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ADVERTISING, MARKETING & PROMOTIONS

>>ALERT

COPYRIGHT TERMINATION RIGHTS CREATE QUANDARIES FOR MUSIC LICENSEES

Brewing battles between artists and music companies over ownership rights could pose a significant liability problem for producers of commercials, motion pictures, television programs, digital content and others who seek to use musical works.

For agencies, advertisers, producers, networks, studios and other music licensees with an ear for disco and late 70's classic rock, life is about to become more complicated. Beginning in 2013, some of the most popular musical works of this era are likely to be at the center of a hard-fought battle over ownership rights.

The Copyright Act of 1976 permits the authors of copyrighted works to terminate a grant of rights and reclaim their ownership of the works. For works created on or after January 1, 1978, authors can reclaim rights to these works beginning 35 years after the original grant (hence the significance of 2013). A termination notice must be filed between two and ten years prior to the date the termination becomes effective, so the process has already begun. If an author terminates the original grant, the rights revert to the author and the record labels and music publishers who license these works to third parties (for use in commercials, movies and television programs) would no longer control them.

The problem for licensees, however, is that it will not always be clear when a termination has occurred and, consequently, who in fact owns the rights to these works. Artists such as Bob Dylan, Bryan Adams, Tom Petty, and the Eagles, to name a few, have reportedly already filed to reclaim rights to their songs. Yet music companies will not relinquish their rights without a fight.

It has not been an easy decade for music companies. First, the rise of Napster created a culture indifferent to massive illegal copying and sharing of musical works. Then, Apple transformed the way music was legitimately purchased and fundamentally altered the economics of the music industry. Now, music companies face the gradual and steady loss of rights to some of the most lucrative works in their libraries, and they will use every available argument to prevent this.

MUSIC INDUSTRY'S DEFENSE

Music companies have principally begun to make two types of arguments in an attempt to keep their rights to sound recordings.

THE BOTTOM LINE

Many musicians and songwriters have already begun filing to reclaim ownership of their works under the Copyright Act of 1976, and a number of issues surrounding these claims are currently being litigated. With the dispute over termination rights threatening to further destabilize the music industry, music licensees must protect themselves by investigating the works they seek to license and vigorously negotiating music licenses.

The first line of defense the music companies are using is asserting that these works were created as works-for-hire, which are not subject to termination. The work-for-hire doctrine applies to two types of works:

1) works created by employees within the scope of their employment; and

2) works specially commissioned by a third party, if certain conditions are met.

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Record labels in particular have argued that the musicians and vocalists involved in the creation of sound recordings were employees at the time the works were created. Determining whether musicians and vocalists were employees, though, involves a fact-intensive inquiry based on a number of factors. As for specially commissioned works, musical works are not among the categories that qualify for work-for-hire status, so the music companies must argue that they are contributions to a collective work. The music companies have done just that, arguing that each album is a collective work and each single on it is a contribution to the collective work. For the potential licensee, this is another thicket of fact-dependent litigation.

The second line of defense is centered on joint works. Victor Willis, the lead singer of the Village People and co-author of the songs "YMCA" and "In the Navy," is embroiled in a lawsuit with two music publishers over his efforts to recapture his rights in these works. The unsettled question in this and other cases is when a work is created by joint authors, must all of those authors terminate in order for the termination to be effective? Or is the termination effective if the majority of the authors, or even a single author, terminates?

Each of these issues is currently being litigated and remains unsettled. While litigation may ultimately bring clarity to these high stakes disputes, it could take years to reach final resolution. Until then, a potential licensee is in a precarious position. Licensees could be at risk for copyright infringement claims from the artist for using his/her work without permission, exposing the licensee to substantial liability.

AVOIDING THE PITFALLS

In this uncertain environment, licensees must take steps to protect themselves. Anyone seeking to license a musical work should:

- **Check the history.** Research the history of the musical work, such as the date the work was created and when rights were granted to the music company to determine if and when a grant of rights in the work will be subject to termination. Remember, termination can occur during a five-year window commencing 35 years after the grant of rights.
- **Check the Copyright Office.** In order to be effective, the termination must be filed with the U.S. Copyright Office. Check to see if a termination has already been filed.
- **Think about the future.** Even if a music company currently has rights, a later termination may render your license invalid. Think about the duration of the license and assess whether this issue may arise during the license period.
- **Look at the documents.** Music licenses tend to offer little protection to licensees. In this environment of contested ownership, it is more important than ever to negotiate all the protections you will need. Ensure that the licensor is making sufficient warranties (including a warranty that no termination claim has been made) and indemnifies you properly.
- **Ask questions and make sure you are dealing with the appropriate party.** In other words, talk to the licensor, whether it be the artist, label, publisher or another entity, to ensure they possess the rights that you are seeking to license.

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