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McHUGH EXPERT INTERVIEW

Ebooks and Copyright: An Interview with Attorney David Koehser

Ebooks have been at the forefront of the book publishing industry. For most nonfiction and fiction publishers ebooks may be hyped up a bit more than their financial importance would warrant in the scheme of things. Ebooks will continue to grow as devices become more affordable, better selection is made available, and compatibility between devices is increased.

But when one reads the *New York Times, Washington Post, Time, Salon*, etc., one would think that the future of publishing is riding on ebooks. I don't see it that way in the scientific, technical, medical (STM) and educational publishing business. At this point, ebooks are a tiny speck in the book picture, but the importance of ebooks will grow.

For that reason, publishers need to understand the basics of licensing and how copyright plays out in the world of ebooks. For more authoritative information on this topic, I interviewed Attorney David Koehser. (More about Dave appears at the end of this interview.)

Q Do you agree with my assessment of ebooks in my opening comments? Why are ebooks so much in the news today?

A The ebook market is clearly growing, and the rate of growth in the past year has caused people in the publishing industry and those who write about the industry to sit up and take notice. Granted the rate of growth has emerged from a base of essentially zero, so any increase will appear to be substantial. Whether ebook sales will continue to grow in market share remains to be seen. Ebooks clearly have appeal in certain markets and for certain consumers. For example, ebooks are becoming an increasingly popular option for adult fiction and nonfiction trade books. These books tend to be "one-time" reads, and thus there is perhaps less desire on the part of consumers to pay the higher price and open up shelf space for a hardbound copy of the same book. Ebooks also have appeal for frequent travelers. A traveler can store multiple ebooks on a single reader, as opposed to having to pack many books in a suitcase.

Although ebooks have not yet established much of a presence in the professional, technical and educational/textbook markets, they may ultimately become a popular option for those markets. Professional and technical books are usually quite expensive (in part because the number of buyers is relatively small), and most require frequent updating. If the cost of these books can be reduced somewhat by switching from a print format to an ebook format, and if updates can be provided in electronic rather than paper form, it may result in lower costs, increased sales and thus greater total revenue for publishers and authors.

Similarly, the cost of printed textbooks has become a problem for many school districts and college students. Cash-strapped school districts may benefit from lower priced ebook textbooks, and may be able to purchase revised editions more frequently than is currently the case for print textbooks. College students would most likely welcome the opportunity to store all of their course books on a single lightweight reader, although they would presumably lose the option of reselling those textbooks at the end of the semester.

The ebook format offers another potential benefit for textbooks, in that course-specific textbooks can be created for an individual class, rather than requiring the students in the class to purchase multiple books or printed packets of materials compiled from multiple books.

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Q First, can you give us a definition of license as it is an important term in this discussion ?

A A copyright is a bundle of rights, and the rights that are comprised in a copyright can be subdivided into an almost infinite number of smaller rights. A license is a transaction by which the person who owns the copyright in a work grants the authority to another person to exercise one or more of the rights contained in the copyright for that work. For example, in the typical publishing agreement, the author, as the owner of the copyright in the work covered by the agreement, grants the publisher a license to "print, publish, distribute and sell the work," in the languages and territories specified in the agreement.

With a license, the author retains ownership of the copyright, and retains control over all of the rights in the copyright which are not specifically licensed to the publisher. In the pre-electronic era, this generally did not give rise to any disputes. The publisher only needed the right to publish print editions of the work, and those rights were covered by the license granted in the publishing agreement. However, with the advent of electronic publishing, questions have arisen as to whether the scope of the licenses granted under pre-electronic era publishing agreements is broad enough to include the right to publish the work in ebook form. In many cases, the answer to this question may turn on the exact wording of the grant of the license in the publishing agreement.

Q Before we get to ebooks, comment on the following. Some believe that in the digital realm, as opposed to the all–paper world, Copyright Law doesn't apply. As one approaches the digital distribution and reuse of content, are there any differences in the application of Copyright Law?

A The law is the same, regardless of the medium in which the copyrighted work is produced. There may be some challenges in determining how the law should be applied to new situations that arise in the digital world, but the basic legal concepts remain the same–copying is copying, whether a work is copied in print or in electronic format, and distribution is distribution, whether the work is distributed in the form of printed copies or is made available for digital downloads.

Q I contend that effective digital rights management starts with the appropriate author publishing agreements (contracts). What recommendations do you have for book publishers with regard to their publishing agreements in order to cover the appropriate acquisition of electronic rights?

A As noted above, one of the issues that has arisen in connection with older publishing agreements is the question of whether the licenses granted under those agreements are broad enough to include the right to publish the work in electronic form. Clearly publishers need to ensure that their standard publishing agreements specifically include a grant of electronic publishing rights, and contain a corresponding royalty provision to address how royalties will be calculated for electronic publications. However, simply obtaining a license to publish a book as an ebook is not enough. There are other related electronic uses that may also arise in connection with the publication of the book (whether the book is published in ebook format or only as a print book), such as the display of excerpts from the book in digital form in "Look Inside the Book" programs and similar programs designed to promote the book, and, for some types of books, the inclusion of the contents or portions of the contents of the book in digital databases maintained by the publisher.

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Finally, the subsidiary rights provisions of a publisher's standard publishing agreement should clearly allow for the exercise or license of subsidiary rights in electronic formats. For example, if the publisher acquires control over serialization rights or foreign translation rights, the publisher should be able to grant a license to an online magazine publisher to include portions of the book in its online magazine, or to a foreign publisher to create a translation edition of the book and publish that translation in the form of an ebook.

Electronic rights must also be considered when obtaining permission to include third party materials in a book. Any permission for third party illustrations, photos or other materials should also cover all of the uses discussed above.

Q Are you seeing an industry standard emerging for author royalty rates on ebooks? What are authors and agents expecting as far as royalty rates?

A As with print royalty structures, the royalty formula for a particular book will depend on the type of book and the type of publisher. It appears that 25% of net is emerging as the current standard ebook royalty rate for adult trade books published by larger publishing houses. Whether this will continue to be the industry standard, even for this particular market, remains to be seen. Smaller publishers are often setting ebook rates at or near print rates, and thus the ebook royalty rate for smaller publishers may be anywhere from 5% to 10% of net on the low end to 12% to 15% of net on the high end. There does not seem to be enough ebook activity in the professional/technical market yet to determine a "standard" ebook royalty rate for that market. Some publishers will likely try to apply the 25% of net formula for this market as well, but that may or may not hold, given that print royalties in this market are often in the 15% - 17% of net range, which is higher than the typical rate for trade books.

Some authors and agents are seeking as much as 50% of net for ebooks, based on the argument that an ebook is essentially the same as a subsidiary rights license. With ebooks, as with subsidiary rights licenses, the publisher incurs no manufacturing costs, and merely collects proceeds from the transaction. However, this argument overlooks the editing, development and promotional efforts of the publisher, which are the same whether a publisher publishes a book in print or electronic form.

Q Could an author contend that electronic rights are in reality subsidiary rights and therefore should be compensated at the same percentage rate as other subsidiary rights, such as international, paperback, etc., with that rate at 50% of net receipts at many publishers?

A Some authors and agents have made this argument (as opposed to simply seeking a 50% of net royalty from a publisher's publication of ebooks), but it does not seem to be supported by the facts of ebook publication. Even though ebook publication is usually accomplished by the publisher sending a file to the distributor/retailer, with the distributor/retailer creating each ebook copy from that file, it still seems that an ebook should be seen as a publication by the publisher, and not by a licensee. Unlike a subsidiary rights license, the file will be prepared by the publisher, and the distributor/retailer will not make any changes to the file. Also, the ebook will be published under the imprint of the publisher rather than being published under the imprint of the licensee.

Publishers who want to avoid arguments on this point should include a clause in their publishing agreements to confirm that the publication of the work in any form under any imprint of the publisher will be treated as a publication by the publisher, will be subject to the

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applicable royalty provisions of the agreement, and will not be treated as a license of subsidiary rights.

(In a further wrinkle on this point, Amazon and other online retailers have proposed changing their sales model for ebooks to an agency model. The agency model would operate essentially the same as a consignment model. Publishers would sell ebooks directly to consumers, with Amazon acting as an agent or consignee of the publisher and collecting a 30% commission from each sale. Under this model, an ebook would clearly be a publication of the publisher, and could not be characterized as a licensed publication.)

Q Some authors and agents insist on retaining electronic rights. Is this always advantageous to the author?

A There are several reasons why it may not be to the author's advantage to retain electronic rights. First, the ebook will most likely need to be promoted with the print book. It may not be efficient to have the publisher promoting only the print book, with the author required to handle separate promotion for the ebook. Second, if the publisher does not have the right to publish the ebook, the publisher may reduce its efforts to sell the print book. Thus the author may lose money if sales of the print book fall. Third, many publishing agreements contain non-compete clauses which prevent the author from publishing the work. While these clauses may be subject to interpretation, a publisher could legitimately argue that any publication of an ebook by the author or the author's licensee would be in violation of the non-compete provisions of that author's publishing agreement. Finally, in many cases a publisher will add its own material or will obtain permission to add third party material to a work prior to publication. The publisher will retain the copyright in any material which it adds to the work (assuming such material is eligible for copyright protection and is not merely copyediting).

As for third party material acquired by the publisher, any grant of permission will likely be made to the publisher and not to the author, and will apply only to the types of uses contemplated by the publisher. Thus even if the author of the work has ebook rights in that work, the author may have to delete the publisher's material and any third party material from an ebook edition unless the author can secure separate permissions to include that material.

Having said all of the above, an author who is in a strong negotiating position may still want to retain electronic rights. However, any author who chooses to go this route should have a plan in place for exploiting those rights, and will need to ensure that the exercise of those rights will be exempt from any non-compete clause in the author's contract with the publisher. Also, if the publisher will be adding material to the work or obtaining permissions for third party materials in the work, the author will want to get the right to use the publisher's material and will want to have the permissions extend to the author's electronic publication rights.

Q What is the *New York Times Co., et al. v. Tasini* case? Does this decision have any bearing on ebook rights?

A In *Tasini*, the US Supreme Court held that an otherwise obscure provision of the U.S. Copyright Act (Section 201(c)) did not grant magazine and newspaper publishers the right to include and republish articles written by freelancers in digital databases. The articles which were the subject of *Tasini* were covered by oral or written agreements, but those agreements did not specifically grant the publishers the right to republish the articles in electronic formats separate and apart from the

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republication of the entire magazine or newspaper in which the articles first appeared. (Other cases have held that electronic republication of an entire issue of a magazine, exactly as that issue appeared in print, is permitted. This has been done by libraries for many years, in the form of microfilm and microfiche.)

For book publishers, the *Tasini* decision reinforces the need to include a specific grant of electronic rights in publishing agreements, and to list in detail the electronic rights being granted. For example, if a book publisher wants the right to publish the complete work as an ebook and also wants to be able to sell single chapters in electronic format and permit users to access portions of the work in an electronic database, those rights should be identified in the publishing agreement. Many magazine and newspaper publishers have responded to the decision in Tasini by insisting that future articles be done under work made for hire agreements, or by including grants of electronic rights in their agreements with freelancers.

Q **Much of the popular press has dwelled on erights and estates of authors and ebook rights; namely, who owns the rights of deceased authors. For example, the estate of William Styron has been in the news. Many of these contracts were signed prior to *Random House, Inc. v. Rosetta Books LLC*. What is your comment on this situation?**

A The issue is the same as that addressed above—namely, does the publishing agreement include a grant of electronic publishing rights? If it does, then those rights will rest with the publisher. If it does not, then those rights will belong to the author, or, if the author is deceased, to the author's heirs.

Q **Most book contracts contain a non-compete provision. How does one reconcile the possibility of an author publishing his/her book with publisher A and then licensing electronic rights to publisher B? Could this be construed as a violation of publisher A's non-compete provision? Has there been any litigation on this aspect of licensing electronic rights?**

A Depending on the wording of the non-compete provision, an attempt by an author to publish or license publication of an ebook edition could be a breach of the author's agreement with the publisher. This issue was raised in the *Rosetta* case discussed above, but the court did not directly address the issue.

Q **Another wrinkle for authors and publishers to consider is that many books contain publisher- generated material such as photos, cover art, etc. What are the copyright implications of authors unilaterally licensing their electronic rights with books containing publisher-generated material? With the copyrighted publisher-generated material owned by the publisher or a third party, what are the possible infringement implications in this scenario? Have courts addressed this question?**

A As noted above, the inclusion of additional material in the published edition of a work may create problems for the author if the author attempts to license erights in that work. The publisher will own the copyright in any material added to the work by the publisher, and the author will have to obtain permission from the publisher before the author can publish or grant a license to another to publish an ebook edition of the work with the publisher-added material. Similarly, if the publisher obtained permission from a third party to include any material owned by that party in the publisher's edition of the work, that permission may extend only to the publisher, and may apply only to the use of the material in print editions of the work. Thus before

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the author can publish or grant a license to another publisher to publish an ebook edition of the work, the author will need to get his or her own separate permission for that material, and that permission will need to authorize use of the material in an electronic edition of the book.

Q Many organizations use a work made for hire agreement to acquire rights to content. How does a work made for hire agreement protect the publisher's interest in acquiring erights?

A A work will be a work made for hire if: (a) it is prepared by an employee as part of the employee's job duties; or (b) it is prepared by an independent contractor who has signed a work made for hire agreement and the work falls within one of nine specific categories listed in Section 101 of the Copyright Act.

If a work is a work made for hire, the publisher will own the entire copyright in the work from the point of creation. This includes all electronic rights, and thus the publisher will be free to publish electronic editions of the work, and to make other electronic uses of the work, such as including portions of the work in an electronic database.

Q What recommendations do you have for book publishers to position them for more growth in the licensing of digital properties?

A First, publishers need to make sure that all electronic rights have been granted to them. As noted above, this includes not only the right to publish an ebook, but also the right to store and publish excerpts from a book in digital form, the right to publish and display portions of the book in digital form for promotional purposes, and the right to include digital formats in subsidiary rights licenses for translations, serialization and other uses.

Second, all contracts that include a grant of electronic rights should include corresponding royalty provisions to address the calculation of royalties from the exercise of all of the electronic rights granted in the contract.

Third, publishers should determine if there are potential electronic uses for works covered under pre-electronic era contracts, and should obtain amendments to the contracts for all works for which there are potential electronic uses.

ABOUT DAVID KOEHSER

Thanks to Attorney David Koehser for his comments. David Koehser is a Minneapolis-based lawyer who practices in the areas of copyright and trademark law. Dave's website contains articles on the topics of: Publishing Law, Merchandise Licensing, Copyrights and Trademarks, and Theater and Performing Arts. Request a copy of Dave's informative quarterly e-newsletter, Publishing and Merchandise Licensing Law Update. Link to Dave's Web site **www.dklex.com**.

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