DAVID A. BALTO
ATTORNEY AT LAW
1325 G STREET, NW
SUITE 500
WASHINGTON, DC 20005

PHONE: (202) 789-5425
Email: david.balto@dcantitrustlaw.com

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Danny Marti
Alex Niejelow
Intellectual Property Enforcement Coordinator
725 17th Street, NW
Washington, DC 20503

Re: 80 FR 52800 – Request of the U.S. Intellectual Property Enforcement Coordinator for Public Comments: Development of the Joint Strategic Plan on Intellectual Property Enforcement

I submit these comments based on my over 30 years of experience as a former antitrust and intellectual property enforcer with the Justice Department and the Federal Trade Commission and my experience in private practice in counseling a wide variety of high tech companies in intellectual property and competition issues.[1] In my role as a policy director of the Federal Trade Commission I was actively involved in intellectual property advocacy including the drafting of the Intellectual Property Guidelines and litigation of several cases involving crucial intellectual property issues. As an enforcer, I recognized the critical balance involved in protecting intellectual property so that IP rights and litigation did not deter innovation, consumer choice and competition. I submit these comments to encourage the Intellectual Property Enforcement Coordinator to consider addressing issues with statutory damages in drafting the Federal Government's intellectual property enforcement strategy for 2016-2019.

I file these comments because the current statutory damage regime is misguided for two reasons detailed below: 1) the statutory damage regime is overly punitive; and 2) the threat of high statutory damages can lead to anticompetitive copyright hold-up. The Intellectual Property Enforcement Coordinator should recognize that a sound copyright enforcement policy is one that produces reasonable damage awards, does not give copyright owners the ability to use these rights to

[1] I was the Policy Director of the Bureau of Competition of the Federal Trade Commission (1998-2001) and attorney advisor to Chairman Robert Pitofsky (1995-1997). In these positions, I was a senior advisor in all aspects of the FTC's merger and non- merger enforcement program. I am nationally known for his expertise in competition policy and am a prolific author on antitrust, consumer protection, financial services, intellectual property, and health care competition. In addition, I co-authored the white paper "The Music Industry as a Case Study for Enabling Disruptive Innovation in Consolidated Markets," which discusses recent instances where the threat of statutory damages was used as negotiation leverage in detriment to competition. This paper is provided as an addendum to these comments.

stifle competition and choice, and is widely enforced. The current regime fails on all of these counts for the reasons discussed below.

Background

The availability of statutory damages as a remedy for copyright owners whose works have been infringed is largely an American experiment.[2] A study by three of the leading intellectual property scholars, Samuelson, Hill and Wheatland, found that "[t]he United States was the first country to adopt range-based statutory damages for copyright infringement, and for many years it was the only country in the world that had them."[3] Many countries that have adopted statutory damages have done so under pressure or influence of the United States.[4] This experiment has been marked by numerous failures, and yet no serious reform efforts have been made. Respected copyright scholars Samuelson and Wheatland have commented that "[a]wards of statutory damages are frequently arbitrary, inconsistent, unprincipled, and sometimes grossly excessive."[5] Much of the law review literature on the U.S. statutory damage regime has been critical.[6] And yet, "U.S. courts have failed to develop guidelines to ensure that these awards actually are just."[7] The Joint Strategic Plan should include a proposal to study the discussed problems with the statutory damage regime and to recommend reforms.

Statutory Damages are Overly Punitive

The current statutory damage regime produces absurd results, which ultimately harm consumers and competition. U.S. consumers who make the mistake of downloading pirated works have been subjected to outrageously high statutory damage awards. A Minnesota jury famously awarded $1.94 million in damages against resident Jammie Thomas-Rasset for sharing 24 songs on a peer-to-peer network.[8] This award was eventually reduced to $222,000.[9] Another jury in Massachusetts awarded $675,000 in damages against resident Joel Tenenbaum for downloading and distributing 30 songs using file sharing software.[10] In both these cases the statutory damage award was a small fraction of the potential award due to the fact that the record company chose to pursue damages on a limited number of works even though evidence suggested the number of infringed works was well over a thousand. Indeed, pursuing every possible instance of statutory damages produces even more absurd results as

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[2] Samuelson, Pamela and Hill, Phil and Wheatland, Tara, *Statutory Damages: A Rarity in Copyright Laws Internationally, But for How Long?*, 60 J. Copyright Soc'y 529 (2013).
[3] *Id.* at 531.
[4] *Id.* at 531-32.
[5] Pamela Samuelson & Tara Wheatland, *Copyright Statutory Damages: A Remedy In Need of Reform*, 51 WM. & Mary L. Rev. 439, 441 (2009)
[6] *See*, *e.g.*, *Id.*; Stephanie Berg, *Remedying the Statutory Damages Remedy for Secondary Copyright Infringement Liability: Balancing Copyright and Innovation in the Digital Age*, 56 J. COPYRIGHT SOC'Y 265 (2009); Sheila B. Scheuerman, *Due Process Forgotten: The Problem of Statutory Damages and Class Actions*, 74 MO. L. REV. 103 (2009); J. Cam Barker, Note, *Grossly Excessive Penalties in the Battle Against Illegal File-Sharing: The Troubling Effects of Aggregating Statutory Damages for Copyright Infringement*, 83 TEX. L. REV. 525 (2004).
[7] Samuelson, Hill & Wheatland, *supra* note 1, at 530.
[8] Capitol Records, Inc. v. Thomas-Rasset, 692 F. 3d 899, 901(8th Cir. 2012).
[9] *Id.* at 910.
[10] Sony BMG Music Entertainment v. Tenenbaum, 660 F. 3d 487, 490 (1st Cir. 2011).

found in the case against Lime Group LLC.[11] There, Judge Kimba Wood explained that "[i]f Plaintiffs were able to pursue a statutory damage theory predicated on the number of direct infringers per work, Defendants' damages could reach into the trillions."[12] For reference, global recorded music sales in 2014 totaled $15 billion.[13]

These statutory damage awards can be so high that they can invite constitutional challenges.[14] In the Tenenbaum case, Judge Nancy Gertner remarked:

> This award is far greater than necessary to serve the government's legitimate interests in compensating copyright owners and deterring infringement. In fact, it bears no meaningful relationship to these objectives. To borrow Chief Judge Michael J. Davis' characterization of a smaller statutory damages award in an analogous file-sharing case, the award here is simply "unprecedented and oppressive." Capitol Records Inc. v. Thomas, 579 F.Supp.2d 1210, 1228 (D.Minn.2008). It cannot withstand scrutiny under the Due Process Clause.[15]

The appellate court ultimately reversed this constitutional holding because the district court committed reversible error "and contravened the rule of constitutional avoidance" by bypassing the common law issue of remittitur.[16]

Likewise in the Thomas-Rasset case judge Michael Davis remarked:

> [A]n award of $1.5 million for stealing and distributing 24 songs for personal use is appalling. Such an award is so severe and oppressive as to be wholly disproportioned to the offense and obviously unreasonable. In this particular case, involving a first-time willful, consumer infringer of limited means who committed illegal song file-sharing for her own personal use, an award of $2,250 per song, for a total award of $54,000, is the maximum award consistent with due process.[17]

The appellate court found that an award of $222,000, the amount awarded in the first trial, did not violate due process and therefore did not reach the due process questions on other amounts.[18]

The problems with high statutory damage awards do not end there. Both the Tenenbaum and the Thomas-Rasset cases exhibited protracted litigation due mainly to the absurdly high damages. The Thomas-Rasset case went before three juries, and appellate court, and a petition for certiorari before the Supreme Court. The Tenenbaum case went to trial in 2009 and litigation was not completed until 2013. These cases show that statutory damages do not simplify litigation, rather they can result in long battles over whether the awards are appropriate.

The statutory damage regime also deters the creation of new works.[19] As stated by the Electronic Frontier Foundation, "[b]uilding upon the work of others is an indispensable part of art and

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[11] Arista Records LLC v. Lime Group LLC, 784 F. Supp. 2d 313 (S.D.N.Y. 2011).
[12] *Id.* at 317.
[13] Global Statistics, IFPI.Org, http://www.ifpi.org/global-statistics.php (last visited Oct. 14, 2015).
[14] *See* Samuelson & Wheatland, *supra* note 4, at 480-497.
[15] Sony BMG Music Entertainment v. Tenenbaum, 721 F. Supp. 2d 85, 89 (D. Mass. 2010).
[16] Tenenbaum, 660 F. 3d at 508.
[17] Capitol Records, Inc. v. Thomas-Rasset, 799 F. Supp. 2d 999, 1001 (D. Minn. 2011).
[18] Thomas-Rasset, 692 F. 3d at 910.

culture."[20] The Supreme Court has acknowledged two safeguards in copyright law that safeguards free speech and promotes the creation of new works: "(1) . . . protecting only the expression of ideas and not the ideas themselves (the idea/expression dichotomy); and (2) . . . allowing the use of expression under certain circumstances (the fair use doctrine)."[21] Unfortunately, these safeguards are notoriously vague so that it is difficult for users to know whether their uses will be immune from liability ex ante.[22] This uncertainty, coupled with the potential for high statutory damages, causes many artists to avoid the creation of certain works altogether.[23]

Finally, the current statutory damage and legal regime appears to actually deter enforcement. Despite winning large statutory damage awards, the Recording Industry Association of America, a major driving force behind peer-to-peer filesharing user suits, ultimately decided that it was not worth it to use the legal system to deter unauthorized music sharing.[24] It has been reported that "[d]ue process has been prohibitively expensive for the RIAA."[25] These costs are undoubtedly exacerbated by the lengthy litigation and violation of due process claims that excessively high statutory damage awards bring. The current statutory damage regime is a system that does not work for plaintiffs or defendants.

High Statutory Damages Lead to Copyright Holdup

The current statutory damage regime is also highly damaging to music distributors due to high concentrations and lack of transparency in the market. These music distributors can be forced into situations where they are at risk of unintentional unauthorized music usage in order to take advantage of the threat of high statutory damages. This strategy is not just theoretical, it was made a matter of public record due to the Pandora rate court trials.

This strategy is enabled in part due to the high concentration of the music industry. Three performance rights organizations ("PROs") license the vast majority of performance rights for musical works in the U.S.—ASCAP, BMI, and SESAC. ASCAP and BMI license a majority of these rights with control of over 9 million and 8.5 million songs respectively. In addition, the industry of music publishers that own and administer these songs is also highly concentrated. Sony and Universal Music Publishing Group ("UMPG") control over half of the music publishing market with estimated market shares of 29.4% and 22.6% in 2013 respectively.[26]

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[19] *See* Alan E. Garfield, *Calibrating Copyright Statutory Damages to Promote Free Speech*, 38 Fla. St. U. L. Rev. 1 (2010).

[20] Mitch Stoltz, *Collateral Damages: Why Congress Needs To Fix Copyright Law's Civil Penalties*, EFF.org, https://www.eff.org/wp/collateral-damages-why-congress-needs-fix-copyright-laws-civil-penalties (last visited Oct. 16, 2015).

[21] Garfield, *supra* note 19, at 1.

[22] *Id.*

[23] *See* Stoltz, *supra* note 20.

[24] Eliot Van Buskirk, *RIAA to Stop Suing Music Fans, Cut Them Off Instead*, Wired.com (Dec. 19, 2008 7:26 am), http://www.wired.com/2008/12/riaa-says-it-pl/.

[25] *Id.*

[26] UMG and WMG see gains in recorded-music market share in 2013, while Sony/ATV dominates music publishing. See Music & Copyright's Blog (May 6, 2014), https://musicandcopyright. wordpress.com/2014/05/06/umg-and-wmg-see-gains-in-recorded-music-market-share-in-2013-while-sonyatv-dominates-music-publishing/#more-1166. These market share estimates are "share-weighted," meaning the market share is reduced to reflect where a

At the end of 2012 Sony began planning to withdraw from ASCAP the ability to license its performance rights only in regard to digital music services, which it termed "New Media."[27] This partial withdrawal[28] took effect January 1, 2013.[29] Pandora was concerned about the Sony withdrawal and its languishing rate discussions with ASCAP, and so it filed a rate court petition on November 5, 2012. Pandora and ASCAP could not ultimately reach a settlement. This was primarily due to the pressure Sony and UMPG applied to ASCAP.[30]

Sony had significant power in 2012 due to a merger between Sony and EMI, which were the second and fourth largest music publishers.[31] Despite already having this significant power, Sony sought to further unbalance its direct negotiations with Pandora by refusing to give Pandora a list of the songs in its repertoire.[32] Sony also refused to give ASCAP permission to release this list to Pandora, leaving Pandora without a way to remove Sony's songs from its service if a deal could not be reached by the January 1, 2013 deadline.[33] This created a substantial threat to Pandora continuing its business. If Pandora accidentally played any song owned by Sony it faced statutory damages of up to $150,000 *per* infringement.[34] With Sony owning roughly 30% of the music publishing market, Pandora faced a situation where it likely could not afford to continue doing business if it did not reach an agreement. Indeed, Sony began its negotiations with the veiled threat "[i]t's not our intention to shut down Pandora."[35] Pandora ultimately agreed to a rate that was 25% over the prevailing rate.[36]

UMPG began its own partial withdrawal effective July 1, 2013. UMPG began negotiations with Pandora with the same implicit threat—"we want Pandora to survive."[37] Pandora asked UMPG for a song list so that it could take down UMPG's songs if a deal could not be reached. UMPG ultimately provided a list, but only under terms that would not enable Pandora to use it to remove the songs.[38] UMPG would not budge from a 7.5% rate even though Pandora's competitor iHeartRadio had received a 1.70% rate.[39] Pandora ultimately agreed to the 7.5% rate subject to contingencies concerning the rate

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publisher may control less than 100% of a musical work, which is a very common occurrence. That is, a share-weighted market share figure may considerably understate the percentage of the music publishing market for which a publisher controls some portion of a work.

[27] *In re* Pandora Media, Inc., 6 F. Supp. 3d 317, 340 (S.D.N.Y. 2014).

[28] Partial withdrawal is when a music publisher removes the right of a PRO to license music to only a certain category of music users. Here, the partial withdrawals concern removing the right of a PRO to license to so-called New Media, but PROs can still license to any other type of music user.

[29] *In re* Pandora Media, Inc., 6 F. Supp. 3d at 341.

[30] *Id.*

[31] *Id.* at 342-43.

[32] *Id.* at 344-45.

[33] *Id.* at 345.

[34] *See* 17 U.S.C. § 504(c)(2).

[35] *In re* Pandora Media, Inc., 6 F. Supp. 3d at 343.

[36] *Id.* at 346.

[37] *Id.* at 348.

[38] *Id.* at 349.

[39] *Id.* at 349-50.

court proceedings and determination of whether it could be licensed at the 1.70% rate due to its acquisition of KXMZ-FM.[40]

The threat of statutory damages were used in both the Sony and UMPG negotiations in order to coerce higher rates than would have otherwise been agreed to. In each instance Pandora was exploring its option to walk away from the negotiating table but found that it could not due to the lack of transparency in music ownership and the threat of high statutory damages. Sony and UMPG simply own too many songs and song ownership is too opaque for Pandora to accurately remove every song unaided, meaning unauthorized music usage would be a virtual inevitability if Pandora allowed licenses to Sony or UMPG to lapse. The current statutory damage regime enables negotiating strategies that are far from what would occur in a typical transaction, essentially creating a credible threat to bankrupt any company that refuses to take a license.

Conclusion

The current statutory damage regime is misguided for the reasons discussed above. A better system would be one that is easily and widely enforced, produces fair results, and does not provide anticompetitive power over music users. The Intellectual Property Enforcement Coordinator should commit to investigating this problem and recommending reform that meets these conditions. Otherwise the statutory damage regime will remain a failed American experiment.

Signed,

David Balto

CC: William Baer
Assistant Attorney General
Antitrust Division

Edith Ramirez
Chairwoman
Federal Trade Commission

[40] *Id.* at 350.