

## **Orphan works – compatibility of the draft Directive with the international norms**

### *Introductory comments*

Our comments are based on the draft Directive, as proposed by the Commission. We have not taken account of the proposals made by the Polish and Danish Presidencies and by Finland. Our comments are also limited to the issue of compatibility with the international norms.

The draft Directive's approach to orphan works fits within the context of copyright exceptions and limitations and that emphasis is reflected in our comments as being a given. One should however be aware of the fact that Recital 20 bears a reference to the Extended Collective Licensing system. Such a system is not considered to be a true exception to the exclusive rights, as it is, in short, fully negotiable - without authorisation of a representative organisation not a single form of use is accepted and individual rightowners are as a matter of principle able to opt out, to (re-)negotiate or to define terms for potential exploitation (in contrast with Mandatory Collective Licensing where such opting out is not allowed and which, therefore, may be regarded as a limitation of an exclusive right). These systems are based on the exclusive right, rather than on an exception or limitation in the strict sense and on that basis it would be advisable to admit them explicitly in the draft Directive. That would, e.g. mean that the words 'existing arrangements' in Recital 20 refer to ECL in general, rather than just to the ECL systems in existence before the entry into force of the Directive.

Notwithstanding the fact that our comments underneath are based on the assumption of the draft Directive that we are dealing with an exception or a limitation, one could question whether an Orphan Works regime is appropriately characterized as imposing exceptions. Exceptions pertain to specific uses in the public interest; an Orphan Works regime potentially applies to all uses, whether or not especially beneficial to the public; what makes a work "orphan" is not the use third parties seek to make of it, but rather, the inability to identify or locate the author or rightholder. Thus the public interest is to provide for a 'contact partner' in lieu of such author (or rightholder) himself rather than to deprive such persons of copyright protection (and remuneration) which ends up in sort of 'expropriation' (Article 17 of the Charter of Fundamental Rights). Properly conceived, this is not an issue of exceptions and limitations; it is rather an issue of representation.

With this latter regard, Article 15(4) of the Berne Conventions provides for an appropriate approach with regard to "unpublished works where the identity of the author is unknown". Although the Records of the 1967 Stockholm revision conference make it clear that this expression was intended to cover expressions of folklore, it fits also to the category of orphan works. According to this provision, it shall be a matter of the

presumed country of nationality to designate the competent authority to represent the author.

Since also authors' societies may function as such authorities, the ECL system is fully in line with this approach, whereas the proposed Directive possibly is not. Hence the view that an ECL regime should not only be admitted within the framework of the proposed Directive, but appears to be the better approach in general.

### *General considerations*

The main compatibility issue in relation to the draft Directive on certain permitted uses of orphan works is found in the question of whether or not it is in accordance with the three-step test provided in Article 9(2) Berne Convention, Article 13 of the TRIPS Agreement and Article 10 of the WCT.

The draft Directive may satisfy the first step of the three-step test if the exceptions or limitations provided in it only apply in 'certain special cases'... The overall scheme of the draft Directive may be seen to comply with this requirement if the class of works is sufficiently narrowly drawn (that will depend in part on how rigorous the required diligent search is), and if the class of uses is sufficiently narrow. On this latter point, Article 7 may give rise to certain problems to which we will return later. We deliberately use the word may, as the somewhat loose wording of the proposed Article 6(2)<sup>1</sup> could potentially be interpreted broadly enough for it no longer to comply with the first step requisite. This is the case, because the wording 'public interest mission' is rather broad and not at all circumscribed or limited. The same holds true as regards the formula 'provision of cultural and educational access' (what access provided to copyright works and phonograms is not deemed to be a 'cultural' one?). Furthermore, the enumeration is not exhaustive.

The second step of the three step test is potentially more problematic. There should not be a conflict with the normal exploitation of the work. Article 6 of the draft Directive satisfies this requirement by limiting the use of orphan works to use for the purposes of preservation, restoration and to the provision of cultural and educational access. These minimalist purposes for which the work can be used, in general, do not seem to interfere with a normal exploitation of the work. However, the extension of the exception to "cultural" purposes may be problematic. It may be understood in a way that any use of huge categories of works – including entertainment productions – could be covered. In fact, use for "cultural" purposes may be interpreted so broadly that a conflict might emerge even with the first step of the three-step test.

---

<sup>1</sup> "However, unless ..., the organisations referred to in Article 1(1) may not use orphan works in order to achieve aims other than their public interest missions, notably preservation, restoration and the provision of cultural and educational access to works contained in their collections."

Article 7 of the draft Directive poses more of a problem. It opens the door for use for other purposes, without defining these purposes or uses in any more detail. That open approach may give rise to a potential conflict with the normal commercial exploitation of the work (as well as, due to the undefined purposes and uses, with the first condition of the three-step test) which the provision for the rightholder to claim a remuneration may not cure. Applying the analysis of the WTO Panel, the exploitation must first pass the second step (no conflict with a “normal exploitation”) before addressing the third step.<sup>2</sup> Remuneration may convert an “unreasonable prejudice” into a reasonable one, but the question of remuneration does not arise unless the proposed exception satisfies analysis of the second step. In other words, the receipt of royalties under a compulsory licence cannot substitute for the normal exploitation of the work.<sup>3</sup> Article 7 can therefore not stand in isolation and needs to be read in conjunction with the requirements of the three-step test as they form part of the *acquis communautaire*.

Article 7 may also be based on the assumption that the orphan work status brings with it the factual reality that there is no on-going commercial exploitation of the work and that there can therefore be no clash with this (non-existent) commercial exploitation. The draft Directive’s remuneration scheme therefore would not substitute for a normal exploitation because the orphan work, by definition, is not being “normally” exploited. That line of argument needs however to be treated with extreme caution. Whilst it is true that a balancing exercise is involved, the exploitations covered by Article 7 could be “normal” for works in general; the draft Directive thus implicates the question whether the analysis of “normal exploitation” should bear on the particular works subject to the proposed exception, or whether it applies to the kinds of works identified in Article 1.2 generally. As interpreted by the WTO panel, “normal exploitation” refers to uses that copyright owners in general would make of the work; it has not been applied to the use an individual copyright owner makes. Thus, for example, the WTO Panel addressed “the ways that right holders normally extract economic value from that right to the work” (para. 6.183). The exploitations that an orphan works user would seek to make are likely to be of the kind that are normally licensed; indeed the user has sought out the right holder precisely because the use normally would require authorisation. An analysis that designates an exploitation “non normal” if the particular copyright owner is not extracting economic value from it could also deprive locatable authors, who for economic or “moral rights” reasons decline to authorize certain uses, of control over those exploitations. Whether one adopts the broader or the narrower focus, the undefined uses potentially covered by Article 7 clearly involve both economic and non-economic normative considerations.

---

<sup>2</sup> See the statement made by Prof. Eugen Ulmer as the Chairman of Main Committee I of the Stockholm revision conference of the Berne Convention about this; *Records of the Intellectual Property Conference of Stockholm (1967)*, WIPO (1971) (hereinafter: Records 1967), vol II, at 1145 (para. 85).

<sup>3</sup> S. Ricketson and J. Ginsburg, *International Copyright and Neighbouring Rights: The Berne Convention and Beyond*, OUP (2006), at 775.

Assuming, for the purposes of analysis, however, that “orphan” works are no longer the objects of a “normal exploitation” (or at least, that given these works’ status, an otherwise “normal” exploitation poses no “conflict” with the unlocatable rightholder unless or until the rightholder reappears), then the third step is the most critical one. An unreasonable prejudice to the interests of the author is not acceptable. This step applies only once the hurdle of the second step has been cleared and it applies independently of the second step. The interests of the author involved are those protected by both economic rights and non-economic or moral rights. It is to be expected that there will be some prejudice to the interests of the author once stages one and two of the three-step test have been passed. This flows from the concept of an exception to or limitation of the exclusive right. The hurdle put in place by the third step is that such a prejudice should remain reasonable. A prejudice is no longer acceptable once it becomes unreasonable. In other words a proportionality test is introduced at this stage. A legally authorized use offset by a remuneration right may pass a proportionality test.

There are examples of existing copyright exemptions that do not cause unreasonable prejudice. One could in this respect refer to public policy exemptions or to the exemption for reporting current events. It is arguable that the uses permitted by Article 6 of the draft Directive do not cause unreasonable prejudice. The draft Directive does not explicitly require at this stage that an orphaned work no longer be commercially available in digital or analogue format. But the potential option to acquire a new copy<sup>4</sup>, rather than to rely on the exception does not make the prejudice unreasonable as the definition that is given of an orphan work in article 2 implies that in most cases no new copy<sup>5</sup> can be acquired as a publisher is likely to know the identity of the author or rightholder. That rules out prejudice to the economic interests of the author and if carried out carefully the interventions with the work that are allowed in Article 6 are also unlikely to affect the non-economic interests of the author.

Article 7 goes by definition beyond Article 6 of the draft Directive and the uses that can be authorised are not clearly circumscribed. They do therefore have the potential to cause a prejudice that may be unreasonable, particularly when the proportionality test is applied in the light of the fact that the author may eventually be identified and re-enter the frame.

In those circumstances the prejudice may be turned into a reasonable one by offering compensation, be it in the form of equitable remuneration or in another form<sup>6</sup>. As seen above this compensation has no influence on step two of the three-step test, but once that step has been passed it can turn the inevitable prejudice into a reasonable prejudice. Compensation has an influence on the proportionality test and may soften the

---

<sup>4</sup> Allowing the rightholder to exercise the exclusive right in the normal way.

<sup>5</sup> A second hand copy does not suffice, as the rightholder will not receive payment in such a case.

<sup>6</sup> Such as a royalty obtained on the basis of a licensing scheme.

impact on the interests of the author and make the prejudice that cannot be undone as such no longer unreasonable.<sup>7</sup> Of course, the smaller the class of works deemed “orphaned,” the less the risk of unreasonable prejudice. The rigorousness of the diligent search required by Article 3 will therefore prove key not only to the assessment whether the “cases” covered by the Directive are sufficiently “certain” and “special,” but also whether the orphan works regime passes a proportionality test.

This analysis must be seen against the background of the main approach of the Berne Convention to grant exclusive rights to the author. With that comes the right to authorise or prohibit the performance of any act covered by the right and to determine the conditions, including the payment of compensation or royalties, linked to any such authorisation. The three-step test covers exceptions to those rights. These can only remain applicable as far as all conditions set out are and remain met. The fall-back position is that of the exclusive right of the author.

This opinion also assumes that the draft Directive applies only to uses of orphan works that are not covered by the existing exceptions. The latter remain unaffected by the draft Directive.

### *The specific issues*

1. We were asked first of all to express an opinion on the **compatibility with the international treaties of a rule that denies compensation to re-appearing authors or other rightholders**. The analysis above shows that no compensation is required in the absence of an unreasonable prejudice, but that Article 7 of the draft Directive does give rise to unreasonable prejudice and as such requires the payment of compensation to satisfy the proportionality test and make the prejudice reasonable. A rule that excludes the payment of compensation across the board is therefore not compatible with the three-step test. Article 7 of the draft Directive proposes in its current version a more limited approach. Compensation is offered, but only if it is claimed within a five year period. The presence of compensation is a positive element, but the five year limitation period causes serious problems. It opens the door to use without compensation in a number of scenarios. And then the proportionality test is no longer satisfied and the prejudice becomes again unreasonable in a number of circumstances.<sup>8</sup>

---

<sup>7</sup> A. and H-J. Lucas, *Traité de la propriété littéraire et artistique*, Litec (3rd ed, 2006), at 272 ; P. Goldstein, *International Copyright: Principles, Law and Practice*, OUP (2001), at 310; C. Masouyé, *Guide to the Berne Convention for the Protection of Literary and Artistic Works (Paris Act 1971)*, WIPO (1978), at 56, M. Ficsor, *Guide to the Copyright and Related Rights Treaties Administered by WIPO*, WIPO (2003) at 56-60; K. Garnett, G. Davies and G. Harbottle, *Copinger and Skone James on Copyright*, Sweet & Maxwell (16<sup>th</sup> ed, 2011), at 1323; S. Ricketson and J. Ginsburg, *International Copyright and Neighbouring Rights: The Berne Convention and Beyond*, OUP (2006), at 776-777.

<sup>8</sup> See the observations of Prof Ulmer as Chairman of Main Committee I, Records 1967, vol II, 883.

One could argue that the balance between the interests of the user and those of the author or other rightholder requires that compensation claims be limited in time. Indeed, this is the general principle underlying statutes of limitations. But there is a difference between restricting infringement claims to damages incurred within five years of the claim's assertion, and barring damages claims altogether. As the analysis above shows, this is not the way in which the third step of the three step test operates. Reasonableness is to be assessed in relation to the interests of the author. The exception should be proportionate and become reasonable in the light of the advantage gained as a result of its implementation. Other parties' interests enter therefore into the equation, but it is hard to see how in an absolute way the outcome would be influenced by the moment in time when the rightholder re-appears. The type of use for example has an impact on the reasonableness of the prejudice, but that prejudice does not change once the term of five years has passed.

In any event, the legally authorized use should be well-publicised in order to give the author a reasonable chance of learning of it and claiming remuneration; the author's failure to do so over a five year period could make the scheme and the curtailment of the remuneration after a period of time that is contained in it reasonable. In essence, the five-year period would work like a statute of limitations. The emphasis then shifts towards the opportunity to react and claim compensation, both in terms of actual knowledge and of a sufficiently long period to take action and this makes the curtailment reasonable. It is also crucial in this respect that Article 5 enables the author to prevent continuing uses, even if the author reappears too late to be remunerated for past uses. (By the same token, statutes of limitations do not cut off claims for prospective relief, nor for harm incurred before the limitations period has run.)

Another argument that could be advanced is that the prejudice to an author or rightholder who fails to appear within five years is so abstract as to no longer be considered "unreasonable". This argument cannot be accepted, as it is the interests of the parties that are to be taken into account, rather than any decision by an author or other rightholder to exercise or not to exercise a right. It has after all never been suggested that the grant of an exclusive right carries with it the obligation to exercise the right and even less that the exclusive right will lapse before the expiry of its legal term if it is not exercised. As long as the term has not expired the right can be exercised and it remains therefore an interest, an element that is to be taken into account, irrespective of the decision of the author or rightholder to exercise it or not to exercise it at a certain moment in time.

2. Secondly, we were asked to express an opinion on the **extension of the regime of the draft Directive to commercial users such as broadcasters**. Commercial users are by definition interested in the commercial exploitation of the work. Such an exploitation is likely to aggravate the prejudice to the interests of the author. In the light of the opinion we expressed in relation to the first question, such an extension is even more problematic when it comes to compatibility with the three-step test. Or to put it

differently, Article 7 of the draft Directive does not contain the necessary safeguards to guarantee in all circumstances that the prejudice to the interests of the author will be reasonable and proportionate. To make things worse, the commercial exploitation of the work can also create problems for the second step of the three-step test. Again the absence of safeguards in Article 7 is liable in a number of circumstances to interfere with the normal exploitation of the work. One should also take into account that expanding the class of beneficiaries of an orphan works exception makes the exception significantly less ‘certain’ and ‘special’. This creates serious problems in relation to its potential compatibility with the first step of the three-step test. In our opinion an extension to commercial users is therefore not desirable from such a compatibility perspective.

*Summary:*

Article 7 is potentially incompatible with all three steps of the three-step test.

Complete denial of remuneration is almost certainly inconsistent with the third step (even if the exception passed the first two steps). Denial of remuneration after a certain period of time, perhaps five years, if the right holder does not reappear might be consistent with the third step, were there an accompanying obligation to publicize the use widely so that a reasonably alert rightholder should become aware of the use. There should also be a simple procedure for enabling the rightholder to come forward to object. It should also be clear that even late-arriving rightholders may prevent future exploitations of the work even if they no longer qualify for remuneration for past exploitations.

Expanding the beneficiaries of an orphan works regime to include commercial users would be in tension with all three criteria of the three-step test, especially with the first.

Paul Torremans, Professor of Intellectual Property Law, University of Nottingham\*

Jane Ginsburg, Morton L. Janklow Professor of Literary and Artistic Property Law,  
Columbia University\*

Mihály Ficsor, Member of the Board and Honorary President, Hungarian Copyright  
Council\*

Jan Rosen, Professor of Private Law, Stockholm University\*

Mario Bouchard, Ottawa (in a personal capacity)

Michel Walter, Rechtsanwalt, Hon. Prof, Vienna\*

Paolo Marzano, Avvocato, Rome\*

(\*: the authors are also members of the Executive Committee of ALAI)