music*, 7 read the present termination clause as meaning exactly what your bill and Representative Berman's bill in effect say it meant. Unfortunately, five of the six other judges were members of the Supreme Court, necessitating an amendment to the copyright statute.

We, of course, ask that both bills amend sections 203 and 304, and not be limited to section 304, because in the long run, section 304 will be much more important and will affect the rights of authors for generations to come.

I should note that the problems raised by the *Mills Music* decision are not limited to songwriters. Many of our members are composers for the stage and motion pictures and are members of Mr. Weiss' organization as well, but authors of books and plays are also very much affected, adversely, by the legislation.

I think it is clear that despite the Supreme Court's reading of the termination clause, which I think was narrow and totally wrong, the real question is what Congress intended. And the record is pretty clear that Congress intended that on termination, all rights revert—as the clause says, all rights without exception revert to the author or his or her heirs, and all that is left is a privilege—not a right, but a privilege—granted by the termination clause to continue using a derivative work. That privilege is subject to certain conditions. The Supreme Court majority did not seem to understand that.

Another indication of congressional intent, aside from Ms. Ringer's very convincing testimony of what she and the committee meant when they drafted the bill, is the amendment which was made to the termination clauses is at the request of the Authors League. I describe it at page 4 of my statement. We asked that Congress permit the termination of nonexclusive as well as exclusive licenses. The original draft was limited to the termination of exclusive licenses. We said the reason for that was that:

Were publishers permitted to continue enjoying a nonexclusive license, they could continue to share in the composers' recording income after termination.

Congress and the Copyright Office accepted that argument and amended the section to include nonexclusive licenses, and the Register's report makes it clear that the purpose was to cut off the publisher's opportunity to share in subsidiary rights royalties, including recording royalties, after termination.

The publisher is indeed a middleman, regardless of how little or how much income or money he invests in promoting songs. I will not take your time to discuss the relative contributions, because it is really irrelevant.

The termination clause clearly cuts off the rights of book publishers and many other users of copyrighted works, even though they spend, in many cases, far more than music publishers do, to not only promote, but to produce and distribute copies of the work of the author under the contract that has been terminated. It is totally illogical to assume that Congress would cut off the right of the primary publisher, the publisher who is actually performing the work of producing copies of the work, distributing them, and selling them, cut off that right, but leave standing the right of the same publisher in his role as a passive middleman to receive royalties from the work that other people produce, based on the author's derivative works.

I see the light is on——

Senator SPECTER. I took a little of your time earlier with an offstage whisper, so please proceed for another few minutes.

Mr. KARP. I would like to point out that the essence of the termination clause, the very reason for it, is that there is unequal bargaining power between authors and the users of their work.

One of the most unfair provisions that unequal bargaining power imposes on authors in every media is the obligation to give the publisher a perpetual share of income derived from uses of the author's work by third persons, such as a share of recording rights income given to a music publisher, who does not make recordings, does not promote recordings, does not sell recordings. They do this by tying-in under their superior bargaining power the perpetual sharing with the primary obligations they perform of publishing the work.

Now, I cite at page 6 an example of the results of that bargaining power which are not relevant here, but are evidence of its existence, and that is in the field of book publishing, something called "the satisfactory manuscript clause," which in effect requires authors to labor for years under a contract which is really not a contract if the publisher chooses—based on its subject judgment of the manuscript—to terminate the contract and get back all the money that it paid the author, leaving the author holding the bag.

I refer you to the opinion in a case called Harcourt, Brace, and Jovanovich against Barry Goldwater, for an exposition of the unequal bargaining power in the book publishing field, and that inequality runs the gamut of publishing——

Senator SPECTER. Who had the unequal power in that case?

Mr. KARP. Not Barry Goldwater; the book publisher. Barry Goldwater was only an author in this case, and senatorial prerogative did not help very much.

Senator SPECTER. And you are saying that Senator Goldwater had the lesser power of the parties?

Mr. KARP. Actually, he won this case——

Senator SPECTER. So he had the greater power of the parties.

Mr. KARP [continuing]. But he won it on the merits and not because of his bargaining power.

I should also point out that that same inequality is what really led to the concept which was the basis of the termination clause: That when an author granted motion picture rights in a novel or play—and it is the author who always does it; the Supreme Court majority misstated the realities of book publishing in that area—when the author does that, the motion picture company takes with that right other rights—the right to use the play on television, the right to use it in videocassettes, et cetera—and the result of that has been that, for decades, American authors of books and plays have been unable to receive any share of the income that the motion picture version of their work earned on television or in cable broadcasting, or in cassettes, and have not even been able to arrange for the broadcasting of stage versions of their plays, because the stage version had to be done on tape——

Senator SPECTER. Are you almost concluded?

Mr. KARP. I am finished. In mid-sentence, I stop.

Senator SPECTER. Please finish your sentence, Mr. Karp.

Mr. KARP. I am finished.

[Prepared statement follows:]

Prepared Statement of Irwin Karp
Counsel for the Authors League of America

Mr. Chairman, my name is Irwin Karp. I am counsel for The Authors League of America, the national society of 14,000 professional dramatists and authors. The Authors League appreciates this opportunity to present its views on S.1384 which would amend one of the "termination clauses" in the 1978 Copyright Act [Section 304(c) of Title 17]. This section provides that authors (or their immediate families) may terminate transfers of pre-1978 copyrights in their works after the 56-year copyright term granted by the 1909 Act enabling them to make new contracts during the further 19 years of of protection added by the 1978 Act.

S. 1384 [illegible]s the "derivative works exception" of Sec. 304(c) to make it clear that after an author's contract with a publisher (or other grantee) is terminated, the publisher is not entitled to receive any of the compensation paid by record companies, film producers or others for subsequent utilization of derivative works based on the author's song, novel, etc., produced by such companies. The derivative rights exception gives the film or record company the privilege of continuing to utilize its derivative work, provided it makes any payments required by the grant under which it obtained authority to use the author's song/novel/play in its record/film.

<u>Mills Music v.Snyder</u>

In <u>Mills Music. v. Snyder</u>, 7 of the 13 judges who construed the present "derivative rights exception" of Sec. 304 concluded it had the effect which S. 1384 would make clear and implement; i.e. after an author terminates his/her contract with a music or book publisher under Sec. 304, that "middleman" publisher no longer can share the royalties paid by others for their continued use of derivative works they made based on the author's song, novel, etc.

The other 6 judges said the derivative rights clause entitled the publisher to the share fixed in the terminated contract of royal ties from such derivative works, after termination, even though the publisher was, as the the League noted in its Court of Appeals amicus brief, only a "middle man" who acquired and then licensed to the record company or film producer the right originally vested in the author to use the author's creation in producing the derivative work.

However, 5 of the 6 judges are members of the Supreme Court, necessitating an amendment of Section 304(c) to reaffirm and implement the Congressional intention that the author (or his heirs) receive all of the compensation paid by proprietors of those derivative works for uses made after the contract between the author and the "middle [illegible]" publisher was terminated. That amendment is [illegible] to protect authors of literary, dramatic and artistic [illegible] well as composers -- since the Supreme Court decision [illegible] them of a substantial degree of protection [illegible] clause.

The A[illegible] League's Position On S.1384

[illegible] Authors League is grateful to Senator Specter for int[illegible]g his Bill to amend Sec. 304(c), and it supports the Bill. The League believes some language changes are needed to achieve its purpose, and we have submitted a proposed revision to Senator Specter and the Subcommittee's staff. We do not believe there will be any difficulty in making suitable changes.

The League also recommends that the Bill be revised to apply as well to Sec. 203, the companion proviso which permits authors to terminate long-term transfers of copyrights made after 1977. The same considerations which warrant the amendment of Sec. 304 apply to Sec. 203, and it will affect a vastly greater number of copyrights, and authors -- all of those who create works from and after January 1, 1978. The Authors League also expresses it appreciation to Representative Howard Berman for introducing a companion Bill.

The Authors League submits that S. 1384 should be enacted for these reasons:

Congressional Intent in 1976

The Authors League submits that Congress intended in 1976, when it enacted the 1978 Copyright Revision Bill, that the termination of copyright transfers under Sec. 304 would end the right of middleman publishers to receive a share of royalties paid by film companies or record companies for the "privilege" of utilizing -- after termination -- the derivative work embodying the author's song, play or novel.

The unanimous Court of Appeals opinion, and Justice White's opinion for four dissenting justices, support that conclusion. As Justice White noted, for example, music-publishing industry representatives stated during the copyright revision proceedings that Sec. 304(c) would cut off a publisher's right to continuing receiving royalties under its contract after the author terminated it.

Former Register of Copyrights Barbara Ringer, who wrote Secs. 203 and 304, told the Subcommittee earlier this year she believed the Supreme Court's Mills Music decision "runs counter to Congressional intent and is seriously prejudicial to the legitimate rights of authors and their heirs."

Furthermore, the Copyright Office and Congress adopted a revision of the original texts of Section 203 and 304 which would have been unnecessary had they intended that middleman publishers continue receiving the share of royalties from derivative works fixed in their contracts with authors after those contracts were terminated under sections 203 or 304. The original texts only granted authors the right to terminate contracts that transferred exclusive rights in their works. The Authors League asked that the sections be amended to extend the author's termination right to non-exclusive licenses as well, to prevent a music publisher from continuing to "share in a composer's recording ... income " after termination, by acquiring a perpetual non-exclusive license (not subject to termination) as well as the exclusive assignment of the author's copyright (which could be terminated). Copyright Law Revision, Part 5, pp. 241-245. The League's proposal was adopted; Sections 203 and 304 were revised to include the right to terminate non-exclusive licenses "to prevent a transferee from avoiding" the effect of the termination clauses. Register's Supplementary Report; Copyright Law Revision, Part 6. The Copyright Office and Congress were thus closing a loophole for the very purpose of preventing publishers from sharing, among other things, in royalties from recordings of authors' music, after termination ... clearly neither intended that publishers be permitted by Sections 203 or 304 to receive such income after their contracts were terminated.

The Purposes of the Termination Clauses

The Authors League submits that the purposes of the termination clause are defeated if publishers are allowed to continue sharing in royalties paid by proprietors of derivative works after authors terminate their contract under Secs. 304 and 203.

The House report on the 1976 Revision Bill said that the termination clauses were "needed because of the unequal bargaining position of authors, resulting in part from the impossibility of determining a work's value until it has been exploited." H.R. Rep No. 94-1476, at 124. Congress chose to redress the unfair results of this unequal bargaining power -- e.g., contract terms which stripped authors of rights, or took from them an inordinate share of the income their works produced, etc. -- by empowering authors to terminate those contracts and recover their rights after the publisher had had several decades to reap the benefits of the author's work.

One of the most unfair provisions which unequal bargaining power imposes on authors in various media is the obligation to give the publisher a perpetual share of income derived from uses of the author's work by third persons who make films, records or other derivative works embodying it. The middleman publisher acquires that perpetual claim on income from works it does not create or exploit by baldly tying-in the perpetual sharing clause as a condition for its agreement to publish the work, Yet, as Ms. Ringer noted, the royalties from other producers' derivative works-versions of the author's work may constitute the largest portion of its earnings.

But despite the Congressional intention that the termination clause give authors the sole benefit of this income during the post-termination period, the Supreme Court's reading of the "derivative rights exception" deprives authors of a substantial share of that income, and often can do worse -- denying many authors any part of these post-termination royalties from their writings and giving all of it to the middleman publisher who simply licensed the author's right to the actual producer/exploiter. This occurs where the author was compelled to convey all of his rights to the middleman publisher for a lump sum rather than a percentage of royalties.

It must be understood that inequality of bargaining power is endemic in book publishing, motion pictures and other copyright-protected media. With rare exceptions, authors are required to accept a number of blatently inequitable clauses in book publishing contracts. One of the most notorious, for example, is the "satisfactory manuscript clause" that enables the publisher(i) to terminate the the contract by deciding, subjectively, that a manuscript is not "satisfactory" and (ii) to compel the author to return the advance which is actually consideration for the grant of exclusive rights and for the months or years of work the author invested in writing the work. A reading of the opinion in Harcourt Brace & Jovanovich v. Barry Goldwater, 532 F. Supp. 613 (S.D.N.Y 1982) gives some indication of publishers overwhelming bargaining power to exact unfair terms from authors. Other results of inequal bargaining power include egregious terms imposed by motion picture companies in contracts with authors for the acquisition of motion picture rights in their books and plays. This imbalance in negotiating strength has for decades stripped American authors and playwrights of any income from television broadcasts of film versions of their works, and denied them the right to license television or cable broadcasts of their plays from pre-recorded productions in stage format. (One of the errors in the Supreme Court's majority Mills Music opinion is its assertion that grants of motion picture rights in literary works are made by the author's publisher. This is not so. In the last several decades, one of the few standard provisions which authors have been able to delete from publishers' printed contracts is the clause conveying those rights to the publisher. Usually, the grant of film rights in a literary work is made by its author. However, with the even-greater bargaining strength a few major publishers have acquired through acquisitions and mergers, even that right may be eroded.

Barbara Ringer noted another factor which indicates that Congress intended the termination clauses to cut off a middleman-publisher's right to share in royalties paid by producers of derivative works. As she told the Subcommittee, in adding 19 years to the existing term of pre-1978 copyrights

> "Congress was granting a new right, and I believe it is fair to say that Congress would have been extremely reluctant to do this unless it had been assured that individual authors would at least have the opportunity of enjoying the benefits of these new rights. If the author's old and, in many cases, unfair contracts were to be preserved without any provision for termination, I do not think Congress would have extended the length of the copyright term."
>
> * * * *
>
> " The basic purpose of the termination (sections) was to make sure that authors or their heirs had the opportunity of re-negotiating their old contracts, rather than merely letting the contracts run on through the longer copyright term. In a great many cases, I believe that the Supreme Court decision will effectively defeat this purpose."

<u>The Purpose of The Derivative-Works Exception</u>

The termination clauses provide that <u>all rights</u> in the author's song, novel, play, etc. covered by the terminated contract revert to the author on the termination date. [Sec. 304(c)(6); Sec. 203(b0]. The derivative-rights exception provides that derivative works based on the song, novel or play may continue to be utilized, but this <u>privilege</u> is subject to the terms of the terminated grant.

The sole purpose of this exception, as made clear in the legislative history, was to protect the rights of the company which created the derivative work. As Authors League pointed out in its amicus brief, a company producing a motion picture based on a novel, or a sound recording incorporating the author's song, creates a new and separate copyrighted work which contains much original material in addition to the underlying novel or song. The cost of that material -- all the other components of the film or recording -- vastly exceeds the price the film or recording company paid to use the author's work. The premise of the derivative-works exception was that the film or recording company should not be prevented from continuing to utilize the new work it created. Termination would , however, return to the author the right to make contracts for other derivative works -- films, television programs, records, etc. -- based on the song or novel or play.

The purpose of the termination clause does not justify allowing a middleman publisher to continue sharing in royalties yielded after termination, from derivative works based on the author's song, novel or play. The publisher had not created the derivative work nor exploited it. It had not contributed any or paid for the original material that made the derivative film or recording a separate copyrightable work. It had no interest in the copyright in the derivative work.

In Mills Music, music publishers argued they were entitled to continue sharing derivative- works royalties because they "exploited" the song before termination. But that was one of the very functions they were obliged to perform, as publishers, and the amount of their contribution -- which is very much in dispute -- is irrelevant to the application of the termination clause. Book publishers, for example, spend far more than music publishers do in publishing and promoting their authors' works, yet Congress determined that on termination all rights in those works revert to their authors, regardless of the publisher's investment in producing producing, distributing, and promoting the sale of, copies. It is illogical to contend that while publishers concededly are cut off by termination from income in areas where they were the primary and active exploiters of the author's work, they should be permitted to continue receiving income from derivative works created and exploited by other companies -- when they served the passive role of middleman license. simply passing on by license to the record company or other producer the author's right to use his/her creation in the production of the de.ivative work.

Whatever the contribution made by music publishers in establishing the popularity of songs they published before 1978, they were rewarded during the 56 years prior to statutory termination of their contracts -- often quite handsomely -- by their contractual share of the income derived from recordings and public performances of the songs, produced or performed by other companies and individuals. These third-party uses created the lion's share of their income. And it was in large measure due to the invaluable and continuing promotional stimulus provided by musicians, vocalists, broadcasters, night clubs and others who repeatedly performed a song and often made hundreds of recordings of it. Above all, music publishers earned their money because some of the songs they published had great merit -- which was the essence of their continuing appeal to the American appeal over the years.

Conclusion

The Supreme Court majority's interpretation of the derivative rights exception rests solely on a narrow-visioned and incorrect reading . It does not rebut the obvious fact, stressed by the testimony of former Register Barbara Ringer, the unanimous Circuit Court opinion and Justice White's dissenting opinion, that Congress intended the statutory termination of contracts by authors to cut off the right of middleman-publishers to continue claiming, under their terminated contracts, a share of the royalties paid by producers of derivative works based on the authors' underlying songs, novels, plays or othe. works. For the reasons I have discussed, the Authors League urges the Subcommittee to recommend the enactment of

Senator Spector's S.1384 which would reaffirm and implement the Congressional intention underlying the termination clauses.

I thank the Subcommittee for allowing me to submit this statement on behalf of the Authors League.

AMENDED SECTIONS OF TITLE 17, U.S.C.

AMENDED Sec. 203(b)(1) of Title 17, U.S.C.

(b) EFFECT OF TERMINATION ..... but with the following limitations:

(1) When a drivative work, based on the copyrighted work covered by the terminated grant, was prepared before the termination under lawful authority of the grantor or the grantee, then:
the person entitled to utilize the derivative work immediately prior to the effective date of termination shall, thereafter, have the privilege of continuing such utilization on these conditions:

(i) such continued utilization shall conform to the terms and conditions of the instrument under which the creator of the derivative work acquired authority to base it upon the copyrighted work covered by the terminated grant; and

(ii) any royalties, shares of profits or other moneys payable, under said instrument, as consideration for the authorization to prepare a derivative work based on the copyrighted work covered by the terminated grant shall, after the effective date of termination, be paid to, and be the property of, the person or persons in whom the reverted rights in said copyrighted work are vested pursuant to clause 1 of this subsection; and

(iii) this privilege does not extend to the preparation after the termination of other derivative works based upon the copyrighted work covered by the terminated grant.

AMENDED Sec. 304((c)(6)(A) of Title 17, U.S.C.

In all cases the reversion of rights is subject to the following limitations:

(A) When a drivative work, based on the copyrighted work covered by the terminated grant, was prepared before the termination under lawful authority of the grantor or the grantee, then: the person entitled to utilize the derivative work immediately prior to the effective date of termination shall, thereafter, have the privilege of continuing such utilization under these conditions:

(i) such continued utilization shall conform to the terms and conditions of the instrument under which the creator of the derivative work acquired authority to base it upon the copyrighted work covered by the terminated grant; and

(ii) any royalties, shares of profits or other moneys payable, under said instrument, as consideration for the authorization to prepare a derivative work based on the copyrighted work covered by the terminated grant shall, after the effective date of termination, be paid to, and be the property of, the person or persons in whom the reverted rights in said copyrighted work are vested pursuant to clause 6 of this subsection; and

(iii) this privilege does not extend to the preparation after the termination of other derivative works based upon the copyrighted work covered by the terminated grant.

Senator SPECTER. Thank you very much.

I would like now to turn to George David Weiss, president of the Songwriters Guild of America.

Mr. Weiss.

STATEMENT OF GEORGE DAVID WEISS

Mr. WEISS. Thank you, Senator.

I am certainly grateful, like the other people, for the opportunity to talk about this issue. My name is George David Weiss. I am president of the Songwriters Guild of America, my position is an unsalaried one, and I am a full-time songwriter.

I will submit to this committee a list of my major compositions in support of my statement that songwriting has been my major talent and sole occupation since I was a teenager, which was quite a few years ago.

The pending legislation which seeks to overturn the 5-to-4 decision of the U.S. Supreme Court in *Snyder* v. *Mills* has the support of every creator whose copyrights are properly exploited by the media. Its purpose is straightforward—to close the loopholes in sections 203 and 304 by making crystal-clear that in enacting the 1976 copyright law Congress not only championed the rights of creators, but took into account the rights of those who employed the creators' talents in other media.

The 1976 copyright law provides creators and users with new rights. It enlarged the term of copyright protection, it returned to authors, or their heirs, the copyrights previously assigned by them, it preserves to motion picture and record companies their ownership of derivative works.

Derivative work owners who use our copyrights may continue to exploit such work as they did before the 1976 copyright law was enacted, on the same terms and conditions as existed before termination.

The balancing of the equity between creators and users is indeed one of the major hallmarks of the 1976 act. New rights under copyright and new sources of income were recognized—that is, the obligation of jukebox owners to recognize copyrights; the obligation of educational TV and cable retransmitters to pay royalties for use of copyrighted music.

While each of these newly recognized rights of users carries the obligation to compensate the copyright proprietor, the latter is similarly obliged to allow the user to exploit our works on a nonexclusive basis.

Therefore, the benefits of our talents are truly shared.

The fallacy underlying the Supreme Court's decision is its failure to recognize that Congress was focusing its attention on the creator of both the original copyright and the derivative work. It did not seek to remunerate the music publisher, who the circuit court of appeals in its unanimous decision termed the middleman.

Nor is it my intention to argue, as would some, that the middleman music publisher is not entitled to the benefits of its contract with the creator.

What I do argue is that Congress recognized that the middleman has received its contractual benefits. It has received just rewards for its time and investment. The middleman has been deprived of nothing.

Why?

One: It has been fully remunerated for at least 28 years, and in most cases, for 56 years.

Two: Its initial investment has long been paid off.

Three: The royalties in question accrue from the investment and continued exploitation by the record companies, not the publishers.

Four: Indeed, in the overwhelming majority of cases, the original publisher of the song has disappeared, the shares of stock having been sold to a conglomerate at a handsome profit—a profit, mind you, in which the songwriter whose copyright is sold does not share, despite some voicings of the word "partnership" between the songwriter and the publisher. We do not share when the publisher sells our product.

Mills is a perfect case in point. Within the last 25 years, Mills Music and its catalog have been acquired by a company called Utilities and Industries; then by a publicly traded trust; then, in rapid succession, by Esquire Magazine, Gulf + Western, and most recently by Columbia Pictures, which is now a subsidiary of Coca-Cola.

The only loser under the Supreme Court's decision is the songwriter, or his or her statutory heirs, who alone of all these parties must rely on a handful of copyrights to support their old age.

If a songwriter is very lucky, while he or she may write hundreds of songs in a normal lifetime, only perhaps a handful will become hits and even fewer standards. Those standards become the writer's social security and legacy to his or her family.

Of course, I agree that there are some singer-songwriters who may have become millionaires, but No. 1, they are few in number, and their financial well-being is derived primarily from their role as a performing artist, not from their copyrights.

As conclusively demonstrated by the Songwriters Guild at the 1980 hearings before the Copyright Royalty Tribunal held to adjust the mechanical rate, the annual mean income of our 4,000 to 5,000 members was between $5,000 and $7,500, taking into account our royalties from all sources.

It is our view, which finds support in the position taken by the Honorable Ms. Ringer, as Register of Copyrights at the time the 1976 law was enacted, that the act sought to primarily benefit the creator-author. This, the U.S. Supreme Court failed to understand.

The 5-to-4 decision focused on facts never argued or discussed by any of the litigants in any of their briefs, and in so doing, totally misconceived the manner in which the music industry operates.

The Court held that since the royalties payable by record companies were set in the mechanical license originally issued by Harry Fox Agency as agent for the original publisher, which issued a license, that that publisher was entitled to continue to receive royalties after termination of its rights.

What the Court overlooked was that those licenses were issued by music publishers in their capacity as the then copyright proprietor.

However, once termination occurred and the publisher no longer held any copyright, the rationale for its continued receipt of royalties ended. Indeed, as we cited in our Supreme Court petition for review, the Court assumed that the entire mode of behavior of our industry supported their premise. Untrue. There are many, many situations where copyrights are assigned from one publisher to another, and the Harry Fox Agency automatically pays royalties to the new publisher at the rate established in the existing mechanical license. It is an accepted fact of our industry; indeed, it is so obvious that neither Fox nor Mills ever raised the issue of the mechanical license as a rationale for their alleged right to continue to receive royalties.

The rest of my remarks will be included in my major statement, and I certainly thank you, sir, for this opportunity to talk.

[Prepared statement follows:]

PREPARED STATEMENT OF GEORGE DAVID WEISS

SUMMARY

The Songwriters Guild of America, on behalf of its 4,500 songwriter members, urges the Committee to support S. 1384, concerning §§ 203 and 304(c) of the Copyright Act.

These sections provide authors and their statutory beneficiaries with the right to terminate grants made under copyright for the extended 19 year term added by the 1976 Copyright Act to copyrights subsisting before 1978; and 35 years after a grant is made for works created after 1978. An exception to the termination right is the right of owners of derivative works made from the original work to continue to exploit such derivative works made before the effective date of termination.

We have no quarrel with the derivative work exception. However, the U.S. Supreme Court, in Mills Music Co. v. Snyder, 83 L. Ed. 2d 556 (1985), recently held, in a case dealing with sound recordinga made prior to the effective date of termination, that royalties payable by the record companies accruing after the date of termination must be shared between the songwriter and his music publisher pursuant to the terms of their now terminated publishing agreement.

We believe that the Court erred in its interpretation of the 1976 Copyright Act, its legislative history, and its policy of extending protection to authors, in holding that the middleman music publisher, whose rights have been terminated, is entitled to participate in income earned from record sales after the date of termination, where it is the record company, and not the music publisher, which is the actual utilizer of a derivative work.

In our opinion, (which is supported by 4 Justices of the U.S. Supreme Court and a unanimous decision of the U.S. Court of Appeals) it was the intent of Congress in extending the original 56 year term of copyright to 75 years and allowing authors to recapture their copyrights for this extended 19 year term, to benefit the authors or their statutory successors, and the users of derivative works (such as record and movie companies) who had expended considerable time, effort, and talent in creating such works; not the music publisher who is neither an owner of the copyright nor the creator of a derivative work.

By enacting the 1976 Copyright Law, Congress created a delicate balance between the interests of authors and those who would properly exploit their copyright in the derivative market. The Supreme Court has misconstrued that intent and upset this delicate balance.

S. 1384 would amend §§ 203 and 304(c) of the Copyright Act to clarify such intent. We ask this Committee to recommand its passage.

A more extensive discussion of our position is set forth in the accompanying paper.

* * *

1. I am George David Weiss, a songwriter and president of The Songwriters Guild of America, an organization heralded as America's voice of the songwriter in contractual, legislative and judicial matters. Our organization has for over 50 years been the spokesman, before Congress and the American public, in all areas which vitally affect our ability both to create and to earn a decent living from our creative gifts, which has nourished this country.

2. Contrary to popular belief, the overwhelming majority of songwriters do not earn "megabucks". Their average standard of living falls within the $5,000.00 - $7,500.00 range as compensation for their creative genius. The vast majority are required to seek outside means to support their talent.

3. Evidence of the above was fully documented in the 1980 hearings on the Mechanical Royalty Rate before the Copyright Royalty Tribunal (CRT). As this Congress is aware, the 1976 Copyright Act, characterized by the then Register of Copyrights, Barbara Ringer, as an "author's bill of rights" gave new protection to all writers; created never before existing sources of revenue; and eliminated many technicalities which served to impede rather than promote copyright. At the same time, that law removed from creators - and songwriters in particular - areas of exclusivity over their copyright in exchange for the right of users to employ their works - non-exclusively - on payment of royalties, certain of which were fixed by law and others of which were subject to adjustment by the CRT. I cite as examples the juke box royalties; the obligation of imposed or secondary transmissions; the educational TV royalty and of course the compulsory mechanical license governing the manufacture and sale of phonorecords.

The compulsory royalty on mechanicals has been with us since 1909 - then fixed at 2¢ for each record manufactured and sold. After 66 years of living under this maximum royalty, the 1976 Act initially increased the rate to 2.75¢ and as a result of the CRT hearings, the rate escalated in 1981 to 4¢ and in 1986 it will reach 5¢.

4. Even from this brief resume of the 1976 Act, it is apparent that many compromises were effected in order to bring about passage of a long overdue law. Thus, while requiring juke box owners for the first time to pay royalties for their use of our works, it set a fixed royalty on each box and gave them a license to use our songs; similarly, while requiring cable stations which rebroadcast distant signals to honor our copyrights, they were given an absolute right to broadcast our songs upon payment of royalties initially set by the 1976 Act.

5. I believe that the compromises effected by the 1976 law - which may be characterized as a cession of exclusivity over one's copyright for non-exclusive use by third parties in exchange for a meaningful compensation, is valid and in most respects a workable solution to conflicting needs. As we approach the 10th anniversary of that law, I find few areas which have not worked well or even better than Congress anticipated.

6. S 1384, with which this hearing deals, involves one of the compromises wrought by Congress. A hallmark of the 1976 Copyright Law was the creation of a new term of copyright protection for all creators. The two term copyright of 28 years which had endured since 1909 was supplanted by a term measured by the Author's life plus 50 years thereafter. This term affected all copyrights created after 1978. Existing works, including songs, protected by copyright prior to 1978 were given a prolonged statutory life of an additional 19 years. Thus, to be specific, any song which was in its first or renewal term on January 1, 1978 would now be protected for 75 years rather than 56 years.

7. One of the questions posed to Congress in creating the extended 19 years of protection was: Who would control the additional 19 years? I believe that at this juncture I must furnish the Committee with some insight into the "business of music" in order that it better understands the compromise it effected:

(A) In the world of music publishing as it existed in the 1920s and 1930s - the time when the songs were written whose copyrights are now reaching the 19 year extended term songwrite s (composers and lyricists) contracted with their music publishers to publish and exploit their songs. In exchange for royalties to be paid on uses secured by the publisher, primarily sheet music and recordings the composer and lyricist would vest rights in their publisher for the initial and renewal copyright terms. If the song was successful all parties would receive renumeration for the life of the copyright. It is fair to say that the publisher always received the larger share. Whatever royalty was allocated to the creator was shared by the composer and lyricist. A standard contract would provide for the composer and lyricist together to share 3¢ or less for sheet music - which was very important in the 30s and between 10 and 33 1/3% of the mechanical royalties earned from the sale of phonorecords. I remind the Committee t the mechanical royalty for 66 years was a maximum of 2¢, hich the music publisher, under the cited contract, w ceive from 1.33¢ to 1.80¢ with the composer and lyrici aring the rest.

(B) The contra nvariably endured for the two terms of copyright, ie. 56 years. The Fred Fisher case held that so long as the creator lived into the renewal period, there would be no break in ownership by the publisher. Only if the composer or lyricist died before the renewal term could his or her statutory successors (as defined in the 1909 law) succeed to the copyright, free and clear of the contract. If the publisher had taken the additional precaution of getting an assignment from the songwriters' spouse and children when the writers signed up, as was common, then the heirs never recovered the copyright.

(C) Many publishing concracts dating from the 1920s and 30s even at that time contemplated the possibility of a new copyright act. To protect against this possibility, it was common for publishers to acquire rights for not only "the initial and renewal term of copyright" but also "for any additions and extensions thereof."

8A. Recognizing that it would be unfair to leave the ownership of the additional 19 years to the vagaries of the market place - Congress exemplifying Register Ringer's description of the proposed legislation as a "creator's bill of rights" sensibly enacted Section 304(c), which provides in substance that the author or his or her widow, widower or children can recapture the copyright at the f the original 56 year period, by terminating any ea...er grant.

8B. Such right of copyright recapture was not automatic (indeed another compromise worked out by the Congress). To reacquire the 19 year term, it was obligatory on the creator, if living, or on his/her statutory successors, to send a Notice of Termination to his/her music publisher and the U.S. Copyright Office within a stated period.

9. If the law had ended there, this Committee would not be meeting today. What had been needed was to balance the equities between the creators and those seeking to employ the fruits of creation. Congress quickly recognized that to allow the

creator to recapture 100% of the copyright could wreak havoc on those who, in reliance on their rights, had expended large sums of money in creating derivative works which employed the underlying copyright. I need but cite as examples a motion picture producer who has made a multi-million dollar film based on a novel, or a record company that has recorded a song. Each having expended time, effort, money and creative talent in producing a new work would justifiably complain that it was unfair to allow the owner of the original copyright cut off their rights to exploit their new work.

To solve this problem, Congress added to the above provision language which has now become known as the "exception"' to wit:

> "A derivative work prepared under authority of the grant before its termination may continue to be utilized under the terms of the grant after its termination, but this privilege does not extend to the preparation after the termination of other derivative works based upon the copyrighted work covered by the terminated grant." (77 U.S.C.§304(c)(6)(A).

Each party to the equation is now fully protected - each has had its rights secured and each is guaranteed the ability to exploit his, her or its respective market place without encumbrance.

10. We have now reached the nub of the problem.

In 1978, Ted Snyder and Marie Snyder, widow and son respectively of the late Ted Snyder, co-author of the famous song "Who's Sorry Now?" duly served a Notice of Termination on Mills Music Inc.; which became effective on January 3, 1980. By that action, the Snyders, on the effective date, reacquired a 100% interest in the late Ted Snyder's 1/3 interest in this song. (The co-authors and their statutory successors some of whom served separate notices of termination, were not parties to the Snyder litigation.) Copies of the Snyders' notice were served on the appropriate parties and on the Harry Fox Agency Inc. The latter has for more than 50 years served the music publishing industry as its agent for issuing licenses to record companies who elect to record a musical composition. The Fox office thereafter collects royalties accruing on the sale of such records, and pay them to the publisher, which, in turn, pays to the composer and lyricist their respective contractual shares.

11. Following receipt of the Notice, Mills Music challenged the right of the Snyders to receive the so-called "publisher's share" of those mechanical royalties which emanated from recordings made and distributed prior to the effective date of termination and which were sold following the effective date. In order to determine the rightful ownership of the disputed royalties, Fox commenced an interpleader action seeking a judicial decision of the following issue:

> Where a notice of termination had been properly served on the original publisher which had licensed recordings of "Who's Sorry Now" which royalties were derived from sound recordings prepared before but sold after the effective date of termination - was the original publisher or the terminating party entitled to those royalties.

12. Lest this Committee believe that it is only "old" recordings that are affected by the instant litigation, it must be

noted that the same issue is involved in recordings being made and released today.

Under the 1976 Law, copyright endures for 50 years after the creator's death. Congress, fearing that creators in granting rights to their publishers for "the full term of copyright" might, as under the old law, be unable to recapture their rights, specified in §203 that any grant made in 1978 or later could also be terminated:

> "[a]t any time during a period of five years beginning at the end of thirty-five years from the date of execution of the grant; or, if the grant covers the right of publication of the work, the period begins at the end of thirty-five years from the date of publication of the work under the grant or at the end of forty years from the date of execution of the grant, whichever term ends earlier." (17 U.S.C §203(a)(3)).

Unlike the old renewal term, which could be effectively assigned for the second term (unless the creator died prior to the 28th year), both §304(c) and §203 provide that an author cannot bargain away his right of termination.

> "Termination of the grant may be effected notwithstanding any agreement to the contrary, including an agreement to make a will or to make any future grant." (17 U.S.C. §§203(a)(5) and 304(c)(5)).

Thus Congress overcame the bar to a creator's recapturing his rights created by the Fred Fisher case. Since the language of §203 is identical to that contained in §304, the effect on creators is the same.

13. The parties to the interpleader action filed cross-motions for summary judgement. In effect they asked the Court, as a matter of law, to interpret the language of the Act and its legislative history to determine which party was entitled to the disputed royalties.

14. It is important to note that the courts were not presented with issues relating to "entitlement". The agreed upon facts, stipulated by the parties, eliminated any discussion as to whether music publishers, having held copyrights for 56 years, still effectively exploited them; whether the creators' original grants to the publishers provided for them to receive a continuing share of royalties from the sale of records; or whether a publisher was indeed responsible for initially securing the recording at issue.

The parties to the action, which was initially heard by Judge Edward Weinfeld (U.S.D.C., S.D.N.Y.) sought an interpretation of language and intent which focused on the background and meaning of Congressional legislation.

15. However, we believe that Congress in reassessing the ultimate holding of the U.S. Supreme Court, should take note of certain facts:

(a) No publisher will be deprived of any anticipated income by the passage of S. 1384. The publishers have received revenue for at least the first 28 years of copyright and, in the vast majority of cases, for 56 years.

(b) If the 1976 Act did not extend the life of expiring copyrights for 19 years, these songs would have fallen into the public domain for use, without compensation, by one and all.

(e) The original publisher of a song is unlikely to be its publisher 56 years later. 5 or 6 conglomerate publishing houses today control or administer the vast majority of pre and post 1976 major hits. Mills Music is a good example of what has happened to this industry. Within the last 25 years, Mills Music and its catalogue have been acquired, by a company called Utilities and Industries; then by a publicly traded trust, and then in rapid succession by Esquire Magazine, Gulf and Western, and most recently by Columbia Pictures, which is now a subsidiary of Coca-Cola.

Many firms have bought and sold music empires - affording each seller an adequate return in its investment. However, the creator or his/her family alone must rely solely on the revenue from a handful of songs to support themselves and their heirs. They do not receive any extra compensation or payment when their song is sold as part of a catalog, no matter how important that song may be in that catalog. (To cite from the facts of the Mills/Snyder case - prior to the termination, and in particular from 1951 through 1980, 419 licenses were issued to record companies.) The gross royalties received by Mills in just ten years, 1970 to 1980, were $142,633.

16. We turn, albeit briefly, to the judicial history of the Snyder/Mills case.

A. U.S. District Court, 543 F. Supp. 844 (S.D.N.Y. 1982)

As stated, the 1976 Copyright Act entitles creators, or their statutory successors, to recapture all rights under copyright following the 56th year, if they send a timely notice of termination. Appended to this right was the "Exception":

"A derivative work prepared under authority of the grant before its termination may continue to be utilized under the terms of the grant after its termination, but this privilege does not extend to the preparation after the termination of other derivative works based upon the copyrighted work covered by the terminated grant."

Invoking some dubious legislative history, the District Court found that the terminology "under the terms of the grant" was not intended to exclude music publishers from sharing in royalties earned after termination from old sound recordings . The Court held that the record companies issued their recordings under licenses from Mills and Mills derived its authority under grant from the author; hence the record companies were acting under "authority of the grant". Judge Weinfeld found that because derivative works are based on an underlying work, utilization of the derivative work "involves" the copyright in the underlying work. Therefore, the exception necessarily limited the reversion of those rights in the underlying work that are incident to this utilization. Since the court found that the language of the statute made no distinction between grantees who make or own derivative works and those who license them, Judge Weinfeld found that the exception made continued utilization subject to the terms of the grant and all parties to that grant were entitled to enjoy the benefits from its utilization where the terms of the grants so provide.

The court reviewed the legislative history, which it found ambiguous at best. However, the Court found that it evidenced a Congressional intent that in specified situations the benefit of the extension "should be shared"; the instant exception in favor of derivative rights creators being an example of that intent. The court's emphasis on the word "share" led it to believe that the sharing was for the benefit of the terminated publishers as well as the actual utilizer of the derivative work (as distinct from a sharing only between the copyright proprietor and user). The court decided that such sharing permits the author to receive that portion of the royalties to which his contract originally entitled him before termination and, concluded the Court, there was no valid reason for excluding music publishers from sharing in the benefits of the extended term.

B. United States Court of Appeals, (720 F.2d 733, Second Circuit, 1983)

The U.S. Circuit Court, in its unanimous reversal of the Weinfeld decision, focused on Judge Weinfeld's statement: "Congress intended that in specified situations the benefits of the extension [should] be shared" as manifested by the exception itself, which limits the reversionary rights of the authors. The Court of Appeals held that in viewing the Congressional purpose, it found no reference to sharing by a middleman music publisher such as Mills. The Court held that in preparing derivative works the licensees (i.e. the record companies) were relying on the authority of the grant from Mills to them even though that authority was originally derived from Mills' contract with the Snyders. This is buttressed by the fact that in the instant case Mills had to rely on two grants, i.e. the original grant from Snyder, which gives it a 50% interest in the mechanical royalties, and the subsequent license to the record companies from which those royalties flow.

Since the only grant which defines the circumstances under which the derivative work is to be prepared and utilized is the mechanical license from Mills to the record company, it is the terms of <u>that</u> grant to which the exception applies and preserves the rights of the record companies; not the contract between Snyder and Mills.

The Court quickly found that Mills was not a utilizer of a derivative work within the meaning of this statute. There was nothing in the statutory language which gave Mills, as a middleman, any connection with the underlying copyright. Because Mills was neither a utilizer nor a copyright owner, it was not entitled to share in any royalties.

The Court found that nothing in the legislative history appeared to indicate that Congress had addressed a tripartite situation of this nature. Since reasonable minds could disagree about the intent of the language, the Court found that in the Congressional scheme underlying the Act, it was the author who was its prime beneficiary and therefore any doubt about the intended beneficiary should be resolved in favor of the author.

However one seeks to parse the language of the section, one is forced to conclude that the language contemplates a single grant - between creator and the terminated party; and that it does not focus on the tripartite situation under discussion. If the statutory language had been clear, not only would there have been no need for litigation, but there would not have been a majority of judges who ultimately agreed with our understanding of Congress' intent (N.B. Of the 13 judges who heard the case, from the District to the Supreme Court, 7 supported the creators' understanding of the Congressional intent and 6 were opposed).

Faced with this lack of clarity in the statute, the U.S. Court of Appeals focused on what I believe is the balancing, or what Judge Weinfeld calls the "sharing", which is reflected in the Act. It is a sharing or balancing of equities between the owner of the copyright and those who would properly exploit it in the market place:

> "In contrast to the situation where an assignee or licensee has done nothing more than print, publicize and distribute a copyrighted story or novel, a person who with the consent of the author has created an opera or a motion picture film will often have made contributions literary, musical and economic, as great as or greater than the original author."

Citing the need to protect those who invest large sums of money in creating derivative works (i.e. a motion picture producer who has contracted with a book publisher; a record company which has contracted with a music publisher) the Court of Appeals found that both should be permitted to continue utilizing their own derivative creations, and that the 1976 Act reflected that intent.

In its conclusion, the Court of Appeals correctly found that Congress in effect reversed Fred Fischer Music Co. vs. M. Witmark & Sons, 318 US 643 (1943) which held that a copyright proprietor could divest him or herself of renewal rights as long as he or she survived into the renewal term. In enacting the reversionary provisions of §304(c), Congress returned the copyright to the author, notwithstanding any prior grant made by the author. By negating any prior grant made by the Author, the Court felt that Congress had evidenced a clear intent to give paramount protection to authors and their heirs, to the exclusion of their prior grantees. At the sme time, it protected those who invested substantial time, effort and money in the preparation of "derivative works" and who are recognized as such by the "Exception" engrafted into the 1976 law.

C. We come now to the 5-4 decision of the U.S. Supreme Court (83 L. Ed. 2d 556 (1985)) which reversed the holding of the Court of Appeals. As we have stated, the facts in the case were agreed to by the parties. However, while one may search the Supreme Court's decision for broad policy implications or an exhaustive analysis of statutory language, we believe that the crux of its decision rests on the following language:

> "If ... the Exception limits the relevant 'terms of the grant' to those appearing in the individual license [i.e. between the record company and the music publisher] there would be neither <u>a contractual nor a statutory basis for paying any part of the derivative works royalties to the Snyders.</u>" (83 L. Ed. 2d at 569)

The protection given derivative rights holders by the Exception permits them to continue to pay royalties at the rate specified in the original mechanical license. That payment was established by the original music publisher as an incident to its ownership of the copyright. Failing such payment the record company would be an infringer of a copyright. Thus the statement of the United States Supreme Court is on its face incorrect. As stated by the Court of Appeals, the record companies have an obligation to pay royalties to the copyright proprietor after termination, i.e. the author. Admittedly the language of the mechanical license requires payment to Mills (i.e. the original publisher) but that obligation arose <u>because the publisher owned or controlled the copyright during the initial 56 years.</u> Once the author or his statutory successors terminated their original publisher, they succeeded to the rights and benefits under the licenses issued by the now terminated publisher. As cited in the Snyder brief to the U.S. Supreme Court, this is no different than the obligation of a tenant to pay rent to a new landlord where the old landlord sells his building. The tenant cannot argue that he will continue to pay the old landlord. He is bound to pay the new landlord as a successor in interest to his predecessor. The Court, ignoring this, merely stated that since the mechanical licenses conferred no rights or privileges on the Snyders, they gained nothing under those licenses. Since the licenses required payment to Mills - Mills must continue to receive those payments notwithstanding the fact that it is no longer a utilizer or a copyright proprietor. The Court stated "The statutory transfer of ownership of the copyrights cannot fairly be regarded as a statutory assignment of contractual rights."

In contrast, the dissenters, Justices White, Brennan, Marshall and Blackmun, focused upon the protection accorded the utilizer of the derivative work. They pointed out that the statute, while protecting the royalty rate that prevailed before the author's termination, did not identify the recipient of the royalty - that being a matter of total indifference to the record company. That the Mills/Snyder contract provided for a 50/50 payment was entirely irrelevant to protecting the utilizer of the derivative work.

The dissent stated that the entire thrust of the derivative rights exception was to overrule th long held opinion that where a renewal copyright reverted to an author, the derivative rights owner had to stop exploiting the original work. In this context the middleman - who is neither a copyright proprietor or creator - plays no role.

It is appropriate to quote from Justice White's dissenting opinion:

"The right to terminate defined in §304(c) encompasses not only termination of the grant of copyright itself, but also termination of the grant of 'any right under' that copyright. Surely this termination right extends to recapturing the right previously given to the grantee, in this case Mills, to share in royalties paid by licensees.

"The utilizers' sole interest is in maintaining the royalty rate that prevailed before the author's termination of the grant; the identity of the party who receives that royalty is a matter of indifference to them. In this case, the utilizers, Mills' licensees, were not parties to the agreement between Mills and the Snyders. They were contractually obligated to pay royalties to Mills, but were not involved in any division of royalties beyond that point. It is strange, to say the least, to hold, as the Court does today, that the terms of utilization by the licensee include the agreement between Mills and Snyder to divide royalties, an agreement that is entirely irrelevant to protecting utilization of the derivative work.

The majority claims that it is essential to read the Exception as preserving Mills' rights because the terms under which the derivative works are utilized identify Mills, or Fox, as Mills' agent, as the recipient of the royalties. It is surely true that the licenses say this, but that is a surprisingly weak reed on which to rest a judgment of this Court. It can mean only that, if the utilizer of the derivative work wishes to continue to pay royalties to Fox, he may do so.

Fox, after collecting the royalties and deducting its fee, will be obligated to forward the royalties to the rightful owners of the copyright, the Snyders."

Turning to the legislative history the dissent stated:

"The legislative history of the Exception is scanty, and it contains no express consideration of the multiple-grant situation that confronts us in this case....

"The majority places great emphasis on indications that Congress was aware of multi-party arrangements in the movie and music-publishing industries, positing from this awareness an intention to extend the benefits of the Exception to middlemen such as Mills. But the majority cites not one word to indicate that Congress did in fact contemplate such a result when it enacted the Exception. On the contrary, when the Exception was being drafted by the Copyright Office, the hypotheticals offered to illustrate its operation were cast in terms of the motion picture industry and assumed that the creator of the underlying work, a story or novel, would deal directly with the creator of the derivative work, a film.

"That middlemen such as music publishers were to be excluded from the benefits conferred by the Exception is strongly supported by statements to that effect by music publishers themselves, made in the discussions that took place before the Copyright Office. When a version of the Exception first appeared in the 1964 preliminary draft bill, representatives of the music publishing industry protested. A representative of the Music Publishers Association of the United States stated that under the proposed exception, 'the royalties resulting from the license presumably rever[t] entirely to the author.' A spokesman for the Music Publishers Protective Association construed the exception as being 'for the benefit of everyone acquiring rights under a copyright other than the publisher.'

* * *

"As the majority acknowledges, the principal purpose of the extension of the term of copyright and the concomitant termination provisions - to which the derivative works clause forms an exception - was to benefit authors. Under the 1909 Copyright Act, copyright subsisted in two twenty-eight-year terms, with renewal available to the author at the end of the first term. This right of renewal was intended to allow an author who had underestimated the value of his creation at the outset to reap some of the rewards of its eventual success. That purpose, however, was substantially thwarted by this Court's decision in Fred Fisher Music Co. v. M. Witmark & Sons, 318 U.S. 643 (1943). As a result of that decision, an author might assign, not only the initial term of the copyright in his work, but also the renewal term. Thus, assignees were able to demand the assignment of both terms at the time when the value of the copyrighted work was most uncertain.

"The termination provisions of the 1976 Act were designed to correct this situation. They guarantee to an author or his heirs the right to terminate a grant and any right under it 'notwithstanding any agreement to the contrary.'

The House Report accompanying the Act explained that '[a] provision of this sort is needed because of the unequal bargaining position of authors, resulting in part from the impossibility of determining a work's value until it has been exploited.' The termination provisions, therefore, clearly favor authors' interests over those of grantees such as music publishers.

* * *

"By going further than necessary to effect the goal of promoting access to the arts, the majority frustrates the congressional purpose of compensating authors who, when their works were in their infancy, struck unremunerative bargains. That such frustration will result is clearest in the situation, not uncommon in the music industry, where an author has assigned his rights for a one-time, lump-sum payment. Under the majority's interpretation of the exception, the publisher-middleman would be free to continue to collect all royalties accruing during the extended nineteen-year copyright term, and the author would receive nothing. While my interpretation of the Exception results in the author's receiving more than he would have received under the terminated grant, such a result is the very objective of the termination provisions.

"To allow authors to recover the full amount of derivative-works royalties under the Exception is not to slight the role of middlemen such as music publishers in promoting public access to the arts. Achieving that fundamental objective of the copyright laws requires providing incentives both to the creation of works of art and to their dissemination. But the need to provide incentives is inapposite to the circumstances of this case, because the rights at issue are attached to a term of copyright that extends beyond what was contemplated by the parties at the time of the initial grant. In 1940, when Ted Snyder and Mills entered into their royalty-division agreement, neither party could have acted in reliance on the royalties to be derived from the additional nineteen-year term created by the 1976 Act. In this situation, the author and the grantee have each already reaped the benefit of their bargain, and the only question is which one should receive the windfall conferred by Congress. The considerations that should govern the allocation of a windfall are not those of providing incentives but those of providing compensation. And the legislative history of the renewal and termination provisions indicates a congressional purpose to compensate authors, not their grantees. In attempting to claim for itself the benefits of the derivative works exception, Mills bears the burden of proof. In my view, it has fallen far short of carrying that burden."

The gravamen of our complaint is that the Supreme Court majority made the language of the Harry Fox license the focal point of its decision, but it misunderstood that language.

The fact is that the language has never been construed in the music industry as the Supreme Court construed it. On the contrary, whenever copyright to a musical composition has changed hands, voluntarily or involuntarily, on notification of the change Fox has paid royalties to the new copyright owner or his designee. The language in the Fox license mentioned above has only governed the frequency of payment and the basis of calculating royalties.

The clearest illustration is the common situation where copyright ownership has changed at the end of the first term of copyright. If an author has granted to a publisher rights for only the first 28-year term of copyright, after the first term the renewal copyright reverts to the author or his statutory heirs (as defined by the Copyright Act), and they may grant the renewal copyright to a different publisher. Even though an author may have granted both initial and renewal term rights to a publisher, if the author dies before the end of the first term of copyright, his statutory heirs may renew the copyright and also assign the renewal to a new publisher. In either case, the consistent practice of Fox has been to pay all royalties earned after the renewal to the new publisher. Fox does not issue a new license or change the existing license; it requires no documentation beyond confirmation that the change in copyright ownership has occurred. All music publishers accept and participate in this practice.

In determining the payee of royalties, Fox has followed the provisions of the statutory compulsory license, whose terms are incorporated in the Fox license. The statutory license requires royalties earned upon "phonorecords made and distributed" to be paid to the owner of the music copyright at the time of distribution (17 U.S.C. §115(c); 1909 Act §1(e)).

When the language of the Fox license is understood as it has consistently been applied, the major premise of the Court's decision disappears. If it is accepted that. as we contend, the "grants" preserved by the Exception are the Fox licenses, there is both "a contractual [and] a statutory basis for paying [all] of the derivative works royalties to the Snyders" (83 L. Ed. 2d at 568). That basis is the compulsory license provision of the Copyright Act, as incorporated into the Fox licenses.

We belive that five Supreme Court justices have thwarted the will and intent of Congress; and on behalf of all creators we seek redress. We are pleased that two former Registers of Copyright and the present Register support our position.

We only ask this Committee and the Senate to return to us what they originally intended: unencumbered ownership of our reverted copyrights during the 19 years extended term and for the balance of the life of new copyrights after their 35th year subject always to the required sending of the Notice of Termination, and the rights of the record companies and like users to continue to exploit our creations.

Senator SPECTER. Thank you, Mr. Weiss.

Speaking for myself, I do not know that the issue of congressional intent is a very dominant one in this hearing, because the Court has already said what the congressional intent is, and I think that what we are going to be looking for on this legislation is the statement of public policy.

So let me begin with you, Ms. Ringer, where you articulate really on policy grounds the position that there was not a bargaining for the benefit, there was not an expectation of the benefit, and there was not anything done to deserve the benefit.

It might help the discussion if you would amplify those conclusions as you see the underlying policy considerations with the specific case. Take an illustrative case and run through the factual context under the Supreme Court's decision of the case, contrasted with the way you think it ought to be for the policy reasons you have stated.

Ms. RINGER. The *Mills* case is probably as good an example as any. Let me say at the outset that I do not in any way take issue with what music publishers do. I think that they do a lot of good, and it is a worthy industry, and all that. The fact is that this was a 1923 copyright, and in 1923 the Mills Co. expected to get at most 56 years. They bargained for that; they got it. And here we are, way up in the 1980's, and as Mr. Weiss has very effectively pointed out, the company has passed through many hands. None of those people that were bargaining then had anything to do with the use of the work in 1985, or in 1980, or whenever the facts arose in the case.

The simple fact is that any business—not just businesses involving copyrights—when it makes an investment, plans how it will get the return back on that investment. And we, as I indicated in my statement, looked very deeply into some kind of meaningful number of years that would ensure that the publisher would get a fair shake. The publishers themselves agreed to 35 years in 1964, when this provision was drafted.

Senator SPECTER. Mr. Kay, what is your response?

Mr. KAY. Well, first I would like to say that we have acquired several music publishing companies, and we pick up the gauntlet and run with it to promote and continue to get as much value as possible out of the songs. What we do, I think, benefits songwriters and, of course, benefits ourselves.

We definitely are partners in the situation, continue to be——

Senator SPECTER. How about Ms. Ringer's comment about 1923 and 1956 bring you to 1979, but not beyond?

Mr. KAY. In some of the catalogs that we have acquired, there are agreements existing that date back well into the first 28 years of copyrights that do deal with the issue of extension of the copyrights. These contracts were negotiated at that particular time by knowledgeable people on both sides. I believe that publishers and writers did anticipate an extension in copyright terms, because U.S. law was so antiquated and has not come in line with the laws throughout the rest of the world—50 years past the death of the writer. They certainly did anticipate that there were going to be extensions in many cases.

So I believe that——

Senator SPECTER. Well, absent an express extension, then what?

Mr. KAY. Well, again, in my own experience, for the length of time that I have been in this particular business, extension has been anticipated. We have acquired catalogs based on the assumption that there would be an extension of copyright and that we would participate in that extension. All we are really asking to participate in now are those derivative works that existed prior to the end of the 56-year term that we helped to promote, and we continue to help to promote.

We will, of course, continue to promote those works into the 19-year terms, and it gets more and more important for music publishers to be involved in this area of promotion of existing copyrights or existing licensed works, because again, one of our major functions is to keep our catalogs alive and the writers' catalogs alive, as well.

Senator SPECTER. Mr. Karp, Mr. Kay presses hard the issue of partnership, contribution, merit on the part of his side of it. What do you think? You had said earlier that you thought that was really not germane, not relevant.

Mr. KARP. I do not think it is relevant, first because the termination clause unquestionably cuts off the rights of publishers who invest large, vast sums of money in creating and distributing a work, when it is not a derivative work, but "the" work. They are cut off after the 56 years of copyright.

No one bargained a nickel more because they put the phrase in the contract or any extensions thereof.

I should point out that a music publisher, book publisher, or any other publisher does not have to worry about termination——

Senator SPECTER. Have you ever tried to strike the clause "or extensions thereof" and found no argument?

Mr. KARP. No; no one could do it.

Senator SPECTER. No one could do it? Why not?

Mr. KARP. Because they did not have the power to do it.

Senator SPECTER. Did you ever try?

Mr. KARP. Yes, I am sure people have tried.

Senator SPECTER. You have tried?

Mr. KARP. Yes. I tried to take out the clause "and any renewal thereof," and a book publisher told me, "I have never signed a contract like that in my life." But my point——

Senator SPECTER. And you did not storm out of the room?

Mr. KARP. One of the things I try to point out in my statement is that there are many clauses that authors in their right minds will not take, if they have any choice, but they do not have a choice.

Let me make this point, though, Senator Specter. Any music publisher or book publisher can, if it wants to do what other employers do, avoid termination by taking on the economic burden of hiring a writer and paying the writer a salary whether or not the work is successful.

But publishers of books and music do not do that because the risk is far too great, and therefore it is the author who really makes the investment and takes the risk. And because the author does that, the author as an independent contractor becomes the copyright owner.

This whole debate would be ended if publishers said:

I want this work forever; therefore, I am agreeing to hire you, and I am going to pay you a salary, and whether this book you spent 3 years writing is a hit or a flop, you can make $100,000 from it.

You will not find a publisher willing to do that, nor a music publisher.

Where they do hire writers as employees, they do not have a termination clause problem.

Mr. KAY. May I respond, Senator?

Senator SPECTER. Yes, please do.

Mr. KAY. We pay over $200,000 a year in advances and salaries o writers we have under contract to support them in their activities. We have writers in whom I believe in that we've been in the hole to the tune of about $50,000 to $100,000; we keep them on staff.

I have a writer that I think is wonderful who has been with me for 7 years but who has yet to earn his keep—and I will continue to believe in him. I have writers who have been fortunate enough to become millionaires as a result of our combined efforts, and I have writers who are, as I said, in the hole.

I think that we do support a creative team, and the moneys that are generated by copyrights, we plow back into helping new songwriters.

Senator SPECTER. Mr. Weiss, what is the issue of hardship? We talk about a balancing of the equities. How has the *Mills Music* decision impacted in an adverse way, if at all, on writers?

Mr. WEISS. Well, let me start by citing my experience as a songwriter when I began. There is no such thing as equal bargaining power. To begin with, a song is such an ephemeral thing, it is such a blind item, I could walk in with "The Star-Spangled Banner," and nobody is going to know it until it is out on the market and it becomes a hit, and people say, "Oh, I love that national anthem." But before that, nobody knows.

And when I walk in with that song, I cannot bargain with the publisher and say, "Well, I have got 'The Star-Spangled Banner' and therefore I want such-and-such a deal and such-and-such an advance," or a bonus. There is no such kind of bargaining power. Plus the fact that at the end of the period of the 56 years, these songs—were it not for the new copyright law—these songs would have gone into public domain. And it was because Congress wanted the songwriters to finally reach that point of bargaining power—after 56 years, you would know whether or not you had a national anthem on your hands—they decided, well, it is time we gave this power to the writer at the end of that period.

And we have—forgive me if I use the term—widows, children, who are supposedly in line to receive this money back. If you want to call it a windfall, be my guest. But now, with this 5-to-4 decision, it is kind of an irony. It is like Swiss cheese. We own something, but we do not own it. It has been given back to us by the Congress, but there are so many holes in it that we are not going to own it, because these publishers will continue to claim royalties on those copyrights. Well, it is a current hardship, but it is going to affect every song, not only those renewal for those 19 years, but every song that is and ever will be written by every songwriter. If the publisher who has it in the first period of time continues to receive royalties when the contract expires, then there is no equal bargaining position whatsoever for the songwriter.

Senator SPECTER. All right. Thank you all very much.

Does anybody else have anything they would like to say before we conclude?

Mr. KARP. I would just like to add one point. I turn back to book publishing, because we should not lose sight of the fact that this issue is not limited to music and composers, nor is the performance of one publisher who may be exemplary——

Senator SPECTER. You want to turn back to book publishers. Senator Goldwater may have a question for you, Mr. Karp, for the record.

Mr. KARP. I would be glad to answer it, as long as it is on book publishing and not the defense budget.

The point I was going to make is this: As Mr. Weiss said, and he was absolutely right, there is no equality of bargaining, and as a result, authors grant rights in perpetuity to publishers—such as the right to license paperback editions of the author's book. The author gives that for the life of the copyright. When the publisher has the right, with its superior bargaining power, it never grants such a license to a paperback book publisher; it only grants a license for 5 or 7 years.

The reason is very simple. Harper & Row has a lot more power, Random House has a lot more power, than almost any author that deals with them. They can get much more from the author than they are willing to give to some other user. And this is true all across-the-board, and this is what termination clauses were attempting to remedy.

Mr. OBERMAN. Senator, may I add one comment?

Senator SPECTER. Yes.

STATEMENT OF MICHAEL S. OBERMAN

Mr. OBERMAN. In the course of his statement, Mr. Weiss indicated that the realities of the music industry were not put before the courts in the course of the litigation. That was because the courts were not called upon to make a policy judgment. That had been the task of Congress. The courts were called upon, and did attempt, to determine what had been congressional intent. Our briefs in the *Mills Music* case set forth at length an explanation of what that intent was. We have submitted a set of the briefs. And I do submit that each time one comes back to Judge Weinfeld's opinion in the district court, it becomes clear that he attempted, and I think successfully so, to show what had been intended by Congress—a balancing and accommodation of interests as between creators, publishers, and other users.

Senator SPECTER. Mr. Oberman, you are representing that the Supreme Court did not consider the underlying merits of the situation, but only congressional intent?

Mr. OBERMAN. Essentially so. The case was decided on summary judgment. There was no factual record developed as to what the various roles were in the industry. Instead, the parties marshaled from the very lengthy legislative history what had been presented

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to Congress in an effort to help the Court determine what Congress had understood, considered and intended by the legislation.

[Submissions of Mr. Oberman, subsequently submitt[illegible] [illegible] the record, follow:]

[illegible]

FEDERAL EXPRESS

[illegible]

Ms. Tracy McGee
Office of Senator Arlen Specter
331 Hart Senate Office Building
Washington, D.C. 20510

Re: S. 1384

Dear Ms. McGee:

As promised, I am enclosing two copies of [illegible] petition for rehearing. This was submitted following the decision in Mills Music. I am forwarding it to complete the collection of briefs in the case. No reply to this petition was submitted. (We have not forwarded respondents' opposition to the petition for certiorari, or our reply brief in support of that petition; these were superceded by the briefs. However, if these documents are desired, I would be happy to furnish them.)

With respect to the Senator's introduction of me, the following modification of the language at page 15, lines 11-14 would be accurate: "Mr. Ray is going to be accompanied by Michael Sherman, from the firm of Kramer, Levin, Nessen, Kamin & Frankel in New York, which successfully presented the Mills Music case."

As I mentioned to you, it is likely that we will file a supplementary statement or two; if we do so, you will have it within the next two weeks.

Sincerely,

Michael S. Sherman

MSS:jk
Enclosures

No. 83-1153

IN THE

Supreme Court of the United States

OCTOBER TERM, 1984

MILLS MUSIC, INC.,

Petitioner,

—against—

MARIE SNYDER and TED SNYDER, JR.,
d/b/a TED SNYDER MUSIC PUBLISHING CO.,

Respondents.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

RESPONDENTS' PETITION FOR REHEARING

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MILLS MUSIC, INC.

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Respondents.

On Writ of Certiorari to the United States
Court of Appeals for the Second Circuit

RESPONDENTS' PETITION FOR REHEARING

Respondents request that this Court grant rehearing and reconsider its decision rendered on January 8, 1985, or in the alternative remand the case to the District Court, because this Court's decision rests on an erroneous factual premise. This case was decided on cross-motions for summary judgment, on the assumption that there were no material factual issues. However, industry-wide construction of and practice concerning the licenses issued by the The Harry Fox Agency ("Fox") are contrary to this Court's construction of those licenses.

Respondents contended that the "terms of the grant" which are preserved by the Derivative Works Exception (17 U.S.C. §304(c)(6)(A)) are the licenses from Fox to the recording companies, and that on termination the Snyders stepped into Mills' shoes with respect to those licenses. The Court's principal reason for rejecting that contention was its finding that if the Fox "licenses are examined separately from that earlier grant [from Snyder to Mills], they merely require that royalty payments be made to Mills or to Fox as the collection agent for Mills" (slip opin. p. 13). Based on that finding, the Court concluded:

> "If, as the Court of Appeals held, the Exception limits the relevant terms of the grant to those appearing in the individual [Fox] licenses, two rather glaring incongruities would result. * * * Second, and of greater importance, there would be neither a contractual nor a statutory basis for paying any part of the derivative works royalties to the Snyders. (Slip. opin. p. 13).
>
> "The licenses issued to the record companies are the source of their contractual obligation to pay royalties; viewed apart from the 1940 grant, those licenses confer no rights on the Snyders. * * * The Snyders' status as owner of the copyright gives them no right to collect royalties by virtue of the Exception from users of previous authorized derivative works.* * * The statutory transfer of ownership of the copyright cannot fairly be regarded as a statutory assignment of contractual rights. (Slip. opin. p. 14).
>
> * * *
>
> "The contractual obligation to pay royalties survives the termination and identifies the parties to whom the payment must be made. If the Exception is narrowly read to exclude Mills from its coverage, thus protecting only the class of "utilizers" as the Snyders wish, the crucial link between the record companies and the Snyders will be missing, and the record companies will have no contractual obligation to pay royalties to the Snyders." (Slip. opin. pp. 15-16; *see also* dissent p. 3).

The Court's finding appears to be based on the standard provision in Fox licenses which reads, with minor variations:

> "1. You shall pay royalties and account to us as Agent

for and on behalf of said Publisher(s) quarterly on the basis of records manufactured and sold;" (JA 26; *see also* JA 23, 81).

The fact is, however, that that language has never been construed in the music industry as this Court construed it. On the contrary, whenever copyright to a musical composition has changed hands, voluntarily or involuntarily, on notification of the change Fox has paid royalties to the new copyright owner or his designee. The language in the Fox license quoted above has only governed the frequency of payment and the basis of calculating royalties.

It has been the consistent practice within the music industry that payment of royalties under Fox licenses has always followed changes in ownership of the copyright in the musical composition, and has not been restricted to the publisher named in the license. This is true whether the change in ownership was voluntary or involuntary, by assignment or by operation of law. Thus the clause is understood to require payment of royalties to the copyright owner, whomever he may be, when the royalty is generated.

The clearest illustration is the common situation where copyright ownership has changed at the end of the first term of copyright. If an author has granted to a publisher rights for only the first 28-year term of copyright, after the first term the renewal copyright reverts to the author or his statutory heirs (as defined by the Copyright Act), and they may grant the renewal copyright to a different publisher. Even though an author may have granted both initial and renewal term rights to a publisher, if the author dies before the end of the first term of copyright, his statutory heirs may renew the copyright and also assign the renewal to a new publisher. In either case, the consistent practice of Fox has been to pay all royalties earned after the renewal to the new publisher. Fox does not issue a new license or change the existing license; it requires no documentation beyond confirmation that the change in copyright ownership has occurred. All music publishers accept and participate in this practice.

In determining the payee of royalties, Fox has followed the provisions of the statutory compulsory license, whose terms are incorporated in the Fox license. The statutory license requires royalties earned upon "phonorecords made and distributed" to be paid to the owner of the music copyright at the time of distribution (17 U.S.C. §115(c); 1909 Act §1(e)).

In short, although the Fox license form modifies the statutory, "self-executing" compulsory license in such respects as frequency and rate of payment of royalties, it does not modify the provisions of the statutory compulsory license as to the recipient of royalties.

To put it another way, the term in the Fox license that has governed the payee of royalties has been the language which incorporates the provisions of the statutory compulsory license (*e.g.*, JA 23, 26, 81); designation of Fox "as Agent for and on behalf of said Publisher(s)" has been treated by Fox and by music publishers as merely descriptive of Fox's role, and not as an exception to the statutory provision under which the right to mechanical royalties follows the music copyright. For this reason, as the respondents have contended, upon termination the Snyders stepped into Mills' shoes with respect to the receipt of royalties under the Fox licenses.

When the language of the Fox license is understood as it has consistently been applied, the major premise of the Court's decision disappears. If it is accepted that, as we contend, the "grants" preserved by the Exception are the Fox licenses, there is both "a contractual [and] a statutory basis for paying [all] of the derivative works royalties to the Snyders" (Slip opin., p. 13). That basis is the compulsory license provision of the Copyright Act, as incorporated into the Fox licenses.

The facts as to the practice of Fox and of the music industry are described in the annexed proposed affidavit of Lewis M. Bachman, Executive Director of The Songwriters Guild, based on his 25 years of experience in the music industry, as an accountant and as representative of both music publishers and songwriters. Mr. Bachman has reviewed and approved his proposed affidavit; and respondents offer to submit such affidavit, executed by Mr. Bachman, in this Court or upon remand. Moreover, we do not believe there can be any dispute as to the facts he describes, and we are confident that if inquiry as to those facts is made to Fox, they will be confirmed by Fox itself.

Fox's construction of its licenses supports respondents' position and is consistent not only with the terms of those licenses, but also with prior judicial construction of copyright licenses. In *April Productions, Inc.* v. *G. Schirmer, Inc.*, 308 N.Y. 366, 126 N.E. 2d 283 (1955), the New York Court of Appeals held that even though a publisher of a musical composition agreed to pay royalties without any time limit to the party from whom the publisher obtained the rights, its royalty obligation to that party ceased at the end of the first term of copyright, when ownership of the renewal copyright passed to the writers' statutory heirs. Thereafter, the publisher was required to pay only the owners of the renewal copyright or their assignees. The *April Productions* holding and its implications for the entire question of derivative rights were well understood by the drafters of the 1976 Copyright Act. *See* Ringer, "Renewal of Copyright," 86th Cong., 2d Sess., Copyright Law Revision, Studies prepared for the Subcom. on Patents, Trademarks and Copyr[illegible] of the Senate Judiciary Committee, Study No. 31 (Comm. Print 1961), 168.

The facts as to the meaning of the Fox license language were not discussed in the lower courts or in the briefs before this Court because they were not material under the approaches taken below. Neither the District Court nor the Court of Appeals rested its decision on the Fox licenses' designation of Mills as "publisher". And in this Court, Mills itself stated, "Mills does not rely or need to rely on its licenses to the record companies . . ." (Petr's Br., p. 20).

For the reason stated above, respondents respectfully request that this Court grant rehearing and reconsider its decision or in the alternative remand the case to the District Court.

February 1, 1985

Respectfully submitted,

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Of Counsel

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PROPOSED AFFIDAVIT

STATE OF NEW YORK
COUNTY OF NEW YORK ss.:

Lewis M. Bachman, being duly sworn, states:

1. I am Executive Director of The Songwriters Guild (formerly known as the American Guild of Authors and Composers and the Songwriters Protective Association). I make this affidavit in support of Respondents' Petition for Rehearing.

2. I have been engaged in the music industry for more than 25 years, successively as an accountant, as a representative of music publishers, and as a representative of songwriters. As a Certified Public Accountant and an employee of Kalish, Rubinroit and Co., C.P.A.s, I audited music publishers from 1959 through 1965. From 1966 through November of 1972 I was Assistant Controller and then Controller of The Aberbach Group of Music Publishing Companies, comprising approximately one hundred domestic music publishing companies. From December 1972 to the present I have been Executive Director of The Songwriters Guild ("the Guild"). In the latter position, I have represented not only songwriters, but also approximately one hundred publishing companies owned by members of the Guild, as part of the Guild's Catalog Administration Program.

3. Throughout my career I have dealt continuously with The Harry Fox Agency ("Fox"). I am quite familiar with its practices concerning the payment of mechanical royalties (*i.e.*, those derived from the manufacture and sale of phonograph records and tapes). I have also discussed those practices with others in the music industry upon innumerable occasions. My statements in this affidavit are based upon my knowledge of these practices, derived through my 25 years of professional experience.

4. I am familiar with the language in the standard Fox "mechanical" license form issued to record companies, which states, with slight variations:

"You shall pay royalties and account to us as Agent for and on behalf of said Publisher(s) quarterly on the basis of records manufactured and sold."

That language has never been understood by Fox, by music publishers, or by others in the music industry to determine the party to whom Fox pays mechanical royalties, when copyright to the musical composition changes hands. Instead, Fox has always determined the payees of such royalties on the basis of ownership of copyright in the music.

5. For as long as I have been engaged in the music industry, it has been the practice of Fox that, when it is notified that ownership of copyright in a musical composition which is the subject of a mechanical license has changed hands, the royalties earned after the change of ownership are paid to the new copyright owner or his designee. This is true regardless of the reason for the change in ownership. In particular, it is true regardless of whether that change takes place by assignment or by operation of law.

6. As an illustration, when copyright ownership changes at the end of the first term of copyright because the owners of the renewal copyright assign the renewal to a new publisher, the standard practice is for the new publisher to notify Fox of the change. Fox then contacts the old publisher to confirm that the change has taken place. Upon confirmation or other determination that the ownership of the copyright has changed hands, Fox then pays all mechanical royalties earned after the renewal to the new copyright owners, pursuant to the mechanical license entered into by the prior music publisher. It does not matter that the licenses under which those royalties were earned may have been issued long before the renewal and may name the old publisher; royalty payments after renewal are governed by ownership of the music copyright.

____

Lewis M. Bachman

Sworn to before me this

____ day of ____________, 1985

____

KRAMER, LEVIN, NESSEN, KAMIN & FRANKEL

December 11, 1985

Honorable Arlen Specter
United States Senate
Washington, D.C. 20510

Re: S. 1384

Dear Senator Specter:

I very much appreciated your courtesy in permitting me to join Dean Kay on the panel of November 20, 1985 and to participate in the discussion on S. 1384.

I write to elaborate on the subject I briefly addressed at the hearing -- the treatment of Congressional intent in the *Mills Music* opinions. I highlight below those portions of the opinions and briefs in that case which discuss Congress' intent, in enacting the Copyright Act of 1976, to accommodate a variety of interests. I then add a few observations about the reach of the Supreme Court's decision in *Mills Music* and about the bill. I respectfully request that this letter be made a part of the hearing record.

Congressional Intent

Witnesses who testified at the hearing in favor of the bill argued that the Supreme Court had misinterpreted the intent of Congress in enacting the derivative works exception and urged that passage of the bill was necessary in order to make certain that the intent of Congress will be carried out. In my view, this is a faulty starting point, for two reasons. First, the intent ascribed to Congress simply is not reflected in the legislative history; it is inaccurate to conclude that passage of the bill would advance a clear mandate of an earlier Congress. Second, in any event, Congress may at this juncture -- subject to the Constitutional limitations identified by the Register of Copyrights -- decide what the law should be, irrespective of what may have been intended for the Copyright Act at an earlier point. Recognizing that the subject of prior Congressional intent may be of little consequence in the present hearing, I nonetheless now turn to it, simply to respond to other submissions. For the policy issues to be considered, I refer to Mr. Kay's statement and testimony, which show why no change in the law is indicated.

The Supreme Court found, as had the District Court, that Congress had not intended to exclude music publishers from a continuing participation in mechanical royalties generated by pre-termination sound recordings prepared under license from them. Instead, both Courts concluded that a continued sharing of royalties results from an attempt by Congress to balance and accommodate the needs and interests of authors, publishers and other users. See Mills Music, Inc. v. Snyder, 105 S. Ct. 638, 650 n.41, 651-52 (1985); 543 F. Supp. 844, 857-63 (S.D.N.Y. 1982).

The District Court and Supreme Court majority painstakingly reviewed and weighed the extensive presentations made before Congress between 1965 and 1976 by music publishers and songwriters on their respective roles and their relationship. Those presentations, which informed the Congress that enacted the derivative works exception, are entirely consistent with the testimony recently given by Mr. Kay. Both music publishers and songwriters affirmed the important function played by music publishers in supporting creative talent and in promoting musical compositions. Some of these presentations were marshalled in the main brief for petitioner (at pages 32-35). The Supreme Court specifically referred to portions of this testimony in reaching its decision. 105 S. Ct. at 649 n.37. These presentations lent powerful support to the conclusion that Congress should not be deemed to have intended the exclusion of music publishers from the ambit of the exception. See also 541 F. Supp. at 862.*

In addition to reviewing the specific presentations on the partnership between music publishers and composers, and in an effort to determine how Congress intended the derivative works exception to apply to these groups, the Courts also considered a more general question: who was to be benefited by the derivative works exception and, even more generally, by the Copyright Act? Those who criticize the Mills Music decision say that the Supreme Court missed the basic purpose of the 1976 Act, which they say was to favor authors. However, the legislative history of the Act -- as the District Court and majority opinions demonstrate -- reveals no such singular purpose. On the contrary, the legislative history confirms a Congressional recognition that the process of creating and disseminating works involves a variety of participants and a Congressional intent to create suitable incentives for all participants in this process. See 105 S. Ct. at 650; Brief for Petitioner at 17-19. As Judge Weinfeld succinctly stated:

> [The songwriter's heirs] press that Congress extended the renewal term of copyright for 19 additional years for the sole benefit of authors, and its recapture under the termination provisions was intended to confer upon authors the exclusive benefit of the extension.
>
> It may readily be acknowledged that the extension period is intended to benefit the author, "the fundamental beneficiary of copyright under the Constitution." Protection of authors and their dependents is one of several

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* In reaching the conclusion that music publishers are not excluded from the scope of the derivative works exception, the Courts did not adjudicate the respective roles of songwriters and music publishers in the music industry. As Justice Stevens noted, "[a]s a matter of fact -- or of judicial notice -- we are in no position to evaluate the function that each music publisher actually performs in the marketing of each copyrighted song." 105 S. Ct. at 651. This was a case of statutory construction, aided by findings on Congressional intent. The controversy was submitted to the District Court on cross-motions for summary judgment predicated on stipulated facts; the parties agreed not to litigate how the industry actually worked. See Joint Appendix at 83. For this reason, there was no factual basis in the record on which to dismiss music publishers as "mere middlemen," as did the opinion of the Court of Appeals and the dissent in the Supreme Court.

> reasons specifically identified in the committee reports accompanying the 1976 Act for lengthening the duration of copyright. The arguments for granting authors a right of termination are characterized as being especially persuasive as to the extended term, since it represents a completely new property right. However, this does not mean that authors were intended to be the exclusive beneficiaries of the extension. On the contrary, the statute and its legislative history clearly evidence that, where the author has assigned his copyright, Congress intended that in specified situations the benefits of the extension be shared. This intent is manifested by the very [derivative works] Exception, an express limitation upon the reversion of rights to authors upon termination. The [heirs'] claim that the termination provisions confer the entire benefit of the extension upon authors alone simply ignores the Exception. It is as much a part of the statute as is the right of reversion. They are inseparable.
>
> The [songwriter's heirs] also ignore express statements in the legislative history indicating that the termination provisions represent an accommodation of the various interests involved. These statements show that while the provisions are intended to benefit authors and their families by giving them an opportunity to share in the benefits of the extended term, other interests were also recognized. The statements form a consistent theme throughout the history.

541 F. Supp. at 857-58 (footnotes omitted). See also id. at 85[illegible]-61.

I respectfully suggest that every single argument that has been made in this hearing about legislative intent was addressed by Judge Weinfeld in his exhaustive review of the legislative history.*

Two of the witnesses who appeared at the hearing, Barbara Ringer and Irwin Karp, drew on their own involvement in the pre-legislative history of the 1976 Act -- that is, the preliminary drafting efforts that preceded introduction of [illegible] in Congress -- to support their positions on Congressional in[illegible]nt. They state that music publishers were not to benefit from the

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* It has been noted that 7 of the 11 judges who considered the Mills Music case ruled against Mills. Such judicial nose-counting is of little value. The law of the land is as the Supreme Court majority finds it. On the subject of Congressional intent, the District Court opinion is, by far, the most exhaustive analysis. The Court of Appeals opinion, in sharp contrast, makes little reference to what was actually said by or to members of Congress.

exception. Since the hearing, however, another participant in that process, Richard Colby, has submitted a statement which reaches the opposite conclusion. It would serve little purpose at this stage to survey those who worked with, or within, the Copyright Office as a proposed bill was prepared for submission to Congress. To the extent the intent of Congress prior to enactment of the 1976 Act is viewed as significant in the consideration of the present bill, the legislative history should control, rather than the varied personal recollections of what occurred two decades ago. See also 543 F. Supp. at 863-67 (finding no meaningful support in the pre-legislative history for the songwriter's heirs' position).

This subject of Congressional intent should not be concluded without reference to the language of the derivative works exception. The Supreme Court majority, as well as the District Court, attempted to read and construe the words of the exception as written, without torturing them. 105 S. Ct. at 646-47; 543 F. Supp. 853-55. The Court of Appeals and the Supreme Court dissenting opinions embraced policy arguments, with far less consideration of the actual words enacted. In the end, perhaps the clearest indication of Congressional intent comes not from the legislative history but from the legislative directive -- the statute itself. And the plain words of the statute enacted in 1976 -- in sharp contrast to the language now offered to amend the law -- support the continued sharing of royalties.

The Reach of Mills Music

Some of the witnesses who testified in favor of the bill argued that, unless Mills Music is overturned, the termination right will have been rendered ineffective. The argument fails to measure the true reach of either Mills Music or of the derivative works exception.

The 1976 Act gives an author and his heirs a valuable right upon termination: to regain control over the copyright for all future exploitation. But this reversionary right, by its specific terms, is made subject to an important limitation -- the derivative works exception. With respect to pre-termination derivative works made by another, an author's compensation is not to be enhanced upon exercise of the termination right; the *status quo* is preserved, even if it reflects an improvident grant by the author. Thus, it is undisputed that if an author conveyed to a motion picture producer the screen rights in a novel for a one-time lump sum payment, the author and his heirs will receive nothing more upon termination -- no matter how successful or long-lived the motion picture that was made from the novel. This is how the exception was intended to work. *See* 543 F. Supp. at 861-62.

It is important to emphasize that *Mills Music* does not bear on the primary right encompassed by termination: the recapture of a copyright for purposes of future exploitations. The author who long ago conveyed motion picture rights in his novel for a lump sum will still regain the sequel or remake rights, even though he can never renegotiate his deal with respect to a pre-termination motion picture made from his novel. A songwriter who all along has received 50 percent of the royalties generated on sound recordings licensed by a music publisher will, after termination, have complete control over new sound recordings. Additionally, the songwriter gains control over new print uses of the song. Thus, it is inaccurate to suggest that, unless *Mills Music* is reversed, the termination right is of no value. The legislative history and the language of the exception show that the derivative works exception was a *limitation* on the right of termination, and that the benefits to an author upon termination come from new uses of his work, not from pre-termination derivative works.

Had Mills Music -- as grantee of the copyright in "Who's Sorry Now" from Ted Snyder -- itself made sound recordings, under the derivative works exception Snyder or his heirs would not have the right to renegotiate the terms of the deal with Mills Music. By the same token, where the initial grantee has sublicensed the right to make a derivative work, the author has no right to increased income from utilization of the pre-termination derivative work beyond the terms of his grant under which that derivative work was made. There is no basis in the legislative history to suggest that Congress intended any other result. 105 S. Ct. at 645, 649-50. On the contrary, the standard practice of the music industry -- illustrated by Mills Music -- does not present the type of "unremunerative" transfer the termination right was intended to remedy. See Brief for Petitioner at 44-45. At all times, both before and after termination, the author or his heirs) receives 50% of the royalties derived from the utilization of sound recordings licensed by the music publisher.*

Perhaps recognizing that the 50-50 arrangement of the music industry does not provide a compelling case for remedial legislation, several of the witnesses who testified in favor of the bill referred to the effect of Mills Music outside of the music industry. It was suggested certain authors would -- in other situations -- be severely prejudiced. But these suggestions reflect overstatements.

Again, to the extent an author makes a grant to the utilizer of a derivative work (such as the motion picture producer), the termination right does not undo the author's grant. Mills Music has no bearing on that situation; the proposed bill would not help the author. Mills Music only applies when an author conveys a copyright or rights thereof to a grantee who in turn sublicenses the right to create and utilize a derivative work. Such licensing occurs routinely in the music industry, where routinely the author's share of the royalties is 50%. No specific examples have been, as yet, offered which reveal an author being disadvantaged by an unremunerative grant in a situa-

* Some suggestion has been made that 50-50 was not the standard practice. The arrangement in Mills Music, portrayed in the stipulated facts as standard, provided for the even division of royalties between the publisher and each of the three songwriters. 543 F. Supp. at 847. This standard practice has also been presented to Congress in the past. See Brief for Petitioner at 30-31.

In his statement, George David Weiss states that the gross royalties received by Mills Music from "Who's Sorry Now" for the years 1970-80 were $142,633; in fact, Mills conveyed 50% of these royalties to the songwriters. See Joint Appendix at 35.

tion that is covered by Mills Music and would be covered by the bill.

To legislate in order to remedy unspecified evils outside the music industry seems hardly warranted, especially where the bill could create new uncertainties. As construed by Mills Music, the 1976 Act preserves the status quo with respect to the utilization of pre-termination derivative works; grants made by authors and sublicenses made thereunder are unaffected by termination. On the other hand, the bill, if enacted, would supersede portions of contractual relationships, leading to perhaps illogical results. See 105 S. Ct. at 647.*

Those urging the bill's passage should be expected to present a more detailed depiction of actual multiple grant arrangements outside the music industry that are implicated by Mills Music and that would -- and should, for policy reasons -- be affected by the bill. If the status quo is to be undone, the consequences should be understood in advance. Proposed legislation that would transfer "all royalties" to an author could wreak havoc where multiple arrangements were made for allocations of royalties, particularly if the new law required a differentiation among the roles played by participants in the creation of a derivative work. The words "middleman" and "entrepreneur" have been projected in the Mills Music litigation and in this hearing in an effort to define who, from the author's point of view, should be excluded from a sharing in royalties. But if actual arrangements in the entertainment industry are examined, it is most likely that the proposal to depart from the status quo -- in

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* The decision of the Supreme Court was based, in part, upon the interrelationship between the contractual arrangements entered by Snyder with Mills and those of Mills with record companies (the latter being a so-called "Harry Fox license"). The Court found that continued payment of any royalties to Snyder's heirs depended on the continuation of both agreements. 105 S. Ct. at 647-48. Mr. Weiss contends that the Supreme Court misconstrued how the Harry Fox license should be read to conform to industry practices; he argues that, even if the Snyder-Mills grant is extinguished, the record companies' payments would flow to the Snyders. This precise argument now made by Mr. Weiss formed the sole basis of a petition for rehearing submitted to the Supreme Court; the petition was denied without dissent.

order to deny royalties to "middlemen" and "entrepreneurs" -- would raise a host of issues and potential litigations. See Brief for Petitioner at 31-32 (discussing implications of decision to motion picture and book publishing industries).

Conclusion

In sum, I respectfully submit that the legislative history, properly weighed and evaluated, does not reveal either a single-minded intention to favor authors to the detriment of all other participants in the creative process or to deny music publishers the benefit of the derivative works exception. For this reason, music publishers do not bear any burden of showing that the proposal to reverse Mills Music is unfair or unwise. Instead, the most appropriate question is whether, in light of the lengthy and deliberative process that led to that package of accommodations known as the Copyright Act of 1976, Congress should now rewrite one small portion of the law and disadvantage music publishers, in order to redress inequities that remain unproven and without consideration of the potential consequences outside the music industry that remain undefined.

Respectfully yours,

Michael S. Oberman

Mr. DEUTSCH. Senator, I am not going to extend this hearing, other than to say we have covered this fully in our presentation to the committee. It is not the congressional intent, but facts of the music publishing industry, which the Supreme Court raised on its own, never covered in our briefs, but that is more fully covered in our submission to the committee.

Thank you.

Mr. WEISS. Finally, I would like to say that if we are talking about Judge Weinfeld, we must also recognize that 7 out of the 13 honorable judges were on our side.

Senator SPECTER. Thank you all very much.

[Whereupon, at 11:02 a.m., the subcommittee was adjourned.]

APPENDIX

ADDITIONAL SUBMISSIONS FOR THE RECORD

RICHARD COLBY
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November 20, 1985

Senator Charles McC. Mathias, Jr.
Chairman, Subcommittee on Patents,
Copyrights and Trademarks
Committee on the Judiciary
United States Senate
Washington, D.C. 20510

Dear Senator Mathias:

I am honored to accept your invitation to submit this Written Statement of my views in connection with the Hearing to be held by the Subcommittee on November 20, 1985, on S. 1384 (99th Cong. 1st Sess.), the proposed Copyright Holder Protection Act introduced by Senator Arlen Specter on June 27, 1985. The Bill would prospectively reverse the rule in Mills Music, Inc. v. Snyder, et al., 105 S. Ct. 638, 224 USPQ 313, 53 U. S. Law Week 4035, by adding subdivision (7) at the end of Section 304(c)(6) of Title 17 of the United States Code, the Copyright Act of 1976, P.L. 94-553, 90 Stat. 2541-2602, as amended.

Section 304(c)(6)(A) and new subdivision (7) would together read as follows:

> 304(c)(6)(A). A derivative work prepared under the authority of the grant before its termination may continue to be utilized under the terms of the grant after its termination, but this privilege does not extend to the preparation after the termination of other derivative works based upon the copyrighted work covered by the terminated grant.
>
> (7) Notwithstanding any other provision of law, where an author or his successor, as defined in subsection (c)(2),

has exercised a right of termination pursuant to this section and a derivative work continues to be utilized pursuant to subsection (c)(6)(A) of this section, any right to royalties from the utilization of the derivative work shall revert to the person exercising the terminatio. right.

I am generally aware of a similar Bill pending in the House of Representatives, H.R. 3163 (99th Cong. 1st Sess., August 1, 1985) by Congressman Howard L. Berman of California. I will have occasion in this Statement to refer to Mr. Berman's remarks, as reported in the Congressional Record when introducing his Bill.

I am a member of the California and New York Bars; Adjunct Professor of Law at Pepperdine University School of Law, Malibu, California; Chairman of the Copyright Committee of the Intellectual Property Section of the State Bar of California; Chairman 1982-85 of various Copyright Subcommittees of the Patent, Trademark and Copyright Section of the American Bar Association. I have formerly been employed in the Legal Departments of various motion picture companies, music publishing and record companies, and a broadcasting company, but am semi-retired at present.

I am not acting on behalf of any organization with which I am or have been associated. I am submitting these views solely in my personal capacity, at the invitation of the Committee. I attach to this Statement a three page list of my Published Writings, including, at items 8 and 20, my Written Statements and Testimony before the House Committee on the Judiciary in 1963, and before Senate Committee on the Judiciary in 1982, on the drafting of the Copyright Act of 1976, and on a Bill, S. 2044 (97th Cong. 2d Sess.) which would have amended the 1976 Act.

I believe that Mills Music v. Snyder was correctly decided by the Supreme Court on January 8, 1985. I will assume that the Committee is familiar with the 5-4 Opinion for the Court by Justice Stevens and with the Dissenting Opinion by Justice White. I shall also omit any comment at this time on the language of the Bill, although I have some doubt that the words "shall revert" are satisfactory with respect to the "royalties" or payments that would otherwise be made by contract -- the "grant" referred to in section 304(c)(6)(A).

I also expect that the witnesses before the Committee, and other Written Statements being filed with the Committee, will adequately present legislative arguments supporting or opposing S. 1384 or supporting or opposing the Opinions in Mills Music v. Snyder, on legal and business grounds.

Rather, I hope in this Statement to present useful views based on my participation in the development of the Copyright Act of 1976 ("1976 Act") during the early years of that development during 1962 through 1965, and based on my experience in the years I have practiced law under the 1909 Act and the 1976 Act.

I shall first address the "original intention" of the drafters of the 1976 Act. As noted by Congressman Berman at pages E 3783-3784 of the daily Congressional Record for August 1, 1985, Barbara Ringer, Register of Copyrights at the time of the final drafting and enactment of the 1976 Act, testified about Mills Music v. Snyder at the Hearing in April 1985, before the Senate Subcommittee on Patents, Copyrights and Trademarks. Ms. Ringer said in part that:

> The Mills case is not what Congress intended, and ... it represents a windfall for publishers

> at the expense of authors and their families ... The Supreme Court decision seriously undercuts what Congress intended and deprives authors of benefits that are rightfully theirs.

Ms. Ringer also submitted a Written Statement after that Hearing in which she writes that:

> It is no secret that I was the author of the provision in question, in the sense that it was my pen that drafted the language. The content of the termination provisions had been hammered out following lengthy debates and discussions, although the compromises had been reached and the issues effectively settled before Congress took up the question of general revision of the copyright law in formal hearings.

As one of those who participated in those meetings and Hearings in which the termination provisions "had been hammered out following lengthy debates and discussions (at which) the compromises had been reached and the issues effectively settled," perhaps I can offer some light on the underlying legislative history and intent of Congress.

My views in this regard have previously been published in part in my article entitled Helen Sousa Abert, Mary Baker Eddy and Otto Harbach -- The Road to a Copyright Term of Life Plus Fifty Years, 6 Communications and the Law 3 (No. 3, June 1984), also published in 10 New Matter 2 (Journal of the Intellectual Property Section of the State Bar of California, No. 1, Spring 1985). I attach a reprint of my article for inclusion in the Transcript of this Hearing, for the convenience of the Committee.

The heart of my understanding of the intent of the Congress is that the "status quo" should be maintained with respect to all contractual arrangements affecting the continued utilization of the applicable derivative work, be it a sound recording or a motion picture -- "under the terms of the grant."

This analysis is ably set forth in the Briefs for Petitioner Mills Music to the Supreme Court: Main Brief at 47, Reply Brief at 3, 5, 7 (in footnote 4) and on page 10.

In my opinion, the 94th Congress which passed the 1976 Act had the same intent as the 87th Congress which adopted P.L. 87-668, the first Copyright Term Extension Act of 1962. This intention was expressed in the House and Senate Reports supporting P.L. 87-668, quoted at length in my Helen Sousa Abert article to the effect that:

> Existing contractual arrangements ... will not be impaired by this interim extension; the status quo will be maintained for all persons having an interest in these copyrights. H.R. Rep. No. 87-1742 at 2 (1962).

The Report of the Senate Judiciary Committee, Sen. Rep. No. 87-1888 at 2 (1962) is to the same effect.

This intention as to the 1976 Act was noted in Justice Stevens' Opinion for the Court in Mills Music v. Snyder, at the text of his Opinion accompanying note 40:

> The "terms of the grant" as existing at the time of termination govern the author's right to receive royalties; those terms are therefore excluded from the bundle of rights that the author may seek to resell unimpeded by any all-advised prior commitment.

Thus, I conclude that the "original intention" of the 94th Congress was the same as that of the 97th Congress, and, respectfully, that Barbara Ringer's understanding of the "compromises hammered out following lengthy debates and discussions" is "one on which reasonable minds may well differ," to quote the Court of Appeals in this case, 720 F. 2d 733 at 735.

I will conclude this Statement with a brief comment on current practices, as I understand them, in the motion picture industry as to the continuing distribution of such derivative works, since the Bill, S. 1384, would affect all forms of derivative works, including motion pictures, and not only sound recordings which are the subject of Mills Music v. Snyder.

My general views, summarized below, on the continuing distribution of derivative works are to be set forth in my new article entitled: ROHAUER Revisited: "Rear Window," Copyright Reversions, Renewals, Terminations, Derivative Works and Fair Use, being published in the March 1986 issue of Pepperdine Law Review. When published, I will be pleased to send a reprint to you for the use of the Committee.

The 1963 Hearings of the Panel of Copyright Consultants to the Library of Congress reflect the industry practices being addressed by this legislation, including my testimony at the 1963 Hearings cited at footnote 73 of the Opinion of the District Court in this case by Judge Edward Weinfeld, 543 F. Supp. 844 at 860, also quoted in Copyright Law Revision Part 3 at 278-81 (a 1964 Print of House Committee on the Judiciary); also see Colby, Some Essentials in Copyright Revision for Motion Pictures, an Address to the American Bar Association Section of Patent, Trademark and Copyright Law, 1963 Section Proceedings 72, and 11 Bulletin of The Copyright Society of the U.S.A. 19 (1963).

That the "Exception" clause in question was meant to impact motion picture derivative works, see the discussion in footnote 34 of Judge Weinfeld's "characteristically thorough opinion" at 543 F. Supp. 844 at 852-853, 720 F. 2d 733 at 734. Experience also teaches that a motion picture grant from an author may be reassigned, perhaps several times depending on financing arrangements, to the ultimate producer of the motion picture derivative work. Each motion picture rights assignor may, and will frequently, invest heavily of its money and creative talent to help get the project on the screen. Those intermediate and usually very complex financial arrangements (sometimes called turn-around arrangements) need not directly concern the author of the underlying novel or play or script, who looks to his original two party contract (whose payment obligations may have been assumed by the subsequent assignees.)

This is as common a situation in the motion picture industry as in the music publishing and record manufacturing businesses. See the discussions of these relationships in Judge Weinfeld's Opinion, 543 F. Supp. 844 in note 88 and 862 and 863, and in the Opinion of the Court of Appeals for the Second Circuit in this case, 720 F. 2d 733 at 742.

That the results argued for, and proposed in S. 1384, could lead to unintended results, see M. Nimmer, 3 Nimmer on Copyright section 11.03 (B) at page 11-18.5 (1985), and Professor Nimmer's Brief to the Second Circuit Court of Appeals in this case on behalf of National Music Publishers Association as Amicus Curiae at pages 10-11.

I would conclude, as did Judge Weinfeld, that the result achieved in Mills Music v. Snyder should not be upset as being fully consistent with the policies reflected in the Constitution, "to encourage the production and dissemination of artistic works for the general public good" (citations omitted), 543 F. Supp. 844 at 862.

Respectfully yours,

Richard Colby

Richard Colby

Belwin Mills Publishing Corp.

A Subsidiary of Columbia Pictures Industries Inc

Burton L. Litwin
Vice President

December 10th, 1985

Honorable Arlen Specter
United States Senate
Washington DC 20510

RE: S.1384

Dear Senator Specter:

As the Vice-President of Mills Music Inc., one of the parties to the Mills v. Snyder case, I regret that long-standing business travel commitments made it impossible for me to attend the recent hearing in Washington on S.1384. I would welcome the opportunity to testify at any future hearings which may take place. However, having read the various statements which were submitted to the Committee, I do feel it necessary to express several comments of my own in this letter.

I continue to believe, as I did at the outset of the Mills vs. Snyder litigation, that the position of a music publisher as a result of the Supreme Court decision is entirely consistent with the moral balance and the compromise of economic interests developed by Congress in the 1976 Copyright Act.

The pejorative reference to music publishers as mere "middlemen" is a distortion of the realities of our industry. It overlooks the fact that the publishers still are the ones who incur the financial risk and absorb all expenses and overhead in the publisher's share of income derived from copyrights. Yet we share gross receipts in virtually all cases on a 50 - 50 basis with our composers and authors. We accept this and recognize it as the nature of our business. It is still the music publishers who have the obligation and the expertise to evaluate new music and to guide that music and its composers and authors into the most productive creative and commercial channels, and thus exercise the business responsibility vested in them by the creators of music.

To paraphrase a popular television stockbroker commercial ,"We the music publishers make our money the hard way - we earn it!"

It is certainly not the purpose of this letter to attempt to rebut item by item the comments raised at the hearing by persons having other points of view. However, I must comment on a statement made by Mr. George David Weiss . He accurately stated that Mills Music has experienced a series of corporate parental changes, and presently, through Belwin Mills Publishing Corp., is owned by Columbia Pictures Industries Inc.

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Honorable Arlen Specter

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Mr. Weiss' statement attempted to convey a negative context to such corporate evolutions. The case is precisely the opposite. With an executive and professional staff totally committed to the continued promotion and use of catalog material and our great catalog standards of the past 50 years, we are in a far better position today than in decades past to fulfil the expectations of our composers and authors. The corporate strength and industry position of a major international production and marketing organization cannot be glossed over in an attempt to convey the impression that the old days were the best days. Personally, I have welcomed the entry of this company into the Columbia Pictures family, and the opening of new paths of music use in the television and motion picture industries.

Just as a brief example, one of the first supportive acts to follow the Columbia Pictures acquisition of Belwin Mills was the development of a budget for production of a sampler record album containing 100 of the top hits from the Belwin Mills catalog - 80 of which are catalog standards! This sampler album will be circulated to music users and music decision makers in all fields of the entertainment industry, for the purpose of expanding and generating commercial uses of the catalog.

As we pointed out in our brief to the Supreme Court, the essence of the derivative rights clause of the 1976 Copyright Act was a recognition of the necessity and desirability of a reconciliation and compromise between the conflicting interests of the publishers, film producers and other users and the composers, authors and their families. That is the heart of the matter: a compromise of economic interests and a recognition of the part that has been played and will continue to be played by the economic participants.

The publishers are not passive middlemen nor robber barons and the composers are not greedy or maltreated victims. We are all part of an industry that requires as much effective interplay as possible amongst the creators and the professionals, especially in this day and age of illegal appropriation and electronic thievery of copyright-protected materials.

Everyone has a part to play in the pattern of success. We will continue to play our part as we have for over 50 years in the creation and enhancement of popular music.

Thank you for your patient consideration of these comments. I respectfully ask that this letter be included in the hearing record.

Respectfully yours,

Burton L. Litwin

BLL:vh

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