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The Balance between Copyright and the Freedom of Contract – an Israeli Perspective

Introduction:

One of the challenges facing any copyright system is how to achieve an adequate balance between the rights of authors and copyright owners, or other content owners, on the one hand, and the principal of the freedom of contract, on the other hand. While many legal systems attempt to tackle this issue at the statutory level, Israel's recently enacted Copyright Act,² like its 1911 predecessor, barely touches on this issue. Thus, the responses to the questions raised in this field have been largely judge made.

Traditionally, the tension between copyright and the freedom of contract arises within the framework of the relationship between authors and their assignees or licensees. Interestingly, recent Israeli case law has focused on the somewhat more elusive relationship between the copyright owner, or, more precisely, other content owner, and the public.

The contractual relationship between authors and their assignees and licensee

The contractual relationship between authors and their assignees and licensees is often viewed as an unequal one. Traditionally, it is seen as pitting authors, lacking the requisite expertise in business matters, against more sophisticated publishers, producers and distributors. The question posed at this junction is whether, and to what extent, the law should intervene in the contracts between these parties in order to protect the author from too hastily, or carelessly, disposing of his rights without sufficient consideration, or possibility of recourse. The assumption is that in doing so, he will lose the pecuniary benefits of the right, thus causing a failure of the incentive to creation that those benefits are designed to provide.³

Many foreign copyright laws contain paternalistic substantive provisions designed to protect the author in these situations. Prohibitions, or limitations on assignments of future rights,⁴ provisions insuring that the author receives adequate compensation for assignments or licenses,⁵ and reversion rights, which may kick in after a period of time, or conditionally in the event of non-exploitation of the work,⁶ are examples of such provisions. Even the English Copyright Act of 1911 contained a limited reversion right, albeit only available to successors in interest of deceased authors.⁷ This provision was omitted from the Act as applied to Palestine during the time of the British Mandate and

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² The Copyright Act, 2007, S.H. 2119. An English translation of this Act is available at: http://www.wipo.int/clea/en/search.jsp?cntryorg_id=59&cat_id=&order=date.

³ Moral rights also raise the issue of author protection in the contractual context. This issue exceeds the scope of the present discussion.

⁴ See for example, France: Law on the Intellectual Property Code (Legislative Part) (No. 92-597) of July 1, 1992, as amended by Laws Nos. 94-361 of May 10, 1994 and 95-4 of January 3, 1995, Article 131-1 ("The French Act"), and Germany: Law on Copyright and Neighboring Rights (of September 9, 1965), Article 31(4) ("The German Act").

⁵ Article 131-4 of the French Act; Article 36(1) of the German Act.

⁶ For instance, in the USA: 17 U.S.C. § 203.

⁷ The provision appeared in Section 5(A)(2) of the Act.

remained absent throughout the sixty year reign of the Act after the establishment of Israel.

Following the *laissez-faire* approach of Israel's modern economic leadership, the Ministry of Justice firmly declined to consider calls for a more pro-active approach to author protection in the contractual framework while drafting Israel's new copyright legislation.⁸ Thus, the new Copyright Act, which came into effect on 25th May, 2008 does not contain any provisions to this effect.

The only provision in the act protecting authors from the negative results of an overly-broad assignment or license is the formal requirement that an assignment, or exclusive license must be in writing.⁹ The law assumes that an author will attach more importance to a written document than he may to his spoken words and will only put pen to paper after having considered the consequences of the text. This is, however, a questionable assumption, not least due to the fact that copyright assignments and licenses are often complex documents, and that many authors are not represented by an attorney or agent, versed in the law and language of copyright, at the time that they sign such documents. Moreover, adopting precedents from other fields, particularly patents, a majority of courts now view the writing requirement as evidentiary, rather than substantive.¹⁰ This allows courts to consider an assignment or exclusive license as effective, not only in cases where a document that originally existed has been lost, but also in cases in which no document was ever executed.

Furthermore, in the case of commissioned works, the new Act specifically allows courts to infer an implied assignment to the commissioning party, while at the same time failing to provide any guidelines regarding the circumstances in which such an inference should be made.¹¹ Indeed, the Act does not even limit the application of this provision to cases where consideration has been paid to the author.

In the absence of statutory provisions, the question arises whether general contractual doctrine may be employed to extricate an author from an overbroad assignment or license. Again, foreign legal systems provide precedent for this. English courts have employed the doctrine of public policy to void an assignment by a composer to a publisher of rights in future works, which was held to lack sufficient guaranteed consideration.¹² American courts have employed the doctrine of contracts of adhesion to aid an author by declaring an unfair profit participation formula to be unconscionable.¹³ However, in the only reported case to have addressed a similar claim, the District Court of Tel-Aviv made short work of dismissing the request of a popular singer-songwriter to void an assignment to a publisher of rights in his in his then pre-existing works, and in other works which he was to compose during the two year duration of the publishing contract. The court held that the copyrights were property

⁸ Tony Greenman, Copyright – From the Age of Print to the Digital Age 324 (2003).

⁹ Copyright Act, 2007, Sec. 37(C).

¹⁰ C.M. (Dist. Jer.) 4373/00 S.J.R. Associates v. Fraiman (2000); C.C. (Dist. Naz.) 827/07 Ben Simon v. Munitz (2008).

¹¹ Copyright Act, 2007, Sec. 35(A).

¹² A Schroeder Music Publishing Co Ltd. v. Macaulay, [1974] 3 All E.R. 616.

¹³ Buchwald v. Paramount Pictures Corp. 13 U.S.P.Q.2d 1497 (Cal.Super.Ct., 1990). But see Batfilm Productions, Inc. v. Warner Bros., Nos B.C. 051653 & B.C. 051654 (Cal.Super.Ct., 1994) finding no unconscionability in a case involving a similar attach on a net profits definition.

rights and that the transaction was thus a simple property transaction. The claimant had failed to show anything in the assignment of these rights (which was for the full term of copyright in those works and was made against a lump sum payment and an undertaking of the publisher to pay the claimant 50% of net income from the works) that might be contrary to public policy.¹⁴

The only exception to the lack of author protection in the contractual framework is to be found in the terms of the consent decree issued by the Antitrust Tribunal, permitting the operations of ACUM, the collecting society of authors, composers and publishers. These terms contain provisions for termination or post-factum limitation of assignments by authors to ACUM.¹⁵

The relationship between the copyright owner, or other content owner, and the public.

While the Israeli legislature and courts have shown little inclination to intervene in the contracts between authors and their assignees or licensees, two recent cases have adopted an extremely pro-active approach towards protection of the public from the attempts of content providers to broaden their copyrights by contract. Both cases involved the copying of job listings from internet sites. In the first case, the listings were copied from a newspaper job offers section by an aggregator. The court held that the listings, which included basic information, such as the job description and contact details, were not protected by copyright, being mere facts or data. Therefore, the plaintiff site's copyright claim against the aggregator must fail. Furthermore, it continued to hold that the terms of use of the site, which purported to hold that the contents of the site were the property of the plaintiff and to prohibit copying by third parties, were not effective. The court held that the prohibition was based on the assumption that the site owner held a property right in the facts. Since the assumption was groundless, thus the terms of use could not give rise to a right to prohibit copying.¹⁶

The second of the cases, which involved copying of listings by the same aggregator, went a step further. The court did not concern itself at all with the drafting of the terms of use, or the question of whether they imposed a bare prohibition on copying, or one that was founded on a groundless presumption on rights in the facts. Instead, in an extremely short passage it put the issue under the spotlight of the balance between the rights of copyright owners and the public interest in the advancement of culture and knowledge. On this plain, copyright's policy of not protecting facts leads to the conclusion that the court should give preference to the public interest over other

¹⁴ C.C. (Dist. T.A.) 133/02 Hanoch v. Osnat Hotzaa laor Ltd. (2003). But see C.C. (Dist. T.A.) 2147/98 Helicon, Ltd. v. Cohen, (1998). In this case, the court was called upon to decide, by way of interpretation, whether a recording contract granted the record company an exclusive, or a non-exclusive right to the recording services of the performer Dana International. Due to the fact that the contract did not place any obligations on the record company, the court held that accepting the recording company's claim to exclusivity would cause an "unconscionable imbalance" in the contract. It was therefore held as creating a non-exclusive right.

¹⁵ The terms are published at <http://www.acum.org.il/content/%D7%AA%D7%A0%D7%90%D7%99-%D7%94%D7%9E%D7%9E%D7%95%D7%A0%D7%94-%D7%94%D7%9E%D7%9C%D7%90%D7%99%D7%9D>.

¹⁶ C.C. (Dist. T.A.) 1074/05 Maariv Hotzaat Modi'in Ltd. v. Chevrat All You Need, Ltd. (2010).

interests (impliedly including those of the site owner). Therefore, the law should not allow the imposition of a restriction on the “legitimate use” of “information that belongs to the public”, by way of an agreement, that is in fact, a standard contract (one of adhesion).¹⁷

The courts did not address the interests of the site operators in either of the above cases in any depth. They did not ask whether, in light of their investment in compilation of their databases and operation of their sites, on the one hand, and the lack of copyright protection for those databases on the other hand, they had a legitimate interest in seeking contractual protection for their data. Neither did they address the question of whether the site operators held a monopoly over the data and whether it was available from other sources.

Conclusion and remarks

I argue that the approach of the Israeli legislature and the courts to the balancing of copyright and the freedom of contract is flawed and that, basically, they have placed both policy and doctrine back-to-front.

In the framework of the author-assignee/licensee relationship, antitrust law cannot govern alone. Public policy should play a much more prominent role in striking the balance between the interests of the parties. I agree that businesses require stability and clarity as to their property, and that authors should not be allowed to act recklessly with impunity. I also agree that the freedom of contract is indeed an important legal principal. Nonetheless, it is often curtailed to protect weaker parties, be they employees, consumers, or parties to contracts of adhesion. Assuming an unequal bargaining position and measure of business sophistication, it is incorrect to expose authors to the full force and brunt of the free market in their dealings with publishers, producers and distributors, without taking into account the consequences for our copyright system.¹⁸ If copyright is to provide the incentive that it is was designed to create, the law cannot sit idly by when an author signs away all his rights in his work for what, at the time is, or later becomes inadequate compensation. This is certainly so for future works, the value of which cannot be calculated at the time of the assignment, but is equally true in regards to many existing works, particularly those of new authors. Copyright policy, and consequently copyright laws, should include narrowly tailored restrictions on the assignment of future rights, limited reversion rights and provisions insuring that authors receive adequate shares in the profits from their works. I would like to see Israel’s copyright law amended along these lines. Until such provisions are enacted, and in other systems where they are absent, the courts should not shy away from employing the doctrine of public policy to grant relief to authors from unfair contractual terms, even in cases where the contract is not one of adhesion, and which do not involve abuse of monopoly power or restrictive trade practices.

On the other hand, antitrust considerations should be of primary concern in the relationship between content providers and the public, whilst at this juncture, the courts must exercise more care before waving the public policy flag. Certainly, they

¹⁷ C.M. (Dist. Cent.) 11359/03/09 Job Master, Ltd. v. All You Need, Ltd. (2010).

¹⁸ It is true that many authors are represented by agents, but this is certainly not the case for many first-time authors.

should not automatically assume that the fact that data is not protected by copyright must lead to the conclusion that contractual protection is also precluded. This is a short-sited, knee-jerk approach, which is not well thought out. In fact, because of the lack of copyright protection for data, the courts must consider the legitimate interests of the publishers of data and balance those against the public interest in that data before striking down the publisher's contractual provisions, designed to protect that data. In particular, they must consider that the availability of contractual protection for databases surely serves as an incentive to their creation and publication. Foreign legal systems have given effect to contractual terms of database compilers that were aimed at protecting the value of their investment.¹⁹ Ideas are also unprotected by copyright, yet nobody doubts the ability of the originator of an original idea to protect it by contract, at least before it has been made public.

Any contractual protection as discussed above is, of course, very limited, since it is a basic fact that a contract only binds the parties to it, and does not bind the public at large. Thus, absent a monopoly situation, a contractual prohibition on copying data from a particular source will not prevent another party from independently obtaining the same facts from another source.

It is therefore my position that where monopoly considerations do not arise, the disincentive to database creation that may result from a prohibition on contractual protection may be far more harmful to the public than the contractual prohibition itself. Things become different where the publisher holds a monopoly over the data. In such cases, the public interest in that data must prevail; otherwise the publisher will have the power to extract monopoly prices for sale of, or access to the data.²⁰ Therefore, in the relationship between the content owner and the public, antitrust considerations should be paramount.²¹ Where such concerns are lacking, the courts must be far more careful in invoking one-sided public policy arguments.

¹⁹ See *ProCD Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996).

²⁰ Such as in the case of football fixture lists. See *C.A. 8485/08 The Premier League Limited v. The Sports Betting Council* (Sup. Court. 2010).

²¹ See the U.S. case of *Morris Communications v. PGA Tour, Inc.*, 364 F.3d 1288 n(11th Cir. 2004) in which the question of whether the PGA could protect real time scores data was examined within the context of antitrust law and the question of whether the PGA was abusing its monopoly power.